

# **WINE & SPIRITS CONSORTIUM**

**WHITE PAPER – 1 SHARE VS. VOLUME**

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**GBI**

**NUMBERS NEVER LIE... ONLY PEOPLE DO.**

*Anonymous*

**WITHOUT ACCURATE DATA YOU'RE JUST ANOTHER  
PERSON WITH AN OPINION.**

*Anonymous*

## **Purpose**

No matter how marketing is perceived within a company, all marketers within the company should have one thing in common: manipulation of consumer behavior. Whether the objective is to maintain a certain behavior (franchise reward) or trying to change behavior (create starters or generate trial and conversion from a competitor), the fundamental strategy is to compel consumers to behave in a certain predictable way. The concept seems fairly simple; make a product that is viable in the marketplace, consumers instantly recognize the value and begin the stampede to buy your product. The problem is that there are other marketers in other companies trying to accomplish the same thing. Thus, ultimately it is the consumer who decides which company has accomplished the task of satisfying their *perceived* wants and needs the best by voting with their dollars in the marketplace. These dollars, and just as important, the units sold is how the companies keep score as to who is the best at the behavior manipulation game.

Marketers understand that the consumers are not consciously evaluating how well each company accomplishes the marketing principles of the “four P’s” (Product, Placement, Price and Promotion). However, by voting with their dollars they are in effect evaluating how well the company perceptually satisfies *their* specific wants and needs and thereby sub-consciously evaluating the various companies’ effectiveness concerning the four P’s. By casting their vote, and thereby parting with their hard earned cash, these consumers are creating a Market and just as important to the marketers in this industry – Market Share.

The purpose of this document is to demonstrate the inherent advantages of using **Share of Market** (and Share of Segment) as measures of consumer behavior when developing, evaluating or executing marketing plans.

## **Background**

Every year thousands of marketing departments are busy putting together their marketing plans for the coming year. In general this plan must accomplish two main objectives; first the plan must give Operations a sales figure that marketing plans to sell for production purposes, second, based on this sales figure, Finance generates the expected revenue and will subsequently generate the operating budgets for all major departments including marketing. From this budgeting exercise marketing must then put together the specific brand activities that will generate the expected sales throughout the year while staying within the prescribed budget. Given the politics involved in this process it is no surprise that the actual sales expectation can get lost in the mix. In the worst case the expected sales figure for the coming year are given to marketing which in effect makes them accountable for sales they had no input creating. In the best case marketing leads the planning process from the very beginning and can drive the necessary budget dollars into the programs that will generate the sales. This will put tremendous pressure on the activities marketing chooses to employ during the year. More specifically, the types of activities are dependent upon the objectives the marketing department may have for each brand in the portfolio.

For example, one brand may be charged with creating trial usage among a specific consumer group, while another brand will try to get its current users to use the brand more often. The activities required to achieve these two objectives are quite different. Each brand within the portfolio must have a specific objective so that the plan can incorporate the activities each requires to accomplish those objectives. In order to keep score and evaluate the plan, many hours of research and analysis must take place long before the plan is put on paper.

Thinking of Marketing in terms of a process is analogous to painting a house. The finish coat is what everyone sees (e.g. print ads, commercial shoots, etc.) and if these efforts achieve their objective the executors are labeled geniuses, if, however, it does not work then the blame can be found in the distribution efforts or production delays, anything but the real issue. In many cases success has less to do with the final imagery/campaign and more to do with the process that led you to that imagery or campaign. Specifically, In order to succeed more times than fail, the scraping, caulking, and priming must be administered before the top coat goes on. In other words, the excitement is the creative, however, the creative is the result of many hours and days of research to develop a plan that gives sustainable, realistic, and achievable goals for the marketing plan. There is an old saying that can be heard from some of the best marketers in the business. It goes like this:

**“It’s not good when your brands are doing poorly and you don’t know why, but, it’s absolutely criminal for your brands to do well and you have no idea why.”**

The implication is that the brand *should* be doing poorly if no one knows anything about the wants and needs of the consumers; however, if the brand is doing well and no one has a clue why, or have any idea as to how you can find out why - then sustainability of this success is in serious doubt.

The first step in the process of discovering opportunities in the marketplace is to learn the strengths and weakness of your brands as they compare to other competing brands in the market.

### **Share vs. Volume**

Philosophically speaking, every morning each company whose function it is to sell its products or service to an end consumer has a market share of exactly zero. It is the job of the individual company to do its best throughout the day to make its product or service the most compelling proposition in the marketplace. Thus, at the end of the day, the hope is that the company has as much or more market share than the day before.

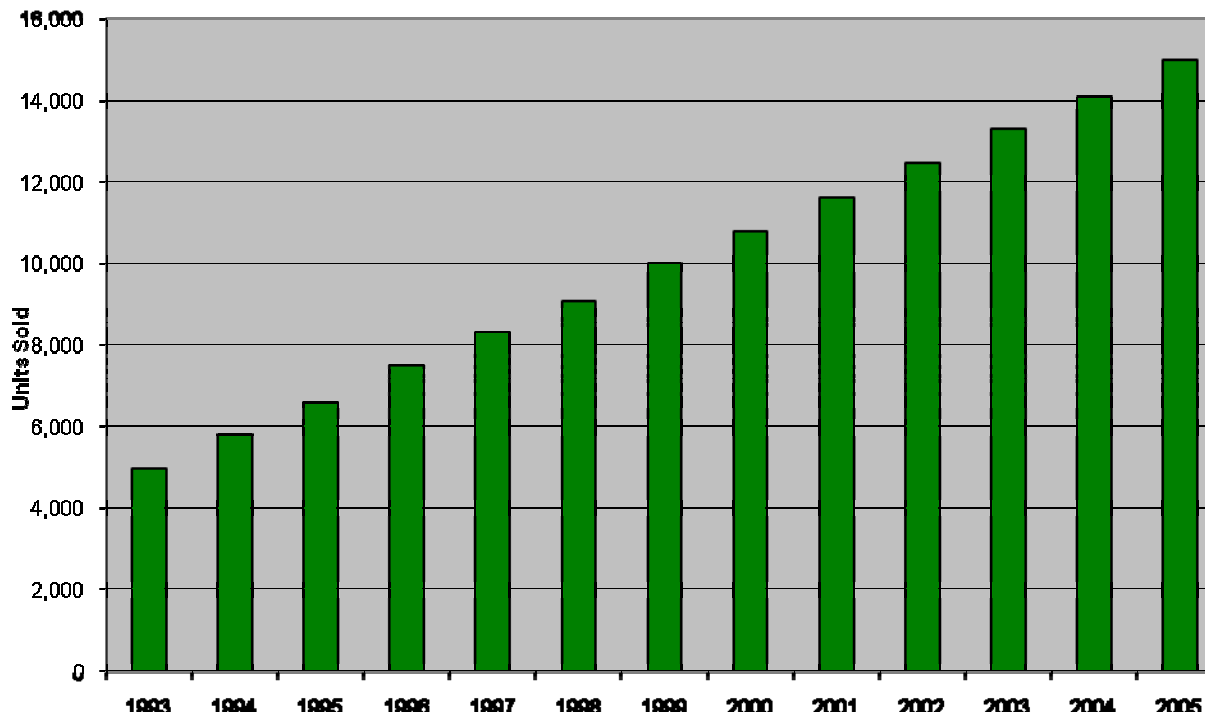
Now many may question why use Market Share rather than Unit Volume? The answer is that market share demonstrates the product’s performance relative to the competition. Whereas Volume simply gives the company’s performance as it

relates itself vs. last month/year. While this measure is very important for both the operations and financial functional areas, it does not portray the relative worth of the brand in the mind of the consumer vs. alternative products in the market. Conversely, Market share gives the product's relative performance within its industry regardless of whether the industry is shrinking or growing. The basic concept is to determine if the product is achieving its "fair share" of the industry purchases each day/month/year vs. the competition based on sales over time.

While it may sound pretty simple, the dynamics that play out each day in the marketplace and the resulting share gain or loss can lead marketers in many different executional directions.

For example, let's assume you are the Marketing Director for a company that sells Widgets, a high purchase frequency relatively low cost product with several other competitors in the market with similar offerings. The Widget brand was the first product of its type in the market and set the standard for all competitors who followed. The annual unit sales for Widget have seen consistent growth since its introduction in 1989 as shown in the figure below:

## Widget Historical Volume



Senior Management is pleased with the consistent growth of Widget but has seen more and more competitors showing up at the retail outlets in the market.

The question Senior Management wants to know is: *“How are we doing compared to our competitors?”* To answer this question we must look at the product compared to its environment and specifically how does it stack up with the other products in the market:

This question is the backbone of any analysis. On the surface the Widget product is chugging right along with year on year volume growth. However, when compared its competitors we see that the growth is out paced by its competitors.

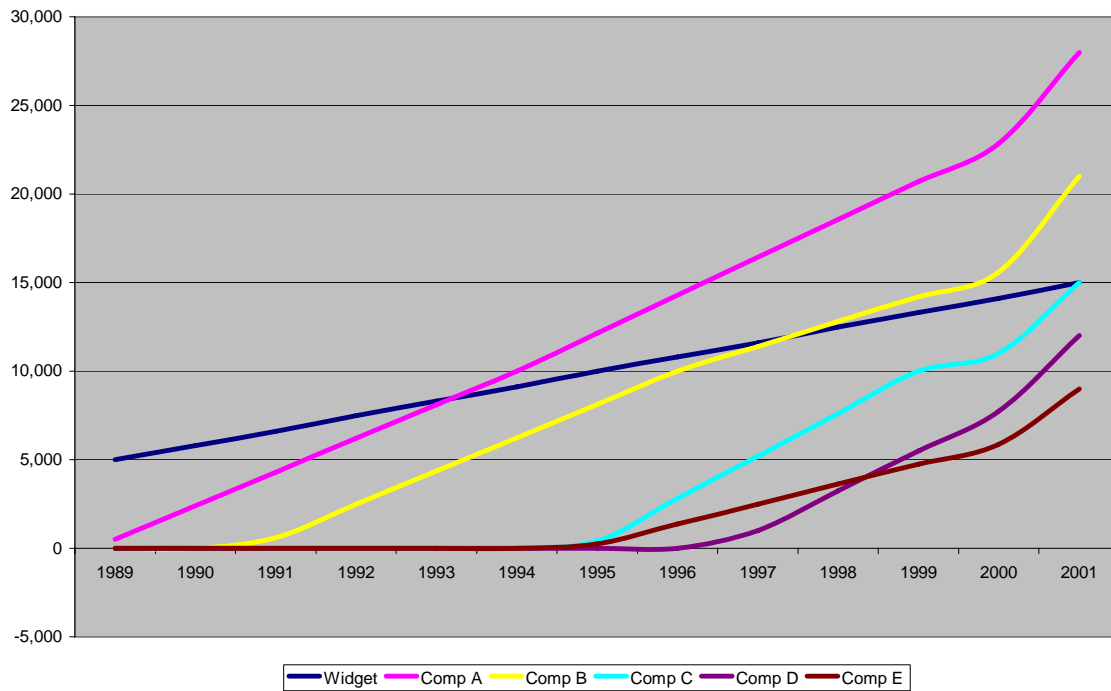
### All Company's Volume Since 1989

Year	Widget	Comp A	Comp B	Comp C	Comp D	Comp E	Total
1989	5,000	500	0	0	0	0	5,500
1990	5,800	2,400	0	0	0	0	8,200
1991	6,600	4,300	600	0	0	0	11,500
1992	7,500	6,200	2,480	0	0	0	16,180
1993	8,300	8,100	4,360	0	0	0	20,760
1994	9,100	10,000	6,240	0	0	0	25,340
1995	10,000	12,143	8,120	400	0	250	30,913
1996	10,800	14,286	10,000	2,800	0	1,375	39,261
1997	11,600	16,429	11,400	5,200	1,000	2,500	48,129
1998	12,500	18,571	12,800	7,600	3,250	3,625	58,346
1999	13,300	20,714	14,200	10,000	5,500	4,750	68,464
2000	14,100	22,857	15,600	11,000	7,750	5,875	77,182
2001	15,000	28,000	21,000	15,000	12,000	9,000	100,000

The striking take-away of this table is the fact that the Widget product has become less relevant in the consumers eyes as compared to the total market.

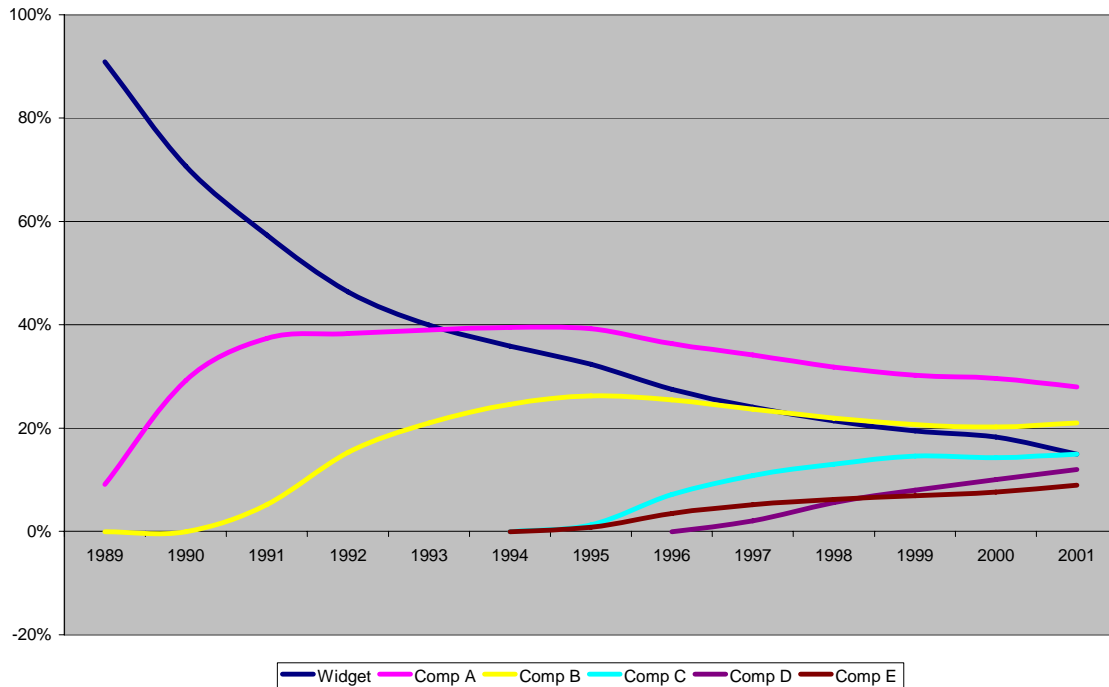
For example, Widget's sales were almost all the Industry sales in 1989; however, in 2001 only 15 in 100 units belonged to Widget.

Industry Share



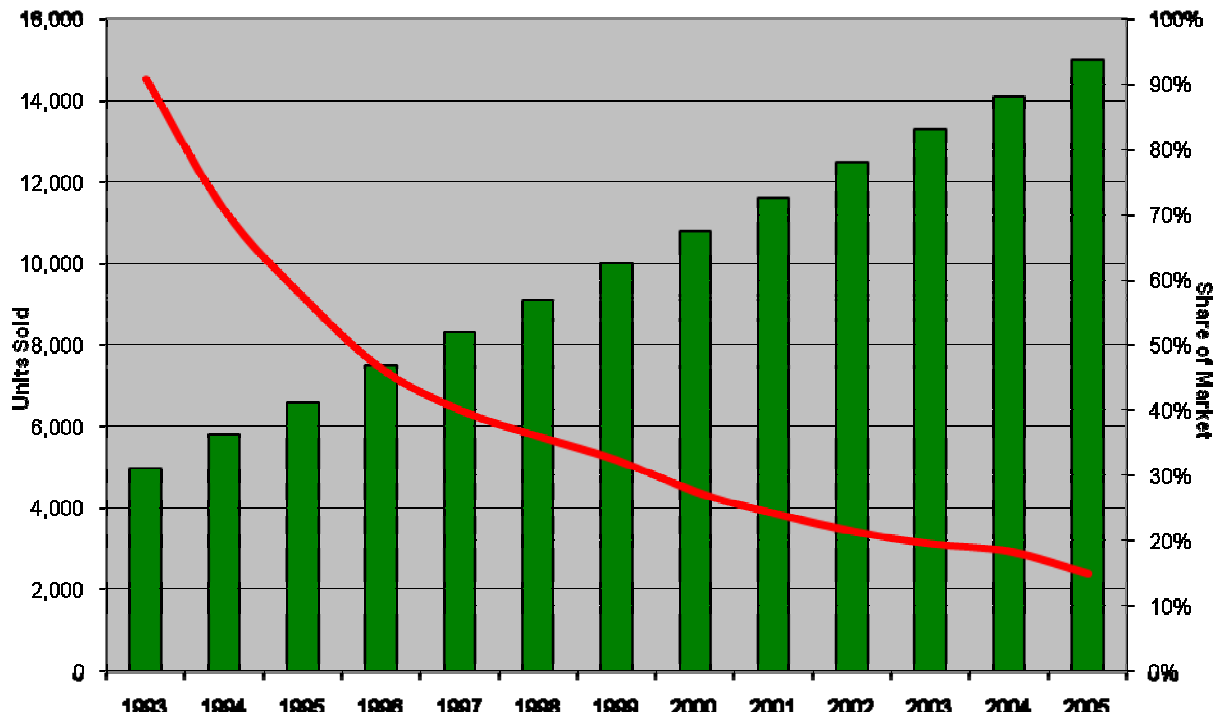
A better way to look at this data is to compare each brand's total volume as a percent of the total industry over time as displayed above. This is commonly called share of market. The chart below gives each brand's sales in Share of Market terms rather than Volume. Compare this with the chart above which contains brand volume only.

Company Share of Market



Graphically the chart above is much more compelling when trying to answer Senior Managements question: “*How are we doing compared to our competition?*” It is clear that while Widget was the market leader in the early 90’s, the subsequent years have not been very kind to the brand. This is a direct result of a breakdown in the marketing process. There are two things to glean from this analysis: One – the market is much larger than the company realized. And two – the consumers in the market place have found that other offerings in the marketplace satisfy their wants and needs better than Widget.

**Widget Share vs. Volume**



By putting Widget's volume and share figures on the same chart one can see just how dramatic the conflicting pieces of data can be.

This is just one simple example of how a company could use Share of Market to evaluate how a product is competing with in the industry. More sophisticated analysis includes various **Share of Segment** measure. Examples of Segments include; price, varietal, taste (full-flavor products vs. light) and package size. The importance of these segment measures becomes apparent when considering the following scenario:

A customer comes in to a bar and orders a Coors Light. The bartender indicates that he is out of Coors Light. The question is whether the customer will stay loyal to the *brand* and order a regular Coors; or, as more likely is the case, the customer is loyal to the Light Beer segment and will switch to a competing light beer. Thus in order for the marketer to capture this dynamic in the market, the marketers of Coors Light must analyze their proposition in context of the light beer segment not just the total beer segment.

## **Summary**

As a marketer, one would rather be in position to chart their own course. To do this marketers have to understand not only where their brand(s) fits into the market but also how the brand(s) fit in the mind of the consumer compared to its competitors. To measure any brands performance as it relates to the consumer it is imperative to have share of market and segment data.

There are some industries that do not have access to account level share data because the participants within the industry chose not to share sales data. There are many reasons given as to why companies are not compelled to create a system to pool industry data. Larger companies within the industry will argue that they will not get as much out of the data sharing as the smaller competitors. Smaller companies will argue that they don't want the larger companies targeting them in the market. Objective analysis yields only one reason as to why a company would not share their data in a combined data pool, and that would be that the marketers in my company were not as good as the marketers in my competitors' companies.

There are, however, more compelling reasons to share data at some level. For example, the larger companies can monitor segment trends and be in a proactive position when these segments become viable. The smaller companies, with limited recourses, gain the ability to compete in specific accounts where the

consumer base lends itself to their specific proposition. Both entities will benefit but for entirely different reasons.

Subsequent white papers will build upon the share of segmentation concept.

These segment analyses all have a specific marketing objective such as distribution, promotional targeting, promotional evaluation and others. The real value of segmentation is that it allows you to take a group of stores in a designated geography and determine the best opportunity for your brands based on sound research. This white paper has demonstrated the value of using share of market and share of segment as the primary tool to measure brand effectiveness.