The Fight for a Smaller Slice of the Pie

The digital economy is setting new rules for cornering market share.

There are probably a couple of your company's figures you could name even in your sleep. I dare to bet that “market share” is one of them. Whether this concerns the daily ratings of a TV channel or the figures for shampoo sales, a great deal of money and energy is spent tracking a firm’s market share. Of course, it is important to stay ahead of the competition. Good competitors are worth their weight in gold; they ensure that you stay alert and grounded. But focusing too much on market share can be disastrous in digitising industries.

The real challenge in this case is not dividing the pie between you and your current competitors but ensuring that the pie does not disappear in front of your eyes. The biggest winner will be the consumer, who stands to gain significant power in the digital world. This will primarily affect organisations located halfway down the value chain, between the producers of individual goods and the distribution outlets. This includes media companies, tour operators and financial brokers. These industries create much of their added value by selecting the best products from a large, scattered range of products and services such as songs, news articles, hotels or insurance products, which they subsequently bundle into a new product to sell on to consumers, in the form of a music album, a newspaper, a vacation or an asset management plan.

How digital changes market share

In the digital world, this game has changed fundamentally; not only is it now possible for the consumer to gain a complete overview of what's on offer, it also becomes much easier to assess the products' value. Differences in quality and price level can easily be analysed on product comparison sites such as Ciao! and Verivox, reviews can be found on TripAdvisor, personal recommendations from friends on Facebook or through algorithms from Amazon, Netflix or Spotify. Subsequently, much of the money that was previously earned by the so-called curators now stays in the pockets of the consumer.

Other parties capturing value are the players at the beginning and end of the value chain. Both producers and (online) distribution platforms will increasingly see a “winner takes all” effect. For individual producers – the makers of songs, financial reports, restaurants and clothing, etc. – we find that in the digital world, although the number of products on offer increases, the share of sales taken by just a few blockbusters is also larger. Those few that do make it big gain significant market value and ask higher prices.

We can also see clear winners among distribution platforms which are used to search for, or buy and
sell, products. In these cases, there is a digital flywheel effect. The website with the most comparisons or reviews is the most attractive, as such it gets more visitors. As visits increase so do reviews, the site improves further and the cycle continues. This naturally leads to an ironclad negotiation position.

Those in the middle are put under pressure from both sides. The initial reflex is often to focus on capturing market share from the direct competition. This may seem the easiest way to regain territory, and is a familiar game, as companies know their opposition well. However, the reality is that this strategy often only serves to speed up the loss in value. Price wars, increasing marketing costs and even lawsuits often lead to an irreversible erosion of profits.

Remaking the pie for higher profits

The paradox is clear: the harder you fight for your piece of the pie, the smaller the pie becomes. Perhaps it is better to put your money and energy into changing the pie itself. There are plenty of examples of companies going against the market trend by focusing on the real value they deliver to their customers. For example, in the media industry, newspapers such as Die Zeit in Germany and Holland’s Volkskrant, have maintained or even grown their paper circulation. Their secret: they changed from being primarily a collector of news facts to an interpreter of news, providing relevant background information based on their own research.

There are also stores, such as home and cosmetic retailer Rituals, which have been able to create a special appeal through their unique product range, atmosphere and service, luring customers away from e-commerce sites. Some manufacturers of branded goods decided not to confine themselves to pretty commercials but to start an open dialogue with their customers, such as Unilever did with its Dove campaign.

Not every company will succeed in turning the tide; at the very least, the pie will taste better.

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