RESEARCH NOTE #5

# RI HUB

# RULE 5: BE THE MASTER OF YOUR OWN DESTINY

***The Ruthven Institute has developed 12 rules for business success. Based on 45 years of analysis of Australia's top 1000 companies, the Ruthven Institute has distilled the essence of a winning business strategy. Research undertaken by the University of Melbourne between 1998 and 2001 supported many of these rules. In this series, the RI Hub examines the literature to assess the validity and continuing relevance of these rules. In each of the following sections, the literature is summarised, the key issues for implementation highlighted, and the questions for future research identified.***

> "Being the master of one's own destiny via market positioning is the most commonly broken business rule among firms that fail to achieve world's best practice (WBP) profitability. When ignored, it is often the biggest reason for poor profitability on its own. Getting out of a suboptimal market position is critical to business survival; doubly so when an industry class is in a mature life cycle phase, where competition can be blowtorch fierce.
>
> The only way an enterprise can be the master of its own destiny … is by securing a winnable position in one's industry class. To achieve this, an enterprise must dominate the whole industry class as a major player; one industry segment as a niche player; one product group as an ultra-niche player; one product subgroup as a boutique operator; or one product as an exotic operator. Getting out of unsafe zones involves a number of options: aggressive organic growth, takeovers or a merger, breaking the business into niche or ultra-niche positions, selling off … loss-making activities, or selling the business and getting into something else."
>
> Ruthven Institute (2019) *Business Success: In Brief the 12 Golden Rules*

## What benefits do firms hope to gain from increased market share?

*Arguments from the academic literature*

Are firm strategies aimed at increasing market share warranted? Before we discuss the empirical findings concerning the impact of market share on firm performance, it is useful to understand the arguments from prior studies as to *why* there may be a significant relationship, in part because these arguments have fuelled the debate on the validity of empirical findings. Starting with Gale (1972), many researchers have argued that market share has an intrinsic value and directly (and positively) affects profitability. Following the empirical evidence by early academic studies supporting this assertion, it quickly became a dominant view in both academia and practice. Later empirical and theoretical work by some researchers, however, challenged this

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view and posited that the positive relationship documented in early studies are not causal but are rather spurious. In particular, they argue that both higher market share and higher profitability are driven by more fundamental factors such as good management or intangible assets possessed by the firm (e.g. see Jacobson, 1988). Irrespective of whether it is a cause or an effect, Farris, Bendle, Pfeifer, and Reibstein (2010) find that 67% of senior marketing managers and executives consider dollar market share as a very useful financial performance indicator.

Three common arguments have been used in prior studies to support the hypothesis that market share has a direct positive impact on profitability[1]. First, all else being equal, a firm with a higher market share will be larger. Larger firm size, in turn, will bring certain advantages to the firm. These advantages primarily comprise experience curve gains and economies of scale, which allow the firm to spread fixed production and marketing costs over more units or reduce costs altogether (the efficiency theory). This argument is consistent with the findings of Boulding and Staelin (1990, 1993), who show that market share increases are associated with lower average costs, especially in competitive environments. That high-share firms achieve higher profitability due to economies of scale has been criticised on the ground that the minimum efficient scale can often be achieved with a relatively small market share (Jacobson, 1988; Schmalensee, 1987). Additionally, in some cases (e.g. where there are many levels in the organisational hierarchy) large firm size may lead to diseconomies of scale (McAfee & McMillan, 1995).

Second, high market share may increase a firm's market power, which allows the firm to bargain more effectively with both customers and suppliers (the market power theory). However, higher market share is not a sufficient condition for market power, and market share itself does not provide monopoly power in setting prices (Boulding & Staelin, 1990; Fisher & McGowan, 1983). Achieving a higher market share to simply hit a specific performance goal can also lower the firm's motivation to fully utilise the benefits of a strong market position, which could be costly in the long-run (Boulding & Staelin, 1993; Edeling & Himme, 2018). Additionally, there is some evidence to suggest that firms derive extra market power benefits only when there is little buyer power to start with (Boulding & Staelin, 1993).

Third, firms with large market shares may have a share-based product differentiation

1 See Buzzell, Gale, and Sultan (1975), Gale (1972), Jacobson and Aaker (1985), and Edeling and Himme (2018) for a summary of these arguments.

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Tadvantage as a brand's widespread acceptance may send a positive signal to customers about the quality of its products (the product quality assessment theory). Although this may sometimes be driven by the consumers' perception of the brand, in many cases high market share may affect product quality through consumption and network externalities (Katz & Shapiro, 1985). For example, a high adoption rate of a technological product will lead to an increase in the number and variety of hardware and software products that are compatible with it. Similarly, the availability and quality of post-purchase services will likely depend on how widely the product is used (e.g. foreign cars). Products by high-share firms are also likely to be included in consumer consideration sets automatically for many reasons, one of which is the psychological benefits consumers derive from using them (Edeling & Himme, 2018).[2] For firms whose customers are businesses rather than consumers, large market share may create a buyer preference based on the presumption that dealing with a market leader is less risky.

Higher market share will not act as a signal of product quality under certain conditions, however. For example, when creating a high-quality brand perception requires exclusivity (Porter, 1980), high adoption rate (hence high market share) may damage the consumers' perceptions of the brand.[3] Consistent with this argument, Hellofs and Jacobson (1999) find that increased market share is likely to improve customers' perception of product quality only in categories where exclusivity is not a concern. The relevance of market share as a signal of product quality will also weaken when more direct signals of product quality, such as consumer reviews and brand equity, are available (Edeling & Himme, 2018; Kirmani & Rao, 2000).

In summary, prior studies have presented valid arguments in regard to why market share may positively affect firm performance, but the counter-arguments provided by critics indicate this effect may be contextual. The discussion above also suggests that market share for the sake of market share is not a good strategy and may even be detrimental to firm performance. This is likely to be the case when the path to higher market share is too costly, i.e. when higher market share leads to diseconomies of scale or diminished customer perception of product quality, or when the resources devoted to achieving higher market share exceed the marginal benefits of increased market share (also see Montgomery and Wernerfelt (1991)). To

2 For example, in some cases consumers may not want to feel excluded by not purchasing the product or derive pleasure from using a product when more peaple use it.

3 This argument can explain why niche firms can achieve high profitability, namely by charging a price premium for exclusive products.

what extent the hypothesized positive market share-firm performance relationship is reflected in data is thus an empirical question, and the evidence from the market share literature is discussed in the next section.

*Market share and credit ratings*

The impact of market share on a firm's credit risk is typically evaluated as part of the firm's business risk assessment. For example, S&P (2019) evaluates the cash flow implications of market share when assessing a firm's competitive advantage, scale, and scope. A high market share generally has a positive impact on a firm's credit rating because it enhances the firm's ability to generate enough cash to pay its debts. A firm that can defend and increase its market share is considered to be more likely to "adjust its strategy to evolving market conditions, be more innovative, enjoy some pricing advantage, and maintain sales growth and profitability" (S&P, 2019). Favourable cost positions or better relationships with suppliers and customers are some other factors that are assumed to give high market share firms an advantage even when pricing advantages are not available. These arguments are consistent with the efficiency theory and market power theory explanations discussed earlier.

For most industries, S&P considers a firm to have a strong or adequate competitive advantage if it has an industry-leading market share (typically top two) that is either stable or growing in markets with attractive growth opportunities. Barriers to entry and capital intensity also affect the extent to which a firm's market position affects the scoring of its competitiveness. The baseline criterion suggests that for high market share to be a positive factor, not only the firm's market share needs to be stable but also the market in question has to be growing. In fact, a leading market share in a fragmented or relatively small market with little growth prospects will earn the firm at best an adequate scoring in terms of scale, scope, and diversity (S&P, 2013). The ability of a firm to protect its market share in economic downturns is a particularly important factor in rating agencies' assessment of the firm's credit risk. The negative impact of a market share loss on a firm's credit rating is likely to be stronger in niche markets.[4]

Market share is unlikely to improve a firm's credit rating if the industry has a number of similarly sized participants or is very fragmented (i.e. non-concentrated industries). This rating criterion is consistent with Gale's (1972) finding that the

4 For example, see S&P's credit rating methodology for the commodity chemicals industry and the specialty chemicals industry (S&P, 2019).

positive effect of market share on profitability is likely to be greater for large firms and in highly concentrated industries. In non-concentrated markets, growth through acquisitions to improve a firm's market share is assumed to enhance the firm's competitive advantage (S&P, 2019). Collectively, these points highlight the somewhat contextual nature of the cash flow implications of higher market share even in alleviating a firm's downside risk.

**The market share-firm performance relationship: the academic literature**

*Empirical challenges in calculating market share*

A firm's market share is the percentage of a market's revenues attributable to the firm. Hence, to calculate market share, ideally one needs the revenue figures for each segment of every firm operating in that particular market. In practice, this is never the case. One of the major empirical challenges in testing the relationship between market share and firm performance thus stems from the difficulties in determining markets.

Two issues make defining and estimating the size of a market a very challenging task. First, two firms competing in the same market may call the market by a different name, and other firms may have different markets in mind despite using the same name in their annual reports. Second, a product may have close substitutes from other industries (as defined by a SIC code), so the market wherein a firm competes may comprise multiple industries. Alternatively, many firms compete with only a portion of industry participants due to the different functions of their products, resulting in multiple markets within an industry. For example, although both Windows and Zoom are products in the software publishing industry, they are not competing in the same market as one is an operating system while the other is a video communications software. Since a market does not necessarily correspond to an industry, it is difficult to determine the approximate boundaries of some markets. This problem is exacerbated by the fact that a product that is seen as a competitor by one firm may not be seen as such by another.

Segment reports, which include disaggregated revenue figures for each market wherein a firm participates, do not alleviate these issues as current accounting standards allow firms considerable leeway with respect to how they define their segments for financial reporting purposes. Accounting standards define an operating segment as any component within an entity "whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about

about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available" (Australian Accounting Standards Board, 2015). An operating segment whose results are regularly reviewed by the management may very well be based on factors other than product categories. For example, both of JB Hi-Fi's operating segments, JB Hi-Fi and The Good Guys, operate in more than one industry class. Microsoft has three operating segments, one of which (called "More Personal Computing") includes both hardware and software products.[5] Without further information, one cannot calculate the portion of revenues attributable to each industry class for either of these firms, even if one wanted to, at least partially, standardise the market share calculation. It is not surprising that most studies examining the market share-profitability relationship have used databases constructed from additional data provided by firms.

It is worth noting that these issues present less of an empirical challenge in industries dominated by specialised firms since in these industries total company revenues – instead of segment revenues - can be used to calculate the size of the industry. In such industries, firm profits can be used as the dependent variable when testing the market share-profitability relationship. In industries dominated by diversified companies, however, it is important to use segment-level performance data when testing the said relationship to obtain more reliable results. To understand why this is the case, imagine a company whose segment A operates in a highly concentrated market where it has a very large market share, whereas its segment B only has a small share of a very competitive market and has many competitors. Even if market share is indeed related to firm performance, in a sample of firms with such attributes profitability could differ across units but not at the company level due to averaging.

To overcome some of these challenges, some studies have used relative – rather than absolute – market share, which is calculated as the firm's revenues from a given industry divided by the sum of the revenues of the largest (three or four) industry incumbents. The advantage of this measure is that one does not need to know the size of the industry for hypothesis testing. However, it is unlikely to be an informative measure of market share in the traditional sense for firms operating in non-concentrated industries (i.e. many competitors but no dominant firm).[6] Based on all the issues highlighted in this subsection, readers should keep in mind the shortcomings inherent in market share measures when reading through the evidence

5 See JB Hi-Fi's and Microsoft's annual reports for more details.
6 The evidence discussed in this review includes studies using both measures.

discussed below.

*Empirical evidence on the market share-firm performance relationship*

The studies examining the market share-firm performance relationship has predominantly focused on accounting ratios rather than stock prices as a measure of firm performance. Consequently, unlike in our previous review pieces, we focus on studies using profitability as their dependent variable. However, the second of the two meta-analytical studies published in this area, Edeling and Himme (2018), also includes studies using market value as the dependent variable (discussed later in this subsection).

Gale (1972) is one of the first studies to document a positive association between market share (employment-based) and profitability (as measured by return on equity) using firm-level data. Using business-line level data from US Federal Trade Commission's Line of Business (LB) database and Profit Impact of Market Strategy (PIMS) database, Gale and Branch (1982) and Ravenscraft (1983) provide evidence supporting the positive relationship between market share (based on the share of revenues) and various profitability measures. Although many follow-up studies have used the LB and PIMS databases, some researchers have questioned their validity and the findings from studies using that data. Some of the main criticisms include sample bias towards larger firms, lack of longitudinal data, and lack of data items to operationalise some important variables that might affect the strength of the relationship in question (Benston, 1985; Ramanujam & Venkatraman, 1984). However, Marshall and Buzzell (1990) find that despite the differences in sample compositions between the two databases, both yield very similar results in terms of the magnitude and the strength of the market-share profitability relationship.

One noteworthy finding from Gale and Branch (1982) and Ravenscraft (1983) is that industry concentration generally loses its significance as a determinant of profitability once market share is included in the regression. This result is evidence against the argument that oligopolistic coordination in concentrated industries – rather than higher market share – is the main driver of higher profits. However, it is inconsistent with the Australian evidence from Feeny and Rogers (2000) that more concentrated industries have higher profit margins. Gale and Branch (1982) further document higher returns to advertising for firms with larger market shares. Using the same set of data as Gale and Branch (1982), Jacobson and Aaker (1985) also document a a positive impact of market share on return on investment (ROI) but find

this effect to be much smaller when they control for more firm fundamentals. For comparison, a 10 percentage point increase in market share leads to a 5 percentage point increase in ROI as per the former study's findings but only a 1 percentage point increase in ROI as per the latter. A follow-up work by Jacobson (1988) finds the significant effect of market share on ROI to disappear once he controls for additional factors.[7]

Results from a meta-analytical review of forty-eight studies by Szymanski, Bharadwaj, and Varadarajan (1993) suggest that although there is a significantly positive association between market share and profitability, the magnitude and the significance of this relationship are affected by sample and measurement characteristics. The association becomes especially weak when firm-specific intangibles are included in the regression. The study also finds some support for the product quality assessment theory and the non-causal association between the variables of interest (i.e. unobserved factors drive both profitability and market share) but not for the market power and efficiency theories.

The inferences from a more recent meta-analytical review by Edeling and Himme (2018) are generally consistent with the conclusions of Szymanski et al. (1993).[8] In particular, they confirm that market share matters, but how much impact it has on firm performance varies across countries and firm types. The meta-analysis also provides a number of interesting insights. First, market share-financial performance elasticities are higher for manufacturing firms than for service firms, especially in the US and for firms that serve both consumers (B2C) and business customers (B2B). This could be explained by the ease with which production processes can be standardised and the extent to which economies of scale can be achieved in manufacturing industries vis-à-vis services. Second, elasticities are higher for B2C firms than B2B firms. A possible explanation for this finding is that product quality does act as a signal of product quality for consumers, but organisational customers' complex purchasing behaviour dampens this effect (Edeling & Himme, 2018). Third, performance gains from increased market share are more pronounced in industries with a moderate number of firms than those with a small or high number of firms.

7 It should be noted that the procedure followed by Jacobson (1988) and Jacobson and Aaker (1985) to control for "unobserved factors" (such as luck, costomer loyaly etc.) by including prior year's ROI in the model has been criticized by some researchers on the ground that doing so leads to testing the association between the level of market share and a *change* in ROI.

8 The two studies differ slightly in their methodologies. First, unlike Szymanski et al. (1993), Edeling and Himme (2018) focus on market share-performance elasticities, which are calculated as the percentage change in ROI divided by the percentage change in market share. Second, Edeling and Himme (2018) also include studies that use market value of a firm (as opposed to profitability ratios) as their dependent variable.

Fourth, elasticities are significantly higher in emerging markets (and to a smaller extent in Western European countries) than in the US. Finally, the impact of increased market share on firm performance is significantly weaker in industries that have been highly influenced by digitization. Additionally, there is some evidence to suggest that the financial performance effect of market share is weaker in the Internet era for manufacturing firms.

It is worth emphasizing that a smaller market share does not necessarily imply lower profits. Schwalbach (1991) provides evidence that in some industries (such as services and semi-finished materials market) small-share firms are just as profitable as large-share firms. By examining successful low-share businesses, Woo and Cooper (1981) find that such firms typically operate in stable environments and selectively focus on their key strengths. Similarly, high market share is not enough to achieve high profitability: evidence indicates more than one-fourth of high-share firms tend to have low profitability (Woo, 1981). Firms with very large market shares tend to be even less profitable (Schwalbach, 1991). Further evidence from Prescott, Kohli, and Venkatraman (1986) indicates that the strength of the association between market share and profitability is context-specific and much of the positive relationship can be explained by factors that affect both market share and profitability. Collectively, these findings suggest that the right strategy, rather than a high market share, is key to achieving high profitability.

**The role of market share in firm performance: the RI view**

The RI's stance on the market share-firm performance relationship differs from that of the academic literature. Specifically, RI Rule 5 categorises a firm's market share as optimal or sub-optimal depending on the interval within which it falls. There are five optimal categories of market share, and firms with such market shares are called *major player, niche player, ultra-niche specialist, boutique operator,* and *exotic operator*. A major player is a firm that has at least 25% of an industry's (at the four-digit level) revenue and 35%-50% share in the product groups in which it competes. A niche player[9] generates 5% of an industry's revenue and needs to dominate a market segment (usually product-based, but can be geographic-based). An ultra-niche specialist has a 1% share of an industry's revenue and dominates a product group with at least a 75% share. A boutique operator generates 0.1% of an industry's revenue and dominates the product sub-group. An exotic operator has a 0.01% market share with a unique product line. Any market share that falls within the 5%-25%, 1%-5%, and 0.1%-1% intervals is considered suboptimal. RI Rule 5 advises

9 As per RI Rule 5, although monopolies are technically in an "optimal zone", they are not considered desirable because monopolies "tend to breed complacency and have low levels of innovation".

that firms operating in *suboptimal zones* either expand or shrink to get to an *optimal zone*. This can be done through organic growth, mergers and acquisitions, breaking up businesses into smaller units, selling off/discontinuing some operations, or changing industries in more extreme scenarios.

Two important points about RI Rule 5 are noteworthy. First, what Rule 5 refers to as *niche* is somewhat different from how the academic literature defines the term niche, which generally refers to a small market segment consisting of customers with specific needs or characteristics (Dalgic & Leeuw, 1994). Niche firms tailor their goods and services for the needs of these small markets. Although one of the criteria for partitioning firms into the RI's five categories is based on products and product groups, the primary element in RI's niche identification is the share of industry and market revenue made by the firm. As per the definitions commonly used in academic studies, however, a small market share is not a sufficient condition for being niche. Instead, small firm size or market share is merely an outcome of such firms targeting and serving only a specific group of customers. Another difference between the two definitions is that Rule 5 allows the market segments to be defined in geographical terms rather than product terms (see the definition of niche player above).

Second, RI Rule 5 does not necessarily assert a linear positive relationship between market share and profitability (as measured by ROI). Instead, it argues that a small-share firm can be at least as profitable as, if not more than, many large-share firms if it operates in one of the optimal zones. Although some studies discussed above provide evidence on the profitability of small-share firms, it is not clear from the reported results whether those firms fall into one of the optimal zones (niche, ultra-niche, boutique, or exotic).

The studies closest in spirit to empirically testing the implications of Rule 5 are Feeny and Rogers (2000) and Uslay, Altintig, and Winsor (2010). Using Australian firms as their main sample, Feeny and Rogers (2000) find that profit margins fall in market share until a certain threshold is achieved.[10] They estimate this threshold to be at about 25% for industries with lower concentration and 30% for highly concentrated industries. That the changes in profit margin are negative until the firm reaches 25%-30% market share is consistent with the arguments posited by Rule 5. The analysis from Uslay et al.(2010) suggests that the market share zone where firms

10 The study measures market share by first calculating each segment's share of the industry revenue (at the three-digit ANZSIC code) and then obtaining the weighted-average of those shares for each firm.

find themselves at significant financial performance disadvantages could be as wide as 3% to 21% in the US, which is close to the 5%-25% range posited by Rule 5. However, later work by Uslay, Karniouchina, Altintig, and Reeves (2019) has estimated this range to lie between 3% and 11%. Even the dissimilar estimations aside, however, it is unclear which of the results documented for US firms are more applicable to the Australian setting (if at all), and further empirical tests are needed before a more definitive conclusion regarding the validity of Rule 5 can be reached.

Due to the lack of empirical research examining the profitability implications of operating in the specific market share pockets defined by Rule 5, we turn to the strategic groups and organisational niche literature to gain further insights into the validity of Rule 5. Although these streams of literature are not generally concerned with the antecedents and consequences of market share, findings from these two areas can help us understand why operating in suboptimal zones may be detrimental to profitability. These findings may be particularly pertinent for the market share zone between major and niche players (5%-25%) as the former category is likely to comprise generalists whereas the latter category is more likely to consist of specialist firms.[11] Therefore, it is helpful to view the five *optimal* market share categories (as defined by RI Rule 5) as belonging to two broader groups: large generalist firms comprising *major players* and smaller specialist firms (henceforth just niche) comprising *niche, ultra-niche, boutique*, and *exotic* firms.

In one of the early influential papers, Carroll (1985) proposed that large generalist firms compete for the centre of the market, which allows smaller specialised firms to cater to a group of customers with specific needs or characteristics without engaging in direct competition with larger generalist firms. In a similar vein, Baum and Singh (1994) argue that every firm occupies an organisational niche characterised by a set of organisational capabilities and resources and hence face different competitive landscapes. These arguments suggest that the number and the size of a firm's competitors depend on what organisational resources the firm focuses on and which consumer segments it targets. Since the degree of competitive intensity negatively affects firms' survival chances and growth, where the firm positions itself in the market will likely affect its survival chances and profitability due to the varying degrees of competitive pressure (Baum & Singh, 1994; Podolny, Stuart, & Hannan, 1996). The argument that holding a distinctive position in the

11 Uslay et al. (2019) follow similar reasoning when discussing the potential explanations for their results.

industry is valuable in its ability to reduce competition has been emphasized by the strategic groups literature as well (Harrigan, 1985).[12] One implication of these propositions is that firms trying to cater to customers beyond their niche will face competition from not just the firms targeting the same niche but also generalist firms, which will lower their success rate. To the extent that firms operating in "suboptimal zones" (particularly in the 5%-25% market share interval) comprise such firms, we may observe the profitability patterns posited by Rule 5.

Several studies have examined the profitability of niche firms. Based on a number of case studies, Dalgic and Leeuw (1994) conclude that niche firms can achieve high profitability by focusing on groups of customers ignored by competitors. Using regression analysis on PIMS data, Galbraith and Schendel (1983) show that niche strategy – which is defined in the study as a strategy that emphasizes product quality and service characteristics – can be quite profitable. Similarly, Lawless and Anderson (1996) find that niche firms can be successful by occupying distinctive positions vis-à-vis local rivals and adopting new technology quickly without changing niches. There is also some evidence to suggest that the profitability of niche firms may depend on how inter-connected the firm is with other firms since such relations can help the firm to more easily gain information about, and access to, processes and materials important for success (Echols & Tsai, 2005). The findings discussed in this paragraph are consistent with those of Woo and Cooper (1981), which suggest that the right strategy, not high market share, is more important for profitability.

**Conclusions and future research opportunities**

The goal of this review was to provide a summary of the literature on the market share-firm performance relationship and contrast it with the RI's stance regarding the role of market share in firms' performance. The collective evidence from this stream of literature suggests that market share has a small positive impact on a firm's profitability, but this effect is contextual. It varies across countries, the intensity of competition, and the relative market power of firms in a given market. The strength of this relationship also depends on whether the firm is in a manufacturing or services industry, whether it is a B2C or B2B company, and the extent to which the firm is affected by digitisation. The difficulty in empirically measuring market share adds an additional layer of complexity to examining its relation to firm performance. A conclusion that can be drawn from this literature is that the goal of achieving higher market share should be considered in conjunction

12 Also see Porter (1980) for his discussion regarding the competitive positioning of firms.

with other strategic goals. Otherwise, making market share a financial performance objective without paying attention to how it affects the firm's other strategic goals may be detrimental to firm performance.

In contrast with the main assertions in this literature, RI Rule 5 posits that being in the right market position – not necessarily having a high market share – is what matters for achieving high profitability. Although there is some evidence to suggest that niche firms can be quite profitable, more work can be done in this area, especially in the Australian context. A potentially fruitful research avenue is to systematically explore the conditions under which niche firms are profitable, and to differentiate between the experiences and performances of the different types/scale of niche players defined by Rule 5. The literature would also benefit from more evidence regarding how investors view increased market share. It would be interesting to see whether (and if not, why) the new findings based on using market value as the performance measure are consistent with those from studies using profitability ratios as their dependent variable.

Finally, despite the profound impact of the Internet and other rapidly evolving technological innovations on how firms and markets operate in the new economy, we still have little understanding of whether and how the market share-firm performance relationship has changed. On the one hand, the boundaries of markets are blurrier and the competition is more fierce than ever. On the other hand, with the advent of the Internet and online platforms, it is easier than ever to better understand the customers' needs through feedback and identify niches with unique attributes that are not served by the competitors. Furthermore, advances in production technology, such as computer-aided design and on-demand production, allows both niche and generalist players to more easily adapt and tailor products to specific customer needs. Such a tension makes the potential changes in market share-performance relationship in the new economy a rich research setting.

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