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How to Increase Your Small Business Market Share

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Looking to increase your small business market share? Find out how to calculate and improve your share of the market.

Market share is the percentage of total sales in an industry generated by a business or product. If you have a large market share, your business is likely pretty successful. If you have a small market share, you may be looking for ways to increase it. To increase their market share, small businesses must implement a growth strategy, which often includes analyzing competitors, introducing more efficient products and services, and providing excellent customer service.

How do you calculate market share?

Knowing how you stack up against your competition is critical to running a successful business, and one of the ways to gain a clear picture of where you stand in your industry is to calculate your business's market share.

Market share is the percentage of total sales within an industry that the sales of a particular business represents, said Ian Kelly, vice president of operations for NuLeaf Naturals.

"It's calculated by dividing the total revenue a business makes per industry by the total revenue made within that defined industry," Kelly told business.com.

For example, if your business reported its gross revenue of $2 million and the industry in which your business operates has a total gross revenue of $50 million, your market share would be 4%.

Company's revenue ($2 million) / Entire market revenue ($50 million) = 0.04 (4% market share)

There are different types of small business accounting software that include digital marketing tools designed to help analyze your market share projection and provide up-to-date industry and market analysis.

What defines a business with small market share?

Businesses with small or low market share are usually defined as those that have small percentages of the total sales within their respective industries. Using a market share growth strategy, like the BCG matrix, can help your business gain insights on industry competition. The BCG matrix is a marketing strategy designed to support businesses with growth opportunities and long-term financial planning by evaluating its products and services.

"For small businesses, a small market share could easily be less than 1% or up to nearly half of the total revenue per industry, depending on the scope of the calculation and the number of competitors," Kelly said. "This is because market share can be defined at different levels – global, national, statewide, countywide, or even within cities and neighborhoods."

Kelly said businesses with small market share can be defined by their market leader because the competition depends on the industry as well. The shares of competitors may be higher in some industries and lower in others.

What is a good percentage of market share?

A good market share percentage depends on the product or service, business location, and industry competition. However, Robert Withers, founder of Natural Citizen, believes that businesses should aim to be No. 1 or 2 in a market.

"Uber Eats recently exited India because it did not think it could be first or second in that market," he said. "Most consumers only keep a few choices at the top of their minds when considering a purchase of a good or service."

By not being one of the top competitors, Withers said, businesses will find it difficult to be successful unless they factor another marketing strategy into maintaining a steady customer base.

While there are numerous key factors to consider when determining a good market share percentage, it ultimately depends on your industry and the products or services you sell, according to James Cassel, co-founder and chairman of Miami-based investment banking firm Cassel Salpeter & Co.

"In a very large market with no dominant player, a company with a 10% market share might have a good percentage of that market," Cassel said. "However, if, for example, there's a market where two players each have 40%-plus of the market, a third player with just 5% market share could be rather small and insignificant, or it may fill a void in the market and be very important to the market." **[Read related article: Ways to Grow Your Business in a Mature Market]**

How do small businesses increase market share?

The U.S. Small Business Administration's Office of Advocacy reported that small businesses accounted for about 44% of all economic activity in the U.S. as of 2014. While this is a great overall contribution, it's a drop of four percentage points from the previous 16 years.

So, how can small businesses stop this decline in market share? There are two basic ways to do it for your business, according to Cassel.

"One is by organically growing your business by increasing your marketing and sales budget or developing new and innovative products, which will help you build your customer base and sales," he said. "Alternatively, you can increase your market share by buying a competitor."

Whether you intend to grow your market share organically or by acquisition, you need to consider how customer perception affects a buyer's decision and how a strong brand image can amount to considerable market share. Finding a balanced mix of proven marketing strategies and innovative approaches to capture your target market's attention can attract customers to your business and encourage them to choose you over your competition.

Here are a few pointers to keep in mind as you strategize how you will grow your market share:

- Keep your revenue above the break-even point. Although it's important to price your products or services competitively, you don't want to lose money on each sale in your efforts to beat the competition.

- Identify your direct competitors and why they are successful in your industry. What are they doing better than you? Find out why your competitors' customers choose their business over yours.

- Improve your customer engagement. Look for ways to provide good customer service and personalize your communications with your customers.

- Enhance your product and brand image. If your customers have been asking for improvements to your product or your brand image feels stale or outdated, it may be time to make some changes.

You can also increase your market share by competing in the market segments where your business's strengths are more likely to be valued and where your major rivals are unlikely to compete.

Market segmentation is the formula of dividing your target market into approachable groups by creating subsets of a market based on characteristics such as age, income, personality or behavior. These segments can later be used to enhance products and target advertisements to various customers.

Generally, there are four categories of market segmentation: demographic, psychographic, behavioral and geographic. Here are some examples of each segment category.

- **Demographic:** This is based on statistical data such as gender, education and income. This information is relatively easy for new businesses to find out about their target audience when prepping for launch.

- **Psychographic:** This is based on attributes of your ideal customers, such as personality traits, values, interests, lifestyles and opinions. You'll need to conduct more in-depth research if you want to target customers based on this type of information.

- **Behavioral:**. This category refers to customer actions in terms of product usage and brand interaction. It primarily aims to target customers based on their purchasing behaviors.

- **Geographic:** The geographic category is the simplest for businesses to identify, as groups may be segmented by ZIP code, city, distance from a certain location or type of area (such as climate or population density).