STAT
RESOURCES

THE DOMINANCE INDEX™ – A NEW METHOD OF MEASURING MARKET POSITION

WHAT IS THE DOMINANCE INDEX?

The Dominance Index is a measure of a brand or a product's perceived market position *vis-à-vis* its competition. The index directly reflects the perceptions of a brand compared to its competitors. It is a valuable tool to use to enhance understanding of market performance, market share and brand equity.

WHAT DO INDEX VALUES MEAN?

A value of 1.0 means that the brand is on a par with its competitors. Put another way, if all brands are equal, then all will have indexes of 1.0.

Values above 1.0 reflect dominance – how much above par the stature of the brand is. For example, a value of 2.0 says that a brand has achieved two times greater dominance than it would have if all brands were equal.

Values below 1.0 reflect weakness – the extent to which the brand's position is below par. For example a value of .5 says that a brand has achieved half the dominance it would have if brands were totally undifferentiated.

WHY USE DOMINANCE INDEXING?

Unlike other measures (such as market share), the Index explains, as well as shows, market position. Since it is based on perceptions, The Dominance Index reveals the factors underlying brand performance. The worksheet used to calculate the Index immediately shows exactly what factors account for each brand's position, as well as what its relative position is in the perception of the market.

HOW ARE DOMINANCE INDEXES CALCULATED?

Indexes are calculated by asking users to rate brands on the key dimensions of brand performance. (Actually, we have found that first place rankings validly reflect overall perceptions.) We then average the percentage of first place rankings each brand achieves and compare this percentage to expectation. For example, if there are five brands in a field and all are equal, then each brand would be expected to capture an average of 20% (1 out of 5) of the first place choices. A brand that captures 20% is simply performing on par – and would get an index of 1.0. But one that captures an average of 40% would achieve an index of 2.0.

An Example

DOMINANCE INDEX CALCULATION WORKSHEET

	Service				
	A	**B**	**C**	**D**	**E**
Market Share *(Percentage of Subscribers)*	(40.0%)	(30.0%)	(20.0%)	(10.0%)	(10.0%)
Adjusted Market Share *(Percentage of Subscriptions)*	(36.6%)	(27.3%)	(18.2%)	(9.1%)	(9.1%)
Percent - 1st Place Ranks:					
Pricing	21	**42**	21	10	6
Usability	35	5	20	11	**29**
Community	**55**	15	10	6	14
Content	**57**	8	13	2	20
Services/Support	35	25	11	14	15
Dominance Index	**2.0**	**1.0**	**.7**	**.4**	**.8**
Adjusted Dominance *(Relative to Market Share)*	**1.1**	**.7**	**.8**	**.9**	**1.7**

In the example, Service A dominates the field in terms of user perceptions. Since Service A has the greatest market share, this is expected. More importantly, the calculation reveals that Service A's position is driven by the quality of its content and of its community of users.

Now consider Service B. While this service is in second place in terms of market share, its dominance over the remaining brands is not as great as its market share would suggest. In fact it barely leads Services C & E with its Index of 1.0 versus their respective Indexes of .7 and .8. (Service B appears to be extremely vulnerable to a competitive attack on its pricing.)

Of all the services, Service D is clearly weakest, despite the fact that it currently has the same market share as Service E. On the other hand, Service E, differentiated by its strong usability, shows more promise than its current market share would suggest.

CAN DOMINANCE BE INDEXED RELATIVE TO MARKET SHARES?

Used together with market shares, Dominance Indexes can add critical strategic intelligence as the example on the previous page demonstrated. In fact, when market share data is available, it is advantageous to calculate the index of dominance relative to actual market share rather than to a par value of 1.0. (Remember the standard Dominance Index reflects perception relative to the standard of "All Brands Are Equal.")

The Adjusted Dominance Index reflects perceptions relative to actual market shares. It is calculated by analyzing perceptions compared to share. In this case, we would expect a brand with 40% market share to attract 40% of the first place rankings. If it does just this, then its Dominance would match its share and its Index would be 1.0.

WHAT DO ADJUSTED INDEX VALUES MEAN?

Like standard Dominance Indexes, adjusted Indexes of greater than 1.0 (relative to market share) reveal strong brand positions, while those of less than 1.0 reveal weak positions. All that has changed is the frame of reference. However, it is especially useful to look at the relationship between *Standard* and *Adjusted* Dominance, where there is sufficient data to calculate both.

An Example

Look again at the exhibit on the previous page. Note that Service A's Dominance is just slightly above what would be predicted from its market share. Services B, C and D are slightly below what would be predicted from their shares. On the other hand, the Adjusted Index reveals the potential of Service E, which commands perceptions of strength almost double (1.7) what would be predicted from its share alone.

PEELING THE ONION

The examples above incorporate just five key dimensions of performance. A similar analysis can be developed within each of these individual dimensions. For example, we can look at relative dominance across the Content Dimension by asking users to rate key content characteristics (*e.g.,* range, variety, update frequency, etc.). Dominance Indexes within dimensions are also useful and meaningful ways of summarizing a series of perceptions, offering many interpretive advantages over simply averaging ratings.