



AU CONTRAIRE (5)

Paris Hilton, Kardashians, and Large Brands

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A common marketing assumption about small, niche brands is that they are well differentiated and therefore appeal to a limited but loyal group of consumers. The reasoning behind this is that, while these brands may have fewer buyers, purchasers of smaller brands buy them because they like them and therefore will be loyal to them. Large, mass market brands, on the other hand, are not well differentiated, mean different things to different people, and therefore consumers of these brands are not as loyal as they are to smaller brands. Larger brands may have more buyers, but those who buy them are not nearly as loyal to larger brands as they are to smaller brands.

Like most marketing myths, this theory of smaller brands' commanding more loyalty among their users appears logical and self-evident. But research data show otherwise: consumers are less loyal to smaller brands than they are to larger brands. I already touched upon this point with an example in an earlier article, "The Unbearable Lightness of Buying" in the October issue of *Vue*. We will explore this phenomenon in greater detail here.

Let's look at another example that illustrates smaller brands' commanding lower loyalty compared to larger brands. Consider exhibit 1.

Exhibit 1. Smaller Brands Command Lower Loyalty (Fabric Softeners)

Brand	Buyers	Average Purchase Rate
Downy	48%	3.6
Snuggle	34	3.1
Average (large)	41	3.4
Cling Free	8	2.0
Arm & Hammer	5	2.1
Average (small)	7	2.1

Source: IRI, Philadelphia, cited in Ehrenberg, "Double Jeopardy Revisited, Again," Marketing Research, Spring 2002.

Using average purchase rate as a measure of loyalty, we note that large brands such as Downy and Snuggle have a higher purchase rate compared to smaller brands such as Cling Free and Arm & Hammer.

Exhibit 2 provides another example from a different category: retail chain visit frequency.

**Exhibit 2. Smaller Brands Command Lower Loyalty
(Retail Chains)**

Chain	Market Share	Visit Frequency
Woolworths	32%	7.6
Franklin	22	6.7
Foodland	16	7.2
Jewel	13	5.2
Average (large)	21	6.8
New World	6	4.4
BI-LO	5	3.7
Average (small)	6	4.1

Source: Byron Sharp & Erica Riebe. "Does Triple Jeopardy Exist for Retail Chains," *Journal of Empirical Generalisations in Marketing Science*, 2005 (9), pp. 1–9. Brand names are disguised by the authors.

We see a very similar pattern here as well: Smaller brands are bought by fewer buyers, and those who do buy, purchase less on average. This observation that smaller brands suffer from lighter buying in addition to having fewer buyers has been shown to hold, over and over again.

Double jeopardy has "been empirically confirmed in categories from soup to gasoline, prescription drugs to aviation fuel, where there are large and small brands, and light and heavy buyers, in geographies as diverse as the United States, United Kingdom, Japan, Germany and Australasia for more than three decades."

— Peter Fader & Jordan Elkind, in "Open the Blinds," *Marketing Research*, Summer 2012

Why Small Brands Are Hit Twice: The Law of Double Jeopardy

The paradoxical phenomenon described above has a name: double jeopardy. If we think about it, it is a curious phenomenon. Why do smaller brands suffer from double jeopardy? Why would users of smaller brands punish their brands for being small?

A logical and intuitive explanation for the existence of double jeopardy is provided by Columbia University sociologist William McPhee, who first identified the

phenomenon (see *Formal Theories of Mass Behavior*, 1963).

Let us suppose that in a town there are two restaurants, W (widely known) and O (obscure). Let us also assume that the town's residents, who know both restaurants equally well, consider them comparable in service and quality. Even so, ratings of W will be higher simply because most people who know and like W are less likely to know of O (being less well-known) and therefore will prefer W and rate it higher.

On the other hand, those who do know and like O are also likely to know and possibly like W. So their ratings would be equally high for both restaurants. This means that, other things being equal, larger brands will be favoured over smaller brands. This phenomenon is what we find when we analyse brand data. If you look at any research report that has attitudinal measures, you will note the phenomenon of double jeopardy.

This reasoning can be extended to loyalty behaviour as well. A larger brand, by its very nature, is likely to be widely available, so buyers of these brands can buy them anywhere and at any time they like. A smaller brand may be less widely available, and buyers of the smaller brand may have to buy some other brand from time to time. When they do, they are more likely to buy a better-known brand. So even when users of larger and smaller brands like their brands equally, loyalty behaviour as well as casual buying will favour larger brands over the smaller ones.

Just as Paris Hilton and the Kardashians are famous for being famous, larger brands command loyalty for commanding loyalty, and command penetration for commanding penetration. Larger brands are rewarded for being large, and smaller brands are punished for being small.

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Is there triple jeopardy? In exhibit 1, we noted that people who buy smaller brands buy a lower quantity. In exhibit 2, we noted that people who visit small stores visit them less often. Is there then a triple jeopardy for smaller brands? They have lower penetration, and people buy them less frequently and less on average. While this triple jeopardy phenomenon is found to exist in some cases, there is no evidence that it is generalizable (see Sharp & Riebe, 2005).

Customer Churn and Double Jeopardy

One of the problems faced by marketers is customer defection, or "churn." Considerable amounts of marketing dollars are being spent to prevent customer churn. Unless customer churn is the result of some problem with the product itself (which probably can be rectified), stopping churn is difficult because it follows the double jeopardy pattern as well.

Proportionately fewer customers defect from larger brands, and proportionately more customers defect from smaller brands. The market is kept in equilibrium because

larger brands lose larger *numbers* of customers while smaller brands lose smaller *numbers* of customers. The phenomenon of double jeopardy is not easy to reverse. It is a better use of marketing dollars to accept defection as a natural extension of human behaviour and employ resources bringing in more customers than it is to stop defections.

The phenomenon also shows why the claims made by Frederick Reichheld and Earl Sasser in their article on lowering defection rates (*Harvard Business Review*, September 1990) are not really viable. The authors claim that you can increase your profit by nearly 100 per cent simply by decreasing the defection rate by 5 per cent. As we saw earlier, this stretches one's credulity because, for this to happen, the five who defect should be responsible for generating 50 per cent of the company's profits, a highly unlikely scenario. However, in the example the authors provide, the defection rate was decreased from 10 to 5 per cent, a 50 per cent reduction in defections. They had further assumed that if an average consumer stayed with the brand for ten years, and if we stopped their defection, they would stay for another ten years.

There is no empirical basis for these assumptions. From the double jeopardy law, which has extensive empirical proof, we know that smaller brands will have proportionately larger defections, and these cannot easily be stopped.

What are the marketing implications of double jeopardy? The most important marketing conclusion that can be drawn from double jeopardy is that loyalty depends on market share. If a brand manager of a small brand finds that users are less loyal to the brand, such lower loyalty to a small brand is to be expected. Other things being equal, small brands will command lower loyalty.

Greater efforts are needed to increase loyalty for small brands. The surest way to increase loyalty is to grow the brand. The common tactic of trying to build loyalty to increase penetration is less likely to succeed than is increasing penetration to build loyalty.

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Are There Exceptions to Double Jeopardy?

Double jeopardy, like all other lawlike relationships we have been talking about, is subject to exceptions.

The first possible exception to the double jeopardy law is a small and *truly* niche brand. Truly niche brands are not

that common. Many brands that are called niche brands are really small brands subject to the double jeopardy law. A genuine niche brand is one that meets "a very specific set of needs, which perhaps many customers have occasionally, that other brands do not meet" (Patrick Barwise & Sean Meehan, *Simply Better*, 2004).

For example, clothing lines that cater to those who are over 6'2" tall would be catering to a niche market. Even here, as Barwise and Meehan suggest, it is helpful to think of the niche brands as separate categories, that is, "clothing lines" as one category and "clothing lines that cater only to tall people not catered to by other clothing lines" as another category.

The second possible exception is a brand with very high penetration but very low repeat purchase rate. As an example, consider store brands. They may be bought widely by price-conscious consumers without their being loyal to those brands. Consumers may as easily buy a lesser-known brand, if it is cheaper and prominently displayed. Another example is the sale of seasonal liquors like Baileys. Such products are sold in large quantities during the Christmas season, but much less during the rest of the year.

Why Are Niche Brands Rare?

Niche brands are rare because of the rapidity with which the characteristics of a niche brand can be copied as brand extensions are incorporated into the characteristics of larger brands: Macintosh computers, when first introduced, were niche computers with pull-down menus, graphic interface, icons and a mouse. Now, practically every personal computer has these features.

Niche brands that do not own the niche are not really niche brands but small brands. Fierce competition, coupled with advances in technology and communications, enables rapid duplication of the benefits of any niche brand. A profitable niche brand does not remain a niche brand for long.

Sensodyne was a niche brand toothpaste for sensitive teeth. Aquafresh was a niche brand for freshening breath. Now, brand extensions of larger brands such as Colgate and Crest offer similar benefits, making the niche segments of "sensitive teeth" and "fresh breath" less niche for toothpastes. Another way to look at this is to consider toothpastes for sensitive teeth as a separate category. Sensodyne is simply a larger brand in that category, following the patterns of purchase we have been discussing so far.

Does loyalty vary from brand to brand? It is generally true that smaller brands command less loyalty. However, in many

categories, the differences may be less pronounced. To put this another way, loyalty levels do not vary from brand to brand within a category – with one exception: smaller brands within any category command slightly less loyalty. What is universally true, however, is the fact that if two brands have similar market shares, we will not find one brand with high penetration and low loyalty and the other brand with low penetration and high loyalty.

What Can We Learn from the Law of Double Jeopardy?

One reason we have been exploring the nuances of buyer behaviour – such as showing the relationship between brand size and loyalty – is to show that, contrary to common belief, customer loyalty is generally predictable. It does not vary between brands of similar market shares. So to claim greater customer loyalty compared to other brands, a brand has to rise above the loyalty level that can be mathematically predicted.

The question then arises whether it is possible to increase loyalty beyond the predictable level and, if so, whether it is economically viable to do so. If the answer to both questions is yes, then we need to answer the question whether it is the best deployment of a company's resources.

The law of double jeopardy holds some important lessons for the marketer. When a brand increases its market share, the buyer base grows along with it. As the buyer base grows, loyalty as measured by actual purchases grows along with it. Increase in market share also results in fewer defections. Assuming that a brand has no potential problems and its customer retention is comparable to other brands with similar market share, the best strategy is to acquire new customers. Your best marketing investment may well be the

next new customer you add to your buyer base. To fully understand why this is so, we will get back to the topic later in the series.

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The most intriguing thing about loyalty is that it is an automatic by-product of buying behaviour. Loyalty exists for all brands and is related to the category and to a brand's penetration level within that category. The base-level loyalty for any brand is generally predictable. The fundamental question then is, can the loyalty level be increased through generally accepted methods such as product differentiation and increasing the level of customer commitment? The secondary question is, if loyalty can be increased, should it be preferred to customer acquisition strategies?

Before we discuss these issues, we need to explore whether factors such as commitment and brand differentiation are related to loyalty. We will discuss these topics in the forthcoming issues of *Vue*.

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