

## **Loyalty deviations and the small brand syndrome**

### **Short Abstract**

Small brands are often described as niche, i.e. they have a small group of dedicated buyers who buy them frequently. We test that assertion over the short and long-term by analysing the performance of 250 small brands. We find that more than half of all small brands underperform their expected loyalty metrics and only about one in ten achieve higher (niche) loyalty. This loyalty premium does not result in share growth. On the flip side, deficit loyalty does not lead to decline as small brands attract more light buyers than expected. Overall, loyalty metrics for small brands are closely predicted by a double jeopardy (DJ) model. Resources should be directed towards attracting new buyers and not trying to raise the loyalty of existing ones. It is aimed to extend stochastic modelling of brand choice behaviour to the under-researched realm of small brands across multiple sets of data and time.

*Key words: Double Jeopardy, Deficit Loyalty, Brand Performance*

## Introduction & Background

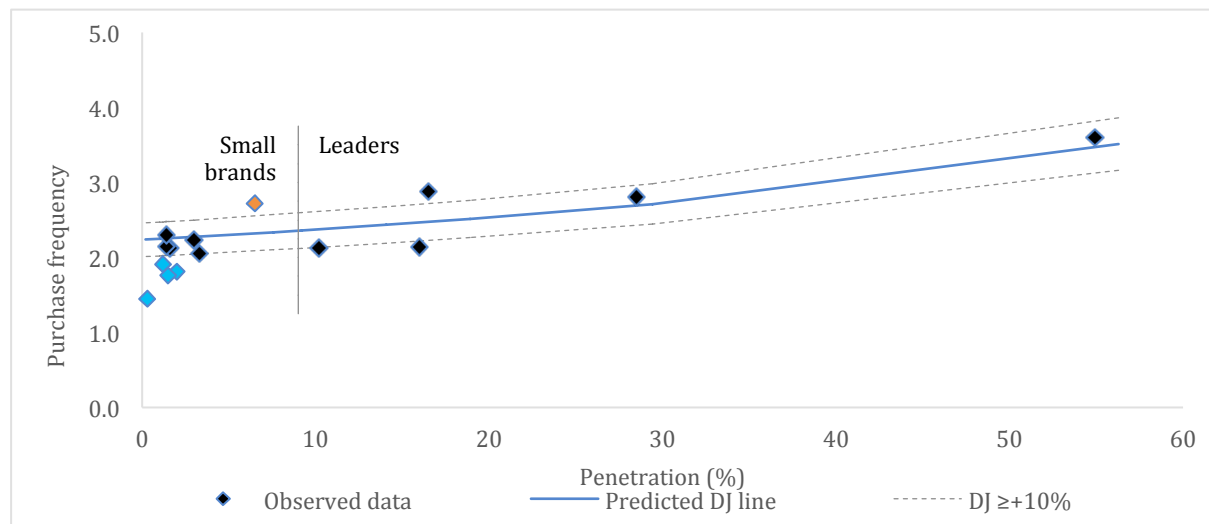
Big brands account for the bulk of category sales and attract the most attention of managers and researchers. Small brands are disadvantaged in resources, scale, popularity, distribution, NPD, and even scientific understanding, though every category has many more small brands than large ones. The DJ law says that small brands have fewer buyers who buy less often (Ehrenberg 1988). One implication of this is that the niche brand performance sought by managers (few customers who buy often) would violate the DJ law if achieved. The research context is the empirical finding that small brands have lower (deficit) loyalty than their DJ predictions (see Kahn, Kalwani & Morrison, 1988; Jarvis & Goodman, 2005; Pare, Dawes & Driesener, 2006; Franke, Bennett & Graham, 2017). The research questions addressed in this study are; 1) how common are loyalty deviations? 2) Do they lead to long-run growth or decline? 3) What causes the deviations, and 4) who are the most important buyers in a small brands' buyer spectrum?

## Method & Data

To address these questions, we analysed small share brands in 36 CPG categories over one year, and 15 categories over five years using Kantar WorldPanel data for 60 months in 2010-14. Brand repeat-purchase rates were predicted using the NBD-Dirichlet model (Ehrenberg, Uncles & Goodhardt, 2004) with results for the Dentifrice category shown in Figure 1.

Figure 1: Double jeopardy in the UK Dentifrice category in 2010

t = 1 year; Dentifrice category; Source: Kantar WorldPanel



The theoretical DJ line shows the expected ratio in annual penetration and average purchase frequency in a typical category (Figure 1), set against actual brand performance. We split the brands (excluding private labels) into leaders (top five by share) to the right, with the remaining smaller brands to the left. The chart shows that only one brand has a 10% positive deviation in purchase frequency or “niche” brand performance (Khan, Kalwani & Morrison, 1988; Sharp, 2010), while the majority of small brands in the bottom left, show deficit loyalty. This analysis procedure was applied across all 36 categories for one year, and 15 categories over 5 years to assess the frequency and persistency of loyalty deviations.

## Results

- 1) Over a year, just one brand in ten exhibited niche-level loyalty. When investigated further, these brands were found to be functionally different from their competitors (i.e. soya-based ice-cream or children's shampoo). Hence, many buyers probably would not or could not consider buying them. Such functional niche brands will find it hard to grow relative to their rivals that have broader appeal (Kahn, Kalwani & Morrison, 1988; Bhattacharya 1997).
- 2) More than half (60%) of all small brands had repeat purchase rates more than 10% below the expected levels, making deficit loyalty the norm for small brands.
- 3) While brand share and loyalty metrics fluctuate a bit over time (Graham, 2009, Pare & Dawes, 2012), the continuous data reflects the persistence of brand share; over 80% of small brands remained stationary and just 7% increased share. At the same time over half of all brands remained in persistent deficit loyalty, and even the few growing brands had normal double jeopardy metrics.
- 4) The explanation for how small brands remain small with persistent deficit loyalty hinges on the fact that their customer bases are dramatically skewed towards one-time buying. Around 70% of small brand customers did not make a repeat purchase within the year (against about 50% for larger brands). This means that the brand's survival depends upon its managers being able to attract many more light buyers than predicted by brand size alone and continuing to do so over the long term.

## Discussion & Implications

Brand managers of small brands with lacklustre loyalty and no growth refer to 'small brand syndrome' (f.e. Donelle, 2015). Under-resourced and under-appreciated, these brands soldier on, filling store shelves and generating sales over the long term. While small brand syndrome is the reality faced by many brands, it can be managed. In the first place, the condition should be acknowledged. Since repeat purchase loyalty rates decline with brand size, using a DJ model to evaluate whether the brand's average purchase frequency is in line with category norms or shows a deficit is vital and needs monitoring over time. If the brand demonstrates persistent deficit loyalty, managers may be reassured that many small brands perform that way. The opportunity is to leverage the larger than expected customer base of category buyers who have just recently acquired the brand, hence have experience with it. While price promotion is a likely marketing investment for smaller brands, they should be carefully considered since reach few light buyers during the promotional period whereas maintaining the mental availability of brands requires frequent refreshing. To avoid delisting, small brands should do everything affordable to increase their chances to be bought by maintaining or building physical distribution. Small brands in deficit loyalty require strategies that nudge their very many (super-) light buyers, while brands with higher loyalty must extend their limited buyer base. All of which calls for inclusive rather than exclusive marketing. On the theoretical level, the incidence and persistence of small brands deficit loyalty demonstrated in fitting the NBD-Dirichlet model raises the question of whether the model might be improved to more accurately predict small brand performance.

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