RESEARCH

FAITHFULLY YOURS

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IN the April 6, 2001 edition of *B&T Weekly,* I wrote about a fundamental finding concerning markets and brand loyalty: that competing brands hardly vary in terms of brand loyalty.

Brands of substantially different market shares tend to be repeat-purchased by their customers at strikingly similar repeat-purchase rates.

Differences in market share are not due to differences in loyalty but due to differences in the size of customer base.

Big brands simply have more customers, not customers who are more loyal. Competing brands hardly vary in terms of loyalty

This is an extremely interesting, as well as valuable finding—and also rather surprising. It is "theoretically possible" that markets could be populated by a type of brand that had a market share made up of a small base of customers who buy the brand religiously, ie. at much higher rates than competing brands are bought by their customers. Such brands would be our classic "niche brands".

Markets might be like this, but it turns out not to be true—niche brands are virtually non-existent.

The implication is obvious: if a brand is to grow, then it must do so by gaining more customers.

Trying to gain a higher rate of loyalty than your competitors is largely wishful thinking, because the sort of loyalty gains you can reasonably expect will do little to increase your market share.

To get big, you really need lots more customers. If a brand wishes to grow, then it must gain more customers, not more loyalty. There are obvious implications for marketing strategy, such as the importance of reach and the lack of importance of differentiation.

Some of these implications are not popular, for example, among marketing consultants who promote loyalty schemes as a route to brand growth, or market researchers who promote cunning segmentation studies to guide super-targeted, "loyalty-enhancing" marketing.

Some people don't like the implication that mass marketing—which has been out of fashion probably since Kotler wrote his first textbook—might actually be terribly effective at building and maintaining brands. This is in spite of the rather obvious reality that mass marketing is alive and well; that competitive brands largely promote to exactly the same target markets and do so with the full array of mass communications (including "new media").

Greg Clark ("Segmentation: The Myth Works", *B&T Week ly* April 20, 2001) makes the extraordinarily bold claim that all the companies that practised mass marketing have since

failed and only those who “embraced segmentation” are still in business. This is, of course, ridiculous, but it reflects some quite common misconceptions about mass marketing and segmentation/targeting.

As Wright and Esslemont (1994) point out, students and others often seem to distinguish only two possibilities: one is Kotler’s mass marketing and anything else is segmentation. This is to misunderstand the theory.

It is a common mistake to think that companies that offer multiple product variants or even brands are somehow practising segmentation and targeting. Kotler calls this “product-variety marketing” (in his first edition in 1967, he called it “differentiated marketing”) where firms “offer variety to buyers rather than seeking to appeal to different market segments”.

It is also not uncommon to argue that segmentation and targeting are the (only!) routes to profits. Kotler himself has suggested as much. But as Wright and Esselmont so wisely point out, the argument that segmentation leads to greater market place response to a marketing mix or to higher profits is not logically valid. It is an empirical claim—and yet there is a total lack of systematic, documented evidence to support the claim.

The typical defence of the “segmentation leads to profits” notion is to say that some successful companies seem to believe in it. But this argument is badly flawed; the Roman army (very successful in its day) used to consult the pecking of sacred chickens prior to deciding whether to enter battle or not and US President Ronald Regan consulted astrologers.

We all know that big and successful companies do many odd things (like pay money to listen to management gurus) and we aren’t silly enough to infer that such things are the cause of their profits.

Most marketers like the idea of segmentation, but not because they embrace the practice of dividing the market into groups and targeting those segments with the greatest response level (the theory of segmentation/targeting). Marketers simply like offering the market variety (lots of product variants), and they like segmentation studies because they like finding out things about their customers.

Segmentation attempts, particularly those based on attitudinal responses, often yield unstable segments—if the customer was interviewed again (or the cluster analysis run a different way) it is likely that that customer would be placed in a different segment.

This makes practising segmentation and targeting near impossible.

But it does not matter because few marketers ever do. Instead, the marketing department comes up with a new product variant or brand and then they target it towards what is a sensible target market (sails to yacht owners; coffee, even decaf, to all coffee-drinkers).

This is not segmentation, it is simply selling to those with whom you have a semi-decent chance of making a sale. This may seem awfully down-to-earth and might be denigrated as “mass marketing” but the logic is undeniable.

References:

Wright, M. and D. Esslemont, 1994. “The logical limitations of target marketing”. *Marketing Bulletin* 5, 133-120.