action line

occasional news and notes from **action marketing research**

February 2001

Pretty Good Book

For as long as we can remember, Jack Trout and associates have been preaching the gospel of positioning. His latest book (with Steve Rivkin) is called Differentiate or Die and carries on this theme.

His core Truth is that a company/brand must somehow stand apart from the competition. The book is full of examples of the many bases for differentiation–and some pointed comments about what does not work. Pricing is a slippery slope. Trout does not think that breadth of product line is a good basis either. And he finds "service" or "quality" to be unfortunate choices as well.

Like most prophets, Trout clings tenaciously to his one Truth, but our perspective is more Zen-like in recognizing many Truths. Only in passing does the book acknowledge that the basis of differentiation must have some value to the customer. Being weird may make you different, but not necessarily successful.

We find the book's advice more pertinent to niche or challenger brands. Indeed, one troubling insight is that size is the enemy of differentiation. Does share growth necessarily mean a watering down of what you stand for, a blurring of what you uniquely are? Trout is a stern critic of line extensions (Starbucks pillow cases anyone?), and would rather see a company develop multiple brands, each with its own identity, promise, and positioning.

In net, we mostly agree with this book's premises as long as they are balanced with a few other Truths. Research can evaluate the viability of positioning strategies both in terms of what would be differentiating and important.

The Good Old Days

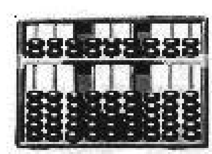
The November/December 2000 issue of the Journal of Advertising Research contains a set of "classic" research articles from the 1960s through the early 1990s. It is good to read (or re-read) thinking that has stood the test of time. Many of the challenges taken up by the authors are ones we still wrestle with–what does advertising recall really tell you? How to think about brand personalities. How does advertising actually work?

We recommend it.

Share Versus Penetration

Managers and sometimes even researchers confuse these related market measures. "Penetration" conventionally refers to the percentage of consumers who have bought (or perhaps own) a specific product. The penetration of all the brands in a category could well add up to more--or less--than 100 percent. The basis for brand's calculation is the number of eligible consumers.

In contrast, the basis for a share calculation is always the total number of purchases (or perhaps units owned). The sum of all shares can only be 100 percent.



Hypothetically, Acme Abacus may have a penetration of 0.003% among U.S. households, 0.172% among mathematical antiquarians, but a 70 percent share of the installed base. Omega Abacus may also have household penetration of 0.003%, but a share of only 28% because those who own an Acme always keep at least one spare.

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Power Shifts in the Interactive Age:

An interesting article in the Journal of Advertising Research (May/June, 2000) on "Customer/Brand Loyalty in an Interactive Marketplace" talks about how the consumer has more power in today's world and what the implications of this shift on loyalty.

With advancements in data capture and management, there are more and better ways to measure customer loyalty:

- perceptions (satisfaction, intentions)
- actual behavior

But the issue arises 'Why are customers who appear to be loyal on these measures switching brands?' with no obvious change in lifestyle, economic level or personal situation.

One explanation lies in social psychological equity theory . It says that people expect their returns to be proportional to what they invest in a relationship. In the past, the marketer or channel controlled the flow of information and knowledge. In essence, the customer was chosen by the marketer or channel and information was directed to them.

- Manufacturers' inputs were cost to produce, distribute and promote and the outcomes were profits.
- Consumer inputs were price paid and effort to obtain, in return for problem resolution and perceived value.

Today, the Internet provides more and more options to consumers. And as other retail options declined with consolidation, customers became de facto "brand loyalists" largely because their choices were limited.

In this interactive marketplace, the power has begun to shift to the consumer (or end-user). Now more consumers can get their hands on product evaluations, intelligent shopping agents, etc. that provide them with knowledge and many more options. While consumer inputs are still price paid and effort to obtain, new distribution systems are driving price down and making access to products and information easier to obtain. In addition, some consumers are willing to provide more inputs. But, as customers do more for the brand (e.g. provide information, refer customers), they want more (e.g. a reward, a finders fee) according to equity theory.

The upshot is that, today, it is not as easy to control and manage brand loyalty as it once was. Sellers face the challenge of providing more and more value. The growing focus on customer relationship management (CRM) reflects this need for an updated version of the way brand loyalty is conceptualized and measured. Equity theory reminds us of the dynamic nature of the exchange between firms and consumers, and how firms ignore it at their own peril.

Identifying Segment Members

Following an attitudinal segmentation study, firms often wish to classify other people into segments. Doing so is tricky business. One approach is to write a series of statements that supposedly capture the essence of each segment and then ask potential respondents (or customers) which one they agree with most, or most identify with. Alas, while easy, we have never seen this approach succeed. For one thing, attitudinal segments tend to be so complex so that no simple statement fully characterizes them. It is hard to write such statements in a way that each appears to be equally "desirable" to people.

To accurately classify a fresh person into attitudinal segments, there is little choice but to rely on formulas from discriminant function analysis applied to a subset of the original attitude questions. Depending on the complexity of the original study, you may need 10, 15, 20, or even more items. We aren't saying this is easy, but it is the price of accuracy in classification. The needs for future classification should be taken into account when designing a study. Certain analytical procedures such as segments based on Q-factor analysis are impossible to replicate on a smaller scale.