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The increasing power of store brands: building loyalty and market share

Adapted from a **Long Range Planning** publication (1997)

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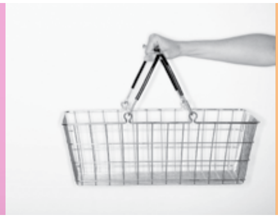


The managerial issue

Building strong brands is a key objective for most manufacturers – but also for retailers. This study looks at one possible way to evaluate brand strength, and applies it to the store brand range of a major retailer.

While brand strength can be judged through a variety of criteria (e.g. sales, market share, consumer willingness-to-pay, distribution coverage) household panel data can provide information on two important sources of substantial sales or high market share:

(a) a brand's ability to remain attractive to existing buyers and
(b) a brand's ability to attract switchers from other brands.

More specifically a brand's power is operationalized along two dimensions:
(a) its intrinsic loyalty and
(b) its conquesting power.

The former takes into account the fraction of a brand's buyers that are intrinsically loyal to the brand, the other the fraction of uncommitted category buyers the brand was able to attract.

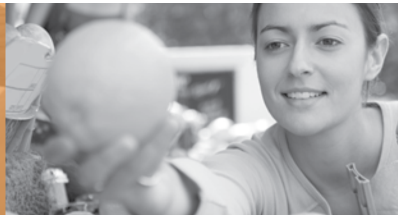
The best position is to rate high on both dimensions: these are brands that have a large loyal followership, but also succeed in attracting large parts of non-loyal switchers. The worst position clearly is to score low on both dimensions.

Whether it is preferable to score high on only one dimension – intrinsic loyalty or conquesting power – and weak on the other, depends on the brand's strategic goals. For example, if the objective is to increase market share, then high conquesting power may be preferable, but only if some of the consumers that are "conquered" can be retained.

This framework can be used to either assess a brand's relative strength within a category (e.g. "how does my brand fare relative to my competitors with respect to intrinsic loyalty and conquesting power?") or a brand's absolute strength across multiple categories. The latter perspective appears ideal to evaluate store brand strength where a retailer can compare its brands' performance on the two dimensions in multiple categories.

Figure 1: Deriving brand strength via the brand switching matrix

Period 1	Period 2 Brand A	Brand B	Brand C
Brand A	15%	5%	5%
Brand B	15%	15%	5%
Brand C	0%	5%	25%

The analysis

To calculate the two metrics of brand strength, one starts with a switching matrix (containing all relevant brands in a category) whose elements represent the proportion of consumers that purchase brand x on the first occasion and brand y on the second occasion.

Figure 1 provides a hypothetical example for the detergent market (for simplicity reasons let us assume that only three brands exist).

For example, 5% of all buyers of brand 1 switch to brand 2 on their next purchase occasion, whereas 25% of all brand 3 buyers also buy it on the next occasion.

Note that the values in the diagonal do not provide information on loyal buyers, but on repeat purchasers. The difference between the two concepts is that the latter includes those buyers that are willing to switch, but happen to repurchase the same brand – without being intrinsically loyal. The information in this matrix can then be used to calculate the two metrics discussed above.

The analysis is now applied to evaluate the Albert Heijn (AH) store brand in 19 categories. We use the purchase history of 4000 Dutch households in these 19 categories to come up with the intrinsic loyalty and conquesting power of the three top private labels and three top national brands respectively.

The median value for intrinsic loyalty of the AH store brand is 73%, the median conquesting power is 8% (such a brand would be able to capture 8% of buyers from the pool of buyers that are not loyal to any specific brand). In categories where the AH store brand performs above both these values, its market share on average is five times higher than in categories where it is lower on both (15% versus 3%).

Conclusions

We linked price information and consumers' quality perceptions to brand strength.

These are the lessons learnt: high store brands' conquesting power is strongly related to perceived quality. This is counterintuitive to established marketing thinking which claims that switching can best be induced through promotions. In fact, we did not find a major impact of price discounts on either brand strength metric.

However, these findings can also be used by national brand manufacturers. Their conquesting power is also strongly related to consumer quality perceptions, reinforcing the need to direct resources into innovation and advertising, and less into promotion activities.

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