Comments on "Do Brands Compete or Co-exist"

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Brand loyalty is a concept of fundamental importance in marketing, which has generated an extensive literature (Cengiz and Acdemir-Cengiz 2017; Mellens, Dekimpe, and Steenkamp 1996). Sheth and Koschmann (2018) present some fascinating insights on competition in mature markets. In particular, they hypothesize and confirm three important propositions about how major brands compete in such markets. First, households make a majority of their purchases in the same brand. That is, their purchases show a high repurchase rate (loyalty) of 85% to 97% and correspondingly low brand switching. Second, this loyalty expresses itself at all three levels of brand architecture that they researched, family brand, product brands, and modified brands. Third, this loyalty is higher among heavy users of the category than in less heavy users of the category. Such loyalty expressed itself even though brands competed with new products, advertising, and price promotions. I have several comments about the main results, three of which are caveats and five of which represent areas for future research

First, while the manner in which Sheth and Koschmann's findings are stated is novel, the fact that brand loyalty is strong is not new. Numerous surveys of consumers and descriptive studies of repurchase rates have found high loyalty. Similarly, a long tradition of modeling household purchase of brands in single source or scanner data, dating from 1983, have found that loyalty is the most important driver of brand choice (Guadagni and Little 1983; Chandukala et al 2008). Moreover, even in the presence of price promotions, brand loyalty dominates. Tellis (1986) found that brand loyalty mediates response to advertising in that advertising was effective sooner and at lower levels for more loyal households. However, to the credit of Sheth and Koschmann, past studies in scanner data may not have translated their findings in terms of percentage repurchase rates of the same brand. This could be an area of future research.

Second, brand loyalty exists in two forms, what I call strong and weak loyalty. Strong brand loyalty occurs when households buy the same brand on occasion after occasion, irrespective if that brand or its rivals are on promotion. On the other hand, weak brand loyalty occurs when households buy the same brand repeatedly if and only if it is on promotion. Weak brand loyalty represents opportunistic preference because households need the added incentive of a promotion to buy the preferred brand. The Markov models that Sheth and Koschmann use may not have allowed for computation of brand loyalty conditional on promotional status of the brand. From other studies, we know that response to price promotions is instantaneous and very strong (e.g., Guadagni and Little 1983; Sethuraman and Tellis 1991). Choice models explicitly model brand loyalty, heterogeneity, and response to promotions. So, when properly specified, these models can distinguish between strong loyalty and weak loyalty. However, Markov models could also be specified to distinguish between strong and weak loyalty. This should be another topic of future research.

Third, Sheth and Koschmann use some sample selection rules that may have exaggerated the level of estimated brand loyalty. In particular, Sheth and Koschmann exclude light users of the brand and category from their sample. While they report that the latter constituted only 5% of the sample purchases, they may have constituted a large proportion of the switchers, those who switch between brands, buy on promotion, or otherwise display low loyalty. So, the sample selection rule biases results in the direction of the hypotheses and findings.

Fourth, Sheth and Koschmann's important finding, that heavier buyers of the brand reveal greater brand loyalty, is similar to an old marketing law called Double Jeopardy, due to Ehrenberg and his associates (e.g., Ehrenberg, Goodheardt & Barwise 1990). Double jeopardy means that small share brands have fewer consumers who also show lower loyalty than high share brands. There is a substantial literature on this topic. It would be fascinating to articulate or specify the relationship between double jeopardy and the phenomenon Sheth and Koschmann have uncovered, where heavier buyers of the brand show greater loyalty.

Fifth, likewise, it would be good to relate the current findings from those using logit models of choice. The latter findings ascertain that branded loyalty constitutes the primary determinant of brand choice. This is explained by size of the estimated coefficients, t-statistics, and explained variance. However, choice models do not explicitly translate the estimated coefficients of brand loyalty into repurchases rates. Given the large number of studies already published in this area, an estimate of brand loyalty in terms of repurchase rate would be productive area of future research of great benefit to managers.

Sixth, brand loyalty can be expressed at two stages of decision-making, brand choice (which brand to buy) and quantity choice (how much to buy). Krishnamurthy and Raj (1991) found that price elasticity is lower at the brand choice stage but stronger at the quantity choice stage. This result also relates to and may explain Sheth and Koschmann's finding that brand loyalty is stronger among heavier users. This is another topic for future research.

In summary, Sheth and Koschmann uncover some fascinating insights about brand loyalty in mature contemporary markets. However, these results are not altogether novel and need to be related to prior findings on brand loyalty in the strategy and modeling literatures of marketing.

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