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Generalizations regarding the growth and decline of manufacturer and store brands

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ABSTRACT

Stimulating growth or staving off decline in market share are core objectives for brand managers, including retailers who now offer store brands (SBs). This study identifies how changes in brand penetration and repeat-purchase loyalty accompany changes in brand share. We examine 1093 changes in brand share over 63 packaged goods categories in the UK from 2003 to 2007, covering both growth and decline. Two measures of repeat purchase loyalty are used—annual purchase frequency (PF) and share of category requirements (SCR). Our results show that brand share growth is accompanied by greater change in penetration than in loyalty, at a ratio of approximately 3:1. This finding generalizes across brand type, loyalty measure, retailer SB or manufacturer brand (MB), category purchase frequency, category type, and initial brand share. However, while brand share growth is accompanied by stronger changes in SCR than PF for MBs; the reverse is the case for SBs. For MB decline, both penetration and SCR change are significant correlates. However for SBs, the decline in brand share happens predominantly in loyalty—more strongly in SCR, followed by PF. Therefore, both brand types need to focus on building penetration to grow. While MBs also need to prevent light buyers from lapsing, SBs need to pay more attention to retaining heavy buyers to avoid repertoire demotion.

1. Introduction

Brand share growth, whether measured by units, volume, or dollars, is a key objective for most firms (Shugan and Mitra, 2013). A growing brand typically gains revenue and net profit, while growth indicates that the accompanying marketing support is working more effectively than competitor efforts. Growth can favorably affect unit costs through economies of scale (Baye, 2009), including manufacturing, logistics, and advertising costs (Hirschey, 1982). Brand growth – compared to stasis – also provides the brand with a positive story to tell distributors.

The flipside of growth is decline, which is accompanied by negative factors that are the opposite of those that accompany growth—decreased revenue, anxiety about the future of the brand, and the prospect of staff layoffs (e.g., Canadian Press, 2013; Stanford, 2014). Indeed, decline may presage future decline, if channel members make stocking and support decisions for the future based on current sales trends (e.g., Borin et al., 1994; Cox, 1970). While the reasons for decline vary, good management to reverse a declining brand must first understand the patterns of erosion in share, to determine the appropriate remedy.

Limited evidence currently exists on the issue of brand decline, as papers examining market dynamics tend to focus on growth. In the one exception, Ailawadi et al. (2001) found that decreases in coupon and other promotion activity presaged brand share decline for P&G brands, mainly manifest in penetration falls. However, further evidence across a wider scope of brands is needed to develop generalized knowledge about how brands grow and decline in share.

The focus of the present study is not to attempt to answer *why* brands grow or decline, but rather to detect generalized findings regarding what happens *as* brands change in share. To achieve this, we examine two key dimensions: buyer penetration, or the proportion of the market that buys the brand in the time period; and loyalty, which is how often or how much customers buy. Specifically, we address the following questions: How do these metrics change when a brand's share grows or declines from one year to the next? Does only one of these metrics usually change, or do they both change, and if so, in what proportion? The context of the study is packaged goods sold in supermarket retailers.

The answers to these questions have important managerial implications for marketing strategy and for future research to

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uncover the *why*. For example, if brand growth involves marked increases in loyalty from a comparatively stable buyer base, the implication is for managers to expend more effort targeting current buyers. By contrast, if virtually all brand growth comes from an expanded customer base with little change in loyalty, the implication is to prioritize recruiting new buyers. This question is unresolved in the literature, where theory favors growth and decline via loyalty (e.g., Reichheld, 1993); however, the limited empirical results tend to favor the influence of penetration change over loyalty (e.g., Anschuetz, 2002; Baldinger et al., 2002). This study contributes to the brand growth and decline literature. It addresses the mismatch between theory and empirical findings on the topic with a large scale, cross-category study that investigates brands managed by both manufacturers and retailers.

While the benefits of this knowledge and its possible practical implications to manufacturers are obvious, this issue is also relevant to retailers. Retailers rely on steady sales of popular MBs to earn revenue and are now typically brand managers with a portfolio of store brands (SBs). Further, other retailers are also developing SBs to attract and retain customers. Store brands differ systematically from MBs due to restricted single-chain distribution, historical positioning, and lack of mass category-specific advertising. They can also differ in terms of performance metrics, with several studies finding SBs tend to exhibit higher than expected repeat-purchase loyalty (Pare and Dawes, 2011). Therefore, it is important to determine if the patterns of growth and decline for MBs also generalize to SBs, as it will determine the extent to which managers of SBs need to employ different tactics to stimulate growth or reverse decline. While industry reports suggest high-frequency buyers are key to SB growth (Loechner, 2010), solid empirical evidence as to the manner in which SBs grow is lacking. The literature to date has examined related issues, such as the impact of SB introduction and growth on category margins, prices, and consumer behavior. For example, Ailawadi and Harlam (2004) find percentage margins are higher for SB but dollar margins are lower. Bonfrer and Chintagunta (2004) found MB prices do not necessarily change as a result of SB introduction, while Anselmsson et al. (2008) found grocery brand prices tend drop as SB shares rise, but MB do not tend to lower their price as SB share rises. Cotterill et al. (2000) found MB price competitiveness became more important when SB share was high, while Pauwels and Srinivasan (2004) found SBs tend to hurt second-tier MBs but help premium MBs. Therefore while a substantial body of knowledge exists as to the *effects* of SB growth, little is known about how SBs grow (or decline). Store brands do not appear in any of the prior empirical studies explicitly examining how brand grow or decline. Furthermore, since none of the studies address if SBs growth paths differ from MBs, it is unclear if the brand strategies for MBs can be successfully extrapolated to the different condition of SBs. This shortcoming may reflect the timing and location of past research, as majority of the studies were conducted before the growth in SBs and/or in countries where SBs lack strength. SBs are also particularly vulnerable to competition from other SBs (Dawes and Nenycz-Thiel, 2011; Nenycz-Thiel et al., 2009). This makes knowledge of how SBs grow managerially relevant both to retailers and manufacturers as well as an important contribution to the SB literature.

Our contribution to the literature on brand growth and decline is to conduct an extensive empirical study utilizing 63 consumer goods category datasets in the UK over a five-year period, from 2003 to 2007. We identified 1093 instances of brands that grew or declined in brand share from one specific year to another.

We extend past research by comprehensively covering a number of areas that have been overlooked in past studies. First, we include two measures of loyalty: purchase frequency (PF) (e.g., Anschuetz, 2002) and share of category requirements/wallet (SCR) (e.g., González-Benito and Martos-Partal, 2011), to explore the role of loyalty in growth in more depth. The relative role of these two metrics in brand growth and decline is the main focus of the study. Second, we examine decline as well as growth. Third, we specifically examine SBs as a separate class of brand, across different retailers. Finally, we include potential covariates such as the brand's initial market share and category type.

While our study is limited to one country, the UK, this is widely acknowledged as a developed but still growing SB market. Therefore, the knowledge gained from this country at a time of substantive SB growth can be extended to other, less fully developed SB markets.

We now examine past work to contextualize the study, and form the basis of the research questions.

2. Manufacturer brand growth

This section firstly covers the relative impact of penetration and loyalty to brand share growth in the context of MBs. Theoretical and empirical research studies on MB growth are also explored in this section. The discussion then turns to growth for SBs, with research propositions following each subsection. The same structure is applied to the section on brand decline.

The body of literature on growth or decline for established brands is surprisingly small. This is likely because brand share stationarity characterizes most consumer packaged goods categories (e.g., Dekimpe and Hanssens, 1995; Ehrenberg, 1988; Goodhardt et al., 1984). There are a number of reasons for such stationarity. The first reason is consumer inertia, where habits and stable buying propensities dominate (Bass, 1974). Second, brand size has a reinforcing effect, with a systematic relationship between share of market and share of advertising spend being typical (Jones, 1990). The third reason is competitive reactions often neutralize marketing initiatives, such as for example a price promotion is matched with another price promotion to nullify the longer-term effect of marketing activity (e.g., Steenkamp et al., 2005). A fourth reason is that much marketing activity, such as in-store promotions, which account for a large proportion of the marketing budget in packaged goods, is only activated for a short time and so cannot be expected to have permanent effects (Fok et al., 2006). The prevalence of market share stability makes it difficult to examine market share changes. This difficulty increases the importance of studies that are able to examine market share changes over a large number of cases and under different conditions.

The two main paths to market share growth discussed in the literature are growth via penetration, which involves acquiring new buyers in the time period; and growth via loyalty, which involves gaining more sales from existing buyers, either absolute (purchase frequency growth) or relative to competitors (share of category requirements growth). A substantial body of literature exists in the services arena that extols the primacy of loyalty as a vehicle for growth (Reichheld and Sasser, 1990; Reichheld and Teal, 1996); however, we do not further investigate the services literature, as the focus here is on packaged goods brands sold through retail channels. In the packaged goods arena, the brand growth discussion predominantly focuses on the levers marketers can use, such as advertising or promotion, and the (potential) impact on overall brand share. Few studies examine the actual changes in buyer behavior, to address whether growth comes from new customers or greater loyalty, or both.

Several authors provide theoretical expectations for packaged goods brands growth, with growth via building loyalty the most commonly suggested path. For example, Chaudhuri and Holbrook (2001) posit that market share increases will be underpinned by loyalty increases, with new customer acquisition not discussed.