

Market Barrier Norms: How much your brand can expect to gain or lose from market barriers

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Background

Synovate's *attitudinal equity* (AE) is a measure of the extent to which a person *wants* a brand. It is a point-in-time measure established through surveys. Brands get a score between '0' and '1' (or 0 - 100 - people find this easier); and the sum of a person's scores = 1 (or 100). The AE can be interpreted as a measure of the strength of a person's attitudinal purchase propensity with respect to each brand in a specified set at the time of the survey.

In theory, AE is easy to verify: unless market factors prevent people from buying the brands they want, a person's observed purchase propabilities when surveyed should be identical to AE's measured in the survey. Aggregated up, AE's should match market shares as long as the aggregate effects of market factors are neutral and samples are representative. This is a strong claim. We're not saying that respondent level propensities or market level shares should merely be correlated. We're saying they should be identical.

In Research note 1.1 we show that AE and market share (or share of wallet) *are* strongly correlated but not identical. This is because every market is characterized by market factors which depress the likelihood that people will buy some brands while increasing the likelihood that they will buy others. Examples include poor people who buy cheap brands because they can't afford premium brands; or people in households (and companies) who have to use brands that are 'mandated' by the household/company buyer. Adding a measure of *barrier effects* (BE) at respondent level helps to close the gap and create the desired identity. In Research note 1.2 we show how to do this.

This Research note (1.3) takes the analysis of *barrier effects* further by answering questions which marketers have not be able to answer before. For instance:

- How much market share can a brand manager expect to gain/lose due to market barriers?
- Which market factors are responsible for the biggest shifts in market share?
- Is the brand performing above or below norms when compared to brands like it?
- What does this tell us about the brand's marketing performance?

To begin: A brief review of the relationship between AE, BE, and market share

We can think of aggregate AE as a measure of a brand's 'natural' demand. If the world were designed to deliver on people's 'wants', channels would be managed to optimize the relationship between demand and supply; and aggregate AE would equal market share. But the world isn't perfect. One obvious

problem is the failure of markets to communicate aggregate natural demand efficiently. Some of the mismatch between what people want and what they get therefore, is due to ignorance about what people want. However, even if knowledge were perfect, channel limits (e.g. of shelf space, land, etc.) would make a perfect match impossible. As a result, no matter how determined marketers, channel managers, or regulators might be to match brand availability to demand, some brands will always be knocked out of each channel. There are therefore always people who can't get what they want; and who have to use nothing, or use alternatives instead (See Research note 1.1 for a more complete discussion).

Research note 1.1 also includes a discussion of what we call 'market distorting' barriers. These arise whenever channels are managed in a way which manipulates brand availability beyond what's inevitable due to constraints. For a specific example consider the deal between The Coca-Cola Company and McDonald's which blocks the sale of Pepsi. Other examples include the deals that are struck between health care providers and drug companies, or between businesses and service providers like airlines and hotels. Regulators and lawmakers also interfere with markets (sometimes because they think they know what's best and sometimes because they've been bribed). In fact, marketers spend a great deal of time and money trying to get people with channel power to distort brand availability.

People are therefore constantly nudged, pushed, or forced in one direction or another by market factors. The data-base we've built up since the launch of the BVC enables us to quantify these effects in a systematic and comprehensive way. *We believe it is a world first.*

Quantifying the effect of barriers on market share

Table 1 is based on data from many countries and a subset of product categories in which the most popular brands (i.e. brands with the highest aggregate AE) have AE's between 20 and 40. The first column groups brands into ranges as a function of their aggregate AE's. The second and third show the mean AE for the group with it's associated market share estimate. Subtract the former from the latter and you get barrier effects (Columns 4 and 5).

Table 1: The approximate effect of barriers on market share in relation to aggregate AE

Aggregate Attitudinal Equity		Market Share	Barrier Effects	
Range	Mean	Estimate	Absolute	Relative
0 < AE <= 3	1.5	1.3	-0.2	-12
3 < AE <= 6	4.5	3.9	-0.6	-13
6 < AE <= 9	7.5	6.6	-0.9	-12
9 < AE <= 12	10.5	9.4	-1.1	-11
12 < AE <= 15	13.5	12.4	-1.1	-8
15 < AE <= 20	17.5	16.9	-.06	-4
20 < AE <= 25	22.5	23.5	1.0	+4
25 < AE <= 30	27.5	31.6	4.1	+15
30 < AE <= 35	32.5	41.5	9.0	+28
35 < AE <= 40	37.5	53.7	16.2	+43

Interpretation: In markets of this kind, our data show that you can expect your market share to be about 12% below the aggregate natural demand for your brand if the demand is low (AE <= 12). In other words, small brands sell about 12% below their *attitudinal market potential*. The tide starts to turn when brands hit an AE of about 10. When they hit an AE around 20, barriers start to work in their favour. Market leaders can expect to gain up to 16 share points (or 43%) due to the way that barriers channel

business in their direction.

Uses in marketing: *Given your brand's AE, we can tell you what the market share of a brand like yours would normally be. If your market share is higher (or lower), it's an indication that you're managing your brand channels better (worse) - or perhaps differently - than your peers.*

The impact of different barriers in different product categories

Our system doesn't dictate how product categories or markets should be defined. You can put Coca-Cola against Pepsi, or against ice-cream - or against both (see the paper 'Brand Value Creation, Communication, and Equity'). Nevertheless, it does require a list of what you consider to be 'in the market'. At an aggregate level, therefore, it depicts a zero-sum market share game in which some brands (usually few) gain while others (most) lose.

In this part of Research note 1.3, we answer the following questions: What are the main barriers in different product categories; and how big an impact do they have in each of these categories? In this way we quantify the role that barriers of different kinds play in diverting attitudinal brand shares. We show the results in table 2 based on more than 450 studies in multiple countries.

Table 2: The relative impact of different kinds of barrier in different product categories

	QSR's	Retail	Financial	Alcohol	FMCG	Motor	Media	Telecom	Durable	Total
Availability	75	57	51	48	42	41	28	23	23	39
Price	10	10	17	16	13	30	16	13	12	19
Product	1	24	12	7	23	11	16	15	29	15
Promotion	3	4	1	23	9	0	0	7	18	6
Purchaser	9	0	1	1	0	0	17	0	0	4
Experts	0	0	1	3	6	1	7	6	13	3
Contracts	0	0	2	0	0	1	1	13	1	1
Top Three	94	91	80	89	78	82	61	51	71	73
Total	98	95	85	98	93	84	85	77	96	87

Respondents tell us that seven kinds of market factor account for 87% of all deflected share. The top three i.e. availability, product, and price; account for 73%. In order of importance, the seven are:

- Availability (anything to do with access e.g. from difficulties with finding a brand in store to inconvenient locations in the case of banks, restaurants, and retailers);
- Price (measured by statements like 'costs more than I'm prepared to pay' i.e. by soft measures of affordability);
- Product (situations where the preferred brand isn't used or bought because a person believes that it's unavailable in certain variants);
- Promotion (the extent to which the scales are tipped against a brand by the fact that other brands are promoted more often);
- Purchaser (situations in which someone else e.g. businesses, friends, the household purchaser, makes the decision for the end-user);
- Experts (any situation in which a person is sold off their preferred brand by 'an expert'; found in product categories in which end-users don't have strong brand opinions);

- Contracts (situations in which the end-user is aware of contractual constraints on what they're allowed to use).

Notice by how much the impact of availability (the most common barrier) varies according to product category. It's by far the most important marketing challenge faced by quick service restaurants ('location' truly is almost everything). It's important when it comes to retailers and financial services ('location' matters), but remote and electronic channels have made it far less important than it once might have been. And it's relatively unimportant when it comes to telecommunications and durables.

The results tell us a lot about how market structures differ across product categories:

- Affordability has its biggest overall impact in the motor car market (which is characterized by marketing efforts to position expensive cars as highly aspirational).
- The 'purchaser' (i.e. a situation in which the end-user has less control than they want over brand choice) interferes most when it comes to media (think about who controls the TV remote).
- Some markets are highly structured around just a few barriers e.g. quick service restaurants, retailers, and alcoholic beverages. Others e.g. media and telecoms, have more diverse barriers.
- We learn the extent to which a mismatch between the features a brand offers and what people want steers them from their preferred brands in retail, FMCG, and durable markets.
 - In FMCG and durable markets, this is about features and variants
 - In retail it's about the failure to match what's stocked to what's wanted
- The market structure for alcoholic beverages is particularly interesting because of the role that price competition seems to play: 'price' and 'promotion' account for 39% of all diverted share.

Now let's turn to the disaggregated analysis of the effects of market barriers.

Barrier norms: How market factors vary in impact as a function of brand demand (AE)

Every brand, no matter how small, has three kinds of user, namely, those who use it as much as they want to; and those who use it more or less. Table 1 shows the net effect of these behaviours. Big brands tend to gain share while small brands tend to lose. But an important question is: how are those net gains/losses made up. We answer the question for two product categories (Financial Services, Fast Moving Consumer Goods) in table 3.

Table 3: Expected disaggregated share gains and losses as a function of AE

a). Financial Services					b). FMCG				
AE Range	AE	Net BE	Losses	Gains	AE Range	AE	Net BE	Losses	Gains
0-3	0.84	-0.06	-0.27	0.13	0-3	0.43	-0.07	-0.16	0.09
4-6	4.39	-0.74	-1.73	0.86	4-6	4.18	-0.31	-1.43	1.09
7-9	7.47	-0.54	-2.52	1.63	7-9	7.43	-0.50	-2.35	1.82
10-12	10.59	-0.84	-3.59	2.57	10-12	10.43	-0.69	-3.15	2.44
13-15	13.55	0.05	-3.72	3.50	13-15	13.65	-1.22	-4.42	3.18
16-20	17.49	-0.24	-4.60	4.31	16-20	16.69	1.07	-4.45	5.50
21-25	22.13	0.81	-5.24	6.05	21-25	22.61	1.60	-5.48	7.08
26-30	26.77	2.10	-5.97	8.03	26-30	27.32	1.99	-4.44	6.42
31-40	35.33	5.04	-5.74	10.56	31-40	34.81	3.68	-5.21	8.89

Interpretation: The first column groups brands into their respective AE ranges. The second and third columns are the mean AE and net barrier effect for brands in each range. The fourth and fifth columns disaggregate the net BE to show the share lost among people who can't use the brand as much as they want, versus the share gained from people using the brand more than they want.

In contrast to the results we show in table 1 (selected for markets in which the most popular brands have an AE in the 20 - 40 range) these show popular brands gaining less on average - 14% in FMCG and 11% in Financial Services. With respect to Financial Services, the reason may be that it's a product category which still allows small brands with a strong local presence (i.e. your local bank). In time, this may change - but for the time being the effect is to flatten the aggregate impact of market barriers in Financial Services.

Similar results seem to apply in the FMCG category though for different reasons. In this case, the relative flatness speaks to the speed with which brand managers respond to competitive moves; and the adequacy with which retailers respond to consumer demand.

Uses in marketing: *The table gives you an idea of what you should expect to see for your brand when you analyze the effects of barriers on your market share. Here's how to use it:*

- *Find the AE range for your brand. Compare you net BE with the norm in your AE range.*
- *Is your net BE greater than the norm? If so, then on balance your brand is losing less to/gaining more from barriers than other brands like yours.*
- *The converse is true if your net BE is lower than the norm.*
- *If there is a difference, then there are three possible reasons why:*
 - *Marketing performance: A more positive (negative) net BE indicates that you may be managing your brand better (worse) than other brands like yours.*
 - *Rigged markets: Your brand may be benefiting from (or harmed by) a rigged market. Two of the most common ways in which markets are rigged are through:*
 - *A regulatory environment that favours some brands at the expense of others, or*
 - *A conscious decision by dominant manufacturers to favour some of their brands at the expense of others.*
 - *Marketing strategy: You may have taken a conscious decision to manage your brand in a way which leads to difference in performance between your brand and others like yours.*
- *Next: compare how the net BE for your brand is made up in terms of losses and gains.*
- *Differences between your brand and the norms give you more detailed information about the marketing situation of your brand:*
 - *The bigger differences (losses/gains) tell you where to look. Is it a matter of sales that you're losing or gaining because of barriers?*
 - *Analyze each one (the losses and the gains) to work out whether the differences are due to marketing performance, a rigged market, or strategic brand management choices.*

Note: These results are based on the substantial number of studies we have to date and will obviously be updated as more information comes in.

More barrier norms: The specific impact of different factors as a function of brand demand (AE)

In table 2 we show that the effect of specific kinds of barrier e.g. availability, price; varies as a function

of product category. In this section we show that the effect of different kinds of barrier varies *within* product category as a function of natural demand (AE).

Table 4: The relative impact of barriers within Financial Services and FMCG categories

		AE Range									
		0-3	4-6	7-9	10-12	13-15	16-20	21-25	26-30	31-40	Mean
FMCG	Availability	0.51	0.41	0.32	0.32	0.42	0.34	0.30	0.23	0.16	42
	Product	0.22	0.26	0.24	0.25	0.18	0.20	0.22	0.24	0.16	23
	Price	0.10	0.09	0.17	0.18	0.16	0.24	0.16	0.13	0.19	13
	Promotion	0.07	0.07	0.10	0.11	0.08	0.10	0.13	0.12	0.12	9
	Top Three	0.83	0.76	0.73	0.75	0.76	0.78	0.68	0.61	0.50	78
Financial	Availability	0.56	0.49	0.46	0.36	0.32	0.53	0.45	0.27	0.44	51
	Product	0.15	0.14	0.10	0.11	0.10	0.14	0.20	0.12	0.06	12
	Price	0.12	0.22	0.22	0.26	0.30	0.13	0.18	0.22	0.25	17
	Top Three	0.84	0.84	0.77	0.74	0.73	0.80	0.82	0.61	0.76	80

Let's start our analysis with what we see in FMCG:

- We've already seen that 42% of all diverted share is due to issues of availability. Here we see how differentially brands suffer as a function of 'natural demand'. Proportionately, availability impacts more than twice as seriously on low AE brands than on high AE brands.
- By contrast - high AE brands are more likely to lose sales because of price (typically, they are at a premium) or because they're not on promotion as often (why should they be - it's the low AE brands that struggle for sales).
- Finally, note that the top three barriers account for 83% of the share that's diverted from low AE brands, but only 50% of the share that's diverted from high AE brands. High AE brands are more likely 'not to be recommended by specialists' - in other words, they suffer from a very specific kind of barrier which is share that goes to niche brands (e.g. toothpaste for sensitive teeth).

The patterns we see with respect to availability and pricing aren't unexpected. What's new, however, is that we can quantify their effects; and relate the quantum to attitudinal brand equity. The norms give us a quantitative understanding of the extent to which low AE brands have to compete on price - either by being cheaper or through special offers. As a result, whereas low AE brands lose sales mostly because of availability, high AE brands lose them mostly because of price. For high AE brands, the losses due to price/promotions are almost double those due to other kinds of barrier.

The barrier structure in Financial Services is very different. The most interesting difference is that the problem of 'availability' stays high across the board. This suggests that attitudinal equity in the financial services category far exceeds the capacity of popular brands to deliver. High AE brands should be spending more time on figuring out how to get to this attitudinal demand; and perhaps less on driving attitudinal equity.

Uses in marketing: Find the column which represents your brand's AE. Compare the profile of barriers affecting your brand with the normative profile in the table. If you think of the 'barriers' as key marketing variables, then the comparison allows you to see how your allocation of resources (if you will) stacks up against a typical brand like yours. Differences can have two main sources: either you're

under- or over-performing with respect to certain key marketing variables; or you've made a conscious decision to manage your brand differently from the way brands like yours are typically managed.

Note: We know of no other method that enables a brand manager to compare the profile of their key marketing variables with those of their competitors.

Conclusions

We've used this research note to show how our barrier data-base can be used to analyze and compare the market structure of different product categories. And we've introduced the idea of 'barrier norms' so that marketers can have benchmarks against which to evaluate the marketing performance of their brands.

Differences between the client brand and the norms may indicate:

- Differences in marketing performance
- The existence of rigged markets due to regulations or producer strategy
- A conscious decision to go to market differently from competitors

Moreover, by comparing the impact of different barriers with the norm, brand managers can see how their allocation or management of marketing resources may be different from their competitors.

Synovate's market barrier data-base is therefore a powerful tool for both understanding product categories and measuring brand performance.

One final note: although we're already beginning to see some powerful and consistent patterns in our data, we've no doubt that we'll gain a lot more insight as the data-base builds.
