One-size-fits-all approach doesn't work for different markets

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When evaluating the performance of a brand in a certain territory, it might be more appropriate to evaluate it against its local competitors as opposed to its performance in other territories, according to research from a University of Illinois expert in business strategy.

In a forthcoming paper, Raj Echambadi, a professor of business administration, says firms shouldn't follow a "one-size-fits-all-markets" approach when evaluating and managing the performance of a brand.

"Many companies manage their business on a geographic basis and evaluate marketing metrics and managers across territories," Echambadi said. "But that is not an apples-to-apples comparison. In other words, firms need to account for market-specific characteristics. They need to evaluate each and every territory on its own merits, which is why there simply can't be a one-size-fits-all approach."

The study, which will be published in the *Journal of Retailing*, is based on a real-life example from the brand-conscious retail gasoline industry, where more than 50 percent of consumers buy based on brand attributes.

"The managers of a certain brand kept running into a wall when they tried to increase brand loyalty in one particular territory that was identified as a low performer," said Echambadi, the James F. Towey Faculty Fellow at Illinois.

The company made several attempts to improve rates of repurchase in the territory – they invested in customer satisfaction programs; promoted a proprietary credit card; and even replaced territory managers. But the repurchase rate remained stubbornly low compared to other markets.

"What they failed to realize is that the market had some distinct characteristics unto itself, and all brands in the market had low repurchase rates," Echambadi said. "Further analysis showed that, indeed, this was the case, which led the company to alter its pattern of local expenditures, its evaluations of local managers and even the strategic priority attached to the market."

Instead of comparing the customer loyalty levels across territories, they should have compared it to the local baseline, Echambadi said.

"This is where the one-size-fits-all argument runs aground," he said. "They were looking at this market as one where managers were doing a bad job, and it turned out that their performance was actually as good or better than what their rivals were doing. The interesting thing is, when you talk to individual managers, they intuitively know this. They understand that there is variation across territories for the same brand. But they all think it is very idiosyncratic to them. They never think it is ubiquitous."

In addition to showing that one size does not fit all when it comes to evaluating territory performance, the research shows that one size does not fit all in managing territories, Echambadi said.

"Marketers have at least two broad ways to raise customer loyalty: increase product satisfaction or encourage customers to build commitment through loyalty programs and similar investments in the relationship," he said.

The research shows that relational investments will have relatively more effect in territories where the market share is higher, while customer satisfaction will have relatively more effect in territories where market share is lower.

"This implies that managers who wish to improve repurchase rates for a brand should place different relative emphases on satisfaction and relational investments in different territories, to the extent the brand's market share varies across those territories," Echambadi said.

According to Echambadi, the research is applicable not just to the retail gasoline industry.

"When you extrapolate the research to other product categories, managers and marketers can ask themselves what their presence is in a certain geographic market," he said. "If the market share of your brand is high and you are dominant, then don't worry too much about improving customer satisfaction levels. Ensure that you achieve minimum threshold levels of satisfaction required to retain customers but pay critical attention to relational investments that induce switching costs or brand stickiness, like loyalty or rewards cards."

If you are in a position of low market share, then concentrate on customer satisfaction by improving the quality of the product or service, Echambadi said.

"But the important thing to understand is that it's relative," he said. "Enhancing customer satisfaction and developing commitment through relational investments entail very different strategies, but you can't do only one at the expense of the other. It's a selective allocation of resources across those two levers, depending upon the market share."

Firms may wish to choose a primary variable on which to focus, with the overall allocation depending on the cost effectiveness of each level, Echambadi said.

"If you're a very large brand selling a homogeneous product to very disparate segments, or with a heterogeneous base, it's impossible to satisfy every customer 100 percent of the time," he said. "You have to pick and choose your battles."

The paper was co-written by Rupinder P. Jindal, of the Milgard School of Business of the University of Washington, Tacoma, and Edward A. Blair, of the C.T. Bauer College of Business of the University of Houston.

The article is titled "Evaluating and Managing Brand Repurchase Across Multiple Geographic Retail Markets."

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