

Week 1: Market Share Analysis – Part 1

WHAT IS A METRIC

Metric: is a measuring system that quantifies a trend, dynamic or characteristic (quantifies something that changes)

- Example: Grades/marks are metrics that measure a student’s knowledge/comprehension of a subject, market share.

Objective measures that facilitate comparison across regions, time periods, entities.

- Without measures, there cannot be comparison.
- Without measures objectives cannot be set and goals cannot be achieved.

Vital in explaining phenomenon, diagnose causes, share findings and helps to project the future.

If you cannot measure something, you cannot measure it – if you have a better measurement system, you can manage better and therefore have a higher performance.

METRICS IN MARKETING

Metrics are used to assess marketing performance at each stage of the value chain.

MARKETING MODELS

Marketing model: a simplified representation of a marketing phenomenon.

- Example: Sales of a product in a week (t) is specified as a function of its price and advertising spending using the following linear regression model.

Tries to capture the relationship between different metrics.

- It captures the phenomenon.
- Models are the specification of a relationship between two metrics.

$$Sales_t = \alpha + \beta_1 Price_t + \beta_2 Adv_t + \epsilon_t$$

Models require us to specify the relationship between marketing variables/metrics.

Models capture the nature and strength of responses to variables.

Models can be simple excel formulas or complex statistical programs.

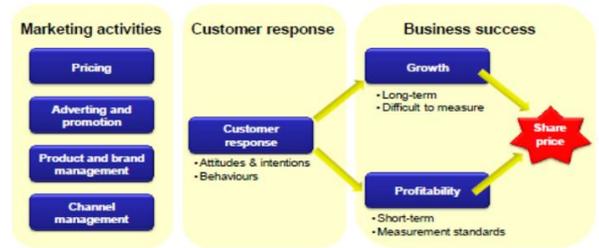
Models enable us to predict future behaviour as well as changes in behaviour.

Marketing models help us understand the drivers of a variable of interest.

Models provide rationale for decision making and lead to greater consistency in decisions.

Key qualities that a model needs are: validity, usability, and the utility that it provides to the decision maker.

Insights can be gained from marketing models, even without the data.

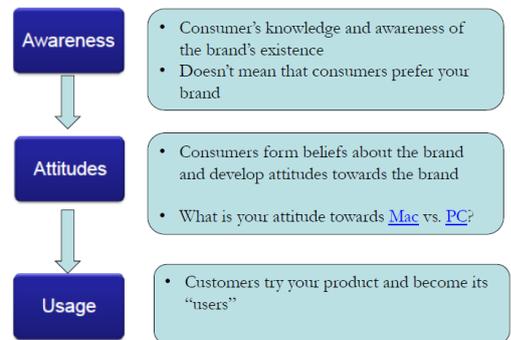


MARKET SHARE ANALYSIS – PART 1

HIERARCHY OF EFFECTS

Hierarchy of effects: sequence of stages through which customers pass through in developing their brand association.

- Understanding AAU helps us to answer why certain users prefer certain types of brands.
- AAU are typically measured through survey of consumers. These measures are most useful when comparing against a benchmark.
- Usage: market share and profit
- Want to track customers in the awareness and attitudes stage



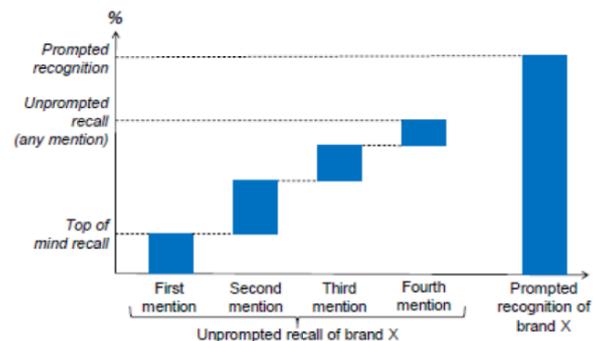
AWARENESS

Awareness: percentage of potential customers who recognise the brand (aided or unaided).

- **Top of the mind recall:** what proportion of customers that think of your brand at the top of the list (unaided).
- **Total unprompted brand recall:** How many customers recall your brand as one of the top brands in the category (unaided).
- **Unprompted brand recall:** gives some form of hint about the brand (reference to specific product type or advertisement).

Metric	Sample Questions
Top of mind brand recall within stated category	“What brand first comes to mind when you think of chocolate?”
Total unprompted brand recall	“What brands come to mind when you think of chocolate?” (record all mentions)
Unprompted brand recall	Do you recall the brand name for the TV ad which shows....?
Prompted brand recognition	Have you heard of brand X?

Ad



awareness: percentage of target consumers who demonstrate an awareness of brand advertising (aided or unaided)

Brand knowledge: percentage of consumers who demonstrate specific knowledge about brands.

Different measures of awareness are suitable for different types of brands.

- Example: Apple is interested in top of the mind recall to see how much of the market share they have reached.

ATTITUDE

Attitude: a combination of consumer’s beliefs and their feelings towards a brand.

- Attitude has multiple dimensions, which can be captured using questionnaires.
- Higher dimensional construct.

These questions help to track how people think about your brand and whether their perceptions are changing or not.

Difference between **purchase intention** and **actual purchase**.

USAGE

Usage: a measure of customer’s self-reported purchase behaviour.

- What was purchased?
- How many units?
- When and where it was purchased?
- How many tried and adopted the product?

When attitudes and awareness remain the same but usage has changed, it can be assumed that people may not be interested in the particular product category anymore.

Measuring each of these stages helps managers to determine why market share may be changing and what can be done to improve performance.

CUSTOMER SATISFACTION AND ITS IMPORTANCE

$$\text{Satisfaction} = \text{Performance} - \text{Expectation}$$

Low expectations, people will always seem to be satisfied (this may not always be the case because of competitors).

Expectations should be set at a competitive level.

Customer satisfaction is a leading indicator of purchase intentions and loyalty.

- Customer satisfaction is a **leading indicator:** tells brands before the customer actually makes a move. Provides an opportunity to change satisfaction levels before customers leave.
- Sales and market share indicate current firm performance.
- Customer satisfaction indicates how likely a customer will purchase in the future and is therefore an indicator of long term performance.
- A satisfied customer tells a friend; an unhappy customer tells many more people.

Research has shown a strong link between customer satisfaction and profitability, especially customer dissatisfaction.

- Drop in satisfaction has twice the impact on ROI than increase in satisfaction.

MEASURING CUSTOMER SATISFACTION

Customer satisfaction: percentage of customers who are satisfied with your product.

- Can be simply measured from questionnaires using a Likert scale.
- Or with the American customer satisfaction index

Willingness to recommend: percentage of customers who are willing to recommend your brand.

- Better than asking people directly if they are satisfied with the brand.
- “Soft” loyalty metric - more precise than satisfaction.

Willingness to search: percentage of customers willing to search to avoid switching brands.

- “Hard” loyalty metric.

CHALLENGES INVOLVED

Respondent bias - are you more likely to rate a good professor or a bad professor?

Dissatisfied customers can defect over time, artificially inflating the satisfaction index.

Expectations may change over time. Increased expectations can affect product evaluations even if the product quality has improved.

Satisfaction is correlated with other perceptual metrics such as loyalty, service quality and retention.

NET PROMOTER SCORE

- Satisfaction metric.

Net promoter score: degree to which current customers will recommend your product or service.

Construct	Metric	Sample Questions
Liking / Image	Relevance to consumer	“This is a brand for young people?” “My Kind of brand”
Perceived value for money	Perceived value rating	“This brand represents good value for money?”
Perceived quality / esteem	Quality perception rating	“How would you rate the overall quality of the brand?”
Purchase Intentions	Likelihood of purchase	“It is very likely that I will purchase this product?”

Metric	Sample Questions
Purchase frequency	“How often do you shop for...?”
Volume purchased on a shopping occasion	“When you last purchased...,how much did you buy?” “Of your total purchase of..., how much was brand X?”
Brands held	Which brands do you now have at home?

Using a 0-10 scale, where 0 means not at all likely and 10 means extremely likely, how likely is it that you would recommend X to a friend or colleague?

- Interpret 9 or 10 as ‘Promoter’
- Interpret 0 – 6 as ‘Detractor’
- Net promoters (%) = Promoters (%) – Detractors (%)

In example below, NPS = 5%



- **Promoters:** they would tell their friends about how happy they are with the brand.
- **Detractors:** unhappy with the brand and will not recommend it.

Example

- Can you solve the following question?

If NPS = 20 and 15% of customers are passives, what percentage are detractors?

Solution:

NPS = -20 ⇨ % Promoters - % Detractors = - 20% ... (1)

15% Passives ⇨ % Promoters + % Detractors = 85% ... (2)

Add (1) and (2) ⇨ 2 x % Promoters = 65%
 ⇨ % Promoters = 32.5% (3)

Substitute (3) into (1) ⇨ 32.5% - % Detractors = - 20%

Rearranging ⇨ % Detractors = 32.5% + 20% = 52.5%

NPS **does not** have any units – it is returned as a number.

NET PROMOTER SCORE – ADVANTAGES

Reichheld (2003, 2006) claims NPS as the

- “Most important customer feedback metric in predicting business performance.”
- “Best predictor of growth.”

Ritson (2006) describes NPS as

- “A remarkably effective new method for measuring customer loyalty.”
- “Accurately predicts future revenue growth of a company.”

Major corporations including GE, American Express, Telstra, Optus and Vodafone incorporate NPS into reporting.

NET PROMOTER SCORE - LIMITATIONS

One of the key limitations of NPS is that the scale is not driven by a strong theory/rationale.

Keiningham et al. (2007)

- Found that NPS does not perform better than the American Consumer Satisfaction Index.

Ehrenberg (2009)

- States “NPS does not predict growth - it’s a fake science.”

Example:

If NPS = 0, then:

- Are there 50% promoters and 50% detractors?
- Or is everyone passive?

You cannot tell.

Another problem is that people have recorded an NPS which is **increasing** over time, but sales which are **decreasing** over time.

- How is this possible?

Detractors who choose to leave the brand will most likely cause an increase in NPS but a decrease in overall sales.

Example:

Suppose a firm has 100 customers:

Promoters = 30 (30%) - Passives = 40 (40%) - Detractors = 30 (30%) = **NPS = 0**

Suppose half of detractors leave the firm (85 customers), then,

Promoters = 30 (35%) - Passives = 40 (47%) - Detractors = 15 (18%)

What is the new NPS?

Does an increase in NPS mean the company is growing?