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Marketing Is Scrambled: All Evidence-Based Theorists are Invited to Breakfast

[Cite] mistakenly suggests that the growing adoption of empirical science by marketing academics and practitioners is a return to an earlier time of treating all customers the same. Fundamental patterns discovered in buying and brand performance data accurately describe *differences* between buyers (e.g. in category buying rates and in personal brand loyalties), as well as predictable differences in loyalty metrics between rival brands. Sharp (2010) presents a theory that fits these empirical generalisations; that rival brands largely differ and compete in terms of their mental and physical availability to category buyers. An implication is that marketers need to understand the differences between buyers in their category so that they can extend their brand's reach. This contrasts the practice of offering a single marketing mix to the whole market, and it is opposite to the practice of targeting a brand to a single homogeneous segment of the market and again offering a single marketing mix to that segment.

Keywords—empirical generalisation, evidence-based theory, sophisticated mass marketing

Introduction

To start this response, we think it is pertinent to stress that we are committed to applying the scientific method to marketing research. It has proven its worth time and again. We acknowledge the advancement of knowledge through the scientific method can be challenging to both academics and practitioners but believe that the rewards exceed the pain. As any discipline evolves, it embraces new language, tools, and techniques. Historical observation of other disciplines shows that scientific discovery sometimes forces practitioners to let go of dated or flawed practices and beliefs to adopt new ones, but this does not happen quickly or without opposition. The medical community, for example, initially took offence when Ignaz Semmelweis suggested that his fellow physicians should wash their hands with a chlorine solution before treating patients to decrease childbirth mortality rates—a claim he supported with evidence (Semmelweis, 1861). His position, however, did not fit with the theory of the day. Only after Semmelweis' death did further research lead to the development of germ theory and eventual acceptance of antibacterial hand washing. At which point, afterbirth mortality rates plummeted. Change—particularly change that challenges long-established practices—is not easily conceded and now we see the same happening in marketing as a growing number of academics and marketers embrace new ideas, new language, and new practices underpinned by scientific rigor.

Marketing Science, Incommensurability and Segmentation Clarified

Identifying regularities or meaningful patterns in data helps to explain how the world works and allows for predictions. Scientific laws (empirical generalisations) help marketers decide what to focus on (e.g. what metrics matter), as well as give clear benchmarks and guidance on the likely routes to success. They improve understanding and predictions about future events and activities; for example, what will happen when a brand grows or will price promotions

attract new customers? When patterns replicate for different products/services, in different regions, and over time, predictions become reliable across a range of contexts. Predictive validity is obviously of immense practical value, and indicates which theories are more or less valid.

[Cite] considers the Marketing Management approach, which espouses segmentation and targeting as a technique to build brands, at odds with the Empirical Generalisation approach, which ignores or disregards segmentation entirely in favour of mass marketing. [Cite] goes further to suggest that the Marketing Management approach, "does not entirely exclude mass marketing where the situation warrants it, although the converse does not appear to be true". [Cite] thereby implies that the Empirical Generalisation approach could be responsible for an incommensurability issue, which occurs when proponents of competing approaches fail to discuss or reconcile their views due to a lack of common concepts, methods, and measures to address marketing problems. [Cite] also suggests that new theory is potentially confusing for marketers, who must decide which theory to use, however, we see new evidence-based theory as a route to improved understanding. Competing theories should be directly tested for their predictive accuracy, as only one theory can be right (for given conditions). 'Anything goes' theorizing will result in a waste in resources—both money and time—on strategies and activities that have little chance of working. Theories with no basis in empiricism are speculation. Theory developed on single datasets is not much better. Despite widespread acceptance of segmentation and targeting practices as the capstone of the Marketing Management approach, it is surprising that after half a century there is such little empirical evidence—generalisable or otherwise—which demonstrates the consistent effectiveness of segmentation and targeting for brand growth (Kennedy and Ehrenberg, 2001a).

Clarifying the concepts is perhaps useful. Segmentation is the process of dividing a market into subgroups of people on varied identifiable characteristics (e.g., demographics, psychographics, geography). Marketers then adjust their marketing mix to target those different segments, or choose not to serve some segments. Tailoring products and marketing efforts for different people and excluding certain groups from marketing plans is thought to maximise the efficiency/effectiveness of money spent. Earlier work has not ignored segmentation but in fact distinguished different types of segmentation (Kennedy and Ehrenberg, 2001b): *Brand segmentation* refers to possible differences between the users of competing brands, say Pauls and Devondale milk. Such differences are rare (Anesbury, Winchester and Kennedy, 2017; Uncles, Kennedy, Nenycz-Thiel, Singh and Kwok, 2012) and focusing on them is not the route to growth. *Product-Category segmentation* (or *sub-category segmentation*) is more common than brand segmentation and refers to the users of functionally distinct products category or sub-categories (e.g. baby formula and long-life milk). Understanding such segments and 'knowing your market' (e.g. that baby formula is mostly bought by households with a baby) is a message we have long supported. Brands that want to be big in a category typically need to cover 'the market' with offers across sub-markets. Sub-markets are usually well known by practitioners and complex segmentation variables are rarely required to identify them. Targeting new or soon to be parents, when this information is most relevant, is sensible for marketers of baby formula. Finally, *variant segmentation* (Ehrenberg and Kennedy, 2000) is where some product variants can have distinct followings (i.e. 1L milk is likely bought commonly by smaller households versus 10L bags of milk bought by businesses). Combining this segmentation framework with knowledge on brand growth, leads to the conclusion that any milk brand that wishes to grow should cover the market with key variants (e.g. both low and full fat, perhaps along with lactose free options and in a range of sizes), as many do. They should reach as many buyers in the market

as possible, making it easy for any of them to buy whichever offer they want for each occasion when they have a particular category need. We expect and observe that many individuals will buy across key offers over time rather than seeing individuals loyal to one offer or even one brand.

[Cite] refers to Rossiter (2012) as providing remedial linkages to connect the Marketing Management and Empirical Generalisation paradigms. We see it differently. Rossiter (2012) explicitly rejects empirical generalisation as a form of marketing knowledge on the basis that an empirical generalisation does not inherently explain the *why* behind it. He believes that most strategic principles—that explain the *why* and *what* marketers should do in response—can be deduced logically. But we proffer that some empirical generalisations defy logic. Let us take Double Jeopardy as a key example[2]. Is it logical that the loyalty of a brand's customer base largely depends on how many customers it has? True that the simple statement of "small brands have fewer customers who are less loyal" does not explain *why* this is so, but theory developed after the discovery of this empirical generalisation does explain it. Even without the theory, Double Jeopardy still has profound implications with respect to realistic objectives for brand growth. Time and again it has been documented that small brands do not achieve loyalty levels exceeding that of their largest competitors, hence, if brands want to grow they must increase the size of their customer base.

The evidence suggests that brands do grow their customer bases through increasing their mental and physical availability—being easy to think of and easy to buy by more people. Bigger brands tend to have more associations in their mental networks (Romaniuk, 2013), which make them easier to think of or notice across varied buying situations. Bigger brands also tend to have bigger distribution networks, which make them easier to buy across varied

[2] [Cite] says "there is a point where increasing expenditure on promoting a product does not result in significantly increasing sales and reduces profits", and "that this is known as Double Jeopardy and is effectively the law of diminishing returns". This is wrong.

buying situations and locations (Farris, Olver and de Kluyver, 1989). These two concepts that are also evidence-based, provide the 'why' explanation for Double Jeopardy.

Returning to incommensurability, it would mean that segmentation versus mass approaches could not be reconciled due to employing different concepts, methods and measures. However, marketers' goals and requirements remain arguably the same—understanding how to meet consumer needs and achieve brand growth and profits. There are common measures to evaluate changes in brand performance—for example, market share, brand penetration and purchase frequency. While [cite] comments that Marketing Management adherents "refuse to engage" in this important discussion, we encourage them to, underpinned by evidence. Evidence across diverse conditions that links targeting a segment (or segments) to brand growth, *where those segments predominantly deliver growth,* and benchmarked against an alternative mass strategy is particularly welcome. While we acknowledge the difficultly of doing this in practice, the italicized part of the prior sentence is important to demonstrate the theory working in practice. A segmentation strategy that achieves growth is not necessarily evidence of the value of these concepts. The few success stories we have been presented with could equally be described as 'lucky' accidents, where the activities proved effective well beyond the targeted segment and growth was observed across the market (e.g. nicely discussed from an industry perspective in Bik, 2017).

In comparison, the importance of targeting the market at scale for brand growth is underpinned by lots of evidence. Brand growth (e.g. in market share) is accompanied by large gains in penetration and relatively smaller gains in repeat purchase (brand loyalty) (McDonald and Ehrenberg, 2003). Large gains in penetration are achieved through nudging the market, particularly light buyers and recruiting non-brand buyers. The negative binomial distribution curve moves up with any growing brand getting more heavy, medium and light buyers. Observations of growing and declining brands outside of consumer-packaged goods (e.g.,

drug prescriptions, financial services) found that declining brands underperformed on customer acquisition, rather than failing to stem customer defection (Riebe, Wright, Stern and Sharp, 2014). This counters a common misinterpretation of Double Jeopardy, also seen in [cite], that the existing customer base—or that brand loyalty in general—can be ignored. This is just not so; the buying propensities of existing buyers (loyals) need to be refreshed over time, though not at the expense of not reaching new or non-recent customers. Moreover, marketers should be aware of their brand's loyalty and check it looks normal given the empirical benchmarks, but they cannot manipulate it as easily as the Marketing Management paradigm implies nor is focusing on it the route to growth. Marketing efforts to dramatically change loyalty without changing the size of the customer base are likely to fail.

From Theory to Practice: Sophisticated Mass Marketing

Empirical Generalisation has been accused of being too reductive [cite] and narrow focused (Rossiter, 2012) to be of use to marketers. Our experience with many thousands of marketers around the world is quite different. We find that marketers value new robust theory that fits the evidence and predicts the future; they are willing to be challenged with new theory, concepts, and language and invest significant resources validating evidence themselves. Many do find it hard to let go of segmentation and targeting because it is embedded in the marketing psyche, along with being ingrained in tools and processes such as brand image tracking, advertising briefing, and media currencies. Nonetheless, we have seen many successful cases where businesses have moved to new evidence-based concepts and tools (e.g. Kennedy and McColl, 2012).

Although introducing competing theories might be confusing for some, it is clarifying for others. Jason Chebib, VP Consumer Planning for Diageo, North America is one of many marketers that see the value in the Empirical Generalisation approach: *"We have done plenty*

of work confirming and reconfirming many of the principles of brand growth the Institute advocates in the context of our own category. For example, establishing the existence, role and importance of light buyers, proving out the predictability of Duplication of Purchase and the existence of partitions, and a lot more besides. It's impossible to overemphasize the vital—and crucially, the unique—role the Ehrenberg-Bass Institute has in taking global marketing forward into the future. The Institute's work is critical for several reasons. It empirically and irrevocably overturns decades of error-strewn marketing 'thinking' (which was just that, and no more). It lays out unarguably the key principles of doing marketing right. And, as time goes on, it reaches into every corner and dimension of the science (and art) of marketing, illuminating an ever-broader swathe of the discipline. From media to distinctiveness to targeting to promotions to brand life cycles… if it's part of marketing, increasingly Ehrenberg-Bass will have studied it, and have the best and most recent conclusions out there. This comprehensiveness isn't just a nice-to-have. It's crucial that a theory of marketing, a set of marketing principles, doesn't just limit itself to a narrow field of study. That would limit credibility. Ehrenberg-Bass's credibility in global marketing is growing precisely because of its proactive, principled, tenacious approach to uncovering every piece of scientific evidence they can to support marketing for sustained growth and profitability."

To strike a balance between the extremes of customizing for individuals (i.e., hyper targeting) and pure mass marketing (reach everyone in the market), we opt for 'sophisticated mass marketing' or 'smart targeting' (Kennedy, Sharp and Danenberg, 2017; Sharp, 2010). Sophisticated mass marketing involves appreciating the differences between buyers and between buying situations and recognising that all those who buy the category (light, medium, and heavy) are potential buyers of any brand. Marketers are encouraged to avoid narrow descriptions of the brand's target market that inherently lean to restricting who is reached and

instead reach all category (and potential category) buyers, both with physical distribution and marketing communication. In practice it is not often possible to reach 'all' potential buyers, but inclusion rather than exclusion should be encouraged wherever possible. Quorn is a great example of abandoning on overly restrictive target to great success (Wragg and Regan, 2012). Quorn is a meat substitute that for many years positioned itself as a vegetarian product for vegetarians, which represented 7% of UK households. In 2011, inspired by Institute's findings, Quorn changed its strategy to appeal to healthy consumers, which represented 70% of UK households. After initiating their new strategy, the brand grew the meat-free category in value by 5.6%.

We note that to target the market is *not* to target everyone, marketing efforts are genuinely wasted on people who actively reject the category (e.g. those who would never buy a meal free alternative). At the other end of the spectrum, even targeting a particular segment to great effect—thereby maximizing sales from that smaller group—does not guarantee a substantive overall response (i.e. increasing total sales), which is what matters (Wright and Esslemont, 1994). Sophisticated mass marketing looks for efficiencies with scale and to appeal to as many category buyers as possible.

Conclusion

[Cite] asks: "Is [segmentation] a harmless symbolic activity or an organisational hallucination that blocks progress?" It could be a harmless symbolic activity, but companies around the world collectively spend a fortune on these studies each year, which represents a large sunk cost if these activities are not linked to growth and inadvertently prevent growth. Patterns that we see in consumer behaviour and brand performance suggest that competing brands have been largely unsuccessful in their attempts to uniquely segment and target consumers. If they had, we would observe that loyalty is primarily determined by specific needs, brands would

share customers almost exclusively with other functionally similar products (or in extreme circumstances, not share customers due to high levels of sole loyalty), and different types of people would buy different brands. Rather, brand loyalty and customer sharing is determined by a brand's size—big brands have more loyalty and share more customers will *all* brands in a given market.

Does this mean segmentation will be "reduced to a mere descriptor of customer type" as [cite] contemplates? As shared at Cannes Lions 2017, we believe segmentation is like adding salt to a recipe; "a little adds flavour, too much ruins the dish". There are other concepts and language that are far more important for most marketing discussions. Academics and marketers do need to understand the heterogeneity in any market and not reduce that heterogeneity to a single target customer.

But the bigger question is: Do recommendations from empirical generalisations outperform alternate recommendations, such as those from segmentation and loyalty theory? Our work to date would suggest this to be the case. We do, however, support independent testing of all competing theories. It is productive for advancing theory and practice. The good news is that we do not have incommensurability in marketing. The competing theories have enough in common and there is lots of scope for testing, through natural and/or controlled experimentation across brands, markets, and other conditions. However, you cannot make an omelette without breaking a few eggs. Advancing marketing theory and practice is not without pains, but all evidence-based theorists are welcome to our breakfast.

Appendix A: Beer Hypothetical Critiqued

Here we critique the hypothetical example of beer from [cite]. Firstly we encourage future discussions of theory to avoid hypothetical examples.

In the example [cite] suggests beer marketers could apply segmentation because "entire sections of the population do not consume beer and those that do have varied tastes" but could apply mass marketing "in a country like Germany where beer is common and easily bought". Beer buying is an area where we have considerable experience and evidence (e.g. including Dawes, 2008; 2016). Decades of cross category evidence also lead us to encourage beer marketers to 'target the market'. Those who do not drink beer and never would are not the market (whether it is possible to identify these people and cost effectively exclude them from marketing activities is a practical challenge). Dawes (2008) initially used survey data to show that repertoire buying, Double Jeopardy and Duplication of Purchase all held in the Australian beer market. Dawes (2016) later used panel data from the United States to show that when brands grow—where beer was one of many categories—that brand penetration grows far more than loyalty.

Other unpublished analysis further shows that the law-like patterns continue to broadly hold despite marked changes in beer competition. The proliferation of craft and premium brands, for example, has resulted in some 'partitioning' or sub-markets, where some brands compete somewhat more intensely with one another. Beer markets also continue to be quite regional, with variation in the availability of brands across states and territories. Understanding such characteristics and the heterogeneity of tastes and wants is important information for marketers. So, descriptive research remains important, however, complex segmentation modelling adds little, and tends to drive marketers to limit which customers they talk to, rather than looking for opportunities that bring scale. Observed beer buying in Australia (and other markets) fits the broad patterns expected from the NBD-Dirichlet, indicating a mass marketing approach to build mental and physical availability across category buyers is the route to growth.

Adding in a further practitioner perspective, Carlton & United Breweries has recently stated that applying principles derived from empirical generalisations has led to "growth in sales—for the first time in years" (Baker, 2017). Both [cite] and Carlton & United, however, do claim that segmentation is a better strategy when markets and/or brands are small. This belief is often linked to a small budget concern; i.e. "I cannot afford to reach everyone" (Kennedy et al., 2017). We agree that a small brand cannot nor does it need to reach everyone, but if growth is their goal, they should reach as many category buyers as possible with their existing budget. One refinement of this strategy is recommended for new brands. Early trialists of new brands tend to be heavier category buyers, so there is an argument for *initially* targeting those who regularly buy the category (Romaniuk and Sharp, 2016). But after a time, brands must attract all sorts of category buyers if they are to grow and remain in the market.

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