The B2B Institute

How do Business-to-Business (B2B) brands compete?

An application of the Duplication of Purchase Law

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Summary

This report looks at how customers buy across brands in B2B categories, and what this means for company growth. It shows how competition in B2B categories is largely defined by competitor share, which is known as the Duplication of Purchase (DoP) Law.

- Every B2B company/brand shares more of its business customers with the larger penetration B2B competitors, and fewer of its customers with smaller penetration B2B competitors.
- Growth will come from gaining more business customers from all other brands, proportionate with competitor share: more customers will be won from bigger competitors and fewer customers will come from smaller competitors.
- Company/brand sharing that is higher than DoP law benchmarks can indicate closer competitors and this can be factored into competitive intelligence.
- Don't get distracted by smaller look-alike competitors unless there is evidence of excess sharing of customers to suggest a higher threat to your business revenue than its market share would otherwise indicate.

This DoP law highlights that no brand has a lock on its customer base, and all category buyers *could* become your customers.

A key implication is that your likely future new customers are currently customers of (other) bigger brands. Their mindset is therefore to have more extensive thoughts and feelings about at least one other big competitor, and heightened propensity to notice at least one other big competitor's marketing activities. Therefore strong branding in all marketing activities is imperative to overcome this natural attention bias towards competitors.

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Background

Laws such as Double Jeopardy (as outlined in Sharp 2010; Romaniuk, Dawes & Faghidno 2021) explain why gaining more customers is essential for brand growth. The next question is where do these new customers come from? Old-school views of marketing claim that to grow, you need to attract a special type of customer - one who's needs that matches the product or service you offer. By making sure you have the right offer for that group, you can then lock in their loyalty for the long term and insulate yourself from the competition. This thinking underpins the segmentation, targeting, differentiation, positioning view of the world.

The Duplication of Purchase (DoP) Law upends this logic, by showing us patterns in the overlap between customer bases. The DoP law states that brands share customers with/acquire customers from all other brands, proportional to competitor share. This law also reveals the source of a growing brand's new customers.

This law can be observed at a point of time for multi-brand/supplier purchase markets, or over time for single brand/supplier purchase markets where customers subscribe to one brand/supplier and buying from another brand requires defection from the previous brand/supplier.

The DoP Law means your main competitors will typically be the biggest brands in the category - irrespective of image or positioning. Established in a wide range of B2C categories, from its original inception in Television viewing (Ehrenberg & Goodhardt 1969), it also holds for companies/brands in B2B categories.

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The DoP law in B2B categories

Table 1 shows an example of the DoP law from US business insurance category, covering 16 different business insurance products including commercial auto insurance, crime coverage, business income interruption insurance, travel insurance, and professional liability insurance. The average sharing figures (at the bottom of the table) reveal how sharing declines in line with brand penetration (correlation of 93%). Any company's business customer base is more likely to also have another policy with State Farm, Allstate or Geico, than with Travelers, AIG or Humana.

Table 1: Sharing of customers for US business insurance (across 16 insurance products).

Data collected by Ehrenberg-Bass Institute, 2019

Business customer of...	*% pen*	% who are also a business customer of...										
		SF	All	Gei	Pro	Hart	NW	LM	Far	Tra	AIG	Hu
Statefarm	*25*		26	18	16	14	14	10	10	13	6	12
Allstate	*23*	27		25	15	14	19	13	16	14	14	13
Geico	*17*	26	34		22	15	23	13	20	12	13	14
Progressive	*16*	26	23	24		19	17	15	11	9	14	11
Hartford	*15*	22	21	17	19		16	12	13	19	13	15
Nationwide	*13*	26	33	29	20	18		15	22	13	7	12
Liberty Mut.	*13*	19	24	18	18	14	15		6	14	13	18
Farmers	*12*	20	31	28	15	16	24	7		15	19	12
Travelers	*11*	30	30	19	13	27	16	16	16		10	21
AIG	*11*	14	30	21	20	18	9	15	21	11		14
Humana	*10*	30	32	25	18	23	17	23	15	23	15	
Average	***12***	**24**	**28**	**22**	**18**	**18**	**17**	**14**	**15**	**14**	**12**	**14**

Sharing declines in line with penetration - this is the Duplication of Purchase Law

To illustrate that this law also holds outside of a services context, Table 2 has reproduced data[1] from Ehrenberg & Uncles (1990) from the B2B Aviation fuel contract category. All airline fuel brands share more airline customers with the largest brand in the category (Shell) and less with the smaller brand in the category, Chevron. This is again, the Duplication of Purchase law.

Table 2 also spotlights another law, the Natural Monopoly Law, which states that big brands will monopolise light category buyers. This law reveals itself in the under-sharing of Shell with all other brands. Shell, as the biggest brand, attracts light category buyers, who buy infrequently and so often only buy one brand[2].

Table 2: Sharing of customers in B2B Aviation fuel contracts category

From Ehrenberg & Uncles (1990)

Cust. of...	*% cust.*	Who are also customers of...					
		Shell	BP	Total	Mobil	Esso	Chevron
Shell	*73*		38	28	26	30	20
BP	*44*	63		43	41	47	28
Total	*28*	76	69		60	53	43
Mobil	*28*	67	63	58		57	39
Esso	*28*	78	72	51	57		38
Chevron	*19*	77	65	63	58	56	
Average	***39***	**72**	**61**	**49**	**48**	**49**	**34**

[1] To aid interpretation, the 'other' category, which is an amalgamation of all small brands, is omitted from this table as it does not show specific brand-to-brand sharing.

[2] Note in the paper, Shell's loyalty is normal so it is not due to over performing in solely loyal buyers.

B2B customer defection and acquisition patterns over time

The DoP law is also apparent in the defection and acquisition patterns over time, as shown in Table 2, from business banking in the UK. Banks are divided into Bigger (such as Barclays, HSBC), Medium (such as Halifax, Nationwide) and Smaller (such as Standard Chartered, Handelsbanken) business banks to more clearly illustrate the pattern. We asked two questions:

- Which bank is your Main Financial Institution (MFI) now? and
- Thinking back 12 months ago, which bank was your MFI?

As Table 3 shows, every sized bank had more of its MFI customers defect to bigger banks and fewer to medium and smaller banks. Also, every sized bank acquired more if its new MFI customers from bigger banks and fewer from medium and smaller banks. This is the DoP law.

Table 3: MFI Business banking defection and acquisition patterns UK (2019)

	% who defected to...					% acquired from...			
Past cust. of	**Big**	**Med**	**Small**	**Total**	**New cust. of**	**Big**	**Med**	**Small**	**Total**
Bigger banks	62	20	18	100	Bigger banks	54	20	26	100
Medium banks	56	25	19	100	Medium banks	58	25	17	100
Smaller banks	70	12	18	100	Smaller banks	54	15	31	100
Average	**63**	**19**	**18**	**100**	**Average**	**55**	**20**	**25**	**100**

Therefore growth comes from acquiring new customers from all other competitors, largely in line with competitor size. If a brand declines, it also loses its customers to all other competitors, largely in line with competitor size. This means your biggest competitors (to stimulate growth or stave off decline) are the biggest brands in the category.

How this law helps your B2B marketing

Understand category structure

The DoP law provides a framework to interpret market structure and identify key competitors. Marketing folklore emphasises the need to be differentiated and offer a unique selling proposition to a target group of customers. This makes it easy to get paranoid about a competitor that looks similar to your company/brand, but actually is too small to substantially impact your company's sales.

Reminds you to avoid distractions - it's the biggest brands that matter

This law serves to identify/remind us of competitive priorities. Small brands, even ones that look very similar to your company/brand, are typically minor competitors. Getting distracted by these smaller brands can lead you to miss the large competitor brands who's marketing activities will have a much greater impact on your firm's bottom line. Acquisition efforts do not get easier if you target the customers of smaller competitors, the return just gets lower.

Helps you align tactics with feasible growth strategies

When crafting growth strategies, the DoP law allows you to better understand the mindset of the customers you want to acquire. Most of your future new customers are current customers of bigger brands, and so have more extensive brand knowledge and are naturally more likely pay attention the many marketing activities from these brands. This highlights the need for:

- Reaching the whole market with marketing efforts as trying to get more efficient through narrow targeting is likely to be counterproductive for growth (for more on this see Kennedy, Sharp & Danenberg 2010).
- Effective branding to ensure any attention you do get from these customers is correctly attributed to your brand.
- Marketing activities that create and refresh mental structures relevant to mental and/or physical availability (for more on these see Romaniuk & Sharp 2016).

Provides useful benchmarks in disruptive times

Another use of the DoP law is to quantify the impact of changes to the category on customer behaviour, which in turn, can help understand what needs addressing/counteracting and what might be ignored. For example, Stern (1994) shows how by examining the behaviour of the prescribing doctors (again a B2B market), the DoP law can be used to assess the extent of the competition that branded pharmaceutical drugs faced from generics. Similarly, the DoP law can help understand how companies/brands that offer new business models/technological innovations compete with legacy brands/business models.

Key readings:

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