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DOUBLE JEOPARDY IN KUWAIT BANK SERVICES: AN INVESTIGATION OF THE LOAN SECTOR

Key Words

Double Jeopardy; Loyalty; Market share; Financial Services; Kuwait

Abstract

The authors investigate the "double jeopardy" (DJ) concept in the domain of financial services, focusing on the loan sector of the market. The authors show that DJ is evident for bank loans in Kuwait, based on evidence provided from nearly seven hundred responding users of bank services. Smaller loan providers, in terms of market share, may face problems in the long run with gaining and maintaining market share without extreme efforts aimed at increasing consumer loyalty to overcome the DJ effect.

Introduction

A company needs to focus at least a proportion of marketing efforts on the development, maintenance, or enhancement of customer loyalty (Dick and Basu, 1994). This emphasis is important because a company with a large number of brand loyal buyers will be more secure in its markets and should have a higher market share than other firms without this vital customer asset (Raj, 1985; Robinson, 1979; Smith and Basu, 2002). Competitors are at a disadvantage when some firms have a larger number of brand loyal buyers than they have. The many advantages of relatively higher numbers of brand loyal buyers include: a greater response to advertising (Raj, 1982), larger purchase quantities per occasion (Tellis, 1988), and reduced marketing costs (Rosenberg and Czepial, 1983). The advantages garnered from loyalty are especially important since, as markets become more mature, increases in share become more expensive and improvements in the loyalty base might be a viable means of increasing and maintaining share

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(Gounaris and Stathakopoulos, 2004).

The fact that competitive markets oftentimes exhibit similar market structure characteristics (market share), which in turn was found to be correlated with the number of brand loyal buyers, was first noticed by McPhee (1963). The observation that brands with large market shares usually had the most brand loyal buyers (and vice versa) was termed "*double jeopardy*" (DJ) because it seemed unfair for smaller brands to suffer in both ways. Previous research related to DJ suggests its applicability to a variety of consumer brands and settings. Additionally, some other consumer-specific variables will exhibit a similar relationship to market share as does consumer loyalty (Ehrenberg *et al.,* 1990).

This study applies the aspects of DJ to the area of loan services in Kuwait. The setting is relevant because only few have investigated the DJ phenomenon in Asia (Yang et al 2005). Further, no investigations have yet studied, double jeopardy in the Kuwait market. Nor have there been investigations in the banking industry. Most studies focus on brand-level relationships rather than store-level relationships, as would be necessary in retailing or banking (Meyer-Waarden and Benavent, 2006; Rafiq and Fulford, 2005). Additionally, this topic is extremely relevant to the banking sector in the Middle East, where markets are opening to global competition with memberships in the WTO. With estimates regarding the number of 'truly' brand loyal buyers in other areas of consumer services hovering around 25% (Pleshko and Heiens, 1996, 1997), the presence or absence of the DJ phenomenon in financial services may be critical to companies' decision making. It would be difficult for small-share firms to grow and show long term success with evidence of a strong DJ effect. The authors attempt to identify whether the DJ phenomenon is evident through a survey of borrowers in Kuwait by analyzing the relationship of loyalty to market share.

The Double Jeopardy Phenomenon

A firm's long-term success depends on both its ability to attract customers and its capability to retain these customers (McDowell and Dick, 2001). Jones (1990) points to this fact by stating that manufacturers should regard sales volume and market share as keys to the future, given that both involve sources of repeat business and scale economies. McDowell and Dick (2001) rightfully offer that a brand's market performance is driven by both the number of individuals buying a particular brand and the frequency of repeat purchases by these customers. The ability to manage these two factors determines the extent to which a firm maintains and sustains its customer base, as well as its market share. Indeed, Robinson (1979) and Raj (1985) state that the larger the number of loyal customers, the more secure will be the brand's market share. Therefore, as a priority, all companies must find ways to attract new customers to an existing user base and to retain these buyers over the long term. So, it must be that firms constantly battle with competitors to maintain or increase both the number of buyers and the loyalty of these customers. When a firm fails to hold a strong relative competitive position, it runs the risk of a widespread phenomenon called "*double jeopardy*" (DJ).

Double jeopardy is broadly characterized as a phenomenon whereby small-share brands attract somewhat fewer loyal consumers, who tend to buy the brand in smaller quantities, while larger-share brands are purchased more often by customers who exhibit more loyalty (Ehrenberg and Goodhardt, 2002; Badinger and Robinson, 1997; Donthu 1994; Martin, 1973; Michael and Smith, 1999). Thus, less popular brands are punished twice for being small. That is, (i) they have fewer buyers who show (ii) less loyalty to the brands they buy. McPhee (1963) explained that DJ occurs when consumers select between two brands of equal merit, one having a larger market share and the other having a smaller market share. This does not signify a weak small brand or a strong large brand. Rather, it reveals that the smaller share brand is less popular than the larger share brand for some reason (Ehrenberg and Goodhardt, 2002; Ehrenberg *et al.,* 1990).

Although long established, the DJ phenomenon has a variety of issues as yet unsettled (Ehrenberg and Goodhardt, 2002). For instance, though previous research has found an obvious relationship between brand share and loyalty, whether loyalty is a cause or a result of high share remains unclear (McDowell and Dick, 2001). Likewise, previous research has focused mainly on the issue of DJ for the product brand while the relevancy for the company brand, the retail brand, or the service brand is rarely discussed. Thus, the question - why two equally regarded brands or products differ in their relative shares of the market - is still not truly addressed in most settings. Three possibilities may be drawn from the literature as explanations for double jeopardy: (i) a familiarity effect, where buyers are loyal to popular brands (c.f. Ehrenberg *et al.,* 1990, McPhee, 1963), (ii) an experience effect, where satisfied customers develop loyalty (c.f. Tellis, 1988; Raj, 1982; Brown and Wildt, 1992; Johnson and Lehman, 1997; Narayana and Markin, 1975; Nedungadi, 1990; Pleshko *et al.,* 1997), and (iii) a design effect, where the better product wins (c.f. Ehrenberg *et al.,* 1990, Keith, 1960).

For any retail business, the firms must determine if DJ is an issue in their industry. Secondly, if DJ is evident, then small-share retailers must assess the causes of their brands' share woes and implement strategies to make their products better known and more often used. But managers must be warned that an increase in marketing efforts will not always have the preferred results. Marketing inputs do not greatly increase loyalty over an extended period unless the brand's penetration is significantly increased. Even then, the marketing mix factors rarely lead to important differences in brand loyalty (Ehrenberg and Goodhardt, 2002). However, marketing factors (such as product quality, attributes, or price) result in sales variations in the immediate term, which if maintained will eventually influence the market share (and the DJ) pattern (Ehrenberg and Goodhardt, 2002).

Kuwait Banking/Loans Industry

As of 2003, there were nine major banks operating in the Kuwait market: National Bank of Kuwait, Kuwait Finance House, Gulf Bank, Commercial Bank of Kuwait, Burgan Bank, BKME, Al-Ahli Bank of Kuwait, Kuwait Real Estate Bank, and the Industrial Bank of Kuwait (see Institute of Banking Studies, Kuwait 2003). These banks are listed in order by asset size from the highest (NBK - KD5439 million) to the lowest (IBK - KD412 million). Little or no change in the rankings has occurred back to the year 2000. Bank profitability nearly mirrors the rankings of asset size.

Loans from all banks in Kuwait have steadily grown over the years from a total loan value of KD1500 million in 1991 to a total loan value of KD8000 million in 2003. Commercial loans during that time ranged from about KD1450 million in 1991 to about KD7500 million in 2003, while specialized or consumer loans ranged from about KD48 million KD in 1991 to about KD 550 million in 2003. All told, loan services are a growing business in the banking industry of Kuwait.

Data Collection

The data for the current study are gathered from a group of consumers who are users of bank loans in the State of Kuwait. It was important to select a type of service that would add to the study of double jeopardy, as we would expect to find differences based on product-classes (Chaudhuri and Holbrook, 2002). In most cases, financial loan services may be considered a shopping product because consumers make decisions about these services using extended decision-making to choose between many similar offerings (c.f. Murphy and Enis, 1986).

The sampling frame is comprised of users of bank loans in the State of Kuwait, derived from a sampling frame provided by the Ministry of Planning. The data are from self-administered questionnaires collected from visits to households of both local citizens and foreign residents. This process resulted in a total of 770 questionnaires of which only six hundred and ninety three are usable respondents for the purpose of this research. The profile of the sample is shown in Table 1. Note that sampling methods employed a multi-stage approach in order to ensure the sampling proportions closely matched the actual proportions of loan users in Kuwaiti banks. The sample is also selected to reflect the distribution of residence over the six districts of Kuwait.

Table 1
Sample Profile

Factor	Subgroups	Percentage
Gender	Female	10.7%
	Male	89.3%
Nationality	Kuwaiti	82.7%
	Other	17.3%
District	Ahmadi	24.5%
	Capital	11.1%
	Farwaneya	14.9%
	Hawalli	22.8%
	Jahra	13.6%
	Mubark Al-Kabeer	13.1%
Age	18/30	14.7%
	31/35	15.4%
	36/40	15.9%
	41/50	28.7%
	50Plus	25.3%
Marital Status	Married	90.6%
	Single	5.1%
	Other	3.2%
	Missing	1.2%

The non-response rate for the loan information was lower than 10%, an acceptable percentage given the nature of the information gathered. The quality of data was ensured by the field data collectors who disqualified respondents unwilling to share information about their bank loans. Additionally, all questionnaires in Kuwait must be approved by a government ministry, thus lending credibility to the research and enhancing response rates.

Many loan providers exist in Kuwait in a variety of categories; however, only banks are investigated in this study. All the existing Kuwaiti banks were initially included in the study, except one bank, which was later eliminated due to an extremely small number of loans within the sample respondents. At the time of the study, foreign banks were not permitted to operate in the market and were, therefore, not included in the study. Note that loan market shares range from approximately two to forty percent, depending on the indicator, in the eight banks under study.

Measurement

The study includes a variety of constructs for market share and consumer loyalty. The overall numbers for the two market share indicators and the two loyalty indicators are derived by summing across the respondents to arrive at sample totals for each bank. These overall measures are percentages for all the indicators. The indicators are described below and are derived from research in other industries where similar measures are shown to be reliable and valid (Pleshko, 2006).

It should be noted that market share is the primary construct in the study, as all other constructs are compared to it. The first *market-share* indicator (MS%ACNTS) is defined as the percentage of the loan accounts held by the specific bank. This is calculated for bank 'A' by dividing the number of respondent accounts held by bank 'A' by the total loan accounts in the entire sample. The respondents are asked to check boxes next to the banks from which they have taken loans. The possible range is from one to ninety-nine percent, but in this study the actual values of MS%ACNTS range from 1.9% to 40.2%. The second *market-share* indicator (MS%VALU) is defined as the percentage of the overall loan value, the amount, held by each bank. This is calculated for bank 'A' by dividing the total value of loans held by bank 'A' by the total value of loans in the entire sample. The respondents are asked to write the bank's name and the value of loans borrowed from that institution. The possible range is from one to ninety-nine percent, but in this study MS%VALU ranges from 4.0% to 32.6%. The two market share indicators appear to be reliable equivalent forms of the same concept, as they are significantly and positively related *(rho* = 0.83, *p* = .02) as tested using the Spearman rank correlation test.

The first of two *loyalty* indicators (L%PREFER) is defined as the percentage of buyers who label a bank their favorite. This is derived by asking each respondent to list the bank which they prefer when obtaining a loan in Kuwait. The range in this study is from 1.3% to 40.2. The second *loyalty* indicator (L%LOANS) is summed across all respondents. It is defined as the percentage of total loan value a respondent has taken from each bank, as compared to all the loans for that respondent. Thus, for respondent X who uses banks A and B: L%LOANS (X,A) = (loan value A)/(loan value A + loan value B + ... + loan value N) and L% LOANS (X,B) = (loan value B)/(loan value A + loan value B + ... + loan value N). Then these numbers for each respondent are averaged for each bank to arrive at the L%LOANS numbers. The range in this study is from 72.6% to 98.0%. The two consumer loyalty indicators appear to be reliable equivalent forms of the same concept, as they are significantly and positively related *(rho* = 0.83, *p* = .02) as tested using the Spearman rank correlation test.

Analysis and Results

The Spearman (1904) rank correlation coefficient is used to analyze the association between market share and the variables under investigation. Spearman's test statistic, *rho* or "*r*", is calculated with data taken from 'n' pairs (*Xi, Yi*) of observations from the respondents on the same objects, the retail brand outlets. In this study, market share (*Xi*) makes up one of the observational items in the pair, while the variable under study (*Yi*) makes up the other item. The observations within each pair of variables are then ordered from smallest to largest and assigned the respective ranks from one to n, where n is the number of retailers in the category. The construct values, rankings, test statistics, and '*p*'-values are shown for each construct of interest in Table 2 and Table 3. Ties are assigned the average ranking value. These "rankings pairs" are then used to calculate the test statistic, "*rho*", which is represented in this study as "*r*".

To calculate the "*r*", the "rankings pairs" are compared: this would include market share and the other variable under study. The test statistic, *rho*, is calculated as follows:

$$r = 1 - 6\frac{\sum d^2}{n(n^2-1)}$$

In the equation, '*n*' equals the number of paired rankings and '*d*' equals the absolute differences between the rankings for each outlet: (*Xi*-*Yi*). In this study, the number of paired rankings is equal to the number of bank loan providers: eight. The *d* values are calculated for all the paired rankings and for each variable combination in relation to the comparison indicator. The test statistic ranges between +1 (perfect positive association) and -1 (perfect negative association).

In this study, two-tailed tests are performed, giving the general hypotheses for the paired variables: *Ho*: independently ranked pairs (*no* relationship between the rankings of loyalty and share) or *Ha*: related ranked pairs (relationship between the rankings of loyalty and share). It should be remember of that, all the analyses use market share as the comparison variable unless otherwise indicated. To determine if double jeopardy (DJ) is evident, we must compare each of the loyalty indicators to each of the market share indicators (four tests) using the technique described above. Table 1 reveals the analysis for MS%ACNTS and Table 2 shows the analysis for MS%VALU.

Table 2
Kuwaiti Loan Providers: MS%ACNTS

Item/Banks	#1	#2	#3	#4	#5	#6	#7	#8	*r*	*p*
MS%ACNTS	5.0	4.0	3.1	9.8	10.1	26.6	1.9	40.2		
Rank	4	3	2	5	6	7	1	8	n/a	
L%PREFER	5.19	3.71	2.82	8.90	10.24	27.59	1.34	40.21		
Rank	4	3	2	5	6	7	1	8	1.00	.00
L%LOANS	92.84	83.07	83.91	83.33	92.70	93.76	72.67	98.04		
Rank	6	2	4	3	5	7	1	8	0.83	.02

Table 3
Kuwaiti Loan Providers: MS%VALU

Items/Banks	#1	#2	#3	#4	#5	#6	#7	#8	*r*	*p*
MS%VALU	4.0	4.6	4.1	11.2	14.4	24.7	4.3	32.6		
Rank	1	4	2	5	6	7	3	8	n/a	
L%PREFER	5.19	3.71	2.82	8.90	10.24	27.59	1.34	40.21		
Rank	4	3	2	5	6	7	1	8	0.83	.02
L%LOANS	92.84	83.07	83.91	83.33	92.70	93.76	72.67	98.04		
Rank	6	2	4	3	5	7	1	8	0.50	n.s.

As can be noted in Table 2, the rank orders of both loyalty indicators are significantly related to the rank orders of MS%ACNTS. L%PREFER (*rho* = 1.00, *p* = .00) shows a perfect positive ordering with MS% ACNTS. Likewise, L% LOANS (*rho* = 0.83, *p* = .02) is positively ordered along with MS%ACNTS. As for Table 3, it shows that the ranking for only one of two loyalty indicators is significantly related to the rankings of MS% VALU. L% PREFER (*rho* = 0.83, *p* = .02) shows a positive ordering with MS%ACNTS, while L%LOANS (*rho* = 0.50, *p* = n.s.) is not significant but is positively ordered along with MS%ACNTS. Thus, three out of four statistical tests support the existence of DJ in Kuwait banks' loan services.

Discussion and Limitations

The findings of this study reveal that the concept of DJ does apply to bank loan providers in the State of Kuwait for the given sample. We can confidently conclude that banks with larger shares of loan services also have larger percentages of loyal buyers and vice versa. The rank orders of market share and loyalty are positively related in all four statistical tests and significantly related in three of them. Although the indicators for the loyalty and market share constructs are not multiple-factors or multiple-items, the use of constructed aggregate multiple indicators (and thus the multiple tests) allows greater confidence in the conclusions of the study than would be possible without equivalent measures.

Regarding other services, research using similar methods has shown DJ to be strongly evident in fast-food outlets (Pleshko *et al.,* 2006). Thus, it appears that DJ is an important factor for retailing management to consider in strategic decision making. The current study uses estimates of behavioral data to investigate DJ, while previous studies show the DJ effect to be more predominant when using attitudinal measures (Bandyopadhyay and Gupta, 2004). Therefore, the findings of the current study may be more relevant, since behavioral data are possibly a better indicator than are attitudinal data.

The presence of DJ in banking services may be related to the generally well-recognized, strong brand names that are evident in the banking industry or possibly to the high involvement levels associated with these types of services. In other words, maybe DJ is more prevalent with shopping or specialty products than with convenience or preference goods (Murphy and Enis, 1986). This would be contrary to the findings of Lin and

Chang (2003), who suggest the DJ relationship to be stronger in low involvement products.

The readers must wonder if the current findings are indicative of general tendencies or simply a characteristic of this limited study in the Kuwaiti market. The question remains as to whether the sample reflects the population of bank loan users in Kuwait, as no information is available for comparison. Larger studies with more respondents taken over time are probably needed to truly identify the scope of the DJ phenomenon in banking. Additionally, this study only addresses loans- no evidence is provided that these findings apply to other banking services, such as investments or money transfers. Future research might also include both different target respondents as well as different product-markets, both in the banking sector and elsewhere. Moreover, future efforts might address these issues in cross-national studies to determine where and under what conditions the DJ construct applies globally. Finally, the question of life cycle issues might also be relevant for this area of study: What are the characteristics of DJ, and is it evident at various stages of the industry life cycle?

Implications

As DJ is evident in this part of the banking sector, there are definite implications for the competitors within the industry. As the name implies, this may be a future problem for the smaller Kuwaiti banks in offering loan services. Smaller Kuwaiti banks are faced with, not only smaller market shares, but with smaller numbers of brand loyal buyers. The result of having fewer loyal buyers is that the smaller-share banks will (theoretically) gradually lose market share to the larger banks as time progresses. This digression in share occurs as buyers switch among the banks from small-share to large-share and vice versa (c.f. Bandyopadhyay *et al.*, 2005). But with fewer buyers switching to the smaller share banks, in the long run these small banks may end up with even smaller shares. This long-term digression may be prevented with an active marketing program aimed at increasing loyalty within the users of the smaller banks. In this way, even though the banks have smaller shares, they will be able to rely on an equally strong loyalty base for future business.

The large-share banks are having a much better situation. Due to the advantages of having a large share to begin with (familiarity, stronger brand names, better performance, etc.), these larger banks do not face the digression in market share expected with the smaller banks. On the contrary, the large-share banks should ideally increase market share (due to switchers from the small banks) as long as loyalty levels remain high relative to the smaller banks. Thus, large banks can focus, as might normally be expected, on expanding the market size. This focus on market size for larger-share banks should lead to a larger percentage of growth than smaller-share banks would expect.

But this gradual movement within the industry to fewer and larger banks might take longer than expected in other industries due to the type of service studied, i.e. bank loans. In this study, less than ten percent of customers (60/693) have loans at different banks. Bank loans generally have a longer purchase cycle. Considering this purchase cycle regarding loans for real estate and commercial activities, it might be years before a second or third loan decision is made again and a switching decision might occur. Thus, the long period of loans helps ensure that business remains with the originally selected bank, unless a problem occurs. Additionally, as a shopping or specialty product, we might expect high levels of loyalty within loan services once a choice is made, assuming satisfaction is achieved. Again, this points to low levels of switching once a bank service is selected, making it more difficult for the smaller-share banks to gain share from existing users of bank loans.

That is, in fact, evident in the loyalty indicator dealing with loan amounts (L%LOANS), where loyalty percentages are all above seventy percent. Therefore, it may be years before the smaller (or larger) share banks get an opportunity to attract switchers from other loan institutions. It may be that the key to success in this segment of banking lies with focusing on gaining an acceptable share of customers entering the loan market, rather than hoping to attract switching customers from other banks. To attract these new customers is important, but then to make them satisfied and eventually loyal would be the key to success in the long run.

Finally, this study and the findings are particularly applicable to Kuwait bank sector as the market opens up to foreign competition in line with WTO requirements. It may be that the local banks feel confident in their current shares, due to the existence of loyal buyers for each bank. This confidence may be more folly. As the new multinational banks enter, and upon seeing difficulty in gaining share from the existing customer groups, they may well focus on expanding the market size by targeting current nonusers or new segments of the industry. Even though DJ applies to loan services in the existing markets of Kuwait, this will most likely not be evident in new segments of the market. Therefore, local banks in the current segments should have advantages over new-entrant foreign banks with the current buying market, but may not have DJ advantages with new segments. This may be disastrous in the long run for not only the smaller-share banks, but maybe even for some of the larger-share banks as well - especially if the new banks offer a satisfying service which generates high levels of loyal customers in those high growth areas/ segments not currently targeted or dominated by local banks.

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الملخص

الخطر المزدوج في الخدمات البنكية في الكويت: دراسة سوق القروض الشخصية

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يقوم المؤلفان بدراسة ظاهرة "الخطر المزدوج" في مجال الخدمات المالية المتعلقة بالإقبال على القروض الخاصة. ويدلل المؤلفان على وجود هذه الظاهرة لقروض البنوك في دولة الكويت وفقا لنتائج البحث المستقاة من عينة تبلغ حوالي ٧٠٠ مفردة في سوق القروض الاستهلاكية الشخصية. نلاحظ أن البنوك ذات الحصص السوقية الصغيرة ربما ستواجه مشكلات في استحواذها ومحافظتها على حصتها السوقية على المدى البعيد بدون استخدام جهود مضنية لتأمين ولاء العملاء للتغلب على ظاهرة "الخطر المزدوج".

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