**What long term measures can tell us about brand loyalty**

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**I. INTRODUCTION**

Most categories of fast moving consumer goods (FMCG) in developed economies are widely purchased and consistently lucrative to suppliers. However most FMCG categories are also in a state of equilibrium (Doyle & Stern, 2008) with few new category buyers coming into the market. Equilibrium also means that most brands’ market shares and brand performance metrics (BPMs) remain steady from year to year, much to managers’ frustration as they put money and effort into improving their brand’s performance.

While acquiring and retaining customers are critical tasks, retention attracts more interest because it seems more manageable. If there are no new customers available to the brand, then at least the brand can have *better* customers by developing a more active relationship with them (Keller, 1998). Loyalty strategies are also attractive because in a zero-sum market, increasing the share of purchases or building ‘share of wallet’ from existing customers may require less effort than poaching a customer from a competitor. Such strategies aim to increase the share of category requirements (SCR) or the portion of a customer’s purchases that a brand captures. SCR is widely used in FMCG categories, reflecting the reality that most customers spread their purchases across several brands, so if one brand increases its share of a customer’s requirements, it does so at the expense of its rivals. A strategic objective for brands in established markets is therefore to build a more valuable customer base – a more loyal one. In theory brands with successful loyalty strategies will have superior metrics for loyalty including SCR, purchase frequency, 100% loyal customers (who only buy one brand), a higher proportion of heavy buyers, and more period-to-period repeat buying.

**Conceptual Framework**

The financial value of loyal customers is based on marketing efficiencies and to the strength of attitudinal response developed through customer brand relationships. Some reasons to focus on customer loyalty include: a) The association between intensity of cognitive loyalty and purchase intention is manage-able (Day, 1968; Dick and Basu,1994; Oliver, 1999), b) It costs a sixth as much to keep an existing customer as to attain a new one, (Rosenberg and Czepiel 1983), c) Loyal customers are less price-sensitive and have higher value than occasional buyers (Krishnamurthi and Raj, 1991; Kumar and Shah 2004; Reichheld and Sasser, 1990), d) Loyalty rises with market share, and high share is associated with higher ROI (Buzzell et al 1975), e)The financial returns from retained buyers build year on year (Reichheld,1996), f) Brand loyalty contributes to firm profitability (Reichheld 1996) and to brand equity (Srivastava 2002) and can be managed through ‘customer-driven marketing,’ relationship marketing, and loyalty programs, g) Positive word of mouth from loyal customers reduces marketing costs (East et al 2008), and e-WOM is a cost-efficient driver of more intense attitudinal loyalty (brand enmeshment) (Bogi, 2014; Hollebeek and Chen, 2014).

At this point evidence to support theory is constrained by available data. Many models have been developed to demonstrate the customer-brand relationship construct. However, the norm is to test such models on a single set of data, and not over time or to assess whether intentions are fulfilled. One rare attempt to assess the impact of stated loyalty intention on buying behavior (Evanschitzky et al, 2016), showed that variations in repurchase intention were not related to future sales. Instead the results cast doubt on the strongly held beliefs of relationship marketing and its impact on actual behavior.

Advances in consumer panels in which household brand choices are recorded over five years enable the examination of data incrementally, e.g. by quarter or year, or over the whole five years, to discern any trends or developments in BPMs. We test the stationarity assumption by calculating measures for Category Penetration, Purchases per buyer, Brand share, Brand penetration, Purchase frequency, SCR, and One, three and five-time buyers per brand. The measures are calculated on a quarterly basis and then averaged over each year to address the first research question:

**RQ1. What is the observed extent of stationarity in brand performance measures between successive time periods?**

If it is possible for a brand’s customer base to be differentiated from the bulk of category buyers as measured by their behavioural brand response then this should be observable. While such brand-based customer segmentation has not been found in past attempts (Ehrenberg, Goodhardt & Barwise, 1990; Kennedy & Ehrenberg, 2002; Sharp, 2010), they were based on relatively short periods of data (typically over eighteen months or so). Now it may now be possible to demonstrate differentiated behavioural loyalty for brands. If such evidence exists, the implication is that brand loyalty is in some way subject to marketing manipulation. This is important because it is over the long term that customer loyalty is meant to pay off. This is the main idea behind customer life-time value models (CLV) (Srivastava, 2002; Venkatesan & Kumar, 2004) and associated models of marketing resource allocation.

In analyzing this data, the expectation was that larger brands would score above average on loyalty BPMs and small brands lower, in line with the well known Double Jeopardy Law (Ehrenberg, 1988). Deviations from this law either in time series, or in aggregate would indicate that brand loyalty metrics might be subject to some sort of marketing intervention and that brand loyalty is manageable. Such a finding would validate the vast time, and money poured into loyalty-based marketing efforts. A lack of such deviations on the other hand, would indicate that brand loyalty is not subject to marketing interventions—it is not manageable. Our second research question is:

**RQ2: What is the shape and extent of variances from the theoretical values as predicted by the Dirichlet model.**

**IV. FINDINGS**

**RQ1**: Over five years of continuous reporting almost no persistent trends in mean brand share were observed; 44% of all brands in the study remained within one market share point over the five years, and 88% remained within 5 points – the equivalent of one share point change up or down per year. Amongst the exceptions, the movements were slightly skewed—of the 402 brands and Private Label entities observed, only eighteen (5% of all brands) increased share by over five points while only five brands declined at a similar rate. At least two of the declining brands seem to have been withdrawn from the market. The very rare cases of brand growth on the other hand, were observed to occur gradually over the long term, the average rate of increase across the brands was only two points per year between Years One and Five.

The stability of brand performance metrics is illustrated in Table 1, which is typical of the no-trend pattern of almost every brand in the dataset. While measures fluctuate by a point or two, they all remain close to their mean values across the entire five years..

**Table 1. Quarterly loyalty measures in time series for a leading brand.**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Buying Measures** | **Average Quarter in Year…** | | | | | |
| *2009-2014 UK Cooking Sauces* | **1** | **2** | **3** | **4** | **5** | **Mean** |
|  |  |  |  |  |  |  |
| Category Penetration | 25 | 26 | 26 | 26 | 25 | **26** |
| Category Purchases (by brand buyers) | 5.2 | 5.4 | 5.6 | 5.8 | 5.6 | **5.5** |
|  |  |  |  |  |  |  |
| Brand Share | 12 | 11 | 13 | 11 | 12 | **12** |
| Penetration | 5 | 6 | 6 | 6 | 5 | **6** |
| Average Purchase Frequency | 2.2 | 2.0 | 2.1 | 2.1 | 2.1 | **2.1** |
|  |  |  |  |  |  |  |
| SCR (%) | 43 | 38 | 38 | 36 | 38 | **39** |
|  |  |  |  |  |  |  |
| One-Time Buyers (%) | 65 | 66 | 66 | 67 | 67 | **66** |
| Three-Time + Buyers (%) | 14 | 13 | 14 | 12 | 13 | **13** |
| Five-Time + Buyers (%) | 3 | 2 | 3 | 2 | 3 | **3** |
|  |  |  |  |  |  |  |

N=15,000

The Table describes the typical quarterly performance of the leading cooking sauce brand in the UK, contextualised against category buying. It shows that in each quarter over the five years around one in four UK households bought cooking sauces once a fortnight. The numbers are near-stationary and reflect the equilibrium of the typical Dirichlet market. The main point is that even for a leading brand loyalty is almost unvarying – the consumer’s propensity to purchase the category and brand appear hard to influence over time, even for a brand leader. Any marketing activities during these years have only a non-persistent effect within the period and no after-effects, so despite the near ubiquity of growth and loyalty as marketing objectives, the chances of achieving either appear to be astonishingly slim.

**RQ2:** When looked at over time, category penetration levels were found to vary widely between the eighteen categories (regardless of time-frame), but not between time periods. i.e. penetration for wrapped bread reached 20% of panel households in any quarter while at the other extreme, just 2% of households bought vitamins. But over time, from year to year these category penetration rates showed Mean Absolute Deviations of less than one point in fifteen cases, and no more than one point in the remaining three. This stability is an indication of the barriers that brand marketers and retailers face in achieving category growth.

Table 2 gives results from replications of the loyalty analysis extended to eighteen categories, reporting correlations between observed performance measures and brand penetrations. The categories have been arranged by penetration—a measure of popularity. In the table, b = the proportion of customers who buy at least once during the analysis period, w is the purchase frequency. It is clear that both measures are highly correlated the average brand penetration in each category. The two negative relationships are between penetration and one time buying (1x), and the Category purchases. These are negative because the larger a brand’s penetration, the fewer customers who buy it only once in the time period. Conversely, 5 time or more buying and SCR are positively related to brand penetration. Both are consistent with DJ.

**Table 2. Replication in 18 categories in a typical quarter**

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Categories | Avg | **Correlations with Brand Penetrations (*r* =)** | | | | | | | |
| Average Quarter | Brand |  |  | % Buying | | Category | | 100% Loyal | |
| *2009-2014* | Pen | *b* | *w* | 1x | 5+ | Purch | SCR | Pen. | Avg |
|  | % |  |  |  |  |  | % | % | Purc |
|  |  |  |  |  |  |  |  |  |  |
| Wrapped Bread | 20 | *0.96* | *0.92* | *-0.93* | *0.93* | *-0.80* | *0.94* | *0.90* | *0.71* |
| Margarine | 15 | *0.99* | *0.74* | *-0.71* | *0.68* | *-0.23* | *0.72* | *0.72* | *0.72* |
| Everyday Biscuits | 10 | *0.98* | *0.75* | *-0.94* | *0.94* | *-0.52* | *0.95* | *0.95* | *0.61* |
| Crackers | 9 | *0.96* | *0.86* | *-0.64* | *0.29* | *-0.81* | *0.93* | *0.98* | *0.54* |
| Butter | 8 | *0.99* | *0.87* | *-0.81* | *0.83* | *-0.64* | *0.87* | *0.86* | *0.81* |
| Instant Coffee | 8 | *1.00* | *0.73* | *0.95* | *0.43* | *-0.61* | *0.89* | *0.88* | *0.66* |
| Male Deodorant | 7 | *1.00* | *0.92* | *-0.87* | *0.75* | *-0.70* | *0.94* | *0.92* | *0.72* |
| Canned Cat Food | 5 | *0.98* | *0.71* | *-0.89* | *0.80* | *-0.68* | *0.80* | *0.72* | *0.37* |
| Hair Conditioner | 5 | *1.00* | *0.75* | *-0.84* | *0.91* | *-0.85* | *0.98* | *0.98* | *0.57* |
| FlexiPack Catfood | 4 | *0.96* | *0.64* | *-0.67* | *0.13* | *-0.93* | *0.85* | *0.94* | *0.68* |
| Female Deodorant | 4 | *0.99* | *0.87* | *-0.86* | *0.71* | *-0.29* | *0.90* | *0.66* | *0.88* |
| Shampoo | 4 | *1.00* | *0.72* | *-0.77* | *0.67* | *-0.63* | *0.90* | *0.97* | *0.66* |
| Soap | 4 | *1.00* | *0.69* | *-0.36* | *0.35* | *0.17* | *0.65* | *0.88* | *0.66* |
| Analgesics | 3 | *1.00* | *0.58* | *-0.75* | *0.68* | *-0.64* | *0.82* | *0.82* | *0.25* |
| Canned Dog Food | 3 | *0.98* | *0.77* | *-0.74* | *0.56* | *-0.09* | *0.79* | *0.56* | *0.46* |
| Still Water | 3 | *1.00* | *0.88* | *-0.88* | *0.91* | *-0.72* | *0.95* | *0.93* | *0.72* |
| Vitamins | 2 | *1.00* | *0.60* | *-0.43* | *0.75* | *-0.60* | *0.90* | *0.85* | *0.69* |
| Ground Coffee | 1 | *1.00* | *0.38* | *-0.60* | *0.16* | *-0.28* | *0.44* | *0.37* | *0.18* |
|  |  |  |  |  |  |  |  |  |  |
| **Average** | **6** | ***0.97*** | ***0.73*** | ***-0.65*** | ***0.64*** | ***-0.55*** | ***0.85*** | ***0.83*** | ***0.60*** |

The close relationship of BPMs with penetration supports the DJ assumption since it implies that no brand is likely to have low penetration combined with high purchase frequency. This can be clearly observed in the data in which each measure moves in lock-step with penetration. The fact that loyalty measures are so closely related to buyer numbers suggests that each reflects a different dimension of the same construct.

Over time more consumers have more opportunity to switch or stay with particular brands. Loyalty measures therefore evolve in cumulative observations. In Table 3 it is clear to see that the biggest variance is in the number of buyers attracted to any brand; average penetration rises from 6% of households in one quarter to 31% of households in five years, while BPMs remain closely associated, and if anything the association between loyalty and penetration becomes stronger with time. The finding across a range of widely differing categories further supports the Double Jeopardy assumption that loyalty for brands remains undifferentiated.

**Table 3: A comparison of the correlations between one quarter and six years**

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Categories | Avg | **Correlations with Share & Brand Penetrations (*r* =)** | | | | | | | |
|  | Brand |  |  | % Buying | | Category | | 100% Loyal | |
| *2009-2014* | Pen | *b* | *w* | 1x | 5+ | Purch | SCR | Pen. | Avg |
|  | % |  |  |  |  |  | % | % | Purc |
|  |  |  |  |  |  |  |  |  |  |
| Quarter | 6 | *0.97* | *0.73* | *-0.65* | *0.64* | *-0.55* | *0.85* | *0.83* | *0.60* |
| Five Years | 31 | *0.92* | *0.85* | *-0.92* | *0.88* | *-0.86* | *0.89* | *0.82* | *0.54* |
|  |  |  |  |  |  |  |  |  |  |

N=15,000, Kantar household panel 2009-14

**V. DISCUSSION AND IMPLICATIONS**

Marketing managers face a seemingly irreconcilable dilemma – on the one hand they deal in markets that have reached equilibrium, in which there are no new category buyers and no new uses for the products. On the other they are subject to ever more demanding shareholder calls for growth in sales, profits, brand and firm value. Polygamously loyal consumers shop habitually, which means low level innovation - “new, improved” product variants for example - get attention but provide only temporary competitive advantage. Most advertising in equilibrium markets is defensive. It maintains sales by keeping brands salient for occasional buyers who might otherwise forget. Disruptive innovation may offer a key to break this log-jam but for most brands they are rare an potentially risky. The easier path may seem to be to “build the brand” by increasing the repeat buying rate of the brand’s existing customers – managing loyalty – and why not? Clearly the existing consumers already like the brand, since brand tracking studies report high levels of engagement, liking, preference and purchase intention scores, which might all be improved in order to create a differentiated customer base distinctive for its commitment and engagement.

Since Day (1968) and Dick & Basu (1994) the possibility that true loyalty can be distinguished from spurious loyalty and therefore managed has been supported by countless studies linking cognitive attitudinal models to stated purchase intention. Studies linking attitudinal and behavioural measures are rare, and also unreliable. Cognitive modelling, being cross sectional, assumes sustained competitive advantage and rarely if ever takes into account the possibility that if one brand can influence its consumer-based brand equity, the effect is unlikely to be persistent, because the available choice-alternatives are trying equally hard in the opposite direction.

How then should brand loyalty be conceptualised, let alone operationalized? In this study our starting point was with time: the value of repeat-buying to a firm is not in cross section, or in a quarter or two, but in a strategic, long term time frame. Repeat-buying is the marketing efficiency that delivers improved cash flow and predictable sales that can be valued as brand equity. But repeat buying loyalty seems totally immune to marketing manipulation. The only way to influence it is to raise the brand’s penetration.

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