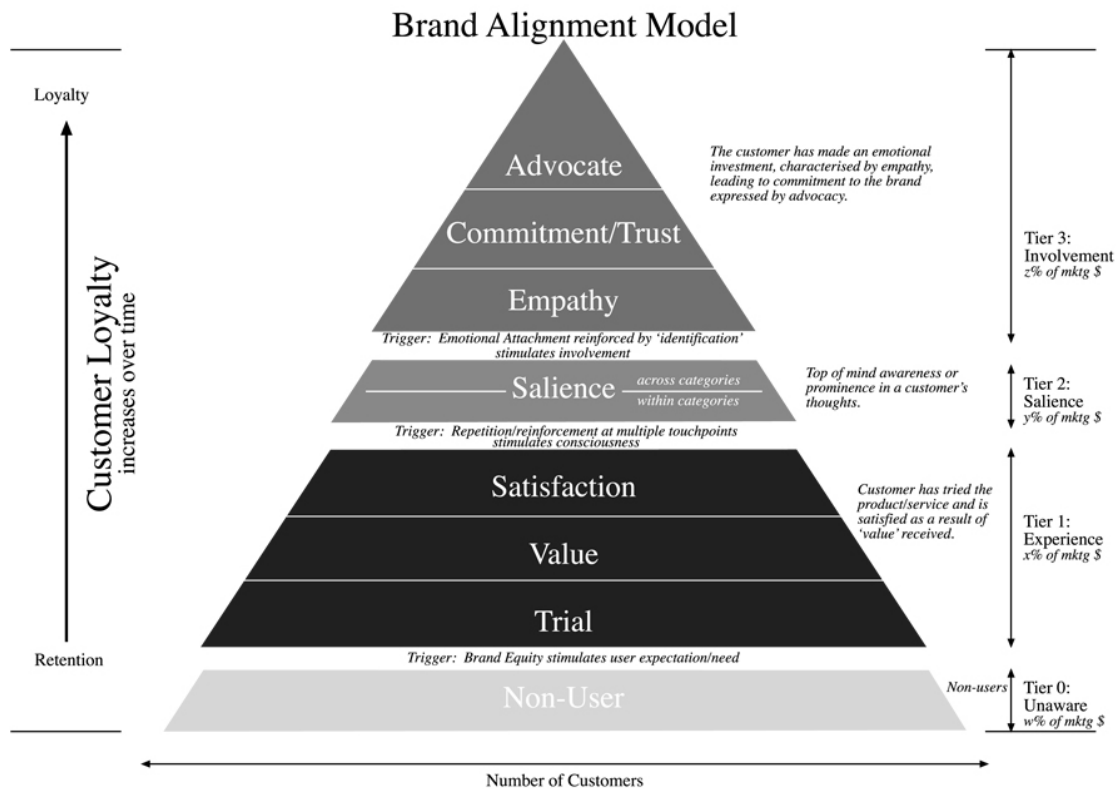




Profiting from loyalty By Philip Dennett

There is no one right way to make loyalty profitable. Different approaches will be more suitable to different businesses, depending on the profiles of their customers and the complexity of their distribution channels.¹

Marketers the world over, know that loyalty is desirable and should bring additional profits; yet in many cases those profits prove elusive. Based on my experience working with a number of brands, plus indepth interviews with a number of leading NZ marketers and a thorough review of research into loyalty, I developed the Brand Alignment Model as an attempt to focus on the process by which loyalty is built rather than to provide a one stop solution.



In particular, it can be used as a planning template for organisations to pursue a loyalty strategy that is relevant to them and their market situation. It does this by focusing on customer attitudes rather than just behaviors which are easy to measure (such as RFM models). When customers are sorted according to their profitability and longevity (behavioral measures), it becomes clear that the relationship between loyalty and profits is by no means assured.¹

In fact, some of a company's most loyal customers may not even feature in RFM-type calculations: 'As someone's income increases, she may move up the automotive ladder from the Honda she has bought for years. But if she is loyal to the company, she will enthusiastically recommend a Honda to, say, a nephew who is buying his first car.'² That's why the Model focuses on attitudinal trigger points (such as managing touchpoints and emotional attachments) as tools to



move customers further up the pyramid to become advocates.

By developing strategies that encourage customers to reach the top tier of the Model, companies are likely to increase the percentage of customers who are 'promoters' which will result in a higher company growth rate.²

Relevance as a strategy

Existing research^{3,4} has found that true loyalty is both an attitude and a behavior. The executives interviewed for this research all agreed with this assertion. In all cases actual customer behavior was tracked, and in some, attitudes were tracked formally, for example, '...we capture wrap-up codes on the telephone system...' (Executive C). For a number of the companies, word of mouth was seen as important in tracking attitudes: 'What we want is people who not only buy our product but also talk about that product' (Executive F). In his definition of loyalty, Oliver⁴ starts off by describing it as 'a deeply held commitment to rebuy...'; in describing their ideal customers the interviewees concur.

'Loyalty is the acid test of leadership.'

Frederick Reichheld, in an interview with Finnie and Randall⁵ said, 'Loyalty is the acid test of leadership. It is the best way to know whether a leader is achieving financial results through the success of employees and customers or at their expense.' Reichheld believes in the viability of the pursuit of loyalty as a business strategy driven from the top.

While agreeing with that idea, I wondered at the outset of this research whether this feeling would be shared by the interviewees. For this reason interviewees were asked to discuss the relevance of such a strategy to staff, management, and the Board. All the executives agreed that the pursuit of loyalty was a viable business strategy and in each case said the Board were either actively involved: 'Yes, at the moment they are pushing us to develop a retention program' (Executive C); or would be open to an investment in it: 'Absolutely, although I would have to demonstrate the payback because marketing money is just like capital money' (Executive F).

Oliver's model is typical of many researchers in that to achieve the end stage, in this case 'action loyalty', a customer must first move through the other three (cognitive, affective and conative loyalty). In other words, there is a hierarchy involved. Interviewees were asked to confirm that, in their opinion, a hierarchy exists, and if so to describe the stages a customer would go through. While in each case the stages were different, they were all hierarchical. However, for the final stage, each respondent had the same description: word-of-mouth/advocate/recommender.

Trigger factors

All the executives I interviewed agreed with the hierarchical nature of the Model and the descriptions assigned to each tier. However, the most important question to consider before the Model could be of use, was specifying events that precipitated a move from one tier to the next (the original Model hadn't identified these).

One respondent (FMCG) said there would be a different thought process depending on the



product. If you take a beverage: 'I buy it, it looks good, and it delivers on it's promise'. The promise would be 'taste'. It would then become one of that consumer's choices for next time. In other products without immediate fulfillment it's much harder. The consumer has to know that it's a quality product because they can't see an immediate effect. So there's probably much more of a thought process involved – they've got to really know that brand and trust that brand. So if there is any doubt they will take the brand they know.'

What is going on in a consumer's mind?

The science of neurodynamics gives us an insight into what happens in the mind as a result of a person's experience in a given set of circumstances (e.g. repetitive purchasing of a particular product).

Many of the decisions we make are based on learned behavior and made 'largely by means of nonconscious processing'. Nonconscious processing is defined as involving 'the automatic selection of cognitive, perceptual and behavioral routines that are appropriate for a given situation, and which require little or no effort or conscious deliberation for their activation'.⁶

Hence a product that has been purchased frequently is more likely to have a high level of salience than one that has not. Therefore a likely trigger for someone to move from Tier 1 (experience) to Tier 2 (salience) is repetition of the positive experience that led to satisfaction. Executive A (retail) gave an example of the power of repetition of positive experiences when she said, 'What we actually see is that they come back and they bring Grandma with them, or they'll bring their husbands in. I've been in the store myself when an obviously very loyal customer knew everybody's name and everybody knew the name of her child. And we talked for some time about why she chooses to shop with us, and basically it came back to the added value she received and for that reason she will continue to shop with us'.

To move to the Involvement Tier a customer must form some kind of emotional attachment adding meaning to their life.⁷ The trigger to reach this stage then is the establishment of an emotional linkage with the product. The brand has gone from having merely functional relevance (based on the product's function) to having a personality where it confers desired qualities to the user⁸. In other words, the consumer 'identifies' with the brand.



The trigger factors proposed are shown below:

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| <p>Tier 0: Non-user – but in the target market for product or service</p> | <ul style="list-style-type: none"> • Building of brand equity to stimulate user expectation/need <p><i>Examples: promotion; word of mouth; sales force; visibility in community; organisation size and credibility; point of sale visibility; new product launches.</i></p> |
| <p>Tier 1: Experience – customer who has tried the product/service and is satisfied as a result of ‘value’ received</p> | <ul style="list-style-type: none"> • Repetition/reinforcement at multiple touchpoints to stimulate consciousness <p><i>Examples: one-to-one contact; endorsement from opinion leaders; added value services; wide distribution (easy availability).</i></p> |
| <p>Tier 2: Salience – top-of-mind awareness or prominence in a customer’s thoughts of product and brand</p> | <ul style="list-style-type: none"> • Emotional attachment reinforced by ‘identification’ <p><i>Examples: experiences with the product; outside endorsement of decision; positive interactions (two-way information flow); involvement in customer lifestyle.</i></p> |
| <p>Tier 3: Involvement – customer has made an emotional investment, characterised by empathy, leading to commitment to the brand expressed by advocacy</p> | |

The Model as a marketing plan template

In discussing the use of the Model as part of a marketing program, it became clear that the Model’s value lay in its flexibility to fit a variety of market situations rather than being too prescriptive and therefore of limited use. A good example of this came from the FMCG executive:

‘It would be interesting to put, along with loyalty, dollars required to get up to the top, because that will vary. It would be worth overlaying that on a cost-benefit model by category. In some categories all I might want is to get that satisfaction because I’m just going to keep putting out new products because my industry is built on rapid NPD [new product development]. You could also map it against Speed – time taken to get to the top – and then Cost. That will influence what shape your pyramid takes. Because there has got to be a return – and the longer it takes the more



risk there will be involved. I could use the Model to look at where I am going to spend my money. For example, what percentage would I allocate in each part of it?’

In considering the Model’s applicability to your own situation, I recommend you ask the following questions:

1 How are your customers currently distributed across the pyramid?

If you’re not sure, undertake some market research to find out. Then you will be able to determine your objective; for example, to increase the level of salience among newer customers to increase your share of their category spending.

2 Who are my Tier 3 (involved) customers?

By identifying this group you can put in place plans to harness the power of word-of-mouth.

3 What is the ideal shape for the Model in future?

By getting a baseline picture now, you can track changes over time (i.e. percentage of customers at each level) and link that back to overall profitability and determine the effectiveness of your marketing expenditure.

Whatever the marketing challenges you face I hope that you can make use of the Brand Alignment Model in formulating your plans!

About the author

Philip Dennett is a director of Mulga Partners Pty Ltd. He has worked in marketing and communications for over 20 years both in marketing management and consultancy. He has a Masters degree in Management from the University of Auckland and regularly speaks at conferences and conducts workshops in marketing strategy. Philip has written a book called *Customer Savvy* which discusses his research in detail. For more information go to www.mulga.com.au

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