A Conceptual Analysis of Brand Loyalty As Core Dimension of Brand Equity

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A CONCEPTUAL ANALYSIS OF BRAND LOYALTY AS CORE DIMENSION OF BRAND EQUITY

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1. Introduction

Nowadays, brands are companies' most valuable assets, adding both economic and strategic value to its proprietors. During the last years, brand valuation has been an intensively analyzed subject among marketing specialists. The value of this asset is often referred to as brand equity which is the marketing and financial value associated with a brand's strength in the market or the added value a given brand name provides to a product beyond the functional benefits. Besides the actual proprietary brand assets, such as patents and trademarks, other major elements underlie brand equity: brand awareness, perceived quality, brand associations and others, but, above all, brand loyalty, which represents the core of a brand's value. This paper will try to position brand loyalty among other descriptive dimensions of brand equity, analyze the effects of a high degree of loyalty among customers, identify several typologies of customers considering their level of loyalty and finally establish a framework for creating, maintaining, enhancing, and assessing brand loyalty.

2. The concept of brand loyalty as a descriptive dimension of brand equity

The American Marketing Association defines brand loyalty as "the situation in which a consumer generally buys the same manufacturer-originated product or service repeatedly over time rather than buying from multiple suppliers within the category" or "the degree to which a consumer consistently purchases the same brand within a product class". Trying to define the term, Aaker considers that brand loyalty reflects "how likely a customer will be to switch to another brand, especially when that brand makes a change in price, product features, communication, or distribution programs".

Brand loyalty represents the core of a brand's equity. Daryl Travis considers that brand loyalty is "the ultimate objective and meaning of brand equity", adding that "brand loyalty is brand equity". Still, brand loyalty can't be analyzed without considering its relationship to other descriptive dimensions of brand equity like awareness, perceived quality, or associations.

Firstly, all the other descriptive dimensions of brand equity can enhance brand loyalty, as perceived quality, associations and awareness provide reasons to buy and affect satisfaction. Loyalty could arise from a brand's perceived quality or associations, but could also occur independent of these dimensions (for example, a person can be loyal to a low perceived quality brand and dislike a brand with a high perceived quality due to subjective reasons). Yet, the nature of this relationship is unclear.

On the other hand, loyalty can induce a higher perceived quality (for example, a potential customer has a better evaluation of a brand if that brand is perceived as having a loyal customer base), stronger associations (the brand can be associated to elements characterizing its loyal customers), or increase awareness (loyal customers tend to provide brand exposure to new customers through "mouth to mouth" communication).

Concluding, brand loyalty is both an input and an output of brand equity and it is both influenced by and influences the other descriptive dimensions of brand equity.

Nevertheless, brand loyalty is qualitatively different from other major dimensions of brand equity, being stronger related to the use experience. Brand loyalty is conditioned by prior purchase and use experience, while awareness, associations, or perceived quality may be present even in the case of a brand that hasn't been used yet.

3. Positive effects of a high degree of brand loyalty

A high degree of loyalty among customers provides the firm with a series of specific competitive advantages, loyalty having a strong positive effect in two main directions, reducing marketing cost and increasing the brand's revenue.

Customers can manifest their loyalty to a brand in several ways: they may choose to stay with a provider, and they may increase the number of purchases or the frequency of their purchases or even both, thus generating higher revenues for the brand. They may also become advocates of the brand, concerned by playing a powerful role in the decision making of others, thus reducing the brand's marketing communication costs.

It is well known that it is much more expensive to gain new customers than to keep existing ones, especially when the existing customer base is satisfied and loyal. Even if there are very low switching costs and low customer brand commitment, there is a substantial inertia among customers. Still, brand loyalty must not be confounded to brand inertia. According to Bloemer and Kasper, brand loyalty implies a deep-seated commitment to brands and there is a sharp distinction between repeat purchases and actual brand loyalty. In their published research, they assert that a repeat purchase behavior is the actual re-buying of a brand whereas loyalty includes antecedents or a reason or fact occurring before the behavior. Bloemer and Kasper further delineate brand loyalty into "spurious" and "true" loyalty. Spurious loyalty represents biased behavioral response expressed over time by some decision-making unit, with respect to one or more alternate brands, as a function of inertia. True brand loyalty includes the above, but replaces inertia with a psychological process resulting in brand commitment.

The loyalty of the customer base reduces the vulnerability to competitive attacks. Loyal customers perceive very little incentive to try other brands and even if they do, there is a substantial time gap between they receive the information about the new alternative and their decision to try it. Thus, the firm has a significant time to respond to competitive threats and knowing this, competitors are discouraged from spending resources to attract other brands' loyal customers.

Loyalty also generates trade leverage, as loyal customers expect the brand to be always available generating incentives for distribution channels to reference the brand.

Research has shown that loyal customers are less price sensitive and the expense of pursuing new customers is reduced, while organizational profitability is positively affected by the level of brand loyalty. Brand loyalty can enhance marginal cash flow and profitability, as loyal customers often accept to pay a price premium for their favorite brands, are easily stimulated to new usage situations and tend to increase intensively and extensively their spending on the brand.

The marketing communication spending is also reduced as loyal customers are already confident in the purchase decision and process information rapidly, instruments like sales promotions or advertising being less intensive needed in this case in comparison to brands with low loyalty degree.

Loyalty also enhances the process of attracting new customers. Satisfied and loyal clients tend to provide brand exposure and reassurance to new customers, through "mouth to mouth" communication. On the other hand, a potential customer has a better evaluation of a brand if that brand is perceived as having a loyal customer base.

4. Loyalty driven consumer typology

A first approach of classifying consumers considering their degree of loyalty is that of George H. Brown, according to whom buyers can be divided into four groups: *hard-core loyals* - always buy the same brand; *split loyals* - loyal to two or three brands; s*hifting loyals* - loyal to one brand for a period of time, but easily shifting from one brand to another, due to certain advantages offered by the new brand; *switchers* - show no loyalty to any brand, switching the brand with almost any buying situation.

A second approach is that of David A. Aaker who sees five levels of brand loyalty and groups customers accordingly into a loyalty pyramid (figure 1):

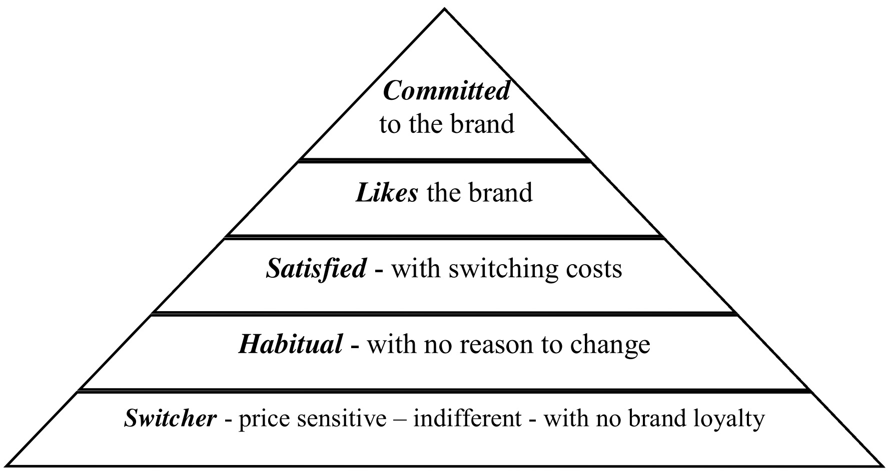

Fig. 1: The loyalty pyramid

Source: Aaker, David A. (1991), Managing Brand Equity: Capitalizing on the Value of a Brand Name, The Free Press, New York:40

a) The first level represents non loyal buyers who are completely indifferent to brands, each brand being perceived to be adequate if the price is accepted.

b) The second level includes satisfied or at least not dissatisfied buyers with no dimension of dissatisfaction sufficient enough to stimulate a change, but vulnerable to competitors that can create a perceived benefit in the case of switching.

c) The third level consists of satisfied customers with switching costs (loss of time, money, or acquired loyalty advantages, performance risks associated with switching etc.). Switching incentives from competitors must compensate the switching costs.

d) The fourth level contains customers who truly like the brand and have an emotional attachment to the brand, based upon associations such as a symbol, a set of use experiences, or a high perceived quality. The emotional attachment's reason is sometimes just the fact that there has already been a long term relationship.

e) The fifth level represents committed customers, proud to have discovered and used the brand, and to whom the brand is very important both functionally a as an expression of their personality. The value of this category of customers stays in the impact they have upon others through their recommendations.

Considering the level of involvement and that of perceived differences between brands, Henry Assael identifies four brand loyalty driven types of consumers (fig. 2):

a) Complex loyals firstly do research, then develop beliefs and attitudes about the brand, and finally make a thoughtful choice.

b) Dissonance loyals shop around and buy fairly quickly, as they may consider most brands in a given price range to be the same, even though expensive and self-expressive. Even though they experience dissonance noticing certain features or hearing favorable things about other brands, they seek information to support their choice.

c) Habitual loyals make decisions based on brand familiarity and keep buying the same brand out of habit as passive recipients of information conveyed by advertising.

d) Variety-seekers switch brands for the sake of variety rather than dissatisfaction, choosing brands with little evaluation, and evaluating them mostly during consumption.

		Involvement	
		High	Low
Perceived differences	Many and/or significant	*Complex loyals*	*Variety-seekers*
	Few and/or not significant	*Dissonance loyals*	*Habitual loyals*

Fig. 2: Involvement / perceived differences based loyalty types

Source: Kotler, Philip (2002) — Marketing Management, Millenium Edition, Prentice Hall Inc., Upper Saddle River, New Jersey: 97

Dick and Basu argue that loyalty is determined by the strength of the relationship between relative attitude and repeat patronage. On the basis of attitude-behavior relationship, they propose four types of brand loyalty (fig. 3). The "spurious loyalty" and "no loyalty" categories occur under low relative attitude that might be indicative of a recent introduction and/or an inability to communicate distinct advantages, or when most competing brands are seen as similar.

		Repeat Patronage	
		High	Low
Relative Attitude	High	*Loyalty*	*Latent loyalty*
	Low	*Spurious loyalty*	*No loyalty*

Fig. 3: Attitude / behavior based loyalty types

Source: Dick, A., Basu, K (1994) — Customer Loyalty: Toward an Integrated Conceptual Framework, Journal of Marketing Science, Vol.22, No.2:101

Rowley and Daves observe that in the previous loyalty typology, Dick and Basu's category of no loyalty is seen to relate to customers whose repeat patronage and relative attitudes are low, but not necessarily negative, meaning that this category includes customers who make infrequent purchases or potential customers. Non-loyals may exhibit this trait as they have no particular interest in the brand, have a negative orientation towards a brand or have a positive orientation towards a competing brand. Thus, Rowley and Daves propose that non-loyal consumers be differentiated on the basis of: repeat patronage or intent to continue shopping, and relative attitude as demonstrated through recommendations made to others, from inertial (associated with behavior and attitude which is relatively passive, and not likely to influence others and which may or may not lead to purchase) to negative (concerned with strong negative attitudes, or behaviors which seek to undermine a brand) (fig. 4):

a) Disengaged loyals are neutral and uninterested. They have never been customers because they have no awareness, the product is not relevant to them or the product is not within their perception of affordability. Yet, these circumstances may change and they may have potential for being customers in the future.

b) Disturbed loyals are existing and continuing customers, who are suffering a temporary perturbation in their loyalty status, and are in the state of questioning previously assumptions about a brand, because they had a negative experience with the brand, or have an unfavorable comparison with other brands, or were exposed to promotion of competitive brands, which tempt them to try alternatives. These customers could be encouraged or enticed to consider re-commitment to the brand, provided they are assisted to see past their negative experience.

c) Disenchanted loyals are customers who used to be loyal, but who have become less so. Their behavior is such that they do not at present purchase the brand and are unlikely to do so in the future. Their attitude has ceased to be positive towards the brand but often remains neutral, rather than negative, due to previous positive experiences with the brand. Disenchantment arises because of a negative experience with the brand, a positive experience with a competitor, or changes in the match between customer requirements and the product range associated with the brand.

d) Disruptive loyals are previous customers, who have strong negative attitudes and behaviors in respect of the brand. They maintain negative views on the brand and are likely to communicate these to others, possibly vociferously.

		Behavior	
		Inertial	Negative
Attitude	Inertial	*Disengaged*	*Disenchanted*
	Negative	*Disturbed*	*Disruptive*

Fig. 4: Types of non-loyalty driven behavior

Source: Rowley, Jennifer, Daves, Jillian, Disloyalty – A Closer Look at Non-Loyals, Journal of Consumer Marketing, Volume 17, No.6:541

5. Managing and assessing brand loyalty

Generally speaking, customers do not like to change or to admit that they were wrong by choosing a particular brand. Moreover, an enormous inertia exists in customer choice, the familiar being comfortable and reassuring. Still, without a clear strategy for creating and maintaining loyalty, no firm can build a loyal customer base.

Scott Davis asserts that a brand loyalty can only be achieved through a strong brand positioning which means creating and managing a brand's "unique, credible, sustainable, and valued place in the customer's minds" and "it revolves around a benefit that helps the product or service stand apart from the competition".

David Aaker suggests some basic rules when it comes to managing and enhancing brand loyalty like it follows:

- The customer must be treated with respect in the sense that the interaction between the firm and its personnel, on one hand, and the customers, on the other hand, should be positive and any rude, uncaring, or unresponsive behavior should be avoided.

- The firm must stay close to the customers. For that, focus groups should be used to see real customers' problems, account managers should meet with customers to find out their concerns, and customer contact must be encouraged so that signals be send to both the organization and the customers that the latter is valued.

- Regular, timely, sensitive, comprehensive, and integrated into day-to-day management surveys of customer satisfaction / dissatisfaction must be conducted in order to understand customers' feelings, identify the reasons of overall satisfaction change, and adjust products and services.

- Switching costs must be created by providing unique and valuable solutions for customers' problems or rewarding loyalty directly through specific incentives and advantages.

- Customers must be provided with extra unexpected services so as their behavior be changed from brand tolerance and acceptance to brand enthusiasm.

- Irritations and problems causing people to switch brands must be deeply analyzed. The interaction with a lost customer must be kept in order to clearly identify his negative motivations and all possible actions that could help regain him as a customer and avoid others to follow his action.

Martin Lindstrom asserts that the ultimate bond between the customer and the brand derives from our five human senses. Lindstrom's "brand sense" concept lies in three components which combined build both loyalty and what he terms "smash ability". The constructs of his theory reside in that the sensory branding stimulates the relationship with the brand and allows emotional response to dominate the rationale thinking. The goal is a strong and positive bond between the brand and the consumer so that the consumer will turn to the brand repeatedly. An emotional engagement, through matching subjective perception and reality, is established.

The essence of Lindstrom's theory lies in what he terms the "six sensory steps". These include sensory audit, brand staging, brand drama, brand signature, implementation, and evaluation. Through this discovery method, an organization can unveil aspects of their current offering or new avenues to exploit. This process, according to the author, will enhance brand loyalty and deepen existing relationships.

This approach to brand loyalty stems from the use of our five senses. In order to understand any brand, a sensory audit must be conducted to assess the brand's leveraging of sensory touch points. This is comprised of examining a brand's stimuli, enhancement, and bonding capabilities. Lindstrom's points out that the more sensory components, the stronger the foundation of your brand, and suggests that consumers use many senses when evaluating brands: visual (like an unique logo on building, cups, and bags etc.), visual/auditory (like an uniform and the way sales people approach customers), visual/auditory/touch (like the interior aesthetics: sofa, colors, wall paper, music etc.), smell/taste (like the distinct aroma released by the product).

Innis and La Londe proved that marketing mix's distribution element and especially customer service are essential elements that influence brand loyalty and thus must be separately analyzed when managing brand loyalty. Innis and La Londe's research showed that customer service performance contributes to the satisfaction of a firm's customers, the attitudes toward the firm as held by the firm's customers (and one's attitude toward a firm or a product affects how a person will respond toward that product or firm in the future - there are both antecedents and consequences to an attitude), and the purchase/repurchase intentions of a firm's customers.

Customer service, one of the key outputs of the physical distribution function, can influence demand in the market. Attaining a high level of market share is one of the key objectives of most business organizations. A relatively high market share is strongly related to ROI and profitability, with higher market share leading to better performance.

Also, customer service may in fact be the best method for many firms to gain competitive advantage, determining customers' satisfaction that is one of the primary goals of marketing activities and may lead to increased purchases by customers and increased profits for the firm.

In spite of the emphasis many firms place on the marketing mix, the role of "place" in the marketing mix has been somewhat neglected both in practice and in the literature. In many firms, the "place" function of physical distribution is performed apart from the marketing department for reasons related to the structure of the physical distribution function. However, it is likely that physical distribution, through the provision of customer service, can contribute to the success of the firm and, like marketing, can work to enhance customer satisfaction and repurchase intentions. While it is true that customer satisfaction is the result of the total marketing effort, industry has generally failed to recognize the importance of customer service as provided by physical distribution to customer satisfaction and has not effectively integrated customer service with the other components of the marketing mix.

Based on their research, Innis and La Londe suggest that several specific issues/actions must be considered when managing brand loyalty:

1. Understand the customer service attributes that the customers view as important and focus on improving service levels on these attributes and work to maintain acceptable service levels on less important attributes while reducing the cost of providing these services.

2. Recognize and emphasize the importance of logistics to the overall goals of the company: the retention of current customers, the recruitment of new customers, and the building of market share.

3. Use the results of this research to support the elevation of logistics in the company, during the strategic planning process, or, operationally and tactically.

4. Encourage inter-functional coordination to allow marketing and logistics to work together during planning and implementation in an effort to provide the optimal combination of customer service and marketing service to the customer.

5. Use customer service as an element of strategy to help the company gain a differential advantage in the marketplace.

Contributors to loyalty research have warned that methods of creating and managing brand loyalty may have been oversimplified. They point out, for example, that most loyalty schemes don't fundamentally alter market structure. Their introduction may just cost money to those companies who operate in competitive markets with low differentiation.

In order to manage brand loyalty efficiently, it is necessary to consider approaches to its measurement, as a practical tool in using the construct and linking it to profitability. Probably the most popularized methods for the assessment of brand loyalty are those structured by David Aaker in two major groups:

1. *Behavior based* loyalty assessments which consider the actual purchase patterns of the customer base using measures like repurchase rates of the brand, percents of purchases which went to each brand purchased considering the last acquisitions, or the number of brands purchased by a customer during a recent given period.

Although objective, behavior data has limitations as it may be inconvenient or expensive to obtain, provides limited diagnostics about the future, and it is difficult to discriminate between customers who switched brands and the purchase of multiple brands by different members of a family or an organization.

2. *Loyalty constructs based* assessments which consist of evaluating:

a) Customers' objective *switching costs* and their subjective perceived *risks* involved by a potential brand switch.

b) Customers' *level of satisfaction and dissatisfaction* (problems they have, sources of irritation, reasons for brand switching). For a brand to have a loyalty potential, its customers' dissatisfaction must be absent or low enough to avoid a switch decision. Satisfaction measurement must be current, representative and sensitive.

c) The *liking degree* customers have regarding the firm and the brand. General overall liking can be scaled in a variety of ways: liking, respect, friendship, trust. Liking the brand is not reflected by customers' perceptions and beliefs about the brand's attributes, but rather by general statements of liking, such as those listed above. The measure of liking can also be reflected by the additional price customers would pay to obtain their brand (price premium) and the price advantage that competitors would have to generate before they could attract a loyal buyer.

d) Customers' *level of commitment* to the brand. Commitment can be assessed through the amount of interaction and communication involved with the brand and the extent to which the brand is important in terms of customers' activities and personality. It is important to evaluate not only if the customers recommend the brand but also if they sustain this recommendation with strongly sustained arguments.

6. Discussion and conclusions

Nowadays, when competing brands are becoming more substitutable, as product quality increases and brands become more consistent, loyalty is the key success factor of any company. Generally speaking, product quality is high, differentiation is generally low, and consumers are increasingly price-sensitive while the array of brands facing customers is increasing. The similarity between competing brands and the increasing array of competing brands, combined with the increased cynicism towards advertising, has resulted in consumers being both more price-sensitive and rarely loyal to a single brand. In markets with little differentiation, customers can be ambivalent towards brands and, as a result, they buy different brands. Today most customers include several brands in their preferred brand set. There are, however, some brands towards which consumers demonstrate intense sole-loyalty, and these brands often have brand communities - groups of consumers whose common theme is their usage of a particular brand. Brand managers must be conscious of the fact that the more integrated the consumer is into this community, the more loyal they are in consuming the brand.

A successful brand strategy must be based on creating brand loyalty. For achieving this goal, loyalty's relationship to other descriptive dimensions of brand equity must be clearly set out, while target consumers must be classified on a loyalty basis. The marketing mix must be than shaped according to this classification.

Furthermore, certain rules generally apply when managing brand loyalty, along with specific tactics and strategies established after a detailed analysis of the particular situation a brand or its actual and potential clients has.

Finally, managing brand loyalty implies a periodical assessment of the results obtained through specific strategies and of the levels of brand loyalty among customers, considering both functional and emotional perceived aspects related to the brand.

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