A new approach to loyalty reveals hidden opportunities

By VITTORIO RAIMONDI

Insight excellence is about rethinking the analysis of consumer data. Brands can build and sustain competitive advantage by pushing the boundaries by, for instance, redefining how they research and measure customer loyalty. Based on real cases, this article describes the strategic applications of a more accurate measure of loyalty. The resulting knowledge has supported the growth strategy for global brands in a period of fierce competition

BEING A GLOBAL brand creates great pressure on marketing teams to maintain the core brand's market position, or indeed achieve growth. With consumers becoming increasingly discriminating about brands, companies must look constantly for new kinds of insight into consumer attitudes and behaviours, and fresh ways of achieving and sustaining growth.

There's been a general growth in the sophistication of tools for understanding customer data. This is paralleled by improved methods for collecting that data, managing a continuing relationship with consumers and smarter segmentation – all in the context of the multiplication of communication channels. Technology underpins this multiplication. But just as Moore's Law (suggesting that computing power would roughly double every 18 months) has applied to marketing sophistication, so it is true of consumer expectations, which continue to be transformed by new possibilities for interaction and communication.

Generating and sustaining real competitive advantage resides in a company's ability to push the boundaries of conventional thinking and to set more ambitious standards. Any such advantage depends on the ability to think harder about the available data, to question its relevance or validity, and to innovate in the ways insight is extracted and applied.

With the market pressures that come with leadership, the concept of insight excellence must be at the top of the agenda (see Figure 1). This may have profound repercussions for how brands are managed. In a recent case

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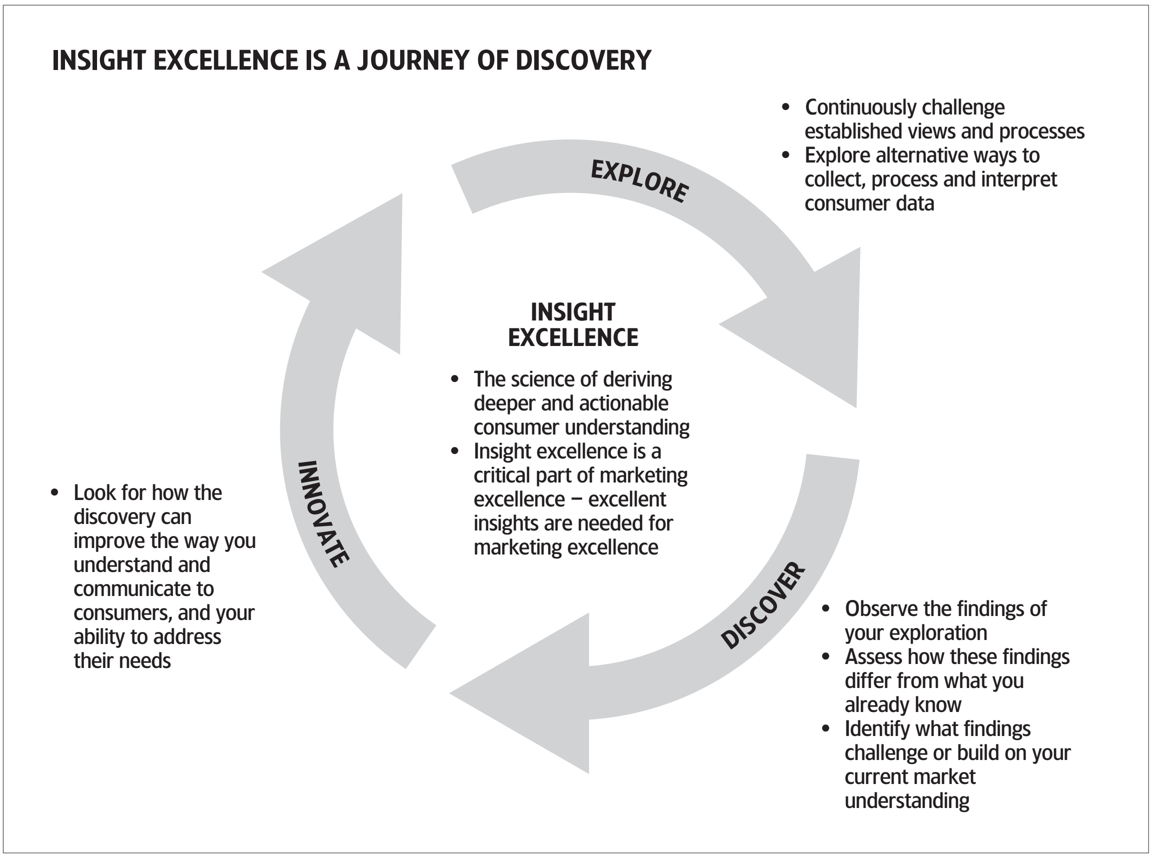

Figure 1: Discovering insights excellence.

this has for instance led to a fundamental re-evaluation of how the idea of customer loyalty should be researched, and how this is managed for future growth. This article will describe why this matters.

Why loyalty matters

Loyalty is different from customer satisfaction. In fmcg in particular, customer satisfaction may be a prerequisite for future consumption, but not a good predictor. Loyal customers are extremely valuable and a brand generating higher levels of consumer loyalty will typically be more profitable, less at the mercy of competitors' actions, and will have more reliable cash flows and brighter long-term prospects. Understanding how to generate and sustain loyalty is, in most contexts, the holy grail of marketing.

Loyalty in fmcg is far more fraught than it is in sectors like telecoms or cars: consumers will choose between competing brands frequently, and in some cases several times a day. They are likely to have a portfolio of brands to which they are loyal, and which they choose between depending on mood or even time of day. There's an increasing number of brands competing to break into these personal portfolios, and marketers must understand the factors determining choice even within the portfolio.

At the same time, the relatively stable demographics of developed countries such as the UK mean that many categories are experiencing low growth. This implies that, in order to grow, brands must compete for a higher share of the same overall number of available 'consumption occasions'. Winning loyalty in this environment is a challenging task, and yet it is more important than ever.

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Loyalty and time

By definition loyalty is about consumption decisions made over time. Over the years and in pursuit of insight excellence brand managers exploit different consumer segmentations and explore various psychological and behavioural dimensions. The objective is usually to develop a clearer holistic map of consumers' choice as they mature through life. By challenging established views, it became apparent that the time dimension was missing from the way companies normally track consumer choice.

This is not quite so surprising as it might seem at first glance. Of course time has always been considered as a factor in brand choice. The gap lies in

Figure 2: Guinness advertising. Guinness is a popular brand with older consumers, but is also working to attract younger drinkers.

the way such data are usually collected and interpreted.

There is a contradiction between commonly agreed definitions of loyalty and the way it is generally measured in fmcg. This contradiction is not just a matter of sorting out a conceptual confusion: it has significant strategic implications for brand management.

Many market research studies that are set up to track consumers' behaviour over time do this based on more or less random samples of respondents. These studies collect data mostly from 'rolling' samples of consumers at set time intervals (for example, quarterly). Even in the most sophisticated consumer panels, only a small fraction of the panellists stay on the panel year on year. Although there are practical reasons for doing things this way, the result is that the behaviour of each individual consumer is not, in fact, tracked over time.

You might be able to spot broad shifts in brand attitudes from this research. But because the individuals responding are different from sample to sample, you can't track allegiance (or shifts in allegiance) over time in the same individuals – the only way to quantify this important dimension of consumer loyalty.

Varying the sample means that at best you are collecting information on respondents' past preferences and future purchase intent, without testing that this matches actual behaviour.

Thus a longitudinal view on loyalty is needed to better quantify and understand true brand loyals: those consumers that 'stick' with your brand over time – the 'sticky' consumers. Interestingly, even market research studies that are based on the same sample of respondents either do not or cannot explore this dimension of consumer behaviour – e.g. purchase panels based on scan data tend to have more stable panellists, but do not provide information on actual consumption (on who consumes what is being purchased).

By exploring ways to reprocess their existing data to apply a longitudinal perspective on consumers' behaviour, brands can quantify and understand who their truly sticky consumers are, and the implications of this on brand strategy.

Strategic insights from sticky consumers

Quantifying and understanding sticky consumers has already yielded significant strategic insight in real situations. For instance, standard metrics for loyalty, based on stated 'favourite brand', may point at a specific segment as a demographic group with high levels of brand loyalty. However, quantifying the sticky consumers in this group may tell a completely different story, revealing that seemingly high levels of loyalty could be the result of effective recruitment initiatives, masking high consumer churn and volatility.

It is clearly vital for any brand to distinguish between loyalty and churn. But the two factors are easily confused if you are looking only at stated brand preference and at behaviour at one point in time. High churn may seem acceptable while the inflow of new consumers matches the outflow, but for established brands, that inflow may be too easily interrupted by external factors.

In essence, quantifying and understanding sticky consumers delivers new insights for growth, both for a single brand and for a portfolio of brands. Confidentiality reasons prevent us from sharing details on how these insights, coupled with scenario and dynamic modelling techniques, have influenced brand strategy and marketing initiatives in real cases.

I have however summarised below how quantifying brand stickiness can help marketers make better decisions. In order to make this more tangible, I have also provided two hypothetical scenarios to illustrate how this improved understanding could have an impact on strategy in a real business situation, for a brand like Guinness and for a portfolio of brands like Kellogg's.

Brand management

Although a brand's customer base may seem stable over time, consumers churn in and out of the brand continuously.

Quantifying the stickiness of a brand in the various consumer segments allows one to quantify the consumer 'leaks' in the brand system, which is essential to evaluate the importance of customer retention versus acquisition and to realise when a shift in focus is needed. It will also provide marketers with a new dimension to articulate robust marketing strategies to achieve better retention rates and will inform a more accurate quantification of likely impact of alternative initiatives on overall brand growth.

Case: Guinness

Guinness was the first nitrogenated draught beer when it was introduced in 1958. The brand has recently achieved a new peak in market share (7% in value according to Nielsen) in an increasingly challenging and mature category, which is expected to decline with the introduction of the pub smoking ban in the UK. One of the strengths of the brand is that its consumers tend to be frequent drinkers, and that they generally are not portfolio consumers: when they drink a beer it is almost certainly Guinness. But these consumers are ageing with the brand, and there is little that the brand can do to prolong their permanence in the category.

One challenge that Diageo is likely to be facing is how to ensure that the brand enjoys a healthy continuous stream of new young consumers (Figure 2) entering the drinking age and that it extracts the same value from them as from those consumers that are exiting the category.

With this objective in mind, Diageo is now considering two major brand extensions in the UK: Guinness Mid Strength, with reduced alcohol by volume (ABV 2.8% compared to 4.1% in the standard beer), and Guinness Red, with a distinctive red body made from lightly roasted barley.

Managing brand extensions

A rigorous quantification of the brands' ability to generate 'sticky' consumers, in the various consumer segments, and of how this varies for its existing brand variants Draught, Original and Foreign Extra Stout, would allow Diageo to quantify in which segments customer losses are occurring, at what rate and to what competing brands.

This information would provide a different perspective on the brand's strengths and weaknesses and on how the new brand extensions can help address them. In this illustrative case, better information on consumer loyalty, or stickiness, could lead Diageo to reassess the importance of customer acquisition over customer retention. Significantly, though, it would add an important new dimension to evaluate strategic trade-offs involving, for instance, sequence of new product launches, marketing budget allocation, on-trade versus off-trade presence, and brand positioning.

Furthermore, by providing information on the likely impact of these new brand extensions on overall brand retention rates, it would enable a more robust quantification of anticipated growth and sales targets from two brand extensions.

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Brand portfolio management

Consumers can migrate between brands that are under the same 'umbrella' brand. Quantifying the destination of the non-sticky consumers provides information on how well each brand in the portfolio keeps consumers within the franchise. This will provide insights on where to focus in order to achieve higher growth for the entire portfolio.

Case: Kellogg's

Kellogg's is the world's leading producer of cereals. Established 100 years ago, it is often cited as an example of excellence in understanding and addressing consumer needs. This continuous focus has led over time to the development of a very robust portfolio of cereal brands.

As an example, the Crunchy Nut brand constitutes a tastier, although more expensive, alternative to the iconic brand Kellogg's Cornflakes; Special K addresses the need of the consumer concerned with fat intake; Coco Pops attracts children through the promise of an experience rather than just a tasty cereal through the creation of its imaginary 'Coco Island', while the cholesterol-reducing properties of Optivita address the concerns of the more adult consumer.

These brands complement each other and create synergies by addressing different consumer segments, minimising cannibalisation and ensuring maximum penetration.

Keeping customers in the portfolio

This sophisticated, but rather 'static' view of how these brands form a robust portfolio, is made more complex by the fact that consumers are likely to undergo important changes in their lives – for instance, as they mature through life. These changes are likely to generate new consumption preferences and behaviours.

There is little that Kellogg's can do to prevent consumers from switching segments, and the critical challenge is therefore to ensure that consumer choice still goes to a Kellogg's brand after the change; for instance, it will want to ensure that the majority of its Coco Pops consumers switch to Kellogg's Cornflakes or to Crunchy Nut as they become teenagers, and that the majority of consumers switching out of Crunchy Nut because of concern with fat intake will choose Special K as their favourite cereal brand.

Quantifying consumers' 'stickiness' for each Kellogg's brand and the destination of the non-sticky consumers is essential to understand how many consumers are not 'captured' during their transition to a new segment. This can have important strategic implications.

We can speculate on possible scenarios. For instance, traditional measures may indicate that Special K enjoys high levels of consumer loyalty and is effectively exploiting its growth potential. But new data on 'stickiness' may reveal that Special K is mostly recruiting consumers who are not satisfied with their current 'fat free' cereal brand, while a majority of consumers switching from Crunchy Nut to fat free cereals do not choose Special K.

There is a comforting lesson: many insights can come from a more intelligent use of consumer data already held, without significant investments in new research

Further analysis may then reveal that, for instance, this is particularly true for female consumers and for a specific socio-demographic segment. This information would suddenly reveal a new growth opportunity for the portfolio, with actionable strategic implications in terms of, for example, brand positioning for Special K or of need of NPD needed to improve the portfolio.

Looking at existing data differently

Understanding loyalty or customer 'stickiness' is only one example of how insight excellence can support an advantageous market position. For iconic brands the adoption of insight excellence reflects a cultural restlessness, a habit of necessary, constant self-scrutiny because anything less would quickly undermine the brand's pre-eminence.

If that sounds daunting there is a comforting lesson: many insights can come from a more intelligent use of consumer data already held, without significant investments in new research.

This is the real significance of insight excellence: it is not about some new (and costly) field of research, but more a matter of re-examining the things you are already doing, and asking what else you could learn from them.

It is about challenging established views and exploring new techniques to generate new knowledge. By pursuing this excellence into the fundamental concept of brand loyalty, some brands have already been able to make strategic adjustments to their marketing, which have helped them stay ahead of the market. ❦

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