



Has brand loyalty declined? A longitudinal analysis of repeat purchase behavior in the UK and the USA[☆]



John Dawes^{a,1}, Lars Meyer-Waarden^{b,2}, Carl Driesener^{a,1}

^a The University of South Australia, Ehrenberg-Bass Institute, Yungondi Building, Level 4, 70 North Terrace, Adelaide, SA 5000, Australia

^b University Toulouse 1 Capitole-IAE School of Management, CRM CNRS & EM Strasbourg Business School, Humanis (EA 7308), 2 rue du Doyen Gabriel Marty, 31042 Toulouse Cedex 9, France

ARTICLE INFO

Article history:

Received 24 July 2013

Received in revised form 3 June 2014

Accepted 14 June 2014

Available online 6 July 2014

Keywords:

Brand loyalty

Repeat-purchase

Consumer panel data

Dirichlet model

Polarization index

ABSTRACT

This research examines long-term loyalty change in a wide variety of FMCG categories in the UK and the USA, over time periods ranging from six to thirteen years. The study uses three loyalty measures: polarization index (φ), average brand share of requirements (SCR), and average repertoire size. Analysis over 26 categories shows mixed results for the proposition that brand loyalty is declining. Overall, there is a very small decline in average SCR of 0.9 percentage points per year; but no statistically significant change in polarization and repertoire size over time. Indeed while some specific categories exhibit slight loyalty declines others show small increases. Furthermore, several of the loyalty measures are negatively correlated with category purchase frequency and the number of SKUs in the category – that is, if these category factors increase in a year, loyalty declines somewhat in the year.

© 2014 Elsevier Inc. All rights reserved.

1. Introduction

A brand's sales depend on how many customers it has, and how much they buy it – that is, penetration and repeat-purchase loyalty (e.g. Uncles & Ellis, 1989). Ongoing consumer propensity to buy a brand is integral to current and future sales revenue and profits. As a consequence, marketers are vitally concerned with building and maintaining customer loyalty (e.g. Raj, 1985; Reichheld & Teal, 1996). Brand owners therefore invest in product improvements, advertising, and extending distribution coverage to attract new buyers, and bolster the loyalty of current buyers. Likewise, retailers spend considerable amounts on private label brands and loyalty schemes to encourage store loyalty (Meyer-Waarden & Benavent, 2009). Given such efforts, marketers may be worried about recurring claims in the literature that brand loyalty is eroding (e.g. Dubow, 1992; Kapferer, 2005), see also Pointer Media Network (2009). However, only a small number of empirical studies have specifically investigated the evolution of aggregate-level brand loyalty metrics. Johnson (1984) examined a wide range of US categories while Dekimpe, Steenkamp, Mellens, and Abele (1997) analyzed

21 categories over two years in Holland. An issue is that these studies were conducted in the 1980s or 1990s, and since then, there may have been significant shifts in consumer purchase behavior. Therefore, updated research is needed to clarify this topic. More recently Sharp et al. (2012) in a discussion about the usefulness of the Dirichlet model, present loyalty metrics for a range of brands in the US and UK. However, little analysis was conducted as to the possible correlates or causes of loyalty change.

Our research therefore builds on these past investigations by conducting a large-scale study in which we analyze the long term evolution of loyalty over six to thirteen years in two country-markets: the UK and USA. We first explain the rationale for expecting loyalty decline and describe past studies about it. We then outline our method, which is to examine changes over time in the φ brand-switching parameter derived from the Dirichlet model; as well as the widely used brand loyalty metrics, SCR (share of category requirements) and repertoire size. We describe our panel data covering 26 consumer goods (FMCG) categories that we use to examine brand loyalty. We then present results, and show how category purchase frequency and possibly SKU proliferation, appear to be correlates of loyalty change over time. We then suggest some directions for future research.

2. Loyalty and loyalty evolution

Loyalty is a concept that has considerable diversity in the way it is defined and measured. Some researchers argue that loyalty towards a brand necessarily comprises positive attitudes about the brand as well

[☆] The authors thank Kantar, Nielsen and SymphonyIRI for making this data available. All estimates or analyses in this paper based on Kantar, Nielsen, or SymphonyIRI Group, Inc. data are by the authors and not Kantar, Nielsen or SymphonyIRI Group, Inc.

E-mail addresses: john.dawes@unisa.edu.au (J. Dawes), meyerwaarden@gmail.com (L. Meyer-Waarden), carl.driesener@unisa.edu.au (C. Driesener).

¹ Tel.: +61 8 8302 0111; fax: +61 8 8302 0123.

² Tel.: +33/(0)5 61 63 56 46; fax: +33 05 61 63 38 60.

as a positive behavioral tendency to buy it (e.g. Dick & Basu, 1994; Jacoby & Chestnut, 1978; Jacoby & Kyner, 1973).

The focus in the present study is on behavioral loyalty towards brands, and whether it is changing over time. The rationale for focusing on behavioral loyalty is that (a) the study attempts to add to previous investigations of behavioral loyalty; (b) extensive data exists on such behavior while no equivalent long-term information on consumer attitudinal brand loyalty is available; and (c) arguably marketers are specifically interested in behavioral loyalty since it directly translates to sales revenue.

There is a range of measures for behavioral loyalty towards brands. These measures include purchase frequency or interpurchase interval over a time period (Morrison, 1966; Sharp & Sharp, 1997), repeat-purchase rate (Colombo, Ehrenberg, & Sabavala, 2000; Fader & Schmittlein, 1993), share of category requirements or SCR (e.g. Bhattacharya, Fader, Lodish, & Desarbo, 1996; Jung, Gruca, & Lopo, 2010; Pare & Dawes, 2011), tenure – the length of time a buyer remains as a buyer (East, Lomax, & Narain, 2001; Reichheld & Teal, 1996); repertoire size (e.g. Banelis, Riebe, & Rungie, 2013; Uncles & Ehrenberg, 1990), and the proportion of brand buyers who are solely loyal (e.g. Raj, 1985). Each of these measures, while distinct, are all correlated with market share: small brands tend to have somewhat lower loyalty while larger brands have somewhat more – regardless of how it is measured (Ehrenberg & Goodhardt, 2002; Ehrenberg, Goodhardt, & Barwise, 1990). Some loyalty measures require careful interpretation as they can be confounded with other factors such as the consumer's rate of purchase – for example, one-time buyers in a period are by definition 100% loyal (Uncles & Lee, 2006). Indeed, if the average rate of purchase for a category changes over time, brand loyalty metrics may change commensurately. An alternative measure, the polarization index (e.g. Corsi, Rungie, & Casini, 2011; Sabavala & Morrison, 1977), also known as the standardized switching rate – controls for such confounds and is therefore an important measure used in this study.

Over a period of decades, a body of knowledge has developed about behavioral loyalty incorporating facts, or 'empirical generalizations', briefly outlined here:

- Loyalty differs far less between brands in a category than does the number of buyers for each brand (Ehrenberg, 2000).
- Large brands receive more loyalty, small brands receive less, commonly known as the double jeopardy effect (Ehrenberg et al., 1990).
- Consumer loyalty is related to purchase incidence – heavy buyers of a category buy more brands, consequently are less loyal to any particular brand (Banelis et al., 2013).
- Large brands tend to monopolize light buyers in a category (McPhee, 1963).
- Buyers of small brands tend to be heavier category buyers (Ehrenberg, 1991).
- When brands grow, the change in penetration is generally larger than the change in loyalty (Baldinger, Blair, & Echambadi, 2002; Dawes, 2009).

This fact-base about loyalty is useful for marketers in interpreting performance metrics for their own or for competitor brands and for planning marketing strategy (e.g. Ehrenberg, Uncles, & Goodhardt, 2004). An important question that arises is whether brand loyalty in general is stable or declining over time.

2.1. Rationale for loyalty decline

There are several reasons to think brand loyalty – that is, specifically repeat-purchase loyalty – could be declining. First, customer loyalty is often managed with minimal differentiation across the entire customer base. Therefore, heterogeneity of the customer base is not adequately taken into account and individual customer differences may get ignored. This means that products or services are not personalized and even worse offered without adequate targeting. Thus, customers do

not have their needs fully satisfied, which could result in more brand switching as time goes on.

Second, brand discounting and price promotions in sectors such as retail grocery are endemic (e.g. Hendel & Nevo, 2006). There is some evidence that repetitive promotions encourage consumers to buy on deal (Mela, Jedidi, & Bowman, 1998). In turn, buying deal to deal could widen brand repertoires and decrease loyalty.

Third, there has been considerable growth in both the number of brands (including private-label brands) available and the range of product variants being offered in the past twenty years (Putsis, 1997; Wan, Evers, & Dresner, 2012). It is reasonable to think that this proliferation widens consumer repertoires and thus decreases loyalty.

Another argument is that today's consumer is more discerning and discriminating than their forebears, more cynical about brands and hence potentially less brand loyal (O'Dell & Pajunen, 2000).

Finally, the 2007/08 global financial crisis caused a decrease in consumer buying power, resulting in belt-tightening. Trimming expenditure on the part of consumers could prompt more switching between brands to take advantage of temporary promotions. Behavior such as buying less expensive brands in periods of economic downturn can persist after the downturn has finished (Lamey, 2014), again with the potential result of lowered brand loyalty.

2.2. Studies about loyalty evolution

Given these significant market changes over the last 15 or so years, and the continual assertions of declines in brand loyalty, a careful examination of loyalty decline is warranted. We now review the limited empirical evidence on long-term erosion or change in loyalty.

Ehrenberg (1988) examined how the proportion of buyers in one quarter who bought in the next quarter (e.g. Q1 to Q2) was quite predictable; but as one examined progressively longer non-consecutive quarters (e.g. Q1 to Q3, or Q4), the proportion of repeat buyers declined. While the study identified this apparent erosion among repeat-buyers, the overall loyalty levels for the brands remained quite stable (because new buyers replaced the existing ones who bought less, or dropped out). The same effect was reported by East and Hammond (1996). Next, Stern and Hammond (2004) examined the inter-relationship between loyalty and purchase incidence. They found that loyalty declined necessarily over successive consumer purchases – since more purchase occasions affords more opportunity to buy multiple brands. However, the decline in loyalty tapered after approximately 50 purchases. These cited studies concern changes in the purchase propensities of *individuals*; that is, how buyers of a brand in one time period tend to repeat-buy it in subsequent periods or occasions; but they did not examine *overall* brand loyalty rates over time.

Two studies have examined loyalty at the aggregate level and how it has changed over time. Johnson (1984), examined 50 major brands in 20 US product categories over a period of eight years. He found some decline in loyalty for certain brands, but noted the decline often accompanied category growth. That is, growth in the category attracted new brands, which broadened consumer repertoires. Johnson concluded that there was some evidence of loyalty decline, but its magnitude was small. Dekimpe et al. (1997) found little evidence that loyalty was declining in a study using data from 21 FMCG categories covering a one- to two-year period (1993–94). Lastly, Sharp et al. (2012) provide data for a range of FMCG categories in the USA and UK. They reported that share of category requirements declined slightly in some cases.

While these studies find little evidence of loyalty decline, more investigation is needed. First, the Johnson and Dekimpe et al. studies were conducted 30 and 15 years ago respectively. Consumers and markets may have changed considerably since then. The more recent Dekimpe et al. study was limited to data spanning a maximum of two years, which may not be enough to detect long-term changes in loyalty. More recently, Sharp et al. (2012) reported small SCR decline over long

Download English Version:

<https://daneshyari.com/en/article/1017246>

Download Persian Version:

<https://daneshyari.com/article/1017246>

[Daneshyari.com](https://daneshyari.com)