

Consumer loyalty in the 21st century – can we pin down butterflies?

Summary

This article by Heather McKinlay was published in the International Journal of Customer Relationship Management, June/July 2002. It examines the underlying causes resulting in today's 'butterfly consumers', which in turn should force marketers to re-examine their approach to consumer loyalty. The emphasis needs to be more on a relationship marketing approach, building connections with key influencers and high value consumers over the longer term. It is important to be realistic about the relationship a consumer wants with your brand – and that varies significantly by sector. Loyalty is a combination of behaviour and attitude, and the relationship between them has been shown to be predictive of future potential. However, there are challenges in measuring attitudinal loyalty. Some sectors, such as financial services, barely try, concentrating instead on business models which measure behaviour, mainly due to the availability of large volumes of transactional data. A case study on The Macallan malt whisky relationship marketing programme demonstrates the impact of a strategy based on understanding both the behaviour and attitude of individual consumers towards the brand. Finally, in acknowledgement of the balance of power lying more and more with the consumer, it is vital to listen to what the consumer expects from an organisation in return for their loyalty.

Are consumers nowadays less likely to be loyal? The Future Foundation, who track consumer trends, support this hypothesis and have identified the concept of the Butterfly Consumer. Four key factors lie behind this: increased affluence, ever-increasing choice, lack of trust, and the growth of networked communications.

Increasing affluence

Total UK household disposable income has increased by almost 40% in the past ten years – in real terms. That is a staggering fact when you think about it for a moment.

Surely our job as marketers must have been easy in the last ten years? Added to this, partly as a consequence of it, middle class social grades are growing as a proportion of the total UK population, with half the population now belonging to the ABC1 group. The size of this group is set to continue growing. Rather than making our job easier, this increasing affluence means more powerful and savvy consumers.

Increasing choice

As marketers, we have not been slow to take the opportunity to offer our wares to these increasingly wealthy consumers. Choice of products over many different sectors has multiplied substantially in the last ten years. On the one hand, raising of quality thresholds and technological advances in production mean even the cheapest, most basic products are likely to deliver what they say on the tin, and thus force their way into consideration. Whilst at the other extreme, the drive to add value has resulted, for example, in the availability of 6,000 different combinations of coffee – it would take you seventeen years to try them all if you chose a different one each day! It's rare these days for a consumer to define themselves by a brand or even a product category – thinking about alcohol, how many people in their twenties would say 'I'm a vodka drinker' or 'I'm a lager drinker'? The breadth of choice now available means most consumers have a wide repertoire, and their choice of the moment will depend on where they are, why they are there and who they are with.

Diminishing trust

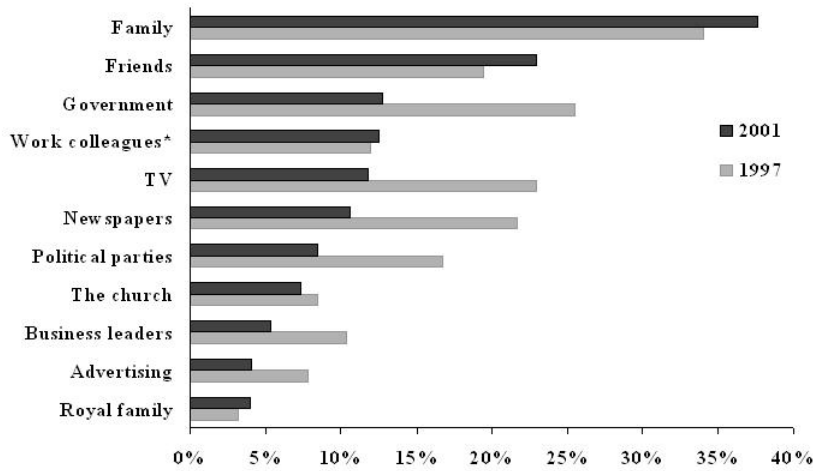
Consumers are becoming increasingly cynical in their overall attitudes to life. Who do they believe? Not the government about the safety of beef nor the safety of the MMR vaccine. Not the police after the Stephen Lawrence enquiry. Not the financial services industry after the endowment and Equitable Life scandals...the cumulative impact of story upon story and scandal upon scandal has meant the erosion of trust in authority and a rise in anti-corporate ideology.

Growth of networked communications

So where do consumers turn for advice and recommendations? Unsurprisingly, not to marketing and advertising. Increasingly, it is to their own personal network of family, friends and contacts (figure 1).

Changed sources of influence

% saying they are influenced a lot - UK

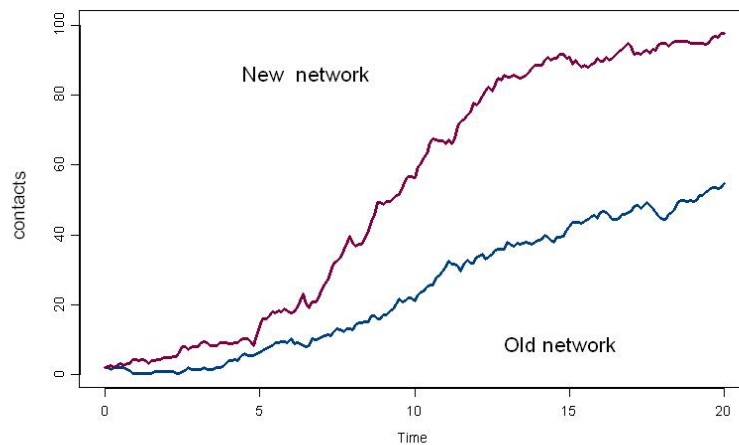


Source: 'The Responsible Organisation', The Future Foundation/BT/'Changing Lives', nVision

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And it is now so much easier to do so, thanks to the growth of networked communications – whether that's cheaper fixed line phone calls, mobile phones and SMS, or e-mail and the internet. The speed of these connections and lack of distance as a barrier mean messages spread rapidly (figure 2).

More connections, more w-o-m



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What does this mean for loyalty?

Welcome to the world of the Butterfly Consumer and increasingly volatile behaviour. How should we as marketers respond to this? We can counter some of the negatives by delivering consistently good quality and service – never forget the basics. After this there are three key principles. We need to understand and build relationships with the critical people in the network: the leaders and the connectors. We need to give people reasons to say good things about us. We need to build involvement over the longer term. These three are the same as the principles for building loyalty through relationship marketing (RM): RM enables us to identify the critical people in the network, our current brand advocates and high value consumers. RM enables us to share inside information with them, offer them special privileges or simply remind them of the benefits of our brand. RM gives us the opportunity to build dialogue with our consumers over a period of time, strengthening the relationship as mutual understanding develops.

What does loyalty mean to the consumer?

But do consumers want a relationship with every brand they have ever used or might use at some point in the future? Does loyalty vary significantly by sector? As marketers we can be so close to the brands we are responsible for that we lose sight of their importance in our consumers' lives – or in reality their lack of importance. Think of yourself as a consumer. How many minutes in a day do you spend thinking about the insurance company who are looking after your pension? The retailer where you bought your last suit? The brand of toothpaste you use? The manufacturer of the car you drive? The football team you support? Some probably matter more to you than others – but it's not always rational!

What is true loyalty?

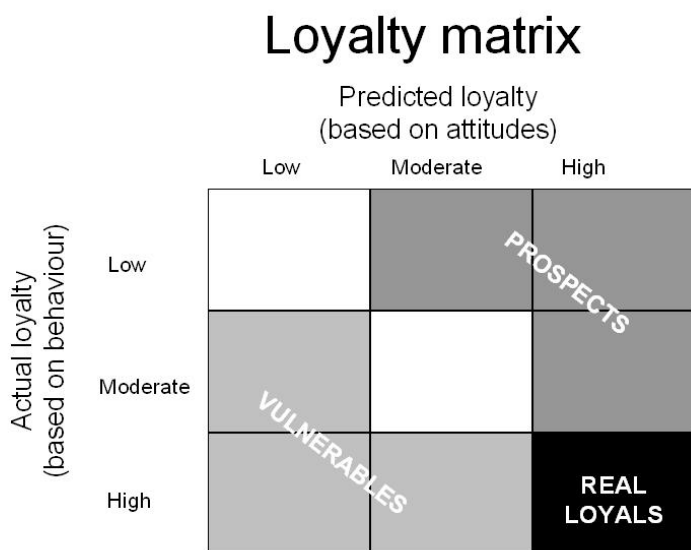
In the days of the Butterfly Consumer, 100% loyalty is virtually impossible – there's too much choice and variety for that. In the drinks market for example, why does brand share in many categories vary considerably between the on and off trade? If loyalty were the main driver of both purchase and consumption for the individual consumer, it follows logically that they would be more or less equal. However, the buying behaviour and buying situation is significantly different – in the on trade brand choice is often secondary behind choice of venue, and is more likely to be determined by distribution power and availability. In the off trade, the consumer makes a more conscious decision

– faced with a greater choice, weighing up brand and price: hence the increasing power of own label spirits.

Five years ago consumers did not switch credit cards. Then MBNA, Advanta and other aggressive new entrants arrived in the UK and bought business through very low or even 0% interest offers. Consumers recognise a good deal when they see one, so they flocked to these companies. They also discovered it was quite easy to switch cards. So once the introductory offer came to an end with one provider, they moved on to the next. Loyalty becomes irrelevant: the deal is king, and as marketers we proactively encourage this behaviour - then bemoan it when it works against us, not for us.

Loyalty as a combination of attitude and behaviour

Research by Rubinson and Baldinger suggests that the nature of the relationship between consumer and brand depends on both attitude and behaviour (figure 3).



A key conclusion from the research was the link between these two attributes:

“The convergence of attitudes and behaviour has predictive characteristics, since approximately two-thirds of brands either increased their market share from year to year when their ongoing mix of attitudinal to behavioral loyalty was positive, or decreased in share when their attitudinal profile was less loyal than their behavioral profile.”

Truly loyal consumers score high on both axes – they regularly purchase, consume or use the brand and believe they have a strong emotional bond with it. Those who feel positive about the brand, but do not buy it are classified as prospects, whereas those who buy the brand, but do not have an emotional bond with it are vulnerables. This model was developed primarily through research into FMCG goods, and takes an opposing standpoint to Professor Andrew Ehrenberg, who concludes that loyalty is a byproduct of market share, and supports strategies which focus on building market penetration. This is clearly the direction taken by the aforementioned credit card companies. However, if they ignore the attitudinal axis, then most of their customers would be classed as vulnerables in the Rubinson/Baldinger model, with higher propensity to switch.

Measuring attitudinal loyalty

The definition of staunch loyalty for an FMCG brand is likely to be 'It's my favourite beer brand' or 'it's the only brand of washing powder I use'. In a survey of football supporters, the definition is 'It's one of the most important things in my life'. Quite plainly, we need different measures for different sectors. Research by the Direct Mail Information Service and experience from qualitative groups show that consumers welcome attempts to build relationships far more from certain categories than others. Their consistent favourites are travel, cars, luxury goods and food and drink. Financial services barely makes it onto the list – viewed more as a necessary evil. Yet investment decisions are fundamentally important in determining consumers' long-term affluence and lifestyle. So why is it so low involvement? Jeremy Bullmore, Chairman of WPP, challenged the audience at the Marketing Society Conference in Edinburgh recently by stating that he believes that there are no real brands in financial services. The marketing teams at companies such as egg and first direct might beg to differ, but few would be prepared to enter into a full-bloodied argument in defence of financial services marketing.

Direct marketing in financial services is highly measurable, but the common measures are purely about transactions and behaviour. We measure total response, cost per response, % conversion, cost per new customer, % active customers, current customer value, future potential value.... How many of our modelling techniques for measuring future potential take into account any measures of attitudinal loyalty? Yet we have seen

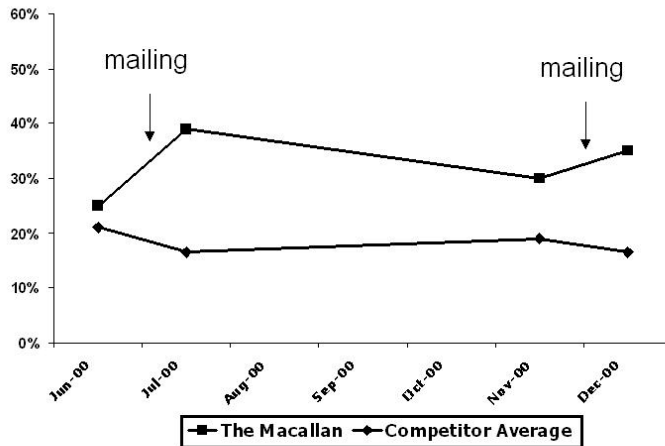
its importance in the model above, and it is a key driver of segmentation for other sectors investing heavily in relationship marketing, such as drinks brands. Perhaps the lack of transactional information for these sectors (where consumer purchasing data is owned by the retailers so not widely available to the brand owners) has led us to uncover a powerful predictive attribute that we overlook where we have a wealth of behavioural data?

The Macallan case study

The Macallan is a niche brand at around 5-6% share in the niche malt whisky market. The category is highly repertoire driven and has seen a proliferation of choice in recent years. Around one million households in the UK buy more than two bottles of malt whisky per annum. The RM strategy was to build critical mass onto a database quickly and efficiently, and we were able to do this for two reasons. Firstly there was a large quantity of data on known malt whisky drinkers available for rental from lifestyle survey companies. Secondly, our recruitment mailing activity achieved very strong response rates – over 20%, thanks to the high involvement consumers seem to have with the category and The Macallan brand itself. The core recruitment with a voucher and incentivised questionnaire is very cost effective and can be sent out in high volume. The actual data captured at this point is critical in determining the relationship the consumer currently has with the brand. We collect data on frequency of purchase/consumption and brand loyalty, and this data is then used to segment consumers according to current and potential value. This in turn determines the follow-up communications strategy and the level of marketing investment.

A robust programme of quantitative research is in place to measure ongoing changes in behaviour and attitude. Three years into the programme, The Macallan is cost-effectively outperforming the highly competitive malt whisky market through targeting its marketing spend very precisely at high value and high potential value consumers. Results from the tracking research have also proven beyond doubt that the programme is increasing attitudinal loyalty to the brand (figure 4).

First choice brand - key segments



One of the major contributors to the success of the programme has been the measuring and linking of behavioral and attitudinal data at an individual level.

What the consumer expects from RM

Relationship Marketing can play a key role in helping us to understand where each individual consumer fits into the loyalty grid, and can then enable us to target our marketing investment and vary the content and offers accordingly. Relationship Marketing can positively impact both axes by building a dialogue between brand and consumer which is welcomed by the consumer and which changes consumer behaviour and attitude over time. Give discounts and incentives where you are trying to encourage action and change behaviour. Reward and recognise existing attitudinal loyalty through added value offers and insider information. In this way, RM enables FMCG brands to differentiate where the supermarket shelf doesn't. Financial services and other traditional DM sectors could take on board more of the measurement tools and strategies of RM, in particular by developing a deeper understanding of their customers' attitudinal loyalty at an individual level.

So back to our butterfly consumers – what do they expect in return for their loyalty?

“If Marks and Spencer were doing a brilliant sale and they didn't invite their cardholders first, you'd feel a bit aggrieved.”

“When I get a reasonable amount of Air Miles, I expect them to get in touch and say, do you realise you’ve got these and could be doing this now?”

They expect their existing custom to be appreciated and rewarded, they expect to receive exclusive offers or privileged information, they expect the organisation to use the data or knowledge it has about them to personalise the communications appropriately. They want something back: in marketing jargon terms, a value exchange.

So how do we pin down butterflies? If we are seeking real loyalty, we need to understand the interconnection between behavioral and attitudinal measures for the sector we work in. We may then need to measure, understand and influence both consumers’ behaviour and attitude in relation to our products and brands. Above all, we need to recognise where the balance of power now lies, as stated by Ian Maclaurin, Chairman, Tesco: “Customer loyalty is not about how customers demonstrate their loyalty to us, it is about how we demonstrate our loyalty to them.”

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