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PANELS - 3 Measuring brand loyalty

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Assessing loyalty

The dream of every marketer is to have customers who stay loyal to a brand so that the marketer's efforts can be directed toward getting new customers. Every political party dreams of having supporters whose vote it could completely count on. Loyalty appears to become more and more entrenched as time passes. Thus the longer customers stay with a particular brand, the more likely they will be to continue to do so.

Brand dis loyalty

Consequently, one of the tasks of the marketer is to prevent (or delay) the first occurrence of brand *disloyalty*. We need to convince our customers to stay with us. To do this, we need to understand the nature of brand loyalty and the nature of brand disloyalty. Panels provide the data required for such understanding.

Panel data

Table 1 shows how people move from a brand at time (t - 1) to another at brand time (t). The diagonal cells represent people who bought the same brand at time (t - 1) as well as at time (t). From this we develop a gain-loss analysis, as shown in Table 2. (The first letter stands for the corporation and the second letter stands for the brand. For example, brands AA and AB are two brands of the same company. Thus companies A, B and C each have two brands while company D has only one brand.)

Table 1 Brand Loyalty and Brand Switching									
Brand bought			Br	and bou	ght at tin	ne (t)			
at time (t-1)	Brand AA	Brand AB	Brand BA	Brand BB	Brand CA	Brand CB	Brand DA	Other Brands	
BrandAA	217	161	44	19	15	20	11	99	TOTAL
Brand AB	98	564	55	36	16	33	14	139	586
Brand BA	54	96	146	39	13	18	9	78	955
Brand BB	16	40	26	48	4	8	3	28	453
Brand CA	14	24	12	4	15	15	3	22	173
Brand CB	22	42	17	8	22	32	5	30	109
Brand DA	8	12	8	3	3	4	11	14	178
Other Brands	52	106	47	18	17	22	19	392	63
									05
Total	481	1,045	355	175	105	152	75	802	673

Table 2 Gain-Loss Analysis						
Brands	t-1	t	Gain/(Loss)			
AA	586 (18%)	481 (15%)	3%			
AB	955 (30%)	1,045 (33%)	(3%)			
BA	453 (14%)	355 (11%)	3%			
BB	173 (5%)	175 (5%)	0%			
CA	109 (3%)	105 (3%)	0%			
СВ	178 (6%)	152 (5%)	1%			
DA	63 (2%)	75 (2%)	0%			
Other Brands	673 (21%)	802 (25%)	(4%)			
Total	3,190 (100%)	3,190 (100%)				

From Tables 1 and 2 we can infer the following:

- *Multibrand companies*. At time t, Company B lost 15% of its sales, company C lost 10% of its sales while the sales of company A have held steady (loss of only 1%).
- Single brand company . The only identifiable single brand company (D) increased its sales by 19% (75÷ 63).
- *Brand loyalty*. We can compute brand loyalty by:

(Buyers of a given brand at time

t - 1 and time t)

 \div (Buyers of that brand at time t -1)

Brand loyalty computed this way is given in Table 3. Brand AB commands the highest loyalty while brands CA and DA appear to command little loyalty.

Table 3 Brand Loyalty				
Brand	Loyalty			
AA	37%			
AB	59%			
BA	32%			
BB	28%			
CA	14%			
СВ	23%			
DA	17%			
Other Brands	58%			

• Corporate loyalty. Customers also switch among brands manufactured by the same company. Obviously, this is better for a company than customers switching to competing companies. Customers switching brands within a company could even be welcome news if the brand bought now is more expensive than the one bought earlier. Corporate loyalty is measured by:

(Buyers of a given company's brand at time t - 1 and time t) \div (Buyers of a brand of that company at time t - 1)

The results are given in Table 4. As we can see, Company A commands the highest loyalty, followed by B and C in that order.

Table 4 Corporate Loyalty				
Corporation	Loyalty			
А	67%			
В	33%			
С	32%			

In our example, corporate loyalty (as opposed to brand loyalty) can only be measured for companies A, B and C since they are the only ones with more than one brand. (While corporate loyalty may exist for Company D, because it is a single brand company, brand loyalty cannot be distinguished from corporate loyalty on the basis of the data presented here.)

Intervening variables

The Marketing Department is often responsible for ensuring brand/corporate loyalty among customers. Consequently, the people responsible for marketing a product tend to use a variety of measures to maintain their brand's market share and ensure continuing loyalty. Such measures may include price cutting, advertising campaigns and special offers.

Such intervening variables influence brand loyalty. Panels can be used to assess the effect of such intervening variables. Panels identify the sequence of events more precisely than one time studies. How do we measure the effect of intervening variables using panel data? We will now look at how an intervening variable, such as exposure to ad campaigns, effects brand loyalty.

Advertising as an intervening variable

Let us consider a situation in which customers can tell us which products they bought as well as the advertising campaigns they are exposed to. To simplify, let us further assume that there are only two brands in the market. In this case, there are four possibilities that are of interest:

- Customers saw the ad for their own brand and not for the competing brand
- Customers saw the ad for the competing brand and not for their own brand
- Customers saw the ad for their own brand and for the competing brand
- Customers saw neither ad

For analysis purposes, we can combine the last two possibilities. Purchase behaviour is unaffected if a customer is not exposed to any of the ads. In real life, each of the ads can affect buying behaviour in different ways. But by eliminating this option from the analysis (at least at the initial stages) we can get a better understanding of how each ad influences buying behaviour when the competing ad is not a factor.

(As in our previous articles on panels, the examples are sometimes oversimplified. This is done to illustrate the analytic steps involved.)

Brand loyalty as affected by advertising

For illustrative purposes, we will assume that all other influences are constant. Such an assumption may not always be justified. We will discuss this point further later on.

Figure 1 shows how customers move from one brand to another by subgroups.

Figure 1:



- Customers who were not exposed to either ad or were exposed to both tend to buy their previous brand about 92% of the time. The brand they use at time (t 1) does not influence this level.
- When users of a given brand are exposed to an ad for their own brand, their probability of buying that brand is no higher than when they are not exposed to the ad. This effect is similar for both brands.
- Brand B users, when exposed to the Brand A ad, remain equally loyal to their own brand compared to Brand A users exposed to the Brand B ad. The ads appear to have no effect on switching.
- The weighted average of Brand A users is 58% and Brand B users is 42%. There is 2% switching from Brand A to Brand B between time (t 1) and time (t).
- Can we say this greater brand disloyalty to A is due to the superior advertising of Brand B? The data here offer only dubious support for such a hypothesis. This seems very unlikely when we note that Brand A users, when they are exposed to Brand A ads, tend to switch brands in larger numbers (8%) compared to Brand B users exposed to Brand B advertisements (5%).

The above analysis shows that the eroding brand loyalty to A may involve factors other than effective advertising by the competitor. Such factors could include dissatisfaction with Brand A among its users and easy availability of the two brands.

Measurement in practice

As we mentioned earlier, real life is more complicated. We cannot automatically assume that while we measure the effects of advertising, no other factors are influencing repeat purchase behaviour. For instance:

- It is unlikely that a customer will be exposed to only one brand's ad. Ad exposure is also likely to be more complex. Hence, we will probably use several time periods to confirm our interpretation of the data.
- We cannot be certain that ad exposure is the only factor that is operating, between the first and the second purchase. Here, we may want to make sure there is no other systematic influencing factor present. Further, to cancel random influencing factors, we may want to use several waves of the panel before drawing definite conclusions.

Real life analysis

The analyses presented in these articles illustrate the logic of the panel analysis. To draw definitive conclusions from panel data, we need to augment the logic with precise operational definitions, use samples which are large enough and look for results that may be replicated over more than one wave.

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