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Customer loyalty and customer value - 12

Using panels to identify loyalty trends

Chuck Chakrapani

A major goal of any marketing effort is to retain as many current customers as possible since it is, in most cases, the least expensive way to generate sales. A loyal customer stays with the company when apparently attractive alternatives appear on the horizon. With the advent of international competition and the emergence of new sales media such as the internet, apparent alternative alternatives are on the increase. It is now perhaps easier to induce a customer to switch than to stay. Switching costs have been replaced by rewards such as lower price and better service.

From a psychological point of view, loyalty is the act of buying a brand whose reinforcement is the act of buying itself. Thus each time a consumer buys a brand, he or she is reinforced such that his or her likelihood of buying the same brand the next time increases.

As a result, disloyalty - or buying the competing brand - has two effects. First, it does not reinforce the act of buying our brand. Second, it reinforces the act of buying the competing brand. What a marketer would ideally like is to build loyalty while, at the same time, preventing disloyalty.

There are many ways in which one can assess loyalty. One of the most overlooked - yet highly effective - way of tracking loyalty is through customer panels. The main advantage of the panel method is that we can track the behaviour of the same individuals over a period of time. By using a panel we avoid one source of variation - one that can be attributed to the sample - when the samples are different each time. A panel also enables us to use a larger sample size since collecting data through panels tends to be less expensive than collecting data through other means.

Unfortunately panel data are seldom used effectively, especially in the area of tracking trends in customer loyalty. Analyzed properly, panel data can be a gold mine of information - a panel can tell us where consumers were, where they are going and what they are likely to do in the near future. Such information can be invaluable for marketers who are looking to build customer loyalty using market driven strategies.

We will illustrate some of the advantages of using panel data using a hypothetical example of a panel of about 4,000 (3,988 to be exact) computer users whose purchase behaviour is tracked. The results are given in Exhibit 1.

Exhibit 1: Computers Bought

Ownership of		New Purchase								
Company		Alpha Corp.		Beta Corp.		Gamma Corp.				Total all
	Model	Alpha Corp.	Other Alpha	B	Other Beta	C	Other Gamma	Delta	Japanese	computers
Alpha	Alpha A	270	201	55	23	19	25	14	123	730
	Alpha Other	122	703	67	45	20	41	18	173	1189
Beta	Beta B	67	119	182	48	16	23	12	97	564
	Beta Other	21	50	33	59	4	10	4	35	216
Gamma	Gamma C	18	30	14	6	18	19	4	27	136
	Gamma Other	10	15	9	3	4	5	13	17	76
Delta		10	15	9	3	4	5	13	17	76
Japanese		65	132	58	23	22	28	23	489	840
All Models		600	1303	440	217	130	205	94	999	3988

What can we learn from this exhibit? We can start with the summary analysis of this exhibit as shown in Exhibit 2.

Exhibit 2: Marginal Gains and Losses

Brand	Former	Current	Gain
A	730	600	-18
Alpha all	1919	1903	-1
B	564	440	-19
Beta all	780	657	-16
C	136	130	-4
Gamma all	372	334	-13
Delta	76	94	24
Japanese	840	999	19

Exhibit 2 shows that Alpha Corporation lost only 1% of its market while Beta Corporation lost 16% and Gamma Corporation 13%. The interesting thing to note here is that the Japanese computers, as well as the smaller competitor Delta, seem to be gaining ground at the expense of local brands.

Our next objective is to measure brand loyalty. Obviously brand loyalty can be calculated only for those brands for which data are available. This means that we cannot compute loyalty scores for brands that are grouped together for Corporations Alpha, Beta and Gamma but only for brands A, B, C, and D.

We pose the following question: How many of those who owned brands A, B or C bought the same brand again? Exhibit 3 answers this question. Brand loyalty is very high for brand A, somewhat lower for brand B and relatively low for brand C.

Exhibit 3: Loyalty to major brands

Brand	Repeat Buying %
A	37
B	32
C	13
D	17

But what about corporate loyalty? For instance, did those who did not buy brand A buy other brands made by the same company? When we take cannibalization into account, we obtain the figures shown in Exhibit 4.

Exhibit 4: Corporate Loyalty

Corporation	Repeat Buying %
Alpha	68
Beta	41
Gamma	32
Delta	17

From the exhibit, we note that corporate loyalty is greater for Alpha. Brand loyalty is high for brand A, and even those who defect move to another brand manufactured by the same company. This may be good news since it is likely that those who switch computers are likely to buy a more advanced (presumably more expensive) model. We also note that in terms of loyalty, companies Beta and Gamma are closer to each other than when we considered only their main models. Exhibit 5 shows a complete gain /loss analysis.

Exhibit 5: Corporate Gain Loss Analysis

Gains to Alpha	Alpha vs. Beta	12%
	Alpha vs. Gamma	10%
	Alpha vs. Delta	10
	Alpha vs. Japanese	-20
Gains to Beta	Beta vs. Gamma	-2
	Beta vs. Delta	-10
	Beta vs. Japanese	-24
Gains to Gamma	Gamma vs. Delta	-6
	Gamm vs. Japanese	-14
Gains to Delta	Delta vs. Japanese	16%

The loyalty (brand as well as corporate) patterns are clear. But why? To fully answer this question we perhaps need to undertake another survey, but many useful patterns can be gleaned from the panel data.

Brand loyalty vs. customer loyalty. Our first observation is that brand loyalty is not equal to customer loyalty. When customers do not buy a brand that they bought earlier, it is not necessarily bad news for the corporation. As we noted earlier, they could be upgrading to another brand by the same corporation. Here lower brand loyalty could have resulted from corporate loyalty. The panel data show, for instance, that brand B has much higher brand loyalty compared to brand C, but corporate loyalty for Beta compared to Gamma is much less pronounced.

Primary loyalty patterns. The major computer manufactures, Alpha, Beta and Gamma, are losing their shares to Japanese brands. Interestingly, the small corporation, Delta, is gaining market share at the expense of Japanese imports. In fact, in terms of customer loyalty, Delta is placed better compared to Beta, Gamma or Japanese imports (Exhibit 5).

Complex loyalty patterns. A good panel provides rich data. Let's assume that (as with most panels), detailed brand usage data are available. We can use the data to identify motivations that underlie customer loyalty. For instance, does price play an important part in customer loyalty? To answer this question, we can ignore corporate identity and simply compare how many people switched to a more expensive model, how many to a less expensive model and how many made a sideways move. Similarly if our purpose is to find out how many customers shifted their loyalty on the basis of technological superiority, we can group all advanced models together and assess whether customer movement is towards advanced models.

Identifying trends. If we continue these type of analyses from wave to wave, we might be able to identify trends in customer loyalty. Does price determine loyalty? Does service quality? Is the movement towards direct sellers as opposed to resellers?

It is often implicitly assumed by marketers that there are some 'key drivers' that influence customer loyalty and surveys are used to develop a model that assigns weights to the 'key drivers'. These key drivers are often faithfully tracked. Employees are even rewarded or punished on the basis of their supposed performance on these drivers. Yet many firms have only limited (if that) success in such programmes.

Part of the problem is that these drivers are not static. At one point in time technological innovation may be the basis of loyalty. When innovation reaches a certain level, quality of service might become the factor that influences loyalty. Once service quality reaches a certain level, then price may be the most influential factor.

While underlying customer motivations seldom changes, the weight they assign to key drivers can be strongly influenced by customer expectations which in turn are influenced by the competitive context: what is acceptable is strongly influenced by what is available. As what is available is changing much faster now than perhaps any time since the industrial revolution, customer loyalty and satisfaction are moving targets. Hence we can see the benefit of using panels that measure movements as opposed to surveys which tend to be rooted in a point in time.

Developing hypotheses. Despite the advantages of panels, panel data is mainly for discerning the what and how of customer loyalty. Panel data cannot tell us the why of customer loyalty or satisfaction.

However, when we analyze customer loyalty patterns and trends using panels we should be able to develop many hypothesis regarding customer loyalty. Such hypotheses can also be used to design special surveys to explore customer loyalty more fully.

Dr. Chuck Chakrapani of Standard Research Systems is a Toronto-based consultant who works internationally. His book How to Measure Service Quality & Customer Satisfaction is published by the American Marketing Association. He can be reached at Chakrapani@cheerful.com .