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The two sides of loyalty

Don E. Schultz and Dana Hayman

Abstract

Brand loyalty is good for brands, for companies and for shareholders. Brand loyalty may not be as good for customers, who derive little added value from being loyal to a brand. This paper reviews what is known about brand loyalty from both views and explores how brand loyalty may be used by marketing organisations to build and enhance the benefits of brand loyalty to both sides.

The authors initially present a conceptual model of how an organisation might use brand loyalty as a method of determining how much to invest in specific groups of customers and prospects, how to estimate returns and how to measure success. The model is illustrated by a case history example from the marketplace. Additional financial models that might follow from the basic approach are also suggested.

Introduction

Over the past few years, much has been written about customer and brand loyalty. Reicheld¹ has focused on the importance and value of building customer loyalty and the savings and returns that accrue to the organisation from that loyalty. Hughes² has focused on lifetime customer value, that is, the ongoing benefits to the organisation of maintaining customers over various periods of time. Hallberg³ has emphasised the importance of heavy users, ie loyalty, to a brand and category. He has applied the well-known Pareto 80:20 principle to primarily scanner-captured consumer data from supermarkets and mass merchandise retail outlets. Many others have contributed research and writing that have illustrated and emphasised the value of customers continuing to purchase brands from an organisation on an ongoing basis.

The value of loyalty

Almost all researchers and practitioners maintain and demonstrate that loyal customers are (a) more profitable, ie provide more net value return to the organisation based on the investments made in them; (b) add substantial value if they become advocates for the firm or the brand, that is, they become non-paid sales people if they are vocal and aggressive in lauding the product or firm to others; (c) cost less to maintain and retain than brand switchers or short-term buyers; and (d) are less expensive to maintain and keep as customers than is the cost of acquiring new customers to replace them.⁴ In truth, few if any marketers would argue that there is less value in brand-loyal, ongoing customers in the short or long term compared to transient buyers or brand switchers.

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Which customers belong in a loyalty programme and how much should be invested in it?

So, brand loyalty is good. Long-term, repeat customers are good. Lifetime customer value is good. At least, it is good for the marketing organisation. From the customer or consumer view, brand loyalty may not be so good since many loyal customers often appear to pay higher prices, receive in some cases inferior service, are taken for granted and the like.⁵

The point of this paper is not to argue the value of brand loyalty or the importance of gaining and maintaining customers for the long term. Instead, it is to offer a new solution to a seemingly ongoing problem, ie how much should the organisation invest and against whom to build and maintain customer or brand loyalty? And can the returns on those investments really be calculated based on some method of evaluating the success of the programme?

The measurement of brand loyalty and ongoing customer value is relatively straightforward for organisations practising so-called one-to-one or direct marketing. It is a fairly simple matter to determine the value of a customer through analysis of purchase behaviour over time. The task is to determine how much the customer has contributed to the brand and competitive brands in the past, then determine how much brand volume might logically be retained and how much competitive volume might logically be captured in the future. Investments can be managed accordingly based on estimated returns. There are a number of organisations and programmes that provide this methodology and approach.

For most marketers, measuring ROI is not simple

The problem is not so simple, however, for organisations selling through multi-level channels such as fast-moving consumer goods (fmcg), where marketers are distanced from end-users. The problem also exists for retail organisations that have many customers and therefore rely on mass-merchandising techniques to move retail products profitably. It is this challenge of developing and implementing marketing and marketing communication programmes designed to build loyalty or increased share of customer purchases among largely unknown or little-known groups of customers and prospects that is addressed in this paper.

Many loyalty programmes do not build loyalty at all

For many fmcg organisations, the most common solution to this loyalty-building investment and return question has been some type of frequent-shopper or best-customer or similar reward programme. Generally, these have been implemented with some type of card-based or purchase-reporting system either at retail sites or through customer-volunteered data. Ideally, but not always, these programmes rely on some type of scanner swipe or other electronic method that at least identifies when and where and at what value the customer's activity occurred. Yet, in spite of the popularity of these frequency or volume-based programmes, Dowling and Uncles⁶ have made a strong case that many of these so-called 'loyalty programmes', primarily those based on some type of reward or incentive programme oriented on purchase continuity or volume, are really nothing more than thinly disguised sales promotion activities. Further, they suggest these programmes have little or nothing to do with building or maintaining brand or customer or even store loyalty. Indeed, they argue these 'loyalty programmes', while

commonly very expensive to develop and maintain, often do not promote brand loyalty but instead encourage customer promiscuity. For example, how many supermarket frequent-shopper programmes do you belong to at this time?

The success of a loyalty programme is determined by financial returns

Funding and measuring loyalty in various forms

One of the major issues facing marketing managers who believe increased brand or customer loyalty is important to their brand or their firm is the question of how to develop, fund and measure the results of these customer loyalty or retention programmes. The challenge is not just what the organisation can or would be willing to invest in such a programme, whether it be reward or incentive or loyalty based. Instead, the second and perhaps more important question is, what are the returns? Can they be measured? And, as a corollary, what is the time-frame in which those returns will occur?

In developing various forms of loyalty or share-building reward programmes, a number of assumptions are commonly used. Most of these are linked to various estimates of increased volume, higher margins, the value of the data gathered through the programme and the like.⁷ This is then factored against the cost of developing, implementing and maintaining some type of loyalty programme over time. Often the costs include some type of exit strategy if things do not go well. From these estimated costs and returns, a return-on-investment (ROI) scenario is created using the returns expected to accrue as a result of the investment in the loyalty programme. In this case, the increased volume or profits must cover the cost of the investment or the programme is a losing proposition for the firm or brand. In the authors' experience and from stories in the trade press, covering the cost of a loyalty programme is increasingly difficult. When returns don't cover costs, programmes must either be reduced in quality and attractiveness or shut down. Neither option is very attractive to the sponsoring organisation, which probably entered the programme hoping to build stronger relationships with customers and prospects.

The point is, brand and customer loyalty are good, but how can or should a firm determine how much should be invested to develop and fund such a programme? What can or should the organisation invest to build customer and/or brand loyalty? Further, how can the returns from such a programme be measured? This paper provides an alternative view of how levels of investment might be determined to fund a customer loyalty programme for any type of organisation. The discussion does not include the forms these loyalty programmes might take, for that is the second step in the process. The goal is to provide a process by which the organisation might determine how much should be invested in building and maintaining customer and brand loyalty and how returns on those investments might be measured.

Is loyalty for everyone?

Inherent in the methodology is the idea that most broad-scale loyalty programmes fail simply because they attempt to reward each and every

The ROCI approach challenges the way marketing investments are commonly determined

Some customers are better candidates for loyalty programmes

Measure return on customer investment

customer who participates. In this approach, it is posited that customers need to be evaluated separately based on their potential for building increased loyalty. Therefore, varying amounts will probably need to be invested in varying groups of customers and prospects. This is the heart of the return-on-customer-investment (ROCI) approach introduced here.

Organisations, to build loyalty, should not invest in loyalty programmes; instead, they should invest in customers (the *right* customers). It is the customer who provides returns to the organisation in terms of brand loyalty and ongoing purchases, not the loyalty programme itself. Yet, for the most part, organisations try to measure the return on a loyalty programme based on what they have invested in the programme, not what they have invested in the customer. Thus, it is important to start with the idea that one wants to invest in customers to build and enhance loyalty, not in loyalty programmes *per se*. While the investment may take the form of a frequent-shopper programme or other reward system, it is not until one knows the current value of the customer or customer group or the potential size of the returns that might accrue to the organisation with a successful programme that one can truly determine how much or at what level the organisation would be willing to fund any type of loyalty programme.

The ROCI approach to loyalty investments and returns

This ROCI solution to loyalty building is an enhanced version of one originally proposed by Schultz and Walters⁸ in 1997. They based their methodology on a financial summary of all brand marketing and communication activities invested against customers and prospects, rather than by each functional activity in isolation. They proposed using a brand-relevant financial time-frame, such as a business quarter or fiscal year, instead of communication or media-relevant time-frames. Their approach was to measure return-on-brand-investment (ROBI) rather than ROI in a specific functional area. The loyalty-based approach presented here builds on the ROBI work by relating loyalty-enhancing expenditures to specific individuals or groups of individuals to determine increases in loyalty and value. Thus, the ROCI approach to loyalty programme funding and measurement has evolved in three stages.

- (1) *ROI* — *return on investment*, which typically pertains to only one marketing programme or communication effort, eg campaign X, Y or Z yielded 20 per cent ROI over some given time-frame.
- (2) *ROBI* — *return on brand investment*, which pertains to brand communication investments in total and financial time-frames, eg return on brand communication investment was 20 per cent over the last fiscal year.
- (3) *ROCI* — *return on customer investment*, which pertains to loyalty programme investments in total financial time-frames and specific customers (or groups of customers), eg ROCI among customer segment X as a result of loyalty efforts was 20 per cent over the last fiscal year.

Measures of current and potential customer value are ideal

Three phases to return on customer investment

The end goal of the ROCI approach is to measure and manage financial returns as a result of improved or enhanced customer loyalty. The ROCI concept is unique because it is based on determining returns among various customers or customer groups — particularly among those who are currently or potentially more valuable to the brand; in short, those who have the potential or opportunity to be converted to greater brand loyalty.

Although not apparent, there are two issues here. One is the financial return the organisation will enjoy as a result of greater customer loyalty. The second is how to determine which customers to invest in, not just because of their potential value but also because of their propensity to become loyal customers. This requires a combination of behavioural data (ie current and potential financial value) and attitudinal data (current satisfaction or potential commitment to the brand or the organisation that indicates a propensity to become loyal or become more loyal). It is this combination of customer information and understanding that underlies this approach to estimating or calculating ROCI.

Phase I — creating the consumer loyalty framework

Phase I focuses on distinguishing high-value, loyal customers from low-value ones based on each customer's current profit contribution to the brand and their growth potential. (This discussion uses income flows, profits and share of customer purchases as the basis for measuring customer loyalty.) This step allows marketers to align investment levels with customers and prospects based on their current and future loyalty and value. It also gives them insight into which customers and prospects to stop investing in, ie where to draw the line on switchers, cherry-pickers and the like. Therefore, grouping customers and prospects

Figure 1: Consumer value framework

The framework focuses the marketer on lucrative customer groups

together based on their loyalty value to the brand (ie into a consumer-loyalty framework) greatly influences the success and usefulness of this approach. As noted above, it is the combination of behavioural and attitudinal data that really enables the firm to understand the current and potential value of a customer or customer group.

The consumer loyalty framework (as shown in Figure 1) is a picture of the brand's customer base. It separates the brand's most loyal and attractive customers and prospects from the relatively less attractive ones. Relative attractiveness is determined by a combination of the current and potential value customers represent to the brand based on their loyalty and financial value. Classifying customers into six segments based on category buying rate and brand share of purchases (or loyalty) effectively serves this purpose.

Overall, heavy purchasers in the category are higher in total customer value than light purchasers. The brand's share of purchases (SOP) indicates current brand loyalty. SOP is also an indicator of the amount of growth opportunity available. To illustrate, consider a customer who purchases 100 frozen pizzas per year. If 40 of that individual's purchases are Uncle Leo's brand, then the same individual also represents 60 pizzas to Uncle Leo's per year in potential, ie greater brand loyalty.

Applying revenue and gross margin per unit, further analysis converts units to financial amounts. The process calculates the total number of customers (or households or SBUs or whatever) in each group and the actual financial values each group represents to the brand. (Table 1 provides a detailed examination of one brand's customers and prospects in the speciality retail area.)

The first benefit of this analysis is that it provides a snapshot of current brand loyalty amongst the brand's customer base. Segment sizes (in terms of number of customers, current brand value and growth opportunity value) can be compared to investment levels later in the process. The second benefit is that the framework cleanly aligns fundamental marketing strategies with each consumer group in the matrix.

The framework relates fundamental marketing strategies with each customer group

- Group A is a prime candidate for category-building efforts because of its low category value and high brand share of purchases or loyalty.
- Group B warrants a retention strategy. It contains heavy purchasers in the category that are also very loyal to the brand. These are the brand's best profit contributors — commonly accounting for 50–80 per cent of total brand profit.
- Group C customers would be marked low priority. They are less attractive to the brand because they have low category value and contribute very little brand revenue and profit because of their lack of loyalty. If the brand could capture all of the competitive purchases represented by the segment, in other words, gain 100 per cent brand loyalty, it would still not amount to a substantial lift in brand revenue or profit.
- Group D is an excellent candidate for a loyalty-building strategy.

This type of consumer is what has driven the increasing focus on building brand loyalty among marketing managers. Like those in Group C, Group D provides the brand with a relatively low share of purchases, ie low loyalty. However, Group D customers are much more attractive to the brand because of their propensity to purchase in the category; that is, there is great potential for an increase in loyalty to the brand. These customers *already* purchase the brand, therefore awareness and trial-building efforts would only be wasted here. The focus in this segment is *loyalty growth* — thus, it is the ability to identify the present or prospective customers with the greatest propensity to become loyal that is critical in this analysis. As outlined above, the approach has been to combine both behavioural data, generally the financial value of a customer or customer group, with attitudinal data that indicate the customer's propensity to stay or become more loyal, hopefully eventually reaching the level of advocate. In this work, it has been found that attitudinal data when combined with behavioural data give a much richer and better understanding of which customers are most likely to become loyal or more loyal, which indicates where investments should or could be made to generate the greatest returns. The key element in this approach, of course, is the proper allocation of finite resources. If organisations invest in customers with high propensities to become loyal, the greater the results and the higher the ROCI.

- Group E doesn't even hit the radar screen. They don't buy the brand and are not active purchasers in the category.
- Group F prospects are heavy purchasers in the category, and therefore have a high potential value. They merit a penetration-building strategy in an attempt to gain greater loyalty.

This particular customer value framework applies to a vast majority of product categories. However, the dimensions of the framework may differ slightly depending on industry type and data availability. In most durable goods categories, eg automobile and refrigerator sales, measures of category buying rate and share of purchases may not be meaningful because the purchase cycle is too long. The goal of the consumer value framework in these cases still remains the same — ie to distinguish between high- and low-value customers and prospects based on current and potential value. Though the task may require a bit of creativity, a pertinent value framework can almost always be developed. Also note that since most transactional databases do not capture a customer's purchases of competitive brands, it may be necessary to use primary research in order to calculate a brand's share of purchases for each customer. For this reason, diary-like panel data are an excellent source.

Phase II — integrating marketing expenditures

Phase II is focused internally on marketing investments, including all expenditures associated with loyalty-building practices. This step requires an inventory of all marketing spending over at least a two-year

Creating value-based customer segments is critical

Which customer groups is marketing investment reaching?

Compare current and potential customer value to spending levels

period. The goal is to collect spending data (ie marketing expenditures) in aggregate and then associate the amount spent with customers and prospects contained in the loyalty framework.

The process involves taking spending levels across each communication type (eg loyalty programmes, advertising, consumer promotion, trade promotion, database marketing, etc) and assigning a share of investment to each customer and prospect. In-store spending (signage, displays, etc) pertaining to various channels is allocated across customers that shop in the given channels. Budgets associated with database marketing and direct-to-consumer communications are allocated across customers that reside on the database and/or receive the communications. Spending through mass communications (eg TV and radio) is allocated across customers based on whom the advertising reached. Media agencies, armed with the brand's media schedule, can provide 'reach' weights for various age/income/sex-defined consumer groups. These weights can be utilised in allocation algorithms that allocate spending across customers in data. Once these allocation methodologies are completed, it is possible to compare spending and value levels within and across the six customer groups.

Phase III — calculating ROCI

In Phase III, expenditures are related to consumers in order to find the link between brand loyalty investment dollars (or pounds, yen, francs, etc) out and brand dollars in purchases back into the firm.

The results can help the brand team understand whether or not current spending levels make sense and are really generating additional loyalty. For example, Figure 2 indicates that 35 per cent of the brand's total spending is reaching the RET (retention) segment, even though the segment contains only 20 per cent of the brand's total growth or brand loyalty enhancement opportunity. In other segments, a spending-to-growth opportunity ratio like this one would indicate overspending. However, one

Figure 2: Marketing investment allocation results (specialty retail case study)

could justify the spending levels in this segment by considering the current brand profit contributions represented by these consumers (59 per cent of total). If the brand's strategy is simply retention-oriented, then the current spending levels may not require a substantial adjustment. However, if the brand's strategy is oriented more toward growth (ie building greater loyalty by stealing competitive purchases), then the brand should consider shifting investments from the RET segment to the LOY (loyalty) segment, which offers greater growth potential.

	Cust Group	HHs (MM)	Total Value (\$MM Gross Margin)			Value per Customer (\$/HH)		
			Total	Brand	GO	Total	Brand	GO
B	RFT	15	371	266	105	24.90	17.70	7.20
D	LOY	19	281	68	213	14.80	3.60	11.20
A	CBR	20	108	74	34	5.40	3.70	1.70
F	PEN	9	90	0	90	10.00	0.00	10.00
C	LP#1	7	42	9	33	6.00	1.30	4.70
E	LP#2	14	41	0	41	2.90	0.00	2.90
Total			933	417	516	11.1	5.00	6.1

Table 1: Summary of results — Brand Z value assessment

A real-world example

Table 1 contains analysis results for one brand (Brand Z) in the speciality retail category. Results are expressed for each customer group in total and on a per-customer basis. Segments are listed in order of current profit contributions to the brand.

Eighty-four million households are active product purchasers in the category. The framework separates 61 million Brand Z customers (segments A, B, C and D) from its 23 million prospects (segments E and F). The total profit contribution to the brand is \$417m. Applying Brand Z's margins to competitive brand purchases, the total estimated growth opportunity is \$516m. Thus, Brand Z's market share is approximately 45 per cent.

Group B (RET) contains heavy purchasers in the category (\$24.90 per household) who are highly loyal to Brand Z (which accounts for \$17.70 per household). Although the segment contains only 17 per cent of the households in the category (15 million), these households represent 63 per cent of Brand Z's total profit. With only moderate upside growth potential (\$7.20 per household), a retention strategy is ideal.

Group D members (LOY) are also heavy purchasers in the category. However, there is considerably greater upside potential for Brand Z if it can effectively steal competitive purchases. With a growth opportunity of \$11.20 per household (\$213m total), this is a very lucrative marketing target for the brand. The appropriate marketing strategy is to develop loyalty. With the goal of generating brand switches, brand messages should favourably position the brand against competitive brands purchased by these consumers. Communication channels should be selected based on their ability to reach this segment of low-loyalty users.

Current potential value per customer should provide the rationale for future investment decisions

Group A (CBR) exhibits high loyalty to the brand (68 per cent SOP) but contains light purchasers in the category (\$5.40 per household). Clearly, there is less opportunity among these consumers (\$1.70 per household) versus the RET and LOY segments. Investment levels should be chosen accordingly. The most pertinent strategic thrust is category growth, with the intent of stimulating category purchasing while maintaining brand loyalty levels.

Group F prospects (PEN) are nearly four times higher in growth potential than those in Group E (\$10.00 versus \$2.90 per household), thus the marketer's challenge is to disproportionately channel penetration-building investments (ie awareness and trial stimuli) to the higher-value group.

	Cust Group	Value per Customer (\$/HH)			Marketing Expenditures (\$/HH)			
		Total	Brand	GO	Total	TV Adv	Dbase	Other
B	RFT	24.90	17.70	7.00	7.00	1.60	3.00	2.40
D	LOY	14.80	3.60	11.20	3.70	1.60	0.50	1.60
A	CBR	5.40	3.70	1.70	2.70	1.10	0.50	1.10
F	PEN	10.00	0.00	10.00	2.20	1.40	0.00	0.60
C	LP#1	6.00	1.30	4.70	2.50	1.30	10	1.10
E	LP#2	2.90	0.00	2.90	1.30	0.80	0.00	0.50

Table 2: Brand Z spending allocation results

Since this technique requires consumer- or household-level transactional data containing diary-like brand and competitive brand purchase detail, panel data are probably optimal for this analysis.

Comparing spending levels to growth opportunities, it can be seen that for the most part Brand Z managers are investing more in high-value consumers than low-value consumers. However, improvement opportunities exist in two areas — the CBR and LOY consumer groups.

The brand is spending \$2.70 per household on the CBR segment, which is only worth \$1.70 per household in total growth opportunity. The brand, therefore, would have to develop the category buying rate a substantial — and unlikely — amount in order to compensate for the current investments being made. Spending cuts among this consumer group should be considered. The results also highlight that the best candidate for additional spending is the LOY customer group. Of course, to fund additional spending, monies could be peeled out of the lower-value segments (CBR, LP#1 and LP#2).

With all value and spending data calculations made at the consumer level, new marketing plans can be tested via simulation. For example, what happens if advertising is cut by 20 per cent? Which consumer groups would this spending cut impact? Thus, the ROCI process also doubles as a powerful investment allocation tool.

Allocation results can be simulated

Compare spending changes to revenue changes to measure ROCI

The marketer's ROCI is likely to differ across customer segment

Marketing investment allocation results — building customer loyalty: A case study

A history of brand spending and customer purchase dynamics, particularly loyalty, is compiled at the consumer level using behavioural data. This marriage of data at the consumer level is essential for ROCI calculations among the key customer groups defined in Phase I.

At this point, measuring ROCI among customer groups (and even specific consumers) is both possible and practical. Within each group, changes in brand profit contribution per customer are compared to changes in brand spending levels per consumer over time. Obviously, small incremental investments that produce large incremental returns yield high ROCI measures. Table 3 shows the components of the calculation for one customer group in the loyalty framework.

Cust Group	Brand Value (Gross Margin \$/HH)			Marketing Expenditures (\$/HH)			Return On Cust Invest
	1996	1997	Change	1996	1997	Change	
RFT	\$15.00	\$17.70	\$2.70	\$5.50	\$7.00	\$1.50	80%

Table 3: Calculating return on customer investment

For example, the RET segment contributed an average of \$15 gross margin per household to the brand in 1996. From 1996 to 1997, the brand spending on this group was increased an average of \$1.50 per household (from \$5.50 to \$7.00), resulting in an incremental dollar contribution to the brand (1997 to 1996) of \$2.70 per household. In other words, the brand achieved a greater share of purchases (SOP) which indicates greater brand loyalty. Thus, the incremental returns outweighed the incremental spending, and the ROCI is 80 per cent. Put another way, brand loyalty was increased with the marketing and communication investments and the return is also greater in the short term than the cost. It could be assumed that the ongoing returns might be even greater.

(Incremental brand contribution – Incremental marketing expenditures)/Incremental marketing expenditures X 100 = % ROCI

$$\frac{(\$2.70 - \$1.50)}{\$1.50} \times 100 = 80\%$$

Otherwise aggregated revenue and spending data must be converted to the customer level

Since the data utilised throughout the methodology are collected at, or eventually converted to, the customer level, it is possible to evaluate ROCI among any of the other customer groups in the framework — and/or any alternative customer groups (eg attitudinal, demographic, or other segments) a brand manager chooses to create. This allows the firm to see which customers are providing returns through loyalty and (equally important) which customers are not.

Using attitudinal or demographic data to sub-segment high value customer groups makes results more useful

Never assume everyone knows what is meant by 'loyalty'

Attitudes, demographics and other available data are also considered in this phase. Inferences can be drawn and additional analysis performed to help diagnose why loyalty is what it is. Analysing attitudinal shifts along with changes in purchase dynamics can help diagnose reasons for poor returns and/or declining loyalty.

Since results are based on changes in investment levels and returns over time (in the context of financial time-frames, usually one fiscal year or quarter), the analysis requires a static sample. This is another reason why panel data are ideal for this analysis.

Alternative or 'nested' consumer loyalty frameworks

The share-of-purchase (SOP)/category-buying-rate (CBR) customer loyalty framework is what enables marketers to determine if brand investments are reaching the most lucrative customers and prospects and truly building SOP and loyalty. However, these particular dimensions are not ideal targeting characteristics. Having identified high-growth-opportunity customers in Group D, for example, how can the marketer reach them?

At this point, targeting characteristics can be utilised to create a more detailed framework among a specific customer group. Assuming the data are available, Group D customers can be further segmented on the basis of where purchases are made and whether or not they obtain product information in-store. This particular 'nested framework' can help determine which distribution channels to utilise in reaching these customers. It can also help improve message relevancy in point-of-purchase materials across distribution channels. Other marketing- or targeting-friendly data elements (eg demographics or psychographics) can be used in the selection of media channels. Viewing customer loyalty results in an age-by-income framework, for example, can illustrate which demographic sub-segments to target in media buys or in specific loyalty-building programmes.

Nesting frameworks can go a long way towards pinpointing business opportunities and helping the brand determine how to capitalise on them effectively. Since the data are grounded in behaviour (ie loyalty customers have actually demonstrated in the marketplace), it is possible to determine which investment choices make the most financial sense. Detailed customer loyalty frameworks provide answers to questions about how much customer value a given communication channel or marketing programme will produce.

Summary

The most critical issue facing many marketing managers today is how to *profitably* improve and enhance customer loyalty to the brand. Successful loyalty building, in the interactive arena or otherwise, has its requirements.

Clear goals, loyalty definitions and data. Because 'loyalty' means different things to different people, the first hurdle in most marketing teams is to reach consensus on a definition of loyalty — what is the team really trying to accomplish by 'building loyalty'? Is the firm really

**Invest in, and
measure returns
from customers, not
communication
channels**

**Start with
behavioural data
and focus on
customer value**

trying to increase purchases in the category, retain customers more effectively, increase brand penetration, or (as has been described here) increase a brand's share of purchases? The answers are in consumer value frameworks. This means firms with individual customer or household data have a significant advantage.

An understanding of *who* they are investing in, not *what* they are investing in. Returns don't come from communication channels or programmes; returns come from customers. Marketers obsessed with what programme X, Y or Z is returning tend to miss the big picture. Instead, they ought to be asking themselves, 'Are my loyalty-building communications and investments reaching the brand's customers and prospects with the most lucrative upside potential?' and 'What levels of return are these investments (customers) providing?'

A return-on-customer-investment approach. While the ROCI concept is still in the formative stage, it has been adopted by a number of organisations in several industries. Since returns are more closely linked to purchase behaviour than attitudinal shifts, firms should start with behavioural data and simple measures of loyalty (like share of purchases). They should track customer purchase behaviour to measure ROCI and track attitudes to explain the results. As firms become more experienced with analytical frameworks and ROCI measurement methodologies, more sophisticated definitions and measures of loyalty will evolve out of those discussed here. More about how to combine customer value, behavioural commitment, customer-brand compatibility and attitudinal commitment into a more comprehensive measure of brand loyalty (and brand equity) will be discussed in a subsequent paper.

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Note

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