Consumer Behaviour

An essay on brand loyalty

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Introduction

Before entering the class on consumer behaviour, I actually did not have much experience within this academic field. At our first lecture, we defined consumer behaviour as *"… human responses in a commercial world: How and why people buy and use products, how they react to prices, advertising, and other promotional tools."* (East, 1997: 2). Through my undergraduate studies at CBS, I understood the topic as how we manage our marketing mix in order to *persuade* consumers into buying our brand. Communication that seeks to change attitudes. As I was to learn, consumer behaviour – and the marketing communication we create – rests on a set of underlying assumptions. This has been ignored by academics as well as practitioners for years.

In this essay, I will reflect upon the outcome of my learning journey. As this course has taught me, I am to question status quo and *deconstruct* the common literature. First, I want to discuss the general lack of empirical data within the field of marketing and assess different approaches to consumer behaviour. Secondly, I want to critically compare traditional assumptions, used by marketers, to new approaches taught in this class. Finally, I will discuss the implications of this knowledge to my own work as a marketing practitioner.

Evidence-based marketing?

Marketing learning is built upon theory. We use theories to simplify the world around us, whether it be in competitive strategy (Porter, 1996; Barney, 1991), consumer segmentation (Abell, 1980, p. 191-212) or value creation (Kotler et al., 2012, p. 418-456). Unfortunately, the popularity of these "mainstream" theories is also their weakness, as they have created an ideology of marketing. Joseph Stiglitz (2003, p. 214) argues that this ideology has, in fact, paralyzed our ability to challenge the underlying research, as we view the mainstream literature with such confined beliefs that it overshadows our need for empirical evidence. Take segmentation, which is without doubt a key marketing principle, for example: *"If there is one overriding criticism that can be levelled at market segmentation research in general, it is the failure of researchers to recognize the role of guiding theory in predetermining the general directions and* *findings of empirical research."* (Hoek et al., 1996, p. 31).

How exactly are marketers to navigate, if the evidence we base our decisions on are narrowed to specific businesses, industries or cultures? Quite disturbingly, studies suggest that neither academics nor practitioners are able to predict an outcome with a higher probability than chance (Armstrong, 1991). Methodology wise, this means that we need to think like a *critical rationalist*[1] and challenge the status quo. We need to ask ourselves what empirical tests have been arranged to falsify the theory in hand, as John Dawes (2003) suggests. As a key academic reference in this essay, Byron Sharp seeks to improve the effectiveness of marketing through the development and application of well-established scientific laws (2010, p. 15). Challenging the empirical evidence of highly rated academics, "best practices" marketing textbooks and influential marketing gurus (Dawes, 2003) is definitely something I will take with me from this course.

Dealing with rationality

For centuries economists have told us that consumers act rationally. In their collection of microeconomic studies, Pindyck and Runbinfeld state that consumers compare various bundles of goods in order to maximize utility (2013, p. 85). This notion is fairly hard to put into practice, because how can we know if a product gives us value, when we have not tried it? Studies suggest that attitudes neither predict nor cause ongoing purchase behaviour (Foxall, 2002), while there is a readjustment of beliefs only after behavior changes, for instance when the consumer defects from using a brand (Winchester, 2008). The underlying assumptions are that consumers have *perfect information* and think carefully about every buying decision. The field of economy rely on these assumptions, but it can be dangerous for marketers to think likewise. Cognitivist models like the decision-making process or Maslow's hierarchy of needs (Solomon et al., 2006, p. 98; 258) assume that both information and needs are linear, which is far from reality. As discussed in class compensatory models assume that the consumer evaluates all the different features of the brand in order to get the most value.

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[1] *Critical rationalism* is an epistemological philosophy, created by Karl Popper, which seeks to falsify hypothesises by empirical testing (Ingemann, 2013: 73).

This train of thought completely ignores the *habitual* patterns in buying behaviour, and we simply cannot ignore the fact that consumers rely heavily on past usage, when choosing which brands to buy.

The alternative to cognitivist theory

This is why we find *behaviourism* at the other end of the paradigm. Behavioural theory consists of habitual theories (Haney et al., 1973) and reinforcement theories, such as cognitive dissonance (Festinger, 1962). Although behaviourism has been criticised in marketing, for not recognising consumer consciousness (Kelland, 2015) the behavioural aspect of the consumer has truly challenged my understanding of how we must communicate. It questions the notion that we need to change consumers' attitudes with persuasive advertising, because past behaviour might be a better predictor of future behaviour than actual attitude, as Wright & Klÿn (1998) argue in their study on green consumption. As we have discussed in class, the behaviourist approach generally implies that marketers make things easier for consumers in order to alternate behaviour. For example, the Danish infrastructure with many bicycle lanes reinforces the behaviour of cycling, which is also referred to as classical conditioning (Pavlov et al., 1928). I will return to the implications of behaviourist theory in the last section of my essay.

Marketing 101: The STP process

A core concept in the mainstream marketing literature is the process of *segmentation, targeting* and *positioning* (Kotler et al., 2012; Zigler, 2007; Ries & Trout, 2006). One of its founding fathers, Philip Kotler, argues that marketers must select the most valuable market segments based on demographic and psychographic factors for which to tailor its messages (Kotler et al., 2012, p. 14). Due to this course, I have come to realize that even this – most fundamental of marketing principles – is flawed.

In his research paper Yoram Wind (1978) suggests that the variables used to identify segments are heavily influenced by marketers' opinion, which makes the process arbitrary. Research has since extended this train of thought by suggesting that segmentation rarely, if ever, has an *objective* outcome, as researchers make uninformed decisions on different variables (Hoek et al., 1996). Although I do believe that tailored messages is vital to create relevant communication, I have come to learn that market segments are actually much more homogenous than first assumed. It seems only logical that our brands should be targeted towards specific groups of people, but numerous studies show that user profiles are actually very similar (Kennedy & Ehrenberg, 2001, p. 24). This goes for both sporadic repertoire markets such as radio stations (Winchester & Lee, 2013), and more long-term subscription markets such as banks (Sharp, 2010, p. 60).

While the academics suggest that this puts an end to segmenting altogether the immediate implication is that companies are competing in largely unsegmented mass markets (Kennedy & Ehrenberg, 2001). In positioning, the aim is to position the product in the mind of the consumer (Ries & Trout, 2006), but with largely similar user profiles, competition does not depend on the positioning of our brands (Sharp, 2010). We are not limited to a certain group of consumers, and our competitors' customers are ours to take. But what exactly does this imply for those marketing practitioners, who seek to create target segments in which to position their products?

I think that marketing departments still struggle, as everyday marketing maintenance reinforces a "consumer tunnel vision". Marketing managers usually prefer qualitative, experience-driven *heuristics* rather than *algorithmic,* data-driven methods (West et al., 2014). Based on rules of thumb, consumers are fitted into a fixed "box" of predicted behavior and messages are sent out, while hoping for the best. The consequences are severe, as marketing departments struggle to maintain internal legitimacy, budgets are cut, and the influence on c-level erodes (Park et al., 2012; Hanssens & Pauwels, 2016). And what do you do, when you lack marketing effectiveness? You may consolidate with experts. Some digital marketing agencies, for instance, have figured it out, as they realize no two consumers are the same and base their segmentation on solid data. Instead of defining subjective consumer segments, agencies will specialize in *search engine marketing*, which gives the company a clear, quantitative indication of which customers enter the website. Through analysis, online behavior becomes a platform for personalized (re)targeting. In that way, these digital marketing agencies also take into account that market segments are not stable, as they change over time (D'allmo Riely et al., 1997). This is in contrast to yet another assumption of the marketing literature (Kotler et al., 2012, p. 391).

The truth about brand loyalty

With the fundamentals of marketing discussed, we can move on to brand loyalty. Brand loyalty can be defined as *"a form of repeat purchasing behaviour reflecting a conscious decision to continue buying the same brand."* (Solomon et al., 2006, p. 289). In connection with this, I used to believe that retention was more important than acquisition. In my preliminary assignment, I wrote: *"… developing the current customers into loyal ones could be better for business than just acquiring new customers".* With a background in consulting, I firmly believed in Pareto's law: That 80% of sales come from the top 20% of our buyers. I now recognize that nursing a narrow group of current customers is a foolish investment, because they contribute with such a small part of the sales volume.

In the following I will use a well-known case to reflect upon loyalty in branding: The brand war between Coca-Cola and Pepsi. A pattern from the soft drink industry indicates that the biggest part of our sales come from light, infrequent buyers, see *appendix 1* (Sharp, 2010, p. 44). Especially in FMCG markets, the frequency in which consumers buy products are rare. For instance 30% of Coca-Cola buyers do not even buy a bottle of coke once a year (ibid, p. 41). This means that the implications of Pareto's law are incorrect, because the pareto share is much smaller than assumed. So instead of targeting the heavy brand buyers – adding fuel to the fire of a self-fulfilling prophecy – the true growth potential lies in the occasional, light buyers.

This understanding affects pricing competition too, because price promotions are in fact struggling to maintain the light buyers. Marketers tend to believe that larger brands, with more equity, can set higher prices. However, a study on price elasticity of brands found that this is not the case, as elasticity of competing brands is in fact very similar (Scriven & Ehrenberg, 2002). So even though Coca-Cola may have larger brand equity than

Pepsi, they are not less sensitive to price, see *appendix 2.* Furthermore, short-term price promotions, which are assumed to attract new customers, tend to affect only previous customers (ibid.). Ehrenberg, Hammond and Goodhardt (1994) did a similar study on grocery brands, which showed that price promotions have no affect on the brand's sales or its repeat-buying loyalty. How can this be explained?

The *Duplication of Purchase law* is a main factor, as it states that *"a brand's customer base overlaps with the customer base of other brands"* (Sharp, 2010, p. 217). Applying this knowledge to the case of Pepsi and Coke, it means that there is no such thing as "a loyal Pepsi customer", as Coca-Cola is the preferred alternative, see *appendix 3*. Knowing that consumers are loyal towards a portfolio of different brands was a key learning point for me. Keeping in mind that brands, as stated earlier, share their customer base, the law also challenges key strategic thinking, because differentiation assumes that the consumer sees us as different from our competition (Kotler et al., 2012, p. 53). In contrast to the Kotlerian view, the data from real industries shows that consumers buy just as much from our competitors, which suggests that they do not see us as different (Sharp, 2010, p. 56).

In the 21th century, a common way for marketers to capture the favourable repeat-purchase consumer behaviour is by investing in loyalty programs. By using tools as the Dirichlet model[2], researchers have proven that loyalty programs are unlikely to increase the relative proportion of loyal customers (Dowling & Uncles, 1997; Meyer-Waarden & Benavent, 2006). A major longitude study conducted on one of the largest loyalty programs in the world, the FlyBuys, has also shown that these programs have little to no effect on repeat-purchase (Sharp & Sharp, 1997). While loyalty programs are great for gathering consumer data and recruiting *existing* customers, they assume that customers only purchase from the one brand and that customer defection can be avoided altogether (Sharp, 2010, p. 172). The truth is that duplication of purchase exists. Therefore, marketers must broaden their scope and invest in initiatives that grow customer acquisition, rather than retention. And how exactly are we to do that?

[2] The Dirichlet is "*a mathematical model of how buyers vary in their purchase propensities, i.e. how often they buy from a category and which brands they buy from"* (Sharp, 2010:217)

The rebirth of mass marketing

Kotler argues that *mass marketing,* where the company appeals to the whole market through its strategy, is old fashioned (Sharp, 2010, p. 40). If you had asked me before this course if I thought mass marketing was a great go-to-markets strategy, I would probably have laughed. Much like Kotler, I would argue that the strategy lacks flexibility and can be extremely costly if not executed properly. As I have established, however, brand growth does not come from targeting the brand loyals. I will hold back that laugh.

I have learned that brand growth is accomplished through market penetration. The *Law of Double Jeopardy* states that brands with less market share have so because they have fewer buyers (Sharp et al., 2002). The strategic implications of this law are quite interesting, because it means that loyalty is driven by market share. Therefore, growth strategies should be aimed towards expanding the size of the customer base (Dawes, 2016). Sharp suggests that *sophisticated mass marketing* can do just that, as it helps us in reaching more potential consumers, where they are, at the right time (2010, p. 55). To me, this sounded very much like the modern buzzword: *Omni-channel marketing.* I think there is a clear resemblance to this way of thinking and Mike Stocker, the director of business development at Marketo[3], defines omni-channel as: "*orchestrating the customer experience across all channels so that it is seamless, integrated, and consistent"* (Marketo, 2017). I touched upon the subject of a more holistic and broad approach to marketing communication in my preliminary assignment too. I think most marketers would agree that we ought to be using several channels in order to reach our customers. This may be due to *media fragmentation*, i.e. the rapidly increased variety of media, which makes the number of media required to reach all customers increasingly large (Fill & Turnbull, 2016, chp. 20).

While media fragmentation explains why marketers might choose a broader selection of media in their strategy, it is the Laws of Double Jeopardy and Duplication of Purchase that make mass marketing, and not target marketing, competitive – even in the digital

[3] Marketo: A digital marketing software company

era. Knowing that large parts of consumer profiles are very similar, that consumers are loyal to several different brands and that the bigger brands, with more market share, get more repeat purchases from customers, I will now reflect on what these alternative consumer behaviour theories mean for me, as well as for the marketing profession in general.

Practical implications

On a daily basis I am the communication and marketing responsible at a management consultancy that specialises in digital learning. Obviously, I work in a B2B environment, but the studies of Phillip Stern (1997), comparing markets for coffee to pharmaceuticals, confirm that the above-mentioned empirical laws can be applied to this market as well.

Growing the brand

In my preliminary assignment, I stated that the customer journey has evolved under digitalization (Lemon & Verhoef, 2016), which means that marketers must carefully manage each step of the journey in order to decrease customer defection and grow brand loyalty. I still think customer experience management is an important discipline. As a behaviourist would argue, consumers can generate perceptions only through interacting with the brand, for instance if they had a great experience. Considering the law of Double Jeopardy, however, I would focus on selling to more people, rather than trying to make the current customers buy more. As we are a relatively small consultancy, compared to Deloitte or McKinsey, the Double Jeopardy Law also entail that we must work twice as hard to get loyalty from customers. If my COO had asked me for my one recommendation on, how to grow our brand, I would have argued for *brand salience*.

Reinforcing memory structures

Consumers of the digital era live in a time of information overload. We are exposed to more than 5000 pieces of advertising every day, while only 12 leave an impression (Prien, 2017). Integrated marketing communication is often associated with campaigns that seek to capture attention. As I have learned in this course, we should aim towards *reminding* consumers of our existence and try to influence behaviour rather than using *persuasive* positioning to affect attitudes. Additionally, the problem with the term "campaign" is that it has an end date. Instead, we should think of communication as creating a continues presence of mental and physical brand availability (Sharp, 2010).

Brand salience is not just about being top of mind though, as it *"reflects the quantity and quality of the network of memory structures buyers' hold about the brands"* (Romaniuk & Sharp, 2004, p. 327). This means that I am interested in what makes our brand thought of or stand out. One particular attribute in this regard is our brand colour, see *appendix 4*. All of my external marketing activities, e.g. social media, e-mail or advertising, must correlate with this existing brand image by using the same font and brand colour, in order to create and support memory structures (Sharp, 2010, p. 192). The consistency of our brand colours, orange and grey, is a vital part of what reinforces our brand in consumers' mind, according to Elise Gaillard, Research Associate at the Ehrenberg-Bass Institute: *"With consumers demanding simplicity and distinctiveness, companies will lose out if they preoccupy themselves only with superfluous branding efforts instead of creating distinctive associations with their brand such as colour"* (Ehrenberg-Bass, 2006). Physical availability means that we need to be present in as many buying situations as possible (Sharp, 2010, p. 196). Taking a digital standpoint, search engine optimization or blog posts are crucial proactive tools that create presence in the pre-purchase phase. Consistency in these digital activities, rather than price promotions or loyalty programs, is what will drive mental and physical availability of the brand.

Cognition in website design

During this course, I have been developing a new website for my company, see *appendix 5*. Although, information-processing theory is flawed, because the information we process cannot be applied to every purchase decision (Bettman et al., 1998), I used it in designing the website. *Miller's Law* states that we can only retain 7 items in our short-term memory (Miller, 1956). I found that *cognitive load* (Sweller, 1988) has a huge say in the design of a website, because I would potentially hurt the consumers' ability to make a decision if my landing page had too many links or banners.

Thinking like a behaviourist

But then again, are consumers really considering all aspects of each and every decision online? I certainly don't. But I do believe that attention is a limited resource in the digital era, which is why we need to make the journey as easy for the consumer as possible. Therefore, I have designed the website on a *behavioural* foundation, as I wish to create an environment that shapes the behaviour that I want: For the visitors to enter our sales funnel. This environment has been made with a simple-to-navigate and light design, because I want to create an "experience of short cuts". Additionally, consumers have several different ways to enter our funnel through call-to-actions, whether it be subscription to our company newsletter, or a contact form that allows the sales team to follow up on the lead.

A new view on funnel management

By signing up to an e-book, customers will automatically become a part of our newsletter, which I can mange in my email automation software. Stressing the point of mental brand availability, this automation tool lets me "nudge" customers and create awareness for a variation of our products, client stories and much more. These emails allow me to create memory associations for our field of expertise (Sharp, 2010, p. 192), and consumers are for instance more inclined to think of our e-book on *"digital learning and strategy"*, when they think of effective learning in organisations. Reading the newsletter may become a habit that I can reinforce with other marketing activities, e.g. inviting consumers to follow us on LinkedIn or inviting them to one of our executive briefings. Their usage, understood as engaging in our content, is what forms attitudes towards the brand.

The learning journey continues

This essay has reflected on what has been a truly insightful tour of critical thinking in the field of consumer behaviour. While the course is over, my learning journey continues. I will seek to question the empirical fundament of mainstream marketing thinking and apply the alternative *laws of marketing*.

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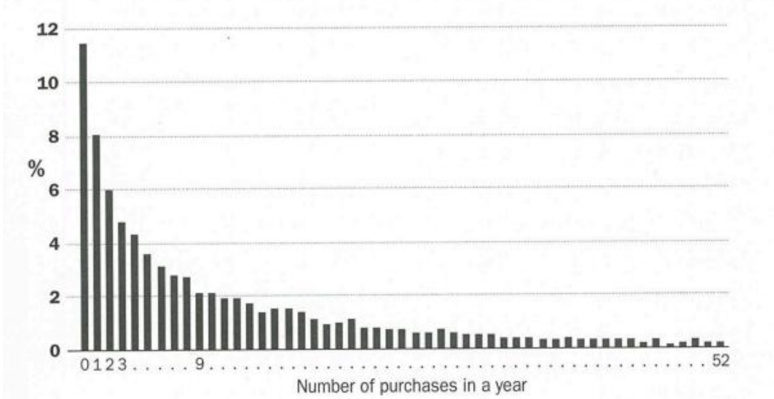
Appendix

Figure 4.3: Percentage of US households purchasing Coke x times, 2007

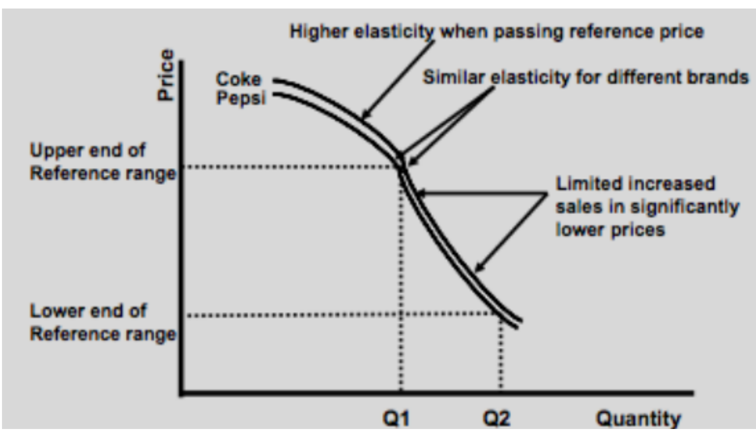


Source: Nielsen.

Appendix 1

Purchasing pattern of US households buying Coke in 2007. Shows the largest frequency of buyers is light, occasional byers.

(Sharp, 2010: 43)



Appendix 2

Price elasticity of Coke and Pepsi, which is very similar, even though Coke have larger brand equity

(Scriven & Ehrenberg, 2002)

	% used	% who also bought… Diet Coke	Pepsi	Coke	Tesco Cola	Coke Zero	Asda Cola	Sains. Cola
Diet Coke	35		48	44	12	28	9	5
Pepsi	33	52		47	14	26	11	5
Coke	34	45	45		10	21	8	4
Tesco Cola	9	48	50	40		22	22	14
Coke Zero	14	70	61	51	14		9	6
Asda Cola	6	48	55	42	32	20		10
Sains. Cola	4	48	49	41	36	24	18	
Average		47	55	41	24	22	18	10

Source: TNS superpanel 2007

Declining duplication as brand size reduces

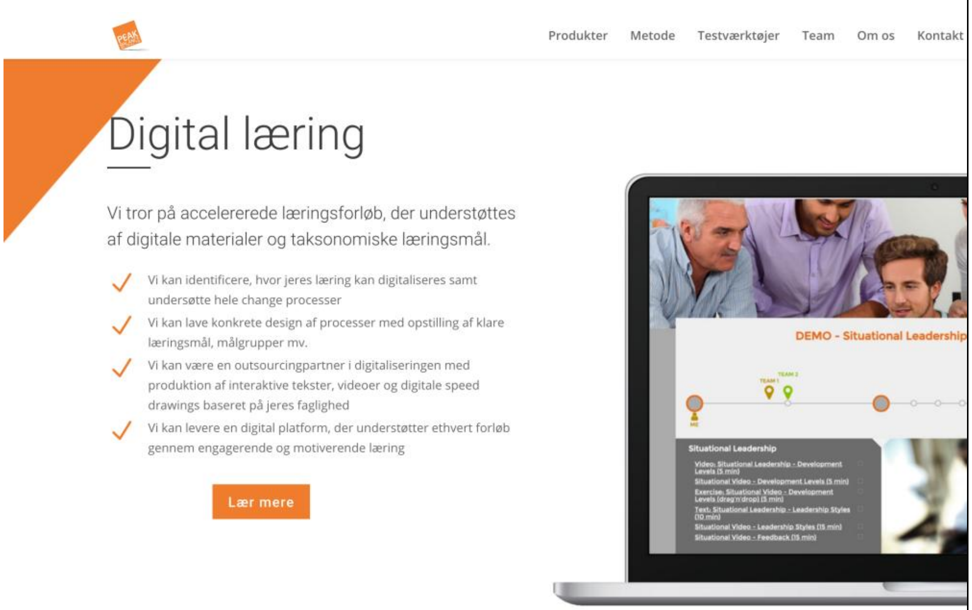
Appendix 3

The duplication of purchase law applied to the soft drink industry. Shows that consumers are not loyal to either Coke or Pepsi.

(From Lecture 6: Empirical generalizations)

Appendix 4

Peak Balance Logo with strong orange colour that stands out – a distinctive brand association.



Appendix 5

Website layout designed on a behavioural fundament with the aim of reinforcing memory structures through a specific brand colour palette.

(www.peakbalance.dk)