Emotional Brand Loyalty Measurement for Dynamic Brand Growth

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THE CHALLENGE

- With corporations spending billions trying to figure out how best to make their customers loyal, a real understanding of why customers stick with a brand or service has been, until now, elusive

- So, it has not been surprising to learn that **customer and brand loyalty** ranked first among management concerns of CEO's in a former Conference Board survey

- It has recently been demonstrated (Frederick F. Reichheld, *'The Loyalty Effect: The Hidden Force Behind Growth, Profits and Lasting Value'*) that conversion of just 5% more of the customer franchise would lead to profit increases ranging between 25%-100%

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THE CHALLENGE (cont.)

- Further, since it has been known for quite some time that the cost of acquiring new customers can be as much as 6-8 times the cost of servicing existing ones, the reality is that companies attempting all sorts of new business efforts to lure new customers will almost always be lagging behind those organizations who have mastered the art of keeping established users happy.

- So, the question becomes: how can marketers determine which customers will be loyal to their brand and which ones won't?

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THE POWER OF LOYALTY

- Loyal customers represent a brand's or service's greatest chances for acquiring revenue. They can be counted on as a solid base of continued and even expanded usage

- These are the users who would be most likely to try new offerings, extensions and even an extra-categorical new product (Weight Watchers' Frozen Meals; Tropicana and Dole Frozen Juice Bars; Sprint and T-Mobile Camera Cell phones)

- Strongest word-of-mouth is most likely to emanate from these users

- The more loyal and committed your customers are to your brand, the less vulnerable the brand is to competitive tactics and the more forgiving they are in the face of public relations disasters (e.g., Tylenol, MacDonald's, Audi, Dunkin' Donuts, Coke in the wake of 'New Coke', etc.)

- As loyalty increases, marketing investments become more efficient and payout becomes dynamic

- Most loyal customers provide 'lifetime value' to your business

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SATISFACTION IS NOT ENOUGH

- Satisfaction alone doesn't explain why customers become and remain loyal:

  - ✓Customers who are satisfied today may develop a different array of needs and wants in the future

  - ✓Satisfaction tracking study results, when modeled, don't predict future behavior as well as would be liked

  - ✓Satisfaction measures reflect past experience, and is not an effective predictor or profitability. Loyalty, on the other hand, tends to come closer than all other measures

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HOW LOYALTY BECOMES SELF-PERPETUATING

■ Once a company recognizes that its brand enjoys strong loyalty, it can start implementing dynamic growth:

✓ **Starbucks** started issuing prepaid cards that customers can use instead of cash. In the first month of the program in selected markets, they sold 2.3 million cards worth $32 million. Since that time, they've sold an additional 11.3 million cards equating to another $160 million. The card has been acknowledged to be one of the most successful launches of its kind, now accounting for one of every 10 transactions at all stores, with one-third of all cardholders reloading

❏ In the process, Starbucks has transformed a basic convenience card into a 'smart' device that identifies its most loyal customers, which insures they'll be coming back for more

❏ Future plans:

o Taking the concept a step further, Starbucks will partner with Bank One and Visa USA to launch the first ever dual purpose credit card ('Duetto') for a retailer (card to be used at retailer; card to be used as a standard credit card—but, instead of earning airline miles or cash rebates, users will accrue coffee credits at Starbucks)

o Card will store ordering information to speed up the purchase process

✓ Role model for this: **Harrah's** uses similar cards in slot machines to tailor comps like hotel rooms and meals to individual 'high roller' loyal patrons. Over 70% of gaming at Harrah's is linked to loyalty cards

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HOW LOYALTY BECOMES SELF-PERPETUATING (cont.)

ID Loyal Customers

Continuing Loyalty Programs

… Drive Continued Loyalty Thru Innovation:

- PrePaid Cards
- Starbucks Card Duetto™ VISA
- Coffee credits
- Storing ordering information to speed up purchase process
- ????

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HOW LOYALTY BECOMES SELF-PERPETUATING (cont.)

- Other success stories abound:

  - ✓ **Southwest Airlines,** the fourth largest domestic airline, was ranked #1 airline in Brand Keys' 2003 Customer Loyalty Awards and number two overall on Fortune's list of Top 10 Most Admired Companies in America. Why?

    - ➤ Their strategy is to keep things simple for the customer. It only flies point-to-point. It only flies Boeing 737's. Its fares are never higher than $299. There are never penalties for last-minute changes

    - ➤ Has a Rapid Rewards program tied only to air travel. Passengers simply fly eight trips and get one free ticket. Its requirements are the lowest in the industry and are based on trips, not miles. One can fly a fraction of the 25,000 miles required by other carriers and still receive a free ticket. No matter how great the flying distance, what cities customers fly between or how much is spent, Southwest Airlines thanks its customers each time they decide to fly with them

    - ➤ Their loyalty perspective and tactics obviously work: their revenue passenger miles were up 5% over '02 and their revenue passengers increased 4% in a still turbulent economic climate for the airline industry

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HOW LOYALTY BECOMES SELF-PERPETUATING (cont.)

- Even more success stories can be cited.

- Common denominator: each of these brands benefits from strong loyalty program or 'device':

  - ✓ **Orbitz**
  - ✓ **Southwest Airlines**
  - ✓ **Wachovia**
  - ✓ **Amazon**
  - ✓ **Intel**
  - ✓ **eBay**
  - ✓ **EMC**
  - ✓ **Apple**
  - ✓ **WalMart**
  - ✓ **Wi-Fi**
  - ✓ **Subway**
  - ✓ **HBO**
  - ✓ **ESPN**
  - ✓ **Krispy Kreme**

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THE QUESTION WE RAISED EARLIER

- Earlier, we asked: 'how can marketers determine which customers will be loyal to their brand and which ones won't?'

- We didn't provide the answer that first time

- Now, over the next several pages, we're ready with our answer

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EMOTIONAL BRAND ATTACHMENT AND LOYALTY

We can all draw from our own experiences. Here's a recent one of mine:

- I've chosen to service the family auto, whenever necessary, at the dealership's service headquarters several miles from my home, even though there is one other service headquarters literally seven short blocks from where I live. My favorite place doesn't offer rewards or points for frequent visits, and, quite frankly, I'm not at all quite that sure that their service staff is truly more competent than the one closer to where I live. But….

  - ✓ For one thing, the service reps and mechanics at my favorite place all take time to greet me and make me feel as if I'm part of a 'family'. They're friendly, they know me by my first name and they always offer me coffee, some little snack or a beverage whenever I come in. They know how to minimize the stress and anxiety from the car-service syndrome that millions of car owners experience periodically.

  - ✓ After they've gotten my car, and I've left, they call me throughout the day to notify me as to how the servicing is going, whether they've found any new 'surprises', and they always provide an 'ETA' letting me know when my car will be back to me

  - ✓ They always assure that they'll work with me on any items that I'm liable for, and they seem to go out of their way to minimize any 'sticker shock' when I get to pay the bill.

It's not just that I know I'll get great servicing and a pleasant, supportive experience whenever I show up there. I <u>TRUST</u> them with my car and have faith that they have my safety and well-being in mind. I'm beyond being satisfied with their servicing. I couldn't conceive of going elsewhere to service my car. I'm <u>ATTACHED</u> to them.

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EMOTIONAL ATTACHMENT AS IT RELATES TO LOYALTY

- For over 40 years, the academic world has provided a foundation for measuring emotional attachment via Attachment Theory and the Bonding Process.

- A methodological protocol was established to attempt to understand emotionally attached (secure) and emotionally detached (insecure) relationships.

- Grounded in these academic findings, the concept of emotional Brand Loyalty, which spawned the *WEALR8VA*© algorithm, has become the only **patented** research approach that captures the most influential emotional correlates that explain and predict a definitive quantitative measure of loyalty.
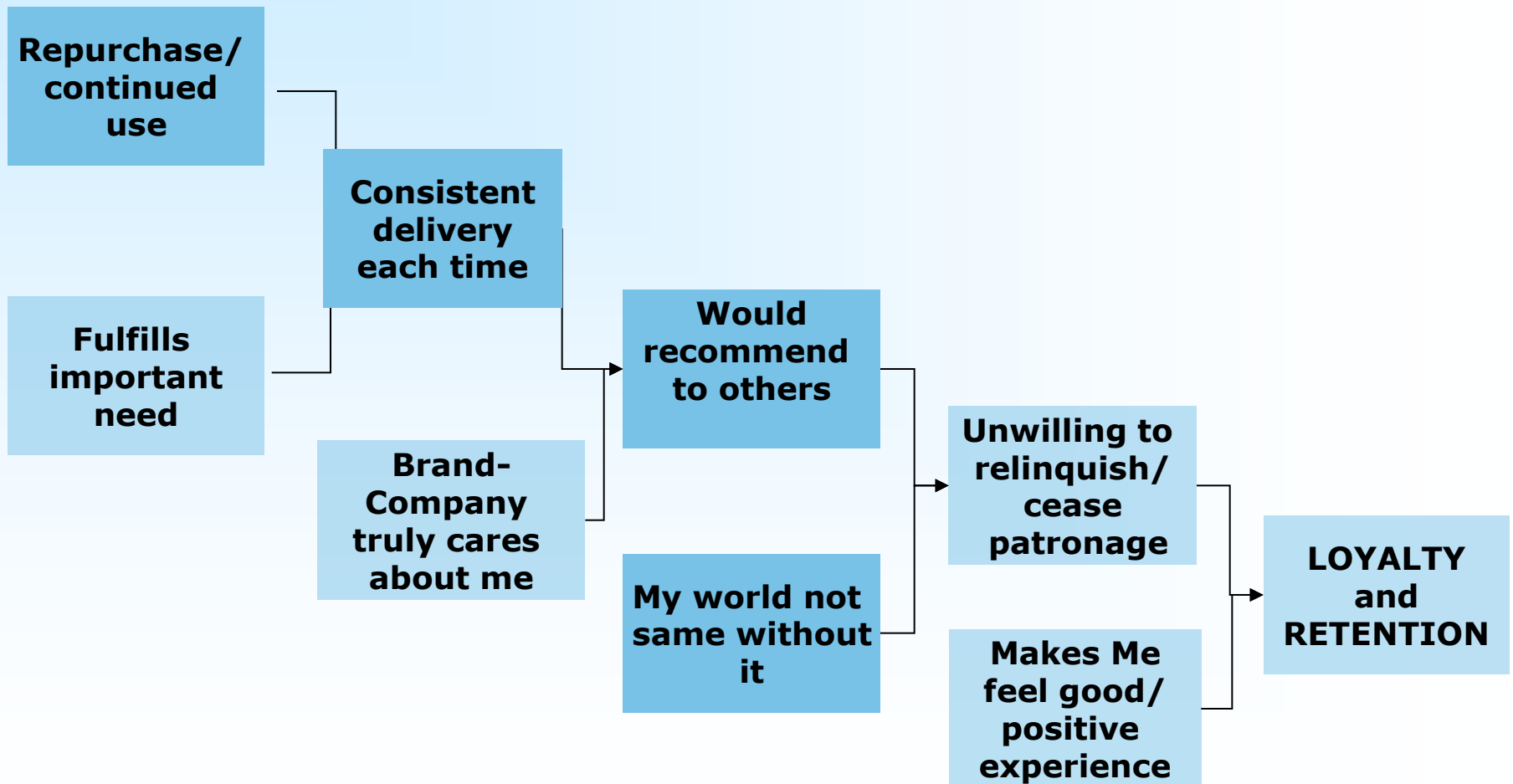
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EMOTIONAL ATTACHMENT AS IT RELATES TO LOYALTY (cont.)

- At its core, the **WEALR8VA**© algorithm measures <u>passion</u>—the passion for a consumer to hold on to brands, products, services, promotions, events, sponsorships, media, television programs and series---even advertising messages and spokespersons.

- It was created by synthesis of a multiplicity of academic findings regarding life-long relationship attachments to core business issues.

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EMOTIONAL ATTACHMENT AS IT RELATES TO LOYALTY (cont.)

- The ***WEALR8VA***© algorithm measure has successfully been applied across virtually all product/service categories, new product/promotion concepts, media, advertising messages…even political candidates.

- the ***WEALR8VA***© algorithm identifies the most loyal patrons of YOUR BRAND, then affords the opportunity to apply them analytically in a multitude of ways to your survey data.

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ANSWER: THE 8-VARIABLE WACSSCI EMOTIONAL ATTACHMENT LOYALTY-RETENTION ALGORITHM (*WEALR8VA*©)

Repurchase/ continued use

Fulfills important need

Consistent delivery each time

Brand-Company truly cares about me

Would recommend to others

My world not same without it

Unwilling to relinquish/ cease patronage

Makes Me feel good/ positive experience

LOYALTY and RETENTION

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HOW *WEALR8VA*© WORKS

Our patented 8-variable algorithm questionnaire battery is included in your questionnaire.

Based on how your survey respondents respond to these 8 questions, they are classified into 5 segments, ranging in intensity about YOUR brand from:

'Extremely Passionate' →**'Coldly Impassionate'**

- The larger your sample size, the greater the number of segments we can generate AND the more stable each segment is to read; smaller sample sizes usually generate at least 3 segments. Larger sample sizes allow us to identify 7 segments or more. For a major insurance company, we have identified 10 stable and replicable loyalty segments which cut across 28 countries world-wide.

- The key segment to identify, of course, is the one that is **'Extremely Passionate'** about YOUR BRAND

- Of course, it behooves you to identify your competitors' **'Coldly Impassionate'** customers: they could become YOUR next new customers.

- Obviously, we can reveal the input questions and their 'order of influence' to only our contracted customers

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IMAGINE THE POSSIBILITIES

Imagine the number of functions and applications you can now undertake using *WEALR8VA*©

- Enhancing tracking, segmentation, ad effectiveness and product/ concept test studies

- New product planning and development

- More informed messaging and targeting for advertising and marketing efforts

- 'Tagging' and assessing current customer and sales prospect d-bases as well as survey d-bases

- Creating more effective loyalty and rewards programs for customers

- Enhancing the applications of competitive intelligence

- Making more informed decisions about pricing, packaging, logos and naming

- For stronger planning (e.g., respondent screening and recruitment) of upcoming market research projects

- Optimizing your custom proprietary research panel research

- Strengthening all focus group and one-on-one projects, notably screening

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TAKING IT ONE STEP FURTHER: *WEALR8VA©* APPLICATIONS LOYALTY-BASED SEGMENTATION MODELS
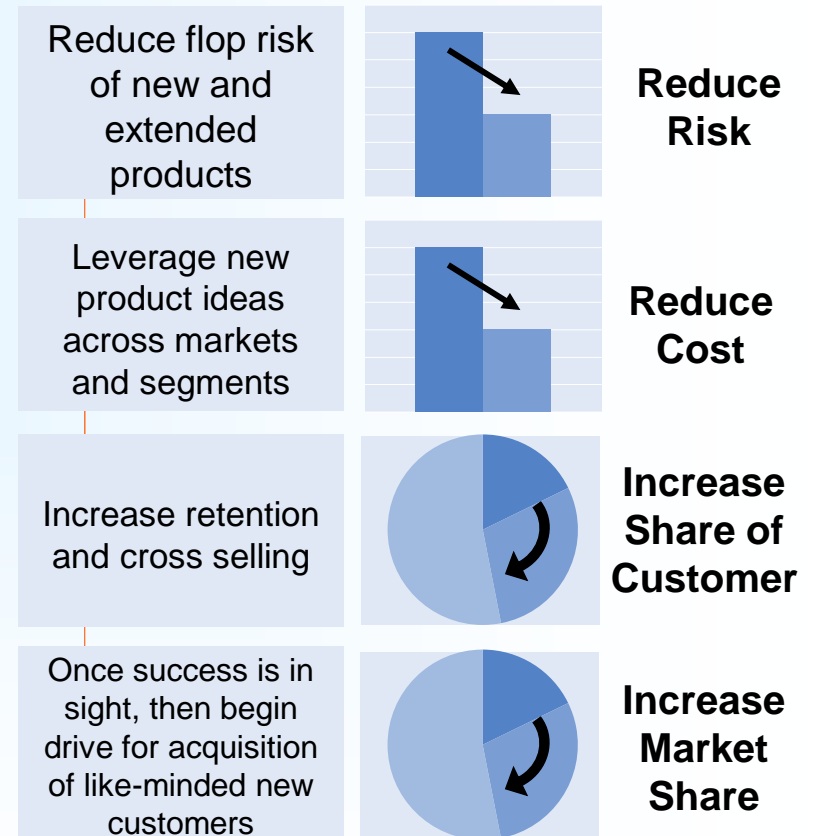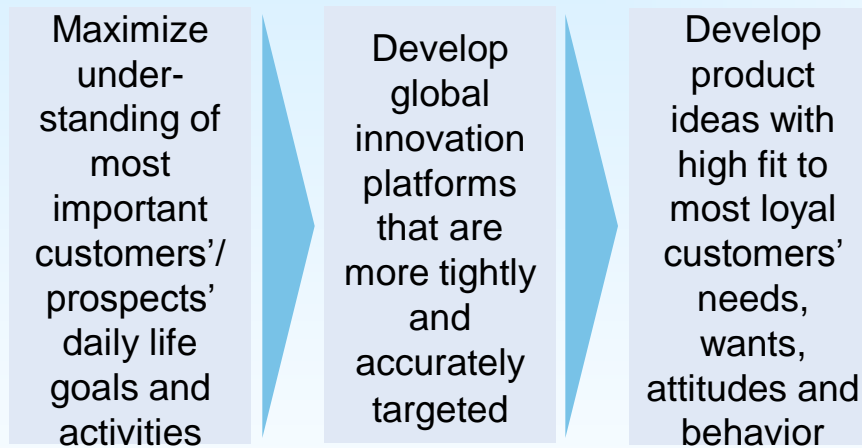
- Using output from **WEALR8VA**[©] and your survey, by applying loyalty-based segmentation to your survey data, you are able to hone in on different underlying segments with different loyalty 'drivers'

- One segment's loyalty can be based upon perceptions of value, while a second one's loyalty may be based upon perceptions of uniqueness and being 'pre-emptive', as in being first-in. A third segment may have its loyalty based purely upon sensory response to the brand while a fourth segment could have it's loyalty dependent upon price and value perceptions

- Finally, loyalty based segments can be profiled to determine all significant elements resulting in inter-differentiation in order to maximize targeting and their identification

- At this point, the segments can then be managed in order determine how best to allocate resources. Resource allocation is a principal benefit of loyalty-based segmentation: ***it will determine whom to focus most and least on, as well has how much attention each segment deserves***

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TAKING IT ONE STEP FURTHER:
WEALR8VA© APPLICATIONS (cont.): RESOURCE ALLOCATION

- For existing customer d-bases, WACCSI utilizes a 'Value Index' to append to each loyal customer

- This informs where resources can be put to best use in order to further enhance loyalty of YOUR brand's most loyal customers—and to reallocate resources AWAY from less loyal customers who would yield smaller ROI

- By knowing WHO the loyal customer is, WHAT they want from YOUR brand, and HOW MUCH they are worth to YOUR brand, strategy development can be optimized:

  - ✓ How to gain greater wallet share and maintain strong relationships
  - ✓ How to move profitable customers further up the 'loyalty ladder'
  - ✓ How to profile loyal customers to target and attract competitors' customers

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Increasing Profitability and Driving Growth Using *WEALR8VA*©

Among Most Loyal Customers

Maximize under-standing of most important customers'/ prospects' daily life goals and activities	→	Develop global innovation platforms that are more tightly and accurately targeted	→	Develop product ideas with high fit to most loyal customers' needs, wants, attitudes and behavior

Reduce flop risk of new and extended products → **Reduce Risk**

Leverage new product ideas across markets and segments → **Reduce Cost**

Increase retention and cross selling → **Increase Share of Customer**

Once success is in sight, then begin drive for acquisition of like-minded new customers → **Increase Market Share**

Increased Profitability and Growth

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WEALR8VA© Presents Unique Research Opportunities for New Product Development and Category Pre-emption

Innovation Platforms

Product Categories (Color = Attractiveness)

Product – Innovation Platform Fit

Opportunities for Innovation?

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Greater Research Opportunities Resulting in Development of Focused Innovation/Growth Fueled by *WEALR8VA*©

Authenticity / Real Foods

- Take the time to have breakfast at home
- Make "real" breakfast on weekends, alone, when waking up late
- Prepare school lunch in the morning so that it stays fresh
- Taste and buy food at farmers' market
- Buy European imported foods at specialty store to eat with husband in the evening
- Prepare and freeze week's meal after shopping at the open market
- Eat snack from organic store
- Have a fruit snack
- Stay home and prepare healthy dinner with roommates once a month
- Grill fresh, lean and healthy meat for dinner
- Eat home-cooked dinner at sister's house
- Prepare dinner at home instead of going out as usual

Actions for Frozen Foods Brand

New Product Innovation
- Offer chilled or frozen "Organic Garden" soup meals
- "Fresh from the Farm" egg and sausage breakfast pocket

Distribution
- Install high-quality "Fresh Chilled Meals" vending machines in schools and offices, carrying Brand A products
- Sell Brand A fresh products in "Farmers' Market" section of grocery stores

Packaging
- Print ideas of fresh ingredients (e.g., basil, thyme, rosemary) to add/complement a new Brand A meal on package

Brand-building
- Endorsement by the Harvard School of Public Health that promotes a nutritional seal of approval for the product

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