CONSUMER LOYALTY MARKETING IN REPEAT-PURCHASE MARKETS

Mark D. Uncles*
Grahame R. Dowling
Kathy Hammond
Angelo Manaresi

Centre for Marketing Working Paper
No. 98-202
October 1998

Mark Uncles is Professor of Marketing, University of New South Wales, Sydney, Australia.
Grahame R. Dowling is Associate Professor of Marketing, Australian Graduate School of Management, University of New South Wales, Sydney, Australia. Kathy Hammond is Director of the Future Media Research Programme and a Research Fellow, London Business School, UK. Angelo Manaresi is a Lecturer in Marketing, Dipartimento di Discipline Economico-Aziendali, Universita di Bologna, Italy.

*Correspondence to: Professor Mark Uncles, School of Marketing, University of New South Wales, Sydney 2052, Australia, Ph: +612-9385-3510, Fax: +612-9663-1985, email: Error! Bookmark not defined.

Acknowledgments
We thank Jack Cadeaux, Robert East, Byron Sharp, and Chris Styles for their constructive suggestions. Also all those who commented on an earlier draft of this paper presented at the MSI Workshop on Fundamental Issues and Directions in Marketing, with special thanks to the organisers, George Day and David Montgomery.
Consumer Loyalty Marketing in Repeat-Purchase Markets

Abstract

Extensive empirical research indicates that consumer loyalty in competitive repeat-purchase markets is shaped more by habits, reinforcement effects, and situational influences than strongly-held attitudes. This commonly results in divided-loyalty among a set of brands for individual consumers and double-jeopardy patterns among competing brands. To be effective, loyalty marketing initiatives need to take account of these factors to strengthen preferences and reinforce purchasing habits. Failure to do so may mean consumers come to see initiatives as irrelevant or as merely promotional rewards.

Keywords

Consumer Loyalty, Habit, Reinforcement, Divided Loyalty, Loyalty Programs
Consumer Loyalty Marketing in Repeat-Purchase Markets

Building and maintaining consumer loyalty lies at the heart of the marketing concept. Pursuit of this goal implies that the organisation is not only interested in making the sale or achieving trial purchase at any cost, but is focussed on how to achieve longer-term profitability through repeat-purchase and consumer retention. It is this loyalty that directly provides a continuing revenue stream for the organisation. Managers of superbrands such as Nestle, Sony, Hitachi, BA, United, Disney, Kodak, Kellogg's, Coca-Cola, Foster's, Budweiser and McDonalds are well aware of the importance of maintaining and developing consumer loyalty. The longevity of these brands is a testament to their success. Academic interest extends back to the earliest days of the discipline and continues into present times (Copeland 1923; Jacoby and Chestnut 1978; Webster 1992; Dick and Basu 1994; Mellens et al. 1996; Oliver 1997; Uncles and Laurent 1997).

A major reason for this continuing interest is the belief that loyal consumers offer a wide range of benefits, quite apart from providing a stream of revenue. Specifically, an organisation with loyal consumers might expect to benefit from:

- Reduced consumer acquisition costs and more cost-effective servicing costs (Blattberg and Deighton 1996; Reichheld 1996; Palmer and Beggs 1997).

- Greater consumer resistance to counter-offers (notably price-based offers) or counter-arguments (from advertising and other external sources) (Belch 1981; Tellis 1988).

- Fewer reasons for consumers to engage in extended information search among alternatives (Holbrook 1978).

- Word-of-mouth support and endorsement, which strengthens the commitment to a brand and might even become a form of advocacy (Oliver 1980; Christopher et al. 1991; Bone 1995).
As organisations attempt to realise these "hoped-for" benefits the practice of marketing is changing profoundly. Many academics and practitioners are coming to view the primary focus of our discipline as "loyalty marketing". Three defining characteristics of this viewpoint are particularly noteworthy:

First, brand management has developed to take advantage of new loyalty marketing vehicles. To build and maintain consumer loyalty, brand managers are supplementing their mass-media advertising with more direct communications, through direct and interactive methods, internet communications, and other innovative channels of distribution (Pearson 1996; Peppers and Rogers 1997; Barwise and Hammond 1998). Simultaneously, however, brand managers are having to face more threats to their brands, especially parity responses from competitors.

Second, enabling technologies for identifying and communicating with consumers have developed dramatically in recent decades. Examples include automated data capture; increased computer storage, retrieval and processing capabilities; and computer-mediated interactivity with consumers. As the costs of these technologies fall, there has been a rapid growth in direct marketing, targeted marketing, and one-to-one marketing. This has given added poignancy to familiar calls for marketers to stay close to their consumers (Peppers and Rogers 1993; Petrison et al. 1993; Deighton 1994).

Third, an outcome of these two changes has been the development of so-called "loyalty programs". These are now pervasive across industries as diverse as grocery retailing and air travel. They take a variety of formats, based on some combination of incentives, rewards, membership and
other "relationship" benefits. Typical drivers behind the launch of these programs come from branding goals (such as the desire to strengthen the brand by forming a relationship with consumers); consumer goals (by rewarding and recognising loyal consumers, or by offering additional sources of value); and competitive response (namely, the attempt to differentiate parity brands, pre-empt the competition, or imitate competitors). The applied marketing literature suggests that there are very high expectations for these loyalty-building initiatives (Reichheld and Sasser 1990; Nalebuff and Brandenburger 1996; Reichheld 1996).

Speculation by academics, consultants and businesspeople is that marketing in the new century will be very different from when much of the pioneering work on consumer loyalty was undertaken (e.g. by Churchill 1942; Brown 1953; Cunningham 1956, 1961; Tucker 1964; Frank 1967). Yet we believe many of the changes are more apparent than real and there is much to be gained from looking backwards as well as forwards. Indeed, three themes have been of enduring concern and form the core of this paper: *how to conceptualise consumer loyalty, how to measure it, and how to manage it.*

The purpose of this paper is, first, to appraise the concept and measurement of consumer loyalty, and, second, to relate our understanding of loyalty and how it works to the emerging field of loyalty marketing. The focus is on established repeat-purchase markets where there is direct competition between branded products and services. These markets include most transport, retail, hotel, media and personal services, as well as packaged goods, food and beverages, pharmaceuticals and cosmetics. Many of these are routine and mundane purchases, but they are hugely important in terms of the share of disposable consumer income for which they account, and will continue to be so.

In the next section we outline the conceptual and measurement aspects of consumer loyalty and loyalty programs. There then follows a discussion of the implications of our framework. Alternative perspectives are discussed, before concluding with an agenda for the future.
**Consumer Loyalty Marketing: A Framework**

*Consumer loyalty* is defined here as an on-going propensity to buy a brand. While there are many different definitions of consumer loyalty we chose this generic definition because it: (a) highlights the *manifest* nature of consumer loyalty in providing a revenue stream to the organisation, and which therefore is of strategic importance to management; (b) is often used when studying low-involvement, repeat-purchase consumer behavior; and (c) can apply to the study of an individual, a market or a brand.

From this definition we describe individual consumer loyalty (Figure 1) and aggregate consumer loyalty (Figure 2), and discuss a set of related measurement issues (Figure 3) for repeat-purchase markets. Each of these is discussed in turn.

**Individual Consumer Loyalty**

In Figure 1 we present a framework for looking at individual consumer loyalty in repeat-purchase markets. Current loyalty is seen as shaped by habits and reinforcement effects from past behavior and attitudes, by personal preferences to features of the brand and any special initiatives to maintain and build loyalty, and situational influences. Below we discuss the reasoning behind each factor and the relationship between these components.

< Figure 1 >
Behavior

At the core of consumer loyalty is the manifest long-run propensity to buy a brand. That is, a consumer reveals or states a propensity to buy a particular brand some proportion of the time. For example, on the transatlantic air-route a typical frequent-flyer might choose BA 80% of the time.

The implication here is that loyalty is not something that can be attained exclusively for an indefinite length of time. But rather, over time, consumers will tend to buy from a repertoire of brands and have on-going propensities to buy each of the brands in these repertoires. Perhaps BA 80% of the time and United 20%. Both proportions are seen as enduring over a certain pre-specified time horizon (which would be longer than the length of the typical purchasing cycle), but on any specific purchase occasion either BA or United could be chosen. Under these circumstances, not too much reliance should be placed on trying to predict the next purchase in isolation, rather, it makes more sense to attempt to predict both the repertoire of purchases and the shares of each brand in the category.

There is considerable empirical evidence to suggest that divided or "polygamous" loyalty is a better description of actual consumer behavior for most people than either brand switching (a conscious once-and-for-all change of allegiance to another brand) or promiscuity (the butterfly tendency to flit from brand to brand without any fixed allegiance). Empirical studies of divided loyalty have been undertaken for packaged goods, cosmetics, TV viewing, aviation fuel contracts, fast foods, grocery retailing, and other repeat-purchase products and services in countries such as the US, Japan, UK, Germany, Italy and Australia (Bass et al. 1976; Lattin and McAlister 1985; Ehrenberg 1988; Kahn et al. 1988; Uncles et al 1994, 1995; Blattberg et al. 1995; and reviewed in Ehrenberg and Uncles 1997).

Reasons for the generalized patterns of divided loyalty, or polygamy, include the fact that consumers buy different brands for different usage occasions, or for variety, or because it was the only one in stock, or it offered better value-for-money at the time of purchase because of a special deal. In the case of BA and United the pattern of divided-loyalty might depend on whether the consumer is
travelling for business or pleasure, the precise route and schedule, special deals, offers, and perhaps arrangements with third parties (such as car hire and hotel offers). We return to these effects later.

That on-going propensities differ across brands allows for the fact that a consumer may have a favorite brand, a second brand, a third brand and so forth (BA might be the favorite brand and United the second brand). Beyond these there may be no on-going propensity to buy other brands (in our example, Delta, Air France and Virgin might not be chosen at all). The main exception - where exclusive buying is observed - is among consumers who are light buyers of the product category and therefore of any brand in the category. Among these consumers, apparent loyalty to BA or United may merely reflect a very limited number of flying occasions.

The research also suggests that there is no difference between experience and credence goods and services, both hold out the possibility of there being on-going propensities to buy from a repertoire of brands. Nor, in the context of loyalty marketing, should it be assumed that a special program will fundamentally alter these propensities. Indeed, all the evidence suggests that just as we have brand repertoires so we also have program repertoires. The frequent-flyer with BA and United will take advantage of both these airlines' loyalty programs. As for brand choice, only the light buyer will tend to support just the one program (Dowling and Uncles 1997).

**Attitudes**

Many have argued that there must be "attitudinal commitment" for true consumer loyalty to exist (Day 1969; Ajzen and Fishbein 1977; Jacoby and Chestnut 1978; Bagozzi 1981; Fishbein 1981; Foxall and Goldsmith 1994; Mellens et al. 1996). This needs to take the form of a consistently favorable set of stated beliefs toward the brands that are purchased. BA therefore is not only chosen 80% of the time, but there is an on-going "attitudinal preference" to fly BA as well. Thus, flyers might believe it has
more comfortable seats, better executive lounges, tastier food, and friendlier airline staff, and consistently hold these beliefs over a certain pre-specified time horizon.

However, having a consistent favorable set of stated beliefs about BA does not preclude having a set of favorable beliefs about United. Nor does it preclude broadly similar evaluations of their directly competing loyalty programs - there may in fact be very little to attitudinally differentiate one brand or program from another. Typically, however, there exists a favorite brand within a personal repertoire. This notion of a favorite brand might imply a real preference (perhaps based on the perception that BA offers more than competing airlines) or simply signify that among salient brands it is convenient to choose one brand more than another for much of the time (perhaps habitual use of BA makes it easier to continue to deal with this airline or it offers financial advantages to the consumer) (Cunningham 1961; Hammond 1997; Stern and Hammond 1998).

While empirical evidence for behavioral loyalty is strong and extensive, it is somewhat equivocal for attitudinal loyalty. In large part this reflects the nature of buying in repeat-purchase markets. Because many of the purchases are routine and mundane, attitudes about brands in the consideration set may not strongly held. For the consumer who is repeatedly flying, shopping or buying, it is not important to have a set of strongly held beliefs toward the brands that are purchased, as long as they "do the job". To the extent that a consumer expresses a consistent set of attitudes, it is likely to be based on frequent usage/purchase, frequent exposure to the brand, and familiarity with the communications messages - a combination of learning, and in-use and emotional memory (Kuehn 1962; Bird and Ehrenberg 1966, 1970a, 1970b; Lutz and Winn 1974; Lastovicka and Bonfield 1982; Hoyer 1984; Leong 1993; Rossiter and Percy 1997). BA, therefore, is known to have comfortable seats because of past experience in flying with this airline, reinforced by the message content of BA's advertising.
A further sign of the equivocal nature of attitudes is that at an individual level, evidence shows that attitudes can be quite unstable. Thus, a favorable belief about BA is not necessarily sustained over time (even by those who continue to fly with this airline), raising questions about the nature of attitudinal commitment. Moreover, those attitudes that are stable may simply describe the brand and the communication messages, rather than offer an evaluation (Barwise and Ehrenberg 1985; Castleberry et al. 1994; Dall'Olmo Riley et al. 1997).

The way we conceptualise these weak levels of attitudinal commitment and strong signs of behavioral loyalty is to envisage a recursive relationship between the two, in that they interact over successive purchase occasions (as suggested by the double-headed arrow in the left panel of Figure 1). The consumer will almost certainly have direct experience of the product category, and also of the brand itself, so it is not as if choices are being made in ignorance. In these circumstances, it makes little sense to assume attitudes cause behavior. If causality operates at all here it is more likely to be that repeated behavior strengthens attitudes. Having flown with BA and United, or drunk Foster's and Budweiser, the consumer is then prepared to state a liking for these brands. The role of a loyalty program might then be to reinforce these actions and beliefs, in much the same way as advertising (Ehrenberg 1974).

**Brand Component**

Brands in the repertoire offer functional value to the consumer. Transatlantic airlines enable the traveller to fly from New York to London, in a timely, safe, comfortable and convenient way. An ability to "do the job" is a necessary condition for the brand to be in a consumer's repertoire - assuming that consumers are not forced through circumstance to buy something that fails to deliver or satisfy.

It is commonly argued that brands also offer psychological and social value (Aaker 1991; Sheth et al. 1991; de Chernatony and McDonald 1998; Keller 1998). This is most easily appreciated for
unique luxury and lifestyle brands - DeBeers diamonds or YSL clothing. But in repeat-purchase markets psychological and social value is inextricably bound up with attitudes and, as shown above, these may reflect an accumulation of experiences (in-use and emotional memory) or simply playback the message content of advertising (learning). These additional sources of value might, however, hold out the possibility of providing a few points of difference between equally acceptable brands and this might be useful to help the consumer justify a purchase (rather than admit to a reliance on convenience or price even if these were the main reasons for the specific choice of brand).

In large measure, these sources of value will be known to consumers from past experiences. Nevertheless, there is at least the possibility that thoughts and feelings about a brand can change prior to a specific purchase occasion. Conventionally this would depend on the combined influence of the following factors:

- Cognition, based on new information about the brand.
- Conative factors, including behavioral dispositions towards the brand based on perceived switching costs, sunk costs, and consumer expectations.
- Affective responses induced by mood states and emotions.
- Social norms, in that favorable recommendations from peers, or from those who are seen as credible (through advertising perhaps), might influence the consumer's assessment of the functional, psychological and social value of the brand.
- Personal norms that result in the individual having a pre-disposition to be brand-loyal or, by contrast, deal-prone, and that will see the consumer choosing brands in a way that is compatible with this proneness.

The important point here is that for repeat-purchase markets these factors tend to be weak, in contrast to the enduring impact of habit and the reinforcement effect of learnt behavior. For habitual
purchasing, problem-solving and extended decision-making sequences would have occurred some time in the past - if at all (Olshavsky and Granbois 1979). In such circumstances, regarding thoughts and feelings as formative antecedents of loyalty (in the sense used by Howard and Sheth 1969; Engel et al. 1993; Dick and Basu 1994) is not the most relevant approach to take.

**Loyalty Program Component**

Loyalty programs, like the brands with which they are associated, offer value to both the organisation and the consumer. The value to the organisation is thought to accrue as much from how they change the pricing dynamics among competitors as their ability to attract a larger pool of loyal consumers (Nalebuff and Brandenburger 1996). Another way these programs might add value is by providing an additional attribute to the product, which may be used in an attempt to provide at least some points of difference among directly competing brands (Carpenter et al. 1994).

Many consumers appear to value loyalty programs because they offer an exotic reward (free air travel) that is out of all proportion to the value of the item being purchased (such as food or gasoline). Conceivably, these loyalty programs have the effect of inducing stronger thoughts and feelings than is typically associated with the routine purchasing of brands. This might be seen in terms of:

- Cognition. More information is provided to the "valued consumer", through membership newsletters, brochures and special events.
- Conative factors. The consumer perceives a rise in switching costs, in that points will be forgone and rewards unattained if the brand is not chosen.

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1 In practice it may be hard to identify personal norms because people are inconsistent in their behavior and attitudes across differing product categories.
• Affective responses. The program is seen as creating a sense of belonging between the consumer and the organisation, and this gives the person an emotional disposition to buy the particular brand.

• Social norms. There might also be social pressure to "join the club" or to achieve a certain status within the program (such as BA Gold Class status), which motivates a purchase.

• Personal norms. If the person has a pre-disposition to collect things or join clubs, it may be attractive to join and use a membership-based loyalty program.

However, loyalty programs designed to support low-involvement, repeat-purchase products and services, run the risk of generating more loyalty to the program than the brand. The crucial question is whether the functional, psychological and social value of these programs is sufficient to override the established patterns of loyalty described earlier. By contrast, the benefits of a program may simply reward habitual purchasers (drawing in particular on the economic value of the program) or reinforce existing behavior (a learning effect based on the different sources of value).

Only a limited number of before-and-after studies have been published, but from these it appears that on-going propensities are not altered much by the introduction of loyalty programs (e.g., Sharp and Sharp 1997; East et al. 1998; Sharp 1998). This suggests that habit and reinforcement dominate the effects outlined above. This is also in line with evidence on the long-run effects of promotions; namely, that there are no after-effects in terms of repeat-purchase loyalty following price promotions, and that most consumers who take advantage of a promotion have bought the product before (Raju and Hastak 1980; Rothschild and Gaidis 1981; Szymanski and Busch 1987; Totten and Block 1987; Ehrenberg et al. 1994; Blattberg et al. 1995).

Our conclusion is that over the long-run, product values and loyalty program values will interact. This we conceive as another recursive relationship. For instance, given the product category decision to fly from London to New York, the main driver of brand choice might be the habit of
travelling with United, reinforced by satisfaction with previous experiences of flying with United, and then also reinforced by the prospect of accumulating frequent-flyer points. Under this conception, programs that add real value to the core brand and are consistent with the brand's positioning are more likely to interact positively than ones that offer irrelevant value.

**Situational Influences**

That the consumer has a brand repertoire also means the decision made on a specific purchase occasion may be subject to situational influences, without any serious risk (in that the consumer knows from prior experience the alternatives in the repertoire are all satisfactory). These situational influences are of three types:

- **Situational cognitive influences**, such as competitive information at the point of purchase which induces the consumer to re-think the purchase.
- **Situational conative influences** where brands in the repertoire change their basic offer (such as BA offers an up-grade, United flies at a more convenient time on this occasion, or Avis offers a special deal in conjunction with BA, not United).
- **Situational affective influences** include the consumer's general mood (having to contemplate air travel) and emotional responses at the point of purchase.

These influences are specific to the situation and therefore are as likely to be responses to the buying process as much as choice of brand or program. However, if similar choice situations repeatedly occur then these situational influences may become engrained (a consumer might come to expect to buy on offer, even if the person was not especially deal-prone, or a particular type of buying situation - like air travel - might become associated with specific emotions, this becoming a form of "emotional memory").
A loyalty program that plays on situational influences may be perceived as offering real value to the consumer (hence, the possible attraction of frequent-flyer programs that reduce queuing times and minimise check-in procedures, or retail schemes that have fast lanes for program members).

It is apparent that these situational influences are crucial to any understanding of consumer loyalty in competitive markets. Hitherto they have been largely under-played, giving rise to views of loyalty which fail to be realised in the marketplace. It is not uncommon to hear comments such as: "we would have 100% loyalty if only it wasn't for out-of-stock conditions, distribution bottlenecks, point-of-sale promotions by our competitors, and so forth". Yet these conditions are facts of marketing. To the extent that larger brands have better distribution and are more widely available, this provides some explanation for the finding that larger brands have somewhat greater levels of loyalty (discussed more fully in the next section). From a practical viewpoint, there is little to be gained from an abstract notion of "pure loyalty", untroubled by competitive and situational influences, when these are always present in the marketplace.

Figure 1 shows the collective, time-ordered influence of the purchase history, product and loyalty program components, and the situational influences that govern current behavior and current attitudes. In the context of repeat-purchase markets, this process is merely a snap-shot in a sequence of purchases extending into the future: t+1, t+2, etc. Our argument is that it makes good sense to think of loyalty as contingent on all these factors.

**Aggregate Consumer Loyalty**

So far, the focus has been on individual consumer loyalty, however any practical concept of consumer loyalty must have a means of aggregating the process in Figure 1. This is true unless one assumes that all consumers are homogenous (say within a very tightly-defined segment), or upholds an extreme form of one-to-one marketing where it is possible to justify building complete models of the
loyalty of individuals and targeting customised marketing programs at these specific consumers. In practice, consumers seldom show high levels of homogeneity (therefore many segments are fuzzy, overlapping, or hard to discern empirically, Jain et al 1990; Hammond et al. 1995), and often the one-to-one targeting of large numbers of consumers is uneconomic (in this respect it is quite different from having key accounts in business-to-business markets). Thus, for the types of markets studied in this paper, we need a perspective on consumer loyalty that explicitly accommodates heterogeneity across consumers.

At an aggregate level repeat-purchase markets typically have a well-defined structure, as shown in Figure 2. Brands here are defined by their degree of loyalty and market shares. The fundamental and overriding fact here is that most brands in an established, competitive market reflect the "Double Jeopardy Law" that smaller market-share brands have fewer buyers than bigger brands and these buyers buy them less often (and also typically say that they like them less) (McPhee 1963; Ehrenberg et al. 1990). An inference here is that one way to instil loyalty is to become the market leader and there is some empirical evidence for this interpretation (Ehrenberg 1988; Reibstein and Farris 1995; Rust and Zahorik 1993; Szymanski et al. 1993; East and Hammond 1996; Dekimpe et al 1997).

< Figure 2 >

In theory and in practice there can be exceptions to these Double Jeopardy brands:

- Big brands which exhibit signs of "super-loyalty" (that is, they have a higher degree of repeat-purchase or behavioral loyalty than we would expect after allowing for the DJ effect) (Fader and Schmittlein 1993).
- Niche brands which have a higher proportion of behaviorally loyal buyers for their level of market share than predicted by the DJ line.
- Change-of-pace brands which have a higher market share but a lower repeat-purchase rate than the DJ line predictions (Kahn et al. 1988).
Being exceptions, these types are not observed often or consistently across markets. Therefore their predictive use is limited. Nor do they appear to correlate systematically with independent variables like price, advertising support, etc. (Bhattacharya 1997). Hence, managers will typically find it very difficult to engineer these types of exceptional brand².

Yet, much of the literature on loyalty programs suggests that their objective is to create a niche brand or a super-loyal brand without the necessary increase in market share. Specifically, these programs try to gain a higher proportion of behaviorally and attitudinally loyal buyers for a certain level of market share (Baldinger and Rubinson 1997). In Figure 2 this goal is shown as A'. The existence of the Double Jeopardy Law suggests that more likely outcomes lie between A (no change or a defensive "hold") and A" (a slight loyalty gain arising from a significant market share gain). Thus, if a loyalty program helps a brand become more of a market leader, then loyalty might increase as a natural outcome of this leadership. More than likely, a loyalty program will not achieve this by itself, but it might be a useful contributory factor in the context of a set of initiatives (for an airline this might mean a wider range of routes, more frequent flying times, greater comfort on board the aircraft, faster check-in procedures and more reliable baggage handling).

Published studies are few in number, but a few examples illustrate the point: American Airlines (first to launch a frequent-flyer program but its continuing success depends on market dominance, Kearney 1990); Tesco (first to launch a sophisticated national grocery program in the UK, but has gained share because of new store opening and because of what competitor Sainsbury failed to do (East 1997; East and Hogg 1997; Mason 1998); AirMiles (which has had mixed fortunes, but what appeal it has comes from the range of co-branding arrangements); and FlyBuys (where Australian competitors not in the program have consistently performed as well, Sharp and Sharp 1997; Dowling

² Given that investment analysts try to beat the random walk of Wall Street, perhaps it is not surprising to see marketing managers trying to beat the norms of competitive markets.
and Uncles 1997). Successes appear to be among those who have increased market share and who can offer broadly-based value, which is what we would expect for competitive markets.

**Measurement Issues**

The framework shown in Figure 1 is not an operational model - it goes beyond what can be captured in a single tractable algorithm. Nevertheless, we can envisage a set of measures to capture the main effects. This we show in Figure 3. In principle there are several competing operational models to bring together these measures in repeat-purchase markets - most of which start with stochastic formulations (e.g., Massy et al. 1970; Kahn et al. 1986; Colombo and Morrison 1989; Eliashberg and Lilien 1993). Within this framework, consumer loyalty to a brand is thought of as if it were stochastic (not that it is stochastic). Thus, for instance, the specific incidence of purchasing appears as if at random, even though the consumer will have an on-going propensity to buy a brand. Furthermore, individual attitudes themselves appear to be more unstable over time than is often assumed, even while appearing reasonably stable in the aggregate (Dall'Olmo et al. 1997). An implication is that while attitudes are not usually explicitly modeled within these stochastic models, there is a degree of consistency between the behavioral and attitudinal representations. Consumers will have reasons for their revealed behavior and stated attitudes but this may appear to be a random outcome on any particular purchase occasion when looked at in the aggregate.

< Figure 3 >

Among the range of available stochastic models, the NBD-Dirichlet formulation appeals most because of the considerable empirical support across a very wide range of conditions - no other model has been as widely empirically validated in marketing (Bass et al. 1976; Goodhardt et al. 1984; Schmittlein et al. 1985; Ehrenberg 1988) and it realistically captures the nature of consumer behavior in competitive markets (including polygamous loyalty and the Double Jeopardy effect).
This model is also very parsimonious and routinely tractable, although complexity can be added to explicitly model heterogeneity, state dependence and non-stationarity. For example, independent variables (advertising spend, existence of a loyalty program, etc.) can be incorporated into the estimation of the parameters. Also, the data may be split according to demographic and attitudinal characteristics, or these effects can be incorporated directly into the estimation process (in Figure 3 we distinguish these as "measurable variables") (Jain et al. 1990; Jones and Zufryden 1980; Heckman 1981; Uncles 1988; Fader 1993; Russell and Kamakura 1994; Fader and Hardie 1996). More simply, these influences are subsumed within the main effects as "unmeasurable variables". Specification of the model, empirical evidence and applications are fully described in Ehrenberg and Uncles (1997).

There are several very significant specification factors underlying the depiction in Figure 3, all of which are crucial to the NBD-Dirichlet formulation and would be equally important for any competing model. Namely:

- The object to which loyalty is being exhibited; for example, brand or vendor, SKU or pack-size, place of purchase or time of day, or, indeed, the loyalty program.
- The specified time horizon (t-2, t-1, t, t+1, t+2, etc. in our figure). As the observed time period increases (relative to the length of the average purchase cycle), so there are increased opportunities to buy competing brands and so also the scope for attitude change is greater.
- The level of aggregation of consumers (i = 1, ..., N). We have noted already that many conceptions of loyalty essentially describe individuals, but for marketing management we need to aggregate across individuals. This can be achieved by assuming a parametric form for heterogeneity across the whole market or for segments of consumers (to the extent that managerially useful segments can be identified).
- Competitive intensity, as defined by the number of competing brands, the extent to which they have differentiated attributes, and their impact on intentions at the point-of-purchase. Farley
(1964) showed market structure, such as number of brands available, is associated with measures of loyalty.

These specification factors highlight why snapshot studies of consumer loyalty can be so misleading and why a model, such as a first-order Markov process, is usually inappropriate (limited as it is to $t$ and $t-1$). To characterise loyalty - as against current purchase choice (which in fact is what many models attempt to do) - behavior and attitudes need to be appraised over a certain time horizon. This may be measured in terms of brand share for each individual consumer (United is flown on six out of ten flights), discrete time periods (for BA the repeat-buying level from one six month period to the next might be 60%), or survival rates (BA has been selected on six consecutive flights) (Massy et al. 1970; Ehrenberg 1988; Helsen and Schmittlein 1993; Bharadwaj and Bhattacharya 1998; Voss 1998).

Typically we would want to use some form of longitudinal data to determine on-going loyalty and also provide a basis for consumer lifetime value calculations.

In general, it makes little sense to speak of loyalty without reference to these specification factors. Yet, in practice many studies fail to explicitly state them, and thus we see widely varying conclusions about loyalty, and programs to instil loyalty (e.g., Christopher et al. 1991; Fournier 1998). Studies that mainly sample outliers from a heterogeneous population of consumers might imply that exceptional levels of loyalty can be realised, but how representative are these studies, do they take full account of the object to which loyalty is being exhibited, or competitive intensity? Those responsible for the future management of BA or United, for instance, have to consider the millions of consumers who fly with them, not only exceptional cases.
Implications of the Framework

Conceptual Implications

The most important conceptual implications that flow from Figure 1 for loyalty marketing are that:

- A dynamic equilibrium tends to exist in repeat-purchase markets, such that the introduction of something like a loyalty program may give rise to perturbations, but it is unlikely to disturb the whole system. With so many of these being me-too or lookalike programs it is not hard to see why this is the case.

- Divided-loyalty, or polygamy, is the dominant characteristic of repeat-purchase markets. This occurs for many different behavioral and attitudinal reasons, including the dictates of convenience; the desire to overcome boredom by variety seeking; to meet the needs of different consumption occasions; point-of-purchase situation effects, including out-of-stock conditions and personal moods and emotions; a reluctance to feel "locked-in"; and greater cynicism than in the past with regard to organisations' claims for their brands. Loyalty programs that are not designed to accommodate these underlying reasons for divided loyalty are unlikely to meet with even limited success. Our observations suggest that, to date, most initiatives do not acknowledge these issues, let alone address them.

- Consumers differ considerably in both their product-category and brand purchase frequencies. Any brand generally has most of its buyers purchasing it infrequently and a much smaller number buying it often (that is, the "80:20 rule" holds, as it does in most of the models, such as the NBD-Dirichlet). Of those who buy often and who therefore are more profitable, on average they buy a larger number of different brands. In aiming at these heavy buyers competing loyalty programs tend to target the same people - in much the same way as brand promotions do.
Given the variability and instability in attitudes for low-involvement, frequently purchased products and services, it is dangerous to assume that the behavioral patterns can be disturbed by attempts to change attitudinal loyalty. On the whole, attitudinal commitment appears to be weak, and more strongly shaped by habit and reinforcement effects than cognitive/affective factors. This implies that loyalty programs that build on habitual patterns or reinforce existing behavior will be more successful than ones that attempt to bring about something largely unrelated to existing purchasing patterns.

**Measurement Implications**

There are also a number of measurement implications that flow from Figures 2 and 3:

- Measurement systems are needed that capture polygamous behavior. Many in-house databases do not do this - they merely record information about own-company brands. This is where traditional consumer panels have an advantage over in-house databases, in that panels enable a picture of the whole purchase repertoire to be built up.

- Any operational definition of loyalty must be explicit about the time-based nature of purchase behavior. An advantage of traditional behavioral definitions, such as repeat-buying, share of category requirements, brand persistence, etc. is that they are explicit about the treatment of time. So too are lifetime value calculations - the discounted value of a consumer's purchases over some stipulated time horizon. It is then possible to explore the impact on consumer buying or value of differences in the assumed time horizon. Again, consumer panel data are relevant, so too are attitude tracking surveys (Totten and Block 1987; Brown 1994; Russell and Kamakura 1994). One-off attitude studies, which are by far the most common source of attitudinal information, are very much a second-best approach.
• Measures are needed that allow for consumer heterogeneity. This means essentially quantitative measures, although qualitative research which describes both "average" and exceptional consumers can also be considered under this framework - for instance, qualitative research on mood as a partial explanation for commonly observed patterns of divided loyalty (Gordon 1994; Fournier and Yao 1997).

• Finally, we should aim for measures of loyalty marketing effectiveness - just as we have effectiveness measures of branding, advertising, promotion, etc. Typically these should take the form of before-and-after studies; although it might well be hard to detect measurable differences if the program is essentially defensive or if it mainly reinforces existing behavior. Models such as the NBD-Dirichlet can serve as a benchmark against which to assess any behavioral departures or exceptions, although this model takes no account of the costs of creating and maintaining a program which will be an important consideration in any comprehensive assessment of loyalty marketing effectiveness.

**Managerial Implications**

Among the implications for management, the following are particularly significant:

• The typical patterns of single brand and polygamous loyalty that have been established for brand buying in repeat-purchase markets are likely to persist in a world of loyalty marketing. This is evident already among non-frequent-flyers who belong to one program and frequent-flyers who participate in several programs in order to retain schedule flexibility. Knowing polygamous loyalty is so widespread helps us evaluate programs. For instance, those who exhibit divided loyalty (because they are more frequent buyers) are likely to be more profitable and therefore could be offered greater value in the hope of nudging them into buying somewhat more of the brand. Single-brand loyal consumers may be being over rewarded for their patronage.
• For management to build loyalty in a competitive market the brand and program must work together to enhance the overall value proposition of the brand. Only then might established habits be reinforced and situational influences mitigated. For instance, if convenience is the major determinant of retail store choice, then a program which makes a retail chain more convenient (such as on-line purchasing) is more likely to succeed than one that offers rewards unrelated to the important choice attributes (such as frequent-flyer points). Moreover, the way to achieve this may be with loyalty marketing, but not necessarily a formal program. The experiences of Lexus, Readers' Digest, American Express, Singapore Airlines and State Farm show such a range of initiatives which are not simply based on programs, rewards and points.

• While Figures 1 and 3 contain a number of contingent and specification factors, it is still appropriate to talk about "loyalty" as a general concept. Indeed, it is potentially misleading to define some forms of loyalty as "latent" or "spurious" and assume that these are somehow less valid or useful to management. Much money has been made from inertia-based loyalty and much money has been lost by assuming satisfied customers will remain loyal. The design of loyalty marketing initiatives needs to take more account of these factors, rather than rely on the massive changes in attitudes expected in idealistic schema (such as the "loyalty ladder" that sees "purchasers" being converted into "advocates").

These implications suggest that the structure of the market imposes constrains on managerial actions. While these constraints might be unwelcome, most managers will recognise them as facts of life. Specifically:

• Situational factors invariably come into play. Stock-outs, accessibility at the time of purchase, competitive offers, etc. are part of normal marketing, not exceptions.

• Consumers are often constrained in when to buy, where, how, who they are with, etc. and by variability in distribution coverage, etc. How these factors vary over time can have an important
impact on the pattern of polygamous buying. Also people have to do things they may not want to do - airline travel, grocery shopping, banking, taking out insurance, etc. As a compensation mechanism they often minimise the amount of search and thought that is devoted to such "grudging" purchases.

- Organisations are themselves constrained to offer at least parity with existing market offerings (often giving rise to me-too brands, lookalike packaging, copy-cat advertising, parity pricing, and imitative reward schemes).

- Product attributes are similar, so there may be no valid grounds on which a buyer can make an informed cognitive/affective choice.

Many discussions of loyalty ignore these factors - they focus on just the brand of interest, imply the consumer has unconstrained choice, and yet chooses to adhere faithfully to the one brand - this is a wishful view of markets and marketing. Our approach, which includes competitive effects and situational influences, provides a more realistic focus for managers and articulates much of what tends to go on in brand strategy meetings.
Consumer Loyalty Marketing: Alternative Perspectives

While the theoretical and empirical basis of the framework presented here is strong, many practitioners and academics have in mind alternative perspectives of consumer loyalty. We discuss these briefly.

Behaviorist Frameworks

A strongly behavioral viewpoint contends that current loyalty is the result of circumstances that applied to previous loyalty, and that any such loyalty will be positively reinforced if the brand continues to "do the job". The best guide to future loyalty, therefore, is past loyalty. Accordingly, attitudes are at best seen as descriptive of the brand, informed by past behavior, and learnt responses to familiar circumstances (Skinner 1953; Tucker 1964; Rothschild and Gaidis 1981; Foxall 1987).

The strong behavioral view is that a loyalty program will merely change the circumstances, to which consumers will respond in a non-evaluative manner. Thus, frequent-flyers might describe points-schemes as a form of reward associated with stated airlines, but would not be thinking long and hard about these points prior to choosing an airline or prior to flying. In its extreme form this viewpoint does not do justice to either the importance of habit nor to any evaluative processes which consumers might go through, particularly in response to the introduction of something new (such as a loyalty program).

A weaker notion of behavioralism, however, underlies much of our conception of loyalty in this paper. In general, past behavior is a very robust predictive guide of future behavior and, to the extent that loyalty marketing initiatives have an impact, they do so largely through the reinforcement of existing behavior. This is consistent with the view that for loyalty marketing to succeed it must raise market share by building on existing patterns of behavior and associated attitudes, rather than imagine it can bring about totally new patterns.
Cognitive/Affective Frameworks

In contrast to the behaviorist perspective, many of those involved in the development and analysis of loyalty marketing have in mind a strong cognitive/affective concept of consumer loyalty. Namely, that through the introduction of a program or some other special initiative, consumers will re-evaluate their attitudes and change their subsequent behavior. In so doing they will come to display faithful adherence to a brand and may even become advocates.

This viewpoint echoes the cognitive/affective framework of consumer behavior that is prevalent throughout much of the marketing discipline (Howard and Sheth 1969; Engel et al. 1993; Dick and Basu 1994). From a managerial viewpoint, it holds the promise of very desirable outcomes - a (large) pool of faithful adherents who will be profitable. However, as the foregoing discussion has shown, the effect of beliefs and attitudes may be quite weak in practice. There are a number of reasons for this.

First, the empirical evidence shows that most people in repeat-purchase markets do not exhibit strong adherence to brands, or associated loyalty programs. Those that do tend to be few in number and are not necessarily heavy or profitable buyers. In the specific case of airline choice, the appearance of faithful adherence may come from corporate policies which favor one carrier over another - but the frequent flyer benefits typically accrue to individuals who will display varying levels of heavy flying and profitability.

Second, focusing on attitudinal commitment without allowing for habit and circumstance will be misleading for most consumers. Attitudinal commitment to icon brands such as Porsche is not uncommon, however few can afford to buy such brands. There also may be attitudinal commitment to heritage brands, such as Spam, Jell-O, Marmite, and Aeroplane Jelly, but quite often the functional need to buy these brands limits their consumption and so, once again, attitudes overstate purchase behavior.
All-in-all, an exclusively cognitive/affective perspective on consumer loyalty may merely result in many consumers being classified as "disloyal switchers". This is not a very helpful classification when so many of these consumers clearly have on-going propensities to buy certain brands and not others.

**Satisfaction-Based Frameworks**

Satisfaction is an important post-purchase evaluation which has the potential to reinforce existing behavior and attitudes, and therefore impact on continuing purchasing as well as word-of-mouth recommendation (Oliver 1997). As a predictor of (especially single-brand) loyalty, however, satisfaction is an imperfect measure.

First, loyalty is so contingent on prevailing habits and situational influences that very often there is only a weak connection between retention and consumer satisfaction (Jones and Sasser 1995; Hennig-Thauau and Klee 1997). An exception would be following an extremely dissatisfying experience that prompts a re-evaluation of previous choices (Dube and Morgan 1998). Second, satisfaction, as it is currently measured, is not discriminating among groups of acceptable brands (Kayande 1997; Edwardson 1998).

Given these problems in relating satisfaction to loyalty more thought needs to be given as to how it is measured, and its role in the recursive relationship between behavior and attitude (Oliver 1998). Our view is that satisfaction impacts loyalty through habit and purchase reinforcement.

**Relationship-Based Frameworks**

Relationship-based perspectives of consumer loyalty have their origins in business-to-business markets and focus on relationships between people, and the networks of communication, activity, trust and friendship that arise among these people. These conditions are very different from the markets we are addressing in this paper, although we comment on this work because many brand managers have

Most consumers will not want a relationship with an ATM, brand of toothpaste, fast food outlet or airline. Some might, however, claim to have a relationship with a bank teller, supermarket check-out operator or travel agent (although even here many would not make this claim). The issue here has more to do with the quality and authenticity of a relationship between people, than repeat-patronage. In principle, loyalty marketing could shift the focus towards building relationships between people, but in practice much of the effort does not do this. In fact, there is considerable evidence of the "industrialisation" of loyalty-building initiatives, involving the appearance of personal service and the rhetoric of relationship marketing. This is particularly evident with rewards-based programs, but it even features in membership-based initiatives which ostensibly play on more deeply-seated associations between the consumer and the brand, such as affinity cards (Worthington and Horne 1996). Some have recognised this trend and pointed out the need to move beyond notions of loyalty to the creation of genuine and authentic relationships (Barnes 1994; Iacobucci and Ostrom 1996; Fournier et al. 1998).

However, in trying to move beyond loyalty marketers will need to recognise that consumers are polygamous. For instance, consumers know that the sales assistants in one store are every bit as friendly as in another because they routinely patronise both stores (albeit with differing on-going propensities). Moreover, the reasons for polygamy are such that it will not cease to occur even if there are genuine relationships.

Analogies with personal relationships, political affiliation, and religious adherence are unrealistic - most ordinary brands will not generate enough motivation or attachment for buyers to fight for or defend the brand (notwithstanding a few egregious examples, like Nike Air Jordan shoes, which have been associated with street fighting, Smothers 1993). Perhaps the only relevance of religious and
political analogies is to draw attention to the prevalence of agnosticism and floating-voters in contemporary society, which parallels some aspects of consumer behavior.

The exception to this scenario may be some lifestyle brands. Some consumers talk about having a relationship with Harley-Davidson, but this is a most unusual brand with no direct competitors and a community of riders who participate in group activities - it is more akin to a product category decision than brand choice (Schouten and Alexander 1995).

**Non-Traditional Repeat-Purchase Markets**

Historically many sectors have been viewed as non-repeat purchase markets. Consumers would join a public utility just the once, or they would buy a life insurance policy with the expectation that it would be for life. In these cases the question of how to instil loyalty was largely irrelevant - the switching costs and penalties were such that most consumers stayed with the organisation first chosen. More likely, the focus was on issues such as managing post-purchase satisfaction, creating more frequent use, word-of-mouth recommendations and cross-selling.

More recently, the privatisation of utilities and the deregulation of monopolies has offered consumers the opportunity to either switch or hold a repertoire of brands. As a result many conventional non-repeat purchase markets, such as personal banking, insurance, telephony, and energy supply are beginning to look more like repeat-purchase markets with consumers exhibiting patterns of divided loyalty (for example, different telephone companies for domestic and international calls).

Typically loyalty programs in these markets are not radically innovative. They simply add one or two attributes to the product offering. If well-considered, these attributes might be perceived as offering some value to the consumer and might help to raise market share (in combination with other marketing activities such as improved distribution or more incisive advertising). As competition
increases and repeat-purchasing occurs, however, these attributes are easily copied or improved upon (while most programs can be branded, there can be little protection for the ideas behind most programs.

In these circumstances, loyalty marketing can be seen as an attempt to re-impose switching costs, and those that offer real value may have some measure of success, but it is essentially a response to the advent of competition and one that many consumers will not want to accept. They do not want to feel "locked-in" having now been given a measure of consumer sovereignty.

**Really New Markets**

In newly emerging markets, such as the introduction of a new high-tech product or patent medicine, the conception described in Figures 1 and 2 might not be appropriate. At the very least, buying habits would not have been established, consumers will lack experience of the product, and the market may be pre-competitive. Therefore, there is an opportunity to establish a pattern of loyalty based on pioneer and first-mover advantages before the market settles down into a dynamic equilibrium (Robinson and Fornell 1985; Szymanski et al 1995). Under these special conditions many aspects of marketing may be quite different from those which exist once a competitive market has settled down (Glazer and Weiss 1993).

That said, people are likely to have some behavioral basis for their choices. They might have bought or used something similar before, and would have experience of a similar buying process (Wilkie and Dickson 1985). Even here, then, a strongly cognitive/affective conception of loyalty may be misleading (in fact the absence of experience and brand familiarity makes it hard to see how well-founded attitudes could be formed prior to purchase and the fact that so many products fail after initial trial is some indication of the problem).

Conceivably, a loyalty program (perhaps in the form of a user-support group, or a contract pricing structure, as seen among mobile phone companies and Internet access providers) might create a
sense of loyalty, with pioneer and first-mover advantages to the organisation that drives the process forward. However, the evidence is of something far from sustainable.
Future Agenda for Consumer Loyalty Marketing

Based on the framework in Figure 1, and the review of alternative perspectives of consumer loyalty, there are several areas where further work would contribute to our understanding of loyalty marketing:

- We would expect to see more research on the relationship between attitudinal loyalty and patterns of purchase behavior in the context of the widespread existence of loyalty marketing initiatives. This research is likely to proceed by further exploiting consumer panel data and tracking studies, and establishing market norms. This work would need to incorporate point-of-sale influences as well as address issues of market concentration and the intensity of competition.

- More work is also needed to explore habitual decision-making and how this might be influenced (if at all) by special loyalty-building initiatives - habits are not the absence of thought, but nor are they extended decision-making.

- In keeping with the emphasis on brand value, we see a role for further research on how loyalty programs add value to a brand for different types of consumer (such as heavy versus light users). Some loyalty programs build this thinking into the structure of their programs, but adopt a more general approach.

- Discussion of what are the most appropriate measures is likely to continue. We have emphasised revealed behavior and stated intentions as being the most appropriate when considering loyalty to brands, stores, or programs. These are most reliable and directly related to revenue. For the study of professional service and business-to-business markets, relationships between people also may be relevant - commitment, trust, friendship, and intimacy. However, only in exceptional circumstances will these apply to prosaic product brands in repeat-purchase markets or more "industrialized" forms of service provision.
• Most attempts to instil exceptional loyalty are susceptible to nullifying actions by competitors - as they too create databases, establish rewards programs, initiate dialogue with their (shared) consumers. More evidence needs to be gathered on these competitive reactions. At present the best advice from Figure 2 about how to achieve greater loyalty seems to be a very traditional one: to increase market penetration and increase share of category requirements. We caution that the use of short-term promotions does not seem to have been a cost-effective strategy to achieve either share or repeat-purchase loyalty.

Ultimately, improved understanding and measurement of consumer loyalty might also present a challenge for management. Any behavioral or attitudinal justification for the development and maintenance of a loyalty program rests on having clear and precise measures of effectiveness, yet this probably means managers will become more accountable for specific (measurable) outcomes. There are, however, signs of reluctance to assess the cost-effectiveness of loyalty marketing, rewards programs, promotions, databases, etc. (Piercy 1996).

There is now considerable momentum behind loyalty marketing, but if this is to become the marketing mantra for the new millennium it needs to be informed by what is already know about behavioral and attitudinal loyalty. This has not happened thus far, and therefore many of the claims for loyalty marketing are inflated, unrealistic and in danger of discrediting many of the more recent marketing initiatives such as database, relationship and direct marketing.
References


Keller, Kevin (1998) *Brand Management*


Figure 1. A Framework: Individual Consumer Loyalty

- **Habit**
  - Past Behaviour
  - Past Attitudes
  - Reinforcement

- **Cognition**
  - Cognitive Factors

- **Affective Responses**

- **Past Behaviour**

- **Past Attitudes**

- **Reinforcement**
  - t-1, t-2, ...

- **Brand Component**
  - Functional Value
  - Psychological Value
  - Social Value

- **Loyalty Program**

- **Situational Influences**
  - Intentions
  - Social Norms
  - Personal Norms

- **Habit**
  - t+1, t+2, ...

- **Current Behaviour**

- **Current Attitudes**

- **Reinforcement**
  - t+1, t+2, ...
Figure 2. A Framework: Aggregate Consumer Loyalty

- **A** = Current level of loyalty at current share
- **A´** = Desired level of loyalty at current share
- **A''** = Level of loyalty at increased share
- **A-A''** = Range of most likely levels of loyalty

**Double Jeopardy Line under dynamic equilibrium**
Figure 3. A Framework: Measurement Issues

Observed Purchase Sequence t-1, t-2, ...

Past Behavior

Past Attitudes

for i = 1, ..., N

Past Behavior

Past Attitudes

for i = 1, ..., N

Brand Component

Loyalty Program

for i = 1, ..., N

Unmeasurable Variables
(e.g. personal tastes)

Unmeasurable Situational Influences
(e.g. fleeting emotions)

Current Behavior

Current Attitudes

for i = 1, ..., N

Measurable Variables
(e.g. repeat purchase, consumer attitudes, value of loyal program, socio-demographics of brand buyers and program members)

Measurable Situational Influences
(e.g. competitive offers)

Predicted Purchase Sequence t+1, t+2, ...

for i = 1, ..., N