Brand Loyalty as a Tool of Competitive Advantage

Abstract

Brand equity created by customers’ loyalty brings benefits not only to customers, but also to manufacturers, commercial intermediaries, society, and, of course, brand owners. Customers’ loyal support of a brand may contribute to the creation of competitive advantage for a firm. This type of competitive advantage based on brand equity may help many global firms overcome the fading country-of-origin effect.

Brand as a Resource of the Firm

The discussion of the brand concept in mainstream literature, in most of the cases, presents the brand concept from the demand side point of view and agrees that the real reason for brand existence is to enhance customer value (Aaker 1996; Keller 2008; Kotler, Keller 2009). This approach is in agreement with the old statement that a brand that is not recognized by a buyer is not a brand but just a marked product (Levitt 1980). In this statement representing the demand side approach, the importance of a buyer in the process of brand creation and brand strengthening is clearly emphasized with an inference that a brand mainly favors the customer. However, it is important to recognize that a brand adds value also to the supply side and this is underestimated or even neglected in brand definitions currently available. It would be interesting to pay attention to the fact that brand equity, in some cases, comprises a significant part of the value of a firm: 61% of the Kellogg company, 57% of Sara Lee, 52% of General Mills (Kapferer 2005).

The value of a brand may be the most significant resource of a firm. Ability to create value is a very important element of brand identity. Indication of a demand side factor in brand definition seems to be important because it brings to attention the entire process of brand creation. The reason for brand creation and promotion is to bring advantage to the firm otherwise the firm would not invest time and money just to respond to the demand side requests. Brand is a business tool and the ultimate objective of the process of brand creation is enhancement of value delivered to the firm and creation of a profitable firm (Kapferer 2005; Rust, Zeithaml, Lemon 2005). A brand may create value for the brand owner in a quantitative form such as monetary value, return on investment, income and profit generated by a brand, and also in qualitative form such as brand esteem, brand imagery, and brand loyalty.
**Brand Loyalty**

Brand loyalty is a very important component of brand value and it significantly contributes to the meaning of brand as a resource of the firm. There are various approaches to the concept of brand loyalty and what makes that the concept may have many different meanings. Sometimes the focus is on emotional ties between the buyer and the brand. In another approach, the focus is on the loyal behavior of the buyer of a branded product – buyer loyalty repeats purchase of a brand and is resistant to competitive promotion (Rudawska 2005). The most comprehensive approach presents brand loyalty as “a deeply held commitment to rebuy or repatronize a preferred product/service consistently in the future, thereby causing repetitive same-brand or same-brand-set purchasing, despite situational influences and marketing efforts having the potential to cause switching behavior” (Oliver 1999). This definition simultaneously addresses behavioral and attitudinal elements of the buyer’s reaction and brand loyalty emerges only in a situation when behavior is supported by attitude. On this basis, Chaudhuri and Holbrook developed the concept of purchase loyalty – understood as an interest in repeated purchase of a given brand and attitudinal loyalty understood as a degree of buyer’s emotional engagement in a brand (Chaudhuri, Holbrook 2001). Gounaris and Stathakopoulos added social influences as another dimension to the concept of brand loyalty and indicated four types of brand loyalty: premium loyalty, inertia loyalty, covetous loyalty, and no loyalty (Gounaris, Stathakopoulos 2004).

A no loyalty situation is the result of no purchase and also of total indifference to the brand. Inertia loyalty happens when a buyer buys the brand but has no emotional ties to it and a purchasing decision is not made under the influence of the brand image. This happens when a purchase is strongly influenced by price or there is no other alternative on the market. This type of loyalty is a very fragile because the buyer can easily switch to other brands. Covetous loyalty is related to no purchase of the brand, but there is a strong emotional relationship to the brand resulting from environmental/social pressure. In this situation, it is difficult to expect loyalty because there is no personal experience with the brand. As opposite to other determinants of perceived brand value (brand awareness, brand image, and brand confidence), an earlier purchase and experience with the brand is necessary for loyalty to come into being. This often happens in the case of luxury goods. This situation, however, is advantageous for the brand owner because it contributes to the proliferation of the brand image and increases brand awareness. Premium loyalty refers to buyers having strong emotional ties to the brand, buyers who regularly buy the brand under social pressure situations, and even in the case of limited access to the brand, are still ready to search for it. This type of brand loyalty is the most desired as it creates the highest brand equity.

Keller (2008) distinguishes four levels of brand loyalty that are quite similar to the ones mentioned above:

1. Behavioral loyalty – this level refers to buyers purchasing the brand but having no special attachment to it. They buy other significant amounts of a given brand which represent a big lifetime value. In Gounaris and Stathakopoulos’ system, this level is called inertia loyalty.
2. Attitudinal attachment – this level refers not only to a systematic purchase of the brand but also personal attachment by the buyer. Customers feel a high level of satisfaction and pleasure in purchasing this brand.

3. Sense of community indicates a specific level of loyalty related to buyer’s group. The customer feels a part of a particular group associated with the brand and develops a feeling of social belonging.

4. Active engagement with the brand represents “the strongest affirmation of brand loyalty, when customers are willing to invest time, energy, money, or other resources in the brand beyond those expended during purchase or consumption of the brand” (Keller 2008). Customers strongly attached to the brand organize themselves in fan clubs, are proud of the brand, and communicate the brand to outsiders. Harley Davidson or Mustang clubs are excellent examples of this type of behavior. This is the highest level of brand loyalty that brings unusual value to brand equity.

As previously mentioned in Oliver’s definition, a type of customer’s resistance to competitive promotional marketing effort was emphasized. A loyal customer remains loyal to his brand even if price changes, innovation, or special promotions. To be a loyal customer means that the brand represents the most attractive alternative in the eyes of the buyer. Loyal behavior is measured by checking if the customer who didn’t find his/her brand in the shop will purchase a competing brand.

For most of the 20th century in literature and marketing practice, a loyal customer was considered the customer who, in the shopping process, replaced or repeated purchase of the same brand. This type of behavior has been described as sole brand loyalty. However, recently the concept of share of requirement or share of wallet has been adopted. This means that the customer’s purchase, within a given product category, focuses on buying the same brand. This type of behavior is described as divided brand loyalty or proportional loyalty (Falkowski, Tyszka 2003, p. 169). The reasons for this behavior are mixed – variety seeking, quality conformity, and promotional influence.

Some research indicates that brand loyalty is a phenomenon strongly related to product type and competitive effort in a given product category. For example, only selected brands of cigarettes or liquor enjoy a high percentage of loyal customers, others are subject to variety seeking behavior (Kall 2001, p. 102). Also, there is no agreement among researchers concerning brand loyalty among social groups. Jacoby and Chestnut noticed that housewives and older customers show stronger brand loyalty (Jacoby, Chestnut 1978). On the other side, Kall’s research showed that the highest propensity to brand switching exists among less educated, older and poorer customers (Kall 2001, p. 105).

In summary, one can make a statement that it is difficult to indicate a social group’s brand loyalty more than others. Also within a given product category, various consumer group brand loyalty is not close which indicates a variety of reasons for brand loyalty among customers (Falkowski, Tyszka 2003, 175).

**Determinants of Brand Loyalty**

The search for an answer as to why the customer feels attached to a particular brand
and systematically purchases it is related to one of the fundamental issues of marketing management. Among academe as in business practice, there is an overwhelming agreement that among the most important determinants of brand loyalty is customer satisfaction (Oliver 1999, 33). Customer satisfaction can be defined as a conclusion related to the use of a brand based on the difference of earlier expectations and perceived achievements after brand use (Suh, Yi 2006, 146). So, satisfaction is a result of an earlier experience with the brand and depends on a degree of expectations. Research indicates that only strong satisfaction may be converted into loyalty and mild feelings of satisfaction do not lead to brand loyalty (Chandrashekaran, Rotte, Tax, Grewal 2007). Not only meeting but exceeding customers’ expectations is the key to building emotional ties to a brand and creating loyalty. The relationship between loyalty and customer satisfaction, however, is not just a linear equation. Increased satisfaction is not enough to enforce loyalty and brand equity. The reasons are as follows:

a) Even satisfied customers switch brands.

The reason may be brand indifference or conviction that another brand equally or even better responds to customer needs.

b) Unsatisfied customers may stay loyal because it is their belief there is no better alternative on the market or making the decision regarding switching is too complicated.

c) Some customers, despite dissatisfaction, stay with the brand because the earlier brand relationship was important to them and they will give the brand another chance.

d) Formal restrictions, e.g. long-term agreement, discourage brand switch.

In all, one can make a statement that satisfaction makes a positive influence on customer attachment to the brand, makes necessary conditions to create loyalty, but it is not enough. An important determinant in this stage of loyalty is perceived superiority of a product or service resulting from the quality of the product, quality of service and quality of the marketing communication process.

A traditional approach to brand loyalty was product quality which was the major reason for brand loyalty (Oliver 1999, 38). Perceived high product quality often resulted from prolonged brand positioning based on quality associations. Also customer personality may contribute to brand loyalty, e.g. risk aversion discouraging new brands trials (Gounaris, Stathakopoulos 2004).

Other determinants of brand loyalty also play an important role. Oliver (1999) includes an individualistic determinism of a customer and also institutional or personal social attachment to the brand. An individualistic determinism of a customer means a degree of intensity with which the individual customer defends his own perception and resists competitive influence of marketers (Oliver 1999, 37). This is strong motivation to stay loyal to the brand. Brand confidence and attitudinal attachment are signs of the individualistic determinism and as such are accepted as determinants of brand loyalty (Chaudhuri, Holbrook 2001).

An individualistic determinism in its emotional part functions also in social dimension. It is related to the need of group belonging and sharing certain common behavior.
and consumption patterns. The practice of marketing management made an effort to institutionalize this need in a form of loyalty programs giving a loyal individual a feeling of belonging. Various frequent customer or preferred customer cards are aimed at increased frequency of purchase of a given brand, and frequent purchases are rewarded. Similarly, marketing clubs offer frequent customers various services and benefits not available to average customers. It is aimed at making a brand a part of an individual’s identity and organizes it into various forms of social existence. It emerges as fun clubs supporting sport, cultural and even political events. Loyal fans are ready to support their icons even in situations of defeat.

Effective management of brand loyalty requires proper metrics and systematic measurements. The measure of brand loyalty should take into consideration two factors previously discussed – attitude and behavior. Among behavioral measures the most important seems to be (Kall 2001, p. 101):

- percentage of repeat purchases (what percentage of customers repeat purchase of a given brand)
- percentage participation of a given brand in a product category purchase – share of wallet.
- number of brands purchased within a product category.

Some authors suggest a customer loyalty indicator which would give information about the intent to buy a particular product or service in relation to the total number of customers researched (Kozielski 2004).

When addressing measurement of attitudinal dimensions of brand loyalty, one can refer to the measurements of brand confidence, customer satisfaction, brand “likeness” or other measures indicating customers’ interest or even fascination with a brand. Attention should be focused on frequency of customer interaction with a brand, expression of opinions about a brand or even involvement in brand fun-club activities.

Brand loyalty creates a lot of advantages to the brand owner. All advantages such as increased market share, premium prices, higher margins and, finally, higher return on investment lead to the emergence of competitive advantages.

**Table 1. Brand Loyalty as an Element of Competitive Advantage**

<table>
<thead>
<tr>
<th>Brand Loyalty:</th>
<th>Competitive Advantage</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Lower marketing costs</td>
<td>• Higher margins</td>
</tr>
<tr>
<td>• Higher effectiveness of marketing communication</td>
<td>• Increased market share</td>
</tr>
<tr>
<td>• Guarantee of a right choice for new customers</td>
<td>• Higher return on investment</td>
</tr>
<tr>
<td>• Favorable word-of-mouth</td>
<td>• Entry barrier for rival competitors</td>
</tr>
<tr>
<td>• Intensive purchase by existing customers</td>
<td></td>
</tr>
<tr>
<td>• Better access to distribution channels</td>
<td></td>
</tr>
<tr>
<td>• Better resistance to competitive moves</td>
<td></td>
</tr>
<tr>
<td>• More time to respond to competitive moves</td>
<td></td>
</tr>
<tr>
<td>• Lower risk of brand extension</td>
<td></td>
</tr>
<tr>
<td>• Higher price elasticity of demand</td>
<td></td>
</tr>
</tbody>
</table>

advantage and even may be a barrier to entry of competitive brands. Considering the above, brand loyalty should be considered as a strategic asset of the firm; an asset that contributes to brand equity.

**Contribution of Brand Equity to Competitive Advantage of a Firm**

Brand strategy is not the only strategy in product management. Many firms successfully apply generic (non-brand) product strategy which is effective especially when the product has a very weak emotional appeal or belongs to a product category that is difficult to differentiate. It refers to many agricultural consumer products, some industrial supplies or raw materials; however, in some cases one will notice existence of well established brands like Chiquita bananas or Del Monte pineapples. Generic product strategy allows for aggressive price competition since firms, in this case, do not invest in the brand building or brand strengthening process (Altkorn 1999, p. 55). Another reason for following generic product strategy may be because of low purchasing power of the population or fragmented economy. Consumers existing in this type of market, often in poor countries, are not ready to pay the cost of adding emotional value to products so an investment in brand building does not create additional value.

In developed countries with more sophisticated markets, firms decide to develop brands because brand equity building strategy is advantageous not only for the brand owner and buyer but also adds value in distribution and supply chain, i.e. business partners, suppliers, intermediaries, investors, and even society (creating the impression of a real or imaginary higher standard of living). Well recognized, strong brands followed by loyal customers contribute to and create benefits for various stakeholders in the business process, and ultimately help in the emergence of a competitive advantage for a firm supplying that brand to the market.

*Consumer benefits*, emerge from various functions performed by a brand (Aaker 1992, p. 31–32; Altkorn 1999, p. 13–14, Kapferer 2005, p. 20–24). One of these is the identification function. A brand helps the buyer to identify, retrieve and process information about the product which helps to identify it at the point of sale. Thanks to the brand, a customer is able to distinguish a particular product from a competitive offering and is able to attach to it a specific functional or emotional value experienced earlier or acquired from advertising.

A practical function of the brand means easiness in locating it during a purchase which saves time and effort. A satisfied customer usually repeats the purchase of an accepted brand which shortens the decision-making process. This is particularly important when a choice among hundreds of generic products would be an irritating experience. To be a loyal customer means shopping easiness, buying process acceleration and overall effort savings.

Separate functional benefits offered by a brand are related to consumer risk reduction. Guarantee function supports the quality of a brand regardless of time or place of purchase. Guarantee function attached to a brand has special significance in the case of services. Most services are produced and consumed at the same time and it is difficult to assess
the quality earlier. The buyer must trust the seller. Offer of a branded service facilitates trust building.

In the case of tangible products, a brand has the meaning of a “signature” which helps to identify a manufacturer; and also economic and legal responsibility which is important for customer questions, dissatisfaction or complaints.

Another important function performed by a brand is the optimization function. Purchase of a selected brand often means choice of the best solution for a customer’s need. A brand also reduces social and psychological risk by helping in the selection of a product that is most accepted by a reference group. Also, a particular brand choice suggests the existing or desired personality of the buyer and helps establish self-esteem.

In most instances, a brand influences the frame of mind of a buyer – the purchase of a Patek Philippe watch brings about different feelings than the purchase of a Swatch watch. Driving a Mercedes Benz gives a different feeling of satisfaction than driving a Fiat. A strong brand contributes a lot of satisfaction derived from product ownership and makes a status suggestion. Hedonistic function of a brand refers to customer’s infatuation with a brand. In this case, brand experience is perceived as a kind of premium. Some brands are continuously purchased not only by individuals but also by generations – in this case a feeling of continuity and even familiarity emerges. In the case of brands considered socially responsible or socially engaged (an image attached to a currently fashionable concept of sustainability), the customer develops a feeling of participation in ethical behavior and, to some degree, contribution to social programs or responsibility.

In addition to consumers, commercial distributors enjoy various benefits related to carrying products of well known brands. A strong and well accepted brand supported by advertising and promotion contributes to better inventory turnover. Well known brands reduce business risk which is used as an argument in filling up shelf-space. Strong brands appeal and respond to customer expectations and make a business or retail outlet more attractive for buyers. A brand contributes so many benefits to distributors that many of them develop distributor brands or private brands. Many supermarket chains or department store chains have developed well known, attractive and respectable brands.

A valuable brand also creates benefits for employees of a business (de Charnatony 2003, p. 79). Working with a well known brand stimulates productivity, contributes to job satisfaction and develops professional pride. A strong brand supports motivation of the employees and makes many of them identify with the brand they produce or deal with. In the case of corporate brands such as Microsoft, Citibank or Philips, brand represents overall value of the organization and helps the employees act in a common and consistent manner which is especially valuable in the case of global corporations. The value of a brand very often reflects on organizational culture and attracts the attention of many prospective employees. For many who work for a brand, this represents values shared with each other and increases job satisfaction.
Well known and valuable brands bring benefits to the society. According to Kotler, branding products result in increased product quality and stability (Kotler, Armstrong-Saunders, Wong 2002, p. 630). The value of a brand contributes to manufacturers’ innovativeness since it stimulates the search for such product features that can be protected against copying by the competition. This often contributes to new product development which benefits society. Certain well known brands enjoy broad acceptance which benefit society and the planet. Greenpeace is a brand name that achieved general acceptance as an organization engaged in environmental protection.

Due to delivered value perception in the eyes of the consumers, benefits to distributors, employees and society, a brand adds value to the business of the brand owner. However, in the process of value adding the customer is the key. Without a customer’s acceptance, a brand wouldn’t get wide-range recognition and will not benefit the owner.

The value of the brand for the brand owner may be analyzed from various perspectives. From a customer’s perspective, a brand creates benefits for a brand owner by influencing the buyer’s attitude toward the product and attitude is considered a major determinant of product purchase intention (Farquhar 1989, p. 27). The high value of the brand represents the product’s historical reputation which strongly influences customer choice. High brand value perception creates high brand loyalty and readiness to pay a premium price for the product. Usually the favorite brand is rather price inelastic as customers are reluctant to resign from its value. In the case of favorite brands, customers are less sensitive to the marketing efforts of competitors which enforce the efficiency of the brand owner’s marketing programs (Keller 2008, p. 60–67).

A valuable brand may contribute to increased cash flow resulting from higher margins and higher prices and also due to higher promotional effectiveness (Farquhar 1989, 25). A strong brand also contributes to higher sales profitability (Kall 2001, p. 62). These advantages, if properly managed, may result in increased market share which builds additional competitive advantage for a firm.

Considering brand owner relations with retailers, a valuable brand helps to establish a stronger position in dealing with intermediaries since it reduces the risk of failure within distribution channels (Witek-Hajduk 2001, p. 80). It facilities the negotiation of the terms of sale and saves expenses. The owner of a brand does not have to apply intensive business promotion tools, and even can limit or narrow promotional marketing. An American grocery market is characterized by lower placement costs and more shelf space for well known brands (Farquhar 1989, 26). Usually a valuable manufacturers’ brand successfully protects itself against private brands. It is especially important in situations where supermarket chains and their private brands expand into the retail market.

A valuable brand facilitates relations with suppliers, investors, employees, and other cooperating public. Decreased risk and stable brand position in the market helps the owner to negotiate stable and balanced business terms. A strong brand extends the product
life cycle and, to some degree, protects the firm against business shake-ups or cyclical sales fluctuations. Even in the case of some high value brands that in the past enjoyed high awareness and recognition, the cost of bringing that brand to life again is lower than new brand introduction (the case of Mustang and Volkswagen Beetle). As a result of solid, stable brand ownership, the attractiveness of that brand significantly increases in the eyes of investors, business partners and also prospective employees.

The advantages and benefits of a strong, valuable brand mentioned above may contribute to the creation of an attractive competitive advantage for a firm. Often this type of competitive advantage related to customers’ loyalty based on brand attractiveness helps the firm to dominate the market in a given product category and achieve above average profitability. In some cases the well known, valuable brand name can be used as a synonym of a product category which happened to Jeans or Adidas. These brands are understood as product categories in many markets and have a global meaning.

Another strategic aspect of a strong, valuable brand is the possibility to successfully introduce new product under the same brand umbrella and brand licensing. Also, a strong brand can be used as market segmentation criterion by helping the marketer to reach particular target markets requesting product variations that best fit their needs. Various brands of chocolate, for instance, can reach various consumers’ groups such as children, diabetics, or others who have specific needs. This approach may significantly increase manufacturers’ market share or coverage. The technique of umbrella branding, in the case of a strong, valuable brand, may help to broaden product assortment which is sold under the same brand and also to introduce a new product under a well known brand name. The catalyst here is previous brand awareness and also a general, positive attitude to the brand. In this case the owner’s cost of new product launching is usually lower than a new brand introduction situation. The case of licensing may contribute to the broadening of brand awareness and its marketing impact should be under strict control, however, since the relaxed use by the licensee may result in significant brand value and brand position depreciation. This certainly will result in the weakening or sometimes the loss of competitive advantage of a firm building brand equity.

Competitive advantage built and based on brand equity is less sensitive to various crisis situations and has a strong ability to survive difficult times (Farquhar 1989, 26; Keller 2008, 60–67). This is because a strong and well accepted brand benefits from customer loyalty even in situations of quality problems or failures in new product introduction (Kall 2001, 69).

The research and discussion of customer brand loyalty and competitive advantage created by brand equity is especially important in the age of global corporations and globalization of various aspects of marketing programs. Today as a result of offshoring and outsourcing business especially manufacturing operations, there is confusion in the minds of buyers related to the country of origin concept. As a result of this, it seems that the old “made in”
image starts fading in the perception of buyers and is gradually replaced by brand image concept. The importance of brand image is not a new issue today; however, its importance is growing and takes a special place in the process of creating a competitive advantage of global organizations. Thus the ability to differentiate the brand name and brand positioning in markets and also the ability to use it effectively in creating brand image and brand loyalty is critical in international and global marketing management.

References
