25-YEAR ROADMAP TO BRAND LOYALTY

Where Loyalty Has Come From … And Where It's Going

THE FARTHER BACK YOU CAN LOOK, THE FARTHER FORWARD YOU ARE LIKELY TO SEE.

– WINSTON CHURCHILL

Predictive insights from the world's largest, most-continuous database of brand loyalty tracking metrics:

- 25 years
- 4.3 million consumers
- 1,624 brands in
- 142 categories

- **A review of the 25-year Brand Keys Customer Loyalty Engagement Index database – the world's largest and most-continuous database of predictive brand loyalty tracking metrics – provides predictive insights into consumer brand behavior, identifying where loyalty has come from and where it's going.**

- **The 4.3 million respondent database identified predictive loyalty guidelines, critical to brand success, a marketing imperative given today's economics of customer loyalty.**

- **The database provides an understanding of *how* and *when loyalty will occur in individual categories and sectors.***

KEY FINDINGS

A longitudinal analysis of the data identified three movements critical for brand success in the next decade

Decision-making is more emotional than at any other time in history.

Consumer foundations for brand engagement, product and service purchase, and loyalty are now almost entirely emotionally-based.

Consumer expectations continue to rise faster than brands are keeping up.

What consumers desire and what brands are seen to deliver are out of sync as expectations move faster than brands imagine.

Owning brand values has replaced brand differentiation.

Value-ownership is the connective tissue between brands, consumers, and category supremacy.

THE ECONOMICS OF LOYALTY

- In 2021, adjusted for a new century, new generations of consumers, and inflation, loyalty matters more than ever before.
- It costs 13 to 18 times more to recruit a new customer than to keep an existing one (+60% vs. 1997).
- An increase in loyalty of 5% can result in a boost in lifetime profits per customer of as much as 78% (+22% vs. 1997).
- An increase in customer loyalty of only 2% is equivalent to a 15% across-the-board cost reduction program (+50% vs. 1997).

LOYALTY DRIVES MARKETPLACE BEHAVIOR

LOYALTY HAS A DIRECT EFFECT ON CONSUMER BEHAVIOR

LOYAL CUSTOMERS ARE SIX TIMES MORE LIKELY TO:

- Buy your products
- Buy more of your products more often
- Recommend your products to friends and family
- Invest in publicly traded companies
- Rebuff competitive offers (especially price-based offers) and

GIVE YOUR COMPANY OR BRAND THE BENEFIT OF THE DOUBT IN TOUGH CIRCUMSTANCES.

A BRIEF HISTORY OF LOYALTY

THE ERA OF RATIONALISM

1955-1975

Think toothpaste, laundry detergent, credit cards, floor wax, AA batteries, and breakfast cereals. This was the era when "modern" products were being developed.

It was a time of primacy-of-product. Products did what they were created to do, and that's how they were positioned and advertised. Consumer decision-making was very nearly entirely rational.

Consumers formulated loyalties based on a rational review of what the brand promised and the 4 P's (Product, Price, Place, Promotion) described the almost entirely-rational playing field that defined the strategies and tactics of the era.

THE ERA OF SATISFACTION
1975-1995

Over the next 20 years products became equivalents. Different names, identical delivery. The Total Satisfaction and ISO 9000 movements guaranteed most brands satisfied most customers.

Advertising drove awareness and distribution. Segmentation abounded, but all products in a sector were seen as being pretty much the same. Brands relied on awareness to define them. Seeking something to differentiate them, they turned to satisfaction.

Satisfaction – the percentage of customers, whose reported experience with a brand exceeded specified satisfaction goals, were used to define "loyalty." (During this era, it's worth noting "satisfaction goals" were set by the brand, not by the customers.)

And eventually every brand that survived, "satisfied." Satisfaction turned into the "table stakes" of business survival, but it wasn't loyalty.

Satisfaction was *never* about loyalty. Satisfaction was (and is) about the *last* purchase a customer made.

Loyalty is about the *next* purchase the customer *will make.*

THE ERA OF SHIFTING VALUES
1995-2010

After 1995 things shifted quickly and dramatically. The internet and smartphone contributed to that. Consumers now had the ability to get information from sources other than traditional media. They no longer had to rely on brands and marketers for information. This shift meant consumers could, would, and *did* talk to each other *before* they "talked" to brands.

Accompanying this new autonomy and authority was a massive injection of emotionality into *how* consumers *felt* about brands. That emotionality shaped how they *viewed* brands and how consumers *became* (and remained) *loyal*. How much more emotionality? Well, a lot.

The consumer decision-process to be loyal (or not) was *always* comprised of emotional and rational values. Just in different proportions, dependent upon the category and stage of market development.

Prior to 1975 it *was* more *rational* than emotional. A ratio of 60:40.

But by 2007 things were more emotional in terms of consumer loyalty, the ratio was now 67:33, *emotional* to rational. And, as time went by, emotion would play an even bigger part in motivating consumer behavior and loyalty.

THE ERA OF EMOTIONALITY

2010-

In 2010, the entire customer engagement and loyalty decision-process shifted predominantly to an emotional paradigm.

While you can still find sectors where rationality dictates behavior, brands in those categories have become "category placeholders." People know them, but don't know them for much more than their participation in the category.

In 2022, the ratio of loyalty creation shifted to a cross-category ratio of 82:18, with *emotional* values making up the lion's share of the consumers' engagement, behavior, and loyalty.

If *everything* seems like it's more emotional, it is.

21ST CENTURY LOYALTY

Real 21st century loyalty assessments measure the emotional engagement between the consumer and brand versus the consumer's perception of their category Ideal. Usually using emotional qualities to create a brand-state called, "Value Ownership."

Brands that can do that *always* see brand loyalty from consumers.

Those engagement levels can identify differences between loyal customers and casual customers. Or someone buying out of necessity. The degree to which a brand meets your expectations identifies a point where consumers fall on a continuum between obsession and indifference.

Emotional brand engagement levels vary from category-to-category, but they are predictive measures of consumer behavior. It's a more complex measure to take, but today's consumers are more complex too.

You must measure the brand first to understand where a customer falls as regards loyalty. Advertising, sales promotions, technology and pandemics may have their effects, but not as regards real fidelity to a brand.

EMOTIONAL SHIFTING

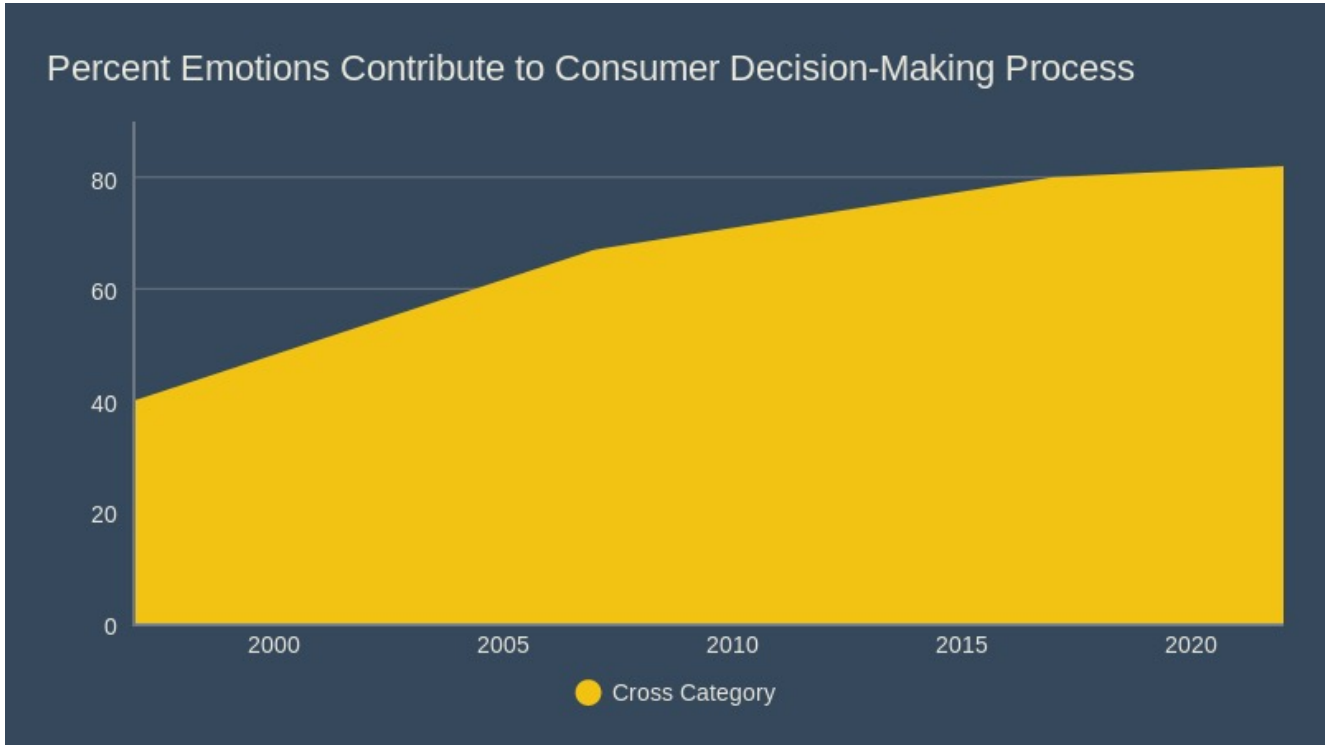
Over time, there's been a steady shift across a broad swath of categories with consumers putting more (in some cases, much more) emotional weight into their purchase decisions. The most successful brands have acknowledged there's a difference between "emotion" and "imagery," and "engagement" and "entertainment." Those brands leverage emotional values to their advantage

"Emotional values" refers to psychological properties, *not* imagery. Values that represent additional meaning to the customer – beyond product function. Values that govern how the brand makes customers *feel*, not what the product *does*.

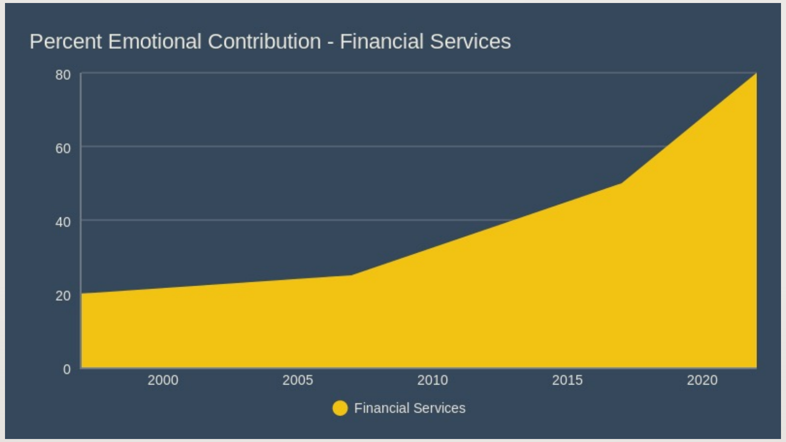
Now consumer behavior and loyalty are almost entirely governed by emotional values, which are the keys to brand loyalty.

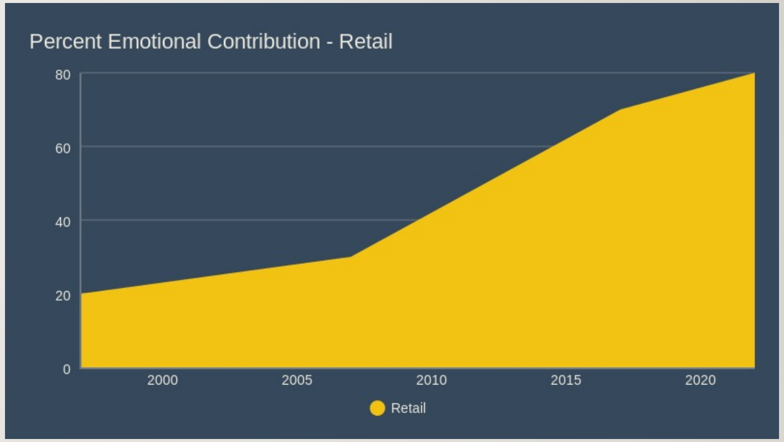
Axiomatically, when marketers understand the emotional values behind customers' decision-making, their communications genuinely resonate with and engage consumers. *It more effectively sells more products and services and creates loyalty for the brand.*

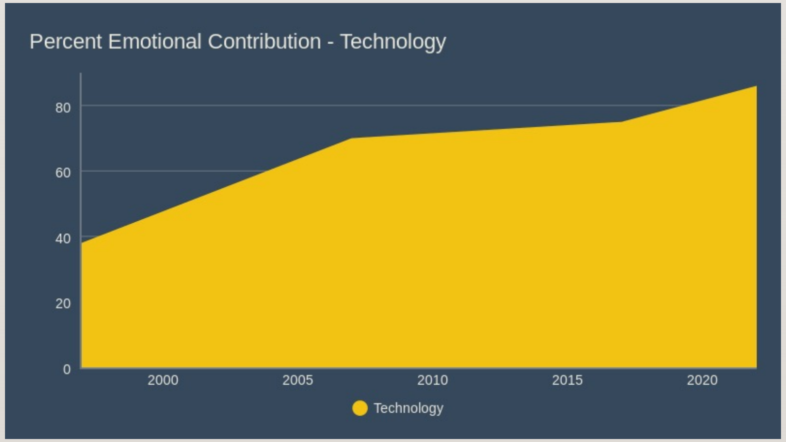
CROSS-CATEGORY CONTRIBUTION OF EMOTION

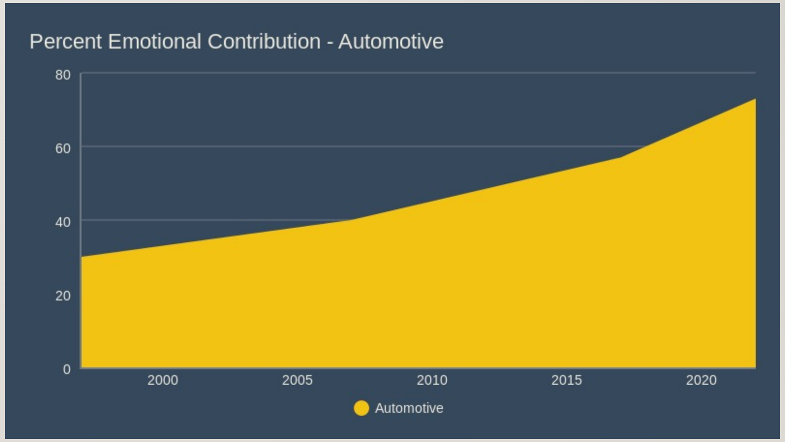


CONTRIBUTION OF EMOTION BY CATEGORY









WHAT MOVES AT THE SPEED OF THE CONSUMER AND AN OIL SPILL?

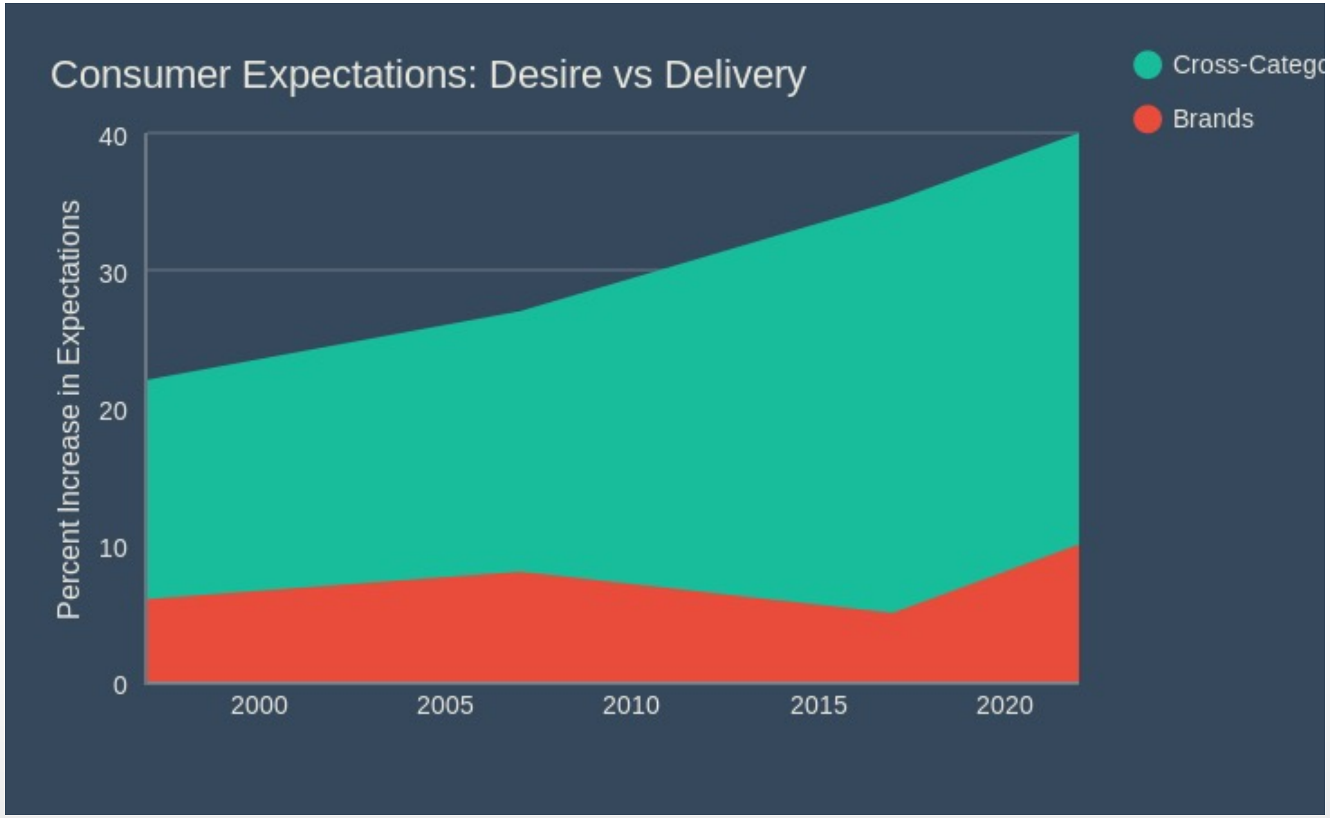
THE ANSWER IS, "EXPECTATIONS."

EXPECTATIONS ARE FUELED BY EMOTION AND MOVE AT THE SPEED OF THE CONSUMER - AND ARE LEADING-INDICATORS OF CONSUMER LOYALTY AND BEHAVIOR.

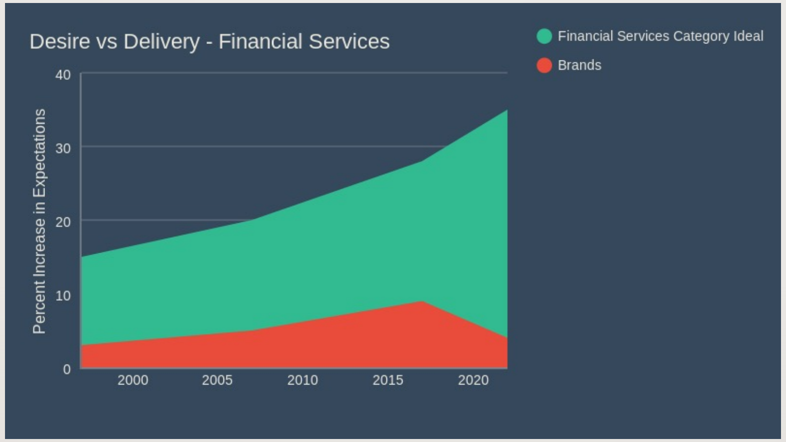
Categories are different, but categories are not insulated. *No category* remains unaffected when expectations shift in another because expectations are like oil spills. They don't stay in one spot. They spread.

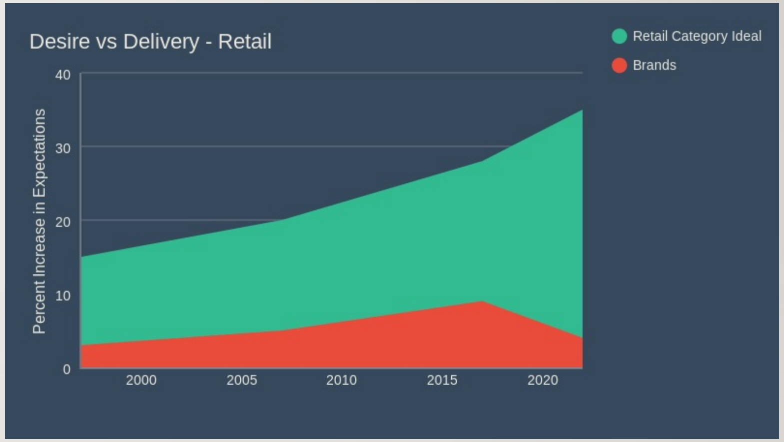
- Emotional value-infused expectations seep quickly from one category to another. (Zappos may have introduced the buy-as-many-shoes-as-you-want-we-won't-charge-you-anything-for delivery-or-return concept, but now shoppers in *every* retail category *expect* it.)
- Twenty-five years of loyalty tracking data makes it clear consumers do not settle for what exists and what consumers truly *expect* can *only* be found by uncovering their *Category Ideal*. Brand Keys uses psychological assessments to do that.
- The net change since 1997 has been a *40% increase* in consumer expectations for their Category Ideal. That's the cross-category number. It's lot higher in categories like "Technology" and "Social Networking."
- On average, brands only manage to keep up with consumer expectations by 10%, leaving a big gap between what consumers *desire* and what brands *deliver*. Serendipitously, that expectation gap presents a strategic *opportunity if* your brand knows where it is and what emotional values will most effectively "fill" that gap.
- How well brands can meet expectations has been independently-validated to predict how loyal consumers will be. And brands that meet (or exceed) expectations are *always* the category leaders.

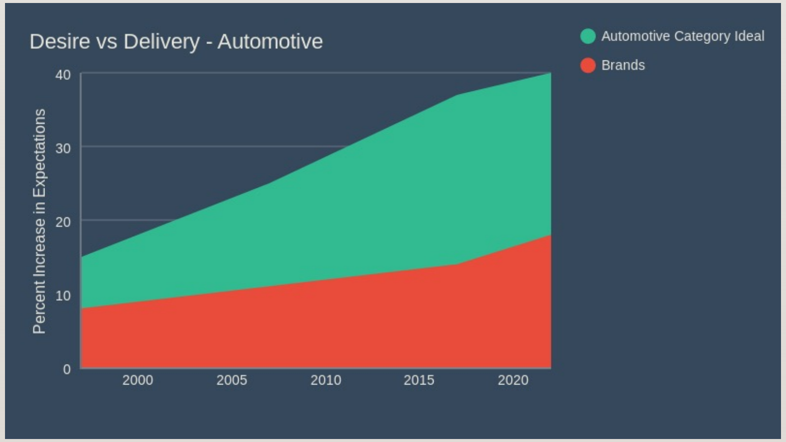
CROSS-CATEGORY EXPECTATION GROWTH

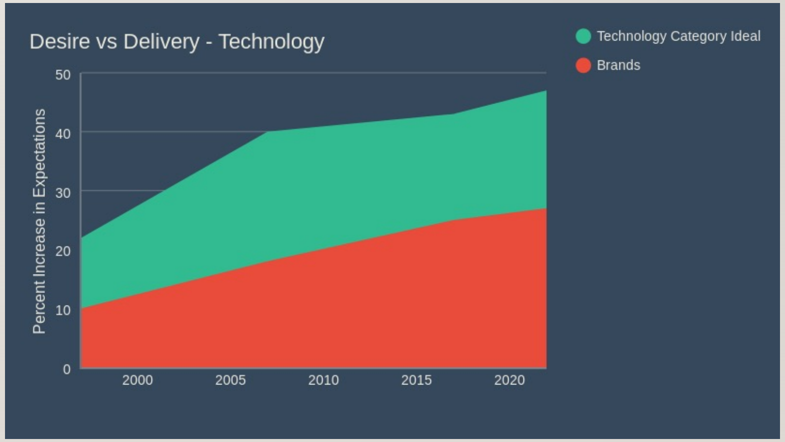


GROWTH IN EXPECTATION BY CATEGORY









VALUE OWNERSHIP REPLACES BRAND DIFFERENTIATION

VALUE-OWNERSHIP FUELS LOYALTY AND DEFINES CATEGORY LEADERSHIP

Value-ownership is a brand-state that goes well-beyond 20th century differentiation It's the foundation that now defines category leadership and customer loyalty. Brands that meet expectations *and* emotionally engage will survive.

Brands that want to literally own categories and customers will have to first take *ownership* of an emotional value that consumers will cede to the brand.

Brands that can meet expectations *and* emotionally engage will survive. But brands that want to own categories and customers, will first have to take *ownership* of an emotional value.

Amazon makes an emotional connection fulfilling consumers' need-state. Many Online Retailers offer free one or two-day delivery. Hyundai has done it by taking ownership of "Altruism." Instagram owns "Inspiration." Amazon owns "Immediate Gratification." Apple does it by owning "Human Connection." Netflix owns "Diversion," and Domino's owns pure "Comfort" (food).

CONSUMERS DON'T THINK HOW THEY FEEL. THEY DON'T SAY WHAT THEY THINK, AND THEY DON'T DO WHAT THEY SAY.

– DAVID OGILVY

WHERE DOES YOUR BRAND STAND?

The Customer Expectation Audit uncovers the values and drivers behind your customer's category expectations and provides an actionable roadmap for brands to meet – and exceed them.

BRAND KEYS

Brand Keys uses an independently-validated research methodology fusing emotional and rational attributes, benefits, and values of categories using a combination of psychological inquiry and higher-order statistical analyses.

The output identifies four category-specific path-to-purchase behavioral loyalty drivers, expectations consumers hold for *each* driver, and the emotional and rational values that form the components of *each* driver, including their individual percent-contribution to brand engagement, loyalty, and brand profitability.

For the past 25 years, Brand Keys has interviewed consumers, 16 to 65 years of age from the nine US Census Regions. Respondents self-select categories in which they are *consumers* and brands for which they are *customers*. The 2022 Silver Anniversary survey added an additional 88,126 consumer interviews to the world's largest and most-continuous database of predictive brand loyalty tracking metrics – 4.3 million consumer assessments.

The approach has a test/re-test reliability of 0.93, with results generalizable at the 95% confidence level. Brand Keys loyalty and engagement assessments correlate at the 0.80+ level with positive consumer behavior in the marketplace and have been successfully used in B2B, B2C, and D2C categories in 35 countries.

Want to know how loyal customers are to your brand? What emotions drive loyalty in your category? What your customers really expect, and which gaps you should use to your brand's advantage? The loyalty and engagement analytics for 1,624 brands in 142 categories that contributed to this report can answer those questions for you.

For information about accessing the Brand Keys loyalty database, 2022 CLEI survey results, or information about integrating customized predictive loyalty and emotional engagement metrics into your marketing and branding efforts, visit us at www.brandkeys.com or contact Leigh Benatar at leighb@brandkeys.com.