# Brand growth paretos 80 20 rule and loyalty marketing essay

# Abstract

Previously, Pareto 80-20 has been the rule to predict the brand growth in term of sales volume that was made up by heavy buyers. In the following essay, we argue about the limitation of Pareto 80-20 and we show the contrast by using heavy-half principle. Heavy-half principle reflects the current market pattern. Furthermore, this paper is to find out how does the repertoire market is related with Double Jeopardy in brand competition. It is shown that by increasing the purchase frequency with niching, small brands are able to compete fairly well. Also, brand loyalty has some useful aspects in helping the niche brand to grow reasonably well. In addition, an empirical approach-Duplication of Purchase Law to analyse brand competition is discussed and the deviations from this pattern which is referred to a partition is addressed. Due to the sharing of customers among brands, brand salience and brand image have to be created in order for the brands to stand out from their competitors.


# Brand Growth: Pareto’s 80-20 rule and loyalty

Companies should focus on existing customers because retaining existing buyers is more important than getting new customers as it helps more in brand growth. Existing customers are important because in Pareto 80-20 rule, it states that 80% of the sales come from 20% of the customers who are heavy buyers (Anschuetz, 1997). This 20% of heavy buyers which are loyal customers will purchase a brand repeatedly and also in high volume over time in which the purchase might exceed the purchase volume of 10 new customers (Wright & Sharp 2001). With the stronger relationships with heavy buyers, it would increase the selling volumes to them and it brings higher profit from greater sales. Heavy buyers that show loyalty actually trust the brand to provide quality products and services for them and also to protect the brand from stiff competition. Furthermore, company should retain heavy buyers by offering customer loyalty programs to be able to compete with other brands in order to grow. For an example, Tesco has offered several types of loyalty programs (Gudonaviciene & Rutelione, 2009). They focus on existing customer and build a positive relationship in order to learn their buying preferences and offered what they want. They also continuously renew their offers in term of rewards, discount and free gifts especially for members. The implementation of loyalty programs would establish patterns of repeat purchase behaviour which makes them heavy buyers. However, heavy buyers are not 100% loyal because as according to length of panel effects, some purchases will be missed and they have a shared loyalty for other brands in a range of products and services (Ehrenberg, 2000). Furthermore, 100% loyal customers are usually light buyers who purchase the brand less frequently and in small volume (Dowling & Uncles, 1997).

## Brand Growth: Heavy-Half Principle & Market Penetration

As time has changed, Pareto's 80-20 rule is no longer applicable today. In contrast to Pareto's rule, loyalty does not exist anymore as consumption is situational. Light buyers are more important because in heavy-half principle, 50% of the sales are made up by 20% of heavy buyers and another 50% accounted by 80% of light buyers in which light buyers have a numerical advantage of four times to heavy buyers (East, Wright & Vanhuele, 2008, pp. 67-91). Light buyers tend to change their purchasing more frequently than heavy buyers and they usually shuffle between brands as they have higher expectations. Light buyers accounts for larger part of sales when a brand's market shares improve and they have less buying concentration. In order for a brand to grow, company should focus on light buyers which are usually new customers because from an automobile survey, it shows that 35 percent of vehicle consumers in 2009 do not purchase the same brand again in the next purchase and the percentage shot up to 39 percent in 2010 and these customers were satisfied customers (Chrome Systems Inc, 2010). Existing customers, who are usually heavy buyers, will still switch to other brands although a company focus on them because all customers have new expectations and want to try something new (Jones, 1995). It is pointless to focus on heavy buyers, while neglecting light buyers. As claimed by Professor Christensen, the main reason why brands are declining or disappearing is because brands concentrate on existing customers who wouldn't help the brand to move on in terms of innovation and thus fail to meet new expectations (Christensen, 2003). A brand should listen to new customers and serve them regarding to their expectation. An individual light buyer would purchase small volume each time but in the long run, the total volume made by light buyers are more than heavy buyers. Therefore, light buyers should not be neglected as they are important for brand growth.

In order for a brand to tap light buyers, a market penetration strategy must be formulated. In relation to market penetration, a brand must build a good brand equity and through word of mouth to gain market shares. Brand equity is the unique property of the brand in which positions and differentiates individual brands (Walker, 2002). There is a strong correlation between brand equity, advertising and awareness. Advertising is able to contribute to brand equity while creating awareness simultaneously. Brand equity is actually brand image that sets a level of impression on consumers. To penetrate, the brand equity must be built and managed in 3 ways that was stressed by Peter H. Farquhar (Tuominen, n. d). Firstly, a platform must be created for the introduction of quality product. By using the brand, marketer can launch new products, create awareness and impress customers. At the same time, company must deliver their promise because dissatisfied customers would defect in long-term. For example, P1 Wimax, a Malaysian converged telecommunication, broadband and Wimax service provider set a good impression of their brand through marketing and the brand grew rapidly, however their services were not satisfactory (Hugolim. com, 2010). This leads customer defection. In order for a brand to succeed, the market penetration strategy must be able to attract new customers while making them stay or else failure of customer retention would make brands lose out much quickly.

Secondly, the brand name must be simple and easily recalled by customers in which relates to brand salience. Brand salience would help in the selection of brands through brands attributes (Romaniuk & Sharp 2004). However, a new brand that has penetrated into the market successfully while obtaining high market share, does not mean consumers will purchase that particular brand most of the time because according to Poisson distributions, every individual has a probability in brands selection (Ehrenberg, Uncles & Goodhardt 2004) . As an example of soft drinks, the percentage of sales to each brand is Coke 60%, Pepsi 30% and Dr. Pepper 10% (Reynolds & Olson

2008). A brand could penetrate faster if their brand exist in consumers brand selection and having positive factors that strongly relates to a particular brand (Myers 2003). These are the foundations that improve brand equity. To add on to brand salience, brand must also build good personality traits in the eyes of consumers or non-consumers. For example, Taylors University College actually has a personality trait where people in Malaysia assume that Taylors are full of wastrel students. The negative personality traits would discourage people to study in Taylors which would affect their penetration rate. Thirdly, marketer should focus on reinforcement of its brands in a market environment because it could trigger new purchase decisions and tighten existing customers to be more positive towards the brand through promotional messages (Yadin, 2002). For example, there were lots of people excited for the launch of iPhone 4 after massive amounts of hype. However, a first-time user said she was attracted by the " cool" aura than the iPhone technology (Hung Yee, 2010).

In coping with market penetration strategy, word of mouth is one of the methods others than advertisement and promotion. New customers are important because they spread word of the brand faster by sharing their opinions which could be positive or negative with others (Reichheld & Frederick 2003). However, existing customers seldom talk about the brands they use because according to the theory of word of recommendations, it claims that the longer the customers stay with a brand, the lesser the word of mouth they made (Stokes, Syed & Lomax 2002). According to a research, 40% of the iPhone users discover applications through word of mouth recommendations (Charlton 2010). Therefore, it is important to recruit new customers as they would be a keen “ promoter” for a brand at the beginning stage because there is a strong correlation between brand’s penetration and WOM.

## Brand competitive structure: Double Jeopardy and Niche Brands

In a competitive repertoire market, small brands will always be at disadvantage with lesser customers and with a lower purchase frequency when compared to their bigger counterparts (Wright and Riebe 2008, p. 861). The mentioned pattern is Double Jeopardy, which results of smaller brands having a tougher time competing in the repertoire market because it is obvious that big brands have a big customer base. In addition, Riebe (Jarvis and Goodman 2005, p. 293) states that not many people are aware of small brands compared to bigger and well known brands; also, much of the consumers of big brands are not aware of small brands, which would further result the effect of Double Jeopardy (Kahn, Kalwani, Morrison 1988, p 385). While still being a small brand, they have to make their brand a main brand in the consumers mind. As it would be difficult to go head on against bigger brands, but usually small brands compete against other small brands to gain market share. If this would be the case, some small brands undergo the niche brand to compete in the repertoire market. Since small brands naturally have a small customer base, niche brands should aim to suppress the number of buyers in a considerably low number, but at the same time, increase the average purchase frequency by the current buyers (Uncles, Dowling and Hammond 2003, p 305). Hence, this would mean that being a niche brand, placing the utmost importance towards current customers is essential. Niching is especially practiced in the wine market where customers expects the best and wants the best tasting wine available. In this case, niche wine brands will have to remain appealing of their products and set higher standards for their products so that the current customers have more reasons to stay. In order for the niche wine brand to accomplish that, they should pay less attention on the distribution coverage but to concentrate on the current buyers itself.

## Brand Loyalty

Although there is a undeniable famous phrase by Andrew Ehrenberg saying: “ your customers are really other people’s customers who occasionally buy from you” (Sharp, Wright and Goodhardt 2002, p. 8), it is still possible to get current customers to purchase more often from a niche brand than other brands. To capture and encourage current customers to keep purchasing from the niche brand is by increasing brand loyalty (Kahn, Kalwani and Morrison 1988, p. 387). As according to Jarvis and Goodman (2005, p. 295), products that have a combination of; very high in quality, upper end of the market, rare and exclusive and unique packaging design, will in effect offer a brand that would result in a smaller customer base that shows higher loyalty and purchase frequency. However, the element mentioned above requires some research and development which would be costly to produce and it also takes time. There is another option whereby niche brands can compete by creating a niche channel. This niche channel captures customers who are interested in being loyal and therefore able to develop strategies to keep them loyal (Chang and Tsai 2002, p. 105). However, if the niche brand concentrates too much on brand loyalty while neglecting other forms of competition, the niche brand will fallout; example, substitute products like coffee and tea as to fine wine and other alcoholic beverages. In other words, this sort of scenario is the result of marketing myopia. As according to Levitt (2004 p. 50), such competitive short-sightedness will be dangerous, as it gives opportunities for unpredictable rivals to take advantage.

## Brand competitive structure: the Duplication of Purchase Law

Duplication of Purchase Law is an empirical approach to examine brand competition; as according to Mansfield (2004, p. 4), this method has been broadly tested over 30 years and challenges the traditional perceptual methods used to determine competitors. Duplication of Purchase Law is an empirical generalisation that states that brands will share customers with other brands in line with the market shares of those other brands (Dawes 2007, p. 201). Customers buy many different brands and this show that customers is not solely loyal to a particular brand. This is further supported by Jean-Noel Kapferer (2005, p. 1), ' declined of brand loyalty started in the last ten or twenty years, a claim caused to be made by a lack of memory or by the habit that of believing that economic life changes every decade.' Consumer behaviour theorists have demonstrated that, satisfied customers do not automatically buy the same brand when pondering their next purchase, instead they will choose a set of brands within the same product category particularly in a repertoire market. However, as illustrated by Mansfield (2004, p. 5), there are exceptions for the Duplication of Purchase Law where brands compete more or less closely than expected based on unusual rate of customers sharing and this is referred to a partition. It is therefore crucial for the brands to stand out and distinguish themselves from their competitors through creates brand salience and brand image.

## Brand salience

As an example of competitive structure, a set of tourism destinations such as Switzerland, Australia and China is given. By considering the destinations as brands, if a customer prefers a snow skiing holiday, the brands that is very likely of being included in the customer's consideration sets are cues linked to snow. From this example, Switzerland might probably be considered rather than other destinations that do not associate with snow skiing. It shows that brands compete with each other through building greater brand salience by associating as many retrieval cues as possible to their brands. As stated by Ralf van der Lans, Pieters and Wedel (2008, p. 922), brand salience is the propensity of the brand to be thought of in the collective mind of consumers as an option to buy. Additionally, MacDonald and Sharp (cited in Romaniuk and Sharp, 2004 p. 334) indicates that brand salience has a positive influence on a brand getting picked and purchased, when there is more than one brand presented to the consumer. Hence, it is agreeable that brand salience is a preferred method of marketing especially with the proven success by the burger giants McDonalds and the soft drink giant Coca-Cola. Both of the brands played salience and cues almost perfectly. Brand salience is used in such a way by those two mega brands, that fast food is associated to McDonalds and the colour red is linked to Coca-Cola. From this example, it can be derived that leading brands tend to be always being thought of in a buying situation (Ehrenberg, Barnard et al., 1997 p. 48). According to Romaniuk and Sharp (2003), it is not necessarily that these bigger brands are particularly unique and distinct; instead, they are more salient to customers compared to other brands in the market. Therefore, it is safe to say that brand salience is arguably one of the most successful ways to compete among different brands.

## Brand image

Furthermore, distinct brand image tends to provide a stronger defence against competition (Keller, Strenthal and Tybout 2002). This is further supported by Day (1989), a brand must be able to promote its superiority to target customers in order to become more competitive. Microsoft is a classical example, a brand whose success is based on the excellent software. It was its distinct brand image that made it to success in retaining clients and forming one of the richest companies in the world. Consequently, for a brand to become more competitive, it is clearly essential to communicate the benefits a brand can offer between competitive brands.

## Conclusion

Consumer behaviour has changed according to the time. The existence of loyalty has disappeared in the sense that existing buyers no longer purchase a particular brand only. From the argument, we know that penetration on new buyers is more important than earning loyalty from existing buyers. Other than that, it is shown that by instigating purchase frequency, small brands can still manage to take advantage of the situation where they have less customers but pertaining higher purchase frequency. Moreover, brands compete with one another in a competitive market through creating brand salience and distinct brand image.