FEBRUARY 2017

BRAND STRENGTH

AN ALTERNATE APPROACH TO TRADITIONAL CUSTOMER SATISFACTION MEASUREMENT

This document is intended to outline some of our general beliefs about the role of customer satisfaction measurement and how satisfaction management strategically dovetails with managing brand equity. This document provides suggestions that we have found useful in a wide variety of circumstances, though no solution will work for all business or research applications. Our approach differs from many in that ours is focused on the buying process, and not specifically on product quality or performance characteristics.

Buyers can only be dissatisfied with a product they have purchased or used. Many companies or brands, especially brands with relatively low penetration, are torn between focusing on current customers and increasing satisfaction within that base of business or, alternatively, increasing penetration among non-customers. Many researchers have argued that based on lifetime value of a customer, the only reasonable course of action is to focus on satisfaction among current customers. Others have shown through empirical data that penetration growth is the key to market share growth. In fact, the most brand loyal buyers tend to be less frequent category purchasers. How does one balance these two seemingly contradictory schools of thought?[1]

BRAND CONSIDERATION

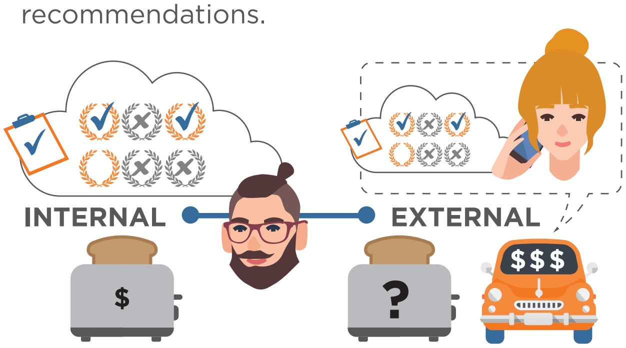
A well-established model of the buying process shows potential customers having a set of brands that they consider each time they make a purchase decision. This set of considered brands, or the evoked set, is based first on brands that individual buyers:

- Are aware of
- Believe will meet their specific needs
- Are familiar with

For example, an individual shopping for a particular product might know of six brands, but believes only three are appropriate for his specific needs. These three brands form his consideration or evoked set. This buyer might have only ever used two of the three brands in his consideration. The buyer might refer to other sources of information to help his

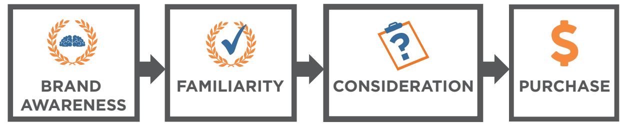
[1]Much has been written about brand equity. We do not cover the theories here, but the interested reader is referred to authors such as Andrew Ehrenberg, Larry Light, Frederick Reichheld, Bradley Gale, Ian Gordon, and Terry Vavra.

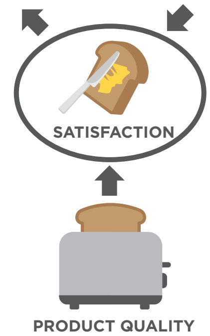
decision making process, or it might be the case that the buyer believes he already has enough knowledge that he doesn't need to refer to other sources. If the buyer believes that all the information that he needs is in his own memory, he is said to be conducting an internal search. An internal search is typical with product categories that are familiar to the buyer or when the purchase risk is low. However, when the purchase risk is high or when the product category is unfamiliar, buyers will more actively collect information to aid in their decision making process. This process is known as an external search. An external search can rely on many sources of information such as product literature, reviews in specialty magazines, and word-of-mouth, such as personal recommendations.



It is clear, however, that even for major decisions, many purchase decisions are made based only on internal search and word-of-mouth recommendations. If this is the case, then it becomes important to understand how people passively collect information that allows them to make decisions using only an internal search.

Brands are included and excluded from the consideration set based on a buyer's perceptions of those brands. It is also from these perceptions that the purchase decision is made. These brand perceptions are formed through the brand's advertising, word-of-mouth, and the buyer's past experience with the brand. In this way, customer satisfaction influences future behavior by modifying or confirming a buyer's perceptions of a brand.





This relationship is illustrated graphically above. This graphic illustrates the way many people thought about satisfaction research throughout the 1980s and early 1990s. It would appear that if a company could influence satisfaction positively, that company's position in the consideration process would be improved and the buyer would be happy with the brand and become a loyal brand buyer.

That is, the implied **goal** was satisfaction and the **result** was a *brand loyal buyer*.

TRADITIONAL SATISFACTION RESEARCH

Traditionally, customer satisfaction management was expected to lead to increased purchase likelihood. Unfortunately, that relationship is not as strong as many would expect or hope. At its root, satisfaction is an attitude. While attitudes impact buyers' decisions, the attitude of satisfaction is just one component of the purchase decision.

Equally troubling is the idea that just because a buyer continues to repurchase a specific brand, it does not mean that he is exhibiting brand loyalty (as marketers would infer). Nor is there any indication as to why she has demonstrated that pattern of repeat purchase.

It has become clear that satisfaction researchers (as traditionally defined) need to focus on something larger than just a single measure of satisfaction. In fact, businesses should focus on Brand Strength. Brand Strength fully encompasses the attitude of customer satisfaction and the behavior of repeat purchase, but also includes the drivers of brand choice, the perceptual differences between competitors, and links to business performance. The Brand Strength Model is "built up" from traditional satisfaction measurement, where satisfaction is a necessary, but not sufficient, condition for Brand Strength.

Brand Strength is derived from the perceived value that the customer receives from a product. Customer value is the ratio of the benefits customers receive from a product to the costs of using the product. Customer value, either expected value or observed value, drives a brand through every step of the purchase process including satisfaction. Brands are included or excluded from consideration based on the expected value that the product will offer to the buyer. Among considered brands, the buyer will choose the one with the highest perceived value. If the buyer's prior beliefs or expectations about a brand's value are confirmed upon using the brand, then the confirmed value creates satisfaction. These ideas are expanded below as we outline how customer value is created.

EMPLOYEE SATISFACTION

The MarketVision model begins with Employee Satisfaction. Employee satisfaction is a barometer for internal issues, which impact a company's success. By comparing the organizational alignment of the values and strategies of the company with those of the employees, we are able to identify operational processes that are not adding to overall customer value or are detracting from operational efficiency. Operational efficiency, in turn, may lead to greater employee satisfaction.

In addition to the direct benefits of employee satisfaction, such as reduced turnover, lower training costs, and higher morale, satisfied employees tend to deliver higher product quality. Higher product quality should directly translate into higher customer satisfaction.

CUSTOMER SATISFACTION

The second stage of the model is customer satisfaction. Repurchase likelihood, and therefore Brand Strength, is related to customer satisfaction, but a great deal more also impacts satisfaction. Customer satisfaction research is used to identify key drivers of brand choice, performance along those key drivers, competitive points of differentiation, and areas for improvement. These data are all used later to assess Brand Strength.

Therefore, customer satisfaction produces a number of Brand Strength antecedents.

First, if customers are satisfied, that is, if they realize value from a specific purchase, they are more likely to repurchase that brand.

Second, if they are more likely to repurchase that brand, then they believe that the brand is differentiated from its competitors.

Third, the perceived product differentiation increases the perceived value that the customer is receiving.

Fourth, this creates a reason for the customer to be willing to pay more for the product in subsequent purchases.

BRAND CONSIDERATION

The third stage of the model is the buyer's consideration process. In this stage, three components that influence brand choice are measured. The three components are: the key drivers of choice, perceived differentiation, and price sensitivity. Each of these three components influences brand choice by impacting customer value. Customer value can be thought of with the following equation:

$$\textit{Customer Value} = \frac{\textit{Benefit from Using Product}}{\textit{Cost of Using Product}}$$

This same equation can be expanded to include the three brand consideration components introduced below:

$$\textit{Customer Value} = \frac{\textit{Key Drivers of Choice} + \textit{Perceived Differentiations}}{\textit{Price Sensitivity}}$$

Each of the three components of brand consideration will be discussed in turn.

Key Drivers of Choice

Satisfaction researchers have long used multivariate methods to attempt to uncover the *key drivers of satisfaction*. Some researchers suggest that the key drivers of repurchase likelihood are better measures than the drivers of satisfaction. We believe that the key drivers of interest are the drivers of brand choice. These drivers might be related to the drivers of satisfaction or repurchase likelihood, but it is not clear that they always will be. Just as customer satisfaction does not guarantee repurchase, the things that make a customer satisfied might not make them buy the product again. For example, on a recent business trip to a particular city, a traveler stayed at a hotel that exceeded his expectations in every way—he was extremely satisfied. However, without a reason to visit that city again, he would have little reason to "repurchase" that hotel. Analogously, a component that provides satisfaction might not influence choice. For example, consider a car owner who professes to love his car because of the all-digital dashboard but buys another car that doesn't have a digital dashboard.

It is not clear that improving the brand's performance on the most important satisfaction driver is the step that will most increase Brand Strength. From a customer value perspective, the key drivers of brand choice represent the relative importances of the product benefits that influence brand choice.

Perceived Differentiation

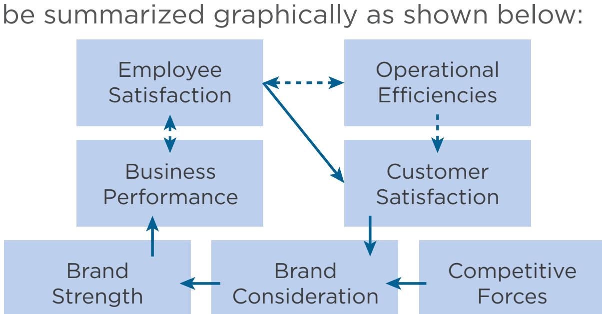
A brand's ability to provide unique benefits to a customer also impacts the brand consideration process. As a customer perceives a brand to be more unique and a match with her needs, its relative position in the consideration process is enhanced. For example, a buyer might be very satisfied with her office furniture, but not repurchase the same brand because she perceives several brands to be equal.

Price Sensitivity

Finally, customers differ on the importance of price. That is, buyers weigh the cost of the product relative to the benefit of the product differently. Buyers frequently underestimate their willingness to pay for quality. It is of critical importance, however, to understand what price premium a high quality, uniquely positioned product can command in the marketplace and what that brand's vulnerability is to competitive price changes.

Integrating these components of the consideration process leads to a measure of Brand Strength. Brand Strength will allow managers to understand their brand's clout over other brands and its vulnerability to competitive changes. That is, managers can understand how resistant their brand is to a competitive price change or product improvements.

The MarketVision Brand Strength Model can be summarized graphically as shown below:



We believe that traditional models that focus only on customer satisfaction are misguided. Note that we are not saying that satisfaction is unimportant—satisfaction is very important. However, satisfaction is not the best measure by which to predict future behavior. Several brands might satisfy a buyer or user, but only one can be the brand with the most value to the buyer.

What makes the Brand Strength approach unique when considered against other models of satisfaction is the focus on competitive forces. Most models of satisfaction suggest buyers who are satisfied with a product will remain loyal, ignoring the roles of variety seeking behavior, environmental or competitive forces, or potentially higher satisfaction or perceptions of higher satisfaction from competitors. Even models of satisfaction that include competitive products include them at the satisfaction level and not at the brand choice level.

When a brand achieves relative Brand Strength over competitors, it benefits from a double jeopardy effect:

- First, the decision maker is more confident that he is making the right choice and the size of the consideration set is decreased.
- Second, since the brand is perceived as having strength, it is perceived as being even more superior to the smaller set of competitors.

Hence, the brand benefits in two ways from Brand Strength.

Under the Brand Strength approach, the fundamental measurement system is traditional satisfaction research. However, the goals are all outside the realm of traditional satisfaction research. The new goals include:

- Operational Efficiencies, as suggested in the Balanced Scorecard Approach
- Enhanced Product Quality, as suggested in the TQM Approach
- Competitive Positioning, as suggested in the Customer Value Approach
- Business Performance

These goals are achieved by integrating the attitudes of employee and customer satisfaction, the behavior or repeat purchase loyalty, as well as the drivers of brand choice, relative competitive positioning, and links to business performance.

Keys to Success

The keys to success with MarketVision's Brand Strength approach stem from three over-riding philosophies:

1. Design Actionable Satisfaction Research
Satisfaction measurement, as the backbone of the Brand Strength Model, must provide clear direction for implementation. The measurement system must be specific enough that the results are actionable, but what is measured must also be relevant to customers and be something employees and managers can impact. The key to implementing this stage of satisfaction research is to thoroughly understand the linkages between customer needs and operational/product design considerations. Only in this way can a clear action plan be developed to remedy sub-par performance.

2. Successful Implementation Relies on Each Link in the Chain
The chain of inputs and outputs as specified in the Brand Strength Model are as important as the measurements themselves. While the measurements are critically important, their integration is what makes the model uniquely actionable. Therefore, the model must be carefully considered from the beginning to include all stakeholders' input as holistically as possible.

3. Focus on the Goal of Business Performance and Realize that Satisfaction is a MEANS to that END
There will always be trade-offs that must be made. Satisfaction and purchase rates will increase with each successive price decrease. However, this is frequently not in the best interest of the company. Frequently, companies have to address the questions of "what business are we in" and "how do we define our target market" when trying to decide a course of action from satisfaction research. The Brand Strength Model will suggest that the right decision is not necessarily the one that improves satisfaction. Rather, the best decision should be the one that gives the client brand a long-term, sustainable competitive advantage within its target market. Ultimately, this is the best opportunity to satisfy the goals of the business.