BIZCOMMUNITY

The path to sustainable growth is customer acquisition (Part 1)

By Tyron Sharnock

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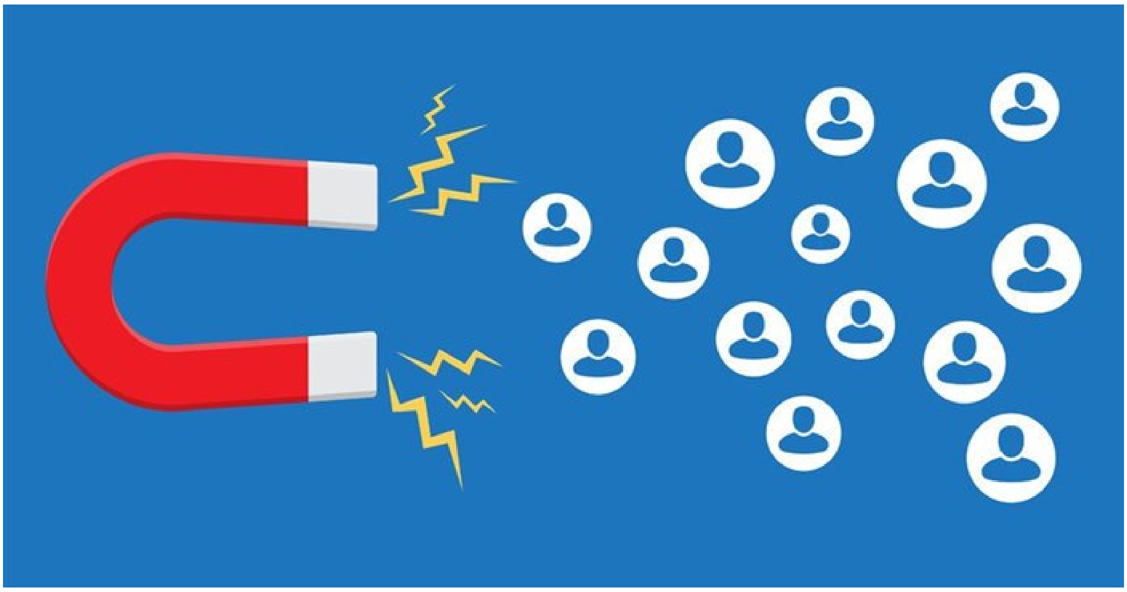
Customer loyalty has long been regarded as a critical component to building a brand with traditional models focusing on loyalty metrics such as customer retention and repurchase.



Two key metrics of brand growth are market penetration and customer loyalty, where penetration is how many consumers buy a brand in a period (usually a year), and where repeat purchase loyalty being how often a consumer buys a brand as a proportion of their total purchases in that category, referred to as share of category (SCR). For example, if a consumer buys a soft drink every day (365 times per year) and it's a Coca-Cola once per week (52 times per year) then Coca-Cola's share of category (SCR) for that consumer is 14.25% (52/365).

Neuroscience, brand equity and Coca-Cola
Erik Du Plessis 19 Jul 2016

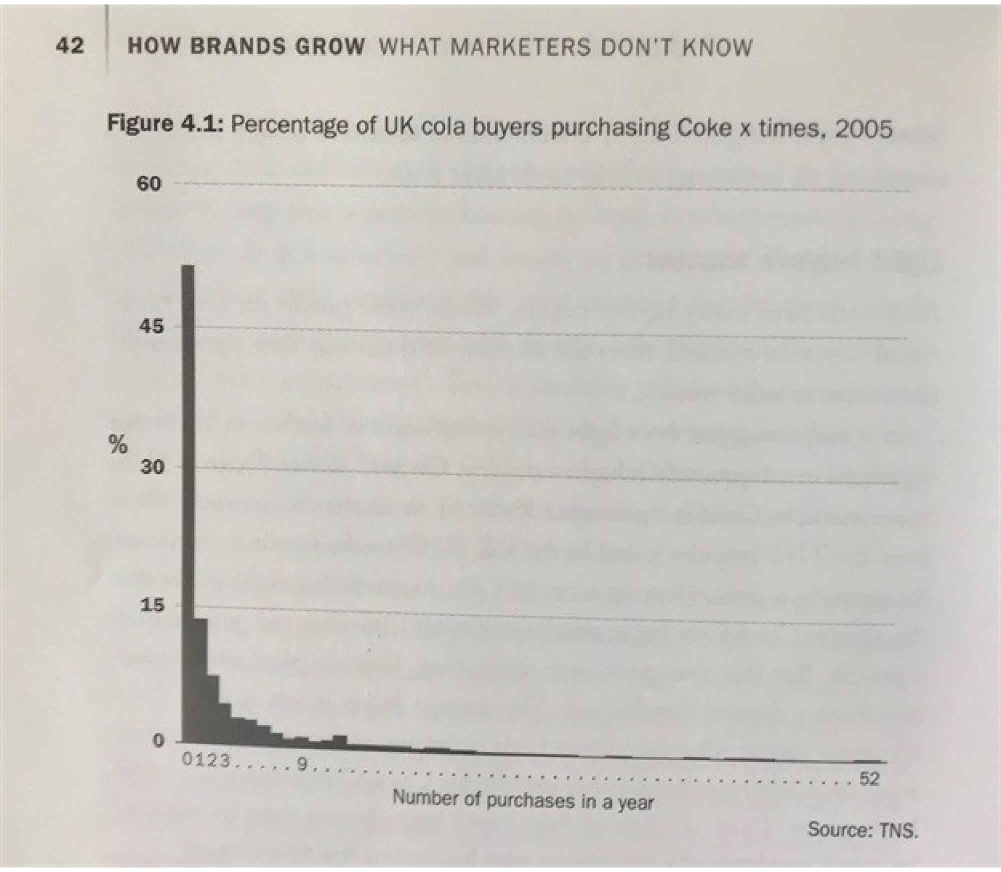
Brands can grow sales volumes by getting current customers to buy more and buy more often, getting non-buyers to buy the brand or a combination of both. Much academic literature and so-called 'modern marketing,' ironically now 20 years old, has primarily advocated loyalty and repurchase marketing strategies to achieve growth, and focuses heavily on decreasing buyer defection; but little empirical evidence exists to support this approach.

Light to heavy buyers

The majority of brands have buyers ranging from very light (just once or twice a year) to medium and heavy buyers of a brand, and recent evidence supports that regardless of the size of the brand or the industry on which it focuses, a negative binomial distribution (NBD) exists across the board. Data analysed across different markets and industries suggest that around 50% of sales volumes is made up of light buyers of the brand. This throws the old Pareto principle on its head! If Pareto held true then marketers could be forgiven for ignoring a large customer base of 80% contributing only 20% of sales volume, but that 80% of customers delivering 50% of sales volume means they simply cannot be ignored.

Take a brand favourite, and by far a market leader, Coca-Cola. The image below shows the buyer frequency of Coca-Cola in the UK and that the vast majority of buyers bought Coca-Cola three times a year or less. This doesn't change; it's a similar distribution for Coca-Cola in the USA (different markets), for Pepsi (a significantly smaller and different brand), and for many other brands across multiple categories. It begs the question: What would the sales impact be if Coca-Cola focused primarily on only heavy buyers of their brand?

As a result, NBD is considered an empirical law of marketing and does not change, it is to marketing what gravity is to an architect.



Buying Frequencies of Coca-Cola in the UK (Sharp & Ehrenberg-Bass Institute for Marketing Science, 2010, pg.42)

Buyers die

Defection is inevitable and often completely out of a marketers' control. Buyers move around to different neighbourhoods, cities and countries, making physical availability a factor of defection, their context changes making their individual value system a factor, and lest we forget that every day some buyers die. Not even the super successful Discovery Vitality rewards system can account for such factors of defection. And so, it is essential that brands constantly acquire new customers simply to maintain market share, growth notwithstanding.

These factors clearly state that a zero-deflection rate is impossible, but many supporters of retention marketing strategies suggest a goal of zero defection. They also fail to consider the increased cost of substantially decreasing defection in their business case. Examples of decreased defection rates suggest that if a brand could lower their defection rate from 10% to 5%, a mere 5% decrease in defection, then sales volume per customer would soar over time. But a decrease from 10% to 5% is not a 5% decrease in defection but rather a 50% (5/10) decrease in defection; far more difficult to achieve when framed this way.

Which buyers to focus on?

Light buyers are sometimes difficult to justify spend on simply because there are many of them and marketers perceive this as costly, but that's exactly the opportunity – there are so many of them! So effective mass marketing strategies give the best opportunity to reach a large base of customers who may be in the buying cycle at that particular point in time. Also, because they buy so infrequently they could easily forget about your brand and need to be reminded constantly.

Heavy buyers are very important though and contribute significant sales volume (50%-60%) but they are in fact relatively easy to market to. 1. They are also reached through effective mass marketing acquisition strategies, it would be difficult to NOT reach them, and 2. Because they are loyal they are more primed to notice their favourite brands marketing messages. By simply having their favourite brand in their personal space they are effectively been marketed to constantly through the product packaging and through regular use of the brand.

Heavy buyers don't just buy a single brand. Evidence shows that heavy buyers of a brand remain heavy buyers because they are heavy buyers of the category as a whole. Heavy buying households buy from a repertoire of preferred brands and make decisions predictably irrationally. Because heavy buyers are primed for the category they are more likely to notice your marketing messages but so are they primed to notice that of the competitor. Poor marketing messaging can often lead to sales growth in the category on the whole and increased sales for your competitor.

There is evidence to support a small volume of 100% loyal buyers to a single brand, but these will most often fall into the category of light buyers for the brand itself. For example, if one drinks a fizzy cola only 4 times a year and it's always a coke, then that buyer is a 100% loyal Coca-Cola buyer buy is defined as a light buyer to Coca-Cola as a brand.

Marketers cannot simply assume that purchasing a new brand is deliberate either. One must be cognizant that various marketing activities may drive potential brand switching or trial and it is difficult to measure to what extent a buyer makes a purchase or repurchase decision based on advertising, referral, pricing, in-store promotion, or simply the physical availability of a brand. If a buyer's favourite toothpaste is Aquafresh but there's only Colgate available then I doubt she'd be so loyal that she would not brush her teeth until she gets her Aquafresh.

Young guns

New buyers are entering the market constantly and younger customers are thought to be easier to influence and less brand loyal. This, however, is not generational and often it's simply because they have entered as brand new buyers of a category. It's only natural that as a brand grows and acquires new customers, many of these new customers may be younger. A young man gets sent to buy nappies for his brand-new baby, he's never bought nappies and so he's brand new to the category and relies on brand salience to make a decision.

This doesn't mean you must specifically target younger audiences, but it does reinforce the importance of constant acquisition strategies for growth as new customers enter categories they've never purchased before.

Check back soon for part 2 of this article that will be published under Tyron Sharnock's profile next week.

ABOUT TYRON SHARNOCK

I'm currently studying an MBA at GIBS and own a startup called Blendid Frozen Smoothies. I have a past life in media sales, being the sales manager at United Stations and Kaya FM, as well as in IT as the sales director of Aspvia.Unision which was sold to Adapt IT for R200m in 2016.

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