Abstract

Global and competitive markets have led businesses to cope with many challenges. Technology development has brought many businesses to deal with advantages which last less than before. It becomes increasingly difficult for a company to differentiate its products as they are perceived as easily imitable and fairly standard. Brand and brand loyalty come as a solution for creating a strong and long term competitive advantage for any business. The main objective of this paper is to examine the construct of brand, brand loyalty and loyalty programs. It uses secondary data from the existing literature to describe the significance of each of these constructs and their implementation on the business. It explains the benefits derived for the businesses and customers from having a strong brand and creating and developing brand loyalty. It also describes the use of loyalty programs and the benefits derived from these programs. The findings demonstrate that brand and brand loyalty are important means on the activities of today businesses. They should be studied thoroughly and empirically not only in developed but also on developing countries and in different sector of the economy. Loyalty programs should be applied properly in order to gain profitability.

Keywords: brand, brand loyalty, behavioral loyalty, attitudinal loyalty, loyalty programs

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1. Introduction

During the last decades, economies worldwide have undergone economic transformations. Economic and financial crisis have put many organizations in severe difficulties. As a matter of fact, competition is one of the most
important features of business in recent years. Some of these changes have created new opportunities to business organizations all over the world.

In this global market, branding is an important characteristic of the buying and selling of products, services and ideas. The research of the past decades has shown that brands are one of the most valuable assets a company could have. The companies that spend more time and effort in building strong brands and strong brand loyalty have proved to be more successful in the long run. Brands are able to augment the performance of businesses and ensure them with an important advantage. When loyalty is added to the equation, organizations are provided with a powerful competitive advantage. Strong brands and brand loyalty has shown to be significant weapons in the long run profitability of a business. Many businesses have created loyalty programs in order to enhance customer loyalty. This paper gives a theoretical approach on the conceptualization of the brand and its role for the customer and the business. After that, it focuses on the construct of brand loyalty and on the role of loyalty programs.

2. The brand

Companies are always striving to retain existing customers and to gain new ones. In this increasingly competitive market, it has become very important for any organization to maintain strong relationships with customers. By doing so, they can take information, understand and elaborate it and develop the proper products and services that customers want.

Brands have an important role in everyday life and are at the focus of most marketing strategies [Kapferer, (2004)], [Keller, (2003)]. Brands have a significant role in today’s trade and business. Their role has gained great importance beginning from the twentieth century although signs of brands have been found from many centuries ago. [Aaker, (1991)] suggests that branding has been practiced since the medieval era in Europe, when tradesmen and craftsmen used their names on products to avoid substitution. Branding has been around for centuries as a means to distinguish the goods of one producer from those of another. The brand is one of the most valuable intangible assets a firm may have. Building a strong brand is both an art and a science. It requires careful planning, a deep long-term commitment, and creatively designed and executed marketing [Kotler and Keller, (2012)].

[Aaker, (1991)] stated that a brand is a distinguishing name and/or symbol (such as a logo, trademark or package design) intended to identify the goods or services of either one seller or a group of sellers and to differentiate those goods
or services from those of competitors. Brand names provide symbolic meanings which facilitate the decision-making process of the customers [Sullivan, (1998)]. The American Marketing Association defines a brand as “a name, term, sign, symbol, or design, or a combination of them, intended to identify the goods or services of one seller or group of sellers and to differentiate them from those of competitors.” The brand serves as a protection for both the customer and the producer. It defends them from competitors who deliver products that appear to be identical. So, branding has become important as it is the only way for the consumer to differentiate between the increasing number of similar products. Brand is thus a product or service whose dimensions differentiate it in some way from other products or services designed to satisfy the same need. These differences may be functional, rational, or tangible—related to product performance of the brand. They may also be more symbolic, emotional, or intangible—related to what the brand represents or means in a more abstract sense [Kotler and Keller, (2012)].

The brand is a complex mixture of attributes. After reviewing 100 articles, [de Chernatony and Riley (1998)] found twelve main themes on brand definitions. The brand was defined as: legal instrument, logo, company, shorthand, risk reducer, identity system, image in consumers’ minds, value system, personality, relationship, adding value and evolving entity. These authors declared that the brand is a multidimensional entity that exists in the communication between the organization and the customers.

Brands are unique combinations of product characteristics and added values both functional and non-functional that contain a relevant meaning which is inextricably linked to that brand, awareness of which might be conscious or intuitive [Morgan and Pritchard, (1999)]. Brands are therefore composed from functional and symbolic elements so of tangible and intangible variables [Keller, (1993); Morgan and Pritchard, (1999)]. They are of great significance on representing and differentiating one service or product from another in the perceptions of the consumer [Kotler et al., (2003)]. As composed of these different kinds of attributes, they are unique aspects of a product or service. These characteristics of the brands have compelled the marketers to put special attention on their study and their effective management has become of vital importance.

In defining brand equity, assets and liabilities are grouped into five categories which should be linked to the name and/or symbol of the brand. These are: brand loyalty, brand awareness, perceived quality, brand associations and any visual signifiers, including logos as other brand assets [Aaker, (1991)].

Brand loyalty is a valuable aspect of brand equity. This is due to the fact that it is less expensive to retain the existing customers than to gain new ones [Reichheld and Sasser, (1990)].
In the process of brand-building, a business should build strong relationships with its customers. These arouse from the experience with the brand and with the multiplication of the experiences the brand gets stronger. Successful brand building involves identifying with the customer’s desires and giving what they want as value (price and quality) plus the characteristics of image being sought, aspired or accepted.

2.1. The role of the brand

Brands today play a number of important roles that improve consumers’ lives and enhance the financial value of firms. They are important for marketers, in making their offerings desirable and essential for consumers through building and communicating brand stories.

Brands are engaged in the creation of differences between products or between services. Marketers have the task to teach consumers “who” the product is, what it does and why consumers should care. They do these by giving it a name and other brand elements to identify it [Kotler and Keller, (2012)]. The power of the brand stands in its role to create mental structures that help consumers organize their knowledge about products and services in a way that clarifies their decision making provides value to the firm [Kotler and Keller, (2012)]. For branding strategies to be successful and brand value to be created, consumers must be convinced there are meaningful differences among brands in the product or service category. Brand differences often relate to attributes or benefits of the product itself.

Brand strategy is a multidimensional concept that consists of brand loyalty, brand awareness, perceived quality, brand association, and the other strategies [Aaker, (1991)]. As brands are of great significance to the buyers and sellers, building and maintaining strong brands offers many advantages to both these groups.

Brands identify the producer of a product or the provider of a service and allow consumers (either individuals or organizations) to assign responsibility for their performance to a particular manufacturer, distributor or provider [Kotler and Keller, (2012)]. Customers learn about brands through their past experiences with the product and also through the brand’s marketing program. In this way, they may find out which brands are good to them as satisfying their needs and which do not. It has also the ability to simplify the decision making process [Kotler and Keller, (2012)].
The advantages to the provider are listed below:

a. The brand creates a differential advantage which leads to a competitive advantage and to consumer loyalty [Tepeci, (1999)]. It contributes to the competitive advantage of the business [Aaker, (1996)] and provides identity to the product which is being differentiated from the competitors.
b. The brand affects demand of the product or service. Literature suggests that the brand name is often indicative of the quality of the product [Sullivan, (1998)]. Therefore, when two products act as almost perfect substitutes for one another, the consumer will rely on the brand name as an indicator of the quality of the product and as a choice criterion. Hence, the brand positively affects the demand for a product leading to greater market share and profitability.
c. The brand helps to create brand loyalty. When the same brand is bought repeatedly upon a strong commitment to it, it creates loyal customers which choose the same brand, have a positive attitude toward it and recommend it to the others.
d. The brand allows for price premiums. Building a strong brand can translate into greater market share, ability to dictate a price premium, and reduced promotional expenses which all result in greater incremental cash flow for the firm today and in the future [Doyle, (2000)]. Customers have knowledge of the product or service, like it and are ready to pay a higher price (as in periods when the offer is limited). Brand loyalty also allows firms to employ premium pricing strategies which increase the level of cash flow which could be otherwise achieved [Aaker, (1996); Chaudhuri and Holbrook, (2001)].
e. The brand creates entry barriers for other competitors. Brand preference provides predictability and security in revenues for a brand over time, and possibly creates barriers of entry in the market. This can be a sustainable source of competitive advantage for the firm [Keller et al., (1998)].

The advantages to the consumer are:

a. The brand has the power to reduce the risk in purchasing. The main advantage for customers of purchasing a branded versus an unbranded product is that of risk reduction. The stronger the brand in terms of quality offered, the lesser the risk customers bear in terms of purchasing a brand which may not perform to expectations [Keller et al., (1998)].
[Kapferer, (2004)] identifies that strong brands perform a number of functions to reduce the perceived risk such as identification, practicality, guarantee, hedonistic satisfaction and other functions.

b. Facilitates product identification. From the buyer's standpoint, branding helps in identifying and recognizing the product, thus spending less time in the everyday shopping.

c. The brand creates value for the customer. The brand has the ability to create value for the consumer, and hence, the firm [Aaker, (1991); (1996)]. As consumers face difficulties in making choices due to the proliferation of similar products in the markets or product categories, brands create value by simplifying the choice process [Doyle, (2000)]. Brands not only identify the source of the product, but also promise the quality and performance which consumers trust as a result of past experiences [Keller, (1998)].

d. The brand assures quality. Branded goods or services assure certain quality and standard which are consistently maintained by the producer. By purchasing branded goods with which a number of buyers are familiar, they are sure of getting a good quality-price level. In addition, some brands confer status on those who purchase them.

e. The brand creates preferential demand. The branded products or services are often those which the customer is most familiar. Branding necessarily facilitates for the creation of preferential demand for product and service in a class of products and services. Organizations often try to convince buyers, through their combined branding and promotional efforts that their products or services are significantly better than those of competitors. It is also expected that the customer be loyal to that brand and prefer the same one over other similar competing products.

Even in cases when the competitors may duplicate manufacturing processes and product designs, they cannot easily match lasting impressions left in the minds of individuals and organizations by years of product experience and marketing activity of the brand [Kotler and Keller, (2012)]. Marketers can apply branding physical good, a service, a store, a person, a place, an organization or an idea.

3. Brand loyalty

From several decades, researchers and practitioners have recognized the importance of brand loyalty in the marketing literature [Aaker, (1996)]. The
concept of loyalty is well known among researchers in various disciplines due to its significant marketing implications. However, despite the increasing numbers of studies on brand loyalty, there is little general agreement among researchers about what loyalty is and how it should be measured. Brand loyalty and loyal customers are very important for the future of the business and should be studied carefully [Aydin and Özer, (2005)]. Loyal customers are important for the development of the clientele of a business and have considerable impact on its profits. Different studies have shown that attracting new customers costs a business 5 times more than attaining existing ones [Kotler and Armstrong, (2012)] so brand and customer loyalty become very desirable.

Brand loyalty has been used in a business context to explain customers’ repetitive purchasing models of the same brand or product/service category. Loyalty is found to be an important construct of the long-term financial performance of business firms [Reichheld, (1996)]. According to Aaker (1996) brand loyalty is a premise to the firm's competitiveness and profitability. Different researchers have found that brand loyalty is a very important strategy of achieving a competitive advantage while others have argued that brand loyalty is at the heart of the marketing activities of firms and is a key to integrated marketing. Almost all the marketing strategies are directly and indirectly related to it [Reichheld and Teal, (2001)] which makes necessary the study of loyalty.

Brand loyalty is different from the other major dimensions of brand equity because it is related more closely to the use experience. It cannot exist without prior purchase and use experience while awareness, associations and perceived quality are characteristics of many brands that a person has never used. However, brand loyalty is influenced in part by the other major dimensions of brand equity; brand awareness, brand associations and perceived quality. The strategy to repurchase the same brand refers to brand use satisfaction, perceived superior value, and a preference or loyalty for the brand [Prasad and Dev, (2002)]. Brand loyal consumers provide the basis for a stable and growing market share of a company.

Several studies are dedicated to brand loyalty as a result of its significant role for both the businesses and the customers. Different authors have conceptualized brand loyalty in different ways. Brand loyalty is the biased (non-random) behavioral response (purchase) expressed over time by some decision-making unit with respect to one or more alternative brands out of a set of brands and is a function of psychological processes and emotional response [Jacoby, (1971)]. While, Jacoby and Chesnut (1978), suggested that brand
loyalty “is a biased (non random) behavioral response (purchase), expressed over time from a decision making unit, considering one or more alternative brands and is a function of psychological processes (decision making, evaluative”). These authors specified also four kinds of brand loyalty:

1. **True focal brand loyalty** is when the consumer demonstrates loyalty to the brand that is being investigated, referred to as the focal brand.
2. **True multi-brand loyalty** is when the focal brand is included in a set of brands that the customer patronizes.
3. **Non loyal repeat purchasing of focal brand** occurs when a consumer patronizes a brand even though he or she does not hold a strong emotional commitment towards it.
4. **Happenstance purchasing of focal brand** occurs when consumers of a different brand patronize the focal brand in the absence of their personal choice.

One of the most cited definitions of brand loyalty is the one given by Oliver (1999), which states that “brand loyalty is a deeply held commitment to re buy or re patronize a preferred brand 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”. Special attention in the literature is dedicated to the study of Dick and Basu (1994). They conceptualised customer loyalty as a combination of repeat patronage and relative attitude toward an aim or object which could be the brand, the service or the business. Dick and Basu (1994) explored different levels of customer loyalty stating that through the comparison with other competitors can be reached a better indicator of repeated purchases. By this combination, they identified four categories of loyalty.

**True loyalty** can be reached by the combination of high attitude and high patronage from the same provider. This is the ideal case for every business and service provider who wants to have loyal customers. **Latent loyalty**: is the case when the level of repeated purchases at the same provider is low or there are not such purchases while the favorable attitude is strong. The reason for this may be situational factors or social norms which lead the customers toward a competitive provider while having a stronger attitude toward another one. So, these factors have a greater impact than the attitude in determining of buying behavior. Customers who are more oriented toward price may choose the service provider based on the offered price although they may have strong positive attitude toward another provider. Customers who cannot change the
actual provider may show latent loyalty to other providers and managers should try to impact on these situational factors. Spurious loyalty: is the case when there is no relative attitude or this attitude is weak while the level of repeated purchases is high, so there is behavioral but not attitudinal loyalty. Customers continue to buy to the same provider without having a strong relative attitude but for other reasons such as familiarity with the provider, prior agreement or because of the absence of other alternatives. This kind of loyalty may be with products or services that demand little involvement or when the customer cannot percept the differences between brands or services. It may be the result of interpersonal relationships where the purchase is continuous even though the service or product is perceived to have minor differences from the one of the competitors. The provider should know to change this situation in true loyalty encouraging the positive attitude through the marketing strategy that aims the attitudinal loyalty. No loyalty: is the combination of weak attitude and low purchases. The cause for the low relative attitude may be the entry of a new service/product so it is impossible for the customers to compare it to actual ones. Another reason may be the competitiveness of brands or services as they may be viewed as very similar and without differences with each-other.

There are many benefits that accompany brand loyalty. The importance of consumer brand loyalty to the success and continued growth of brands has been recognized in different studies [Chaudhuri and Holbrook, (2001)]. Organizations should ensure that creating and holding brand loyalty is central to their marketing strategies in order to ensure greater leverage of trade, reduced costs, customer retention, satisfaction and attraction [Aaker, (1991); Keller, (1993)]. In many markets there is substantial inertia among customers even if there are very low switching costs and low customer commitment to the existing brand. Existing loyal customers expose the brand to new customers through word of mouth. Loyal customers are considered very valuable to the organization because they represent continuous revenue that can be for a long time. The level of switching for loyal customers will be lower, causing their value to be higher. So, customer loyalty is an important construct of the long term financial performance of business firms [Reichheld, (1996)]. Brand loyalty generates value to companies. It leads in a substantial entry barrier to competitors, an increase in the firm’s ability to respond to competitors’ threats, greater sales and revenues, a customer base less sensitive to the marketing efforts of competitors.

Consumers will have a preference for a particular brand and will develop loyalty towards it when exists a positive brand attitude and image. Brand
loyalty is dependent upon consumer trust within a brand [Lau and Lee, (1999)] and is a result of maintaining positive brand equity [Aaker, (1991)].

3.1. Dimensions of brand loyalty

There are different dimensions of brand loyalty in the literature and the result of different brand loyalty studies are not the same. This is due to the fact that the conceptualization, the development and the analysis of the construct of customer loyalty have changed with time. Some studies have conceptualized customer loyalty as a one dimensional construct, while others have conceptualized it as more than one dimensional.

Behavioral loyalty

The early studies have conceptualized customer loyalty as composed of one dimension, the behavioral one. From a behavioral view, customer loyalty is defined as patronage, the proportion of times a purchaser chooses the same product or service in a specific category compared to the total number of purchases made by the purchaser in that category [Rundle-Thiele and Bennett, (2001)]. Referring to this approach, customer loyalty is interpreted as repeated purchases that result in the extension of the purchases and expenditures with the same provider [Russell-Bennett et al., (2009)]. Only the customers who buy continuously from the same provider could be considered loyal ones. But, only the behavior indicators of loyalty do not represent an accurate framework of the reasons why these customers buy, the way customer loyalty is developed and the factors that cause it [Jacoby and Chensnut, (1978; Dick and Basu, (1994); Pritchard et al., (1999); Zeithaml et al., (1996)]. Different researchers [Dick and Basu, (1994); Jones and Taylor, (2007)]; [Russell-Bennett et al., (2009)] have criticized the use of the behavior approach of customer loyalty. They have emphasized that the conceptualization of customer loyalty must be done through the inclusion of attitudinal loyalty.

Attitudinal loyalty

The attitudinal dimension explains why people patronize a product or service. It contains a preference, a positive attitude over time and a psychological commitment. Attitudinal loyalty consists on the commitment toward a brand or service and on the intention to buy it [Mellens et al., (1996); Russell-Bennett et al., (2009)]. It is seen as a psychological connection with the service or product [Jones and Taylor, (2007); Oliver, (1999)]. Researchers have conceptualized attitudinal loyalty as an attitude, preference, intention to buy
[Zeithaml et al., (1996)], desire to recommend the service provider to other potential customers [Reichheld, (2003)], commitment to continue to buy at the same service provider and strong relationship with him [Pritchart et al., (1999)] and encouraging others to use the service. Despite the positive elements, the conceptualization of loyalty as attitudinal has gained different criticism. Despite the thought that attitude can precede the behavior, attitudinal loyalty has not the power to predict the actual and future behavior [Mellens et al., (1996)]. There is little assurance that customers who have the attitude to buy will do it in the future and this way attitudinal loyalty will lead to scarce profits for the organization [Kumar and Shah, (2004)]. The reliance only on the attitudinal loyalty cannot satisfactorily explain brand loyalty.

Two dimensional loyalty

The combination of the behavioral and attitudinal loyalty is a more valid and reliable method to measure customer loyalty [Jones and Taylor, (2007); Russell-Bennet et al., (2009); Oliver, (1999)]. The use of both behavioral and attitudinal components of loyalty was first proposed by Day (1969) and since then many other studies have proposed the use of behavioral and attitudinal elements in the conceptualization of brand loyalty [Baloglu, (2002); Day, (1969); Dick and Basu, (1994); Jones and Taylor, (2007)] because neither behavioral loyalty nor attitudinal loyalty alone cannot asses and analyze thoroughly the construct of brand loyalty [Baloglu, (2002)].

Despite the number of studies dedicated to it [Baloglu, (2002); Kumar and Shah, (2004)] there is no agreement between the researchers about the dimensions of customer loyalty [Jones and Taylor, (2007)] and only a few studies are focused on both dimensions simultaneously. The literature has proposed the relationship that may exist between both dimensions of loyalty [Li and Petrick, (2008b)] indicating that the understanding of attitudinal loyalty can be a better predictor of future behavior than past one.

4. Loyalty programs

In this increasingly fierce competition, it is necessary for businesses to hold customer data and to create customer databases. By doing so, they could have greater knowledge for the base of their customers and could also offer more personalized services and products to them. This way, businesses would have the opportunity to fulfill customers’ preferences and to enhance brand loyalty [Reichheld and Schefter, (2000)]. Recent developments in information technology have provided instruments for marketing managers to create new Customer Relationship Management tactics. One of these tactics is the loyalty
program [Uncles et al., (2003)]. The primary aim of these programs is to collect and record various data about business customers. When all data in the information system have been adequately processed, they become a competitive advantage in designing various types of programs that focus on present and future customers. Because the majority of loyalty programs simply reward repeated purchases, the effectiveness of loyalty programs is often gauged only by the level of repeated patronage, which as indicated above, does not indicate true loyalty. For this reason [Dowling and Uncles, (1997)] suggested that loyalty programs should not only focus on repeat patronage, but also on attitudinal loyalty. Referring to [Uncles et al., (2003)], customer loyalty programs have two aims:

a. to increase sales revenues by raising purchase/usage levels, and/or increasing the range of products bought from the supplier.

b. to build a closer bond between the brand and current customers, hoping to maintain the current customer base.

The goal of such programs is to enhance customer relationships by offering high value to profitable market segments [Kumar and Shah, (2004)]. Managers believe that it is desirable and expected for a properly executed loyalty rewards program to increase usage of the company's product or service offerings [O'Brien and Jones, (1995)].

Loyalty programs are often perceived as being part of a marketer's repertoire of promotional tools, fostering repeat purchase rather than attitudinal commitment, indicative of a short rather than long-term relationship orientation [Bridson et al., (2008)]. Almost every industry has developed card issuance systems that offer card members various types of deals, discounts and incentives. Different kind of businesses such as stores, gasoline stations, telecommunication companies, airlines, credit card companies, hotel chains and banks intensively use various means to attract potential customers to their loyalty programs by way of advertisements and newspaper articles [Wirtz et al., (2007)]. As many service firms suffer from undifferentiated offerings and low switching costs [Reinartz and Kumar, (2000)], loyalty reward programs might be an effective tool to relationship building. [Wirtz et al., (2007)], examined the impact of loyalty programs and the effect of perceived switching costs on behavioral loyalty, as well as the moderating effect of attitudinal loyalty on this relationship. They affirmed the effectiveness of loyalty programs and also demonstrated how attitudinal loyalty moderates the relationships between loyalty programs attractiveness, perceived switching costs, and behavioral loyalty.

Despite the facts mentioned above, some researchers still question whether the positive financial outcomes of the loyalty reward programs exceed the
investments made in the program [Bolton et al., 2000]). They call for other empirical studies on the outcomes of brand loyalty and loyalty programs.

5. Conclusions

The constructs analyzed on this paper are considered important elements of marketing research and they have gained much attention in the marketing literature, in the last decades. The critical analysis of the literature suggests that brands are significant elements of the everyday focus of marketers. Companies worldwide are striving to create and develop strong brands which will lead to higher profitability. The advantages of the brand mixed with the advantages of brand loyalty have provided businesses with powerful competitive advantages. Because of the many benefits customers but especially businesses gain from the implementation of these constructs much attention is dedicated to loyalty programs and the profitability they generate for the business. These elements have made the basis of the competitive strategies businesses use to deal with the fierce competition of the global markets nowadays. Many studies have aimed on theoretical and empirical investigation of brand loyalty and loyalty programs. They call for the performance of other studies on these constructs in order to have a thoroughly conceptualization of them. The aim is to have more useful information and knowledge for the proper application of the marketing strategies from practitioners.

References


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