

9.7: Forms of Brand Development, Brand Loyalty, and Brand Metrics

Learning Objectives

By the end of this section, you will be able to

- Identify branding strategies.
- Describe degrees of brand loyalty.
- Discuss metrics that can be used to measure brand strength and value.

Brand Development

New products can be added to a brand at any time. There are a few ways to add products that are classified on two measures: new/existing brand name and new/existing product category (see Figure 9.8).

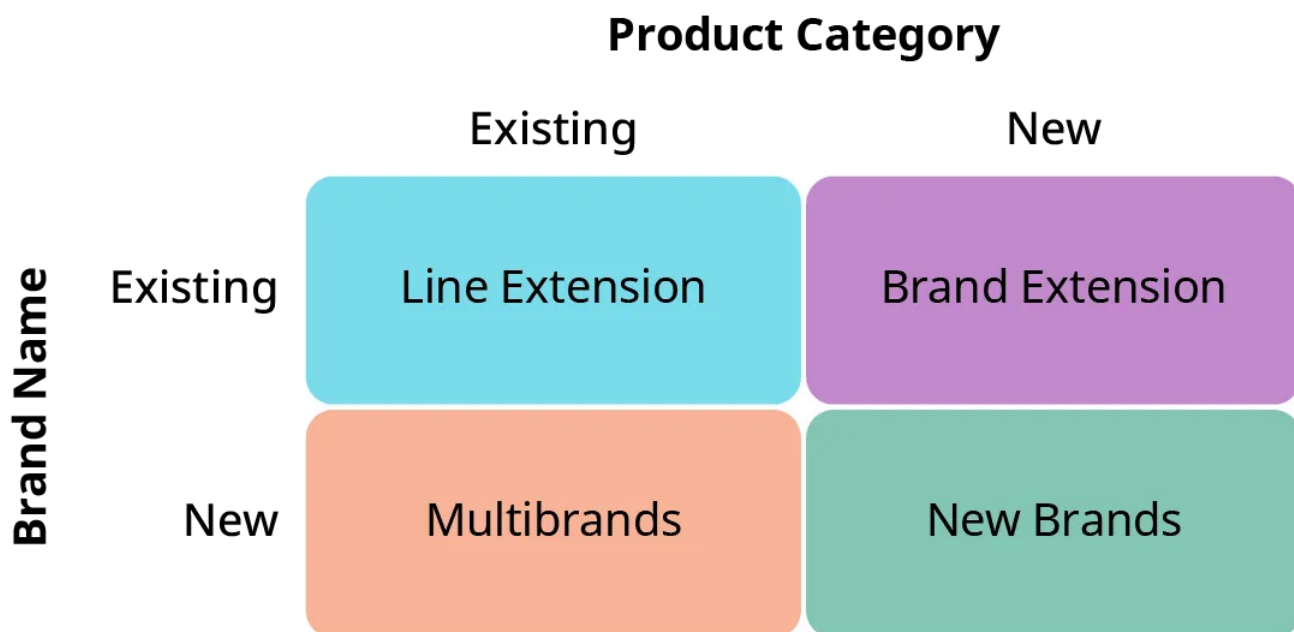


Figure 9.8 Brand Development Matrix (CC BY 4.0; Rice University & OpenStax)

Line extensions create new opportunities for an existing product and brand to serve customers. For example, the Oreo brand adds flavors to its product line for holidays. These line extensions provide the existing brand with an extension of its current product. As a result, a line extension may sell more products to already-aware and interested customers without many risks. However, sometimes brands may overextend their product lines such that products may be too similar, failing to increase sales.

Brand extensions leverage the brand name to new product categories. For example, Starbucks developed a line of bottled coffees under its corporate brand name. A brand extension uses awareness and equity in the brand to gain instant recognition and affinity for the new product, which may increase sales rapidly. However, if the new product is inferior to the brand's known quality, the entire brand portfolio may be at risk.

Multibrands are new brand names within a company's existing product category. For example, Nabisco manufactures various cookies within a product line but is marketed with different brand names. In this case, Chips Ahoy, Oreo, and Teddy Grahams all have brand equity on their own and do not need the benefit of the Nabisco brand. Each of these brands has a significant market share, so there is a benefit to retaining a multibranding approach. However, a multibranding approach does not work when the products have a small market share or fail to gain favorable retail shelf space to encourage sales.

New brands are an entirely different entity from the parent company. A new brand strategy can be effective if the new product or service is markedly different from the existing offering and benefits from its own branding. For example, the Starbucks brand owns Ethos Water. Ethos is in a beverage category other than Starbucks's primary offering and retains its name. A new brand strategy works well when the new brand is distinct from the parent brand and has a defined target market and positioning; however, a marketing strategy for a new brand can be expensive to maintain over time.

Brand Loyalty Levels

As you can see, brands spend time and resources to gain loyal customers. Loyal customers are the holy grail of marketing because they will purchase your brand and advocate for the brand to others. Loyal customers become instant word of mouth, spreading the positive attributes of a brand. However, not all customers are intensely loyal to one brand. Instead, customers fit into one of four loyalty categories (see Figure 9.9).

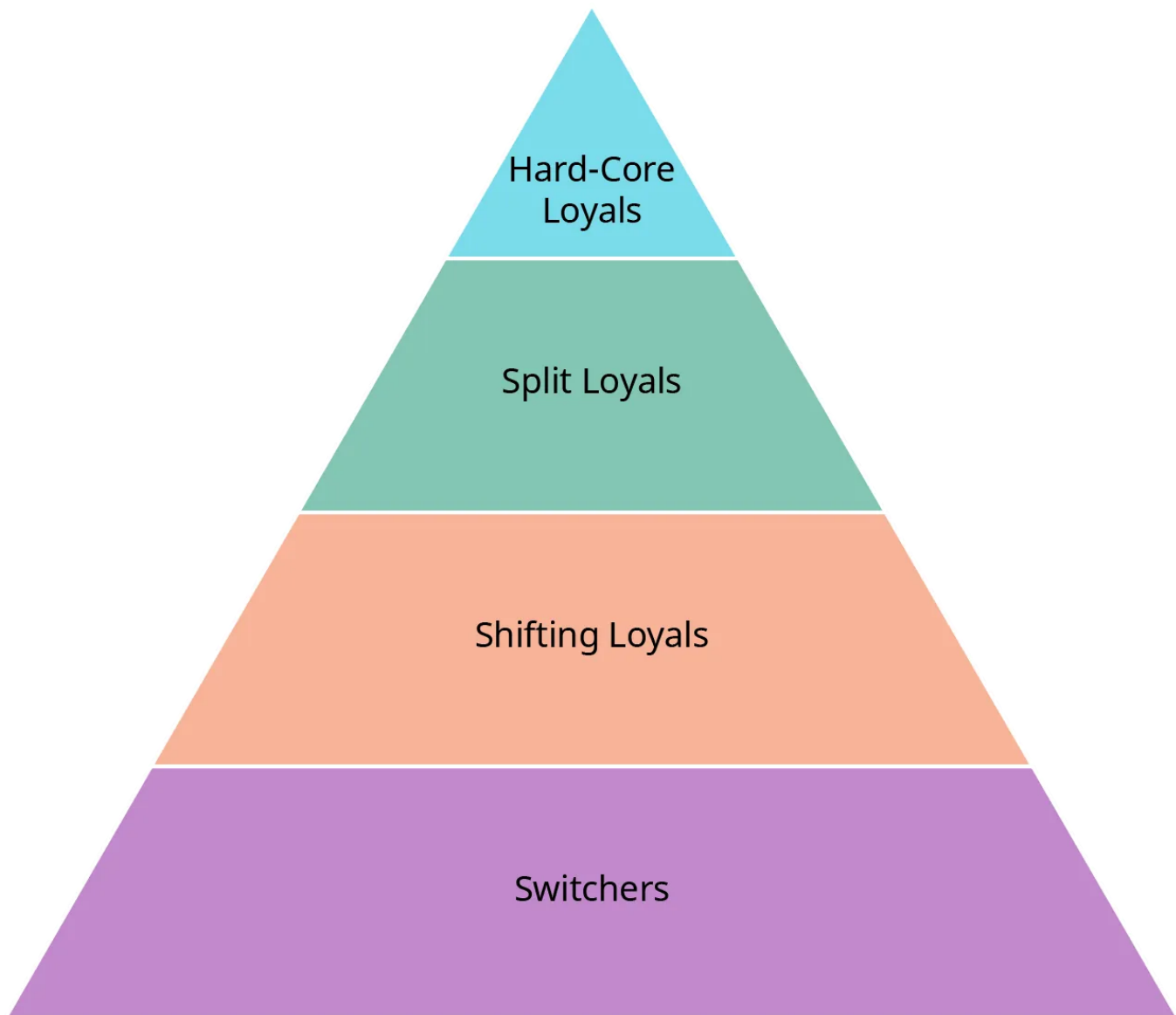


Figure 9.9 Loyalty Categories (CC BY 4.0; Rice University & OpenStax)

Switchers are customers who continually change their purchasing behaviors. Switchers may be motivated by price, convenience, or innovation. Therefore, developing a product or service that meets the switching consumers' needs is essential to retain them as customers. For example, a switcher might purchase the lowest-price laundry detergent each time they are at the store.

Shifting loyals are customers who are loyal to one product or service for a time, then turn their loyalty to a different product or service for the second period. Brands can expect shifting loyal customers to move back and forth between products and services. For example, a shifting loyal might purchase a Toyota followed by a Honda, then turn their loyalty back to Toyota for a third purchase.

Split loyals are customers who have a consideration set of two to three products or services in the category. The split loyal is willing to buy this select set of brands on any occasion without hard-core loyalty to any in the group. However, brands can convert

split loyals into hard-core loyals with product/service consistency, loyalty programs, and marketing efforts. For example, customers may be loyal to Gap, Banana Republic, and J.Crew for work wear.

Hard-core loyals are the customers that every brand wants. They are tried-and-true customers who generally only purchase one brand in a category. For example, when purchasing from a catalog, they tend to make a purchase with less concern about price. In addition, hard-core loyals often tell friends and family about their purchases, extending word-of-mouth marketing for the brand. Brands need to retain hard-core loyal customers. For example, Dunkin' knows that loyalty is essential to its business, so it rewards its loyal customers with free food and coffee through its DD Perks program.

Metrics to Measure Brand Effectiveness

Brand sentiment is challenging to measure. Unlike sales or revenue, sentiment is not easily quantifiable. However, brands must measure their effectiveness because organizations invest heavily in building brands. There are three ways to quantify a brand's impact: brand lift, brand engagement, and brand preference.

Brand lift measures perception over time. To determine whether the campaign improved perceptions, brands can survey customers and non-customers about their perception of a brand pre-campaign and again post-campaign. Keep in mind that positive perception doesn't necessarily mean that people will make a purchase; it simply indicates a positive affect toward the brand.

Brand engagement measures how deeply the customer identifies emotionally with a brand. Deeply engaged customers typically make more purchases, advocate for the brand, and become loyal customers. Social media metrics, time spent on site, subscriptions, and bounce rate are ways to measure brand engagement.

Brand preference measures consumer behavior by determining the degree to which a brand is preferred over others in the category. Brand preference is the most accurate of the three measures in predicting sales, focusing on behavior over attitudes. Marketing research is the best way to assess brand preference.

Marketing Dashboard: Profit Margins

Profit margins are a widely used financial measure to determine the profitability of a business, considering the cost to manufacture and sell a product or service and measuring how much of every dollar in sales or services your company keeps from its earnings. Cost of goods sold (COGS), describes expenses directly attributable to the product or service. It is important to deduct COGS from profitability to fully understand how much direct costs impact profitability. However, expenses don't end once manufacturing costs are considered. Companies pay for overhead, such as office space, trucks, and warehouses. They also account for depreciation on their assets, pay taxes, and incur costs for employee salaries. All of these expenses chip away at profitability. Profit margin calculates profitability after expenses.

There are two types of profit margin on an income statement: gross profit and net profit.

Gross profit margin equates to net sales minus the cost of goods sold. The gross margin shows the amount of profit made before deducting selling, general, and administrative (SG&A) costs. The formula for gross profit margin is

$$\text{Gross Profit Margin} = \frac{(\text{Net Sales} -)}{(\text{COGS})} \times$$

The calculation is expressed as a percentage.

Net profit margin takes the calculation one step further. It deducts all expenses from profitability, including administrative, sales, amortization, debt payments, taxes, income, and asset depreciation. This provides a more accurate look at profitability because it considers all the costs associated with producing and selling the product or service. The formula for net profit margin is

$$\text{Net Profit Margin} = \frac{(\text{Revenue} - \text{COGS} - \text{Other Taxes \&})}{\text{Revenue}} \times \frac{(\text{Expenses})}{\text{Revenue}}$$

The calculation is expressed as a percentage.

Suppose your sandwich shop is interested in its profit margins for a single order. Look at the chart and calculate the gross and net profit margins.

Chart for Calculating Gross and Net Profit Margins

Total revenue	\$6.25
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Total revenue	\$6.25
COGS	\$3.50
Administrative, sales	\$0.75
Taxes, depreciation, debt payments, amortization	\$0.50

Table 9.3

Answer

Solution

Gross profit margin: 44%

Net profit margin: 24%

Which measure is more accurate?

Answer

Solution

Net profit margin considers all expenses, so it is a more accurate measure than gross profit margin that only considers COGS.

Your business partner, Priya, wants to decrease the revenue of a single order to \$5.50. How will that impact your profit margins?

Answer

Solution

Profitability per order will decrease if revenue decreases unless COGS or other expenses are reduced in turn.

Knowledge Check

It's time to check your knowledge on the concepts presented in this section. Refer to the Answer Key at the end of the book for feedback.

1.

Domino's Pizza recently added sandwiches to its menu. This is an example of a _____.

- a. line extension
- b. brand extension
- c. multibrand
- d. new brand

2.

The North Face adds a new parka to its line of North Face-branded winter coats. This is an example of a _____.

- a. line extension
- b. brand extension
- c. multibrand
- d. new brand

3.

Bethany purchases a different bar soap every time she shops based on what is on sale. Bethany can be considered a _____.

- a. switcher
- b. shifting loyal
- c. split loyal

d. hard-core loyal

4.

Jorge only purchases Apple computers and will not accept a substitute. Jorge can be considered a _____.

- a. switcher
- b. shifting loyal
- c. split loyal
- d. hard-core loyal

5.

Which of the following brand metrics measures intended behavior?

- a. Brand lift
- b. Brand engagement
- c. Brand preference
- d. Brand equity

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