**Closing Arguments: Brand Keys' Loyalty Engagement Index**

*May 02, 2007*

By Kenneth Hein

NEW YORK -- Beer is pretty much beer. If a guy at a barbecue pulls a Budweiser out of the cooler, he expects that it's going to, at worst, taste bitter or watered-down. At best, it will probably just taste like regular ol' beer. The same can be said for a McDonald's meal: It's not going to taste like brunch at the Four Seasons. For beer, fast food and a host of everyday products, you can reasonably expect it'll be good enough—but you can't expect a lot.

How things change. The truth is that for a long time now, customers have expected a lot. According to the Brand Keys Loyalty Engagement Index, published yearly by Brand Keys, a New York-based marketing consultancy, consumer expectations for their chosen brands have been on a steady climb for a decade—up 28%, to be exact.

The only problem is, brands have been able to keep up by a mere 7% of the time. A wide gulf has stood between expectation and delivery, largely because customers have simply wanted more than what many brands could give them.

But based on the opinions of the 24,000 consumers interviewed by researchers in the first quarter of this year, that has changed. For the first time in the Index's history, consumer expectations have actually leveled off. "Consumers have become more realistic," said Brand Keys president Robert Passikoff. "Their desires are now based on experience rather than expectation."

That reality prevails for all 55 product and service categories in the Brand Keys study, and there are two reasons why. First, consumers who've been disappointed for so long seem, finally, to have surrendered. "People are learning to expect less," said Marc Babej, partner at Reason Inc., New York. "They've accepted it as established fact that companies are going to deliver imperfectly. They've accepted the fact that certain things will suck."

The second explanation is that a handful of categories actually have met high expectation levels and have closed it. Take, for example, high-definition televisions, which often deliver picture quality that's better than many consumers imagine.

"The TVs are priced so well and the promise of them looking good is strong enough that people are going to continue to purchase them," said Rob Enderle, a technology analyst and principal of the Enderle Group, San Jose, Calif.

Brand Keys researchers asked consumers who use a given brand to rate how well it is or isn't meeting expectations based on four drivers. In the airline category, for example, participants were asked to weigh security, comfort, booking and boarding, and then their overall experience. A score of 100 serves as the baseline; the higher a score number, the greater the loyalty level.

This year, JetBlue led its category, followed by Southwest, with scores of 113 and 112, respectively. How did two low-budget airlines take the top spots? Given the widespread service cutbacks across the industry, these carriers only had to provide just a little bit extra to secure top billing.

"More and more passengers are disappointed by full-service airlines," observed Joel Chusid, chairman of the Assn. of Travel Marketing Executives, New York. "There are no pillows. They've taken the food away. [But] on discount airlines like JetBlue and Southwest, people expect less and get more. They are surprised by the little TVs on JetBlue, and you have a good time on Southwest. The flight attendants are funny." (It should be noted that some of the Brand Keys survey predated the much-publicized debacle in which JetBlue left passengers stranded in a plane for half a day at New York's JFK Airport.)

While consumers are seemingly willing to settle for less, there's one area in which they are increasingly expecting more: service. In fact, customer service moved up in importance among the 54% of categories that saw shifts in loyalty drivers. "Customer service is becoming the 21st century surrogate for brand differentiation," said Passikoff. "Because there really is a leveling out in terms of the delivery attributed against the four Ps—Place, Product, Price and Promotion—service has become the differentiator."

For example, last year, when questioned about long-distance carriers, respondents indicated that customer service was the third most important variable. Today, it is first. Sprint received the top spot in the rankings with a score of 118; Verizon, MCI, SBC, Bell South, AT&T and Qwest followed respectively.

"The fact that they were AT&T, then they were Cingular, then they were AT&T has led to customer confusion," said Passikoff.

So much so, its CMO of wireless operations Marc Lefar resigned on April 20 amidst the latest rebranding effort. Last week AT&T announced that it had added only 1.2 million subscribers in the first quarter. This was roughly half the amount that signed up in Q4.

In the coffee and doughnut chain category, customer service moved from the third most important factor to second. This helped Dunkin' Donuts dethrone category giant Starbucks in terms of loyalty. The East Coast chain scored 115 compared to the global juggernaut's 112. "Starbucks has begun to sacrifice the in-store experience. No longer are they grinding the coffee or pulling the shots for espresso," said Passikoff. "You used to have something to watch. And now it doesn't feel handcrafted anymore, which was the reason you [were willing to] pay four times the price of a regular cup of coffee."

Coffee wasn't the only liquid category where customer service moved up in prominence. In the fuel company category, service stepped up from third to the second most important driver. BP, with a score of 115, beat out rivals including big boys Exxon and Shell.

Some customers may not care much about service when they're filling their tanks with gas, but the same can hardly be said when the setting is a big-box retailer. Here, Target ruled the roost, snagging a score of 120 to beat out Costco (118), Wal-Mart (117), Kohl's (116) and Kmart (110). "Wal-Mart's sales were down because they were retrofitting their stores, that could be the issue," said Passikoff. "But frankly, you could tell the difference between Target or Wal-Mart blindfolded. The shopping experience and service elements are vastly different." Next door at electronics retailers, Circuit City overpowered Best Buy with a score of 116 to 114, even though the chain continues to struggle mightily because of the plummeting costs of HDTVs (Brandweek, April 16, 2007).

According to Joe Dell'Aquila, managing director of Continental Consulting, Stamford, Conn., retailers who excel in customer service are getting the details right. "If everything about the place is positive, like the return policy, it's the place I'm going to shop. So many [retailers] are getting customer service wrong these days, its unbelievable." With a score of 120, H&M and Victoria's Secret are definitely not among that group. Both chains tied for first place in the apparel-retail category. The "wrongs" include the Gap, which ended up having the least loyalty among the Brand Keys respondents.

Part of the problem, however, stretches beyond service. Gap's recent Audrey Hepburn skinny jeans campaign was, in Passikoff's view, "schizophrenic. I'm not sure if the Gap's target audience even knows who she is." Dell'Aquila added that the Gap's branding issues are just a symptom of a larger trend: "There is a sea change going on in the marketing/advertising world. With the growth of media options it is harder and harder to establish brand loyalty. There are a lot of questions surrounding traditional above-the-line advertising."

That doesn't stop brands from spending, of course, especially when it comes to the pharmaceutical category. But the returns weren't where the money was. Despite Schering-Plough's spending $128 million on media last year, per Nielsen Monitor-Plus, it finished a dismal third (109) in the over-the-counter allergy medicine category. Benadryl came in at No.1 (111), despite having spent just $27 million. That doesn't surprise Pfizer and Lilly rep-turned-author Jamie Reidy, who said Benadryl "is generally considered the best antihistamine."

Still, the marketing battles aren't always broadcast on TV. Zyrtec led the prescription allergy medicine category with a score of 111 despite some low blows. As Reidy related, the story goes that competing sales reps have painted Zyrtec as a drug known to make patients so woozy, that a salesman "once dropped a six-back of beer on a doctor's desk and said, 'You might as well give them that instead. Either way, they're not going to make it home.'"

At least, not by car, and surely not in a General Motors car. In the auto category, GM proved to be the automotive equivalent of the Gap, coming in just shy of the very bottom with a score of 105. It rated poorly across the board in terms of quality, fuel efficiency and even ease of driving. Toyota led the pack with a score of 114. On a number of quality fronts, Passikoff ventured, GM is on equal footing with Toyota—"but it's not perceived that way and perception is reality."

Not always, though. As mentioned earlier, the one category that has not only met but often exceeded customer expectations is high-definition TVs. Picture quality's the obvious dealmaker, but the Index scores were immensely helped by the fact that these dazzling displays have seen their prices plummet of late. While manufacturers are, obviously, less than thrilled by their incredible shrinking margins, consumers are pleased. "Prices have gone down to the point where they are extremely affordable," said Enderle. "Hell, I bought four HDTVs during the last three months for a combined total of under $5,000 compared to the $7,500 I paid for my first plasma TV seven years ago."

Sony, which was late to the LCD game with its Bravia line launched at the end of 2005, quickly jumped to the front in terms of sales and consumer loyalty. It scored 119 followed by Panasonic, Samsung, Toshiba, RCA, JVC, Sharp and Hitachi. "Sony has recovered relatively well on the TV side. They are a hot product," Enderle added. "They've done a nice job convincing folks that, for the money, they are the best value." (This is the first time Brand Keys singled out the HDTV category. Samsung led all TVs last year.)

It was Panasonic, however, that topped the plasma HDTV category, both in terms of sales and loyalty, by scoring a 120. HDTV sales will continue to increase, said Enderle, because "there's a certain amount of neighbor-to-neighbor competition where they say, 'Hey, we need one of those too!'"

And once they mount it to their wall, they can crack open that regular ol' beer and soak in the newfound satisfaction of what it feels like to settle for nearly everything else.

METHODOLOGY

Over the course of the first quarter, researchers spoke with 24,000 consumers—by phone and face-to-face—to discuss 55 categories of brands. After respondents identified the brands they used most often, they were asked a series of questions that probed what they expected of those brands and, crucially, what those brands actually delivered. Responses were converted to numeric scores. Because the categories vary so widely in nature (loyalty to, say, a car brand is characterized by different values than is loyalty to a soda brand), researchers indexed the scores to allow for cross-category comparisons. The index numbers reflect how well a brand delivers on the expectations of its most loyal consumers. A score of 100 serves as a baseline; the higher a score, the closer that brand is coming to meeting (or exceeding) expectations. A word of caution: The index ranks brands by statistically significant results. As a result, scores that are numerically close—110 and 111, for example—actually have a significant performance distance between them.

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