Research Note

The Taiwanese are Just Like Australians in Their Loyalty to Fast Food Outlets

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Abstract

Despite big differences in culture, types of food, retail environments and the brands on offer, the loyalty of Australian and Taiwanese consumers to fast food outlets is nearly identical. In both countries, a third of buyers purchase from the same branded outlet twice in a row, while two thirds buy from a different outlet, usually of a bigger brand. This was true for all brands, regardless of the type of food on offer or whether the brand was local or global. The analysis also confirmed that partitioning is limited, although there is some partitioning of the Australian market based on functional differences. The management implications are that marketers would be best served by aiming to attract customers rather than aiming to encourage loyalty, and that small sets of survey data can be usefully employed to reveal underlying market structure and brand performance measures. This is especially helpful in data-poor markets and categories.

Keywords: Fast food brands, Consumer loyalty, Taiwanese consumer behaviour, Australian consumer behaviour

1. Introduction

The ongoing academic and industry discussion surrounding the benefits of consumer loyalty has evolved from how to measure and assess loyalty (e.g., Cunningham, 1956; Fader and Schmittlein, 1993; Bhattacharya, 1997) to loyalty building and management (e.g., Reichheld and Teal, 1996; Baldinger and Rubinson, 1996; Aaker, 2002; Aaker and Joachimsthaler, 2002). Hence the development and use of loyalty programs, relationship marketing, CRM and so on.

But one of the most consistent, and some would say contrary, themes in this discussion has been driven by Andrew Ehrenberg and Gerald Goodhardt, whose studies have repeatedly established that simple parameters such as penetration and purchase frequency can accurately predict many other aspects of consumer behaviour, including behavioral brand loyalty. Their work uses the Dirichlet model of consumer purchasing behaviour, which has been applied to a huge variety of categories, market types and countries (Ehrenberg, Uncles and Goodhardt, 2004).

This body of work shows that brand loyalty in established, competitive markets follows predictable norms. Recent work on subscription markets (Sharp, Wright, and Goodhardt, 2002), European car markets (Ehrenberg and Bound, 1999) and the US car market (Bennett, 2004), shows that Dirichlet patterns are not confined to FMCG markets, but also occur in high involvement categories or those where purchases are infrequent. The patterns have also been shown to occur with frequently-visited retail shops (East, et al., 1995; Brewis-Levie and Harris, 2000; Uncles, Ehrenberg and Hammond, 1995), and petrol stations (Bennett, Ehrenberg, and Goodhardt, 2000).

An understanding of a market’s underlying structure and buying patterns is useful because it allows marketers to set realistic and achievable targets. For example, a new product introduction would be more likely to meet its sales and growth objectives if it was based on accurate assessment of repeat buying, purchase frequencies, and switching in the category. Likewise, benchmarks and norms allow marketers to audit existing brands to determine whether they are performing as they should, or whether a marketing effort (advertising, promotion, etc.) is working.

2. The General Patterns

The established brand-buying patterns relate to many different brand performance measures such as how many
people buy a brand, how often they do so, and which other brands they also buy. The primary pattern is that all brand performance measures tend to vary together from one brand to another (Bhattacharya, 1997; Ehrenberg, Uncles and Goodhardt, 2004; Fader and Schmittlein, 1993).

Another major pattern is that repeat-buying and brand-switching are dominated by how big each brand is (its market share), and not by any other particular attributes or values of the different brands. Nor do the patterns vary with customers’ attributes; that is, the customers for one brand are much like those for competing brands (Kennedy and Ehrenberg, 2001) and large share brands tend to score high on all measures and small ones score low. Loyalty is therefore not specific to a brand. Instead, brands with the same market share tend to have similar levels of loyalty.

Finally, brand loyalty is usually divided between a number of brands. Brown (1953), Cunningham (1958) and Ehrenberg (1988) have shown that most consumers buy more than one brand in a category over a sequence of purchases, buying one more often than another yet each brand more or less regularly, if infrequently. Most consumers switch back and forth, or alternate irregularly between brands in their portfolio, only occasionally adding a new brand or dropping an old one (Baldinger and Rubinson, 1996; Ehrenberg, Uncles and Goodhardt, 2004; Jones, 1998).

3. Extending the Analysis

Most of the work in the field of behavioural brand loyalty has been undertaken on large sets of panel data. This has necessarily ruled out those markets and categories where panel data is unavailable or unreliable (emerging markets), or too expensive to acquire (subscription markets). Panel data is also cumbersome to use for those instances when a marketer would like a quick look to see whether a particular brand or marketing effort is performing as expected.

Over the past few years, several researchers have shown that survey data can be used to generate well-established brand loyalty patterns (Bennett, 2004; Dall’Olmo Riley, 2000; Roy and Lahiri, 2002) and confirm patterns such as double jeopardy (Bhatia and Bawa, 2002). They have also shown that small data sets can be used (Bennett and Ehrenberg, 2002; Bennett, 2003) and that panel data can be replaced with survey data using measures based on the Juster scale (Wright, Sharp and Sharp, 2002). This has greatly expanded the opportunities for studying less well-understood markets and categories where panel data do not exist.

This study of fast food purchasing is one in a series of replications designed to test whether the well-known brand buying patterns hold true in dis-similar markets and categories. So far, all the replications in the series show that small sets of survey data reveal well-known market structures and brand performance measures. And while the method tends to have slightly more variability in results compared to analyses of panel data, this is largely because of the small sample sizes. Moreover, the rare deviations from expected patterns are largely explicable and predictable.

4. Quick Service Outlet Purchasing

The data in this analysis was gathered for a commercial market research project in South Australia during February 2001 (n=408). Separately, in June 2002 data were gathered in Taiwan (n=300) to repeat the Australian analysis. Both sets of data are drawn from individual respondents who had bought two or more meals from Quick Service Outlets (QSOs) within the past month and who were asked questions about the last QSO used, and the next to last (i.e., a “two-purchase technique” was used to collect data from survey respondents).

Simple frequency counts (not shown) established that brand shares were stable (+/- 5%) from purchase to purchase and these were verified as much as possible against published share data, which did not always completely agree (e.g. China Times, 2002; Research and Markets, 2002). Both the Australian and Taiwanese markets had a few big brands and many smaller ones, though the top four Taiwanese brands were slightly more dominant, accounting for 72% of purchases, vs. 59% in Australia. McDonalds was the biggest brand in both markets, but most brands had different market shares and different relative positions in each market. Burger King, for example, was 3rd biggest in Australia (13% share), but only 8th biggest in Taiwan (8%). A few brands such as 7-Eleven and MWD were big in only one market. To make comparing the two markets easier, the brands have been ordered by market share and brand names have been replaced with letters; A is the largest brand in each market, B the second largest, and so on. Table 1 shows that brand loyalty (repeat-purchase) is virtually the same in Australia and Taiwan, averaging about 33%. In other words, only a third of each QSO’s customers
bought it on two consecutive purchase occasions (in Australia, where three purchases were recorded, 15% bought the same QSO three times in a row). This purchase-to-purchase repeat rate is lower than for many other categories. For example: carbonated soft drinks in the UK, Singapore, and Taiwan average around 50% (Bennett, 2004); make-up brands average about 65% in France (Bennett, 2003); and toothpaste and shampoo average 54% and 60% respectively in India (adapted from Roy and Lahiri, 2002). It may be that most fast food customers value variety and therefore prefer to go to different QSOs from day to day, even though some QSOs have large and diverse menus. In any case, both Australian and Taiwanese consumers are twice as likely to switch than to go to the same QSO twice in a row.

Switching for fast food outlets is probably not a wholesale change of preference, nor permanent. It is more likely that customers have decided to patronize another QSO within their portfolios and that at some future purchase they will buy their original choice again. In fact, in Australia, about 7% of QSO customers bought the same QSO non-consecutively, e.g. first they bought brand A, then a different brand on the second occasion, and then A again on the third purchase.

Overall, both markets seem to have similar structures, and repurchase and switching rates are mostly very close to average, especially for the larger brands. It is also likely that some of the variation in repeat rates for smaller brands is due to the small sample size, where the gain or loss of 1 customer may result in a 5 or 6 point change in repurchase rates.

There is also a small downward trend in repeat rates from the bigger brands on the left to the smaller ones on the right; i.e., the bigger brands are a bit above average, while smaller brands tend to be a bit below average. This is a double jeopardy pattern found in many product categories (Ehrenberg, Uncle and Goodhardt, 2004), though it is usually more pronounced than here.

5. Switching is in Line with Brand Penetration

Table 2 shows penetration for individual branded outlets after two purchases. On average, the number of people buying at each of these brands increases by about half from the first to the second purchase. By the second purchase, large brands have a lot more customers than small brands. This is what distinguishes a large brand from a small one; it has a lot more people buying it.

The penetration and switching levels are in line with the percentage buying the brands at all; i.e., both were higher for A and B than for I and J. This relationship of switching to penetration is an illustration of the “Duplication of Purchase Law” which has been widely established for a large number of categories (Goodhardt 1966; Ehrenberg 1988). For QSOs it reads:

\[ \text{The } \% \text{ of the previous customers of brand } P \text{ who switch to the new brand } N \approx D \times \text{the penetration of } N \]

In other words, when people switch brands they are more likely to switch to a brand with high penetration. The proportionality factor “D” reflects the likelihood of switching from the previous brand P to a new brand N,
relative to how many people bought N at all during the time period.

\[ D = \frac{\% \text{ of customers of P who switch from P to N}}{\% \text{ who buy N at all}} \]

Table 3 shows the average switching figures for QSO brands (averaged over 2 purchases) giving an average D-value for all brands of roughly .73 for Australia and .74 for Taiwan. Thus 10% of A’s customers switched to B, which is about 73% of B’s average penetration of 14%. By and large, switching levels decrease in line with .73 times the brands’ penetrations, from high for A on the left to low for J on the right (the correlations for both are \( r = 0.90 \)).

There are, however, some small deviations: Some switching levels are above their penetration norms and this is probably because these brands are perceived by customers to be functionally different than others – a take-away or breakfast specialist perhaps, which means that customers do not consider certain brands equally for all meal occasions (Brand D in Australia, for example, is a lunchtime sandwich specialist, and has a low switching rate). Deviations in switching may also reflect an unusual level of marketing activity during the study period; a new product offering with heavy promotion, for example, drove brand F in Australia to a higher than predicted switching level during the study period.

In any case, the deviations are small and in the main, switching was very much in line with penetration. Indeed it should be because this is partly a statistical selection effect, as was explained by McPhee (1963) when he noted that double jeopardy was due to the sheer size (market share) of the brands and not to any inherent brand strength or equity. In effect, customers of a small brand have relatively high chances of also buying the big brands because they are big. Deviations from the general pattern therefore stand out and give an indication of something happening in the marketplace – a brand gaining or losing share, or a promotion that drives up sales, and so forth.

6. Partitioning

Overall, the average duplications in the observed switching in Table 3 were in line with those predicted by each branded outlet’s penetration. This is essentially the standard Duplication of Purchase Law noted above. Against this, the purchase duplications between pairs of brands may reflect clusters or sub-markets within the QSO marketplace. This was the case in Australia where clusters were derived from the differing likelihoods of switching between pairs of QSOs (assuming a high degree of substitutability), as expressed by their D-values.

Table 4 shows that there is slightly high duplication within the cluster of American-Style chains, higher for Local Specialists, and markedly higher for Take-Home food. In other words, there appears to be a partition between different types of QSOs. The high D value for Take Home shops shows that customers substitute one take-home shop for another, whether a take home pizza or fish and chips – with the substitution based on buying and taking home, and not on the food itself.

On the other hand, there was no apparent clustering in Taiwan. Table 5 shows all the similar type duplications were quite near the average of .7. This is probably a more typical outcome than the Australian case because partitioning itself is generally rare, and when it occurs, it is generally based on a functional difference between product variants such as leaded vs. unleaded petrol (Ehrenberg, Uncles and Goodhardt, 2004). The lack of a Take Home cluster in Taiwan is probably because compared to Australia, Taiwan is more densely urban and

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people have fewer cars and therefore tend to eat in restaurants rather than to take away. Also, in Taiwan, fast food means really fast - meals may be ordered and consumed within ten minutes, making the take-home option less important.

7. Conclusions
Analysis of a small number of purchase records reveals many brand-buying patterns such as the dominance of market share in determining brand performance measures, double jeopardy, and the duplication of purchase law. It is of course very helpful to have benchmarks to work towards when assessing market structure. These results show that loyalty and switching patterns for QSOs are much like those found in other categories, types of markets and countries.

These results were in line with the expected patterns and accurate with reference to external industry data, especially for larger brands. Moreover, they are remarkably similar, suggesting that the fast food categories in these two markets are broadly the same in terms of buying behaviour. This does not mean that the differences in culture, food types, brands, retail environments, etc. are unimportant, but it does imply that QSO customers have a lot in common and that their similarities result in brand buying behaviour that is very similar.

The main limitations of this type of analysis are that not all brand performance measures can be calculated (100% loyalty, share of category requirements, etc.) and that smaller brands are more susceptible to sampling error.

This replication result is encouraging and suggests that the two-purchase technique holds promise as a quick, inexpensive and easy-to-use method for assessing brand performance. The technique could make a significant contribution towards the development of analysis techniques for use in markets where data is difficult or expensive to acquire. The next steps in confirming the usefulness of the two-purchase technique will be to gather additional data sets in both well-known FMCG markets and less-well understood markets such as those in developing countries and subscription markets.

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Biography

Dag Bennett is a Senior Lecturer in the Business School at London South Bank University, UK. He completed an MBA with a double concentration in International Business and Marketing at Indiana University, USA, School of Business in 1986. After two years in brand management and marketing research at Procter and Gamble in Cincinnati, Ohio, he moved into marketing consulting with Young & Laramore, where he was director of client services first in Chicago and then London until 1997. In 1992, he joined South Bank University as a lecturer in international marketing, and soon after became a research associate at the Centre for Research in Marketing, headed by Andrew Ehrenberg, where he continues to work on various studies in brand buying behaviour.

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