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## Loyalty myths shredded like old air-miles statement

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### Loyalty Myths

By Timothy Keiningham, Terry Vavra,

Lerzan Aksoy, and Henri Wallard

John Wiley, 254 pages, \$31.99

We've heard a lot in the past decade about customer loyalty. We've watched as companies have plunked big bucks into trying to build loyalty through coffee cards and air miles and whiz-bang relationship-management software.

But customer-satisfaction scores have dropped rather than increased, and many companies are experiencing significant customer churn.

The reason for that failure, according to the authors of *Loyalty Myths*, is that most of what we believe about customer loyalty is wrong because the science behind it was incomplete when the myths were first proclaimed.

We "have been misled by a torrent of literature that monotonously reiterates false findings and wrongly advocates simple solutions," say Timothy Keiningham, Terry Vavra and Henri Wallard, executives with Ipsos Loyalty, and Turkish marketing professor Lerzan Aksoy.

Some examples:

**Myth:** The No. 1 goal of any company should be customer loyalty. **Fact:** Many broke-but-beloved companies have gone bankrupt. Apple Computer Inc. has always had stronger customer loyalty than Microsoft Corp. and Intel Corp. but lost the computer battle. The fundamental purpose of a business is to identify and satisfy customer needs at a profit.

**Myth:** Firms should emphasize retention of customers rather than find new ones.

**Fact:** That ignores the product life cycle.

For the early years of a product, acquiring new customers is critical. Only in later phases -- maturity and decline -- is customer retention more important.

**Myth:** Companies should strive to make all of their customers attitudinally and/or behaviourally loyal.

**Fact:** Some customers will never be profitable and it's suicidal to retain them.

**Myth:** Companies with more loyal customers will always have higher market share.

**Fact:** Companies with the highest loyalty levels such as Harley-Davidson Inc. and Fender Musical Instruments Corp. are niche firms, not market leaders.

**Myth:** Retaining 5 per cent more of a company's customers will increase profit by 25 per cent to 85 per cent.

**Fact:** That is the most prominent statistic in the loyalty literature, but it's true only if the company has a low rate of return, in the range of 5 per cent. With better rates of return, the gains are considerably smaller -- and even that assumes you don't hit increasing costs as you try to retain weaker customers, which will diminish returns even further.

Moreover, if some of the customers you retain are unprofitable to serve, you may be losing money by keeping them.

**Myth:** It costs five times more to acquire a new customer than to retain one.

**Fact:** Acquiring a new customer need not be costly at all -- as with a restaurant when a new customer walks in the door, or when a passenger tries a new airline. This myth also ignores the product life cycle, in which customer acquisition can vary dramatically at different stages, and the profitability of each customer.

I'll stop there, but the authors present 53 myths in all, and although some are a little weak or derivative, there's more than enough to get you rethinking your approach to customer loyalty.

The authors also offer seven "loyalty truths" to set you straight, including:

Don't manage for customer retention before you manage for customer selection.

You probably don't want to keep all your customers; apply loyalty strategies and tactics selectively.

Customer loyalty takes more time to grow than most management teams have to give; planning and patience are required.

Focus on your share of a customer's spending.

Don't disregard those customers with current low shares; customer polygamy is the rule these days. But don't accept your current share -- learn how to improve it.

Loyalty requires mutually beneficial interaction while most corporate loyalty programs are tilted in the company's favour.

The book is a constant intellectual jolt as you realize that what you accepted as a truism is in fact quite shaky if not totally wrong.

Some of the arguments require a bit of work to decipher, but over all it's an easy and pleasurable

book to read, assuming your company hasn't made million-dollar investments based on the myths.

**In addition:** Marian Salzman, Ira Matathia and Ann O'Reilly are the trend researchers who put the term "metrosexual" in the limelight.

In *The Future of Men* (Palgrave, 242 pages, \$33.95), they review the changing face of masculinity and what it means for society.

Although the book is touted as being applicable to business, it's not a guidebook for how to capitalize on these social trends -- although a few suggestions are tossed in near the end -- but simply a rich source of understanding of an important phenomenon.

The yin-yang of leadership is that you must fit in with everybody else yet stand out from the pack, according to Blythe McGarvie, a former chief financial officer with several major companies.

In *Fit In Stand Out: Mastering the FISO Factor* (McGraw-Hill, 213 pages, \$29.95), she explains how to do that through six catalytic agents: financial acuity, integrity, creating linkages with others, constant learning and growth, the ability to maintain perspective by seeking alternate points of view, and approaching the world as a global citizen.

The over-all concept makes sense, and while her six key themes aren't earth shattering she does offer interesting thoughts, particularly on financial acuity and global citizenship.

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