ABSTRACT

Loyalty Myth #21:

A Dissatisfied Customer Will Never Conduct Business with an Offending Firm

In this excerpt from their book Loyalty Myths, the authors argue that while we may penalize companies that have dissatisfied us in the past, for the most part we let the infractions go.

This myth has at its origins a seminal study conducted for the U.S. government's White House Office of Consumer Affairs, which explicitly stated that, "91% of dissatisfied customers will never buy from (an) offending company again."

This statement, however, is like an old joke about childbirth: If men and women had to alternate who had the baby, then no family would have more than three children (i.e., men would never undergo childbirth for a second time).

The myth was frequently used as a financial "call to arms" to justify efforts to improve customer loyalty. It went something like this. Twenty percent of customers are dissatisfied about some aspect of their service, which corresponds to losing eighteen percent of our customers. On average customers spend X, which means a company is losing Y (and Y is typically a very large number).

Ignoring the fact that using average profitability is a bad metric since most customers do not generate adequate returns (though average customer profitability must be positive if the firm made a profit) the underlying premise that dissatisfied customers typically leave forever is bunk.

This can easily be shown using simple mathematics. Imagine a grocery retailer that satisfactorily serves 99% of its customers on each visit (meaning only 1% of customers are dissatisfied). After 52 weeks of shopping, however, even with this very low dissatisfaction rate, the grocer will lose almost 40% of her customers. And raising a 1% dissatisfaction rate by a tiny 0.5% (i.e.,1.5%) would increase customer defections to over 50% under this myth. We all know, however, that this does not happen in the real world.

For the most part, we let things go

The fact is that time really does heal most wounds, and our vehemence against past-perceived injustices tends to fade with time. Virtually all of us have found ourselves purchasing from firms that have dissatisfied us in the past, even if we had sworn that we would never set foot in the establishment again. One of the most endearing qualities in all of us is our capacity to forgive and forget.

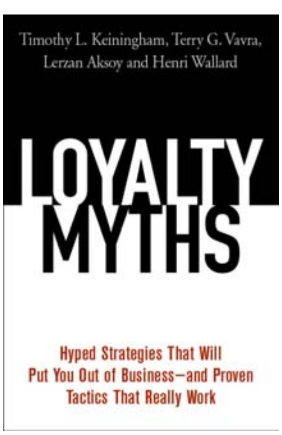
Our own purchasing behavior reflects this fact. While we may penalize companies that have dissatisfied us in the past (with reduced purchase frequency, or even outright discontinued shopping for an extended period of time), for the most part we let the infractions go unless they are so egregious that we deem them worthy of time in prison.

ABSTRACT

Researchers Roland P. Rust, Katherine N. Lemon and Valerie A. Zeithaml noted that managers and academics alike have frequently treated defecting customers as lost for good. They argued that a more realistic scenario is that customers may leave and return, and be either serially monogamous or polygamous in terms of the number of firms with which they conduct business in a given category.

In *Loyalty Myths*, business strategists and renowned authors Keiningham, Vavra, Aksoy, and Wallard reveal the ugly truth about customer loyalty: almost everything we have been told about it is wrong. Following the conventional wisdom that has been propagated about customer loyalty has, at best, led to misallocated resources; at worst, it is a recipe for financial disaster.

The pursuit of customer loyalty can be a highly profitable strategy, but not by following the myths that have developed. Our current knowledge of customer loyalty has advanced to the point of being able to identify the flaws in the conventional positions – the myths. More importantly, we can now establish and prove “loyalty truths” that we’ve associated with profitable customer loyalty strategies.



Praise for *Loyalty Myths*

by Keiningham, Vavra, Aksoy, and Wallard

“Keiningham et al have fired a full broadside at the “managerially correct”and seemingly unassailable notion that customer loyalty is all that matters. In examples including First Chicago, Tansaş, and Ryanair and through broadly researched data and analysis they show that knowing what customers want and will pay for is the issue. This is a great place to start when doing a full review of the effectiveness of your marketing spend to find advantage in your competitors’ inabilities to differentiate themselves.”

George Stalk
Senior Vice President of The Boston Consulting Group and author of
Hardball: Are You Playing to Play or Playing to Win