

ABSTRACT

Loyalty Myth #26:

Loyal Customers Help Grow a Business Through Positive Word of Mouth

*In this excerpt from their book **Loyalty Myths**, the authors argue that the impact of word-of-mouth marketing on customer acquisition is most definitely overstated.*

Positive word of mouth by loyal customers is commonly held in high regard. The myth of its effectiveness has gained a big boost in management suites through two of the seminal loyalty publications:

- 1) The 1986 Consumer Complaint Handling in America: An Update Study, published by the White House Office of Consumer Affairs stated that, "On average, a dissatisfied customer will tell nine (9) people about their bad experience."
- 2) Frederick Reichheld's and W. Earl Sasser Jr.'s 1990 Harvard Business Review article, "Zero Defections: Quality Comes to Services" proclaimed: "Yet another economic boon from the long-time customer is the free advertising they provide. Loyal customers do a lot of talking over the years and drum up a lot of business. One of the leading home builders in the United States, for example, has found that more than 60% of its sales are the result of referrals."

There is no question that, for some business sectors, referrals are a major source of customer acquisition. But if it were more widespread, Reichheld and Sasser certainly would have offered a less obscure example in their article than that of "a leading home builder."

Customers tend to speak about products and services and encounters with companies only in one of two extremes: extreme dissatisfaction, and extreme satisfaction (delight). The problem is that customers are far more likely to speak about negative experiences than positive ones.

As for loyal customers actively promoting a company through word of mouth, that depends upon how one defines loyalty. If we presume that loyalty is reflected in the tenure of customers with a firm, then the relationship between length of relationship and word of mouth is very weak. If we define loyalty as being attitudinally as well as behaviorally loyal, then customers' propensity to engage actively in word of mouth is markedly higher.

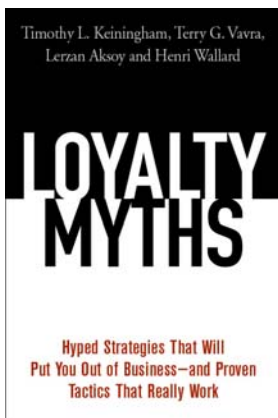
But the impact of these word-of-mouth marketing efforts on customer acquisition is most definitely overstated as it applies to most companies. Firms operating in areas where there is a perceived risk, status, or entertainment value associated with their products or services are much more likely to be impacted by word of mouth than firms offering less socially conspicuous products.

Despite the dramatizations in "slice of life" advertising, people seldom ask one another, "Which toilet paper do you prefer?"

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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

“Fans feel loyalty to their teams. Dogs feel loyalty to their owners. But what customers feel toward companies is much less profound, the authors argue in this relentless indictment of loyalty programs. Indeed, many assumptions about loyal customers – that they are profitable or that repeat purchasing indicates some kind of emotional attachment – are simply wrong. These consultants recommend that companies eschew loyalty programs in favor of good, old-fashioned service and unsentimental cost / benefit analysis.”

John T. Landry
Harvard Business Review