

# ABSTRACT

## Loyalty Myth #31:

### **Loyalty Can't Be Bought; It Has to Be Earned**

***In this excerpt from their book *Loyalty Myths*, the authors show how many companies buy the repeat purchases of customers (with coupons, promotions, and rewards) rather than developing true loyalty.***

The idea that loyalty cannot be bought is really a function of how one defines loyalty. If, as with most consumer packaged goods, loyalty is defined as the share of spending in the category, then loyalty not only can be bought, but frequently is.

The head of direct response marketing for a large retail firm lamented, "We have trained our loyal customers to wait for our coupon in the mail." He was frustrated to find that when the firm tested the program by not sending the coupon one month, sales plummeted. "We have to learn to wean them off of the 'drug.'" This is a prevalent situation for many firms. We train customers to wait for deals, resulting in huge spikes in sales with every promotional effort and weak sales in off-promotion periods.

Managers are so conditioned to giving products and services away to get sales that we frequently find tragicomedies of loyalty programs. For example, much of the world has already heard of the "Pudding Guy," David Phillips, the 35-year-old Davis, California, engineer who earned 1.25 million frequent flier miles by cleverly exploiting a Healthy Choice promotion that offered air miles for product purchases. Phillips ended up with \$25,000 to \$75,000 in free travel by spending only \$3,140 on pudding cups, the least expensive product in Healthy Choice's brand family. Phillips achieved this remarkable reward by figuring out a way to earn one hundred American Airlines frequent flier miles for each 25-cent cup of pudding he purchased. He ended up with 1.2 million air miles – worth 48 free domestic airline tickets – and 12,150 desserts.

Why did he do it? "I always look for something for nothing, or as cheap as possible," says Phillips. "I started by wanting some free tickets to Europe for my family, but as I got deeper into the frequent-flier deals and saw the opportunities, I decided to pull out all the stops. For example, many people were into the Healthy Choice promotion, but they only bought the amount of food that they could eat in a several year period. The idea of donating the food I bought was what separated me from the others."

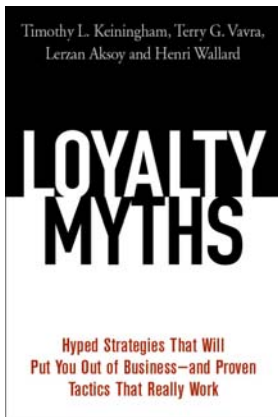
### **Loyalty Myth No. 31: Debunked!**

Although the pudding guy could be cited as an extreme example of a loyalty program hacker, there are many instances when customers buy the products solely to build financial rewards or exploit the system. The result? In such cases, firms are merely buying the repeat purchases of customers rather than developing true loyalty. Said another way, most loyalty programs try to hold the customer hostage instead of nurturing loyalty. In such situations, customers may invest their time and effort to becoming a member; they may later be driven to remain "loyal" by the sunk cost fallacy, in which they are motivated to continue by how much they have already accumulated, rather than focusing more realistically on how much more they have to accumulate to reach an award plateau. Hence, they become locked into the program and continued interaction, despite that they may not feel truly – attitudinally – loyal.

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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

“The gist of this book: Not all customers are created equal; most sales tactics ignore this fact. As a result, companies acquire more “Costly” and “Break-even” customers than “Desirable” ones. Complicating matters is that customers change over time. This is especially true in B2B, where customer needs are affected by business cycles, industry cycles, their strategy, budgets and decision making, etc. – today’s “Desirable” customer can become tomorrow’s “Costly” customer. So what tactics work? Here are the two major ones: Loyalty Truth 1 – “Don’t manage for customer retention before you manage for customer selection.” Do your best to qualify sales targets in terms of profit margin, not absolute profits. Big contracts with low profit margins will surely yield costly customers. They will take time, staff and resources away from developing desirable customers. When it comes to desirable customers, always think “the more the merrier”. Loyalty Truth 2: “Customer loyalty takes more time to grow than most management teams have to give; planning and patience are required.” Retention efforts must have focus to shorten the payoff period. Using the 80/20 rule of thumb, if 20 percent of your customers deliver 80 percent of your profits, then you should devote 80 percent of your retention efforts toward them. This also allows an organization to build a flatter, customer-centric organization.”

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