

KEY STEPS

Making Loyalty Pay

The authors of Loyalty Myths outline a step-by-step process to create and launch a successful loyalty initiative.

Loyalty can positively impact a company's financial performance, but the chain of effects from loyalty to profitability is complex. We need to start with an understanding of customers' profitability. What we typically find is that the 20 percent most profitable customers generate between 150 and 300 percent of total profits, the middle 60 percent generate relatively few profits, and the bottom 20 percent actually lose money for the company.

This information alone has profound implications for which customer loyalty strategies should be implemented and how. To create and launch a successful loyalty initiative, consider the following process:

Step 1. Score your customers on profitability.

Build a metric to evaluate each customer's contribution to your bottom line. There is no defense for creating a loyalty program without first identifying to whom the program should be offered.

Step 2. Assess your total customer base.

What proportion of your customers are desired (profitable) customers, break-even customers, and costly customers? The proportions will allow you to target a specific group for your loyalty efforts.. For example, a company with a low percentage of desired customers should focus on activities that will elevate some proportion of break-even customers to desired customers. A company with a high percentage of costly customers must create ways to reduce its costs of servicing these customers or escort them to competitors.

Step 3. Target one or more of your customer groups with specific retention or development goals.

The more focused and selective your program is, the better.

Step 4. Utilize loyalty growth tools for strategic growth.

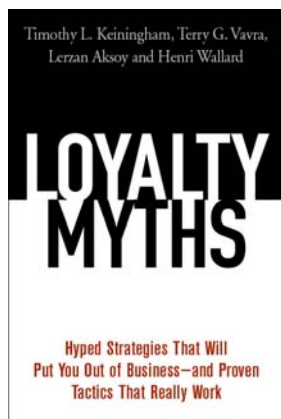
Loyalty goals need to be achieved through relevant leveraging of the cache of the brand, the value equation, unique relationship opportunities, or product or service modification. The growth strategies are: brand equity, value equity, relationship equity, and satisfaction.

The pursuit of customer loyalty can be a highly profitable strategy, but not if you employ the conventional wisdom as propagated in the many myths. If loyalty doesn't pay, then firms will have to pursue another strategy or they won't remain competitive.

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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

“*Loyalty Myths* is an interesting and important book that anyone concerned or involved with loyalty (corporate, customer, or employee) should read.”

—*Marketing Research* review

“Does it cost five times as much to get new customers as to keep old ones? If you believe so, read *Loyalty Myths* by Timothy L. Keiningham, Terry G. Vavra, Lerzan Aksoy and Henri Wallard. These market researchers thoroughly dismantle that and many other customer-loyalty shibboleths, and offer better ideas.”

—Mark Henricks, *Entrepreneur* magazine

“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*