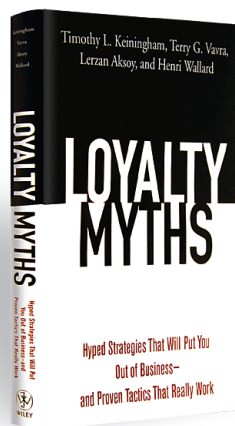




# Executive Book Summaries®



By Timothy L. Keiningham,  
Terry G. Vavra, Lerzan Aksoy  
and Henri Wallard

## Hyped Strategies That Will Put You Out of Business — And Proven Tactics That Really Work

# LOYALTY MYTHS

### THE SUMMARY IN BRIEF

Many CEOs worldwide cite customer loyalty as their most important strategic objective, spending billions of dollars to hold onto their current customers. Thousands of books and even more articles have been written about customer loyalty and everyone agrees it is vital. But are they right? In this summary, renowned authors from one of the world's premier business research firms reveal the ugly truth about customer loyalty — almost everything you've been told about it is wrong!

To set things straight, this summary critiques 53 of the most common beliefs about customer loyalty and debunks them fully with hard science and even harder data.

The subject of this summary is the evolution of thinking about customer loyalty. The serious reader will have to set aside many of the platitudes he or she has previously learned — they simply don't work in today's marketplace! This summary offers a truer picture of how businesses can leverage customer loyalty to help them survive and succeed.

The pursuit of customer loyalty can be a highly profitable strategy, but not by clinging to the myths that have developed surrounding the idea. Following the conventional wisdom that has been propagated about customer loyalty will almost surely cause firms large and small to suffer, which ultimately means that customers will suffer as well. If loyalty doesn't pay, then firms will have to pursue another strategy or they won't remain competitive. This summary seeks to expose the myths for what they are so that in the end everyone wins — by being good to one another.

In addition, this summary:

- Uses real-world examples and the latest facts and figures.
- Smashes the platitudes and the easy assumptions about customer loyalty.
- Offers fact-based methodologies that keep customers coming back.
- Forces company leaders to set aside simple half-truths.
- Shows companies how to leverage their customer loyalty for maximum profit.
- Offers seven truths of customer loyalty to counter the myths.

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# LOYALTY MYTHS

by Timothy L. Keiningham, Terry G. Vavra, Lerzan Aksoy and Henri Wallard

## — THE COMPLETE SUMMARY

### Loyalty Myths That Subvert Company Goals

Customer loyalty as a business strategy is incredibly seductive. It fits perfectly with a sense of justice and fair play. Company leaders want to believe that good behavior leads to good outcomes — simply put, it is good business to be good. And a loyalty metric would seem an objective and perfect fit for such a noble business truism. However, many of the propositions used to create and support today's loyalty strategies just aren't correct. Most are patently false, making their prescriptions financially dangerous.

The difficult truth regarding customer loyalty is that how it links to growth and profitability is far more complex than most managers have been led to believe. A blind pursuit of customer loyalty is at best a case of misallocated resources. But at worst it is a recipe for financial disaster.

By disposing of the myths surrounding loyalty, a proper focus on customer loyalty can be stimulated. Treating customers and employees with decency and respect can pay substantial dividends.

#### ***Myth 1: The Number One Goal of Any Firm Should Be Customer Loyalty***

In 1960, Theodore Levitt wrote "Marketing Myopia," one of the most widely quoted and reprinted *Harvard Business Review* articles. Levitt insisted, "The organization must learn to think of itself not as producing goods or services but as buying customers, as doing the things that will make people want to do business with it." Without question, Levitt was absolutely correct. The problem is how the misinterpretation of Levitt's maxim has evolved in the modern era, which can loosely be summarized, "Customer loyalty is the number one goal of any firm."

The fundamental purpose of any business is to identify and satisfy customer needs at a profit, an idea Theodore Levitt certainly embraced.

#### ***Myth 2: Firms Should Emphasize Retention Efforts Rather Than Acquisition Activities***

The underlying logic of this myth rests on the trade-off between the costs of acquiring new customers and the costs of maintaining current ones. Even if the underlying reasoning were correct (which it is not), it is ridiculously simplistic. Attracting and retaining cus-

tomers are both critical processes. Economic success cannot be achieved by focusing exclusively on customer retention to the detriment of attracting new customers.

#### ***Myth 3: Companies Should Strive to Make All of Their Customers Attitudinally and/or Behaviorally Loyal***

The fundamental assumption underlying this myth is that all customers are or can be made to be profitable for a firm. An examination of customer profitability invariably reveals that while organizations will always have some highly profitable customers, they are also likely to have some highly unprofitable customers. Clearly, making the majority of customers more loyal is not a wise investment decision for most companies. Instead, managers must make reasoned decisions about which customers truly represent assets to their firm's financial health, and target their loyalty efforts to them.

#### ***Myth 4: Companies With More Loyal Customers Will Always Have Higher Market Shares***

While it may seem counterintuitive, firms with the highest loyalty levels frequently do not have the highest market shares. Generally, organizations we tend to associate with having fiercely loyal customers represent small-

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### Science and Incremental Learning

Scientific discovery — the basis of all true sciences — is based on incremental learning. Hypothesis and theories are forwarded, then tested, subjected to constructive scrutiny, and finally accepted or rejected. Casualties of reputation and pride often get caught up in this cycle. Professionals engaged in the development of a science have to accustom themselves to the inevitability that not all of their hypotheses or ideas will be right. The brightest thinkers of our times have been caught in such fallacious propositions. Theoretical physicist Stephen Hawking once proclaimed that cosmic black holes destroy the information of anything they ingest. Hawking's idea was later proved inaccurate and he admitted it.

### Loyalty Myths That Subvert Company Goals

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er, exclusive groups: Harley-Davidson owners, Fender Stratocaster owners, Jimmy Buffett fans, and so on. In heterogeneous markets, market share leadership will not typically be addressed with the highest levels of loyalty, as niche players who address the unique needs of smaller segments will naturally enjoy a more loyal following — at the expense of being less attractive to the total market.

#### ***Myth 5: Companies Should Seek to Change Switchers Into Loyal Customers***

This myth flows from the logic that if customer loyalty drives profitability, then maximizing profits comes from making all customers loyal (Myth 3). As most consumer package goods companies have discovered, the problem with chasing variety-seeking and deal-seeking customers is that it actually deteriorates customer loyalty across the board.

#### ***Myth 6: Efforts to Improve Customer-Centric Measures Are Properly Separated From Efforts to Improve Brand-Centric Measures***

Research confirms that brand-centric and customer-centric efforts need to be considered jointly. This finding indicates that interaction between the efforts can double the customers' share-of-spending when both are positive or halve it when both are low. This is not easy, but it will reap substantially greater returns from customers.

#### ***Myth 7: Retaining 5 Percent More of a Company's Customers Will Increase Profits by 25 to 85 Percent***

This myth comes from what many would consider an unimpeachable source: the *Harvard Business Review*. This premise is flawed on three levels: The company needs to be generating relatively small profit percentages to expect such a high percentage increase, the ability to generate further profits by improving retention is

highly contingent upon a firm's current retention rate, and this myth implies a disregard of the fact that customer profitability is distributed throughout a firm's customer base. Companies must retain the *right* customers — those in the top 20 percent.

#### ***Myth 8: It Costs Five Times More to Acquire a New Customer Than to Retain a Current Customer***

While it seems plausible that acquisition costs are significantly higher than retention costs, as with all myths, the reality is far more complex. And while it may serve as a provocative wake-up statement to ensure that management is aware of the importance of retaining customers, supporting any retention strategy based in whole upon this myth is a recipe for financial disappointment.

#### ***Myth 9: Companies Should Focus on Their High Share-of-Wallet Customers***

The majority of a firm's customers do not produce an acceptable rate of return, with large percentages actually costing the firm money. In many situations, they are not unprofitable because they have a low share of spending with the firm; they are unprofitable because the level of service they demand exceeds their willingness or ability to pay for goods and services in the category. Efforts to get higher wallet shares across the entire customer base are likely to be an exercise in futility.

#### ***Myth 10: In Planning for the Future, It's Always Best to Focus on Customers Who Have Contributed the Most to Company Profits***

Without question, companies should ensure that their most profitable customers are cherished. Therefore, many loyalty-focused organizations choose to focus loyalty efforts on those customers who have generated the most profits to the firm in the past. In terms of a firm's efforts to profit from customer loyalty, however, this practice doesn't represent the best economic decision. Past profitability ignores both overall spending habits and life changing factors of the buyer.

#### ***Myth 11: Service Providers Differ Distinctly From Product Manufacturers in How Loyalty Tools Can Be Effectively Applied***

Traditionally, people have dichotomized businesses into products and services. If the firm offered a physical product, it fell into the product sector; otherwise, it was classified as a service. There's just one major flaw with this strict dichotomization. Essentially, all goods have a service component, and all services have some form of tangible representation; there is no such thing as a pure product company. In essence, everything is a service, though it may or may not have a physical product. ■

For additional information on loyalty and corporate goals, go to: <http://my.summary.com>

### Loyalty Myths Contaminating Company Management Practices

#### ***Myth 12: Shareholders Manage for Loyalty; The Market Rewards Customer Loyalty***

Research shows that CEO compensation and work force reductions are highly correlated. Firms that announce layoffs pay their CEOs more and give them higher raises than firms without at least one layoff announcement in the previous year, and layoffs tend to be associated with higher stock prices. The reason is simple: A firm may be owned by thousands of shareholders but, for most companies, fewer than 100 investors really matter. These investors look for short-term performance, not long-term sustainability.

#### ***Myth 13: Most Companies Are Structured to Build Customer Loyalty***

Despite the multitude of management buzzwords and organizational theories that have arisen in the modern era, the structure of virtually every business still bears a strong resemblance to those of the early Industrial Revolution. The model is the military, where there is a clear chain of command. Given the 100 years of phenomenal success that the hierarchical corporate model has had, real change is far easier to talk about than to implement. Apparently, the hierarchical model still rules, but the problems of lack of customer focus remain.

#### ***Myth 14: Companies Tend to Know Their Customers***

Many companies will say, “We know our customers, what they want, and what we need to improve.” But the fact is, according to research results, most companies do not actively engage their customers in a dialogue.

#### ***Myth 15: Most Companies’ Databases Are Adequate for Building Loyalty***

Most companies keep terrible records of their customers. Some of the largest firms in the world do not even have a database with the key contact information for their largest customers. The problem is that it is more difficult than promised. It only takes the receipt of a few irrelevant offers for products that customers could not possibly want for them to recognize that, for all the talk of the computer revolution, it hasn’t made its way into their relationships with the companies from which they buy.

#### ***Myth 16: Companies Are Generally Willing to Address the Needs of Individual Customers***

Despite all the talk of one-to-one marketing and customer-centric organizations, most companies are volume-driven entities that struggle with variation. Firms want happy customers and they want to meet

their needs, but most want customers to be happy and fulfilled with the products and services that they have offered to the market, as is.

#### ***Myth 17: Companies With Continuous Customer Relationships Have an Advantage in Building Loyalty Over Other Companies***

If loyal customers tend to have contact with the company more frequently, and long repurchase cycles negatively affect loyalty, then one could reasonably conclude that those firms with continuous relationships have the advantage in terms of building customer loyalty. Unfortunately, it doesn’t work like that. Furthermore, long-term, continuous relationships have the potential of growing stale in customers’ minds. ■

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### Loyalty Myths About Customers

#### ***Myth 18: Most Customers Want to Be Loyal — Customers Want a Relationship With the Firms With Which They Do Business***

The reality is that for some categories and businesses, customers *do* wish to create a relationship with the firm or brand, particularly where there is some importance associated with the decision or for brands that offer considerable cachet. But, for many purchases, consumers primarily want a brand to reduce the costs of their purchase. That doesn’t mean a company can’t develop a loyal customer base if it is in certain product categories, but it does mean that the intensity of the relationship will largely be dictated by its product category.

#### ***Myth 19: It Is in the Customer’s Interest to Have Monogamous Relationships With Companies***

Many of the reasons for polygamous loyalty are straightforward. Consumers switch brands for a particular purchase when the preferred brand is out of stock, a competing brand offers better value because of a special promotion, different occasions dictate the need for products of differing levels and variety, or novelty is desired. As a result, frequently when customers switch brands they’re not rejecting their current brand nor are they lost forever — they are simply acting in their present best interests.

#### ***Myth 20: Repeat Purchase Equals Loyalty***

Loyalty matters to managers because it affects customers’ purchasing behaviors. One mistake that managers frequently make, however, is confusing necessity with loyalty. Too often hostages customers are read as loyal customers.

#### ***Myth 21: A Dissatisfied Customer Will Never Conduct Business With an Offending Firm Again***

This myth comes from a seminal study conducted for the U.S. government’s White House Office of Consumer

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### Loyalty Myths About Customers

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Affairs, which explicitly stated that “91 percent of dissatisfied customers will never buy from [an] offending company again.”

Time really does heal most wounds, and our vehemence about past perceived injustices tends to fade with time. Most people have a deep capacity to forgive and forget.

#### ***Myth 22: Once a Loyal Customer, Always a Loyal Customer***

The vast majority of loyal customers would not classify themselves as apostles for a company. And, even more unfortunate, while loyal customers are more likely to remain with a firm, once-loyal, lost-customers rarely view themselves as traitors when they switch firms although they may indeed view the firm they’ve abandoned as having betrayed them. Customer loyalty, unlike loyalty from a pet, must be consistently earned.

#### ***Myth 23: Loyalty Declines as More Purchases Are Made***

Larger purchase frequency in consumer goods typically means variety seeking, which offers the pleasure of novelty, even if the customer is highly loyal. This, however, does not mean the customer is attitudinally less loyal.

#### ***Myth 24: Heavy Users of a Product or Service Are Less Loyal***

The reality is that heavy users appear more inclined to care about their relationship with a supplier than light users.

#### ***Myth 25: The 50-Plus Age Segment Is More Loyal Than Younger Segments***

A large-scale AARP study found that older customers are just as likely to switch brands or experiment with alternative brands as are younger consumers. In other words, as Stephen Frost, research director for AARP Publications, proclaims, “Brand loyalty doesn’t increase with age.”

#### ***Myth 26: Loyal Customers Help Grow a Business Through Positive Word-of-Mouth***

The impact of word-of-mouth marketing efforts on customer acquisition is definitely overstated as it applies to most companies. Despite the dramatizations in “slice of life” advertising, people seldom ask one another, “Which toilet paper do you prefer?”

#### ***Myth 27: Loyalty Can Be Measured by the Number of Net Promoters a Company Has***

The implication that all customer satisfaction and loyalty measurement systems fail to correlate with profits or growth is ridiculous. Many scientific papers link satisfaction and loyalty to financial outcomes for firms. And even if the “net promoter” concept correctly measured a firm’s cus-

tomers loyalty level (which it does not), it doesn’t give managers a clue as to what they should do. Only by understanding what actually drives customer loyalty can managers effectively prioritize their improvement efforts, and this requires more diagnostic information from customers than simply their likelihood to recommend a firm to a friend.

#### ***Myth 28: Loyal Customers Will Work to Establish a Relationship***

The customer is only paying for a solution to his or her problem. Putting too much burden on the customer to enhance the relationship is likely an exercise in futility. And when the rules of loyalty programs are changed, the most likely result will be disillusioned, once-loyal customers. ■

## Loyalty Myths Concerning Loyalty Programs

#### ***Myth 29: Loyalty Programs Are a Sound Investment***

If the only source of information you had on loyalty programs were the sales materials from vendors coordinating such programs, you would be tempted to consider them a fail-safe road to riches. Despite their popularity among chain stores, and quite contrary to popular belief, most loyalty programs actually lose money for their sponsors!

#### ***Myth 30: The Tools for Building Loyalty Are Well Understood and Practiced***

Designing an effective loyalty program requires that companies deciding to use one must have a model of loyalty among their customers. Most programs directed at engendering high levels of loyalty demonstrate obvious limitations in their understanding of the true meaning of loyalty. Loyalty programs often do not generate increased purchases because most people generally buy only what they need.

#### ***Myth 31: Loyalty Can’t Be Bought, It Has to Be Earned***

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 not only can loyalty be bought, but frequently is. Loyalty programs may be successful at locking customers into buying cycles, but that doesn’t necessarily translate into loyalty.

#### ***Myth 32: Frequency of Contact Increases Loyalty***

This myth stems from an observed phenomenon, namely, for most business categories, the most loyal customers tend to be the most active customers; loyalty is often correlated with more frequent interactions with the firm. That is why firms have increased loyalty programs such as frequent flier miles. The disappointing

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### Loyalty Myths Concerning Loyalty Programs (continued from page 5)

truth is that attitudinal loyalty most often leads to frequent purchasing, not the other way around.

#### ***Myth 33: Loyalty Can Be Created Through Economic or Structural Bonds***

Behavioral loyalty can be enhanced through economic or structural bonds. That does not mean the customer would not switch if given the opportunity; in fact, he or she may hope for such an opportunity. As many firms in recently deregulated industries throughout the United States and Europe have discovered (for example, telecom and airlines), holding customers hostage doesn't equal customer loyalty.

#### ***Myth 34: Loyalty Rewards Programs Will Solve Customer Attrition Problems***

Loyalty program providers assume one thing: The firm's product or service doesn't stink. Even if a company assumes that a well-designed and differentiated loyalty program can enhance loyalty, a loyalty program cannot save a bad product. If an airline consistently canceled your flights, would frequent flier miles really matter?

#### ***Myth 35: Loyalty Programs Will Attract Customers From Competitors***

If a firm were already competitively positioned in its market and if it were somehow the only one in its category to offer a loyalty program, it could probably attract customers. That, however, is not the case in virtually any market on the planet. The proliferation of loyalty programs makes differentiation and, hence, the ability to attract customers from competitors difficult, if not impossible.

#### ***Myth 36: The Internet Makes Building Loyalty Much Easier***

The Internet can make communication of information between company and customer immediate and, possibly, personal; however, overall it is more likely to weaken customer loyalty. The Internet makes information widely available and, therefore, a comparison of competing goods much easier. The existence of comparison sites such as mysimon.com and bizrate.com greatly enhances customers' ability to acquire perfect product and price information at minimal effort and cost. ■

## Loyalty, Share of Business, And Profitability

#### ***Myth 37: Long-Term Customers Purchase More***

The idea that long-term customers purchase more is a core tenet of the customer retention movement. The notion is that, like a fine cabernet, customers improve with age. But the longer tenure of desired customers could be

explained primarily because their counterparts, costly customers, are more likely to frequently switch vendors, thereby shortening their tenure. Therefore, the apparent higher value of customers with longer tenures is really an artifact. Desired customers were spending more from the beginning; their desirability did not improve over time.

#### ***Myth 38: Long-Term Customers Are More Desirable Than Short-Term Customers***

It is a natural extension of the underlying logic in Myth 37 that, if long-term customers are more desirable than short-term customers because they are believed to purchase more, then long-term customers must be better for business than short-term customers. Given that the foundation of this myth is incorrect, it should not be a surprise that this extension is also false. The problem with this myth is not just that it is wrong, but that it disadvantages strategic decision-making by managers worldwide. Short-term customers may be every bit as important to a firm's success as long-term customers, and sometimes they are the core of a company's current business.

#### ***Myth 39: Share-of-Wallet Increases as Customer Lifetimes Increase***

Without question, loyal customers do allocate a higher share of their spending with a given company than with its competitors. The problem is the idea that customers allocate greater percentages of their spending with a company over time. Nonsense! The reality is that in many categories, time acts as a detriment to the allocation of spending.

#### ***Myth 40: Increasing Customer Share-of-Wallet Is Driven by Increasing Customer Loyalty***

Increases in customer loyalty will parallel increases in customers' share-of-wallet. But it is wrong to presume that share-of-wallet increases are driven by increases in customer loyalty. A number of issues affect customers' spending allocation. Increased loyalty is not typically the reason for increased share of spending; price is.

#### ***Myth 41: Spending on Customer Service Increases Customer Loyalty***

Not necessarily. Spending on customer service can mean many different things. Often, when a company spends to improve service quality, this results in no appreciable benefit. For many business categories, service is not the driver of customer loyalty — product function is.

#### ***Myth 42: Loyal Customers Are Less Price Sensitive***

Some say that loyal customers "will often pay a premium to continue to do business with you rather than switch to a competitor with whom they are neither familiar nor comfortable." There are probably limited examples where this myth is true, but certainly not "often," unless liberally tempered with the qualifier, "a competitor with whom they are

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### **Loyalty, Share of Business, and Profitability** *(continued from page 6)*

neither familiar nor comfortable.” Loyal customers tend to be more price sensitive. Although they might not switch to an unfamiliar or uncomfortable competitor, it is unlikely that a category would lack a competitor with whom customers were familiar and comfortable given the proclivity of brand polygamy that exists.

#### ***Myth 43: Loyal Customers Are Less Expensive to Service Than Nonloyal Customers***

While a company may know more about its loyal customers, loyal customers know the firm better as well. As a result, they may be more demanding of the company through better knowledge of the inner workings of the system. This allows them to seek recourse for what they believe to be inadequate treatment, and they are more likely to get perks, which cost money to administer and fulfill.

#### ***Myth 44: Loyal Customers Are More Profitable; Loyal Customers Are Always Profitable Customers***

Loyalty does not equal profitability. For many companies, the majority of customers who would be considered both attitudinally and behaviorally loyal would not be profitable. That is because customers tend to fall into one of three broad groups: Desired (profitable), Break Even, or Costly (unprofitable). Loyal customers exist within each segment. And, all too frequently, this means that the majority of loyal customers do not produce an acceptable rate of return.

#### ***Myth 45: Customer Satisfaction Brings Customer Loyalty***

Customer satisfaction and customer loyalty are linked, but the linkage is not straightforward nor linear. Clearly, dissatisfied customers are more likely to defect than are satisfied customers. The problem with the customer satisfaction-customer loyalty link, however, is that most firms do not have a sufficient groundswell of dissatisfied customers to make them notice the severe impact of dissatisfaction. If they did, they would not be in business for long. While customer delight may be a necessary requirement for customer loyalty, it does not guarantee customer loyalty.

#### ***Myth 46: Customer Revenue Is a Good Predictor Of Profitability***

Most firms treat customer revenue and customer profitability as synonymous. Revenue is a measure of purchase volume and, therefore, correlated to customer loyalty. As a result, firms tend to expend a great deal of effort on their highest-revenue customers. But revenue is typically not a good predictor of profitability. Some of the largest customers are the most unprofitable.

#### ***Myth 47: Customer Loyalty Is Easy to Measure***

There is no universally agreed-upon definition of loyalty.

A common approach is to define loyalty as overall satisfaction with the brand, the likelihood of repurchasing the brand, and the willingness to recommend the brand to others. Customers exhibiting “top-box” scores on those three measures are considered loyal customers. Though used frequently, there are no published, empirical proofs of this system, especially relating scores to actual purchase behavior.

#### ***Myth 48: The Concept of Loyalty Is the Same Across Industries and Sectors***

Harley-Davidson customers are loyal. Such companies do exist, but the number of categories where people would consider tattooing a brand name onto their arm is quite small. Loyalty to a toothpaste brand is unlikely to result in customers becoming walking billboards. The degree of customers’ loyalty is strongly mitigated by the category in which a product competes. ■

## **Loyalty Myths Regarding Employees**

#### ***Myth 49: Employee Satisfaction and Customer Loyalty Go Hand-in-Hand***

Virtually all of the studies that tested the satisfaction mirror concept have identified some linkage between employee satisfaction and customer satisfaction. The discovered linkages, however, have ranged from negative to positive, and a few studies yielded no correlation at all. Employee satisfaction does not universally nor unambiguously create customer loyalty. The lack of a consistent, positive linkage supporting this myth should not be taken as an invitation to abuse employees or treat them with indifference. Employee dissatisfaction has led to disastrous results for many firms, as Safeway discovered.

#### ***Myth 50: Employee Satisfaction Leads to Business Results***

There have been many studies done on the relationship between employee satisfaction and business results. Unfortunately, culling through the findings of these studies, looking for relationships between employee morale and standard measures of productivity finds a mixed bag: positive correlations, negative correlations, and a few fail to show any correlation. Firms with satisfied employees can still find themselves losing out to competitors and ultimately going out of business.

#### ***Myth 51: Loyal Employees Create Loyal Customers***

Employee commitment has been one of the most popular research areas in the fields of industrial psychology and organizational behavior. However, paradoxical as it might seem, researchers in these disciplines have been unable to confirm a relationship between employee commitment and

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### Loyalty Myths Regarding Employees

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business performance. Just as with employee satisfaction research, some studies have been able to show a relationship, while other studies have been unable to establish any.

#### **Myth 52: Employees Are Rewarded for Increasing Customer Loyalty or Creating Loyal Customers**

Doing things that might engender customer loyalty in the long term will frequently lose out to efforts to maximize profits (by minimizing costs) in the short term. Employees simply aren't motivated to increase customer loyalty or to create loyal customers. And employers, because of their singular focus on near-term profits, don't generally place a priority on efforts that would help employees increase customer loyalty or create loyal customers.

#### **Myth 53: Empowering Employees Is the Best Way to Create Satisfied, Loyal Customers**

An individual employee's happiness is not the overriding objective or concern of any for-profit. If it were, work would be play. Regardless of how much employees enjoy their jobs, most workers would do something else were they to suddenly find themselves wealthy. ■

## The Right Way to Manage for Customer Loyalty

Without question, it is possible to make money, at least in the short term, by focusing on cost reduction and ignoring customer loyalty. And, unfortunately, there is no guarantee that focusing on strengthening customer loyalty is a long-term strategy. Even if an executive is sold on customer loyalty as a long-term strategy, he or she may still lose money if a strategy is based on a naive reliance on one or more of the loyalty myths. But when a customer loyalty strategy is based on sound foundations, building customer loyalty can be a very profitable business strategy.

The science associated with customer loyalty as a business strategy is relatively new and rapidly evolving. Our current knowledge has advanced to the point of finding flaws in the conventional positions — the myths. We can use the evolving science to demonstrate and prove the “loyalty truths” that are associated with profitable customer loyalty strategies. To dismiss loyalty as a viable strategy because of the fallacious myths associated with it is to throw the baby out with the bath water.

Here are the seven truths of customer loyalty:

- 1. Don't manage for customer retention before you manage for customer selection.**
- 2. Customer loyalty takes more time to grow than most management teams have to give; planning and patience are required.**

**3. Focus on customers' share-of-wallet.** 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 your share of your customers' loyalty.

**4. Loyalty requires mutually beneficial interactions; most loyalty programs are tilted in the company's favor.**

**5. The chain of events from loyalty to profits is twisted and complex.** Learn the specific response patterns of your customers and your industry.

**6. Satisfied and loyal employees can make a difference, but customer satisfaction and loyalty can and often do happen in the absence of employee satisfaction and loyalty.**

**7. Customer loyalty and brand imagery are far from independent; you must manage them hand-in-hand.**

Customer loyalty is not dead. Unfortunately, neither are badly managed loyalty initiatives. You have to give the customer a reason to believe your firm deserves his or her loyalty. It is also important to remember that firms operate now in one of the most competitive markets in history. This means that offers and actions that once delighted customers will one day become what customers expect. Such is the demanding nature of competition.

The tools to enhance customer loyalty will continue to evolve, just as customers' expectations of what organizations should do to deserve their loyalty will change. Remain open to evolving approaches and stay mindful of the obligation to monitor customers' behavior as the result of each new loyalty endeavor. Such fact-finding becomes critical when upper management begins asking tough questions about the apparent unresponsiveness of a brand's customer franchise to a loyalty program. It's defensive, but it's also just good, plain, common sense to track what a company gets back from its loyalty initiatives. Each dollar appropriately invested in nurturing customer loyalty will pay substantial rewards in the future. ■

If you liked *Loyalty Myths*, you'll also like:

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For additional information on the five steps to an effective loyalty program, go to: <http://my.summary.com>