



# Loyalty: Myths and Realities about Desire



July 2005 [www.ipsos.com/ideas](http://www.ipsos.com/ideas)

## *Consecutive Mythologies*

*From the quality movement of the 1970s to “Total Satisfaction” in the 1980s and the database as the Holy Grail during the 1990s, customer retention management has evolved.*

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## *Shattering the Myths of Customer Loyalty*

*Most of what business leaders have been told about customer loyalty is just plain wrong. No wonder CRM and CSM programmes fail.*

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## *The Parable of Plastic Loyalty*

*A case study of how Turkish grocery retailer Tansaş turned their losing loyalty programme into industry-leading profitability.*

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## *The Seven Truths of Customer Loyalty*

*Seven universal truths about customer loyalty that can assist marketers in conceiving far more successful loyalty strategies and tactics.*

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## The Desire for No

By Jean-Marc Lech

A market research company like ours has to be close to the evolution and changes within the commercial (capitalism) and media/political (democracy) mechanisms of society.

Krisis, a new qualitative offer from Ipsos, is looking at conflicts in oral communications to predict behaviours.

Survey questionnaires will have to take into account – in their sociological hypothesis and their editing – the emergence of the desire for “no.” For in the end, our questions are still too organized to help with the concentration of “yes” societies.

Riddle: who wrote or said “I never say no to people, for it complicates everything”?

An American sociologist trained in the functionalist school or a French president and supporter of expressions of consensus? Neither. These words are those of Marcel Duchamp, designer of “Ready Mades,” a leader in the Dada movement, and a founding member of Surrealist circles!

Saying no to people is actually a part of life: the child refusing to take a bath, or who stubbornly refuses to finish his dinner, or to go to bed...many moments more or less well-organized by parents and educators in charge of leading future teenagers to become adults and to respect the norms and accepted forms of integrated socialization. Even through the constant ritual of tears, cries, and gnashing of teeth.

Destruction and construction; a well-known expression of revolutionary people. This desire for “no” – to obtain a forbidden satisfaction or to rediscover an early pleasure – is anchored in the subconscious. Here we can see that Marcel Duchamp was ahead of his time! Saying no means confusing the forms of authoritative expressions: those of the Father, the Master, the Chief, and the Judge. After all, destruction confuses matters. Today’s century will actually be the century in which authority disappears, even though it will take some time to solve the riddle: why now, and why here?



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## Consecutive Mythologies

By Henri Wallard

If we put the focus on customers into a historical perspective, we can see an interesting evolution.

The excitement began with the quality movement of the early 1970s: based on the impressive development of the manufacturing industry in Japan, “Total Quality” and “Zero Defects” became a source of fascination. But as a supplier-side issue, the limits of this approach in retaining customers became clear. While it is important to set up and exploit effective performance measurement programmes, a quality focus in a competitive environment was not enough to win and retain customers.

In the 1980s, the hype shifted to “Total Satisfaction”: how a product or service fulfils the needs and expectations of the customer. This led to a massive development of customer satisfaction programmes, although it became progressively obvious that satisfaction programmes were not the ultimate answer to customer retention. Research showed that even very satisfied customers could be disloyal. So, it was accepted that satisfaction influences loyalty, but is not the only driver.

In the 1990s, a new channel of communication and information gathering – the Internet – coupled with massive investments in high tech customer relationship management (CRM) platforms led to colossal amounts of customer data. Marketers believed that the “Holy Grail” of customer insight was lying there, just waiting to be discovered. Once again, however, CRM data

and extensive data mining did not deliver the expected level of customer insight. Additionally, new web-based marketing techniques such as viral marketing proved to have limited and disparate efficiency.

By the new millennium, a virtual library of customer satisfaction and retention information and how-to books were on the market. Some loyalty experts advocated extremely complex methods of gaining customer insight, for instance, extensive use of CRM and data mining, while others advocated extreme simplicity, such as just making sure your customers recommend you to others.

This thirst for clarity in a problematic period is one of the reasons for so many loyalty fallacies. In *Loyalty Myths*, we identified more than fifty myths whose toxicity for management decisions can be very high.

So what should companies be doing?

We strongly believe that the answer lies, first, in a solid dose of pragmatism in the way companies deal with customers, and second, in a combination of methods and approaches to access the right customer understanding. For instance, loyalty requires mutually beneficial interactions. Too often, loyalty programmes are tilted in the company’s favour. These result in poor ROI because of the absence of a real positive effect on the customers. Further, all customers are definitely not equal; thus customer selection should come before customer retention.

In the end, quality and satisfaction measurement programmes can no longer be

regarded as ordinary, stand-alone measurement tools. They must be considered in tandem with customer insight and corporate strategy. Satisfaction and loyalty need to be based on a broad vision of the relationship with customers, taking into account their needs, individual patterns, and relationships, not only with the service provider and but also with brand image and advertising.

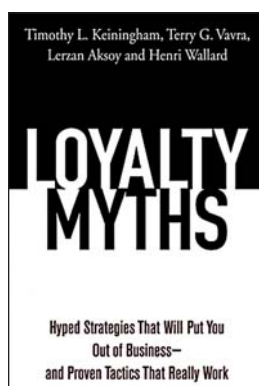
This is why Ipsos created Ipsos Loyalty; to cover the wide range of marketing elements from assessing customer needs to the quality of the offering and delivery, followed by satisfaction measurement and understanding, loyalty strategies, and customer information management.

Last year we launched Loyalty Optimizer based on extensive research and development programmes conducted across markets and sectors. This has allowed us to help numerous clients internationally to measure the real drivers of their customer loyalty and to see where to focus their efforts, whether it be on their offer, price, brand, or relationship, or of course, quality and satisfaction. Loyalty Optimizer also suggests how to adapt the intensity of efforts according to the various segments of the customer base, as not all customers respond the same way.

After several decades of evolution, there is now a clear path to improving business performance through customer satisfaction and loyalty: one that is of mutual benefit to the customer and the company.

**Henri Wallard** is CEO of Ipsos Loyalty worldwide, Chairman of Ipsos Asia, and a Director of the Ipsos Board. Based in Paris, Henri has occupied various key positions in French governmental administration. He was formerly Executive Director in charge of regional business (America, Europe, Asia) and online business for TNS.

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### Loyalty Myths: Hyped Strategies That Will Put You Out of Business – and Proven Tactics That Really Work

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

“Loyalty Myths is a must read for anyone who manages customer loyalty. Keiningham and his colleagues mix their own considerable experience with the latest academic knowledge, and package it in an entertaining way.”

*Roland T. Rust, David Bruce Smith Chair in Marketing, University of Maryland, and editor of the Journal of Marketing*

Learn more at [www.ipsosloyalty.com/myths](http://www.ipsosloyalty.com/myths)

# Shattering the Myths of Customer Loyalty

By Timothy L. Keiningham and Terry G. Vavra

In a 1990 *Harvard Business Review* article, consultant Frederick Reichheld and Harvard professor W. Earl Sasser, Jr., captured the attention of the business community with the promise that “by reducing customer defection by a mere 5%, companies can boost profits by 25% to 85%.”<sup>1</sup> This enticing claim rocked the business world and jump-started the customer retention movement, in its infancy at the time.

Numerous additional *HBR* articles and over 40,000 books in the intervening 15 years have further promoted customer loyalty as an almost universal cure for the problems plaguing marketers today. The effect of the message is profound; a 2002 survey of global CEOs (conducted by the Conference Board) documented customer loyalty and retention to be the most important challenge that CEOs believed they faced—surpassing stock performance or cost reduction! Because of this widespread acceptance, billions in corporate capital have been spent annually in pursuit of increased customer loyalty.

And why not? Isn't customer loyalty a worthwhile goal? The simple answer is, “Yes, but...” And it's the “but” that is the problem, because most of what business leaders have been told about customer loyalty is just plain wrong. There wasn't a vast conspiracy perpetrated to mislead managers' belief in the benefits from customer loyalty; it has been a matter of a rudimentary understanding. The science investigating loyalty was embryonic and therefore incomplete. And incomplete frequently means wrong. Unfortunately, the messages of loyalty gurus with their half-truths and incomplete analyses have taken their toll: businesses have been crippled by false hopes and executives have been pilloried by their public dedication to delivering the over-promises of loyalty myths. It's time to set the record straight.

While we, too, have repeated many of the same myths, we noted in some of our consulting engagements that expected results from loyalty initiatives were not always

achieved. These occasions motivated us to reexamine what we and the business community know about the laws of customer loyalty. Our study has benefited from work with hundreds of firms worldwide as well as the evolving insights of leading marketing scientists. As a result we have identified fifty-three commonly held beliefs about customer loyalty. We have been able to deflate each, showing them to be oversimplifications at best, and at worst, complete falsehoods. (See our book, *Loyalty Myths*, for a complete listing of all fifty-three myths.) Here we've listed six of the most commonly trusted loyalty myths and the recent research or faulty logic that exposes them as myths.

## Loyalty Myth: Retaining 5% more of a company's customer will increase profits by 25% to 85%.

The underlying assumption of many of the myths of customer loyalty is the premise that retaining customers translates into increased profitability. Unfortunately, for most firms the foundation of this argument is shaky at best. Were one to accept Pareto's Principle, which suggests that “eighty percent of (a business's) revenues comes from twenty percent of (its) customers;”<sup>2</sup> then one would see the difficulty with the retention argument: not every customer positively contributes to profits.

The problem is even more serious than the 80/20 rule applied to revenue implies. Considering the profitability of individual customers for most firms, the results are significantly more extreme. Research in activity-based costing consistently shows

that while revenues typically follow the 80/20 rule, profits are substantially more skewed; the most profitable 20% of customers contribute 150% to 300% of aggregate profits, the least profitable 20% of customers account for a 50% to 200% reduction in aggregate profits, while the middle 60% of customers neither add nor subtract from profits, simply breaking even.

It's absolutely critical to know a business's customers before launching a customer loyalty initiative, otherwise there is a strong likelihood that some of the wrong customers will be retained and some of the right customers will be overlooked and allowed to defect.

In order to expect such a high increase in profitability (25% to 85%), a company's profit percentage before launching the loyalty initiative would need to be extremely low. And the ability to generate additional profits by improving retention is highly

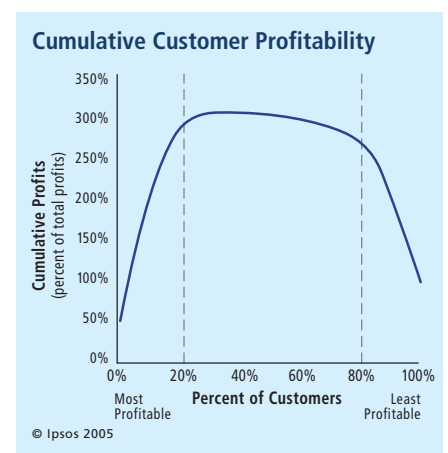


Figure 1—Whale Curve

<sup>1</sup> Reichheld, Frederick F. and W. Earl Sasser, Jr. (1990), “Zero Defections: Quality Comes to Services,” *Harvard Business Review* 68, no. 5, pp. 105–111.

<sup>2</sup> Kaplan, R.S. and Narayanan, V.G. (2001), “Customer Profitability Measurement and Management,” White Paper, Acorn Systems, Inc.: Houston, TX. [www.acornsys.com/value/whitepapers/WP-CustomerProfitabilityMM.html](http://www.acornsys.com/value/whitepapers/WP-CustomerProfitabilityMM.html).

contingent upon any firm's current retention rate. If we acknowledge that increasing the customer retention rate will be a costly proposition, this effort will likely experience diminishing returns (see figure 2). At some point, it will no longer be cost effective to dissuade additional defectors from defecting. The net result is that this myth is flawed from many perspectives.

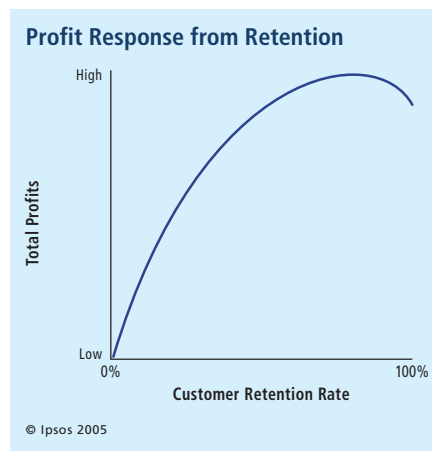


Figure 2—Diminishing Returns from Retention

### Loyalty Myth: Most companies' databases are adequate for building loyalty.

Contrary to the ideal, most companies' information about their customers is in terrible shape! Some of the largest firms in the world have not assembled the personal identities and key contact information of their largest customers into one database. Instead, the information resides in the minds, drawers, or handheld PDAs of their sales representatives. Rarely is this critical information warehoused as logic would suggest and as loyalty needs dictate. Customer databases are a challenge rather than a facilitating factor in any loyalty initiative.

### Loyalty Myth: Loyal customers help grow a business through positive word of mouth.

No doubt, in some business sectors customers do refer others, and these referrals can be a source of new customers. But there are natural boundaries to this behaviour. Most firms operate in categories with little perceived risk, minimal status conferral, and scant ego involvement associated with their products or services. For these firms, word of mouth is not a contributor. Word of mouth tends to be reserved for extraordinary products and services.

The degree of emotionality also affects referrals. Customers tend to speak about products and services and encounters with companies in one of two extreme conditions: extreme dissatisfaction or extreme satisfaction (delight). A reasonable amount of research tells us customers are far less likely to speak about positive experiences (which might attract new customers) than negative experiences (which might drive potential customers away). Word of mouth isn't the free advertising this myth perpetuates.

### Loyalty Myth: Loyalty programmes will solve customer attrition problems.

This myth makes the critical basic assumption that the firm's product or service is not sub-par. Even if we assume that a well-designed and differentiated loyalty programme can enhance customer loyalty, a loyalty programme cannot compensate for an intrinsically bad product. If an airline consistently cancelled your flights, would the airline's award of frequent flyer miles really be a compelling retention mechanism?

Even with a parity product, far too many loyalty programmes become equivalent entries in a category mimic others rather than offering uniquely appealing rewards and appreciation. Loyalty programmes failing to offer customers real added value are a financial burden, not a competitive advantage. Tansaş, a major grocery retailer in Turkey, examined the purchases made by members of its loyalty card programme and found they purchased no more nor shopped more frequently than non-members of the programme. To quote Servet Topaloğlu, the company's CEO: "I knew that we had to give consumers a clear and differentiating reason to choose Tansaş," which, as the accompanying article by Lerzan Aksoy shows, they achieved.

### Loyalty Myth: Higher customer loyalty levels lead to higher market shares.

While it may seem counterintuitive, firms with the most loyal customers rarely have the largest market shares. Organizations we tend to associate with having fiercely loyal customers generally represent smaller, exclusive groups: Harley Davidson owners, Fender Stratocaster guitar owners, Edith Piaf fans, and so forth. As the size of a customer franchise increases, the associated loyalty declines to the norm. Loyalty and market share are not positively correlated.

### Loyalty Myth: Satisfied employees create loyal customers.

The satisfaction mirror concept from the service-profit chain suggests that happy employees create happy customers, and vice versa. Unfortunately, numerous studies investigating the direction and magnitude of this association have generally failed to reveal consistent relationships. Some studies have shown a negative correlation between employee loyalty and customer loyalty, some a positive relationship, and a few have failed to show any relationship. More extensive studies that tracked employee satisfaction all the way to business results discovered some linkage, but the direction of the correlations are mixed. Employees should not be disregarded – they need to be properly trained, well equipped, and made to feel appreciated – but satisfaction (often operationalized as "Do you like your job?" and "Do you have a best friend at work?") is not the critical element.

### Customer Attractiveness

Mapping customer profitability is absolutely paramount to successfully employing customer loyalty as a competitive strategy. There are really only three types of customers in terms of attractiveness to a firm:

**Desired Customers:** those who generate substantial profits for a firm

**Break-even Customers:** those who contribute the minimally acceptable rate of return for a company

**Costly Customers:** those who require extensive servicing that costs a firm substantially more than their contribution to operating profits.

Striving to retain every customer isn't a good idea for any business, nor is saving an indiscriminate sample of customers, but this has been the simplistic prescription of early loyalty messages. Allowing profitable customers to silently defect would be even more catastrophic. Consequently, the solution rests in knowing the value of each customer and then focusing loyalty efforts on those customers who are the most valuable.

Shattering the Myths of Customer Loyalty

# Building a Loyalty Process

It is human nature to dismiss a philosophy once we have learned that some or much of what we have been told about it is wrong. While understandable, such a posture is a mistake.

We urge the reader not to reflexively discard customer loyalty. The science associated with customer loyalty as a business strategy is relatively new and evolving rapidly. Because of this evolution we have been able to find the flaws in the conventional knowledge – the myths – and, more importantly, we have used the evolving science to create seven new loyalty “truths”; statements about loyalty that correlate to positive business results.

Building on the loyalty truths, we have outlined a process for creating successful loyalty programmes; a process we believe avoids the problems we’ve identified by taking into account both the value of the customer to an enterprise (the customer’s “attractiveness”) and the share of spending the customer is currently allocating to the enterprise. Ipsos Loyalty’s Loyalty Optimizer™ is built on this process. The Loyalty Optimizer leads the executive through three steps that help select the most appropriate loyalty strategy to offer to the right customers.

### Step 1: Assess Your Customer Base

Plot your customers according to their value to you (revenue minus costs of servicing) and their bond with you (their loyalty index). The percentage of your customers in each quadrant should be quite revealing: this is the strength of your customer franchise. Many firms’ customer bases are characterized by too many customers in the low value – high loyalty quadrant, a sign of imminent financial disaster.

### Step 2: Prioritize Your Actions

Once you know the distribution of your customers, you can begin to make realistic and strategic decisions about which group of customers to focus on first. For example, one of the most obvious implications is to maximize the number of high-value customers who are also emotionally attached to your firm (moving them from the upper left to the upper right quadrant).

### Step 3: Select Your Motivational Strategy

You’ll need a rationale by which to encourage customers to move from their current position in the value – loyalty grid to the area you’ve targeted for them. Loyalty Optimizer recognizes five equity propositions: Value Equity, Brand Equity, Offer Equity, Relationship Equity, and Satisfaction. Each of these will offer a different return on investment. It’s imperative that you choose the strategy that offers the greatest payback.

### The Correct Way to Manage for Customer Loyalty

Mark Twain once remarked, “Loyalty to petrified opinions never yet broke a chain or freed a human soul in this world – and never will.” The serious reader will have to set aside many of the loyalty platitudes he has previously learned – they don’t work in today’s marketplace! Our intention is to build on the evolving marketing sciences to offer a better system by which businesses can leverage customer loyalty to help them survive and succeed. We are totally committed to the “win-win” situation that effective loyalty marketing promises; marketers can win through loyalty, and customers will win from loyalty when programmes are effectively designed and offered.

**Timothy L. Keiningham and Terry G. Vavra** are authors (with Lerzan Aksoy and Henri Wallard) of the book *Loyalty Myths: Hyped Strategies That Will Put You Out of Business – and Proven Tactics That Really Work*.

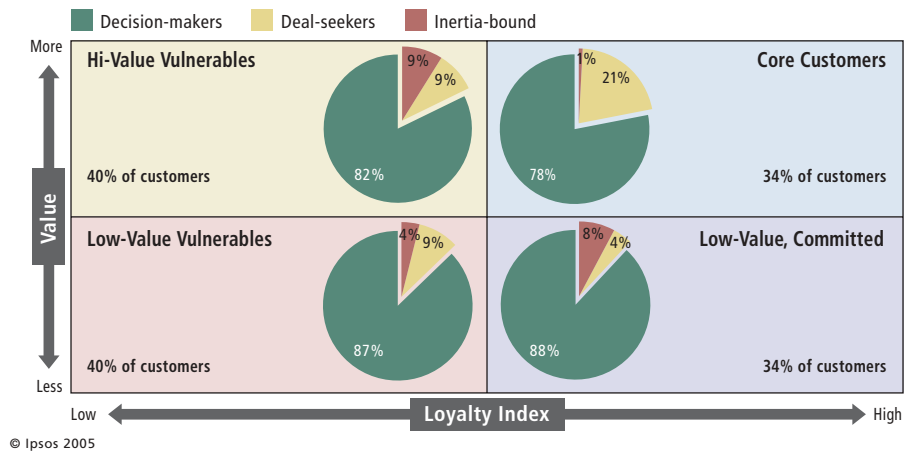


Figure 3 – Loyalty Optimizer



**Terry Vavra, Ph.D.**, is Chairman Emeritus of Ipsos Loyalty and founder of Marketing Metrics, Inc. Terry was a leader of the early CRM movement, advocating the importance of customer retention in his 1992 book, *Aftermarketing*. Terry is author of three other books. Prior to founding Marketing Metrics, Terry worked on the client side for several advertising agencies and taught marketing. You can reach him at [Terry.Vavra@ipsos-na.com](mailto:Terry.Vavra@ipsos-na.com).

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# The Parable of Plastic Loyalty

## A Case in Point: Tansaş

By Lerzan Aksoy

More than 70% of typical U.S. supermarket shoppers have two or more loyalty cards in their wallet, but how many of these does the average customer use? And, more importantly, to what extent do these cards influence the decision of where to shop or how often to shop?

In March of 2002, Turkish grocery retailer Tansaş was faced with low market share and deep losses of over €80 million. Tansaş had tried all of the “right” things to salvage the situation. The centerpiece was a loyalty card programme – an increasingly common loyalty tactic in the grocery business. The programme, driven by purchase data from its one million members, aimed to provide promotions and personalized offerings. But it was not working. Tansaş executives conducted a thorough examination of the programme. Surprisingly, they found there was no difference in profitability, frequency of visit, or loyalty between those of its customers who belonged to its programme and those who did not. Obviously, the conventional loyalty card and the store’s positioning of the loyalty programme were not providing solutions to increase the chain’s low market share.

Hired away from the Real chain (METRO Group’s German hypermarket chain), Servet Topaloğlu, CEO and Vice Chairman of Tansaş, realized that reengineering Tansaş was going to demand the creation of a unique proposition that allowed the customer to believe that the Tansaş chain deserved their loyalty. He arrived at a radical solution: a shopping experience designed to appeal to all of a customer’s senses, visceral and logical.

Store floor plans were changed to greet arriving customers with appetizing freshly baked bread aromas and the vibrant colours of fresh fruit and vegetables. New age music, specially composed for Tansaş, would accompany shoppers. To appeal to customers’ logic, a written “Incredible Customer Rights” statement was created. Topaloğlu’s management team identified the competitive value of the “bill of rights” policy by

conducting an extensive research study that asked consumers from a diverse set of demographic profiles what they hated most about supermarket shopping.

This strategy was accompanied by an ambitious advertising campaign to create the intended competitive differentiation. Results of a post-advertising consumer perception research study conducted by the Retailing Institute of Turkey in November 2004 demonstrated a significant difference in several performance attributes compared to its closest competitors. Tansaş has been widely praised for its strategy, and has received an impressive list of awards.

From the inception of the programme in 2002 to the end of the 2004 fiscal year, Tansaş transformed its more than €80 million loss into record and unrivalled growth in revenues: €300 million in 2002 and over €646 million by the end of 2004. Tansaş’s growth is not the result of more stores being opened; the increased revenue came from more customers adopting

Tansaş as their preferred store and spending more with Tansaş. The average number of customers per day increased from 179,000 to 209,000 in just over a year from when the strategy was implemented, and the amount spent per customer increased by 11% over the same time frame. And it was all done with same number of employees, indirectly making a strategy designed to improve customers’ shopping experiences a productivity improvement as well. As a result, Tansaş has become one of the most profitable retail supermarket chains in Turkey, with 201 stores and close to 5,000 employees.

Tansaş’s experience demonstrates that a loyalty card programme does not by itself ensure customer loyalty. As Topaloğlu avows, “The success of Tansaş is a testimony to the loyalty of our customers. But to earn that loyalty, we had to recognize that receiving customer loyalty is about giving customers a reason to believe that Tansaş deserves their loyalty.”

### The Tansaş Incredible Customer Rights

- 1. Return guarantee for all food items.** If an item is unsatisfactory, regardless of whether it is partially consumed, it shall be accepted – no questions asked.
- 2. Out-of-stock guarantee for promotional items.** Any item on promotion, if out-of-stock, shall be replaced by a product (in the same category) of equal or higher value.
- 3. Freshness guarantee.** If an item with an expired date is found on store shelves, a fresh replacement of this item will be given to the customer finding the item, free of charge.
- 4. Insurance guarantee.** Tansaş customers shall be insured against accidents that may occur inside the store and potential health problems caused by food items acquired from Tansaş stores.
- 5. Price guarantee.** Should the labelled price be different than the one that appears at the cash register, the lower price shall be effective.
- 6. Printing error guarantee.** Should the advertised price of a product be lower than its price at the register – due to a printing error – the lower price shall be effective.
- 7. Food safety guarantee.** Food items that do not have manufacturing permits cannot be sold at Tansaş. All products shall be regularly audited by TÜBİTAK (The Scientific and Technical Research Council of Turkey) for food safety.
- 8. Cash register availability guarantee.** Customers shall have the right to request the opening of an additional cash register should there be a queue at other registers. If a new register is not made available within three minutes of the request, the first 20 million Turkish Liras (approximately \$15) of the requesting customer’s purchase will be free!

**Lerzan Aksoy** is Assistant Professor of Marketing at Koç University in Istanbul, Turkey. Her research interests include consumer satisfaction and its relationship to customers’ spending patterns and customer relationship management. She has provided training to executives from national and international companies. She is co-author of the forthcoming book *Loyalty Myths: Hyped Strategies That Will Put You Out of Business—and Proven Tactics That Really Work*, with Timothy L. Keiningham, Terry Vavra, and Henri Wallard.



## The Seven Truths of Customer Loyalty By Timothy L. Keiningham and Terry G. Vavra

In our review of the oversimplifications and misstatements about customer loyalty, which prompted us to identify 53 myths of customer loyalty, we were also able to identify seven universal truths about customer loyalty. We believe understanding these truths can assist marketers in conceiving far more successful loyalty strategies and tactics.

### **Loyalty Truth 1:** **Don't manage for customer retention, manage for customer selection.**

Not all customers want or are willing to pay for a more pleasant relationship with a company or brand. Other customers do not generate an adequate rate of return, and still other customers are just plain unprofitable, making any expenses to enhance the relationships of either of these groups unthinkable. It's imperative that customers be scored – that is, their value assessed – prior to attempting to retain them.

### **Loyalty Truth 2:** **Customer loyalty takes more time to grow than most management teams have to give. Planning and patience are required.**

The foundation of any good loyalty initiative is information. As a result, databases are currently the vogue. But few companies today have the correct information from which to launch a proper loyalty programme, and fewer still have a CEO, CIO, CMO, or other senior-level executive who has the vision and will serve as a champion for this initiative by rallying the support of his colleagues and board and ensuring that ample time is allowed for the benefits of a loyalty programme to be observed.

### **Loyalty Truth 3:** **Consumer polygamy is today's economic reality, therefore focus on customers' share of wallet.**

In today's world, solitary relationships have been eroded, replaced with relationships that are more polygamous with customers more likely to be loyal to a group of brands than to a single brand. In contrast to the "one brand for life" mentality of the past, today's consumers are blatant polygamists.

Consumers believe that most brands in a product category are more or less the same. As a result, consumers act in a consistent manner, by not dedicating themselves to a

single brand. This is particularly true if the chosen brand is the category leader and costs more. The challenge to marketers is to appreciate whatever loyalty is offered, and to strive to increase the share of requirements expended by those customers who are currently Desired Customers or those who show promise in evolving into Desired Customers.

### **Loyalty Truth 4:** **Loyalty requires mutually beneficial interaction; most loyalty programmes are tilted in the company's favour.**

A compelling loyalty offering must be based on mutual benefit to the customer and the sponsoring organization. Further, rewards offered by the loyalty programme must not disparage or denigrate perceptions of the value of the organization's core offering. Also, participation in the loyalty programme ought not to cost the customer significant labour or time to document their repeat transactions. Lastly, the rewards offered must be attractive enough to affect customers' future purchasing behaviours.

### **Loyalty Truth 5:** **The chain of effects from loyalty is twisted and complex, so learn the specific response patterns of your customers and your industry.**

The chain of effects from customer loyalty to enterprise profitability is far from straightforward. To make it work requires an understanding of one's unique situation and customers. Relying on conventional wisdom is a recipe for financial disaster.

As companies look to monitor the return on their loyalty initiatives, it is critical to understand the way in which investments in processes and programmes manifest themselves in outputs for the individual company. This means creating a response function that accurately portrays the responses for each organization's own customers in its particular industry.

### **Loyalty Truth 6:** **Satisfied and loyal employees can make a difference, but customer loyalty can and often does happen in the absence of employee satisfaction and loyalty.**

A simplistic approach to employees' contributions to customer loyalty preaches achieving high morale, invoking dedication, and rewarding good performance. This is why so many loyalty programmes initiated with the corps of employees are doomed to failure. While employees make critical contributions, culture is not a strategy. It is not their morale that is as important to success as many would have us believe; it is how well a business equips employees to accomplish a task that they fully understand.

### **Loyalty Truth 7:** **Customer loyalty and brand imagery are far from independent; they must be managed together**

While admittedly observational in nature, marketing science has focused on brand-centric objectives. This preoccupation has only recently been challenged by the popularization of customer-centric agendas, introduced by customer satisfaction audits and customer needs/requirements studies.

While both brand-centric and customer-centric approaches are ultimately aimed at manipulating customers' attitudes and behaviours, managers and researchers tend to isolate these functions. For example, in most firms, brand management efforts are usually considered separately from satisfaction management efforts and are frequently the responsibilities of different departments within the organization. Similarly, specialized scholarly journals have evolved for researchers dedicated to the focus of either brand-specific or customer-specific issues. We believe it is time for businesses to adopt a holistic approach by combining the power of the brand with the power of the customer.