

## Customer Loyalty

Identifying customer loyalty may be an integral part of sales and service, but there is an equal need for business people to be agile and identify in themselves the skills or traits that will contribute to success.

We've all been exposed to the never ending plight of the Wile E. Coyote as he plotted to catch up to the Roadrunner. In business, which character do you identify with the most? This past year marked the passing of Oren Harari, a keen business strategist and co-author of "Beep! Beep! Competing in the Age of the Roadrunner".

Using the cartoon characters Wile E. Coyote and the Roadrunner as their examples, Bell and Harari lay out the problem and its solution -- businesses, and the individuals who lead them, have to be more like the agile, adaptive Roadrunner and less like the tradition-bound Coyote:

*The lesson is that we can't count on the realities of today, or on what made us successful in the past, to predict what we ought to do to be successful tomorrow. A lot of strategic planning premises are based on today's conventional wisdom. But tomorrow will look a lot different than today. Roadrunners understand this; they adapt quickly, they turn on a dime, they shed old habits, and they capitalize on (rather than resist) new technologies and new market opportunities.*  
activity.

### 6 Myths About Customer Loyalty

Here are 6 top beliefs that suffer from faulty logic according to Timothy Keiningham and Terry Vavra, authors of *Loyalty Myths*:

#### **1 Myth - Retaining 5 % more of a company's customers will increase profits by 25 to 85 %.**

There was a 1995 Harvard Business review article that caught everyone's attention with a false promise: The 80/20 rule still applies, so not every retained customer will contribute equally to a company's profits. The lesson here is a business should truly understand their customer base before embarking on any customer loyalty program, lest they retain those customers that tie up resources and do not effectively contribute to a positive bottom line.

#### **2 Myth - Most corporate databases are adequate for Building loyalty.**

Truth is most companies' databases are in terrible shape, many missing key information like who is the decision maker, proper contact information, etc.. Smart Managers do not let these valuable nuggets rest with the sales people alone. Be sure to have a central database that supports your loyalty objectives.

*"Unless you try to do something beyond what you have already mastered, you will never grow."*

Ronald. E. Osborn

Where Lean Thoughts can become Reality

## MYTHS ABOUT CUSTOMER LOYALTY

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### 3 Myth - Loyal customers help grow a business through word of mouth.

Certainly this is true in most businesses, but there are limits or "natural boundaries" to this behavior: " *Most firms operate in categories with little performance risk, minimal status conferral, and scant ego involvement associated with their products or services. For these firms, word of mouth is not an appreciable contributor.*" (47) In short, word of mouth only works if you have extraordinary products or services. For the most part, customers are not likely to speak about very positive experiences, saving the "free advertising" for extreme highs or lows.

### 4 Myth - Loyalty programs will solve customer attrition problems.

Yes, a well designed loyalty program can enhance customer loyalty, but it will not replace a good product or service. Businesses have to be careful not to reserve margin for a loyalty program only to use it as an expensive way of hiding the real corporate challenges.

### 5 Myth - Higher customer loyalty levels lead to higher market shares.

Ironically it is often the reverse, the larger a customer franchise increases, the less loyal the group behaves because they are not part of a smaller exclusivity. Keiningham and Vavra cite examples of small, but brand loyal client bases, such as Harley Davidson riders, Fender Stratocaster guitar owners, or Edith Piaf fans. While this all rings true, it may not be the case all the time. *Q's News* editors note Apple brand loyalty may give the authors a case study to consider.

### 6 Myth - Satisfied employees create loyal customers.

Most studies show this "satisfaction mirror" is not a consistent relationship: Sometimes happy employees equal happy customers but measurement of employee satisfaction is subjective. Some studies have actually showed employee loyalty to be a negative correlation with customer loyalty.

In short, the message is to set aside the platitudes and clichés about customer loyalty and truly understand the mechanics as they apply to your individual business. If applied to truly profitable customers, loyalty can be a very rewarding business strategy.

*"A Business must fully understand it'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."*