20 Biggest Loyalty Myths

Your credibility and growth will increase as you rise above these myths in your statements and decisions.

Loyalty Truth #1: Don't manage for customer retention before you manage for customer selection.	
Myth	**Why It's Untrue**
Companies with more loyal customers will always have higher market shares.	When different buyers have differing needs, the 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.
Companies should seek to change switchers into loyal customers.	Some customers are variety seekers, motivated by curiosity. And some are deal seekers, motivated by price. When companies chase these customers it deteriorates loyalty across the board: customers are trained to respond to sales promotions, putting off scheduled purchases to wait for deals.
Retaining 5% more of a company's customers will increase profits by 25% to 85%.	For most firms, the most profitable 20% of customers generate 150-300% of total profits; the middle 60-70% of customers about break even, and the least profitable 10-20% of customers lose 50-200% of total profits. Retaining 5% more customers won't make money unless they are in the top 20% of profit-makers.
It costs 5 times more to acquire a new customer than to retain a current customer.	Advertising and promotion reinforces brand awareness and preference among existing customers as well as new customers. In early stages of life cycle for products and firms, acquisition will cost more and in later stages, retention may cost more or the same as acquisition. Often, the most expensive customers to retain are those who generate the most profits, because they're most desirable to competitors. Knowing their relationship is significant to the firm, these customers expect a higher level of service, etc.
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 because the level of service they demand exceeds their buying. Some customers have high share of wallet, but they're totally price-driven.
In planning for the future, it's always best to focus on customers who have contributed the most to company profits.	Focusing on past profitability ignores changing factors that influence future purchases (org change, job promotion, job change, married or divorced, changed address, children left, etc.). RFM (recency, frequency, monetary value) scores for prioritizing offers results in a flood of offers even for one-time large purchasers.

Loyalty Truth #2: Focus on customers' share of wallet. Don't disregard customers with current low shares. Learn how to improve your share of your customers' loyalty.	
Myth	**Why It's Untrue**
Repeat purchases equals loyalty.	Don't confuse necessity with loyalty, for example, travelers who repeatedly use an airline they dislike only because it's the only nonstop flight to their destination. Repeat buys may be due to a preferred brand out of stock or a temporary budget pressure, etc.
Loyal customers help grow a business through positive word-of-mouth.	Customers tend to speak about products, services, and encounters with companies only in one of two extremes: extreme dissatisfaction and extreme satisfaction. Customers are far more likely to speak about negative experiences than positive ones. Socially conspicuous products are most likely to have high word of mouth, where there's a perceived risk, status, or entertainment value to buying right or wrong.
Loyalty can be measured by the number of Net Promoters a company has.	Loyal customers don't always act as advocates for firms. The equation assumes that the damage caused by negative word-of-mouth is cancelled out by "likelihood" of positive-word-of-mouth. Nobody knows how many "likely" customers did indeed refer or how often to whom. The value of referred customers may be high or low. Some Promoters are profit-takers rather than profit-makers. Data collection is rarely statistically significant or statistically valid due to score begging by outright request or scale colors or heavy-handed invitations (bias), inviting everyone for ratings without regard to representation of customer types in the market.
Loyal customers will work to establish a relationship.	In personal relationships, give-and-take from each participant is required to thrive, but in business-customer relationships, customers paid the fair market value and have no further obligation. Erosion of relationship strength is often the result of putting too much onus on the customer to enhance the relationship. Changing the rules of loyalty programs causes disillusioned once-loyal customers.

See more in this awesome book:

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

This book covers scientific studies behind 53 loyalty myths, with numerous graphs, origins of the myths, and enlightening discussion of the field of customer loyalty.

Fun fact: author Tim Keinigham was in Lynn Hunsaker's MBA class, including an International Marketing course with all expenses paid for a week visiting businesses and government agencies in Tokyo for 12 students.

Loyalty Truth #3: Loyalty requires mutually beneficial interaction; most loyalty programs are tilted in the company's favor..	
Myth	**Why It's Untrue**
Loyalty programs are a sound investment.	It depends, and causality is questionable: are frequent buyers rewarded for something they would do anyway? Some buyers are also members of your competitors' loyalty programs, with their decisions based on convenience due to low differentiation of brands. Customers highly invested in a loyalty program may bring lawsuits for changes to the loyalty program.
Frequency of contact increases loyalty.	If customers spend about the same total amount but increase their frequency of contact, then transaction costs are increased while revenues remain constant. Customers will settle back into a state of purchasing only what they need.
Loyalty can be created through economic or structural bonds.	Structural bonds without emotional ties tend to be easily broken when the opportunity arises: a new vendor, regulatory change, economic situation of the customer, etc.
Loyalty rewards programs will solve customer attrition problems.	If the product is subpar, a loyalty program won't make up for it financially. If the reward has a lot of limitations, it may be the cause of more rather than less attrition.
Loyalty programs will attract customers from competitors.	Not unless there is significant differentiation.
The Internet makes building loyalty much easier.	Anonymity and access to vast information from many sources results in more switching behavior than with brick-and-mortar.

Do you want your team members to learn what you're discovering from CX Leadership Value? Anytime is a good time, such as CX Day 1 October, Service Week 7-11 October, offsites, extended staff meetings, lunch-n-learns, internal fairs, employee recognition, kickoffs, etc.

- C-Suite Guide to CX Growth
- Fireside Chats
- Masterminds
- CX ROI
- Live Classes
- Mini-Lessons
- Culture Assessment
- Gift Cards and Retainer Credits

Loyalty Truth #4: The chain of events from loyalty to profits is twisted and complex. Learn the specific response patterns of your customers and your industry.	
Myth	**Why It's Untrue**
Long-term customers purchase more.	Purchase volume is a function of need, rather than time. Needs are typically static, except when a family or business grows, but there may be life cycle fluctuations. Longer tenure customers may buy more than others due to the others' switching behaviors (deal seekers, variety seekers, or profit-takers), but in truth their buying might not be increasing over time, or just because of tenure.
Loyal customers are less price sensitive.	There are limited cases where customers prefer to pay a premium rather than switch to a competitor with whom they're unfamiliar or uncomfortable. Often, loyal customers pay less than new customers as marketers limit coupons to best customers. Loyal customers seeing new customers get a better deal may be bitter.
Customer revenue is a good predictor of profitability.	Some of the largest customers are the most unprofitable.
Employee satisfaction and customer loyalty go hand-in-hand.	No single employee can totally satisfy a customer, but any one employee can totally dissatisfy a customer. Study findings of the linkage between employee/customer happiness vary widely. Satisfied and loyal employees can make a difference, but customer satisfaction and loyalty can and often does happen in the absence of employee satisfaction and loyalty.