# THE LOYALTY FALLACY

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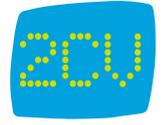
# IMAGINE YOU ARE A MARKETING MANAGER WITH THE PRESSURE TO GROW YOUR BRAND

**2CV**

## Which choice do you take?

1. FOCUS ON WINNING MORE CUSTOMERS
2. STRIVE TO EXTRA MORE FROM YOUR EXISTING CUTOMERS. e.g VIA GREATER LOYALTY
3. COMBINATION OF BOTH

If you answered #1 – well done. If you answered #2 or #3 – you unfortunately are guilty of believing some of the common myths around customer loyalty:

- Loyalty varies significantly across brands
- Superior loyalty is a key source of advantage – marketing departments should therefore aim to drive loyalty higher
- Extracting more from loyal customers is the best way to grow

These myths are based on the belief that it's easier (and cheaper) to sell more to existing customers than it is to win new customers, that existing customers are less price sensitive and more profitable, and that customers want a deep relationship with your brand.

On the contrary, plenty of evidence rebukes these beliefs:

1. Customers don't want deep engagement with your brand
2. Potential gains via acquisition are higher than via loyalty
3. Loyalty varies minimally & higher loyalty is difficult to achieve

Let's cover each of these in turn:

# 1. Customers don't want deep engagement with your brand

This is a case of marketers believing something that is highly important to them (i.e. the brands they manage) must also be highly important to brand users, however evidence suggests otherwise:

- **94% of brands could disappear without UK consumers caring, according to a Havas study**
- **77% of people felt they had NO relationships with any brands (HBR)**
- **4 in 5 Singaporeans do not see brands as generally being 'open and honest'**

For most people brands are something we use as they satisfy a need and are easily accessible (both physically and mentally), but the idea of having a deep relationship with a brand (think of a fanatical Harley Davidson fan) is very much the minority.

# 2. Potential gains via acquisition are higher than via loyalty

There is much greater scope to grow via stronger acquisition than by improving loyalty – efforts to drive loyalty often fall flat. For example, the IPA in the UK Research published the results of 880 marketing case studies and showed:

- **46% of those aiming for increased acquisition were successful**
- **9% of those aiming to increase loyalty were successful**

In addition, studies which have focused on brands that have achieved growth consistently show that improved acquisition is the primary driver. Take the example below of a US dairy brand – this is a very typical pattern of brand growth, with acquisition doing most of the work:

| YEAR | VOLUME SHARE | AVERAGE PURCHASE FREQUENCY |
|---|---|---|
| 1 | 2.5% | 2.5 |
| 2 | 3.4% | 2.8 |
| 3 | 3.9% | 3.0 |
| 4 | 4% | 2.9 |
| Change YR 1 - 4 | 60% | 16% |

Similarly, a growing Brazilian toothpaste brand shows the same pattern:

| YEAR | MARKET SHARE | HOUSEHOLD PENETRATION | AVERAGE PURCHASE FREQUENCY |
|---|---|---|---|
| 1 | 6% | 22% | 2.3 |
| 2 | 10% | 31% | 2.8 |
| 3 | 12% | 35% | 2.9 |
| 4 | 14% | 40% | 3.1 |
| CHANGE YR 1-4 | 124% | 82% | 35% |

And in a study of 12 US packaged good brands that grew significantly over 3 years, 11 of them grew primarily due to acquisition while loyalty typically grew minimally (or not at all).

Outside of these examples, plenty of other evidence supports the finding that growth is usually delivered by increased acquisition, not loyalty.

# 3. Loyalty varies minimally & higher loyalty is difficult to achieve

Loyalty levels tend to be similar across brands and largely can't be impacted by marketing actions – this is a result of the 'double jeopardy' effect, where small brands have fewer customers than larger brands and also have (slightly) lower loyalty, meaning loyalty is primarily a function of a brand's penetration.

**LARGER BRANDS**

**SMALLER BRANDS**

■ Penetration

■ Customer Loyalty
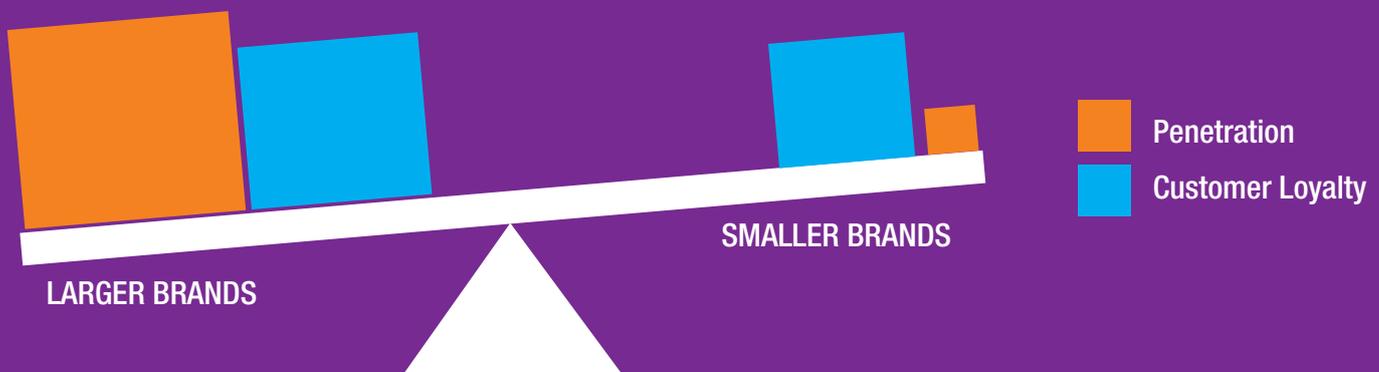
So a brand's loyalty will tend to rise (slightly) as penetration rises, but beyond that it is very difficult to achieve higher loyalty relative to a brand's penetration.

The double jeopardy effect has been proven to hold over numerous categories and markets; here is a case from the French auto market – as market share rises, so does loyalty (but to a lesser extent):

| Brand | Market Share | % of customers re-buying same brand |
|-------|--------------|-------------------------------------|
| Renault | 31% | 64% |
| Peugeot | 23% | 60% |
| Citroen | 12% | 55% |
| VW | 8% | 56% |
| Ford | 7% | 55% |
| Fiat | 6% | 46% |
| GM | 5% | 53% |
| Rover | 2% | 35% |

# So what is the role of marketing then?

## Winning new customers!

**"...product formulation, price, distribution, advertising, promotions...give brands their different sales levels...but rarely cause big additional difference in loyalty"**

*Ehrenberg, Goodhardt & Barwise. (1990) Double Jeopardy. Journal of Marketing*

However, this doesn't mean ignore your current customers – if they are unhappy, this will impede acquisition through negative word-of-mouth. The point is to not aim for growth via outperforming competitors on loyalty.

# Implications for brands

**01**

### Be informed & realistic about your brand's loyalty

- Is it in-line with penetration? If so, your loyalty levels are normal & aren't worth focusing on
- Does your brand have 'excess' loyalty (relative to its penetration)? If so, try to understand why (and maintain)
- Does your brand have relatively low loyalty? If so, understand why & address – e.g. are there loyalty barriers?

**02**

### Marketing activities should emphasise reach

- To win customers, 'cast the net' as widely as possible
- Aim to reach all buyers – particularly potential customers
- How to achieve reach?
    - SALIENCE: Associate your brand with common category needs
    - REACH: Advertise via mediums that reach the most buyers
    - MEMORABLE: Stand-out – e.g. via compelling (emotion-based) advertising
    - CONSISTENCY: Don't frequently change how you promote your brand

**03**

### If considering a loyalty program, consider some key questions

Ask yourself:
- Will it attract new customers?
- Is it a 'competitive necessity'? (i.e. competitors all offer one)
- If aim is to retain high value customers, what % of your sales come from this group?
- Are there other benefits – e.g. collecting customer data?
- Does it pass any of the above 'tests'? If so it may be worthwhile – but if the objective of the program is to outperform competitors on loyalty, it is likely to be ineffective and should be avoided.

# And finally...

Be selective about the research agencies you work with.

If they display a lack of knowledge about how loyalty actually works, your research efforts may be a waste of time and money – e.g. if they are happy to conduct a study to understand how to drive higher loyalty.

In such cases we'd recommend you find a more knowledgeable research partner **– dare I say someone like 2CV!**