

LOYALTY IS NOT WHAT YOU BUY, IT'S WHAT YOU EARN

*Satisfaction is too low a bar when
excitement is possible*

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I had been thinking about customer loyalty for a long time and concluded that what some leaders call loyalty is not; it may be attachment or obligation or being stuck, but it's definitely not loyalty. This conclusion was confirmed on a recent cross-country flight where I had plenty of time to think thanks to being forced to sit on a plane for three hours due to what the pilot called "mechanical glitches." Maybe I should have felt at ease when the Captain assured me that the delay was for my own safety. I could buy that, but I surely would have preferred the plane not break down, or that when it did, to be allowed off the plane (we were still at the gate), or even to be offered refreshments and assured with regular updates on my flight's status.

Despite the fact that I have traveled more than two million miles on this particular airline, I wouldn't describe what I was feeling toward the airline as loyalty. Instead, I was in a snit and angry about the dehumanizing way the airline treated its customers, including me, and ruminating over my status as a frequent-flyer biggie. The airline calls me a "loyal customer" and even sends me an exclusive looking card and luggage tags to prove it. Because I have "the card," I get to board early for my seat and bring a carry-on bag for free. But I don't feel indulged, or even appreciated for that matter.

In fact, on this particular day I wasn't feeling like a biggie, or a loyal customer – more like part of a herd. On the face of it, more than two million miles should qualify me as a loyal customer, but perhaps not, as I have more than a million miles on each of the airline's two primary competitors. Besides that, I never go out of my way to travel on one airline over another. That "go out of my way" thing seems crucial to any claim of customer loyalty.

SWIMMING IN A SEA OF SAMENESS

The airlines – and lots of other industries for that matter – miss the boat on understanding and building customer loyalty. One airline is pretty much like another because the experience on one airline is pretty much like the experience on other airlines. They lack differentiation and are interchangeable because their customer experiences are interchangeable. The only way I can tell them apart is their color schemes. From their crummy charged-for meals (or crummy “free” ones in first-class) to their standardized greetings and goodbyes, charges to change a reservation to their ballerina-sized seats, they are alike.

More importantly, it seems clear that they compete with one another rather than for the hearts of their customers. The airlines have turned themselves into commodities and, like other commodity purchases, customers pay most attention to price and other inducements such as loyalty programs. Thus, while three competing airlines count me as a loyal customer (I have luggage tags from each to prove it), my behavior says that I’m not loyal. If I had to create a name for the kind of airline customer that I am, I would call me a “defensive customer” as I don’t see the airlines as much interested in me. I feel absolutely no love coming from any of them – and return it in equal measure.

AM I LOYAL OR STUCK?

Since I had all this time to think, I tried to connect the dots: what is loyalty? How does it happen? In order to answer these questions, I reviewed my day’s airline experience as it was typical of what happens to “loyal” airline customers. I had to change my departure two days before my original scheduled departure and was hit with a double-whammy. You know the drill: A \$200 change fee plus the difference in price for the new ticket, which is never in my favor. In my case, it was 200 bucks for changing my departure and another \$948 for a seat in coach. So there is little wonder that the L-word was not dominating my thoughts; how can a company sustain loyal relationships when asking customers to pay more than \$1,100 for a simple change to a domestic flight? Abusive comes to mind as a more accurate description of what happened, but those irritating changes add up to an extra \$7.5 billion in annual revenue. There should be no uncertainty among airline leaders as to why their customers are cranky: revenue generated when no value is added is not a recipe for customer bliss.



The leaders of the world's airlines are not stupid, so they have to know that what they are doing is exchanging customer goodwill for enhanced short-term results (i.e., the \$7.5 billion), and despite their protests, it's clear that they could care less about whether their airlines are loved by customers. Butts in seats is the name of the game. Customer frequency, not to be confused with customer loyalty, is also a financial play. Otherwise, customers would not be offered the opportunity to buy extra miles on a flight or to buy miles without even the inconvenience of travelling. The airlines have figured out the price of frequency. It must work because there are lots of FFBs (Frequent Flyer Biggies) just like me out there, totally up millions of miles at a cost of billions of dollars each year.

But the billion dollar question is, how much loyalty are they leaving on the table with this approach? While they have lots of customers who go out of their way to earn miles, it is not the same as choosing a specific airline instead of another and urging friends and family to do the same thing. When was the last time you chose one airline over another simply because of the difference in the customer experience provided?



LOYALTY REFRAMED

Loyalty is an emotion and sense of commitment that has its genesis in the tribal roots of our species. Long before the first loyalty program, our ancestors came to a lifesaving conclusion: we cannot make it alone. If how long we gestate, and from there to grow from infant to competent adult was not a clue, how fast their numbers dwindled whenever they were alone was. The ease with which larger, stronger, and faster meat eating animals turned the loners into a dietary mainstay was a sure sign. We got the message: “We live together, or we die alone.” Preservation of the tribe became preservation of the individual. But how do we ensure our place in the tribe?

BELONGING AND SIGNIFICANCE

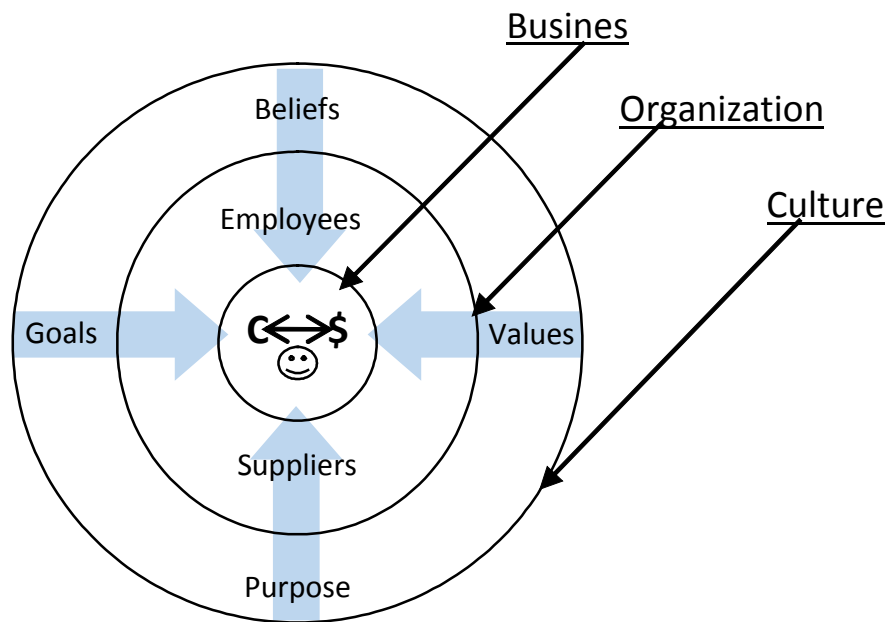
These life and death facts of survival go a long way toward explaining an innate part of our nature: we are driven to belong. As a consequence, we join groups and work hard to fit in. Belonging is having a sense of place. But that’s not the whole story: We need to feel that we are valued; that if we were not in our place that we would be missed – big time. We are hardwired toward convincing ourselves that somehow the world would be a lesser place without us; in short, that we are significant. Few things bring us more comfort than the sense that we belong and are significant.

Our insatiable need for belonging and significance explains in large measure why we feel disrespected and angered by a poor customer experience. A poor experience says that we do not count and that we are incompetent, by making a poor decision. It’s not a stretch to say that a poor experience is an affront to our sense of security. As a consequence, we naturally avoid experiences that compromise our sense of belonging and significance unless we have no choice or are paid have them. This, of course, is the situation the airlines have created for themselves. Loyalty programs create behavior that only looks like commitment, but that is driven by the desire to avoid pain.

The concept of belonging and significance leads in a straight line to a definition of loyalty: The enthusiasm of a person to go out of their way to contribute to the success of an enterprise and recommend it to friends and family based on the meaning of their personal experience of the enterprise. Thus, there is an active component to the concept of loyalty that is not necessarily captured by frequency of use. The frequency implicit in active loyalty comes from loving a company and wanting others who are cared about to be able to share that experience. In contrast, the bought loyalty characteristic of many loyalty programs has its source in an exchange of resources – “I pay for seats now in exchange for a ‘free’ seat (or less uncomfortable experience) in the future.” Unfortunately, the kind of loyalty that a company needs most can’t be bought, but must be earned by delivering a compelling and differentiating experience.

LOYALTY APPLIED

A compelling and differentiating experience is one that the customer feels they have to have and that they cannot get anywhere else. Providing such an experience is, of course, the nirvana of sales building and the surest solution to the challenge that faces all companies: How to separate their customers from their money. The best companies do it by putting a smile on their customer's face in a way that make them want to come back time and time again. How they do it is an important question to answer. The "target model" is one answer to this question as it provides a framework for the kind of thinking that goes into earning the active loyalty of customers and other stakeholders.



THE TARGET MODEL

A company has three parts: its business, organization, and culture. The Target Model represents the relationship among these parts and how they can be used to earn the active loyalty of customers and other stakeholders like employees and suppliers. The work of a company's leaders is to make the company more than the sum of these parts through actions such as aligning the company's culture in a way that supports the business. Taking care of customers – or taking care of business – is the bullseye of these efforts. In my experience, the more detailed the definition of what it means to take care of customers (see goals, purpose, beliefs, and values in the culture circle of the model), the more likely it is that the company will be successful.



That starts with the answer to the most important question of free enterprise: What can we do that our most valued customer will believe is compelling and differentiating? The answers are the company's promises to customers. Pretty much everything else that a company does is in support of it being compelling and differentiating to its customers. One of these things is being organized to take care of business. The organization is made up of the company's internal stakeholders. How they are organized and who is in the organization is largely determined by the nature of the customer promises, as well as the beliefs, values, purpose, and goals that underpin its culture. The active loyalty of customers is earned through the answers to the business question, the support provided by the organization, and the coherence provided by the company's culture. Misalignment of any of these three factors dooms the company to something less than the active loyalty of customers and other stakeholders.

IMPLICATIONS FOR LEADING

It seems clear that active loyalty is not something available to the highest bidder; instead, it has to be earned by seeing to the customer's need for belonging and significance. The difference between bought and earned loyalty is not frequency, but commitment. As my example of the airlines illustrates, loyalty can be bought, but only at a high price. I have often wondered whether the millions spent by a company to buy loyalty might be more wisely spent creating an experience that indulges their customers' feelings of belonging and significance.

While I have no way of knowing, I am prone to believing that what it takes to earn the active loyalty of a customer costs less than buying it. Frequency and new customers earned due to a compelling and differentiating experience seems more certain – and a more stable long-term strategy. Evidence for this: my frequent flyer miles are distributed across three competitive airlines rather than being concentrated in one. What if an airline had earned my loyalty, and in so doing, all my miles? Just saying.

Part of the problem is that bought and earned loyalty look pretty much the same from a company perspective – repeat sales are repeat sales; however, the margins may not be. That's because actively loyal customers are typically willing to pay a premium for the compelling and differentiating experience they have come to expect. In addition, loyal customers deliver the brand ambassadorship company leaders crave. Active loyalty comes at a price, but surprisingly the price is borne by the customer. For example, how often do you drive by a store that sells what you want in order to buy it from a store where you are wanted? You are paying a personal price in order to strengthen a completely voluntary commitment. This cost, of your time and resources (gas and money), cannot be reimbursed. This ethereal aspect of active loyalty is the source of its incredible value. Not only are people going out of their way to be a customer, they can hardly wait to tell their friends and family to do the same.



THE NEW BOTTOM LINE

Because of the financial leverage inherent in active loyalty, it is the bottom line because of its certain path to sales and profit. Earning the loyalty of customers is tantamount to receiving their gifts of enthusiasm and commitment – gifts that really do keep on giving. We live in a world with strong distrust for corporate enterprise. Cynicism does something else that many company leaders fail to recognize: it makes us increasingly turn to the people we trust for advice and referrals such as our family and friends, and, increasingly, this also includes the millions of people ‘we know’ through social media.

That existing happy customers are the best source of new customers is unchallenged and is a rule of business success that has not changed despite the many changes in the way customers buy. If anything, it has been strengthened by our tendency to trust what our millions of “friends” on social media think about a company. What company leaders need to do is to worry as much about the excitement and commitment of its “customer tribe” as they do about loyalty programs that are not at all about loyalty.

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