

CUSTOMER EXPERIENCE PARTNERS

Why So Many Loyalty Programs Fail - Part 1



The customer loyalty movement in 2012 has come a long way from its beginnings in the 1990's. No longer is it necessary to convince companies that they should have a customer loyalty strategy. Today, most companies actually have one; while the remainder talk avidly about creating one. And yet the loyalty movement is not without its challenges. The fact is, many of these strategic visions are improperly conceived. Some are seriously flawed in one of several ways. And, others either outright fail or fail to deliver on their strategic objectives.

A Common Flaw

One of the most common flaws is the failure to select a specific target group of customers (or said another way, the program's lack of a strategic direction). Convention shows that businesspeople typically execute a loyalty program as if they're running a democracy. They tend to view all customers as equal. The problem with this approach is, no matter how altruistic businesspeople want to feel, customers are not all created equally nor should they be treated equally. The fact is customers interact with businesses in vastly unequal ways. In our book, *Loyalty Myths*, we proposed that a business's customers can be divided into three types – providing a useful triage for most businesses to adopt:

- There are **Breakeven Customers** – those who neither add to nor subtract from corporate profitability (either they buy a lot but also demand equally heavy servicing, or they simply buy very little);
- There are **Costly Customers** – those who demand so much attention or such excessive price concessions that maintaining them as customers reduces a business's bottom line; and
- There are **Desired Customers** – those cherished customers whose volume of purchases and reasonable requests for servicing makes their transactions highly profitable.

A Typical Customerbase

A typical company's customers, when dissected into these three customer segments, will show about 20% as Desired, 60% as Breakeven and up to 20% as Costly customers. With such an insight into the composition of a customerbase, it's easy to see why a business shouldn't strive, nor be encouraged to retain *all* of its customers!

The impact of this typical distribution should be clear. The simplistic loyalty goal, of retaining *all* customers, is a recipe for financial disaster. Loyalty programs need to be modified or rethought to focus attention on two objectives:

1. *Keeping* Desired Customers, and
2. *Trying to improve the profitability* of current Breakeven Customers.

Any envisioned loyalty program or tactics should be qualified against these two goals. Any spending directed at retaining Costly Customers is a recipe for bankruptcy. To learn more about scoring your customers, contact us at:

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