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The Laws of Loyalty Marketing: An Intensive Review **Angus Jenkinson**

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Abstract

Loyalty has become a significant factor in marketing during the 1990's. There are good reasons for this. However, not all practice makes financial sense. Nor will it have sustainable impact on customers. To be effective we need to respect "loyalty laws". These are:

Rewards do not buy loyalty, only data.

Loyalty *to* customers creates loyalty *from* customers.

Relationship efforts must respect the preferred boundaries of customers.

Loyalty is not behaviour, satisfaction or attitude. It is best summed up as 'active affection', but arises from the integration of thinking, feeling and action based on trust.

Loyalty is personal and individual and arises out of the holistic experience of a succession of 'moments of truth'.

Loyalty is generated through the deployment of financial, social and structural bonding programmes (or processes).

Not all customers are equal. Not all companies can recognise that.

The attitudes of all stakeholders are mutually re-inforcing.

Loyalty is a journey not an arrival.

Loyalty is a moral issue. Its deployment will emphasize 'marriage' over 'military' metaphors.

Key Words

Loyalty, relationship marketing, retention, database marketing.

Introduction

Loyalty marketing has become one of the hottest ideas in town during the 1990's. There are an extra-ordinary number of loyalty "schemes", "programmes" and systems developed or in development (Abram, Hawkes 1995, Cook 1995, Jenkinson 1995, Jones, Sasser 1995, Berry 1991, p136). A significant fuel for this change came from the publicity given to studies by Bain & Co. in Harvard Business Review (Reichheld 1990, 1993) and elsewhere. However, this merely continued a trend developing out of Quality, service development and relationship marketing (Berry 1983, Levitt 1983, McKenna 1991, Jenkinson 1995, p59-69).

Attitudes today are varied. The 1995-6 marketing history of Sainsbury plc. typifies. They demonstrated reluctance to enter the field of "loyalty schemes". Then experimented at the margin, withdrew and now are (at the time of writing) intending to re-launch. This suggests caution, ambivalence and doubt. At the same time, the successes of its major rival Tesco plc. in gaining market share and profit is forcing its hand and has led to changes in senior management.

By now there are certain principles established which serve as a bedrock for future thinking and practice. These are taking on the quality of laws or axioms:

1. Retaining customers intelligently is significant for profits (Reichheld 1990, 1993)
2. *Effective* means of doing this on a sustainable basis depend on more than a grandiose sales promotion scheme (Abram Hawkes 1995, Clark 1995, Henley 1994, Jenkinson 1995). Instead it depends on factors such as synergy with the brand, service, customer perceived added value, process quality. This paper will seek to identify some of the laws which determine an *effective* methodology.
3. It is not easy, and not always attainable. 90-95% of "loyalty behaviour" is actually passive loyalty, ie. unstable and apathetic. (Henley 1994).

The “Laws”

The following laws, axioms or principles are proposed:

1. Rewards do not buy loyalty, only data.
2. Loyalty *to* customers creates loyalty *from* customers.
3. Relationship efforts must respect the preferred boundaries of customers.
4. Loyalty is not behaviour, satisfaction or attitude. It is best summed up as ‘active affection’, but arises from the integration of thinking, feeling and action based on trust. (See loyalty definition below).
5. Loyalty is personal and individual and arises out of the holistic experience of a succession of ‘moments of truth’.
6. Loyalty is generated through the deployment of financial, social and structural bonding programmes (or processes).
7. Not all customers are equal. Not all companies can recognise that.
8. The attitudes of all stakeholders are mutually re-inforcing.
9. Loyalty is a journey not an arrival.
10. Loyalty is a moral issue. Its deployment will emphasize ‘marriage’ over ‘military’ metaphors.

Definitions and groundwork

Abram Hawkes use the definition of Jones (1994) for their study of loyalty programmes and schemes. This is:

A marketing tool designed to give loyal customers collectable incentives which when converted into rewards make a compelling proposition to continue purchasing a company’s products or services.

This is a convincing articulation of a widespread set of attitudes to loyalty. The key phrases are “collectable incentives’ and “compelling proposition”. The consequence of this definition is a set of activities which shape much loyalty marketing. And they have some value. However, this definition is both limiting and misleading:

- True loyalty marketing must go well beyond “collectable incentives”. This reduces the discipline to sales promotion.
- It presumes that customers can be compelled, which is unsafe, even as an hyperbole or metaphor.

They lead to the results of the Abram, Hawkes study, namely that most “schemes” are add-on functions designed to create surface difference in a party market. As such, they will ultimately be judged somewhat similarly to that of all other advertising and sales promotion, ie. it will depend on creativity, offer, execution in a crowded market except that companies will be paying a larger share of spend for the privilege. Understandable cause for Sainsbury’s reluctance.

Here are 4 more definitions:

1. *‘Loyalty is simply repeat buying behaviour’*. This is what suppliers like but doesn’t tell us much that helps. This is a goal of loyalty development, not loyalty.
2. *‘Loyalty is the emotional bond between the customers and suppliers’*. This turns out to add important elements: emotion and bond. However, it *may* not produce business.

3. *'The willingness to retain and feel commitment to another because of duty or trust'*. This is a useful definition because it connects action to emotion and includes inner duty and outer trust.
4. *'Loyalty is the devoted and steadfast attachment of a customer to one supplier, even when attracted to one or more competitive alternatives'*. Another useful definition, similar to the third but emphasizing choice.

There will be an attempt below (4th law) to describe the nature of loyalty in a useful way, but we can already recognise that it involves head, heart, 'hands and feet'. It implies *involvement* in a situation of *choice* and is enduring based on mutual good will.

What this paper will not do is reduce loyalty marketing to "loyalty schemes". We suspect the name already suggests the destination of such efforts: the same filing cabinet as 'junk mail'.

1. Rewards do not buy loyalty, only data. They may, however, generate loyalty to the scheme.

Reward systems such as points towards miles or redeemable stamps have changed behaviours. Green Shield Stamps were a powerful pioneer programme and millions of households avidly collected them. So successful, are points programs, on one level, that tens of thousands of firms have turned to one or other variant. The marketing press has announcements weekly of new points schemes.

However, many schemes are simply grafting an artificial or extrinsic incentive or enticement onto the core product. Rewards may be more *intrinsic* or more *extrinsic* to the product. Intrinsic benefits contribute more positively to the brand and image by reinforcing it. Extrinsic benefits are those which do not have a high affinity with the core product concept. They are, particularly, benefits which do not become naturally embedded within the core product configuration.

For example, the ability to get a china mug if you buy enough petrol, is probably an extrinsic benefit and the grocer's extra carrot an intrinsic one. Intrinsic benefits are those which are perceived, consciously or unconsciously, as a further extension or aspect of the base product or service. Free champagne on first class travel becomes an intrinsic part of the product. Extra air miles with a business class ticket *could* also be an intrinsic of the product. These are not so much "rewards *with* the product" as "benefits *of* the product".

The provision of extrinsic reward systems means providing an inducement to buy which is not inherently part of the product/brand. The research indicates that rewards can and do change behaviour, but only as long as they are sustained. In 1972, two believers set out to prove that rewards such as privileges or treats could generate permanent change. Their conclusion showed that *removal of the rewards leads to a decline in desirable responses and a return to base line levels of performance (Cazdin 1982)*.

In various studies there has been confirmation each time that rewards can induce behavioural changes but these have no lasting duration. Lewin, who was the founder of modern social psychology, considered that rewards and punishments are used to elicit "a type of behaviour which the natural field forces of the moment will not produce". (Quoted Kohn 1993). In other words rewards can generate sales which the natural product would not generate, *but only for as long as the rewards are provided*. This means loyalty to the programme, not to the brand and is an unstable mechanism.

These findings are complemented by Ehrenberg et al (1994) who found that the net effect of long term price promotion was zero, or worse.

The problem with rewards systems is that they do not reach deep enough into the human being. They affect temporary behaviour, not attitude.

The first problem with rewards systems is that they prevent you asking the fundamental question: why? If customers are not buying from you, why is it? Only by identifying the root causes of the problem will you have the opportunity to have the fundamental changes which will get at attitudes and ideas. The reward mechanism can operate like the painkiller that disguises the athlete's growing injury until its too late.

Furthermore, it seems the act of rewarding may actually induce opposition. For example, in a study of children rewarded for drinking Kefir, a fruit flavoured yoghurt, the children were divided into three groups:

1. Those who were simply given the drink.
2. Those who were praised for drinking it.
3. Those who were given a free movie ticket if they finished the glass.

Which produced the best results? Perhaps, not surprisingly, those who were rewarded with the free movie ticket were most likely to drink and finish the yoghurt. The movie tickets are a good reward for drinking a glass of yoghurt. *But, a week later, they were the least likely to drink it.* (Birch et al 1994)

Alfie Kohn (1993) tells an old American joke. An old man was getting insulted by a group of 10 year olds each day. They would tell him how stupid and ugly and old he was. Rather than shouting at them he called them together and told them that any of them who shouted at him the next day would get a dollar. Excited and amazed they all came round, hurled abuse, and collected their dollar. "Do the same tomorrow", he said, "and I'll give you a quarter for your trouble". The children thought this was still pretty good, and turned out again to insult him and earn the reward. Then he apologised and told them that on the following day he could only afford to give them a penny. "Forget it," they said – and that was the end of his problem. NatWest offered one point per £10 spent, then one per £20, and next?

There are plenty of organizations that have started out to win the loyalty of customers by giving them a good incentive, with the hope that they could scale back at some time. The problem is, you can't. Furthermore, by the time you give up on your reward mechanism, people may have been turned off the core product you are offering. If not, the loss of reward is a source of dissatisfaction capable of shifting the buying habit.

Furthermore, Anything which you do which is manifestly designed to induce certain behaviour in someone ie. perceived as manipulative, is likely to be treated negatively. Like parents saying, "Eat your greens!"

Incentives appear to have a detrimental effect on personal performance if offered when the task itself is interesting enough for incentives to be superfluous, or when the solution is sufficiently open ended that the steps to it are not immediately obvious, and are therefore interesting (McGraw 1978). Rewards appear to improve performance only when extremely simple or mindless tasks are being performed, and then they only improve quantitative performance. In commercial terms: we can damage a great product by giving an unnecessary reward. We may induce purchase but not loyalty to a commodity.

In conclusion:

- rewarded retention is a junky habit: it costs ever more to sustain
- rewards are easy to copy
- rewards divert attention from the real product: both by the company and customers
- they can be perceived as manipulative.

A points system is the reward to the customer for making him/her visible, ie. for information. This information then needs to be used in an effective way (ie. relevant, valued service and recognition) to generate loyalty.

Rewards can best contribute to loyalty when:

- The base product offer is already good and differentiated and
- the reward is intrinsic, i.e. perceived as an extension of the product
- or, the reward is genuinely valued and perceived as taking some effort or cost, by the company, to deliver
- and there is a strong personalisation factor

Here are six practical, research-based suggestions on using rewards (Kohn 1993):

1. Reduce the prominence of the extrinsic motivator proportional to the intrinsic motivations.
2. Create personalised surprises, after the event.
3. Eliminate rewards as contest. At least they should be available to everyone who meets a certain standard.
4. Make rewards as intrinsic to the base product as possible.
5. Give people as much choice as possible about how rewards are used. (Where do you want to fly? What do you want to choose?). This reduces the controlling effect of the reward. However, it is important to make sure that in the process you do not raise the profile of the rewards so high that the product itself disappears.
6. Keep reminding people that the reasons they like the product are to do with the product.

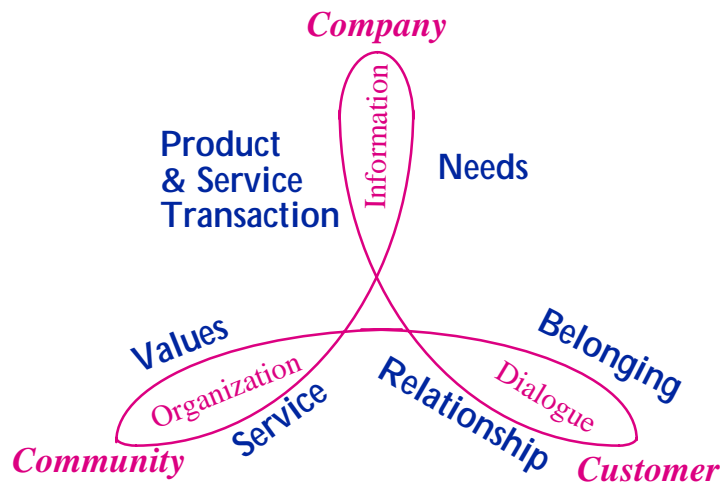
2. Loyalty *to* customers creates loyalty *from* customers

How does a company show loyalty *to* customers? By good business:

- Quality and reliability in meeting needs.
- Service and function in meeting personal needs.
- Win-Win philosophy, not trying to win over customers, ie. honest, fair-value dealings
- Innovation, progressiveness
- Staying in business and competent in service

The consequence of a genuine and authentic commitment to individual customers and a customer set generates trust and this is a fundamental basis of loyalty. Parasuraman et al (1988) found that reliability was the single most important factor in customer response.

Each successful company has one or more communities which are the franchises it serves (Jenkinson, 1995). A community means 'a group of people having things in common'. Figure 1 illustrates what it means practically.



Source: *Valuing Your Customers* Jenkinson

Figure 1: The new dynamic and community knowledge

The individual customer ‘belongs’ to a group (community) by virtue of share values. They want services which the organization must provide. These are ‘needs’ the company must research and ‘know’ and which are translated into individual transactions in an individualized customer relationship dialogue. (See also Law 5 for a product and organization development model).

Effectively, the company must find a synergy and compatibility between its aims and values, those of a ‘community’ and those of the individual members. The community funds R&D and organization competences. The individual corporate or personal customer translates that into sales. The synergy of values leads to what Faith Popcorn called “wrapping the product with the soul of the company” (Montreux 1994). We may say it takes place when branding is more than skin deep. Reliability generates trust.

The Generations of Loyalty

**Then Management took Values as his wife and knew her.
 Management and Values begat Culture and Culture begat Listening and Listening begat Practices and Practices begat Service and Service begat Trust and Trust begat Loyalty.**

3. Relationship efforts must respect the preferred boundaries of individual customers

Studies of direct marketing practice show that customers are extremely concerned about how they are treated (eg. Henley Centre 1991). In an attempt to form a relationship, it is very important to respect these boundaries. To rework the famous courtship metaphor of Ted Levitt (1983) we may

say that today's customers, while being open to courtship, are increasingly worried about date rape!

We must remember that the 'loyalty' we are considering does not come close to the profound fidelity of a mother to her children, a spouse in 50 faithful years of marriage, or even a close friendship. After all, these are only commercial relationships we are considering. (However, in some societies, family and other factors become important in commercial transactions.. This is very strong in parts of Asia, for example).

When a loyalty relationship is generated, it means the customer would genuinely regret losing "my brand/shop/service". But they may still be on quite a formal relationship basis. (On the other hand customers have rallied to support national and community cultural institutions like football teams, and even some commercial institutions).

A database system must be employed to recognise the quality of the relationship precisely on an individual basis. One business to business client has a system which allows choice of name addressing according to who is sending the letter (eg. personal salesperson or sales director or managing director, all of whom have different personal relationships with an individual contact).

The corollary of this is that the relationship is personal, one individual to another. This creates a necessity for a high quality database and the means to recognise the relationship accurately – and move it along. If over-familiarity is a sin, so is the failure to recognise the loyal individual.

4. Loyalty is "active affection" based on trust

Loyalty should not be equated with behaviour, nor assumed to be derived from satisfaction. Repeat purchase behaviour is an output of loyalty. It can also be an output of a loyalty scheme which does not produce loyalty. But this may be more expensive, less reliable and less sustainable, as indicated above.

Until recently it has been widely assumed that "satisfaction" with a product or service generated loyalty. This has now been shown to be unreliable or untrue. Research has shown many instances of customers professing satisfaction and not repeat buying. This is because satisfaction is at two removes from the direct experience. It is an evaluated response, not a direct experience. Westbrook (1987) showed this as "consumption outcome → affect → satisfaction".

To understand this better, we should consider that humans have 3 inner responses to life: *thinking* (thoughts, cognition, intellect, sensing), *feeling* (affects, judgements), and *willing* (intentions, commitments, behaviour, action). Our actions first generate experiences as feelings. *Then* we think about them. It is different to ask, "How do you feel?" rather than "What satisfaction rating do you give?" A satisfaction rating is more remote, cool, less involving than a feeling or commitment. Deming (1982) considered that we needed to generate 'delight' not satisfaction. Jones and Sasser (1995) saw that 'complete satisfaction' is exponentially more effective than 'mere satisfaction' in generating loyalty. I would argue that 'complete satisfaction' is equivalent to happiness, affection or delight.

Figure 2, The Loyalty Process is a model which relates the thinking-feeling-willing activities to the experience - decision process.

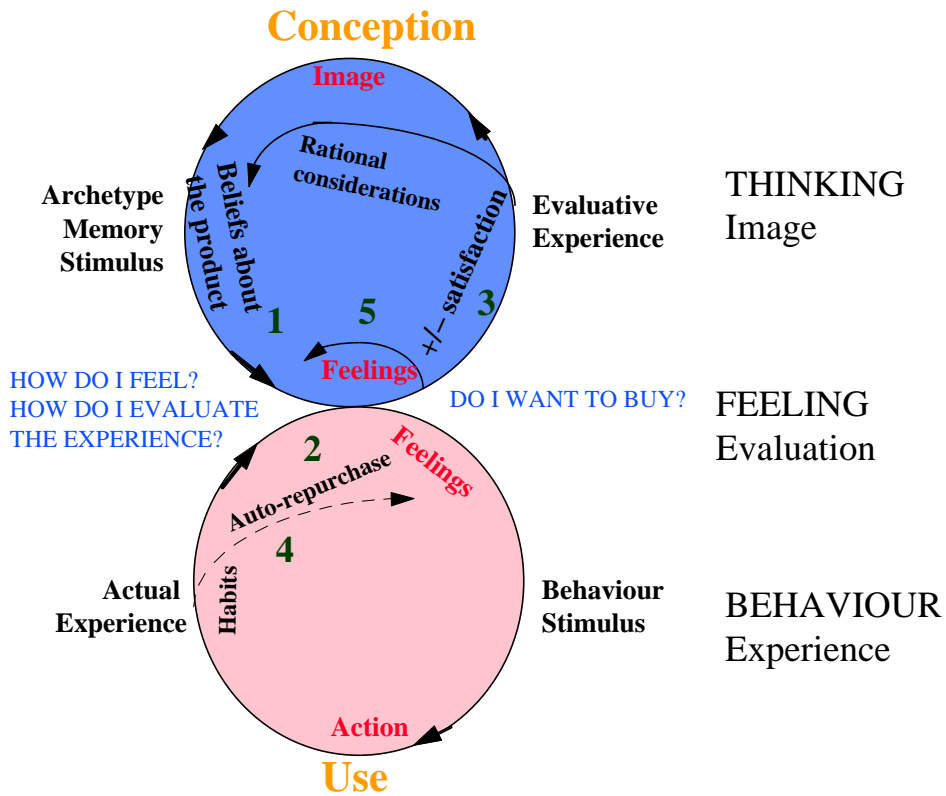


Figure 2: The Loyalty Process

It shows the cycle from brand image to experience in use via feelings. On the “outward half” (1), image, memory and rational considerations generate feelings *which are the actual drivers of purchase decisions*. On the “inward half” (2), experience in use once again generates feelings *before giving rise to a satisfaction rating* (3). Some decisions are habitual, ie. semi-conscious (4). Some never really become rational, but are always stirred by feelings and memory (5).

The Westbrook research identified a number of other significant factors including the capacity to have multiple feelings about a product any one of which might be operational. They do not net off in an arithmetic equation like satisfaction questionnaires. They co-exist. There are clearly implications here for research design, eg. the use of multiple option semantic methods.

We should also consider why customers defect. A sub-principle of loyalty *is that loyalty marketers must pay as much attention to why customers defect as why they don't. Defection may be considered negative acquisition.* It's causes are secrets which help us generate retention.

There needs to be much more research in this field. We must overcome common fears of opening Pandora's box. Some existing research is summarized in Jenkinson 1995, p108-9. It shows that lack of interest and attention by the supplier is 3-5 times more significant than poor products. Disaffection with the supplier's attitude, care, communication, recognition etc. are the significant factors.

What this points to is that the key measurable for loyalty may be described as 'affection'. Since we are interested in an involved, committed, intentional affection we may call this 'active affection'.

Those who argue for 'involvement', 'commitment', 'behaviour' and the like should consider that in the main, this is generated by 'active affection'. The exception are habits. However, as a theorem, I propose that habits are of two kinds:

- Strong habits which have strong feelings associated - try to disturb them and the pre-conscious feeling is awoken.
- Weak or passive habits, those which drive the 90-95% of 'passive loyalty' as quoted above.

How do we generate this active affection? Four ways are: recognition, acknowledgement, appreciation, service, lift. It is important to recognise good customers. A company that can't distinguish its good customers, cannot treat them specially. Recognition means making the relationship personal. Acknowledgement by positive treatment of loyal customers leads to a stronger affinity with the supplier. Customers enjoy a special treatment. They want to make themselves known. This applies to both the customer market and the business to business market. Appreciation is expressed in, personal thanks, gifts, benefits and surprises. Differentiation in appreciation of behaviour makes moving to the competitor less attractive for the customer, since she or he would have to prove her or himself again. 'Lift' means the things we do which are transformative, helping the customer 'lift' his or her life or work. Information which gives real knowledge, helping them learn and grow, giving them aspirational growth are all examples and are particularly relevant in business to business. Service means putting the customers' interests first and actively attending to them.

Actions that affect relationships	
<i>Positive Actions</i>	<i>Negative Actions</i>
Initiate positive phone calls	Make only call backs
Make recommendations	Make justifications
Use candid language	Use accommodative language
Show appreciation	Use correspondence
Make service suggestions	Wait for misunderstandings
Use "we" problem solving language	Wait for service requests
Get to problems	Use "owe us" legal language
Use jargon or shorthand	Respond only to problems
Air personality problems	Use long winded communications
Talk of "our future together"	Hide personality problems
Routinize responses	Talk about making good on the past
Accept responsibility	Fire drill/emergency responsiveness
Plan the future	Shift blame
	Rehash the past

The next axiom develops how in more detail.

The most powerful immediate affect to trigger loyalty is probably trust. Trust has a strong intentional and cognitional elements. It integrates consciousness and "good will" behind a powerful feeling. "Here I can do business safely". A recent study has shown its significance for whole economies with lack of trust as an effective tax or drain on business (Fukuyama, 1995). This depends on an experience of co-operation and win-win philosophy (or mutual care).

5. Loyalty is personal and individual. It arises out of the holistic experience of a succession of "moments of truth".

A wide variety of authorities and experience has shown the significance of individual marketing for loyalty. This does not need to be re-established. However, the point is that the experience of loyalty is a personal matter, although it can and is affected by peer group (community) and exemplars. In a business setting, the customer remains a human being!

Loyalty and its drivers are generated out of one or more actual experiences, which are generally termed 'moments of truth' after Normans and Carlzon. A moment of truth (MOT) is *any* opportunity to evaluate the supplier (ie. activities and non-activities of the supplier).

In planning to generate loyalty it is therefore necessary to model the complete potential and current relationship cycle and to engineer the optimum set of experiences and contacts. This is described by Jenkinson, 1994 and 1995 p148-152, and more recently by Vandermerwe, 1996. The aim should be to move towards a process driven view of marketing which uses communication science, creativity, information technology, lean processes, training and empowerment to deliver appropriate 'messages' at the right time. 'Messages' means what Vandermerwe calls "an holistic experience" of the supplier's personal care, quality, service and attention, ie. overcoming the root causes of defection identified above. A message is much more than an piece of mail. For example tone of voice, deeds, recognition are all messages. It must also include all the corporate resources (mail, phone, sales, service, intermediaries, management etc) on an optimized basis, ie. not only delivering the right 'message' at the right time to the right person, but using the right medium or person.

I have previously proposed (1994, 1995) that the individual customer will retain from this holistic experience an “archetypal moment (of truth)”. (This is also shown in Figure 2). This is the memory based image (gestalt) which most typifies the company for him or her. It may be composed of a blur of repetitive experience, or commonly of a single moment. There may be several archetypes, but one is typically dominant. This theory needs further research by asking customers what image, moment or memory best describes the supplier. This will either be an anchor point or drive a wedge between customer and supplier.

Another feature of the holistic experience concept is the need to model the “product”. At one level the product is the sum of experience. But we also need a way to unpack that effectively for the database and for product and added value modelling.

Various service product models have been developed (Berry, Vandermerwe, Levitt etc). Figure 3 shows a model which includes these but adds a further dimension because it links directly to the organization (company). In a holistic world the company and the service became one. (See Jenkinson, 1994 and 1995, pp155-161).

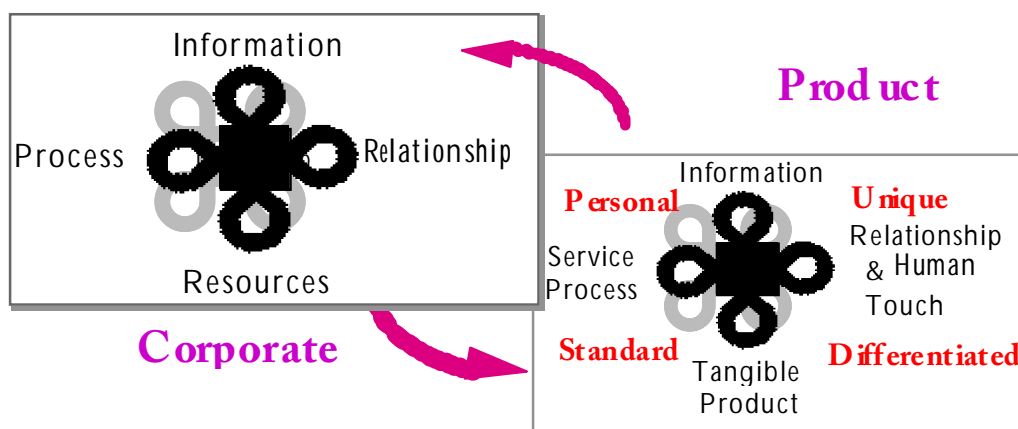


Figure 3: Clover Leaf Product & Model

The ‘product’ is an amalgam of information, tangibles, processes and relationship elements based around the brand and its positioning. These are ‘woven’ into an experience by each individual customers during the succession of moments of truth. We may also think of these having basic/standard elements, differentiated added value, personal and uniquely individualised content.

Research is needed to decompose the ‘product’ and then identify the relative weighting and quality of each in customer attitudes. Important, excellent aspects generate affection. Unimportant, excellent features may produce satisfaction but little loyalty. Important, unsatisfactory elements generate disaffection. This can be mapped on a two dimensional scale by either qualitative or quantitative technique.

6. Loyalty is generated through the deployment of financial, social and structural bonding programmes.

Space prevents a detailed description of this axiom which is based on the research of Berry and Parasuraman (1991). Financial, social and structural bonds correspond to thinking/rational, feeling/emotional and willing/commitment levels.

Berry and Parasuraman describe three levels of relationship marketing:

- financial
- financial and social
- financial, social and structural

Financial bonding is based on price, rewards, discounts. Social bonding is based on branding, relationships, service experience, recognition, appreciation, acknowledgement. Without a social bond it is difficult to achieve real structural bonding. Structural bonding is best achieved when a joint and mutual commitment to infrastructure in the relationship takes place (cards, accounts, systems links or integration, JIT supply).

I believe this model should be made slightly more flexible. Companies may begin with a financial, social *or* structural bond. A keen price or reward can make a commodity attractive (financial). Good branding or other personal relationships can independently add value to a commodity. A structural relationship such as a vending machine, standing order or installed infrastructure (eg. utilities) can perpetuate sales for which there is no other motivation to remain with that supplier. Some financial institutions depend quite heavily on this factor.

However, the best result will be achieved by the amalgam of financial, social-branding and structural reasons to buy. Nationwide Value Added Distribution takes orders from terminals inserted in its client distributors and their customers and delivers small to large orders in the client's name direct the next morning. This is value added partnership. Massey Ferguson's Global Positioning System transmits messages from its customer's tractor direct to the farmer's computer via satellite to give comparative yield maps. The value is in the enhanced yield.

7. Not all customers are equal (Not all companies can recognise this).

This is close to a cliché. Hallberg (1995) describes how in most categories two-thirds of business is transacted by one-third of customers, a conservative assessment of the Pareto principle. This means that business activity must focus cost of activity where there will be a return.

It is worth making the obvious point that brand reputation depends on equal respect for all people as people, but not equal concentration of resources on people as customers.

Unfortunately, most companies still can't do much with the differential marketplace because they lack an effective database. Molenaar, a leading Dutch thinker, in a book as yet unpublished in English (Dutch editions 1995, 1996, English typescript), describes research which shows four categories of company culture and orientation.

- Product driven companies are focused on products. Customers are often a mystery. Loyalty marketing is not effectively possible.
- Market driven companies seek focus differentiation but have not moved from segments to customers.

- 'Customer oriented' and 'Customer participation and interaction' companies have reached a point where loyalty marketing may begin or has become mature (full economic, social and structural implementation).

So, not all companies can do loyalty marketing. If they are profitable and effective, then, for the moment they may not need to change. The rest must deploy resources more effectively and more efficiently. For example, one effect of Hallberg's research is that many fmcg companies may be diverting 60-80% of their sales promotion activity at their best 20%-30% of customers, thereby devaluing the brand, loyalty and profit.

8. The attitudes of all stakeholders are mutually re-inforcing.

Employee and customer attitudes and loyalty are mutually correlated (Schneider 1980, Clark/Payne 1993, Normann, 1986). This means that when employees stay longer and feel good, so do customers and when customers stay longer and feel good, so do employees. There is a golden circle, or a vicious circle, for the reverse hold true too.

Clearly when shareholders feel good that also talks up the company and its reputation. The British Gas and Sainsbury debacles of 1995/96 indicate how customer and shareholder attitudes affect a company's standing.

Suppliers too can be influential (Carlisle/Parker 1989). Poor supplier relationships have cost Shell, Ford, GM, The Channel Tunnel and others in poor customer service and lost affection. Suppliers, however, like to work for companies with good customer relationships. Other stakeholder groups include key influencers (McKenna 1991) and management itself.

This suggests that managing all the stakeholders as a system is important. They all influence each other. In addition to customers, the two key groups are obviously suppliers and employees. (The classic W. Edwards Deming process chart of the organization (1982) would interest those with a quality and process bent. It shows the system interaction and dependencies of these groups very elegantly.

This means that in our loyalty work we ask questions (focus and in-depth research) of both suppliers and employees (and also intermediaries as customers) not just end-customers.

9. Loyalty is a journey, not an arrival.

You can achieve loyalty like you can achieve loyal marriages, by never ending work. But with time the work may get easier and more comfortable. Loyal customers ask fewer hard questions and become more tolerant (Reichheld, 1993). However, change is everywhere and complacency is the enemy of security.

10. Loyalty is a moral issue. It needs to put marriage metaphors in an ascendancy over military ones.

The presumption of modern business is that it is an almost amoral activity. Principally driven by legal and profitable constraints. The principal duty is to satisfy shareholders. There is an escapable logic in this shareholder obsession. If the purpose of business is to exploit opportunities with customers in order to produce value for shareholders, then customers will presume a corresponding duty to exploit the situation for their own value. Hence, in business to business circles, the win-lose negotiating paradigm which dominated through the last decades, with the consumer on the street looking for the best deal. Often, they were taught it at work. Even the win-lose trade union negotiation told employees how to behave as customers.

An amoral business world is a values-free business world and this denies itself motivating power. A values-free business community invites customers whose priority is their own gratification and nothing else. So, we set up a competitive business community and customer base each seeking its own gratification, and the chasm between has to be crossed by the marketing message. Loyalty marketing seeks to establish an association through dialogue and through a set of values which are mutual, valued, personal, community creating. But, such values are essentially moral. They are, for example, based on a principle of fair sharing, gain-gain. What wins real loyalty of customers is their free choice to do business with you. Law 2 says this arises when they appreciate and share the organization's values, when the organization or brand becomes an interesting personality and one worthwhile supporting and when they will trust themselves into a commitment. The organization's dedication to quality and service on behalf of the customer then leads to a reciprocal appreciation. Consider terms like brand promise, 'honest or fair value', goods, trustworthy, trust, goodwill, loyalty, reliable, guarantee, partnership. They all denote moral values. The attitudes of customers and their effects on business for Shell during and after their two moral crises of 1995 (oil platform/Nigeria) are a case in point. As a reverse example, the strength of both Body Shop and Marks & Spencer are related to the strength of customer's trust.

The extraordinary thing is that this, by any reasonable definition of the word, makes business a moral issue. Good business, as the word suggests, is moral business. (The term “good goods” which powered Hermann Miller’s phenomenal product and profit quality is an example. Interestingly, its also a traditional term, current at the beginning of the century, at a time ‘my word is my bond’ was still used.) Just as the moral power of Ghandi or Mandela overthrew physical power, so moral power in marketing has the motivating force to overcome the conservative forces of inertia and parity of the marketplace.

So the ideas, the imaginations and techniques of business will need to be more coloured by a moral, value laden outlook if they are going to successfully win and keep customers in a loyal relationship. This, of course, does not mean a moralistic attitude. That would simply be talking down to customers. Companies which carve a great reputation for themselves, for their quality and dependability, are always associated implicitly at least with moral worth: with integrity, honest value and a guarantee of worth.

In fact one piece of research whose source I’ve mislaid suggested that 85% of customer dissatisfaction derived from disappointment after marketing hype. We can posit the concept of ‘brand morality’, ie. the test of whether the projected brand messages are delivered. Does what is done match image? If so, image and action are mutually reinforcing for loyalty.

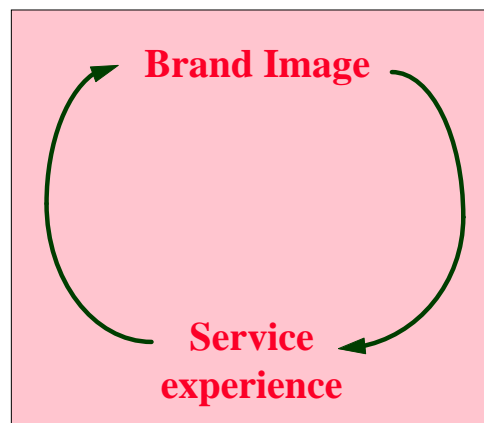


Figure 4: Brand Morality is the test of how for the promise or guarantee is actually delivered in the moments of truth

Just as we might need to resurrect the concept of morality in business after a few decades off (the same decades when western customers' loyalty slumped!), so we might need to re-consider the dominant metaphor. We can only concentrate on one thing at a time. So should we focus on the war with the competitor or the marriage with the customer? It may seem like the same thing, but it isn't. Let 'the spouse' tell us what we need to know.

Marketing as 'competitiveness' is actually about providing choice, without which there can be no loyalty. The basis of this is 'competence'. But focus on the rival can divert focus from the relationship. (Recently I played a game of croquet with my two sons and daughter at an Oxford College. While the 3 males were hitting each other all over the turf, my daughter got on with quietly winning the game). Rivals are to be learnt from, emulated in their best points (benchmarking). Happy marriages aren't threatened

