

Free Stuff and Loyal Dogs

Published in the National Post, Weekend Post, November 11th, 2006

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Businesses today talk a lot about customer loyalty. Everyone wants loyal customers. Companies appear eager to pay people for being loyal, with points or discounts or some kind of free stuff. Yet, it is not clear what loyalty means to most of these firms.

Dogs are often considered loyal. Our dogs tend to prefer us over others. They are generally attentive and interested in what we have to say, although occasionally distracted by a cat or squirrel. Many dogs will put their own interests second to their owners and, if necessary, sacrifice themselves to protect the people they care about. Is that what we want from our customers? Sure, but realistically that kind of customer is exceedingly rare. Most of the time we are happy if they don't eat the furniture.

So what do we mean when we say customer loyalty? Usually, we mean people that will buy from us again and buy more from us than they do from others. Loyalty programs have been designed to help develop these types of customers. In most cases, such programs make a promise to the customer: buy from us today and in the future we will give you something in return (if, between now and then, you buy enough other stuff). Bookstores do it, gas stations do it, coffee shops do it; in fact, many consumers could use another wallet for all the plastic cards they carry around to get free stuff.

The frequent flyer points that airlines offer are a classic example. Recently, Aeroplan has been in the news as a result of changes to its program. People are upset because when they decided to buy a ticket from Air Canada or use their Aeroplan credit card, they did so expecting the company to keep the "free flights" promise it made. Now the promise is a little different and customers are unhappy.

In many cases, loyalty programs are being revised because companies have come to realize that, although they have generated repeat business, they have not been very effective in creating real loyalty. Or worse, the buying they have generated is not profitable. Take away the points and the "loyalty" vanishes. The customers are buying because they care about the rewards, not the company. A dog that bites you when you change his food or forget to feed him, isn't really that loyal, he is a liability. Similarly, when you owe your customers millions of dollars in rewards, you don't have loyalty, you have a liability.

Turning your regular customers into liabilities is probably not what firms' are looking for from their loyalty programs. Of course, it doesn't have to be this way. If companies are careful to ensure that the rewards they are promising to customers are offset by an increase in the lifetime value of the customer to the firm, then the liability might be acceptable. Loyalty programs can also be a good way to offer a lower price to your most frequent customers. This can be done with points redeemed for merchandise or it can be a

straightforward discount for those who pay for the privilege. Indigo Books, for example, allows customers to buy into their iRewards program, which reduces the cost of future purchases. However, it is important not to confuse this type of economic trade-off with true loyalty.

Truly loyal customers will give you the benefit of the doubt, and, all else being equal, they will choose you over others. That doesn't mean they will fetch a stick or fight a bear for you, but they might forgive you charging a little more now and then. They will tend to come back to you when they need what you are selling. They might even tell their friends about you (and say good things). Of course, this type of loyalty is more difficult to acquire. You will have to treat your customers well. You will have to offer a quality product at a fair price. You will probably have to satisfy more than a simple consumption need, possibly even bring a little joy or happiness to their lives. In some cases, this will include giving them some free stuff. As long as free stuff isn't the only reason you are giving them to return.

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