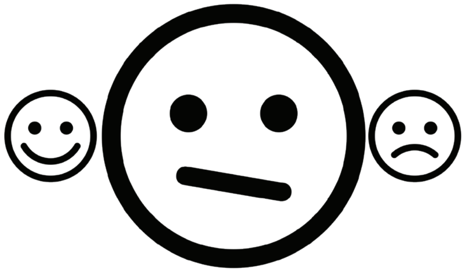
Chapter 7



PASSIVE LOYALTY

What's the Non-Obvious Trend?

As switching from brand to brand becomes easier and technology empowers consumers – a new understanding of loyalty challenges brands to get smarter about earning true loyalty.

What if all loyal customers aren't as loyal as they seem?

The way most companies think about customer loyalty is singular: you are either a loyal customer or you are not. In recent years, this bias has become apparent through both the rapid growth of investment in loyalty programs and their often disappointing results.

The latest edition of a biennial report from leading loyalty marketing research provider Colloquy found that even though memberships in customer loyalty programs increased by 26% in the US to over 3.3 billion, the typical American household has memberships in 29 loyalty programs but is only active in 12.

When industry consulting firm Maritz Motivation Solutions published its own LoyaltyNext® Customer Study in early 2016, the study found that “43% of consumers join loyalty programs because of the desire to earn rewards. Only 17% of those in loyalty programs say they joined out of love for the brand’s products and just 5% because of a shared identity with brand values.”

Where most of these programs miss the mark is that they fail to account for the fact that there are two forms of loyalty – the loyalty of convenience (passive) and loyalty of belief (active).

It turns out distinguishing between them can make the difference between greater retention and lifetime customer value.

How To Distinguish Passive From Active Loyalty

The market for selling automotive insurance is a perfect example of this. On the surface, brands in this space seem to have a loyal base of consumers who renew every year, yet as a recent industry report from consulting firm McKinsey shared, there was “a significant number of customers who are loyal in name only...they remain with their carrier more out of inertia than satisfaction.” When seen in this light, the ever present advertising from brands like GEICO and Progressive encouraging and trying to make it easy for consumers to switch makes far more sense.

As the Mckinsey piece noted, “they are giving consumers reasons to leave, not excuses to stay,” which also happens to describe the problem of loyalty. While companies are investing more and more effort in trying to entice customers to be loyal – most of the so-called loyalty they are generating is loyalty of convenience.

Another example of the same effect is the commonplace switching behavior among mobile phone consumers, both for their plans and the devices themselves. To accommodate this, Apple has a “Switch to iOS” app in the Google Play store, and Google has created its own “quick switch adapter” to move iPhone content to an Android phone with three simple buttons. Both sides anticipate more than a million “switchers” to leave one platform for the other in the coming year.

Nearly every industry from cable companies to credit cards and mortgage loans have created easy processes to reduce the costs of switching from one to another. The friction and cost of switching used to be far higher. Today, it happens at the push of a button – with a fully automated process behind it to make it seamless to defect and harder to earn active loyalty.

Passive Loyalty	Active Loyalty
✓ Effortless to sign up or switch ✓ Motivated by signup savings and benefit ✓ Focused on Rewards ✓ Convenience drives loyalty ✓ No major affinity, referrals or proactive engagement with company	✓ Alignment with Brand Values ✓ Product/Service affinity ✓ Promote brand as ambassador ✓ Drives referrals (Net Promoter) ✓ Values Rewards ✓ May go out of way for loyalty ✓ Not prone to switch (even for upfront incentive)

Customers chase better deals, look to save money and reward businesses who give them those things in the short term – but will eventually move on, leave and give their short term loyalty to another brand, until they repeat the same cycle.

One early research study on the nature of passive vs. active loyalty dubbed this phenomenon as a consumers "state of inertia" and concluded that "a passively loyal consumer might buy the same brand for 5 or 6 time periods out of inertia ('lock-in'), but after that she is likely to include other brands in her consideration set."

So how can any group or leader create more *actively* loyal consumers, followers or employees?

Just three years ago, it seemed like subscriptions might be the answer.

The Rise And Fall Of The Subscription Economy

Many industry analysts who closely track the evolution of ecommerce and business were projecting that the "subscription economy" was going to change the world. You could "subscribe" to razor blades (Dollar Shave Club) or weekly meal plans (Blue Apron) or even software like Adobe

Photoshop and Microsoft Office. Everywhere you turned the idea of access trumping ownership was inspiring businesses to try and create a subscription out of everything.

Why sell a product once when you could sell a subscription to generate revenue every month?

The dramatic growth of this industry led me to include *Subscription Commerce* as one of my Economics & Entrepreneurship trends in 2014. A key example I used at the time was the early rise of subscription boxes – curated packed boxes with multiple products arranged around a theme.

Led by pioneering beauty box brand Birchbox in 2011, the subscription commerce industry as a whole was growing at 200% a year and generating over $5 billion in revenue.

Then it seemed to hit a wall. The low barriers to entry and high cost of acquiring subscribers in the first place started to affect the market. Competition intensified and growth began to stall.

In 2016, Birchbox conducted two rounds of layoffs and shifted their strategy to include more retail product sales online and a bricks-and-mortar store. Meanwhile, men's fashion subscription commerce retailer Trunk Club closed its distribution center in Chicago and integrated more operations with parent company Nordstrom.

Tech publication recode.com dubbed it the "end of gimmick commerce" and it seemed we had moved past the subscription commerce fad. Yet the underlying consumer behavior behind its rise remained unchanged. Consumers still want convenience above all else. While the popularity of subscriptions boxes started to wane, the power of the business model behind them has not. For proof, consider the latest innovation from the Internet's biggest retailer and its plan for how it will leverage them.

Automated Consumerism

When the Amazon Dash button was introduced in 2015, it was initially promoted as a consumer friendly way to reorder common household products. The Bluetooth-enabled ordering button would stick to any surface and offer an easy way to reorder products like paper towels or laundry detergent at the touch of a button. It sold at first.

Across the second half of 2015, Amazon sold over 400,000 Dash buttons, of which more than 25 percent were for three P&G brands – Tide, Bounty and Gillette. Despite the initial interest, though, market research firm Slice Intelligence estimated that less than half of people who purchased the button actually used it to complete an order, and those who did use it only made a purchase roughly once every two months.

So when Amazon nearly tripled the number of brand products available with Dash buttons and expanded the program in late 2016, some analysts were confused. Why expand a program that was seeing such limited results?

Amazon spokeswoman Kinley Pearsall acknowledged in an interview with the *Wall Street Journal* shortly after the announcement that the idea of people having houses full of buttons for each product was silly, but shared that the real vision was "that you never have to worry about hitting that button."

This is what automated consumerism could look like – a world where technology anticipates what you need, reorders it and has it delivered to your home without you even thinking about it (see Chapter 15 on the *Self Aware Data* trend). Baked into this idea is a sort of forced brand loyalty where consumers end up locked into a brand simply because it happens to be the one that was available or most visible at the time when they first placed an order.

Loyalty by extension would become something that a consumer is assigned rather than something they willfully choose. It would be passive instead of active.

Of course, considering loyalty as passive is much easier when you think about a commodity like laundry detergent or paper towels. What about when it comes to something more integral to our lives? What about if we consider our career and the workplace?

The Myth Of Employee Satisfaction

In April of 2016 the results of the MetLife Annual U.S. Employee Benefit Trends Study were released with the optimistic finding that for the first time in years, employee loyalty was on the rise. The "rise" celebrated by the study was from 41% to 45%. In other words, when asked whether they planned to stay at their jobs beyond the next 12 months, *only* 45% answered yes.

That sort of statistic, when framed the opposite way, is hardly worthy of celebration. When less than half of your employees want to be there a year from now, is that really the sort of news that should inspire confidence? Sadly, when the bar for employee loyalty is so low, the honest answer is often yes.

One study from Bain & Company, for example, found that the average company could lose anywhere from 20% to 50% of its employee base each year. Yet for every statistic indicating that employees are likely to leave and unhappy in their roles, there is another such as the recent finding from the Society of Human Resource Management (SHRM) that concluded 88% of U.S. employees report overall job satisfaction.

At first, this probably seems like a strange contradiction. If people are satisfied, why do they seem to be jumping from job to job so quickly? Satisfaction is not the same thing as loyalty.

All these "satisfied" employees are actually just exhibiting *Passive Loyalty*. They are loyal until something better shows up, and then they leave. They don't hate their jobs or their companies, but they don't love them either. And if the opportunity for career advancement, or higher pay, or better benefits comes along … they will jump ship and leave.

Why It Matters

For years marketers and business leaders have treated loyalty as a binary idea – you were either loyal, or you weren't. Today we are starting to understand that there is more nuance in the idea of loyalty, and passive loyalty is all around us – in our jobs, the things we buy and how we engage or don't engage with brands.

The real problem is that the customer loyalty *industry* – where brands are encouraged to fund and launch complex loyalty programs and dream up new opportunities to reward customers – is not necessarily adept at creating or encouraging *active* brand loyalty. Satisfied customers are not the same as loyal customers. Good performing satisfied employees are not necessarily loyal employees.

Rather than seeing this as a negative, though, the smart leaders and organizations are understanding that *passive* loyalty is just another stage of the journey towards *active* loyalty. Passively loyal customers are better than disloyal customers, or haters, or the indifferent who have no idea you exist. The business opportunity is to operationalize ways to transform these people – whether they are consumers or employees – into being actively loyal instead.

How To Use This Trend:

- ✓ **Segment into passively and actively loyal**. If you can't tell your truly loyal customers or employees from the ones who would leave the first time they get a better offer – this is the first place you need to focus. Of course, making this distinction isn't easy, and it doesn't always match up nicely with tenure or spend. There are behaviors, indicators and analytics to understand or even predict the migration down to passive or up to active loyalty. Instead, you need to build your own "ultimate questions" to help you measure this. One example might be asking, "if we could keep your business for the next two years, what would we need to do?" These sorts of questions can help you get a deeper sense of who's actually loyal and who is going to leave they next chance they get.
- ✓ **Earn loyalty not sales** – If you preorder a book on Amazon.com and the price drops, they will send you a refund – even if it happens to be 17 cents. This consistency of unsolicited follow up builds intense trust among customers. There are many people who would never preorder a book from anyone else. And each time Amazon proactively sends back a few cents when a price drops, they continue to earn this loyalty. That's the difference between doing something worthy of loyalty and simply focusing on selling a product once.
- ✓ **Activate into active loyalty** – Once you know who your active vs passively loyal customers are, the good news is there

are plenty of ways you could convert them. Getting actively loyal might come from finding ways to increase the switching cost so it doesn't seem so low or easy. Another is to encourage passively loyal customers to cash in on rewards or other things they have earned as a way to provide concrete evidence of what they are getting from you in a way that is more memorable. Finally, using more analytics and crafting the right strategy to get more insights from the data can also help you to convert customers into actively loyal customers.