



by Mike Capizzi
Founding Partner

Loyalty Myopia

To Avoid Marketing Tunnel Vision, Keep Your Eyes On the Big Picture

Every art form has its classics. Marketing is no different. Theodore Levitt's *Marketing Myopia*, originally published in the *Harvard Business Review* (1960), stands as one of those classic landmarks of original thinking and superb craftsmanship that helped define the art and science of marketing.

For those of you who may have missed the many re-publications of Levitt's original piece, *Marketing Myopia* presented evidence for the failures of management to properly recognize the true market they served. Levitt argued that growth industries subside not because of the pressures of new technologies or new competitors, both of which usually emerge. Rather, growth slows because marketers within those industries fail to recognize and fill the evolving needs of their existing customer base.

Take the railroads, for example. The railroads, Levitt argued, "assumed themselves to be in the railroad business rather than in the transportation business." The industry stopped growing during the first half of the 20th century "not because the need was filled by others, but because it was not filled by the railroads themselves."

The railroads thus fell victim to a phenomenon Levitt called "premature senescence"— product-centric thinking and misclassification of business markets that leads to increased competition and loss of market share. In other words, the industry becomes senile. In such an environment, it's not the lack of opportunity that hinders growth. It's the absence of the very imagination, creativity and customer-needs focus which built the industry in the first place.

Loyalty marketers should take note.

After nearly 25 years of solid industry growth, inaugurated by the first appearance of the frequent flyer mile in 1981, our industry finds itself at the crossroads. Loyalty marketing programs are ubiquitous in the developed world. The techniques of reward and recognition have penetrated virtually every vertical consumer market and several business-to-business markets as well. Over the last quarter century, we've trained consumers well, and their value antennae are way up— scanning the landscape for new value propositions that truly differentiate a brand and meet their evolving needs. And they find little to engage them.

Much as the railroads thought they were in the railroad business, most loyalty program operators will tell you they're in the loyalty business. They'll tell you that they're shifting their focus to lowering the unit costs of program production. They'll proudly hail their "product" and discuss plans to engage even more of their customers in their program. These perceptions, Levitt argues, are precursors to failure.

Make no mistake: we loyalty marketers are not in the loyalty business. We're in the business of customer information. The return on investment resides in the use of transactional data to change behavior for the mutual gain of both our customers and us. The loyalty program is merely a tactical device to identify the behaviors of our current customers and segment them according to value and potential.

This information allows us to move to the next level of understanding. Which profitable customers should we retain? What insights can we develop that allow us to reallocate our marketing budgets to increase the yield from our customer portfolio? The loyalty program itself provides a robust system for engaging customers in dialogue to uncover data that no third party appended database will contain. In theory, we use that proprietary knowledge to further refine our strategies and tactics. But how many of us put that theory to the test?

To avoid loyalty marketing myopia, always remember that we're in the customer information business. New tools will enable us, but it's our own creativity and imagination that will foster new growth for our industry. Without it, some new tactic will come along to capture customer fancy and place our entire industry on the brink of obsolescence. If we fail to use the behavioral, transactional and emotional data points we have at our disposal, and then we will indeed suffer from Levitt's fatal diagnosis.

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Learn more at www.mktgstrategists.com

Marketing Strategists, LLC
545 Ridge Avenue
Greendale, IN 47025
USA

info@mktgstrategists.com

Mike Capizzi, Founding Partner
+1 812-537-3747
+1 812-290-1915 cell
mike@mktgstrategists.com

Terri Gaughan, Founding Partner
+1 513-833-5480
terri@mktgstrategists.com