

## Loyal or lucrative customers may not be the most profitable customers

By Joe McKendrick | Jul 27, 2009

A few years back, the head of a business intelligence tools vendor that served the banking sector made an interesting revelation to me about what some of his banking customers were learning. While they all had chased the high-income, high-deposit customers to increase profits, analysis of their revenue streams showed an entirely different picture: that their most profitable customers came from the lower-income, lower-deposit end of the scale. How is this so? Because these people had to pony up fees for overdrafts and not meeting minimum balances and so forth.

That's an example of one piece of conventional wisdom that needs to be re-examined before companies — in this case, banks — lay out their marketing dollars. In a new study summarized in MIT Sloan Business Review, Tim Keiningham, Lerzan Aksoy, Alexander Buoye and Luke Williams shatter another cherished piece of conventional wisdom — that loyal customers are the most profitable customers.

If you think about it, most corporate measures of customer loyalty focus only on feelings, the authors point out. "But our research shows that knowing how customers feel about a company is a poor predictor of how they will behave toward the company." The authors suggest that solid analytical data about actual buying behaviors be looked to to determine actual profitability.

The research also finds a majority of "loyal" customers—often more than 50%—are not profitable for most companies, "because their loyalty is driven largely by expectations of great deals." The research finds that profitable customers tend to make up only around 20% of a company's customers, while another 60% could be considered "break-even customers" at best.

The lesson here is that it's smart to do a good analysis at the data coming in from customer segments before investing in marketing or sales pushes. Those seemingly unengaged customers could be your bread and butter.

About Joe McKendrick

Joe McKendrick is an author and independent analyst who tracks the impact of information technology on management and markets. Joe is also SOA community manager for ebizQ, and speaks frequently on Enterprise 2.0 and SOA topics at industry events and Webcasts. He also serves as lead analyst and author of Evans Data Corp.'s highly regarded bi-annual SOA/Web Services and Web 2.0 surveys. Joe writes a regular column for Database Trends & Applications, and has authored numerous research reports in partnership with Unisphere Research for user groups such as SHARE, Oracle Applications Users Group, and International DB2 Users Group. In a previous life, Joe served as director of the Administrative Management Society (AMS), an international professional association dedicated to advancing knowledge within the IT and business management fields.

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