<u>WELLS FARGO: LESSONS FOR AFRICAN COMPANIES ON LOYALTY MARKETING AS A GROWTH STRATEGY</u>
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Wells Fargo is in the news, but for the wrong reasons. The company has been fined US$185 million and more than 5,000 employees have been fired for secretly creating more than 2 million customer accounts without the customers knowing it. Indications are that the woes of the bank are only just beginning. The scandal brewing is a result of the *“Gr-eight” Initiative*, a cross-sell initiative by the bank which takes advantage of customer loyalty to increase the average number of products held by customers from three to eight. Many of us marketers have caught this loyalty bug at some point in time. As branding and marketing become the order of the day in African businesses and markets, many are buying into the myth of loyalty marketing as a growth strategy. But that’s all it is: a myth with no backbone; growth cannot be achieved through increasing customer loyalty.

During most of my professional career, I have heard chief executive officers, chief marketing officers, and professors tell me that it is easier and less expensive to grow by encouraging existing customers to buy more than to acquire new customers. Basically, to focus on customer loyalty. Aviva, a multinational insurance company headquartered in London, in their 2015 half-year results vowed not to rest until the average number of products held by customers grew from 1.7 to above 3. Unfortunately, there has been no mention of this metric since then, and I can’t help but wonder if Aviva’s management realized the folly of that goal and have put it to rest.

Mobile Network Operators (MNOs) in pay as you go markets like what persists in Africa push towards loyalty and increasing share of loyalty results in content providers with some telecoms auto-subscribing consumers to products without their knowledge. MNOs design sales commissions that reward sales people to push as many products to customers as possible. Reports of companies stealing customer airtime are not uncommon. While trying to understand the scope of this problem in Ghana, I came across cases where illiterate market women were subscribed to BBC news updates or English Premier League updates on their phones, despite the fact that they can neither read or write, or even understand the English language. This highlights the dangers when marketers do not understand what drives growth. Wells Fargo’s current crisis provides an opportunity for business managers and marketers in Africa to learn what actually does happen when you focus on increasing loyalty metrics.

Apple and The Myth of Loyalty Marketing

Over 50 years of research tells us that growth pills like the *“Gr-eight” initiative* simply do not work. Their continued existence highlights an enduring lack of understanding of the science of marketing by many business and marketing professionals. As noted by Bryron Sharp, “Marketing managers operate a bit like medieval doctors. Working on impressions and myth based explanations”.

One such myth is the belief that brands can grow by improving loyalty metrics. In a poignantly titled article, “Marketing Is Dead, and Loyalty Killed It”, Alexander Jutkowitz argues that if you are a chief marketing officer, “Your job is obsolete, and unless you turn yourself into a chief loyalty officer, you’re sure to eventually be replaced by one”. His evidence is the favorite poster child of loyalty proponents: Apple. Citing a reported 87% loyalty, he claims Apple focuses on loyalty and “pretty much ignores marketing and advertising”. Fact: Apple spent US$1.8 billion on advertising alone in 2015. That doesn’t look like a company that has ignored advertising. But that is not their only investment in marketing by any means. According to 2015 company reports, Apple spent more than US$14billion on selling, general and administrative (SG&A) expenses. Unfortunately, they do not break this down to indicate what percentage of the US$14billion was for selling, but reports that among the things responsible for the continued increase in its SG&A is "higher spending on marketing and advertising".

As at September 2015, Apple reports the existence of 463 retail stores; more than any of its competitors. Beyond retail stores, other direct channels used by Apple to sell its products include online stores and direct sales force. Apple also uses an indirect sales channel comprising of third-party cellular network carriers, wholesalers, retailers and value-added resellers who account for 74% of the company's net sales. This is clearly a company that understands that growth comes from increased popularity and distribution, building mental and physical availability, not loyalty.

In their book, *How Brands Grow Part 2*, Byron Sharp and Jenni Romaniuk point out that loyalty measures for brands are usually alike for different brands in the category, and obey the Double Jeopardy Law; smaller share brands are smaller because they have fewer customers who are slightly less loyal. What this tells us is that while improving loyalty is possible, it comes from increasing penetration. Loyalty is not a growth strategy, but a consequence of growth; a fact that holds true for repertoire as well as subscription markets as captured by Kerry Mundt, Bryon Sharp & John Dawes in their article *An Investigation of Multi-Product Loyalty in Financial Services.*

"Growth comes from increased popularity and distribution, building mental and physical availability, not loyalty."

An appreciation of this fact would have led the executives at Wells Fargo to the realization that their average product per customer of three in 1999 was on the high end of what is typical with financial institutions as noted Mundt, Sharp, & Dawes , and any attempt to increase further will be akin to an engineer seeking to defy gravity on earth.

Breaking down the "Gr-eight" Initiative

Let's see how foolhardy the "*Gr-eight" initiative* is. In raising average number of products to eight or more, Wells Fargo was assuming either that most consumers already own eight or more products – likely held in different banks - or that consumers don't own that many products. In the case of the latter, Wells Fargo would convince them to increase the number of products they own, or a bit of both. In effect, they were trying to increase the number of products the customer consumes and drive almost 100% sole loyalty. The second part intuitively sounds impossible. If the average products held by their customers at the time they introduced the initiative was three, it will be almost impossible to increase this to eight if customers do not already consume eight products spread across different providers. It will mean creating a need for an additional five products for the customer. That is a herculean task by any standard.

If we assume that customers already consume more than eight financial products on average, then Wells Fargo's job would have been to ensure that customers get all these products from Wells Fargo. Research tells us that this is also impossible. A 2012 survey quoted in "How Brands Grow Part 2" illustrates the relationship between sole loyalty and number of products purchased in the financial services industry in South Africa. When a consumer has only one financial product, they are by definition 100% loyal. That product can only be with one financial institution. At two products, sole loyalty falls to between 38% and 43%. By five products, sole loyalty falls to between 24% and 28%.

The realization here, and with several other categories that have been observed, is that as consumers consume more products in a category, they become more polygamous; they go to different companies for those products.

Share loyalty is not a growth strategy. It is a path that brands may resort to in saturated markets where opportunities for increasing penetration are few or do not exist. As noted in "How Brands Grow Part 2", "The extreme idea that you could try to build a 100% loyal customer base is likely to lead to costly failure, even in subscription markets such as banking and finance". Wells Fargo is a proof of how costly this can be.

There are key lessons here for African businesses. Growth lies in building and maintaining strong physical and mental availability. Physical availability is how easy it is to find and buy the brand, and mental availability is the propensity to think of the brand in a buying situation. To build mental availability, brands need to create and continue to refresh links to as many brand buying cues as possible. For instance, Pinochio, a new ice cream brand in Ghana, will want to create links to cues like a hot day, a romantic night out etc. This can be done when the brand understands the cues that buyers use to think of options to buy in the category. To build physical availability, brands should ensure they are present where they should be, be easy to find and be available in the form that buyers can buy. Loyalty measures help brands identify market partitions and spot inefficiencies in their market. So, for instance in the Ghanaian market, just because of their market shares, I will expect Vodafone to have more customers in common with MTN than they do with Tigo or Airtel. Similarly, I will expect MTN to report slightly high loyalty metrics than the other MNOs. If for instance Airtel were to realise they have more customers in common in common with Tigo thank with MTN or Vodafone, it will be a sign of a problem rather than a question of positioning. Similarly, if MTN was to report lower loyalty metrics than say Tigo, it will be a cause for concern. However, the reverse is expected. A strategy by say Vodafone to become number one player in the Ghanaian market by increasing products per customers is bound to fail. A useful model to use in predicting the theoretical loyalty metrics is the NBD Dirichlet model. Loyalty measures that deviate from the theoretical levels indicate market partitions or inefficiencies in the brand's marketing.

Importantly, marketers need to be guided by the proven laws that bound consumer behaviour and brand performance. If marketing managers stop operating like medieval doctors and apply the same rigor that modern doctors apply to their practice to marketing, myths like loyalty induced growth can be put to rest and marketing initiatives made more productive. Managers in Africa have a long way to go in this respect.

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