FOR B2C MARKETING PROFESSIONALS

Improve Loyalty Measurement With Behavioral And Emotional Metrics

Performance Management: The Customer Loyalty Playbook

by Emily Collins
January 25, 2017

Why Read This Report

Earning customer loyalty is critical to business success and B2C marketers need to be able to measure and demonstrate that loyalty to the business. Marketers predominantly rely on retention metrics to measure the effectiveness of their loyalty strategies, but that approach ignores the emotional context of customer relationships. This report will help marketers select metrics that uncover both the customer behaviors and feelings that contribute to customer loyalty.

Key Takeaways

True Loyalty Measurement Must Include Customer Feelings And Behavior
Both customer emotion and behavior must be considered to build a true loyalty measurement equation. One without the other leaves marketers with an inaccurate view of an acquired or lost customer.

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by Emily Collins
with Mary Pilecki, Tina Moffett, Brandon Purcell, Arleen Chien, and Laura Glazer
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Marketers Default To Retention Metrics To Gauge Customer Loyalty

Loyalty marketers often tell us that measuring their customers' loyalty falls into their top three challenges (see Figure 1). We don't blame them. Loyalty involves behavioral and emotional components, encompassing motivation, intent, and action.[1] But the emotional side of loyalty is much harder to nail down, so marketers overwhelmingly rely on retention and other purchase-based metrics — like sales or revenue, and customer lifetime value (CLV) — to assess the impact of their loyalty strategies (see Figure 2). This transactional approach provides marketers with a proxy for loyalty, but doesn't provide context for why customers continue to choose — or stop choosing — to purchase their products or services, or what to do about it. For instance, customers may feel loyal to a brand but can't make a purchase because it's not available to them, or customers may continue to purchase but actually resent the brand because they feel trapped.

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FIGURE 1 Measurement Is A Challenge For Loyalty Marketers

"What are the greatest challenges facing your customer loyalty initiatives today?"
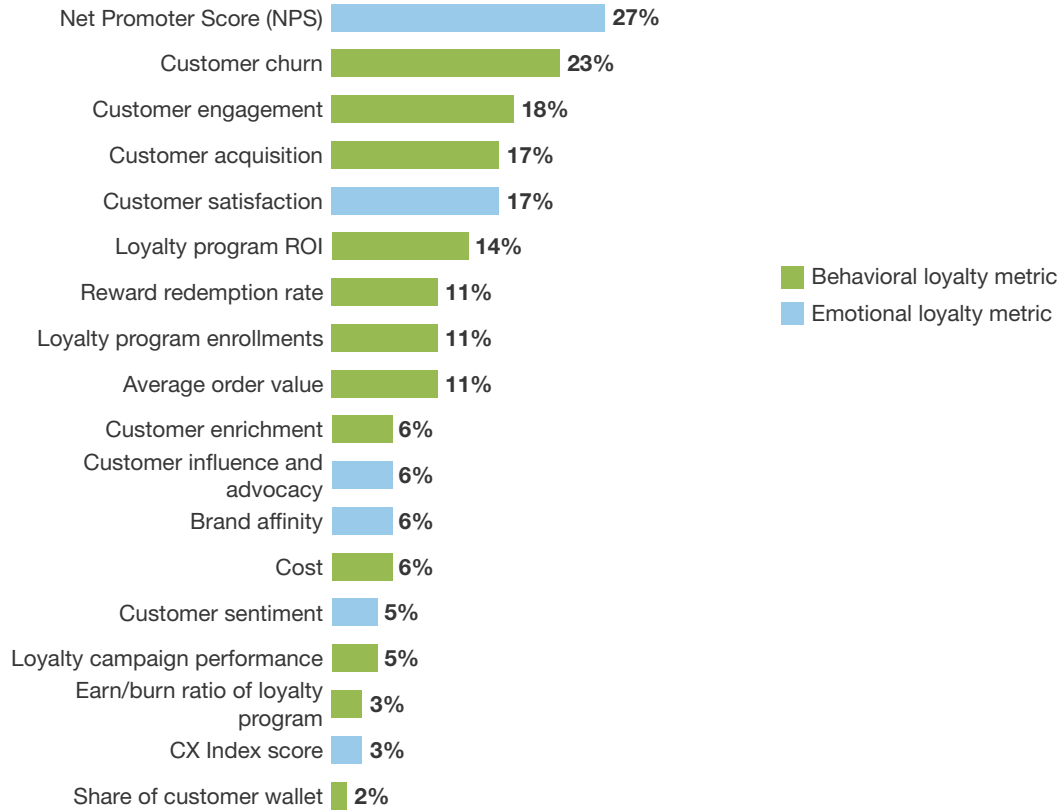(Multiple responses accepted)

Challenge	Percentage
Understanding customer interactions across all touchpoints	42%
Aligning our loyalty strategy with the overarching business strategy	32%
Measuring the loyalty of our customers	29%
Personalization	24%
Coordinating and collaborating with internal groups	23%
Measuring the ROI of our customer loyalty program	23%
Agreeing on a definition for customer loyalty	20%
Maintaining customer data quality	20%

Base: 94 marketers
(Not all responses shown)
Source: Forrester/DMA Q3 2016 Global State Of Loyalty Online Survey

FIGURE 2 Loyalty Marketers Focus On Behavioral Metrics

Metric	Value
Net Promoter Score (NPS)	27%
Customer churn	23%
Customer engagement	18%
Customer acquisition	17%
Customer satisfaction	17%
Loyalty program ROI	14%
Reward redemption rate	11%
Loyalty program enrollments	11%
Average order value	11%
Customer enrichment	6%
Customer influence and advocacy	6%
Brand affinity	6%
Cost	6%
Customer sentiment	5%
Loyalty campaign performance	5%
Earn/burn ratio of loyalty program	3%
CX Index score	3%
Share of customer wallet	2%

■ Behavioral loyalty metric
■ Emotional loyalty metric

Base: 66 marketers
(Not all responses shown)
Source: Forrester/DMA Q3 2016 Global State Of Loyalty Online Survey

True Loyalty Measurement Combines Customer Behaviors And Emotion

To understand which customers are actually loyal, marketers need a measurement equation that brings together emotional and behavioral metrics (see Figure 3). Each side of the equation is important in its own right, yet it's the convergence and interplay of the two that help companies identify which customers are actually loyal and build more effective strategies to nurture that loyalty. Looking at customer emotion in isolation leaves out the business impact and what the customer actually does, while looking at customer behavior in isolation leaves out the reason for that behavior. As you consider balancing your own loyalty measurement equation, which metrics should you use?

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January 25, 2017

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FIGURE 3 The Overlap Between Emotional And Behavioral Metrics Reveals True Loyalty
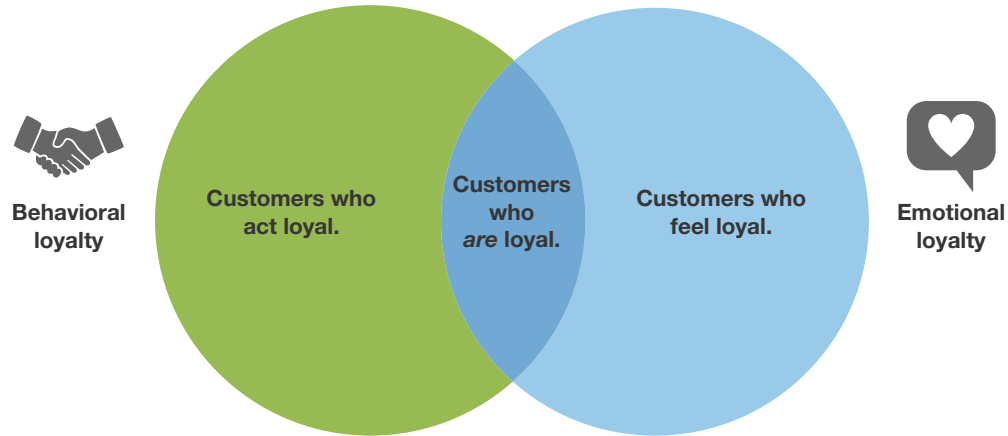
Behavioral Loyalty Metrics Identify Loyal Actions

Loyalty budgets live and die by marketers' ability to demonstrate tangible business results. Choose metrics that gauge conversion rates, customer value, and non-purchase interactions like web activity and advocacy. Specifically:

› **Repurchase rates indicate pure retention.** Most marketers are already measuring retention with regard to their loyalty efforts.[2] This foundational metric focuses on how often a customer makes another purchase. It not only shows that a customer is potentially loyal to the brand because they keep coming back, but it's also tied to conversion, which is an important marketing and business metric. But, retention alone does not provide context around the customers' motivation to repurchase. For example, a customer's purchase activity could be based solely on convenience of the store location or availability of the brand and product.

› **Customer lifetime value (CLV) reveals how much a customer is potentially worth.** CLV assigns a measure of potential future monetary worth to each customer.[3] Calculating CLV poses a challenge to many organizations because it requires data from across the entire firm, but companies with loyalty programs likely have most of the data inputs — for example, behavioral, transaction, financial data — already available. Thirty-nine percent of the marketers we surveyed say they measure CLV to assess the impact of their loyalty efforts.[4] The output of CLV is descriptive — it's the potential dollars and cents value of an individual customer — so to be useful for loyalty measurement, it must be put into the context of customer segments and behavior over time. The Grommet looks at click-through and open rates alongside customer lifetime value measurement to gauge the short- and long-term impact of its emails to loyal customers.[5]

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January 25, 2017

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› **Earn and burn ratio shows program health.** From an explicit loyalty perspective, measuring member activity in the program — earning currency across all possible interactions and redeeming those points — offers insights into a program's operational performance and its influence on customer behavior. Our research shows that consumers enroll in loyalty programs of brands they feel loyal to, so keeping them active in the program indicates that they are maintaining or demonstrating those feelings.[6]

› **Interaction metrics paint a picture of customers' non-purchase behavior.** From a business perspective, repurchase is a key focus of loyal customer behavior, but from a relationship perspective, it's also important to understand other types of behaviors that surround the transaction. These diagnostic metrics, like time onsite, response rates, average page visits, open rates, and mobile app session times, help marketers observe and understand customer activities across channels.[7] Cause and effect analysis can also help deliver even deeper insights. For example, JPMorgan Chase uses open rates both to determine if email delivery drives action and whether it results in a good experience.[8]

› **Share of wallet puts customer value into category context.** For many firms, share of wallet is the loyalty gold standard because it reveals the percentage of a customer's spend they're getting in the overall category, instead of basing it purely on a customer's individual value to that brand. But, share of wallet is extremely difficult to measure because it requires knowledge of how much a customer is spending, or has already spent, in the entire category. This requires firmographic data captured by third-party firms like Acxiom, credit card providers, or self-reported customer data. Etsy uses analytics to expand its share of wallet: When it determined that customers use its site to discover as much as they use it to buy, it built its recommendation model to present interesting products that resonate with customers and encourage customers to explore — and buy — more items from the site.[9]

› **Propensity to churn identifies risk of lost loyalty.** Propensity to churn helps companies understand the likelihood that an individual customer will exit a relationship using a variety of behavioral and campaign data.[10] It's often used as part of a company's CLV calculation but it can also be helpful in isolation and is easier for companies to take action against because it's a prescriptive metric. It's easiest to measure in industries with subscription-based models — like telecom, cable, and internet — but in cases where tenure is less defined, proxies such as reduction in loyalty program usage or low customer service engagement can be used. Forward-thinking companies segment customers into buckets based on their churn potential to understand what percentage of their clients are at risk of leaving and how different interventions impact that risk. For instance, Electronic Arts delivers incentives within games to high-value players at risk of churn.[11]

› **Realized advocacy qualifies the level of customer commitment.** This metric helps you track how customers actually advocate for the brand — for example, saying positive things on social media, recommending the brand/product/service to others, or participating in a referral program. Advanced Auto Parts uses a referral program to identify and reward customers who recommend

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the brand. To date, nearly 3,500 customers have referred an average of four friends.[12] And, emerging analytic techniques like social network analysis help firms look at the influence social relationships between customers have on individual actions.[13] But beware of measuring advocacy in a silo — it's important to look at it in the context of customer value or purchase behavior.

Emotional Loyalty Metrics Identify Loyal Feelings

Our research shows that emotion is the biggest driver of loyalty in many industries — it cannot be ignored.[14] Measuring those emotions help companies uncover customers' motivation for action — such as convenience, routine, or true love.[15] Choose metrics that gauge intent, sentiment, perceptions, and factors of customer experience quality. Specifically:

› **Net Promoter Score (NPS) helps gauge customer perceptions of relationship health.**
Developed by Fred Reicheld, Bain & Company, and Satmetrix Systems, NPS is calculated based on customer response to a single question: "How likely is it that you would recommend our company/product/service to a friend or colleague?"[16] Many companies use it as a measure for loyalty and customer experience quality, and it is easy to benchmark because the scale and score calculation is clearly defined.[17] However, that simplicity can potentially obscure the root cause of the score — for example, companies could arrive at the same NPS with very dissimilar distributions of Detractors, Passives, and Promoters — and it does not shed light on the many factors that contribute to both loyalty and customer experience quality.[18] Used in conjunction with business results, NPS provides organizations with a simple proxy for relationship and loyalty intent.

› **Customer satisfaction reveals how customers really feel about their interactions.** Tracking satisfaction via simple surveys can give companies a sense of how customers feel about individual interactions or their total relationship with the brand. Because they're not tied to any formal methodology, such metrics offer customer experience professionals more flexibility in how they word survey questions, the response scales they use, and the way they report the results. On the flip side, these basic metrics don't offer the clear language and the apples-to-apples benchmarking associated with NPS. When Expedia aligned customer satisfaction with other loyalty metrics across specific journeys, it found that enabling customers to book two one-way flights at a lower price than a roundtrip caused them frustration because changing flights became a complicated process. The metrics and insights helped Expedia streamline the booking process and elevate the experience, which resulted in an increase in customer satisfaction rates.[19]

› **Sentiment scores and ratios signal customer perceptions and intent.** Applying text analytics to internal and external customer feedback channels — such as surveys, blogs, call center transcripts, and social media data — helps identify how customers feel about the brand and their interactions. For example, Clarabridge helped ADP analyze sentiment to uncover the most painful points in the customer journey and prioritize improvements to the client experience.[20] But, recognize that it may just be all talk and no action — for instance, a customer may threaten to leave after a negative experience but doesn't follow through. Overlay sentiment scores or ratios with behavioral metrics to understand if customers actually do what they say.

FOR B2C MARKETING PROFESSIONALS

January 25, 2017

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› **Forrester's Customer Experience Index (CX Index™) quantifies the relationship between CX quality and loyalty.** The CX Index is a customer experience quality metric that measures how well a company delivers experiences that create and sustain customer loyalty.[21] It uses consumer response data, but unlike NPS, it tracks a brand's performance on three CX quality dimensions: effectiveness, ease, and emotion. It also quantifies how each dimension correlates to loyalty in terms of retention, enrichment, and advocacy. Loyalty marketers can use the CX Index to understand their firm's unique loyalty drivers, benchmark how their performance compares to industry dynamics, and tweak their loyalty strategies or programs accordingly. For instance, in the US hotel industry, among clients who felt valued, 90% will advocate for the brand, 67% plan to increase their spending with the brand, and 87% plan to stay with the brand.[22] However, the CX Index is not as widely adopted as some alternatives, and B2C marketers who want to implement it at their firms need to license the methodology from Forrester.[23]

Recommendations

Build A Measurement Framework Based On Cause And Effect

Building customer loyalty is not a "quick fix;" it requires a long-term commitment to strengthening customer relationships over time.[24] The same is true for loyalty measurement. The relationship between emotional and behavioral loyalty may not be a direct correlation. In other words, increasing emotional loyalty won't always translate to an increase in behavioral loyalty. Being able to track each and how they affect the other requires testing, skills, and tools that may or may not exist at your organization today. To get started:

› **Identify which metrics you can or are already measuring.** First, take stock of all the metrics you currently use to measure loyalty and determine whether they help you track behavioral or emotional loyalty.

› **Use cause-and-effect correlation analysis to decide which metrics are most effective.** Next, you have to determine whether or not the metrics you've chosen are reliable indicators of success. For instance, in some situations, satisfaction doesn't correlate to retention. Look at them together to determine if there is a correlation. Regression analyses will help uncover the relationship between metrics. Optum uses a relationship-level loyalty index that measures revenue at risk based on a combination of three indicators: 1) Net Promoter Score; 2) self-reported likelihood to renew; and 3) survey response rate.[25]

› **Move away from point-in-time measurement.** Loyalty is a long-term strategy, so short-term measurement is counterproductive. To be successful, you have to move past point-in-time measurement. Incorporate trend lines into your existing measurement dashboards to help visualize the impact of your efforts over time and identify which metrics will be most effective for gauging customer loyalty.

› **Don't be afraid to seek outside help.** Bringing together behavioral measurement and emotional measurement may be beyond your company's current measurement capabilities. But there are firms out there that can help and provide benchmarking against other firms in your competitive set. Coherency's LoveQuotient is a tool that quantifies the emotional connection between consumers and brands.[26] And, Walker Information Group has a Loyalty Matrix that is designed to address both behavioral loyalty and attitudinal loyalty.[27]

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Supplemental Material

Survey Methodology

The Forrester/DMA Q3 2016 Global State Of Loyalty Online Survey was fielded to 192 marketing professionals with knowledge of their companies' customer loyalty marketing strategy and priorities. Only a portion of survey results are illustrated in this report.

Forrester fielded the survey from August 2016 to September 2016. Respondent incentives included a Forrester report highlighting the findings of the survey and a Direct Marketing Association (DMA)-hosted sweepstakes for event tickets to its annual &Then conference.

This survey used the DMA customer engagement and loyalty community as a respondent panel to ensure subject expertise and knowledge of respondents' organizations' customer loyalty practices, and it is therefore not random. This data is not guaranteed to be representative of the population, and, unless otherwise noted, statistical data is intended to be used for descriptive and not inferential purposes. While nonrandom, the survey is still a valuable tool for understanding where users are today and where the industry is headed.

Endnotes

[1] In the age of the customer, the relationships brands build with their customers is what gives them a competitive edge. Companies need to address both the rational and emotional complexities of their customers' loyalty to home in on how their products and services can help them acquire new and retain existing customers. See the Forrester report "Be A Loyalty Company, Not A Company With A Loyalty Program."

[2] Seventy percent of marketers indicated that they examine customer retention when assessing the impact of their customer loyalty strategy. Source: Forrester/DMA Q3 2016 Global State Of Loyalty Online Survey.

[3] Forrester defines CLV as: "a customer's potential monetary worth through the course of his or her relationship with a business." This metric can be used to help marketers' better allocate marketing budget across customer segments and can be triangulated with other customer analytics variables to understand marketing program return on investment (ROI). See the Forrester report "Optimize Customer Interactions With Customer Lifetime Value Analysis."

[4] Source: Forrester/DMA Q3 2016 Global State Of Loyalty Online Survey.

[5] Campaign-level metrics provide a snapshot of short-term performance so they must be coupled with a wider range of behavioral and emotional measurement approaches to best uncover customer engagement. See the upcoming Forrester report "Marketers: Use Email To Cultivate Your Relationship With Loyal Customers."

[6] Of the US online adults who belong to a customer loyalty program surveyed, 60% agree that they join loyalty programs because they are already loyal to the brand or company and 53% agree that loyalty programs make them feel more loyal to the brand. Source: Forrester's Consumer Technographics® North American Retail And Travel Survey, Q4 2016 (US).

[7] Diagnostic metrics help identify opportunities for marketing efficiencies by providing insights into operational performance of campaigns and determining if a specific marketing tactic drives action. See the Forrester report "Marketers: Stop Using Vanity Metrics To Value Your Marketing."

[8] JPMorgan Chase uses cause-and-effect analyses to uncover how diagnostic metrics are connected to greater marketing and channel performance. See the Forrester report "Marketers: Stop Using Vanity Metrics To Value Your Marketing."

[9] Etsy delivers on its customers' need to explore and discover new products with a data analytics strategy that allows it to predictively recommend different items to customers. Source: "How 9 Successful Companies Keep Their Customers," Entrepreneur, April 3, 2015 (https://www.entrepreneur.com/article/243764).

[10] Marketers can link propensity to churn back to business metrics like retention rates to uncover deeper insight on their customers' projected behaviors. See the Forrester report "TechRadar™: Customer Analytics Methods, Q2 2016."

FOR B2C MARKETING PROFESSIONALS

Improve Loyalty Measurement With Behavioral And Emotional Metrics
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January 25, 2017

[11] Specific products and services have the potential of attracting and retaining different segments of customers. Thus, companies can use CLV to identify and develop the right incentives for high-value customers. See the Forrester report "Optimize Customer Interactions With Customer Lifetime Value Analysis."

[12] The marketing team at Advance Auto Parts confirmed that its customers are enthusiasts and the brand's biggest advocates with an end-to-end referral program that has since seen a 50% new customer acquisition rate and a 25% conversion rate. Source: "Advance Auto Parts Drives A 25% Conversion Rate With Referral Marketing," Extole (https://www.extole.com/success-stories/advance-auto-parts/).

[13] Social network analysis is developing into a critical customer analytics method as it aims to understand group behavior and the role of influencers on individual actions. Currently though, social network analysis is only applicable to scenarios where natural networks of customers exist, such as in the telecom or media industries. See the Forrester report "TechRadar™: Customer Analytics Methods, Q2 2016."

[14] How an experience makes customers feel has a bigger influence on their loyalty to a brand than effectiveness or ease in most industries. See the Forrester report "The US Customer Experience Index, 2016."

[15] Consumer choices can be charted in the context of urgency and importance. Understanding where your brand or product falls can help you uncover deeper insights around your customers' decision processes. See the Forrester report "How People Choose."

[16] Net Promoter and NPS are registered service marks, and Net Promoter Score is a service mark, of Bain & Company, Satmetrix Systems, and Fred Reichheld.

[17] According to Bain, more than two-thirds of Fortune 1000 companies use the Net Promoter System. Source: Jennifer Kaplan, "The Inventor of Customer Satisfaction Surveys Is Sick of Them, Too," Bloomberg, May 4, 2016 (https://www.bloomberg.com/news/articles/2016-05-04/tasty-taco-helpful-hygienist-are-all-those-surveys-of-any-use).

[18] NPS is not a direct measure of customer experience quality because it measures whether or not customers intend to recommend a company based on the experience they've had, not how they felt about the experience in the first place. See the Forrester report "Executive Q&A: Top 10 NPS Questions Answered For CX Professionals."

[19] Customer-obsessed companies compare different customer journeys to better understand performance. See the Forrester report "How Metrics Drive Your Customer Obsession."

[20] ADP's director of client experience analytics COE, Amy Tinley, describes how her company has used sentiment analytics to factor in emotion to performance and to better understand client experience. Source: "ADP," Clarabridge (http://www.clarabridge.com/case_study/adp/).

[21] Forrester's CX Index score measures effective, ease, and emotion as part of the customer experience quality that drives retention, enrichment, and advocacy in customer loyalty. See the Forrester report "The US Customer Experience Index, 2016."

[22] Making customers feel valued, appreciated, and confident drives loyalty. Ultimately, this matters because a brand's CX Index score can lead to a lift incremental revenue. See the Forrester report "The US Customer Experience Index, 2016."

[23] For more on the CX Index and other CX quality metrics, see the Forrester report "Executive Q&A: Top 10 NPS Questions Answered For CX Professionals."

[24] Meaningful investments in loyalty require long-term views of customer relationships and engagement; this takes time to realize and measure. See the Forrester report "Five Keys To Unlock Additional Funding For Customer Loyalty."

[25] To build a measurement framework, marketers must pick outcome metrics that align with the key drivers that their company uses to steer business decisions. See the Forrester report "Seven Steps To Successful Customer Experience Measurement Programs."

26 The LoveQuotient quantifies three components of love — chemistry, needs fulfillment, and compatibility to determine a brand's relationship with its customers. Source: "LoveQuotient," Coherency (http://coherency.com/love-quotient/).

27 The Walker Loyalty Matrix's two axes represent the two aspects of loyalty — attitude and behavior — and defines four segments of customer loyalty: truly loyal, accessible, trapped, and high risk. Source: "The Walker Loyalty Matrix," Walker (http://www.walkerinfo.com/docs/WP-The-Walker-Loyalty-Matrix.pdf).

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