

The state of Customer Lifetime Value report



An examination of
Customer Lifetime
Value as the metric in
marketing in 2018



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1. Foreword



Measurement has been an age-old issue for marketers which has seen the industry continually fall back on click-through or conversion rates. More econometric models such as return on ad spend (ROAS) have also served a purpose however all are missing one crucial element: the shopper. Consumer-centricity is key to measuring the impact of marketing and as such, metrics that put the shopper at the heart of the experience should be king.

Successful business growth has traditionally been measured in two ways: the first is to acquire new customers. The second is to focus on retaining your existing customers and increase the Customer Lifetime Value (CLV). Marketers everywhere know that new customers are difficult and expensive to acquire, but effectively nurturing existing customers has never been simple either.

Representing the total worth of a customer to a business over the entirety of the relationship, marketers almost universally agree that growing CLV is essential to the health of their organisation and a key success metric. In short, a view of CLV should enable marketers to consistently reach the customers that matter the most and focus on enhancing that relationship whether through better targeting, value added services or improvements to customer experience.

While CLV has been the focus of discussion in marketing circles for some time now, application has always been a challenge. As such, retention has often become the defacto strategy. But as technology evolves and data becomes ever-more insightful and accessible, measuring the value of the customer has become an increasing priority for brand and retail marketers alike.

What is CLV?

Customer Lifetime Value is the total value a consumer brings to a retailer's business throughout their lifetime. CLV should be the primary and fundamental metric retailers measure and evaluate the performance of their campaigns with. In other words, how much is a shopper's worth to them and how much are they willing to pay to find more of the same customers.

This report examines the state of CLV adoption in UK marketing today and identifies a number of trends that are helping to bridge the gap between awareness of CLV and the ability of companies to measure and increase its adoption, as well as seeking to understand specific issues and opportunities relating to a range of business sectors.

2. Executive summary



CLV: Marketing's elusive metric

We surveyed 100 marketers and 2,023 consumers across the UK to find out how measurement in marketing is really shaping up and what shoppers want from brands when it comes to inspiring loyalty across their customer lifetime.

The study identifies a desire to deploy CLV as a measure of marketing effectiveness but also reveals some new and existing challenges to its implementation.

Of the marketers surveyed as part of this report 100% were aware of 'Customer Lifetime Value' (CLV), of which just over a third (34%) are completely aware of the term and its connotations. Challenges start to emerge when we take a closer look at implementation. Of the 93% of organisations who are trying to measure CLV, an overwhelming majority, 69%, believe that their organisation could be doing this better.

Data sits at the heart of the issue. It holds the key to unlocking customer insight but sourcing the right information and applying it successfully remains a crucial challenge. This study has identified both the collection of shopper data (made all the more complicated by the complex, cross-device journeys taken by the modern customer) and the application of this information as hindering organisations' progress towards tracking and acting on CLV.

We also found that the age of omnichannel and the siloed nature of organisations are further preventing businesses from calculating one of the key measures of success – the lifetime value of a customer.

The shopper conversations confirmed the need for an insight-led approach to marketing which delivers ongoing brand value across a host of touchpoints – particularly among younger demographics with a high propensity for digital behaviours. While price will always sit at the heart of a shopper's decision-making process, our opinion poll has shown that joining up the customer journey and considering the lifetime touchpoints available to marketers is becoming as important to customers as simply competing on price.

What's clear from the conversations we've had is that to succeed in today's competitive marketplace, brands need to think beyond the easier to measure short-term, transactional gains and look toward maximising the lifetime value of their existing customers. While many marketers understand that this shift needs to occur, some are still grappling with how to get their organisations to focus on CLV and use it to achieve their shared goals.

Today, marketers are embracing the challenge and moving away from measuring success based on return on ad spend (ROAS) and are focused instead on long-term, company-wide growth. One of the key strategic priorities to doing this is implementing a shift towards CLV.

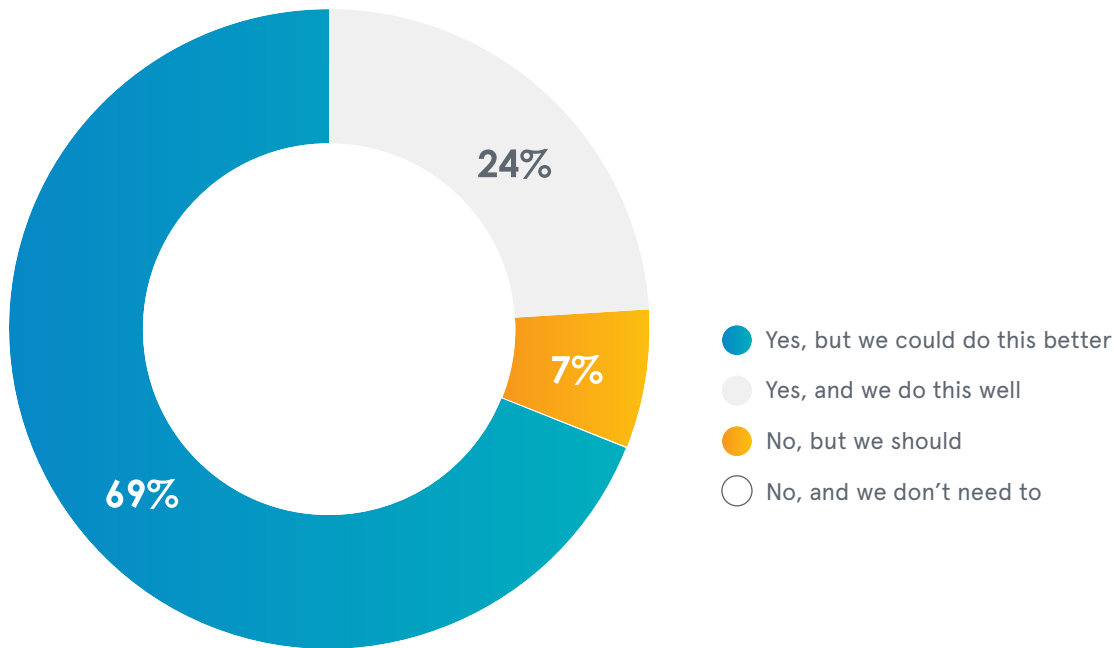
As it becomes easier for businesses to capture and act on first-party data, creating a dynamic CLV calculation of customers and audiences is more realistic than it's ever been. Without a view of lifetime value reaching and influencing the most important customers is a real challenge.

3. Marketing's appetite for CLV



CLV is not a secret. In fact, nearly all (98%) respondents believe that it is important to their marketing strategy, while just under a quarter (23%) state that it is critical. However, in today's competitive world, this acknowledgement won't help marketers get ahead. While a quarter (24%) of organisations say that they are effectively monitoring CLV, a huge majority (69%) know that improvements could be made. As a testament to the strategic importance of CLV to modern marketing, only a small number of businesses (7%) are doing nothing to monitor CLV (although all acknowledge that they should be!)

Does your organisation currently monitor Customer Lifetime Value (CLV)?



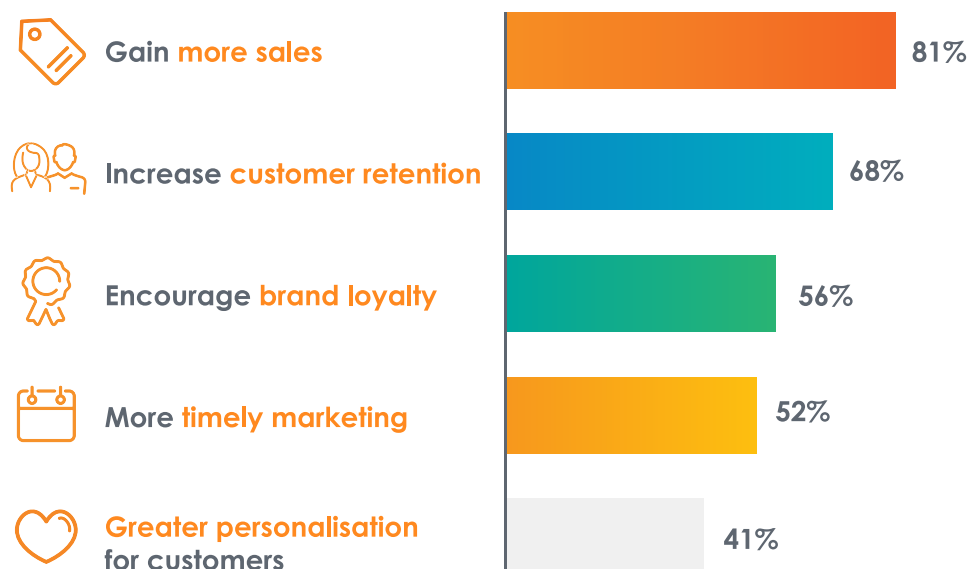
The incentive behind the adoption of measuring this couldn't be more compelling: 81% of marketers agree that monitoring CLV increases sales.

Of those brands currently doing a good job of measuring their CLV, 81% have gained more sales versus 57% who haven't. What's more, 79% of those marketers effectively monitoring CLV can implement more timely marketing – again, in stark contrast to the 29% not doing anything in this area.

These are reason enough for every marketer in the country to put the measurement and implementation of CLV data at the top of their priority list, especially as 68% also agree that it increases retention and over half (56%) believe it to enhance brand loyalty.

So, a shopping list of brand benefits. No wonder then that 43% of UK marketers consider its implementation a high business priority, with 57% believing it will become a priority over the course of the next year.

What are the benefits your organisation has experienced/would experience from monitoring CLV?



Brandon Purcell from Forrester

"The widespread adoption of CLV will affect far more than customer interactions. It will prompt unlikely collaborations, transform the way financial markets value companies, and ultimately blur the lines between personalisation and monetisation."

Optimize Customer Interactions With Customer Lifetime Value Analysis,
June 2016, Forrester Research

4. Barriers to CLV adoption

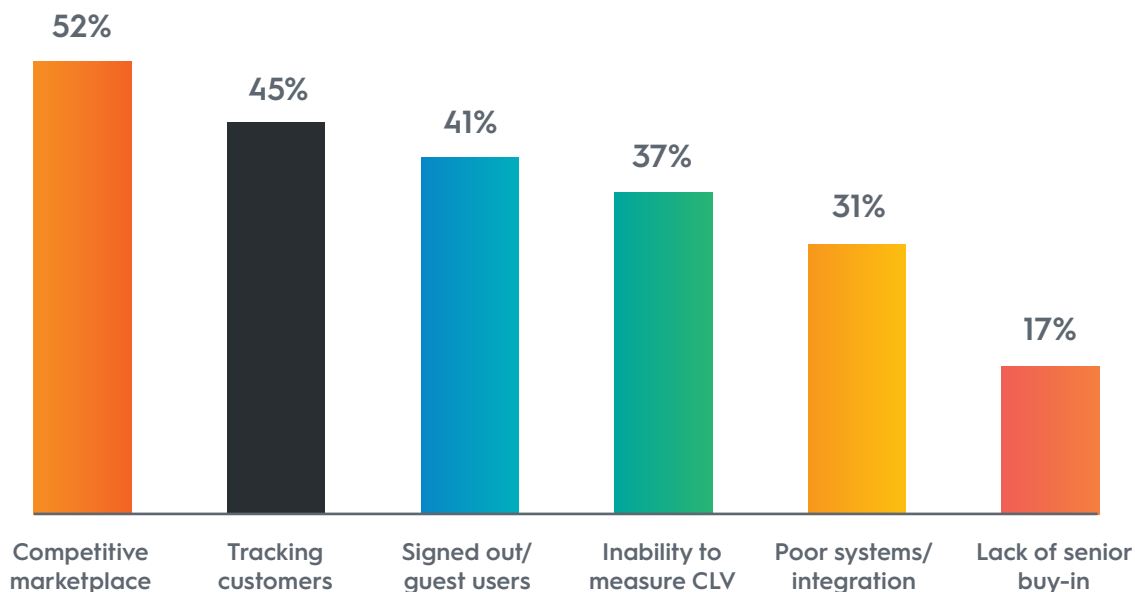


So why isn't CLV an industry standard? Why is it not at the heart of every marketing department in the country? The intent and recognition of its significance clearly exists but something seems to be holding it back.

Despite one quarter (25%) of respondents stating that there are/were no barriers to their organisation monitoring CLV, over a third (36%) believe that it is too expensive for their business to monitor and just over a quarter (26%) do not think that their organisation has the in-house skills to monitor it.

Even those who have taken steps to implement CLV in recognition of its transformative power are hitting barriers. The majority (95%) of respondents whose organisation is monitoring CLV believe that there is at least one factor hampering their organisation's ability to increase the accuracy or impact of the metric. Around half cite the challenge of tracking customers cross-device (45%) as inhibitive. One in ten (10%) say that their organisation is being hampered by CLV not being a priority outside of the marketing department, while close to one in five (17%) cite a lack of senior buy-in to the metric.

What is hampering your organisation's ability to increase CLV?

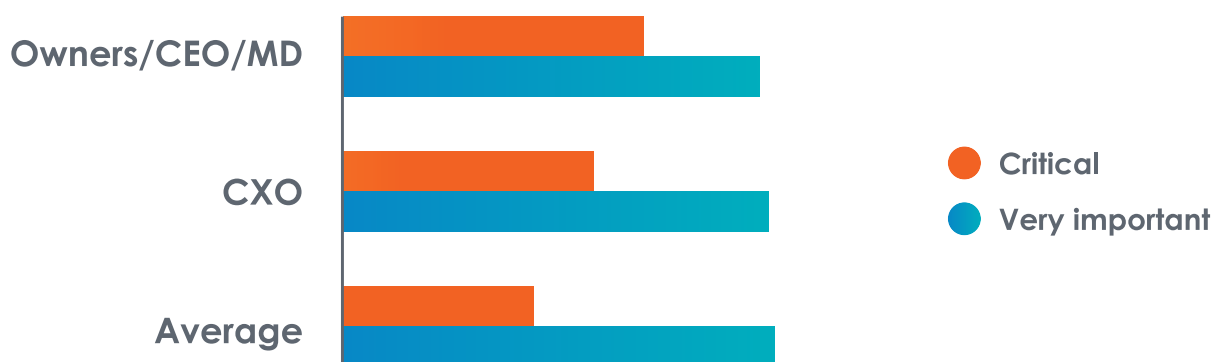


Clearly there is a breakdown in communication and objective setting somewhere. 98% of organisations are calling CLV important or critical to their marketing strategy but still these barriers exist. Traditionally, a lack of understanding or knowledge has always been held up as the reason for neglecting a look at the lifetime value, but this is no longer the case.

A board challenge?

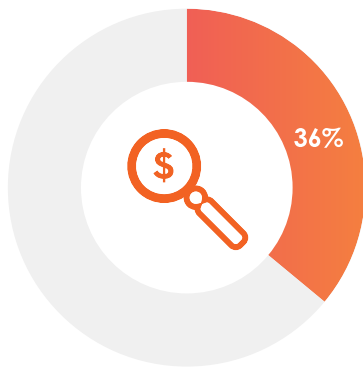
Almost a fifth of respondents suggest that CLV is not being implemented widely due to a lack of senior buy-in. However, a closer look at the prioritisation of CLV usage reveals that 86% of CEOs and owners consider it a priority compared to an average of 75%. Clearly the importance of CLV isn't being lost on the key decision.

How important is CLV to your organisation's marketing strategy?

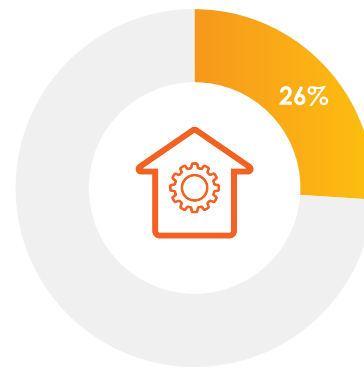


For those not yet monitoring CLV, the barriers are familiar ones. Yes, concerns around cost dominate however, the challenge of skills and implementation capabilities are once again significant. Whether CLV is an active focus or an impending priority, upskilling both in terms of personnel and in-house systems is essential.

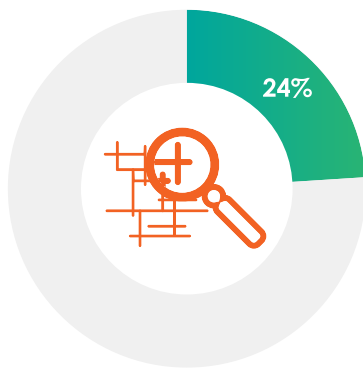
What are/were your organisation's barriers to monitoring CLV?



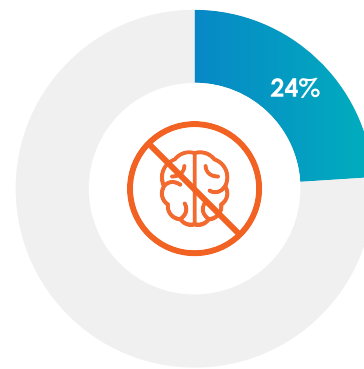
Too expensive to monitor



Don't have the **in-house skills**



Too complicated to monitor



Not able to **implement learnings**

CLV can be difficult to implement. The omnichannel nature of shoppers today makes it challenging to calculate simply due to the number of variables and macro influences on the journey. This makes data collection a challenge. 45% of respondents to our survey have called out cross-device tracking as a barrier, while a further 37% simply aren't able to measure it. This means that marketers simply don't have access to the data they need to affect positive change. Even when that data is available, they're coming up against the issue of implementing its insight; with a worrying one in four (24%) unable to action the CLV data they can collect.

Criteo says:

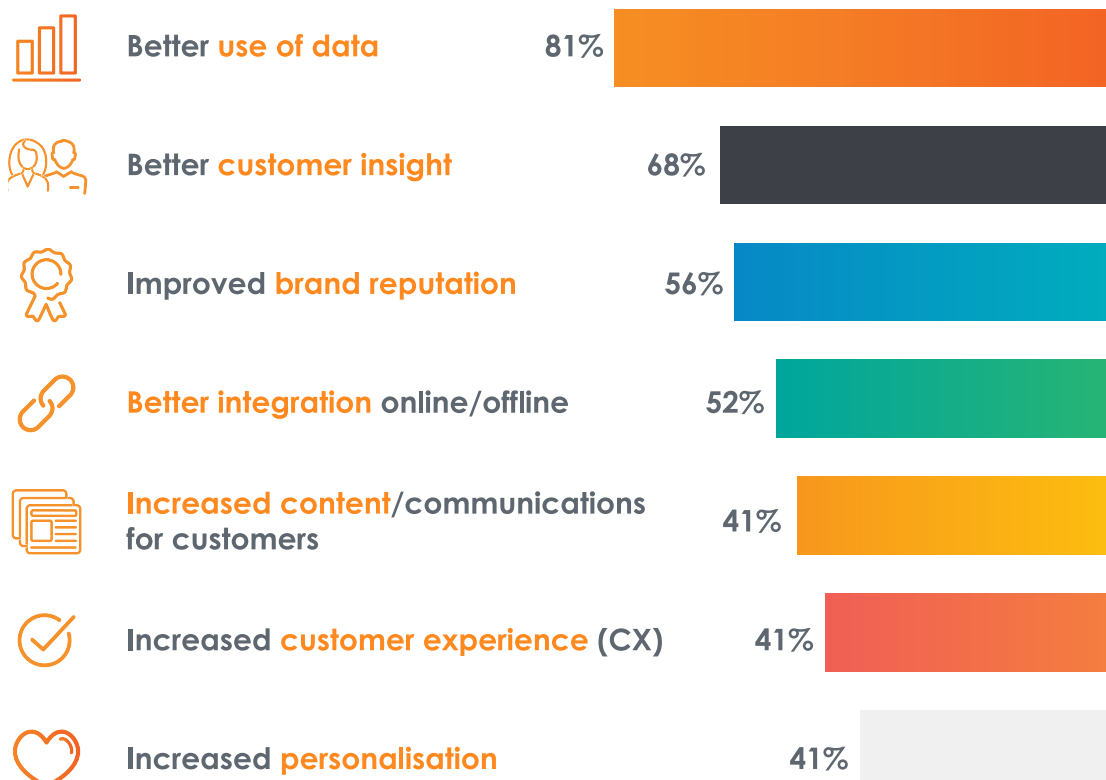
Connecting customers cross-device has always been a challenge but with a re-focus on CLV as a metric, the issue is amplified. A commerce marketing strategy acknowledges the changes across shopper behaviour and helps organisations adapt to the realities of the new physical-digital world. By focusing on the holistic shopper experience, teams can connect the online and offline experience in new ways, build lasting relationships with shoppers, and measure success every step of the way. Engaging consumers across their entire shopping journey in this way is vital for driving increased CLV.

5. How do you solve a problem like CLV?



Almost all (99%) respondents from organisations monitoring CLV say that the practice will be increased in the future, most likely as a result of improved data usage (72%), better customer insight (57%) and better reputation within the brand (55%).

What will increase CLV in your organisation in the future?



Today, marketers have access to so much data that it's much easier to understand channel, product and promotion performance specific to customers. For the majority of Britain's marketers, this data holds the key to unlocking the potential of CLV and is crucial to reaping the rewards discussed earlier in this report. Despite the disruptive transformation of the retail industry, simultaneously, brands large and small, are beginning to understand the critical importance of data, and are working hard to leverage the insight that they have.

In fact, data and analytics sit at the centre of the digital overhaul, changing the face of industries up and down the country and nowhere is the impact more keenly felt than in the retail space. Such is the scale of retail today though, and the sky-high expectations of modern shoppers, data assets represent a powerful way to get ahead. But increasingly, owned data alone is not enough. Brands and retailers see value in collaboration and pooling data assets to meet customer needs and drive value for their business.

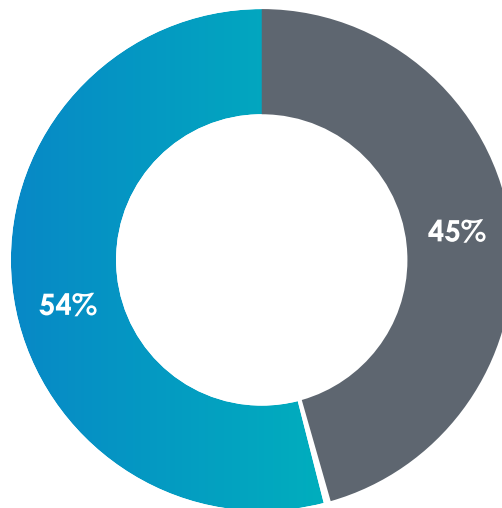
CLV analysis would greatly benefit from this cooperative approach to information as it would help to retailers resolve customer identities across anonymous and known data sources. Data is the great equaliser when it comes to gaining an upper hand in the battle for consumers' share of time, attention and wallet and its application to successful CLV implementation is crucial.

CLV methodology

Predictive CLV: a projection of how much revenue a customer will generate for a business over the course of the customer relationship

Historic CLV: the sum of all profits from a customer's past purchases. This number is based on existing customer data from a specific period of time

Which of the following best describes your organisation's approach to CLV?



● Predictive CLV ● Historic CLV

As the primary barrier to wider CLV adoption, getting the data right should be a priority for businesses, however the research eludes to other stepping stones to customer-centric measurement. Identifying an in-house CLV champion looks to be a sure-fire way of tapping in to the methodology's revenue boosting benefits. After data-led factors, marketers suggest that improving internal brand reputation will increase CLV usage within their business. With CLV clearly in business leaders' cross hairs, this would appear to be a quick and easy win across the marketing world.

Criteo says:

Marketers are fully aware of the disruption the industry faces to stay ahead of a rapidly evolving and competitive market, ambitious players need to take bold steps to capitalise on the opportunity created by this disruption. Data has, for a long time and in many industries, represented an opportunity to do things in a better way either by increasing efficiency, improving personalisation or by finding better ways of doing things. Understanding the value of data collaboration and pooling data is a massive step forward. With access to huge pools of granular shopper data, marketers can expect to connect more shoppers to the things they need and love, and maximise their company's sales and profits.

The almost limitless opportunities represented by data pooling means marketers can overcome the challenges associated with accurate information collection and interpretation enabling them to build a highly accurate picture of their customers across the entire period of their relationship. This view of the customer means businesses can effectively implement CLV and begin to think beyond the basic measurements of marketing such as churn rate prediction and move to a more progressive and impactful model.

6.Shopper insight



Give the people what they want, where they want it

Because of its ability to measure a customer's total potential worth, CLV has often been associated with customer loyalty. While this isn't inaccurate, CLV is more tangibly linked to revenue than opinion polls and recall surveys which have been traditionally employed to measure loyalty.

However, in the rapidly evolving world of shopping, attitudes towards loyalty and identifying the things consumers value the most are crucial to extending CLV.

This report has focused on the need for customer-centricity when it comes to measuring marketing performance. But to do this, brands must understand exactly what it is today's shopper values. Of course this is no mean feat. One of the key changes in marketing strategy over the last decade has been a switch to personalisation. With marketers clamouring for share of a user's most personal space, their smartphone screen, generic tactics and mass marketing have all experienced consumer rejection with shopper's expecting and demanding bespoke experiences.

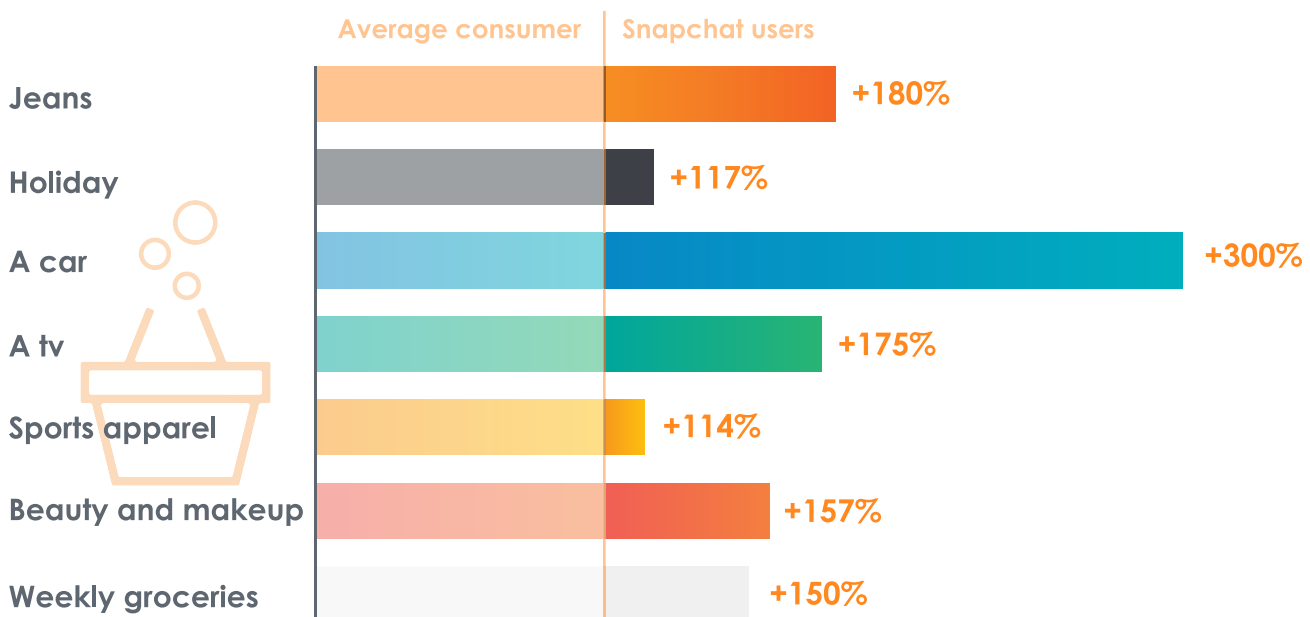
Nowhere is this more keenly felt than on their social media feeds.

One of the key drivers behind a push for lifetime value has been around social media. Representing an omnipresent touch point with the customer, social media has allowed marketers to extend their efforts beyond the smartphone screen and in to the day to day lives and interactions of the average shopper. But using social media channels to keep customers engaged and deliver purchases, more often, over time necessitates a similar switch in mindset from simple metrics to a consumer-centric model. Click through rates, cost per clicks and total conversions are all used to measure the impact of social strategy. But while these long-standing KPIs should act as a quick and convenient means of quantifying channel activity, so much more should go in to measuring performance.

Snapping up sales

The impact of social media on consumer shopping habits has been well documented. A Criteo study in 2016 revealed that daily Instagram users were 113% more likely to buy clothes on a mobile than the average Briton. But with social media evolving at breakneck speed, a new shopping phenomena has quickly replaced Instagram. In fact, regular Snapchat users are the most prolific smartphone shoppers in the country, more willing to

Frequent Snapchat users' propensity to buy on mobile



Regular Snapchat users are 74% more likely to spend over £100 shopping on their mobile than the average Briton. What's more, while only 37% of the population enjoy shopping on smartphones today, Snapchat users take the most pleasure in mobile shopping with 71% of daily users saying they like it.

But the face of loyalty is changing more generally. The vast majority of shoppers (60%) will buy from whichever store has the best item/price. But a closer look at this behaviour reveals an interesting generational split. Two thirds (65%) of 18-25 year olds will aim to return to the same store to make repeat or replacement purchases. Those aged over 45 show the least loyalty with just 13% of this group on average describing themselves as likely to return to a store from the outset.

While, as we might expect, price is the driving force behind this decision-making process, (76% of all respondents cited it as a factor likely to impact their re-purchase of an item), factors more focused on developing repeat customers are starting to have a major bearing on the decision-making purchase process.

Ongoing communications such as emagazines and trend insights are a factor in securing the loyalty of one in ten (12%) of 18-34 years olds while event invitations impact the same number. Customer service and aftercare is the second biggest factor for those aged 55+ while ongoing offers for supplementary products and services is enough to entice around a third (30%) of the British population to remain loyal.

Criteo says:

The smartphone has been one of the great shopping disruptors and its impact on CLV has been significant. While the mobile phone represents a near-constant shopping (and marketing) companion, this study has shown how an inability to effectively monitor cross-device shopping is inhibiting businesses' ability to implement CLV.

Social media has had a similar effect, adding more channels and touchpoints to the shopper journey. But these connections and interactions and their influence on purchase are a key part of the lifetime value of a customer. As our survey has shown, these behaviours often lead to, and in many cases increase, purchases. This makes social networking an imperative in the lifetime calculation. What's more, with heavy social media users more prone to mobile shopping and higher online spend in general, this is a crucial audience for brands and retailers in every industry. But advertisers must consider social media networks within their wider retargeting strategy to ensure that activity is in keeping with the customer experience across all of their channels.

7. Conclusion



The CLV should represent the beginning of customer-centric measurement that pays dividends when it comes to business performance. With awareness of the metric and its benefits rife amongst the UK marketing community, attention must shift to more widespread adoption and, crucially, implementation of its insight to improve the customer experience.

Marketing in need of a rethink

ROAS and similar metrics of measurement based on short term performance are quickly becoming outdated. Instead, long-term growth is the name of modern marketing with a focus on developing customers in to lifelong fans as opposed to solo purchasers. Finding new customers is hard and costly, as such, the focus should be on keeping and growing those who have already purchased. This shift requires a modern metric, one capable of looking beyond single purchases and toward the holistic value of a customer – after all, not all customers were created equally. Some will represent more value to a brand or retailer over time, it's marketing's job to identify those shoppers and double down on their experience to keep them coming back for more.

Join up the data dots

In a nation of expectant, omnichannel shoppers, our research shows a clear intent from marketers to increase their use of CLV, with a keen focus on improving their customer experience. There's a clear recognition that marketing needs to get much smarter with its use of data from collection to connection to action – sourcing the most relevant information in real-time, connecting it to the customer before delivering an insight-led, personalised and relevant experience.

Embrace new look loyalty

This shift in mindset all needs to come while embracing a new generation's view of loyalty. Price and customer service will always be important, however we're seeing a shift, particularly amongst the younger demographics, towards value added services inspiring lifelong shoppers. Events and insight are slowly starting to breed a generation of social shoppers more likely to receive recommendations from Snapchat than from their direct peers. These contributors to the path to purchase shouldn't be discounted and should play a major role in modern CLV calculation.

8. Methodology



UK marketer research

Criteo commissioned independent market research specialist Vanson Bourne to undertake the Criteo research about Customer Lifetime Value. A total of 100 marketing decision makers were interviewed during February 2018. All respondents came from retail or wholesale organisations in the UK, with at least 150 employees or more. Interviews were conducted online using a rigorous multi-level screening process to ensure that only suitable candidates were given the opportunity to participate.

UK consumer research

All data, unless otherwise stated, is from Walnut Unlimited, the human understanding agency, part of the Unlimited Group. Source: Walnut Omnibus, a nationally representative omnibus survey of [final sample size] adults across GB between 07/03/2018 – 09/03/2018. The figures have been weighted and are representative of all GB adults (aged 18+).

For more information please visit www.criteo.com