

Is ROI dead?

The state of Customer
Lifetime Value 2019



Executive summary

This time last year, Criteo published a report on Customer Lifetime Value (CLV) as a means of measuring the value a shopper brings to a company over their lifecycle. 12 months on, we revisited the topic of CLV to find out how far the measure has progressed in terms of adoption, the challenges marketers are experiencing in making it a functional part of how they gauge customer activity, and what missing elements are preventing it from becoming the default measure of value in the industry.

To gain this insight, we once again surveyed 100 senior and C-suite marketers across the UK with the same questions. More specifically, we asked how CLV is being applied in their organisation, which data they are using to formulate the metric, which roles and departments are responsible for driving CLV and what barriers or pain-points they're experiencing that are hindering complete adoption.

Comparing the two years' data side-by-side, we can see both encouraging signs and areas for improvement. General awareness of CLV remained consistent (100%) and in fact there was a pronounced increase in those who identified as having high awareness (43% in 2019 vs 34% in 2018) and in organisational efforts to monitor CLV (32% vs 24%). We also found a promising level of agreement on the benefits their organisation was gaining by using CLV, including customer retention, sales and brand loyalty.

Loyalty and CLV are intrinsically related measures of customer value, and loyalty remains a key battleground for UK brands. In a separate piece of Criteo¹ research, we found that 64% of shoppers are willing to consider a new brand, driven predominantly by the pursuit of greater value for money. CLV has emerged as a key strategy for

driving loyalty through continual iteration of all customer touchpoints to drive better outcomes for both the brand and the shopper.

Returning to our CLV survey, the research did however highlight some common challenges or, more accurately, 'gaps' in optimising for CLV. These we can divide into three broad categories: a data gap, a business gap, and a skills gap. They have typically manifested as an inability to bring all stakeholders on board with the measure, challenges around finding and using the data necessary for a complete picture of CLV and a struggle to retain the appropriate in-house talent to operationalise the measure.

We argue that marketers, senior management and lines of business heads all have important roles to play in bridging these gaps and making CLV an actionable way to monitor and enhance relationships with existing customers and prospects. With deeper understanding and an increased ability to implement, we believe that CLV could replace return on investment (ROI) as the primary measure for the success of customer relationships and a key driver for loyalty in a competitive marketplace.

¹ Criteo 'Why We Buy' survey UK (2019)

Contents

2 Introduction

3 Section 1 - Why CLV?

- 3 Moving beyond ROI in measuring customer value
- 3 Defining CLV
- 4 What our research found
- 5 Calculating CLV
- 5 CLV vs ROI
- 5 CLV vs Loyalty
- 6 CLV for better budget setting

7 Section 2 - Mind the gaps

- 7 The barriers to CLV metric adoption
- 7 The Business Gap
- 8 The Data Gap
- 8 The Skills Gap
- 9 Causes for concern?

10 Section 3 - Bridging the gaps

- 10 How to implement CLV
- 10 Bridging the Business Gap
- 11 Bridging the Data Gap
- 12 Bridging the Skills Gap
- 12 How Criteo can support
- 13 Conclusion

Introduction

Putting a value on customer relationships

Every business has its own definition of what constitutes great customer service. Among many admirable examples from UK brands, one that stands out relates to a customer from whom return business may be many years away. In this instance, Virgin Trains East Coast (now LNER) reacted to a request to move a young boy's day of travel due to a hospital appointment by upgrading him to 1st class so he could sleep comfortably on the way. Aside from being a nice PR win for the company, it also highlighted the value of broadening the perspective of what it takes to make a customer feel special.

Across the pond, US online retailer Zappos set the bar especially high with a customer call that lasted a record-breaking 10 hours and 43 minutes. This feat wasn't a mere coincidence – an employee feeling particularly hospitable that day – it was part of a culture that places such value on customer interactions that it was encouraged. In such a situation, the employee had just to alert his colleagues so that resources could be allocated to facilitate the long discussion.

While the Zappos example takes it to the extreme, it represents a broader trend where brands are reappraising how they view their customers. Conventional methods of focusing intently on a sales process leading to the sale falls short on a key measure: what would then entice the customer to come back? The growth of Software-as-a-Service (SaaS) and subscription-based delivery models is contributing to a sea-change where businesses are focusing less on one-off sales, and more on a longer-term relationship with customers.

This change in sales approach needs to be supported with a different way of evaluating the success of customer interactions. Simple ROI worked for campaign-focused

evaluation, but doesn't quite cut it when looking at the fullness of a customer relationship. It's for this purpose that Customer Lifetime Value (CLV) has emerged as a powerful means of evaluating the effectiveness of all strategies and touch points over the entirety of the customer journey. It elevates focus from a sales level to a business level, helping to direct and reorient strategies around the customer.

As marketers look more holistically at customer relationships, CLV becomes a natural part of their evaluation toolkit. Evidence suggests high awareness of the metric, and indeed its value, but how widely is it being used? In this report, we investigate the current state of CLV. We look at what's changed since we published our 2018 report: how it's being applied and what challenges marketers are finding in implementing it into their marketing programmes. Ultimately, we want to know whether CLV is, or can become, the primary metric for shaping and defining long-term marketing strategies.

Why CLV?

Moving beyond ROI in measuring customer value

The adoption of CLV as a popular marketing metric reflects a change in the way businesses look at customer relationships. It's an important concept because it requires a shift in focus from short-term profits to the long-term health of their customer relationship. We know that acquiring new customers can be **25 times more costly** than retaining an existing customer. Harnessing CLV provides a useful indicator for what the business can spend to acquire a new customer, based on anticipated value across the course of the relationship.

Using CLV, businesses can segment and prioritise customers based on anticipated profits, and work to maximise those profits with more targeted engagement. As a model, it functions dynamically, rather than statically, and so adjusts to the effectiveness of campaigns and interactions. This should act as an incentive to marketers – by improving retention and sale values among existing customers, CLV will increase and therefore indicate that more can be spent to attract new customers. In effect, it's a self-enhancing measure.

Driving adoption of CLV requires an understanding of the inherent flaws in relying on Return on Investment (ROI) to assess the success of customer relationships. As many brands have discovered, ROI is short-term in its scope and short-term tactics can mask longer-term negative trends. Viewing customers as one-off sales can be costly as the funnel will need a continual flow of new customers in order to keep generating revenue. There is still value in ROI from a short-term perspective, but ideally, ROI discussions should be held in the context of longer-term benefit to CLV.

Defining CLV

Customer Lifetime Value is the total value a consumer brings to a company throughout their lifetime. In other words, how much is a shopper worth to them, and how much are they willing to pay to find more of the same customers? CLV contains within it two dimensions: the longevity of the relationship and the value of their purchases. The longer a customer engages with a company, and the more they repeat purchase or progress to other products and services, the greater CLV will be. Being able to monitor CLV is critical to the health of the organisation and a key success metric.



What our research found

The benefits of taking a longer-term perspective are well appreciated by marketers. Our research revealed **high awareness of CLV (82%), a strong willingness to make it part of their approach (92% said they monitor the metric) and almost total importance to their organisation's marketing strategy (98%).** Not a single respondent said it wasn't important, compared with 2% in 2018.

Awareness levels appear to have increased from last year's research. This year, **43% said they were completely aware of CLV,** compared with **34% in 2018.** Further, **32%** of this year's respondents said **they monitor CLV well,** up from **24%** last year.

The research also revealed some interesting insights on the role CLV is playing currently within enterprises:

52% said they were using 'predictive CLV', i.e. a projection of how much revenue a customer will generate for a business over the course of the customer relationship, while **47.9% were using 'historic CLV',** i.e. the sum of all profits from a customer's past purchases.

Most of the respondents **(60%) measure CLV over a one-to-two year time period.** **18%** measure over periods of less than one year, and **17%** measure two to five years.

Organisations mainly saw **benefits of monitoring CLV in increasing customer retention (64%), gaining more sales (59%), encouraging greater brand loyalty (58%) and improving personalisation (47%).**

In terms of what a business' CLV strategy is monitoring, the research identified **bringing customer records together to create a view of their journey (37%), measuring profit at each point (29%) and identifying moments where value is created (19%)** as the main areas of focus.

Organisations are applying CLV to a **broad range of customer channels,** including more prominently **email (61%), social (61%), loyalty cards (53%) and banner ads (45%).** **71%** said that **paid display** was critical or very important to monitoring CLV in their organisation.

Despite these encouraging signs, there were suggestions that marketers are struggling to use CLV to its full potential. Indeed, two thirds of respondents said their organisation could use CLV better. **Lack of in-house skills (40%), costs of monitoring (37%) and general difficulty (27%)** were cited as the main challenges. Gathering the requisite data to build an accurate picture of the customer also presented difficulties, with **31% of respondents citing tracking customers cross-device as a barrier,** and **23% struggling with attribution of signed-out and guest users.**

Over the course of this report, we will look closely at these challenges and seek to understand the gaps that need to be filled in order to operationalise CLV.

Calculating CLV

In its simplest form, CLV is calculated by adding up the revenue earned from a customer over their lifetime and then subtracting the initial cost of acquiring them. In short:

CLV = (Annual revenue per customer * Customer relationship in years) - Customer acquisition cost

To take an example, a subscription-based online grocery firm wants to boost marketing to create greater awareness of their service among working professionals aged 25-40. In order to establish their marketing budget for the campaign, they could use CLV to work out how much each new customer is worth for them. With a small but loyal existing customer base, they set out on their calculations.

Reviewing their existing customer data, they find the following: each customer receives four deliveries per month, at a monthly subscription cost of £40. Based on existing churn rates, they forecast that each customer will use the service for five years. The average cost to acquire a new customer (based on online marketing tactics, first month free offer, etc.) is around £60.

Applying these figures to our formula shows:

(£480 p.a. x 5) - 60 = £2340²

The company can therefore structure their marketing campaign based on the anticipation that each customer converted will produce £2340 in value.

CLV vs ROI

Conventionally, measuring customer value is based on a simple ROI formula: You take the sales growth from that product or service, subtract the marketing costs, and then divide by the marketing cost. It's a simple way of calculating value, but lacks the crucial time dimension that's vital for strategic decision-making.

CLV looks at a longer time horizon, taking into account spending habits and behaviour. It's therefore a superior metric for assessing long-term profitability as opposed to one-time buying activity. ROI can be perfectly useful in the short-term, but over a longer term could be detrimental to the business as it does nothing to encourage a more circular sales and marketing process. CLV, on the other hand, has a predictive value in that it helps marketers to make decisions to support or change their strategies and tactics. Note that we do not see CLV and ROI as binary choices; ideally ROI should be captured, but only insofar as it's measured to reinforce CLV as the primary measure of customer engagement.

CLV vs Loyalty

Brands often obsess over loyalty. And not without due cause; what better compliment for your product or service than customers coming back time and time again? It stands to reason that businesses should seek to encourage repeat custom, supported by a deeper - though less tangible - sense of goodwill around how they perceive and interact with your brand.

However, loyalty does not always equate to value, and brands should look to apply

² Note that this calculation assumes marketing and revenue costs remain relatively flat, and so businesses may have to tweak the formula based on the intricacies of their own sales model.

more sophisticated metrics to their customer engagement than simply return custom. Indeed, loyalty doesn't work like it used to. Separate Criteo research³ found that **64% of shoppers are willing to consider a new brand**. Of the various reasons that drive consumer decisions to try new brands, **'value for money' is most prominent (63%)**. **Product selection (45%), customer service (44%) and low prices (43%)** are also important factors.

Brand loyalty, therefore, is up for grabs. Customers will still take offers and discounts, but it doesn't guarantee they'll still be there tomorrow. Loyalty drivers have become

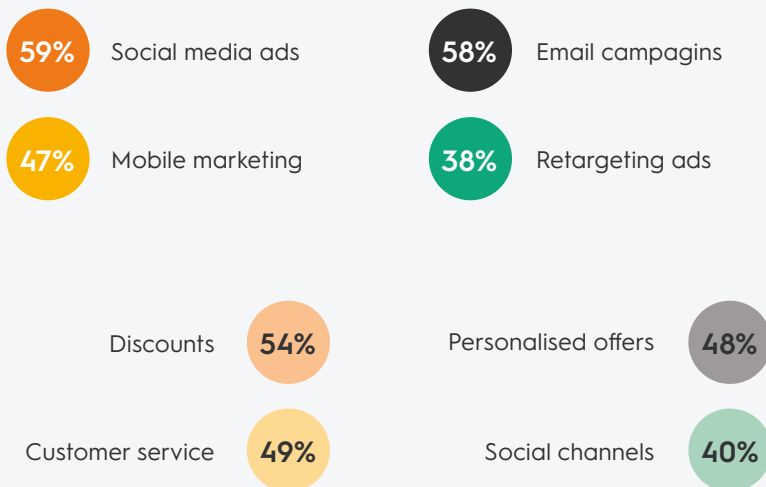
easily replicable by competitors and need to be supported and maintained through individually-appropriate strategies. Loyalty needs to be fostered, but loyalty without CLV cannot be indicative of business health.

CLV is more powerful than loyalty as it provides a more accurate read of true value. Would a business prefer a customer that buys frequently and at high volume over a three-month period, or one that makes intermittent, low-volume purchases over a three-year period? It's distinctions of this kind that CLV helps to manifest.

Encouraging loyalty

Our research asked which channels organisations found most effective for encouraging return customers:

These specific tactics could be used to show the focus on loyalty, but loyalty without CLV is not indicative of a healthy business:



CLV for better budget-setting

It should be clear from these distinctions the role that CLV can play as part of a marketing programme. A changing consumer landscape requires a different approach and mindset; a myopic focus on month-to-month or campaign-to-campaign sales doesn't help to calculate and apportion resources to the

areas in which they are most effective. CLV can be used to focus marketing activities and make sure that budget is directed towards audiences that will yield the greatest returns over a broader time horizon, thus producing cost efficiency for the organisation.

³ Criteo 'Why We Buy' survey UK, 2019

Mind the gaps

The barriers to CLV metric adoption

So far, we've established the value of CLV and have evidenced the fact that UK marketers understand they should be looking at their own activities through this lens. The logical question that follows is: why hasn't it become the de facto way of measuring customer success?

Our 2019 survey provided insight into three broad 'gaps' that are hindering adoption and value. We will look at the extent to which marketers are struggling with these three areas in this section, and compare our new findings with those of the 2018 report.

1. The Business Gap

The first area we investigated related to how comfortable organisations are with the concept of CLV. We sought to understand whether there was understanding and consensus on why the change of focus from 'campaign' towards 'lifetime' is a more effective and cost efficient way of measuring customer activity. Specifically, we wanted to understand whether marketers feel they are receiving the support they need from senior business leaders and other departments to drive the organisation's CLV approach.

Overall, most respondents felt their organisation had a **good understanding of CLV (55%)** compared with **minor or no understanding (45%)**. There was, however, a noticeable split between respondents who saw CLV as a **high business priority (50% - up from 42% in 2018)** and those that thought it was **unlikely to become a priority in the next year (50%)**.

There was general agreement on the benefits of CLV, with nearly two thirds of respondents

(64%) believing that monitoring CLV would help them increase customer retention. Specific use cases included using CLV to increase their customer life span (37%), increasing purchase frequency (32%) and increasing average order value (29%). Only 12% said they **didn't see any value** in their organisation monitoring CLV.

Benefits of CLV



64%

Believe monitoring CLV would help them increase customer retention



37%

Are using CLV to increase their customer life span



32%

Are using CLV to increase purchase frequency

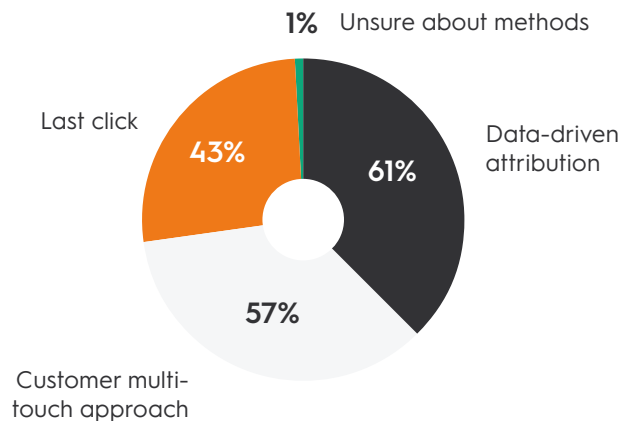


29%

Are using CLV to increase average order value

The research also revealed some of the shortcomings. **66%** of respondents said they could **monitor CLV better**. Specific business challenges to increasing CLV included **unsophisticated strategy (20%)**, **lack of senior buy-in (20%)**, **organisational siloes (17%)** and **CLV not being a priority for their wider organisation**. More than half (**53%**) felt that **marketing is responsible for driving CLV** in their organisation.

Attribution methods



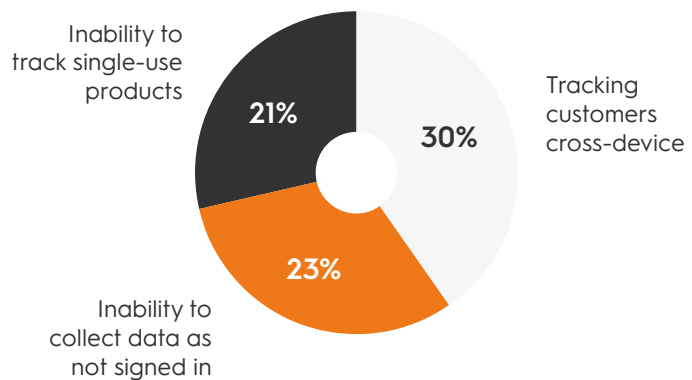
2. The Data Gap

The second area we investigated related to how organisations are capturing and using the data required to make their CLV calculations. We wanted to understand first whether they understood which data is required, and next whether they are gathering the appropriate data from the right sources.

The research suggested UK marketers are generally sophisticated in their use of data. This was especially the case for data use in the context of tracking online advertising activity, a key component of understanding retention and value. **Data-driven attribution (61%), customer multi-touch approach (57%) and last click (43%)** were all identified as attribution methods being employed. Only a very small portion of respondents (1%) were **unsure about their organisation's methods**.

The results did however highlight some significant challenges in getting full value from data. Key data barriers to increasing CLV identified include **tracking customers cross-device (30%), inability to collect data**

Data barriers



due to users not being signed in (23%), and an inability to track single-use products (21%). Gaps in these areas can have a high impact on the accuracy of predictive CLV calculations.

3. The Skills Gap

The third area we looked at related to the skills required to fully benefit from CLV. We asked whether businesses have the right systems, processes and expertise in place in order to make CLV a workable part of their marketing programmes, and whether they

have the bandwidth to deal with their data requirements.

The skills requirement is a crucial part of CLV. Having access to sophisticated data sets and systems to track and formulate the metrics

are only part of the puzzle, and without the right talent in place organisations can easily find themselves tracking the wrong things, or tracking the right things in the wrong way. Skills are therefore a vital component for driving CLV.

In this area we found some causes for concern. **40%** of respondents said their **organisation lacks in-house skills to monitor**

CLV, 27% find it too complicated to monitor and **18% are unable to implement their learnings**. Further, the **in-house skills gap appears to have worsened from last year, rising to 40% in 2019 from 26% 2018**. It should be noted that this increase could align with greater awareness of CLV, i.e. marketers last year simply weren't fully aware of their shortcomings. In any case, it will be an important issue to tackle.

CLV skills shortages



Causes for concern?

Following on from our 2018 report, the gaps identified remain largely consistent with expectations. While CLV is by no means a new concept, an increasingly complex and competitive market environment makes it harder for marketers to harness CLV data on a dynamic basis. What's particularly apparent is that worthwhile CLV calculations need to result from cross-department

collaboration in order to ensure all customer touchpoints are accounted for.

We should also take encouragement from the findings that marketers are acutely aware of why they need to be monitoring CLV and have focus on what benefits they can gain from its application.

Bridging the gaps

How to implement CLV

Our research not only highlighted some of the gaps relating to CLV, but also provided some valuable insight into how organisations may go about bridging these gaps in order to make CLV a functional part of their culture and business processes. In this section we reveal the findings and provide some suggestions for how you may address these gaps in your own organisation.

Bridging the Business Gap

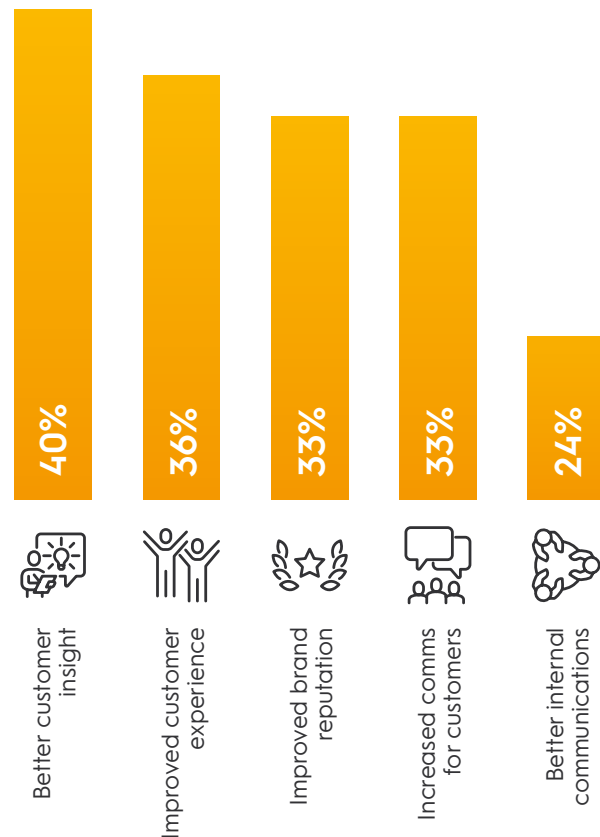
Addressing the challenges identified at an organisational level involves devolving responsibility for CLV to other departments. We saw earlier that CLV is still predominantly viewed as the domain of the marketing department and not seen as a company-wide responsibility. The benefits of CLV, however, go far beyond sales and marketing and extend to business functions such as product development and customer relations. It's therefore crucial that understanding of CLV is spread across business lines.

Our respondents **provided insight into how CLV could be improved in their organisation**. Specific areas identified included **better customer insight (40%)**, **improved customer experience (36%)**, **improved brand reputation (33%)**, **increased communications for customers (33%)** and **better internal communications (24%)**. It's clear that enhancing these areas goes beyond marketing and requires corporate comms and customer service to play a central role in how CLV is monitored and applied.

Recommendations

- **Find a C-Suite sponsor;** Bringing an organisational shift can be difficult for marketing to achieve alone. Having a

How CLV could be improved in respondents' organisations



senior figure in the organisation who really understands CLV and encourages focus within the senior leadership team is immensely valuable.

- **Get other department heads inside and make sure they understand CLV;** In order to have effective collaboration and data sharing, head of business lines can help encourage its adoption within their teams.
- **Overcome siloes;** Make enhancing CLV a responsibility for all customer-facing employees, regardless of where they sit in the company.

Bridging the Data Gap

We've established that accurate data is a crucial element of calculating CLV. Being able to collect omnichannel data with accurate attribution places a company in a better position to develop a dynamic framework for calculating CLV, and for making the metric to inform their marketing campaigns.

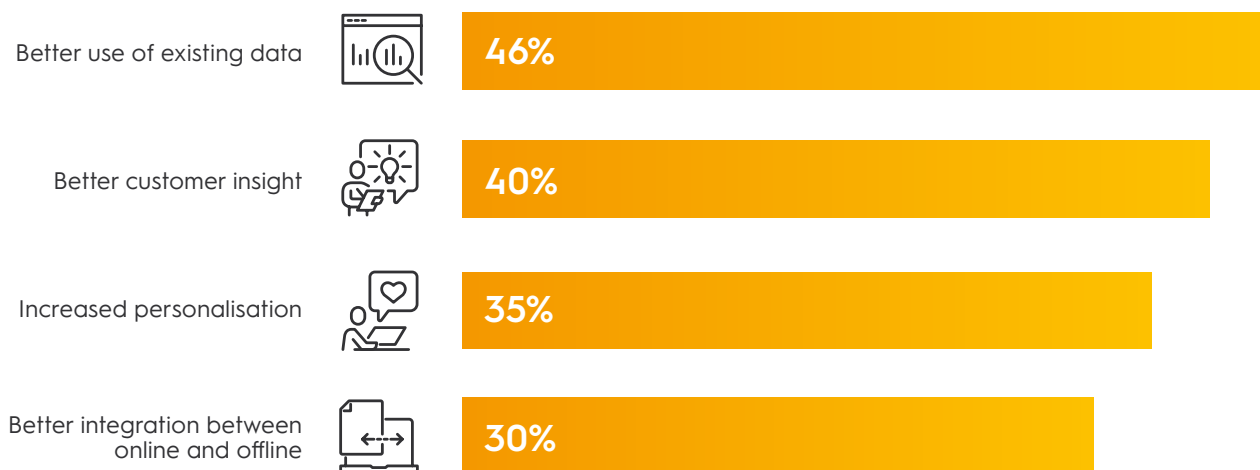
Our respondents showed **strong awareness of where data could enhance their CLV. Better use of existing data (46%), better customer insight (40%), increased personalisation (35%) and better integration between online and offline (30%)** were identified as the key elements that would enable them to improve CLV for their organisation in future.

These desires cannot be filled in a vacuum. To become practicable, they need collaboration across departments combined with strategically-defined data processes.

Recommendations

- **Gain a 360-degree view of the customer;** Piece together data from all customer touchpoints to ensure that CLV calculations are as robust as possible.
- **Improve data flow;** Establish processes to ensure all relevant CLV data is collected and put to use.
- **Commit to becoming a customer-centric company;** CLV is an opportunity for your business to enhance the quality of the service it provides to customers. Making best use of available data can facilitate this.

How data could enhance organisations' CLV



Bridging the Skills Gap

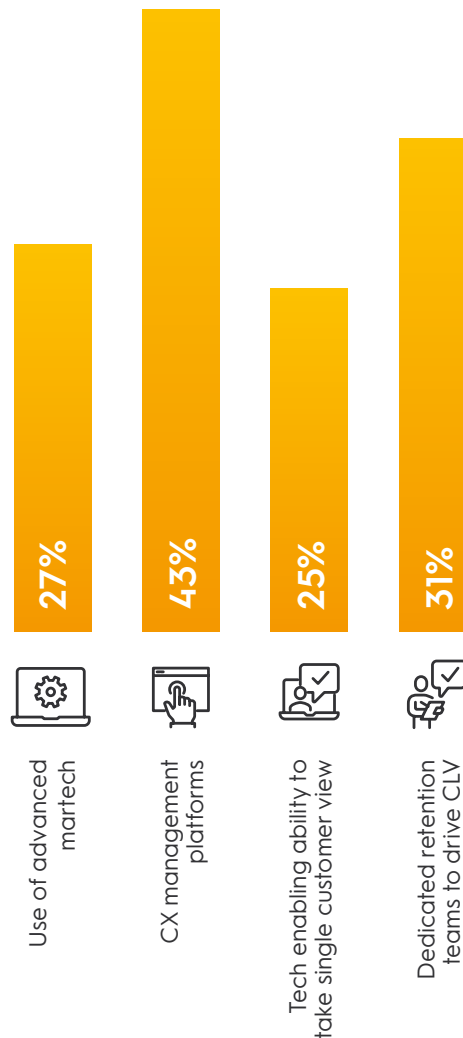
We identified earlier the importance of having the right skills on hand to collect, blend and implement data in order to operationalise CLV. As we saw, in-house data talent is a challenge for a large portion of the organisations we spoke to. With intense competition for scarce talent, we asked respondents about what could be done to support their efforts in this regard.

The respondents **identified use of advanced martech (27%) as the most effective means for enhancing CLV**. Specific tools required include **CX management platforms (43%)** and **technology enabling the ability to take single customer view (25%)**. The human element was also highlighted, with nearly a third of respondents **(31%) acknowledging the importance of dedicated retention teams to drive CLV through customer relations**.

Recommendations

- **Designate responsibilities;** Have clear responsibilities and chains of command for monitoring, maintaining and acting upon CLV. These responsibilities should not only be held within the marketing team.
- **Make targeted investments in martech solutions;** Choose which platforms you require based on your specific CLV data needs. Being able to consume solutions as-a-service will help create cost efficiency.
- **Consider managed data services;** If you lack the required skills in-house, consider outsourcing or out-tasking as a means of gaining expert support in a reliable way.

Effective means for enhancing CLV



How Criteo can support

At Criteo we're laser-focused on helping our clients to achieve their Customer Lifetime Value goals. Our full-funnel advertising solutions provide a range of targeting capabilities to maximise repeat customer purchases across the web, apps and in physical stores.

The Criteo Platform allows us to identify and target the customers that are most likely

to become our clients' new most valuable shoppers. Our unique commerce data set is built from a detailed understanding of 1.9B monthly visitors who spend over \$800B in annual ecommerce transactions. We've developed a number of optimisation tools to answer the needs of clients who wish to move beyond simple transactions to maximising customer loyalty and lifetime value.

Conclusion

Customer loyalty remains a holy grail for businesses. If we can project with any degree of certainty what customers will do next week, next month or next year, we can structure our business operations to accommodate. We can invest more in enhancing our product or service, employ more staff and with more defined expertise, and attract more customers through more creative marketing initiatives.

As we've seen in this report, however, loyalty alone isn't enough. Intermittent or low-value transactions do little more to facilitate business growth and development than simple one-off or offer-led transactions. We need a multi-dimensional approach that accounts for the period over which someone can be defined as 'a customer', and we need methods in place to maximise their value to the business, whether that means encouraging them to buy in greater volume, at a faster rate or at a higher unit value. If we're able to identify this multi-dimensional customer, we can optimise the business to attract repeat purchases and more people like them.

Through CLV, organisations have a measure through which they can gain this perspective. They can bring data from across all customer-facing parts of the business to create a dynamic and accurate picture of

customer interactions, and use the calculation as the basis for decisions on where to direct resources to further enhance customer value.

Our research showed that UK marketers are yet to fully embrace CLV. Comparing with last year's research, we can see that it's become even more of a priority, yet implementing it hasn't been any easier a task. We identified the gaps that the organisation needs to address in order to make CLV part of its culture, capture the data required to fuel CLV models and ensure access to the skills necessary to optimise its use. We then offered some suggestions for how a marketer might seek to drive progress in these three key areas.

For any business, regardless of how advanced they are on their CLV journey, it's important to remember that CLV reflects the nature of customer relationships. Customer behaviours and spending patterns are not always predictable and so modelling all elements of customer interactions needs to be dynamic. Monitoring CLV can help to create a self-enhancing system where the data inputs and outputs are in equilibrium; the more value you can attract from customers, the more value you can give to customers, new and existing.

The research has also highlighted some positive signs on the state of CLV. There's indication that the concept will receive greater adoption in the coming years as it becomes more widely understood and companies become better able to capture and process the right data in order to calculate it easily and consistently.

ROI, as the primary measure of customer value, is finally being replaced with a metric more suitable for meeting the needs of the customers and businesses of today.

Farewell, ROI – long live CLV.

