Metrics For Measuring Customer Loyalty

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In my experience, cultivating customer loyalty through loyalty programs and other means has never been more critical. Never before have customers had such easy access to other purchasing options if they're unhappy with a company or if they simply spot what they believe to be a better deal elsewhere.

The good news is that marketers have also never had so much data that allows them to access information on customer behavior and customer loyalty. There are a number of elements for measuring customer loyalty, and marketers can adjust their strategic approach in response to how consumers think about loyalty to a brand, what they care about, what they buy and, more importantly, what drives their loyalty.

Measuring Loyalty: Emotional Versus Behavioral

From what I've seen, more and more brands are exploring the use of loyalty programs to retain customers. Customer retention is critical at a time when many customers are using their mobile devices to check prices and other information when deciding whether to make a purchase in stores.

In the past, customer loyalty was measured solely by customer behavior. A new understanding of customer loyalty and access to more insights means that today customer loyalty metrics include emotional connections as well. Some experts argue that even though emotional loyalty may be harder to measure, it "must be considered to build a true loyalty measurement equation."

An example of behavioral or rational loyalty includes making purchases because it's possible to get or redeem points or get other incentives. Rewards are powerful motivation, but emotional loyalty can be as persuasive or even more so. One example is the way people feel about a company such as Disney. People of all ages have a powerful emotional attachment to the company — and its movies, theme parks, cruises and more — that exceeds what any behavioral motivation could offer.

Looking at Disney provides clues about what attracts customers in terms of emotional loyalty. One element of emotional loyalty is an attraction to the story a company tells. For many people, their feelings about the stories that Disney movies and TV shows tell are inextricable from the company itself.

However, companies don't have to make movies to engender these feelings of customer loyalty. Ad campaigns, engaging with customers through social media, personalized communications, shared causes and a companywide policy of treating customers as though they belong are all ways of building that emotional relationship.

A study by Capgemini found that consumers with high emotional engagement have a stronger brand affinity compared to those with low emotional engagement: "86% of consumers with high emotional engagement say they always think of the brands they are

loyal to when they need something, and 82% always buy the brand when they need something. This compares to 56% and 38% of consumers with low emotional engagement."

Customer Loyalty Metrics

One way to think about behavioral and emotional loyalty is that the former describes how customers act, while the latter describes how they feel. The ideal overlap is customers who both act and feel loyal, but there isn't always a direct correlation between emotional and behavioral loyalty. When setting out to measure loyalty, it is essential to understand that building emotional loyalty can take time.

Behavioral loyalty can be measured using metrics that look, in part, at the state of loyalty programs. This includes examining how many people enroll, the redemption rate, how active the customer is within the loyalty program and the return on investment for the loyalty program. The overall picture may include examining how many total customers are acquired and customer churn rates. Metrics for emotional loyalty include customer satisfaction, customer influence, recommendations to others, brand affinity and overall customer sentiment toward the brand.

Many of these metrics should be viewed within a broader context. For example, repurchasing rates are one measure of customer retention. However, in isolation, they don't necessarily indicate loyalty because a customer could merely be making the repurchase because of convenience or for similar reasons. Social media offers many opportunities to observe customer advocacy, and some brands have created referral programs to take advantage of this advocacy. For example, Evernote, a note organizing and planning app, rewards customers for referring friends. With its referral page, it's easy for customers to post referral links on Twitter or Facebook.

Information about nonpurchasing behavior such as email open rates, time on site, average page visits, use of mobile apps and more can indicate their effectiveness. A straightforward tool for measuring emotional loyalty is asking customers how likely they are to recommend a product or service to others. However, make sure you examine all of these metrics in the larger context of overall customer behavior.

Building and measuring behavioral and emotional loyalty are long-term projects. Examining trends is usually more effective than looking at short-term data. Identify existing loyalty program performance metrics, and then look at whether they are effective predictors of success.

Developing a reliable set of loyalty program benchmarks and ways of measuring loyalty overall is a process of trial and error. It also involves recognizing that customer attitudes may shift over time, and old metrics may need to be reworked to better understand customer behavior. However, a system for measuring both behavioral and emotional loyalty can eventually be a powerful marketing tool.

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