dotdigital

How to measure customer loyalty

4 KEY METRICS TO MEASURE LOYALTY

Loyal
3,866 (16.83%)

Champions
644

High-potential
1.059

CHEATSHEET

Customer loyalty is really important for all brands, but it can be difficult to measure.

Traditional email metrics like opens and clicks don't capture the whole picture, and even order data won't tell you everything.

Knowing who your loyal customers are is so important, yet **44%** of businesses fail to measure customer loyalty. Measuring customer loyalty provides key insight into the overall health of your customers and enables you to uncover what drives loyalty so that you can work to increase it.

In this cheatsheet, we're sharing four ways you can measure customer loyalty to build a complete and reliable picture of your customers. Plus, we will be sharing some key ways you can then utilize this data to elevate your overall results and brand loyalty.

Let's get started.

01

Net promoter score (NPS)

What is NPS?

NPS stands for net promoter score. It's a measurement of your customer's likelihood to recommend your brand to friends and family, scoring you out of ten. Any customer who chooses a score between zero and six is considered a 'detractor', seven and eight are considered 'passives' and nine and ten are considered 'promoters'.

You work out your NPS score by subtracting the percentage of customers who choose a 6 or lower from the percentage of customers who answer with a 9 or 10.

This means your score will sit somewhere between -100 and 100. Any score above 0 means you have more promoters than detractors, which is good. Generally, it's accepted that below 0 is bad, 0-30 is good, 30 - 70 is great and 70+ is outstanding. For reference, Amazon's NPS score is 73, and Starbucks is 77, so even huge, global companies aren't hitting 100.

Detractors   **Passives**   **Promoters**

| 0 | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |

Not likely to recommend

Extremely likely to recommend
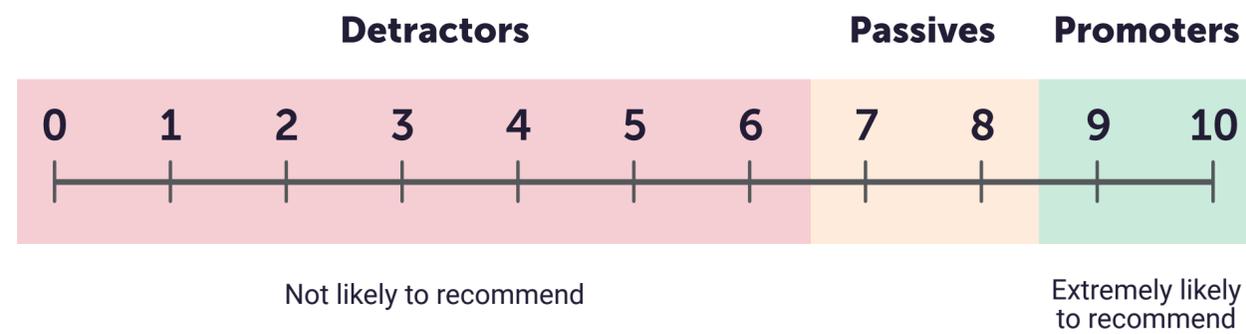
How to collect NPS feedback

You can ask customers to complete your NPS survey via your website or email. Although it's called a survey, it's really only one question - and that means just one click for the customer, so make that clear in your invitation. Your audience is likely short on time, so making it clear that it's super simple to answer will hugely increase your response rate.

Grab customers whilst they're engaged and add an NPS survey to appear on pages such as an order confirmation page. Exit popovers with your NPS survey that target users just before they leave your site is another easy way to add in an extra touchpoint.

Email is also a great way to collect NPS scores, keep it simple, and include it in campaigns sent out after a purchase or other meaningful interaction. Add relevancy by personalizing the email to ask the customer how their recent experience was and link to your NPS survey.

For more detailed feedback you can add in follow-up questions to your survey. Ask customers why they chose that score with a freeform text box to answer. This removes guesswork behind why customers have scored you the way they have, and is especially valuable if it's the first time you're collecting NPS scores.

How to use NPS to measure loyalty

Your NPS score is a great indicator of the overall happiness of your customer base, which is a great indicator for loyalty. If your score is low, you know that your customers aren't happy and are therefore unlikely to stick around, whereas if you have a great score, you can rest assured that your audience is happy with your offering.

The NPS survey itself can also help you see how you're doing at different stages of the customer journey. This is especially true if you are gathering written reasons for the scores as part of a follow-up question. NPS surveys completed after a purchase will help measure overall customer satisfaction, whilst those completed as part of an exit popover will help identify holes in the customer experience and allow you to optimize.

How often you should send out NPS surveys will depend on your product or service offering. If every interaction is likely to be different, regular sending triggered by customer behavior such as a purchase is valid. If your offering is going to be similar every time, you don't want to annoy your customers so stick to once every three or six months.

Regularly capturing this insight allows you to monitor your NPS score over time and be proactive in boosting it and noticing any drops quickly. An NPS survey is super simple for customers to answer to response rate is often high, giving you a reliable picture.

02

Customer retention rate and repeat customers

What is customer retention rate?

Customer retention rate is the rate at which your customers stick around over a period of time. It's the opposite of churn rate, and it's a very valuable metric when measuring customer loyalty.

To work out your customer retention rate, you need to pick a period of time that makes sense for your business, i.e. monthly, quarterly, or yearly, and then follow the below formula.

For example, if you choose a period of one month and you begin the month with 4 customers (S), gain 2 (N), and lose 3, ending the month with 3, your customer retention rate would be 25%.

The formula for customer retention is:

$$CRR = [(E-N) \div S] \times 100$$

E = number of customers at the end of the measured period

N = customers acquired during the measured period

S = number of customers at the beginning of the measured period

E (3) - N (2) = 1
1 ÷ S (4) = 0.25
0.25 x 100 = 25%
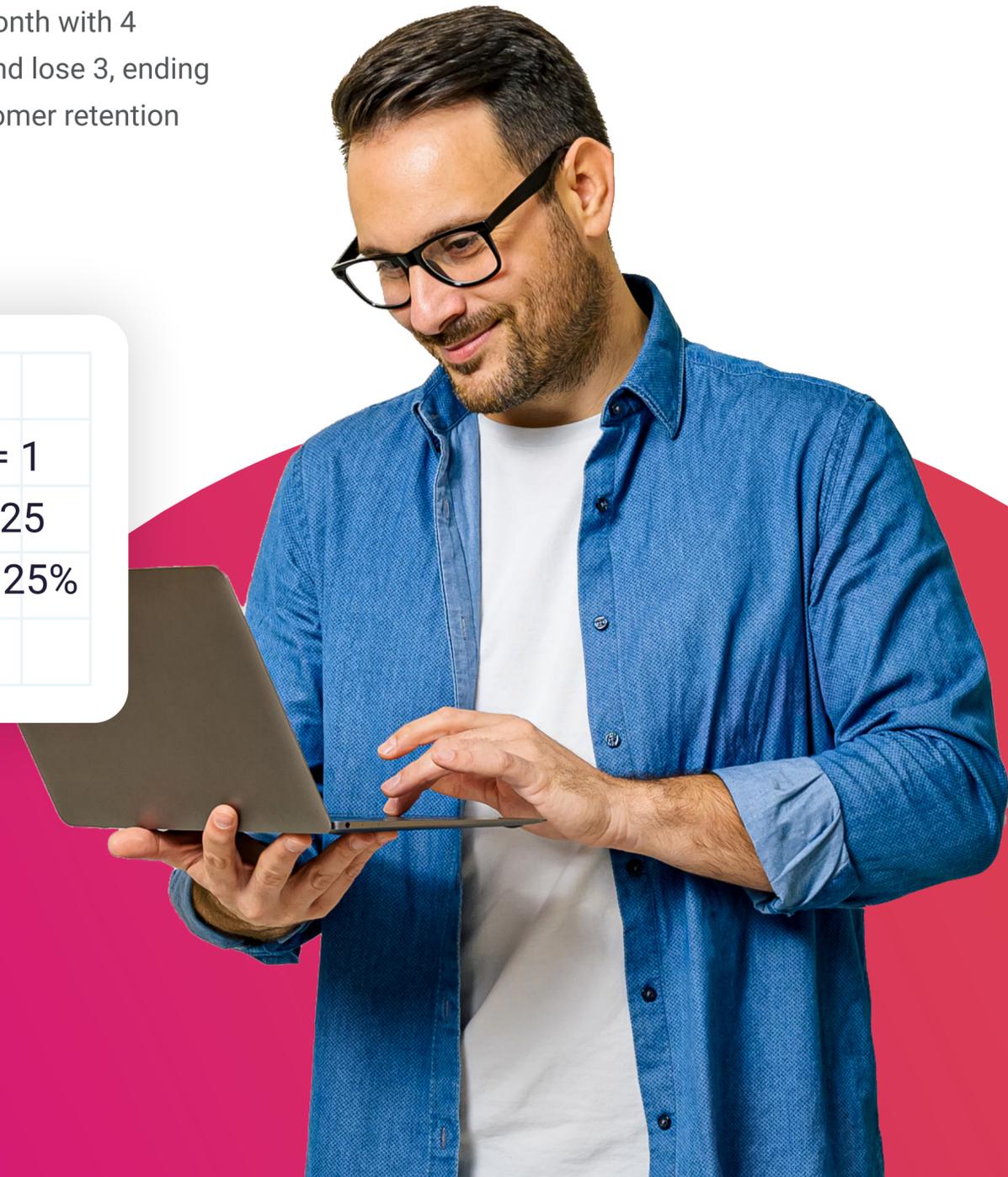
Retention rate vs. churn rate

Churn rate is the inverse of your retention rate, the number of customers to churn from your business over a given time period - but there can be a lot more nuance in customer churn - depending on your business model.

Customer retention rate also varies by industry as the nature of your business and the wider choice in the market play a huge part in it. For example, banking is 78% whilst hospitality, travel, and restaurants are 55%. Having a few different metrics to track customer loyalty is important to ensure you're seeing the full picture.

Customer retention rate is a strong indicator of loyalty as it is literally the number of customers who are still active with your brand over a set period. If your retention rate is low, it is a clear indicator that you need to focus your efforts on retention strategies. Customer retention is a lot cheaper than acquisition, so ensure you're not just hoping for the best once you've finished the acquisition stage.

Global customer retention rates by industry 2018
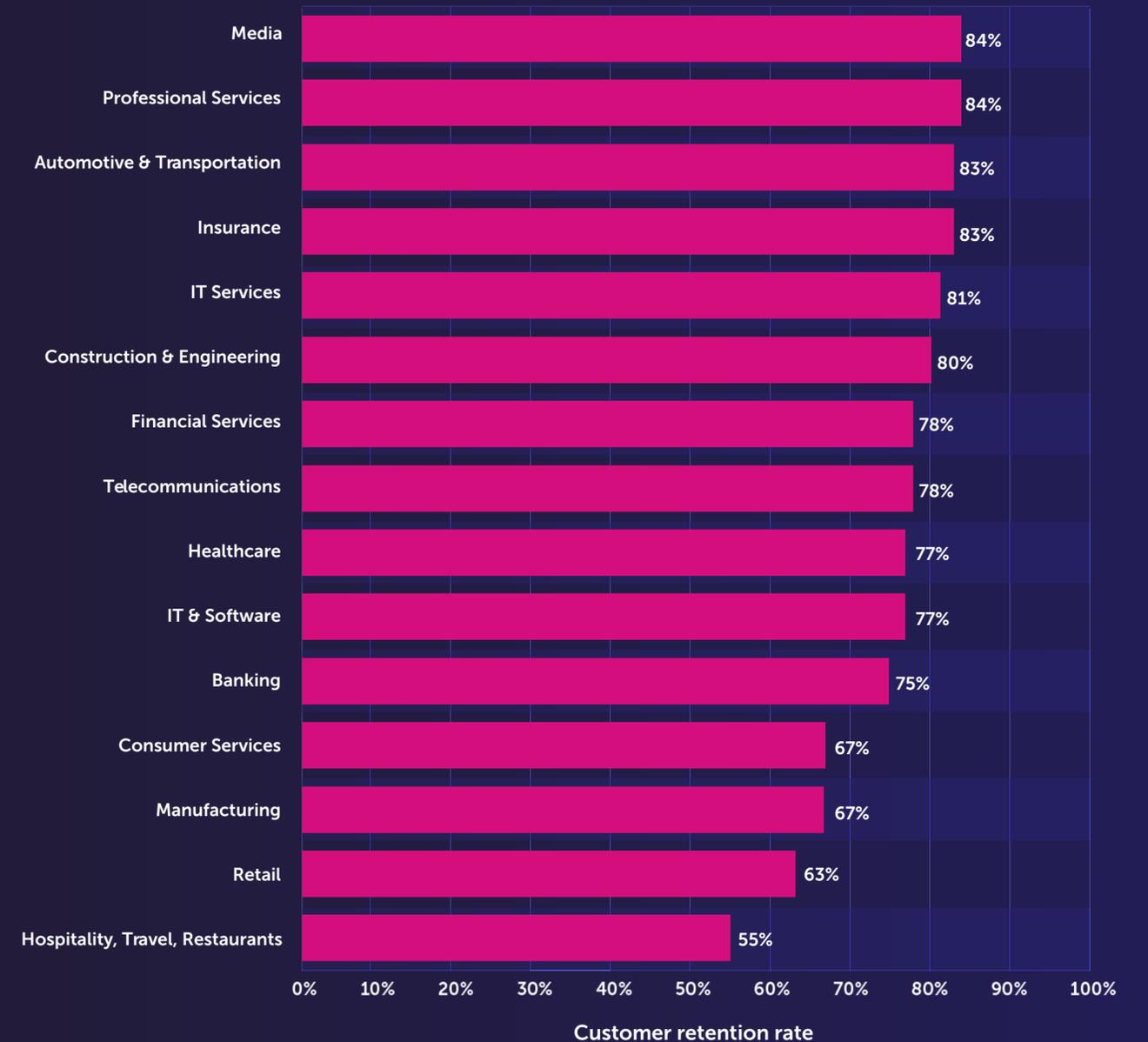
Industry	Customer retention rate
Media	84%
Professional Services	84%
Automotive & Transportation	83%
Insurance	83%
IT Services	81%
Construction & Engineering	80%
Financial Services	78%
Telecommunications	78%
Healthcare	77%
IT & Software	77%
Banking	75%
Consumer Services	67%
Manufacturing	67%
Retail	63%
Hospitality, Travel, Restaurants	55%

Customer retention rate

Go one step further and measure repeat customers

Enhance your reporting of customer retention by going one step further and looking into your repeat customers over the period. Discovering the number of repeat customers over the same timeframe gives you a stronger indication of customer loyalty.

Utilize the Dotdigital retail **dashboard** to look at the time period you're measuring the retention rate, and filter it to show the number of orders higher than one.

	Engaged	Highly engaged	Most engaged
Champions			
Loyal	25	180	360
Recent			
High potential			

03 Customer lifetime value (CLV)

What is CLV?

Customer lifetime value is the total amount of revenue or profit generated by a customer over their entire relationship with your brand - whether that's just one day or decades.

This is calculated by multiplying the number of purchases annually by the amount spent and then multiplying by the number of years the customer is active.

Formula for customer lifetime value (CLV)

Purchases per year	x	Average order value	x	# years customer is active	=	Customer lifetime value

For example

3 purchases	x	**$50**	x	**4 years**	=	**$600**
Purchases per year		Average order value		# years customer is active		Customer lifetime value
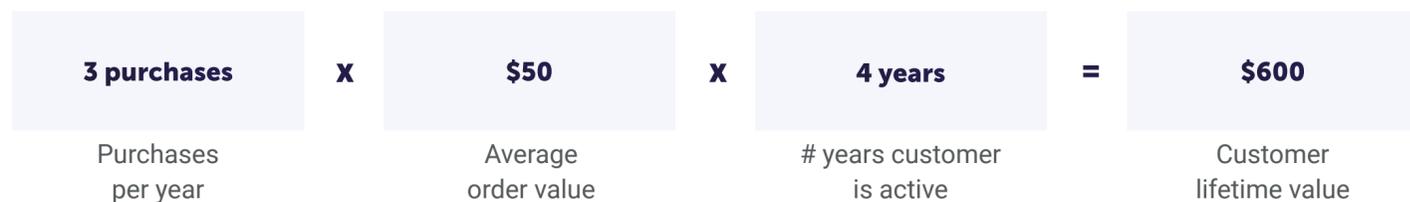
The different types of CLV

There are different types of customer lifetime value (CLV), there's the classic one we've just explored, and there's also predicted customer lifetime value.

In Dotdigital, our AI-powered analytics can give you a predicted lifetime value of your customers. This is useful for planning, segmentation, and reporting.

Driven by recency, frequency, and monetary (RFM) values, our predictive CLV model looks at purchase history to predict the number of upcoming purchases. It even considers events such as seasonal changes or sales events (Black Friday, discounts, etc). The model then uses churn probability to calculate how much revenue the customer will likely generate over their lifetime.

How to use CLV to measure loyalty

Essentially, the higher a customer's CLV is, the longer they're going to stick around with your brand. When looking at absolute CLV, you can analyze the data of customers with the highest CLV to identify patterns. You could discover a certain type of persona is highly likely to have a high CLV. This allows you to focus your acquisition and nurture efforts on this persona in particular to boost this pot.

When you utilize predicted CLV, you're also able to use this data to easily segment and focus on your high-value customers. Equally, you can see which customers aren't expected to generate much revenue and step up your efforts of engaging these customers with win-back and re-engagement campaigns.

04

Engagement metrics

What are engagement metrics?

Engagement metrics are the classic ways you measure customer engagement such as clicks, orders, and website sessions.

These metrics provide you with clear data that shows you how engaged different customers are with your marketing campaigns. When you dive into your customer data you can see not only who is engaged right now, but also their engagement record over time. You'll be able to see where engagement started to drop off for some customers and possible patterns indicating a bigger problem to address.

Measuring your engagement metrics is important for overall customer loyalty as these insights can highlight opportunities to improve the customer experience, thereby boosting the likelihood of loyalty. This could be from targeting and nurturing customers whose engagement is dropping, and by seeing which content is generating high engagement so you can create more of that.

David Shaw
Subscribed 20 February

RFM persona	Champion
Engagement level	Highly engaged
Contact score	★★★★☆
Optimized send time	10:30am
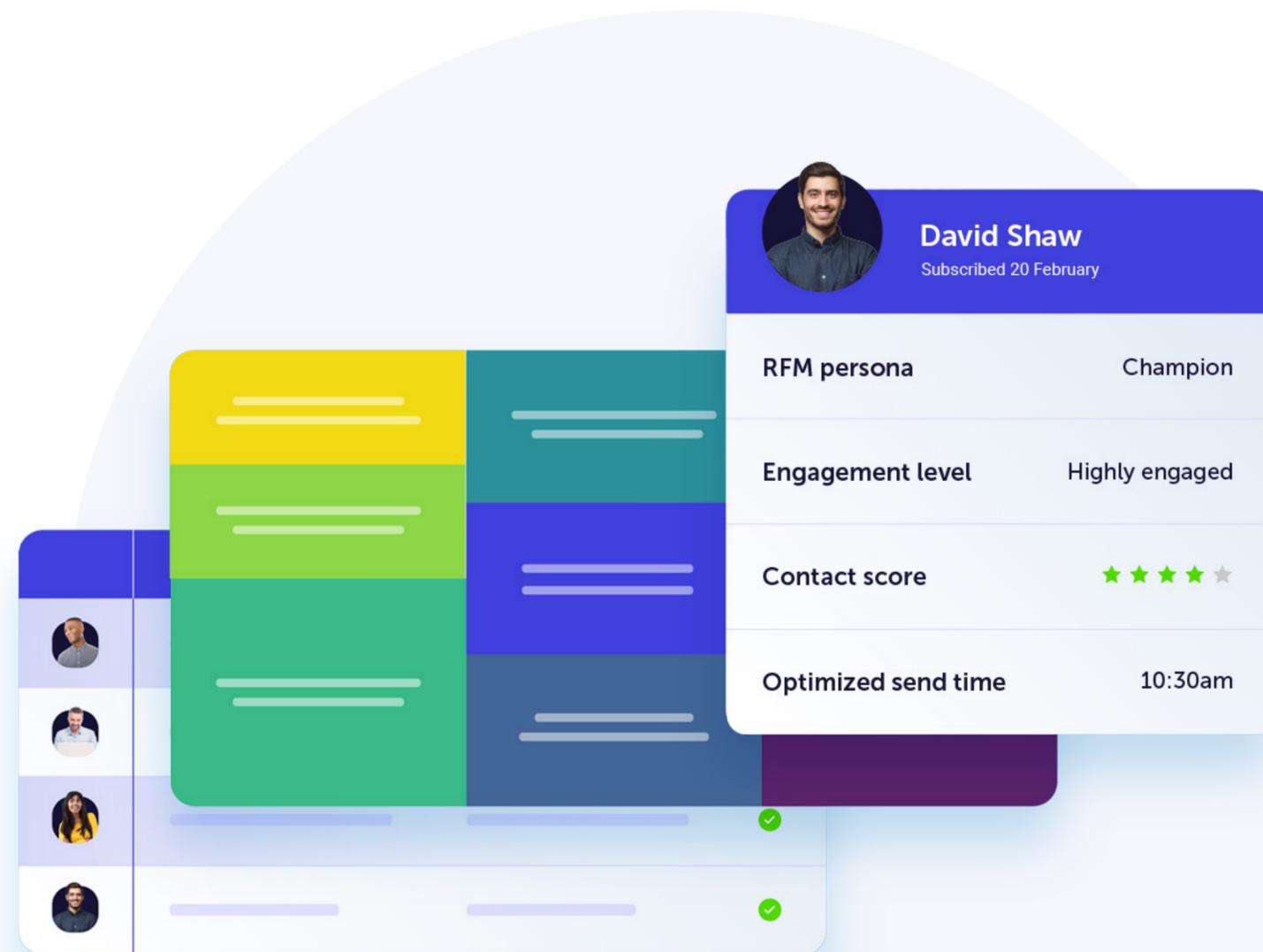
How to use engagement to measure loyalty

When your customer engagement numbers are high, it indicates that your customers are highly engaged with your brand. Engaged customers are often happy customers who have bought into your brand and will stick around.

Utilize the Dotdigital opportunities dashboard to easily see which customers are performing well, and those who may need extra attention. The dashboard combines customer persona with engagement metrics to highlight opportunities. You can then create segments from this data, ready to target them with a relevant campaign.

You can also get a quick view of how your customers are behaving over time with the persona movement report. This report allows you to select a date range and see how customers have moved between personas over that time frame. This lets you see if there's a general trend towards becoming more or less engaged over time as personas change between 'needs nurturing' to 'champion' for example. Again, you can create a segment here to target any customers who are becoming less engaged and target them with a relevant campaign to up their engagement, and therefore loyalty in the long term.

Turning loyalty insights into action

Once you've got a solid picture of your customers' loyalty, you can start to use it to inspire action. Now you know what you're working with, you can see which areas need focus and which wins you can continue to nurture.

Utilizing insights such as AI-powered predictive analytics allows you to be proactive and grow customer loyalty before it's even waned. Also, make sure you regularly analyze the answers to your NPS survey follow-up questions. Even if your score is great, learning why that is allows you to ensure that the reason for this remains and lets you know what your customers value most.

Customer loyalty is so valuable to your brand, so keeping a strong understanding of where it's at, and what's causing it will set you up for long-term success.

Conclusion

Measuring customer loyalty is of utmost importance for brands as it serves as a great indicator of overall success in the long term. Obtaining a complete and reliable picture of your customers is essential to nurture your most loyal ones, and drive loyalty amongst those not quite there yet.

A full picture of customer loyalty is crucial for a reliable result. In this cheatsheet we've covered four key metrics: net promoter score (NPS), customer retention rate, customer lifetime value (CLV), and engagement metrics, all of which contribute to a comprehensive understanding of your customers.

By utilizing these metrics and turning insights into action, you have the opportunity to be proactive and grow customer loyalty amongst your entire customer base. Regular analysis and monitoring of these metrics allow you to be in tune with your customers and their needs. This means that you're much better placed to serve them, resulting in a better experience for them alongside better results for you. By continually refining your approach, you can make the most out of your super fans and drive your brand's success for years to come.

Grow loyalty with Dotdigital

Create loyal customers from the first click with Dotdigital and benefit from long-term success.

Watch a quick demo

Create a winning customer experience with our easy-to-use platform that allows you to engage your customers on every step of the customer journey.

Keep a close eye on your success with comprehensive, but never confusing, reporting. Easily spot opportunities and know where to focus.

Save time with our generative AI support. Stuck on a subject line, need your copy to change tone, or want a quick spell-check? WinstonAI is on hand to help.

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