



# The Significance of Customer Engagement: *An Investigation into Customer Lifetime Value (CLV)*

F R O S T      S U L L I V A N

A Frost & Sullivan White Paper

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**AVAYA**

<b>Executive Summary .....</b>	<b>3</b>
<b>Quantifying CLV – The Underestimated Role of Customer Retention.....</b>	<b>5</b>
<i>What is Customer Lifetime Value (CLV)?.....</i>	<i>5</i>
<i>Calculating Customer Lifetime Value.....</i>	<i>5</i>
<i>The Underestimated Role of Customer Retention .....</i>	<i>6</i>
<b>Frost &amp; Sullivan Research: Background .....</b>	<b>7</b>
<i>Frost &amp; Sullivan Research: Confirming the Importance of CLV .....</i>	<i>7</i>
<i>Key Finding: CLV Users Outperform Non-Users on Customer Experience, Loyalty, and Satisfaction .....</i>	<i>8</i>
<i>Key Finding: CLV Users Outperform Non-Users on Profit Growth and Overall Profitability.....</i>	<i>9</i>
<i>Key Finding: The Ability to Measure Various Aspects of the Customer Experience, Engagement, and Lifetime Value is Necessary to Effectively Manage and Achieve CLV Objectives.....</i>	<i>9</i>
<b>Integrated and Holistic: The Omni-Channel Imperative .....</b>	<b>9</b>
<i>Key Finding: Seamless Multi-Channel Capability and Contact Optimization Capability are More Fully Realized By High-Performance Strategic CLV Users .....</i>	<i>10</i>
<b>The Contact Center – Strategic Necessity For Customer Engagement .....</b>	<b>10</b>
<i>Key Finding: The Adoption of CLV is High .....</i>	<i>11</i>
<i>Key Finding: CLV Rejection is Low and its Adoption is Increasing.....</i>	<i>11</i>
<b>It's About Fundamental Business Transformation.....</b>	<b>11</b>
<i>Key Finding: Business Orientation Can Enable or Prevent the Adoption of CLV, its Strategic Use, and High Performance.....</i>	<i>12</i>
<i>Key Finding: Organizational Capabilities Need to be Developed and Evolved to Achieve Higher Customer Engagement and Increased CLV .....</i>	<i>12</i>
<b>Key Takeaways.....</b>	<b>12</b>
<i>Percentage More Likely to be CLV Users.....</i>	<i>13</i>
<i>Percentage More Likely to be “Strategic CLV” Users.....</i>	<i>14</i>
<i>Percentage More Likely to be “Fully Optimized Strategic CLV” Users .....</i>	<i>14</i>
<b>Emergent Themes.....</b>	<b>15</b>
<b>Conclusion .....</b>	<b>17</b>
<b>Technical Appendix .....</b>	<b>18</b>

## EXECUTIVE SUMMARY

Customer engagement is a more nuanced concept than many assume. Every interaction that a customer has with a company is consequential, as it contributes to that consumer's overall impression of, and engagement with, the business. As Avaya points out:

“

Today's customer relationships are ongoing conversations  
that unfold across time and channels.

— Avaya

”

The sum of all the interactions that a customer has with a brand will therefore equate to an overall customer experience that affects that customer's level of engagement with the brand.

A positive, productive customer interaction contributes to the overall customer experience, which in turn drives high customer engagement and increases Customer Lifetime Value (CLV). Indeed, a more engaged customer becomes a more satisfied customer, more likely to spend, to recommend to others, and to remain loyal.

Customer engagement is therefore critical to the concept of Customer Lifetime Value (CLV)—the present value of all the future cash flows attributed to a customer relationship; in other words, the customer spend, retention, loyalty, and advocacy, as well as the new customers that are acquired as a result. Put another way, customer engagement done right translates into increased revenue over a longer period at a lower cost—a higher lifetime value of customers.

### EXPLORING THE CHALLENGE

The challenge many organizations have is quantifying the value of customer engagement and determining the optimal mix of strategy, people, processes, culture, and technology to ensure it delivers the maximum Customer Lifetime Value.

To explore this in greater depth, Avaya engaged Frost & Sullivan to design and execute a research study to provide insights into industry perceptions of, and experience with, CLV adoption, measurement, tracking, and solution implementation. The research was conducted in February 2015, surveying 400 key customer loyalty and acquisition decision makers from companies with at least 1,000 employees.

That research points to important findings related to the Customer Lifetime Value, including:

- **Adoption of CLV is high.** Of companies surveyed, 70% use CLV; 67% of CLV users consider it to be an essential part of their business strategy.
- **Adoption of CLV is increasing.** Only 2% of businesses surveyed stated they will not adopt CLV at any point in the future. Meanwhile, of those companies not using CLV, 15% have an active project and budget to start using it.
- **High-performance CLV.** When it comes to customer experience, loyalty, satisfaction, profit growth, and overall profitability, CLV users outperform non-users.
- **Business Orientation.** For businesses, embracing the concept of CLV suggests that all organizational decisions and actions are consequential when it comes to the customer. “High-performance CLV Users” have relatively more seamless multi-channel capability as well as contact optimization capability. Enabling smooth Customer Journeys across channels therefore suggests a more engaged and satisfied customer that is more likely to spend, recommend to others, and remain loyal. Business orientation can therefore enable or prevent the adoption of CLV, its strategic use, and high performance.

**Business Orientation** - For businesses, embracing the concept of CLV suggests that all organizational decisions and actions are consequential when it comes to the customer.



- **Customer support and customer retention.** When it comes to plans for large reductions in customer support expense, it's important for companies to ask how such plans might adversely affect customer retention and CLV. Similarly, the ability to measure various aspects of the customer experience, engagement, and lifetime value is necessary to effectively manage and achieve CLV objectives.
- **Improved retention as investment outcome.** When considering an investment in customer support, the CLV framework allows a business to look at improved retention as a valuable investment outcome.

## QUANTIFYING CLV – THE UNDERESTIMATED ROLE OF CUSTOMER RETENTION

### *What is Customer Lifetime Value (CLV)?*

Customer Lifetime Value (CLV) is the present value of all the future cash flows attributed to a customer relationship. As such, it is a framework involving multiple, interconnected data points, some of which organizations may not always understand and many which companies do not track. Still, the CLV framework is hugely important. Quantifying and measuring CLV helps businesses see that all of their decisions and actions are tied together.

According to Robin Foster, Practice Lead for ROI Analysis at Avaya, companies considering Customer Relationship Management-related investments still want to see the Return on Investment (ROI) based on hard savings related to levers they feel they control (costs, headcount, etc.). However, for Foster, other critical levers are often excluded from the analysis, such as:

- Improvements in customer acquisition or higher referral rates are seen as “soft” and often excluded from ROI analysis.
- Improvements in revenue due to upselling/cross-selling and retained revenue due to improved customer retention are also often excluded from ROI analysis.

For Foster, companies could dig deeper and calculate the full value of any investment, in other words, the customer lifetime value, even though the calculation is likely built on estimated numbers.

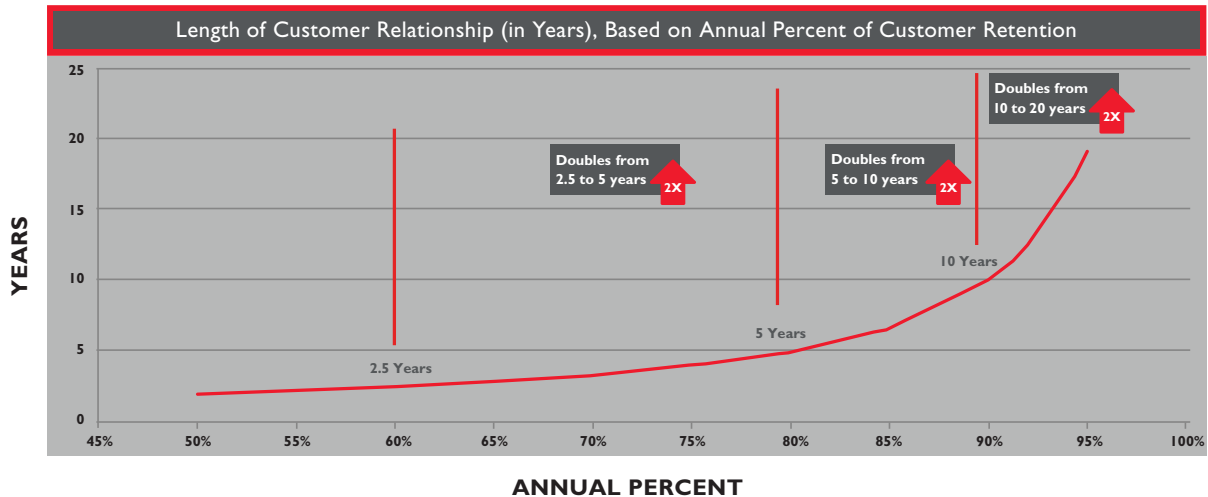
Foster defines a simple CLV model as:

### *Calculating Customer Lifetime Value*

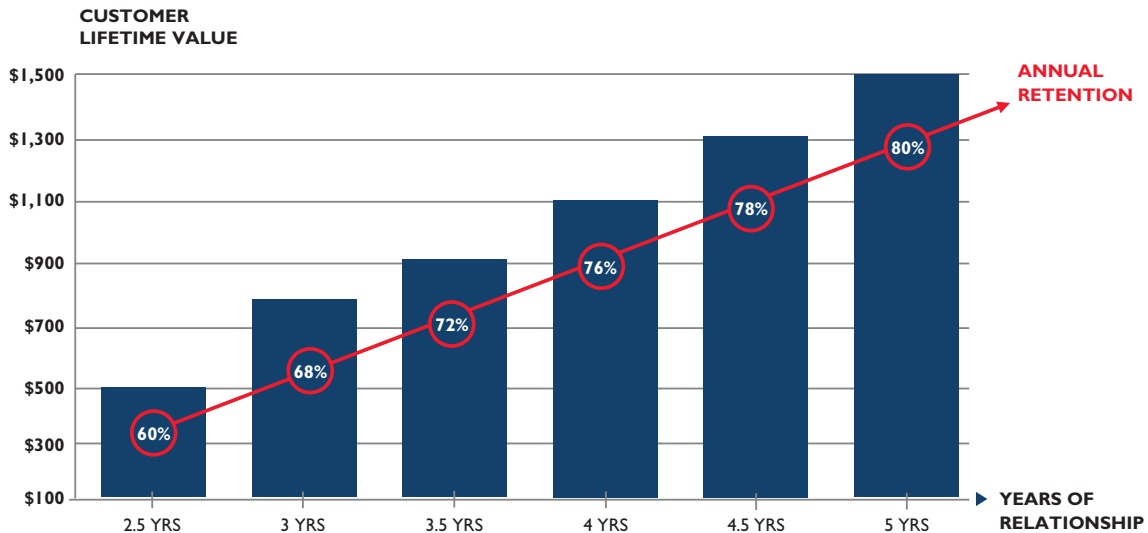


## The Underestimated Role of Customer Retention

For Foster this model demonstrates the value of the customer over time. It also demonstrates the considerable impacts of customer retention, impacts that too many companies miss entirely. When it comes to customer retention, the length of the relationship grows faster with each incremental gain in customer retention.



Moreover, Foster also points out that there is even greater impact (faster growth) when looking at CLV “over the range of % annual retention.” The reason is simple; since organizations with higher annual retention rates avoid or minimize the cost of acquiring new customers to “replace” those that have defected, the growth of CLV is even more dramatic than simply the increase in years.



This chart provides an example of how Customer Lifetime Value grows over time and as a percentage of annual retention. This example illustrates how organizations with higher annual retention generally avoid or minimize the cost of customer acquisition, thus the growth in CLV is more dramatic over time.

## FROST & SULLIVAN RESEARCH: BACKGROUND

At the outset of the research, Avaya and Frost & Sullivan sought to press a set of key questions:

- What is the current utilization of CLV in strategic planning?
- What organization initiatives, strategies, and solutions are deployed to support CLV?
- To what extent is CLV an essential growth strategy?

Key business determinants of the nature and degree of customer value commitment were measured, understanding that some of these attributes influence the degree of CLV adoption and penetration. Key dimensions of CLV awareness and measurement within the organization were profiled, and the impact on overall business performance was also measured.

### *Frost & Sullivan Research: Confirming the Importance of CLV*

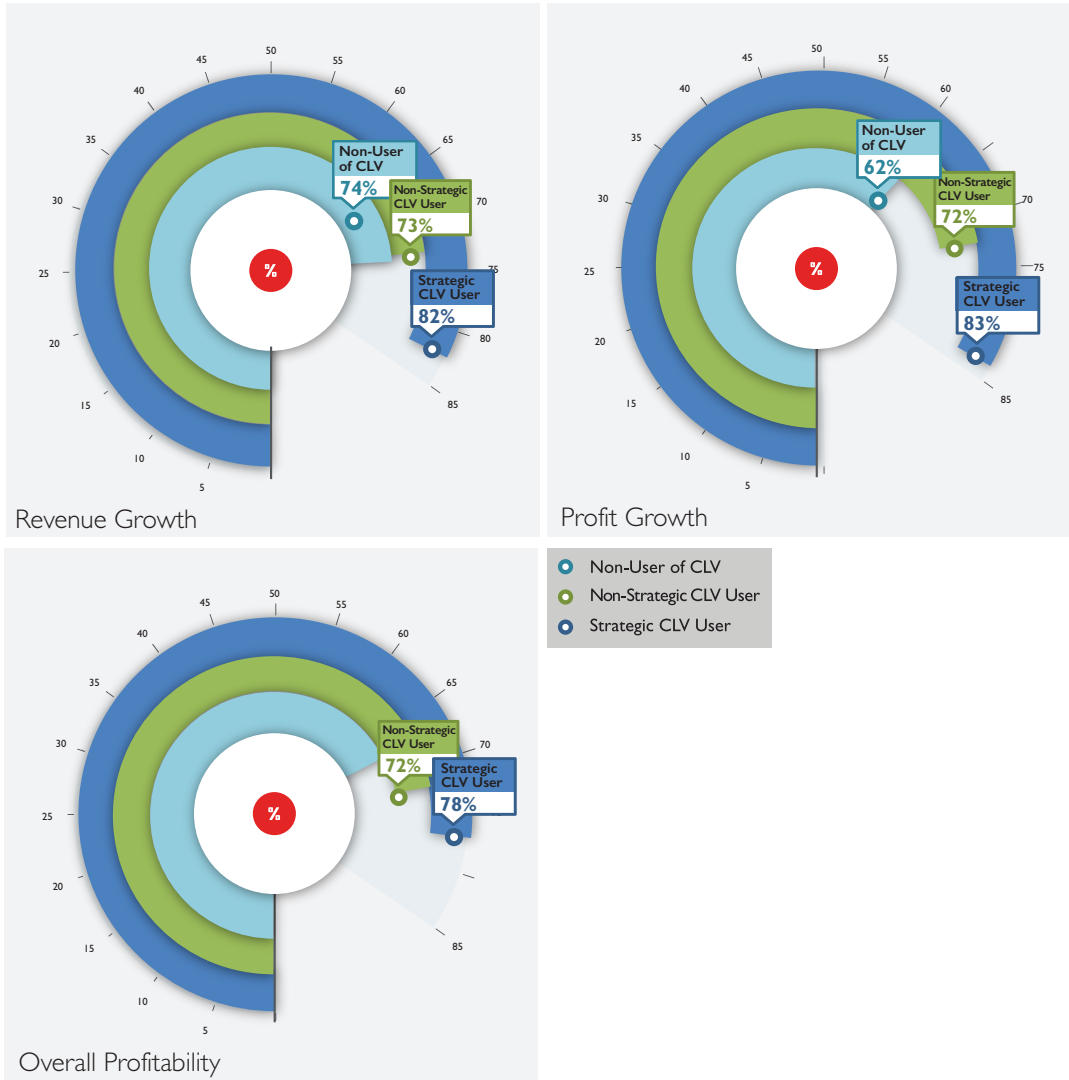
Frost & Sullivan's survey largely corroborates Avaya's work on CLV. According to the research results, "Strategic CLV" users (i.e., those companies that consider CLV to be "an essential part of their strategy") show higher performance against such metrics as Customer Experience, Customer Retention, Customer Advocacy, and Overall Customer Satisfaction than "Non-strategic CLV" users (i.e., those companies that do not consider CLV to be "an essential part of their strategy").

### **Key Finding: CLV users outperform non-users on customer experience, loyalty, and satisfaction**



The survey results also show higher performance in revenue and profit growth and overall profitability metrics for “Strategic CLV users” compared with “Non-strategic CLV users.”

**Key Finding: CLV users outperform non-users on profit growth and overall profitability.**





In fact, Frost & Sullivan's survey results suggest how important it is for companies to measure key metrics (such as those related to customer retention) to achieve high-performance results in CLV.

**Key Finding:** *The ability to measure various aspects of the customer experience, engagement, and lifetime value is necessary to effectively manage and achieve CLV objectives.*

HIGH PERFORMANCE CLV USER	STRATEGIC CLV USER
Uses CLV metrics to compare customer segments	Tracks customer engagement
Provides customers the ability to earn rewards	Uses CLV metrics to compare customer segments
Tracks up-selling and cross-selling revenues	Uses CLV metrics to measure profitability
	Uses projected CLV
	Measures loyalty programs
GENERAL CHARACTERISTICS OF A CLV USER	
Desire to track savings in customer acquisition costs	

One significant conclusion that can be drawn from the research is that all parts of the enterprise, including the contact center, are constantly influencing the Customer Journey at different touch-points, affecting the customer experience. Therefore, it stands to reason that the contact center, and the different organizational functions across the enterprise, must be integrated to provide holistic customer insight and a consistent, seamless customer experience. And yet, as Frost & Sullivan's research shows, for many enterprises, a seamless integration across the Customer Journey remains a strategic gap.

## INTEGRATED AND HOLISTIC: THE OMNI-CHANNEL IMPERATIVE

Today, the rise of new channels includes everything from social, mobile, and video to automated, self-service solutions. Generation Y (constituting 34% of the global population by 2020) is leading a restructuring toward a digital world and a new way of spending. In fact, younger generations in particular will often turn to Web self-service, virtual agents (VAs), SMS/text, Web chat, mobile, video, social media, and social communities for immediate care.

In effect, the needs of the "Customer of the Future" will be highly sophisticated, with huge demand for customized solutions focusing on his or her moods, preferences, and attitudes. Advantages will be gained by those organizations that understand their digital-savvy consumers and embrace a holistic, proactive view of their customers, including tactics to best engage them. However, many companies continue to operate in functional silos, with departments only managing their own parts of the customer experience at a time when customers are demanding connected, personalized experiences across all touch-points. As a result, customers often face myriad fragmented channels.

To be successful in this complex, digital, consumer-driven environment, companies need to join the different media together to create a seamless, integrated omni-channel customer experience across the entire customer journey; in other words, seamlessly delivering the right media, at the right time, with the right information and resource, in every interaction. Perhaps this is why the research finds that seamless multi-channel

capabilities—offering a true “omni-channel experience”—are more fully realized by “High-performance Strategic CLV” users and that the majority of strategic users of Customer Lifetime Value measure Customer Effort (CE) as a key performance indicator.

**Key Finding: Seamless multi-channel capability and contact optimization capability are more fully realized by High-performance Strategic CLV Users.**



## THE CONTACT CENTER – A STRATEGIC NECESSITY FOR CUSTOMER ENGAGEMENT

As consumers forge connections with brands through varied and often emerging channels, achieving a single brand experience is easier said than done. An increasingly time-taxed and impatient customer requires an easy and compelling channel experience, but over time the Customer Journey has grown more complex.

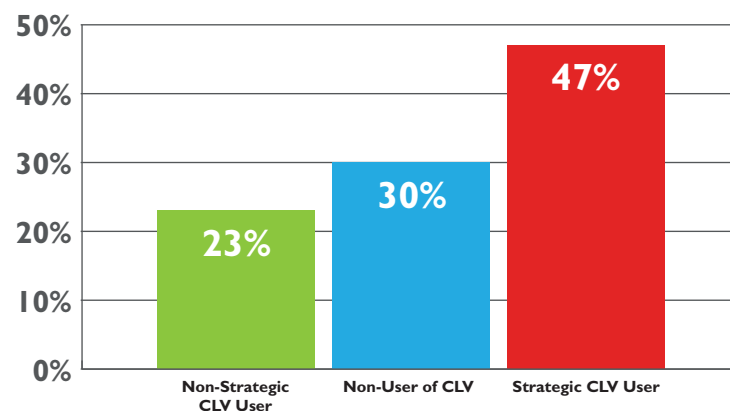
When it comes to translating complexity into the elegantly simple, the contact center should be the epicenter of a very important relationship between the customer, his/her experiences, and the strategic concerns of the enterprise. It is the core of what should be enterprise-wide engagement, of seamless channel integration in pursuit of high-quality interactions. It is the place of “actionable insight,” the place to capture, analyze, and apply the correct information throughout the Customer Journey. The contact center is one of the key mechanisms through which strategic customer engagement takes place. In the words of Frost & Sullivan, it’s where value is created for customers and businesses alike.

When Customer Journeys are managed properly, the result is a seamlessly linked customer experience that generates considerable Customer Lifetime Value (CLV).

Refreshingly, Frost & Sullivan's survey found that a high percentage of companies are aware of CLV and a good number also consider it an essential part of their strategy within the context of the contact center.

**Key Finding: The adoption of CLV is high.**

- 70% of the companies surveyed use CLV
- 47% of CLV users consider it an essential part of their strategy (we refer to these as Strategic CLV Users)
- CLV users who report that it is not yet an essential part of their strategy are referred to as Non-strategic CLV Users



**Key Finding: CLV rejection is low and its adoption is increasing.**

- 2% of the companies will not adopt CLV at any point in the future (this includes those who have used CLV previously but have abandoned it)
- 15% of those companies not using CLV yet do, however, have an active project and budget to start using it

## IT'S ABOUT FUNDAMENTAL BUSINESS TRANSFORMATION

Frost & Sullivan also notes that when Avaya works with client organizations, one of its first priorities is to convey its belief that helping organizations deliver high levels of Customer Engagement and increase Customer Lifetime Value is not first and foremost about technology. Culture, which includes things such as organizational strategy and process, should be the first thing that organizations change on the road to a thorough embrace of Customer Lifetime Value. That means fundamental business transformation. After all, technology can only do what it is deployed to do; it cannot change company culture.

In fact, according to Frost & Sullivan's recent research, "High Performance Strategic CLV Users" are those enterprises for which CLV is an absolutely essential business strategy. Those companies excel in terms of both customer loyalty and profitability. These kinds of strategic companies are rewarded with a recognizable and admired brand.

**Key Finding: Business orientation can enable or prevent the adoption of CLV, its strategic use, and high performance**

**High Performance Strategic CLV User:**

- Managing customer experience is a key priority
- Building and maintaining brand equity is a high priority
- Contact centers have a long-term key role in ensuring loyalty

**Strategic CLV User:**

- Customer experience orientation
- Combination of aggressive and defensive strategies

**General Characteristics of a CLV User**

- Belief that customer experience drives CLV

**Barrier to High Performance:**

- Taking few risks in response to market pressure

**Key Finding: Organizational capabilities need to be developed and evolved to achieve higher customer engagement and increased CLV.**

**High Performance Strategic CLV User:**

- Uses multiple channels to sell
- Manages contact sequence to maximize response

**Strategic CLV User:**

- Manages contact sequence to maximize response
- Offers attractive promotions

**General Characteristic of a CLV User:**

- Uses multiple channels to communicate

**Barrier to Strategic Use:**

- Competing mainly on price

## KEY TAKEAWAYS

So what types of organizations are making progress toward offering seamless, integrated Customer Journeys? What types of organizations are making each customer interaction truly “count” so as to deliver higher customer engagement and increase Customer Lifetime Value? What businesses are succeeding at transforming their strategies, processes, and company cultures so as to better serve the customer? What follows are some of the key characteristics of organizations using CLV at a strategic level in order to drive high performance.

## *Percentage More Likely to be CLV Users*

### **Firmographic Profile:**

- Large firms (by number of employees) are 34% more likely to be CLV users, and large firms (by revenues) are 11% more likely to be CLV users.

### **Business Orientation:**

- Companies that believe Customer Experience drives CLV are 2.2 times more likely to pursue CLV strategies.

### **Capabilities:**

- Companies that enable their customers with multiple channels to communicate and interact with them are 2.4 times more likely to pursue CLV strategies.
- Companies with more sophisticated multichannel capabilities are 44% more likely to use CLV.

### **Metrics:**

- Companies that measure Customer Effort are 58% more likely to pursue CLV strategies.
- Companies that track savings in acquisition costs are 76% more likely to pursue CLV strategies.

While 70% of companies surveyed use CLV, 67% of those CLV users consider CLV to be “an essential part of their strategy.” Certain factors are predictive of “Strategic CLV” use.



### *Percentage More Likely to be “Strategic CLV” Users*

#### **Firmographic Profile:**

- Manufacturing and engineering companies are nine times more likely to be strategic CLV users
- Larger-sized firms are 16% more likely to be strategic CLV users than smaller firms

#### **Capabilities:**

- Companies that manage the sequence of contacts on the customer journey holistically so as to maximize response are 62% more likely to be strategic CLV users
- Companies that offer attractive promotions to customers are 59% more likely to be strategic CLV users than those companies that do not
- Companies that offer the lowest price to customers are 46% less likely to be strategic CLV users

#### **Metrics:**

- Measures Customer Effort: three times more likely to be a strategic CLV user
- Tracks Customer Engagement: 2.8 times more likely to be a strategic CLV user
- Uses CLV to compare customer segments: 2.5 times more likely to be a strategic CLV user
- Uses CLV to measure profitability: 2.2 times more likely to be a strategic CLV user
- Uses projected CLV: 72% more likely to be a strategic CLV user
- Measures loyalty programs: 62% more likely to be a strategic CLV user

### *Percentage More Likely to be “Fully Optimized Strategic CLV” Users*

#### **Business Orientation:**

- Building and maintaining brand equity is a high priority: 4.7 times
- Managing the Customer Experience is a key priority: 4.5 times
- View their contact centers as having a long-term key role in ensuring loyalty: 4.5 times
- Responds to market pressures by taking few risks: 50% LESS LIKELY to be High Performance Strategic CLV users

#### **Capabilities:**

- Uses multiple channels to sell to customers: 5.7 times
- Manages contact sequence to maximize response: 5 times

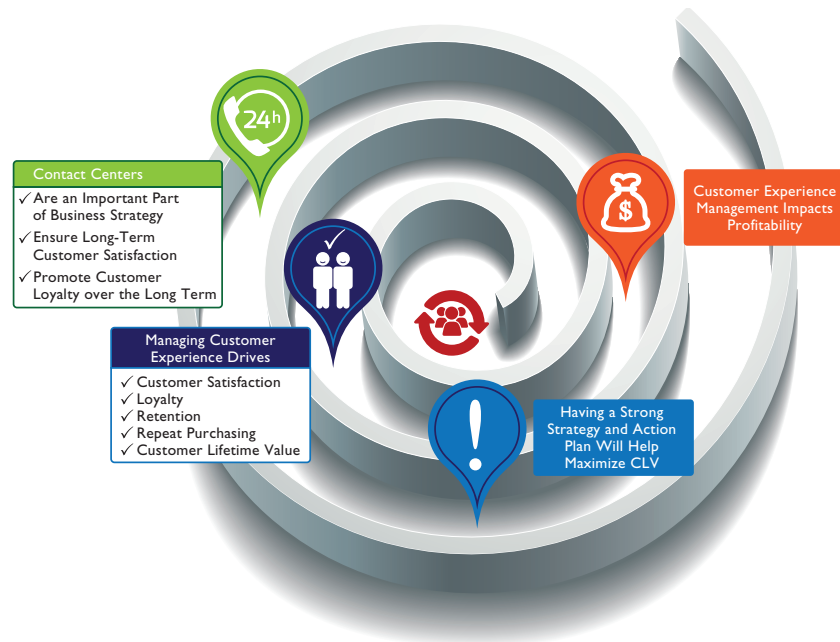
#### **Metrics:**

- Uses CLV metrics to compare customer segments: 8 times
- Provides customers the ability to earn rewards: 5.6 times
- Tracks up-selling and cross-selling revenues: 3 times

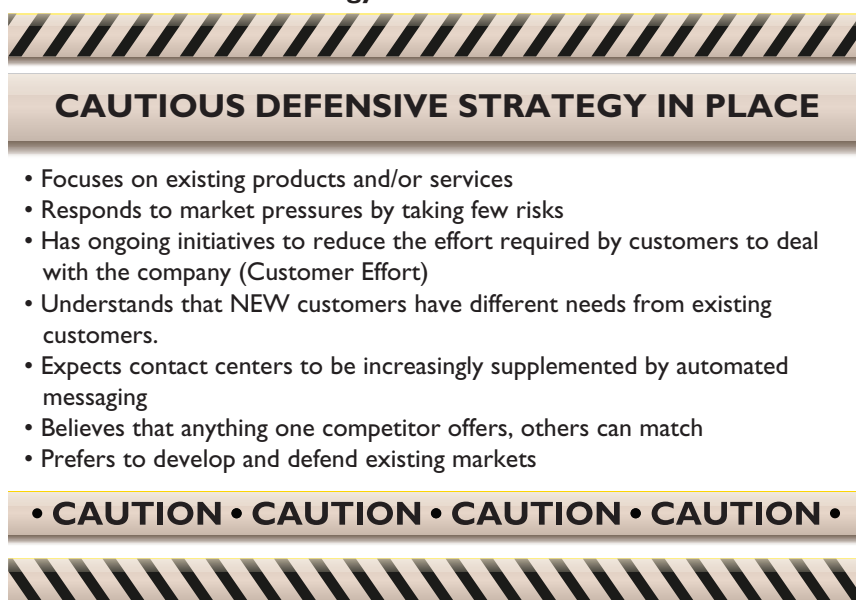
## EMERGENT THEMES

Finally, when it comes to general strategies businesses are pursuing in the context of customer engagement, four naturally bundled themes emerged after Frost & Sullivan conducted factor analysis on a battery of 30 items. The themes offer insights into many of the issues organizations are dealing with at a time of rapid change and intense competition, and the primary orientations companies are taking as a result. Of the four bundles, the benefits associated with adopting a “Customer Experience Orientation” seem the most compelling:

### Customer Experience Orientation: Managing the Customer Experience is Key to Driving CLV



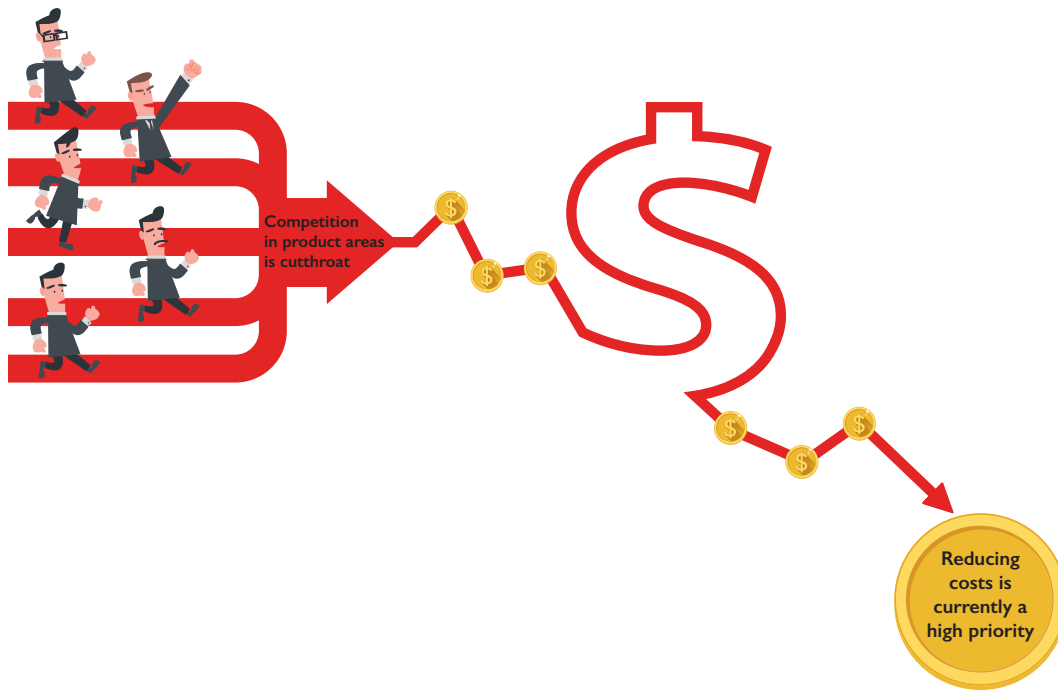
### Cautious Defensive Strategy Orientation



## Aggressive Competition Strategy Orientation



## Cut Throat Competition





## CONCLUSION

Avaya and Frost & Sullivan have found that adopting Customer Lifetime Value as a key priority for the business and exploring the metrics associated with driving higher Customer Lifetime Value (CLV) can help companies better understand how to impact growth, as well as the optimal organization model to maximize CLV. Indeed, high-performing companies view CLV as essential to their business and achieve a higher rate of return on the investment.

Ultimately then, there are direct linkages between an organization's capabilities in Customer Lifetime Value (CLV) and its performance across key dimensions.

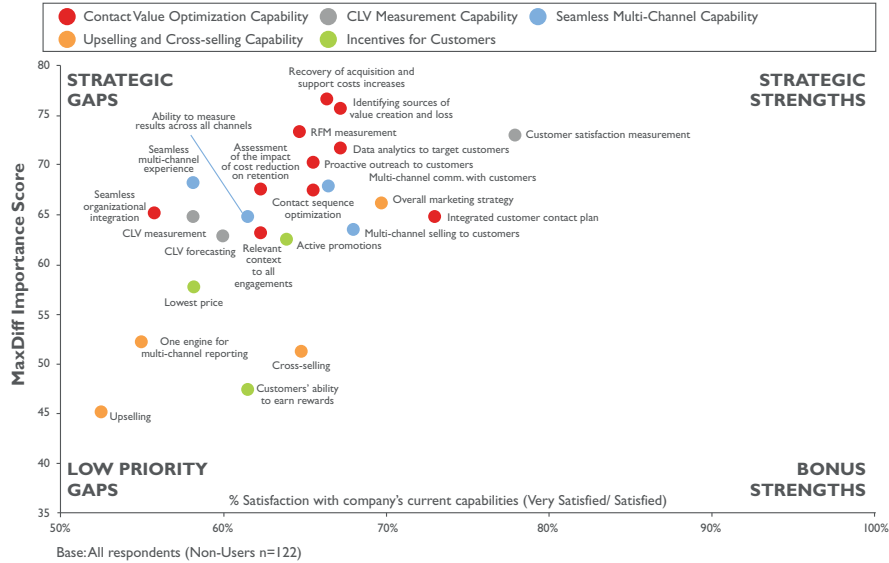
Access the CLV Self-assessment Tool now to determine your organization's current CLV utilization and how you can move towards optimal CLV performance:

<http://www.avaya.com/clv>

## TECHNICAL APPENDIX

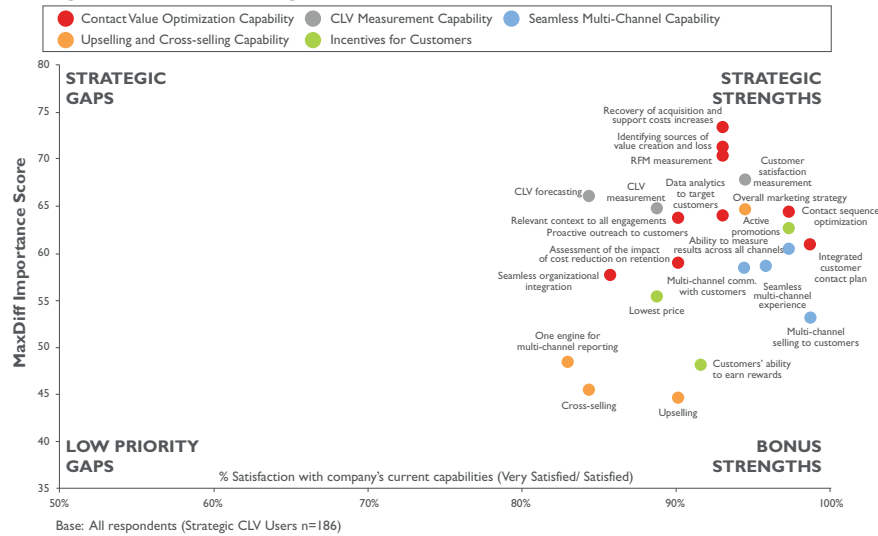
### CAPABILITIES STRENGTHS AND GAPS

#### Non-Users



### CAPABILITIES STRENGTHS AND GAPS

#### High Performance Strategic CLV Users



Auckland  
Bahrain  
Bangkok  
Beijing  
Bengaluru  
Buenos Aires  
Cape Town  
Chennai  
Dammam  
Delhi  
Detroit  
Dubai

Frankfurt  
Herzliya  
Houston  
Irvine  
Iskander Malaysia/Johor Bahru  
Istanbul  
Jakarta  
Kolkata  
Kotte Colombo  
Kuala Lumpur  
London  
Manhattan

Miami  
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Moscow  
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