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SHORT- AND LONG-TERM METRICS

KEY LOYALTY INDICATORS THAT TRULY MATTER

An analysis of a sample of informants reveals different practices for measuring loyalty, particularly the KPIs used by retailers and manufacturers. While recognizing the importance of achieving long-term loyalty, still very common are short-term KPIs tied to specific initiatives, such as incremental sales, average receipt, and visit frequency. To come up with an effective loyalty measurement, it's essential to integrate parameters from these two different time horizons. What's more, companies are now recognizing that loyalty can no longer be quantified solely in transactional terms, but must also include relational and behavioral aspects, marking a major shift in loyalty strategies.

RETAIL//KPI//CUSTOMER CENTRICITY//CUSTOMER LIFETIME VALUE//UNIQUE CUSTOMER VIEW

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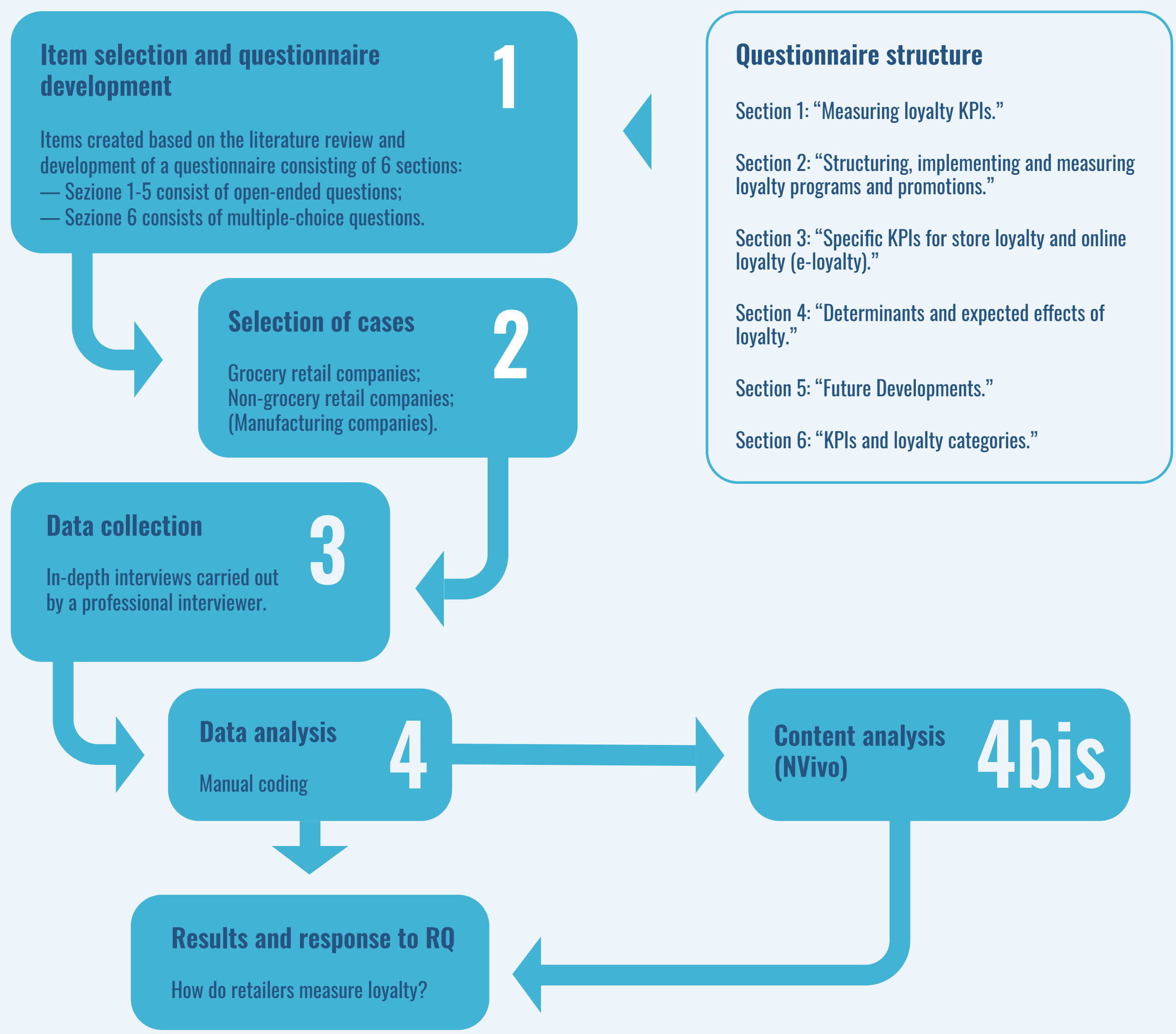
From a managerial perspective, the issue of loyalty is a critical one for improving business performance (McManus and Guilding, 2008). However, loyalty, as a multidimensional construct that includes attitudes, intentions, and behaviors, is not always easy to measure (Belli et al., 2022). In an attempt to do so, companies refer to parameters such as customer value, purchase frequency, retention, penetration, and customer satisfaction (Cooil et al., 2007; Hult et al., 2019; Lewis, 2004; Narayandas, 1998). These indicators reflect how effective loyalty programs (LPs) are in creating customer value in terms of retaining the customer base and expanding the portfolio of loyal customers. Currently, there are still few qualitative studies that adopt the supply-side perspective; ex post evaluations of initiatives are also lacking, likewise critical analysis to identify new research perspectives and useful managerial applications.

RESEARCH DESIGN

To explore different ways of measuring loyalty in the context of business strategies and the relevance of each one, the optimal approach is to apply a qualitative method based on in-depth interviews to gather a large body of information, data, objectives and beliefs from respondents. In fact, by extracting valuable insights, qualitative research makes it possible to gain a holistic understanding of the phenomenon under investigation, taking into account the various forces at play (Corbin and Strauss, 2008). Given this characteristic, qualitative methods have proven to be particularly effective in finding answers to complex questions (Finfgeld-Connett, 2014). Figure 1 shows the overall research design and the different stages of the process.

FIGURE 1. RESEARCH DESIGN



The variables included in our empirical research were derived from an extensive literature review on loyalty and how it is measured. We identified and systematized elements with the goal of answering the research question, “How do retailers measure loyalty?” The variables we came up with focus on the relevant elements at different stages of the customer loyalty journey that serve to effectively quantify the results of loyalty programs.

We collected our data using a semi-structured questionnaire consisting of six sections, with open-ended questions in Sections 1-5 and closed multiple-choice questions in Section 6. The first set of questions are designed to allow respondents to freely express their thoughts on loyalty policies, while the multiple-choice questions serve a complementary function, aimed at collecting coded, easily comparable information.

The study included a sample of 25 informants who work in the grocery and non-grocery retail sectors, and hold senior roles in marketing, sales, and loyalty management in large retail groups (Table 1). Previous studies have confirmed that 25 is a sufficient number, as the value of qualitative samples is highly dependent on the ability of respondents to provide relevant information as

TABLE 1. DESCRIPTION OF CASES

Informant number	Position of informant	Business type	Classification
Informant1	Head of Operational Marketing, Loyalty and Innovation	Retailer	Grocery
Informant2	Marketing director	Retailer	Grocery
Informant3	Head of Marketing	Retailer	Non-grocery
Informant4	Marketing Director	Retailer	Grocery
Informant5	CRM and Loyalty Manager	Retailer	Grocery
Informant6	Head of B2B and Strategic Partnerships	Manufacturer	Manufacturer
Informant7	Customer Engagement & Loyalty Manager	Manufacturer	Manufacturer
Informant8	Go To Market Leader	Manufacturer	Manufacturer
Informant9	Head of Omnichannel Marketing & Retail Media	Retailer	Non-grocery
Informant10	Marketing and Business Development Assistant	Manufacturer	Manufacturer
Informant11	Marketing Director	Retailer	Grocery
Informant12	CEO	Manufacturer	Manufacturer
Informant13	Marketing Director	Retailer	Grocery
Informant14	Communication and Marketing Manager	Retailer	Non-grocery
Informant15	Marketing Director Optical Retail Italy	Manufacturer	Manufacturer
Informant16	Board of Directors	Retailer	Non-grocery
Informant17	Head of Digital & Marketing Services	Manufacturer	Manufacturer
Informant18	Head of Marketing and Sales	Retailer	Non-grocery
Informant19	Director	Retailer	Grocery
Informant20	Head of Marketing	Retailer	Grocery
Informant21	Retail manager	Manufacturer	Manufacturer
Informant22	Head Of Corporate Sales	Manufacturer	Manufacturer
Informant23	Sales Manager	Retailer	Non-grocery
Informant24	CEO South Europe	Retailer	Non-grocery
Informant25	Sales Manager - Grocery	Retailer	Grocery
Informant26	Head of Loyalty	Retailer	Non-grocery
Informant27	Senior Advisory Consultant	Manufacturer	Manufacturer
Informant28	Loyalty Manager	Retailer	Non-grocery
Informant29	Marketing & Communication Director	Retailer	Grocery
Informant30	CRM & Loyalty Manager	Retailer	Grocery
Informant31	Head of CRM & Loyalty	Retailer	Non-grocery
Informant32	Commercial Director	Manufacturer	Manufacturer
Informant33	Digital, Marketing CB, Big Data & AI Director	Retailer	Non-grocery
Informant34	Marketing & Loyalty Manager	Retailer	Grocery
Informant35	Marketing Manager	Retailer	Grocery
Informant 36	Director Co-Brand, Partnerships, CRM, Membership Rewards	Retailer	Non-grocery

experts and as representatives of broader case histories (Patton, 2014). In fact, the cases were selected to provide a representative sample in terms of market share for Italy. To complement them, we ran additional interviews with 11 informants from the manufacturing sector to enrich the analysis by providing insights from a perspective comparable to that of the retailers.

The interviews were recorded with the permission of the informants and then transcribed for textual analysis, with the aim of highlighting the most interesting passages in relation to the research question. For content analysis, we utilized NVivo 14 software. These methods were useful for interpreting, synthesizing, and systematizing large volumes of unstructured data (Fingeld-Connett, 2014; Seuring and Gold, 2012).

HOW LOYALTY IS MEASURED

Verbatim analysis allowed us to identify the orientation expressed by the informants. Overall, the results were convergent for different retailers, although there were some detectable differences between grocery and non-grocery retailers. In particular, divergences were found between cooperatives and non-grocery companies.

Companies tend to identify two types of loyalty activities: short-term and long-term. The first is associated with competitive activities, short collections, and spend-and-get promotions, all of which are implemented primarily to boost purchase frequency and commitment. Long-term loyalty, on the other hand, is based on studying the consumer to determine customer lifetime value (CLV) and creating a *unique customer view* (UCV), i.e., a complete customer profile compiled by integrating different types of data into a single registry.

The relevance of loyalty is clear. For example, Informant 34, referring to the importance of loyalty for his company, states, "Loyalty is marketing, it is our business," indicating a highly strategic, long-term perspective. Similarly, in terms of measurement, Informant 2 says, "You don't realize that monitoring the promotional plan and shelf prices of companies allows you to monitor only a part of the marketing policy that goes in the same direction of their loyal customers."

While they recognize the relevance and strategic value of loyalty, grocery retailers are still very focused on monitoring classic, transactional, economic KPIs, such as incremental sales generated by LP activities. The idea here is to determine the profitability of a given initiative in terms of incremental ROI, a short-term parameter strictly related to the investment in question. Therefore, these KPIs differ from the broader objective mentioned above in that they deal with specific economic/behavioral factors (for example, incremental net sales, average receipt, average spend, private label penetration) as well as purely behavioral factors (such as redemption, number of participating customers, rewards collected, and frequency of in-store visits).

Thanks to loyalty cards, customer profiling becomes a constructive way to identify clusters and monitor long-term loyalty (Informant 5). With the resulting descriptive and behavioral profiling information, companies can estimate CLV by cross-referencing data. Only a careful study of the customer makes it possible to develop a customer-centric orientation, i.e. a strategic approach that places the customer at the center of all company decisions and activities. In this way, loyalty enables the creation of strong and lasting relationships with customers.

The content analysis we conducted with the NVivo 14 software allowed us to systematize and synthesize these indications. Regarding the four dimensions of loyalty (cognitive, attitudinal, conative, and behavioral), the informants mainly referred to attitudinal KPIs, as well as behavioral, transactional, and participation-related KPIs. We broke down the latter into a short-term perspective, related to individual initiatives, or a long-term perspective. The managerial evidence we collected shows a lack of indicators related to conative loyalty (e.g. purchase intentions) or cognitive loyalty (e.g. perceived costs and benefits). Figure 2 shows the

KPIs most frequently used by our sample to measure loyalty; the bigger the rectangle, the more common the indicator.

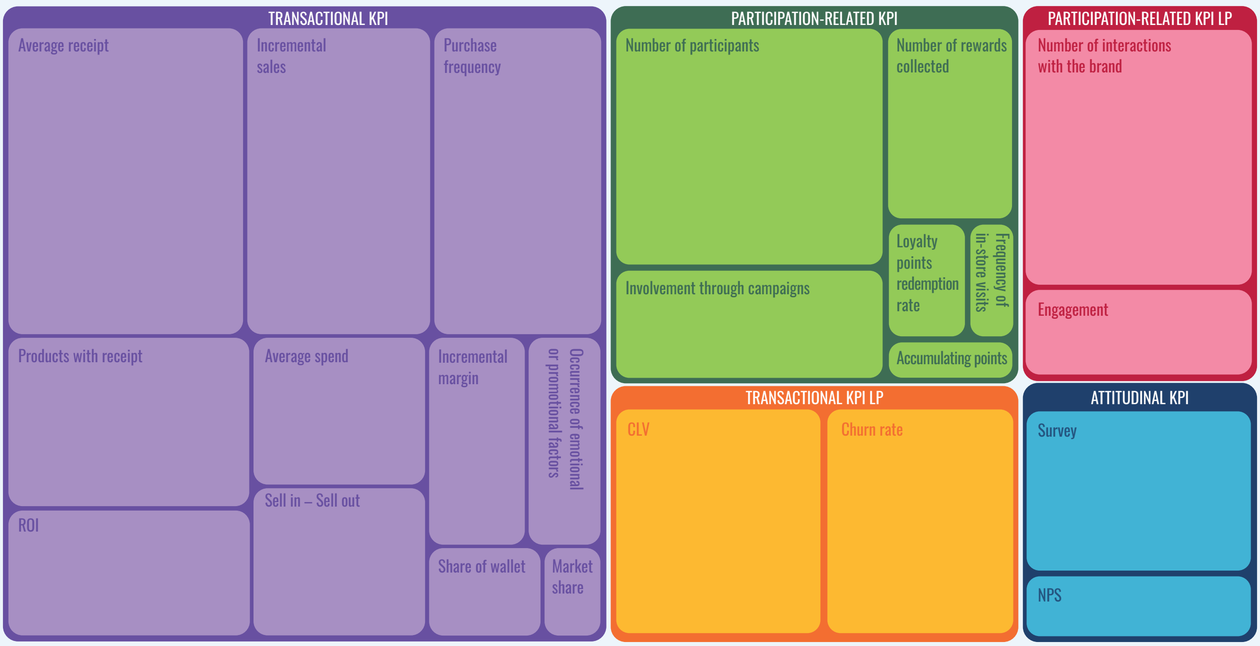
The adoption of new digital technologies has emerged as an almost universal driver for advanced loyalty program management among all operators, regardless of sector. The impact of these technologies on loyalty programs is a topic that deserves further exploration, especially given the huge volume of data that they generate and their ability to integrate this input efficiently. With these new digital tools, it will be easier to make timely updates to loyalty measurements derived from multiple sources of information.

For all the companies we surveyed (grocery and non-grocery retailers as well as brands/manufacturers), the omnichannel concept has become a defining element of business strategy. As a result, the divergence between the physical and virtual worlds is diminishing, and LP points earned by customers online and in-store are essentially interchangeable. The fact that consumers use multiple channels is seen as added value which can further bolster the relationship with the company if it deploys a variety of touchpoints.

HOW TO BUILD LOYALTY

The first factor we identified in building and strengthening loyalty is trust, a fundamental value that must be cultivated and preserved over time. As an antecedent to loyalty, trust grows in the medium to long term (Informant 1). Moreover, trust is a multidimensional construct associated not only with the relationship between the customer and the company, but also to the staff, the store organization ("The most important thing is that the assortment in the store is done in a certain way; the courtesy of the staff is fundamental," Informant 5) and, no less important, the private label. The latter is seen as a key element in the trust-oriented relationship, so much so that a visit to the store is often motivated precisely by the possibility of buying a branded product that is trustworthy in terms of quality, respect for the supply chain, and value for money (Informants 17,

FIGURE 2. HIERARCHY CHART OF THE KPIS MOST COMMONLY USED TO MEASURE LOYALTY (ELABORATION CREATED WITH NVIVO 14)

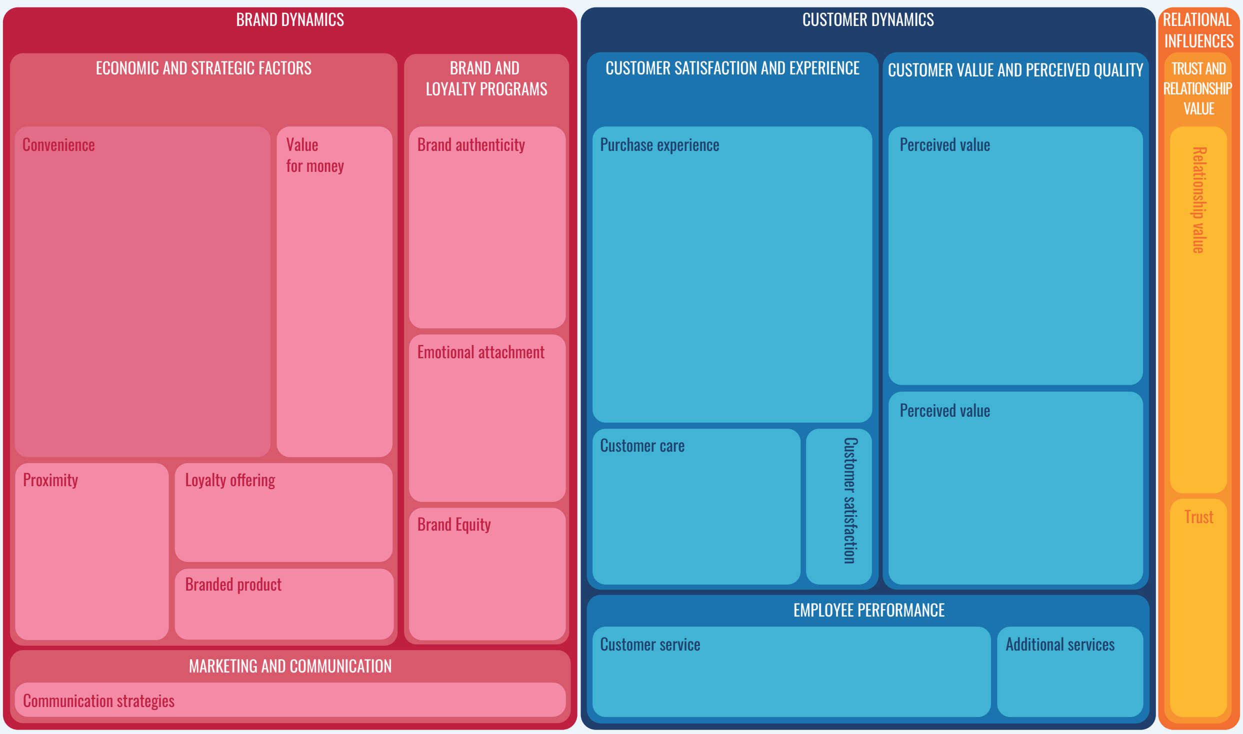


20). This means that the private label is an important factor: "84% of the customers surveyed say that they come to [company name] because there is the branded product, and the moment you become loyal to the branded product, it becomes loyalty to the brand, no longer to the store. So one of the key drivers is the branded product. The other thing we are working on is a customer care concept" (Informant 2).

In addition to relational influences (e.g., trust and value attachment) and customer-level dynamics (e.g., customer care and satisfaction), brand-related economic and strategic dynamics continue to represent fundamentals for building loyalty. In fact, loyalty still depends on very basic, utilitarian determinants related to physical proximity and attractiveness, understood in terms of store convenience ("consistently low prices," Informant 4), discounts, exclusive rewards, which are "crucial factors in differentiating and attracting both loyal and non-loyal customers." In an environment such as grocery retailing, where churn is high ("The customer is increasingly nomadic," Informant 11) and flyer promotions are still used indiscriminately, several levers need to be actioned. In other words, it's not just a question of maintaining a good quality-price ratio for the product, but offering an extended value for money that includes "the in-store shopping experience, which is a very important element. Also the ability to pay attention to all signals, even the weak ones, regarding changes in customer behavior and the ability to react immediately, with quick actions" (Informant 4).

Figure 3 illustrates the shift from a logic of convenience and proximity to the point of sale, to an increasingly customer-centric approach, focusing on experience, customer care, and the value connection between the organization and the consumer. Value creation that goes beyond economic and becomes experiential and emotional: this is what paves the way for building and maintaining stronger,

FIGURA 3. HIERARCHY CHART OF THE ANTECEDENTS OF LOYALTY (ELABORATION CREATED WITH NVIVO 14)



longer-lasting loyalty. As a result, consumer loyalty, initially linked to economic and strategic factors, evolves during customer experience towards a more emotional dimension that ties into the value and authenticity of the brand.

WHAT ARE THE EXPECTED OUTCOMES?

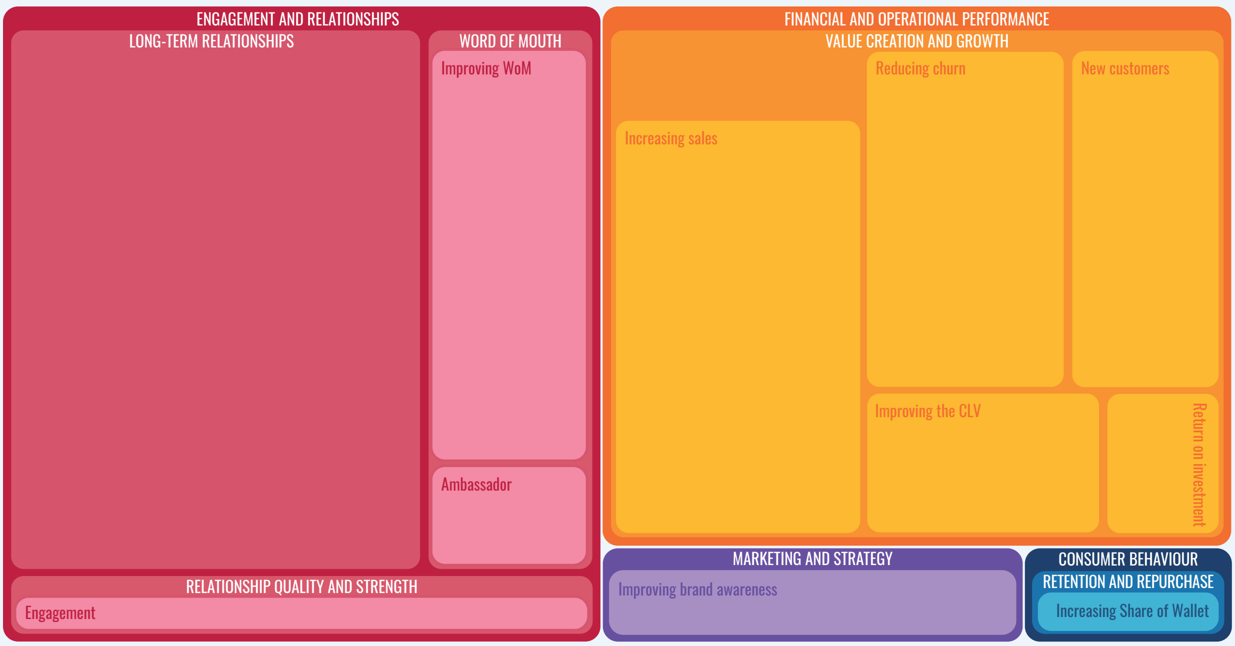
While the literature emphasizes understanding and identifying the antecedents of loyalty, practitioners pay more attention to the goals and expected outcomes of the initiatives they implement. Many companies consider the transactional aspect and return on investment as a starting point, along with indicators around campaign success. However, grocery retailers tend to go further, setting long-term goals such as improving CLV, reduction in churn rate, and ramping up the number of new customers as relevant outcomes. For consumer cooperatives, membership is also a salient factor (Informant 5). Very interesting is the focus on attitudinal aspects: word-of-mouth becomes not so much a quantitative measure of Net Promoter Score (NPS), but a demonstration of attachment to the brand (Informants 29, 30, 36). This attachment can generate particularly pertinent long-term loyalty effects, such as strong positive word-of-mouth and the creation of true ambassadors in the portfolio of loyal customers

In summary, in addition to priorities like achieving financial and operational goals such as multiplying revenue, reducing churn rate, and improving CLV, it is becoming increasingly crucial to secure a level of engagement, specifically the ability to maintain long-term customer relationships and foster positive word-of-mouth among consumers.

MANAGERIAL IMPLICATIONS

In terms of loyalty measurement and how it will evolve in the future, there is an emerging desire to refine tools to make them more predictive. Respondents want to expand process automation, for instance by implementing automated queries that can extract a bigger volume of information

FIGURE 4. HIERARCHY CHART OF THE OUTCOMES OF LOYALTY (CREATED WITH NVIVO 14)

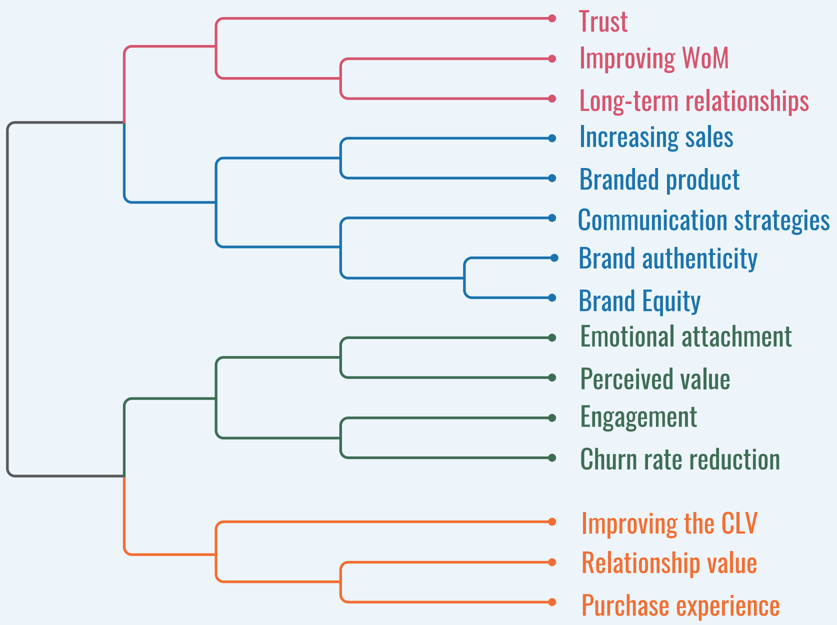


BOX 1

Figure A highlights some clusters resulting from the combination of antecedents and expected outcomes.

- Trust in the organization enables the creation of long-term relationships that can improve word-of-mouth.
- Communication strategies, if they effectively convey brand authenticity and brand value, can boost sales.
- Perceived value allows for emotional attachment and deeper engagement, which results in a lower churn rate.
- A satisfying shopping experience and a strong value connection between consumer and brand can lead to higher CLV.

FIGURE A. CLUSTER BETWEEN LOYALTY ANTECEDENTS AND OUTCOMES (ELABORATION CREATED WITH NVIVO 14)



and enable predictive analytics. At this point, the debate revolves around how best to leverage technology and innovation across touchpoints to maximize relative investments and unlock the full potential of all applications with a view to seamless, omnichannel integration. An interesting aspect to explore is how to appropriately interrogate the data in hand to develop business intelligence analytics that serve to shed light on potential customer behavior and draw clusters for targeting activities.

In addition, there is a growing willingness to adopt a customer-centric perspective, which implies a real cultural change and greater synergy between different business functions. This approach allows for more precise consumer segmentation, more personalized offers, and closer brand-consumer interaction. These goals are made possible by the widespread availability of consumer data collected through multiple online and offline touchpoints, and by the integration of digital technologies such as apps and CRM systems that reinforce the interaction and engagement between the organization and the customer. All this enables companies to optimally align their offerings with consumers' needs, wants, and expectations.

When properly integrated, consumer data can create promising new measurement opportunities. However, in addition to implementing new measurements, it is necessary to continue to refine periodic monitoring and step-by-step controls to make these processes increasingly smooth and to help managers quickly identify critical issues.

CONCLUSION

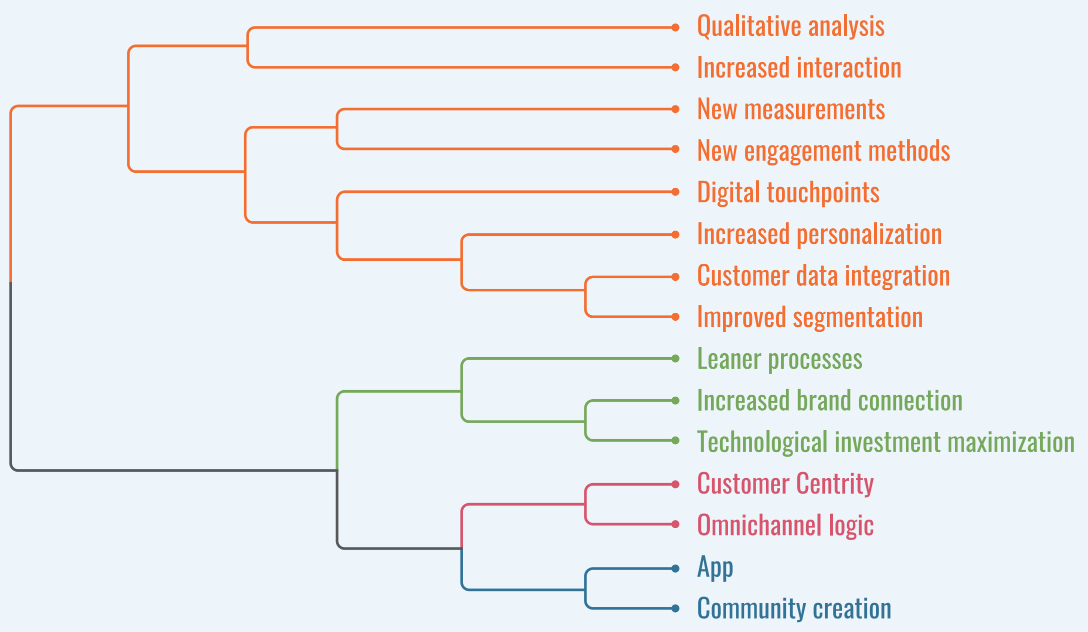
The analysis of the interviews in our study reveals the different practices for measuring loyalty, particularly the KPIs used by companies in the manufacturing and retail sectors (grocery and non-grocery). While recognizing the importance of achieving long-term loyalty, short-term KPIs are still very common; these are linked to specific initiatives such as incremental sales, average receipt, and visit

BOX 2

Figure B highlights some clusters of corporate strategies and policies reflecting future loyalty development.

- By developing new measurements and integrating qualitative consumer information, companies can come up with better segmentation and design personalized LPs that improve their interactions with their customers.
- Maximizing technological investments in software and applications leads to increasingly streamlined, faster monitoring processes; this means critical issues can be quickly identified and the connection with the organization can be solidified.
- An omnichannel approach promotes customer centricity by giving companies a deeper understanding of their customers as they move between business channels.
- Better use of apps can foster the creation of communities which help delineate clusters of consumers with specific interests.

FIGURE B. CLUSTER REGARDING FUTURE DEVELOPMENTS (CREATED WITH NVIVO 14)



frequency. To accurately evaluate loyalty, it is vital to integrate these short-term measurements with more sophisticated long-term indicators. The latter include CLV, which assesses the entire customer lifecycle, and UCV, which provides a unified view of the customer by effectively integrating behavioral and transactional KPIs.

The complementarity of these measurements reflects the evolution of loyalty programs, which are gradually moving away from simple transactional tactics to more complex, customer-centric approaches. The latter, made possible by combining data from multiple sources thanks to new technologies, leads to more detailed segmentation that allows companies to identify customer clusters and better define buyer personas, each with specific needs and behaviors. This more granular segmentation will result in effective LPs that are perfectly tailored to the interests and needs of target customers.

In summary, companies are evolving their loyalty programs toward an increasingly customer-centric model, adopting innovative measurements, and incorporating cutting-edge digital tools. They now recognize that loyalty can no longer be measured solely in transactional terms but must take a long-term view that includes relational, value-based, and behavioral aspects. This shift in perspective marks a major change in the way companies manage their loyalty strategies, shifting the focus from transaction to interaction, relationship management, and emotional customer engagement.

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