

ROSETTA | CONSULTING

The Economics of Engagement

THE THIRD OF THREE WHITE PAPERS BASED ON
THE FINDINGS OF THE 2014 ROSETTA CONSULTING
CUSTOMER ENGAGEMENT STUDY



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WELCOME

Welcome to the final piece in a series of three white papers on Customer Engagement from Rosetta Consulting. This paper, based on the findings of the 2014 Rosetta Consulting Customer Engagement Consumer Survey, explores the relationship between the delivery of a strong engagement experience and financial value. The first paper focused on best practices for business leaders approaching customer engagement. The second paper answered what it means to be engaged with a brand and explored the consumer experience of engagement.

01 Why Invest in Engagement?

Engagement is complex. It can be difficult to measure, a challenge to track, and financially minded executives may be skeptical about the likelihood of it translating into concrete business value. Like any human relationship, customer engagement depends on building a personal connection with a brand over time. The benefits of this relationship accrue in the long run, but investing in a long-term plan can be difficult to justify on an annual budget cycle, as the immediate payoff may not be clear.

Engaged Customers:

 **90%**
more frequent purchases

 **300%**
spend vs. others each year

 **5x**
more likely to choose brand for future purchase

For engagement to work, it needs to generate mutual value; it must benefit both the consumer and the brand. Consumers derive value from engagement when brands go above and beyond simply fulfilling their functional expectations by bolstering consumers' sense of identity and delivering on their emotional needs.

These highly engaged customers spend more, buy more frequently, advocate often, and remain loyal. And as a result, companies that excel at engaging customers enjoy 50% higher growth rates as compared to those that do not.

This paper demonstrates the financial value of engagement by examining the impact on four drivers of brand value, the increased lifetime spend of engaged customers, and the relationship between revenue growth and brands with high numbers of engaged customers.

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WHAT IS CUSTOMER ENGAGEMENT?

Rosetta Consulting defines Customer Engagement as **a personal connection between a customer and brand that is strengthened over time, resulting in mutual value**. It is an enduring two-way relationship that simultaneously delivers relevant experiences to your customer and greater profitability for your brand.

Delivering successful customer engagement is critical in today's fast-paced, evolving marketing landscape. Customers expect brands to create meaningful, relevant experiences that simplify their lives and purchase decisions. For brands, customer engagement offers more than enduring profitability. It can serve as the unifying internal strategy, inspiring employees across departments with a shared vision for success. Customer engagement brings to life the belief that building personal connections with your customers will ultimately drive the greatest value for your brand.

For more on Rosetta Consulting's definition of Customer Engagement please review our published article **"Customer Engagement: Unlocking and Activating Human Behavior."**

Delivering successful customer engagement is critical in today's fast-paced, evolving marketing landscape.



ABOUT THE STUDY

The 2014 Rosetta Customer Engagement Consumer Survey polled 4,800 U.S. consumers about their experiences with 83 market-leading brands. Respondents were surveyed on attitudes (including perceptions, feelings, and opinions), as well as behaviors (including advocacy, interactions, and transaction history). Brands from 15 different industries were measured including financial services, consumer goods, technology,

telecommunication, retail, food and beverage, and travel and hospitality. Highly engaged consumers were identified using a predictive scoring mechanism that selected the respondents that best demonstrated a broad range of key engagement characteristics. These characteristics include advocacy, loyalty, increased transaction and interaction rates, as well as positive feelings and experiences associated with the brand.

Study Included:

 **4,800**
U.S. consumers

 **15**
categories

 **83**
market-leading brands

02 The Four Drivers of Brand Value

Four key attributes among highly engaged consumers deliver increased value for the brand. Brands that focus on these objectives will be better able to create highly engaged customers and drive business impact.

01. STRONGER LOYALTY

Highly engaged consumers exhibit stronger loyalty, both through their stated commitment to the brand and through their behavioral history of repeat transactions. Brands seeking to drive loyalty through higher engagement should understand and track both the attitudes and the transactional data of their customers. This provides a more complete measure of loyalty, not only in the traditional behavioral sense, but also incorporating the emotional commitment their customers have to the brand.

Encourage Commitment:



While not appropriate for every brand, loyalty programs are one of the most common ways that

brands generate repeat purchases and emotional commitment. Birchbox, an ecommerce shop and monthly subscription service (recently deemed the “next generation beauty magazine”), fulfills consumers’ needs for fun and self-expression by letting them try out new, and often otherwise cost-prohibitive, beauty products. Customers are rewarded with gifts and surprises when they shop, refer friends, and submit product reviews. By making the world of high-end beauty more accessible and by driving loyalty, Birchbox reports its sales are on track to triple, with more than 50% of monthly subscribers making additional purchases from the shop.*

02. REDUCED COMPETITIVE THREAT

Beyond simple measures of repurchase rates and stated loyalty, highly engaged consumers also have narrowed consideration sets, meaning they are less likely to consider and evaluate competing brands. As a result, they are less likely to consider switching and are more likely to repurchase.

*Source: Schoultz, Mark, “Innovation in Advertising – the Birchbox Business Model,” <http://goo.gl/tPINOj>

Highly Engaged Consumers

 **5x**
more likely to state, “this is the only brand I would choose”

While this narrowed consideration set is a key element of reducing competitive threat, highly engaged consumers are also “sticky.” A sticky consumer will remain loyal even in the face of viable (e.g., cheaper or more convenient) alternatives, and is surprisingly willing to overlook minor shortcomings to purchase their favorite brand. These shortcomings

may include occasional functional and convenience-related mishaps, a negative experience, or even higher prices.

Highly Engaged Consumers

 **2x**
more likely to spend extra time and effort to be a customer

 **2x**
more likely “to purchase their preferred brand even when a competitor had a better deal or lower price”

Great brands set themselves apart by delivering against the emotional needs of their customers.



This kind of devotion and stickiness can act as a buffer from the promotion and acquisition efforts of competitive brands. As a result, brands that succeed at creating high engagement levels are less prone to competition on the basis of price and may be able to reduce their investment in marketing (e.g., advertising, promotions) and traditional consumer services (e.g., physical locations, 24-hour support) to stay competitive.

03. GREATER ADVOCACY

Highly engaged consumers are excited about their favorite brands and seek to share their positive experiences. Advocacy is a key contributor to enhancing brand value, as customer recommendations have a “halo effect,” generating consideration, trial, and new customer revenue, among other benefits. And in today’s empowered age, customers’ social voice is an

increasingly important factor in their value to the brand. Those who love and recommend the brand can be just as valuable as customers with the highest spend.

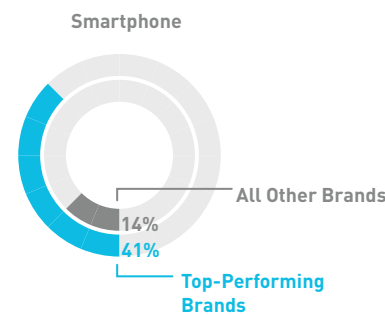
Highly Engaged Consumers

 **4x**
more likely to advocate to colleagues and acquaintances

Highly engaged customers are so enamored with their chosen brand, they even feel comfortable recommending it to people they are less close to, such as colleagues and acquaintances. Furthermore, brands with a greater percentage of highly engaged customers have significantly higher Net Promoter Scores (NPS, a standardized measure of advocacy). In fact, top-performing brands (i.e., brands where 15%+ of their customers are identified as highly engaged)

showed an impressive average NPS score of 41%, as compared to others brands who scored an average of 14%.

Average NPS Score



04. INCREASED OPPORTUNITY FOR UPSELL AND CROSS-SELL

Finally, highly engaged consumers actively seek to deepen their relationships with the brands they love. To grow their connection to the brand, they are more open to promotional efforts and discovering additional products the brand might offer. This behavior partially manifests in increased willingness to try new products, upgrade their current experience, or buy other products from the same brand—all of which provide increased value to the consumer, as well as financial value to the brand.

Highly Engaged Consumers

 **6x**
more likely to say they would “try a new product or service from the brand as soon as it becomes available”

 **2x**
more likely to upgrade or purchase additional services from the brand

For example, highly engaged airline customers are 3x more likely to pay for additional in-flight services such as a meal or extra legroom, and are 3.5x more likely to open an airline credit card. Likewise, highly engaged mobile service customers are 3.5x more likely to upgrade their service for benefits like more talk time or phone damage protection, and are 2.5x more likely to purchase a data plan for an additional device such as a tablet.

Brands with a greater percentage of highly engaged customers have significantly higher Net Promoter Scores.



NET PROMOTER SCORE SYSTEM

The Net Promoter Score is based on responses to the question (on a scale of 0 to 10): “How likely are you to recommend Brand X to a friend?” Respondents are then classified as Promoters, Passives, or Detractors and the company’s NPS score is calculated as % Promoters - % Detractors.



03 Show Me the Money: Customer Lifetime Spend

THE VALUE OF HIGHLY ENGAGED CONSUMERS

Most brand executives would agree that highly engaged consumers are valuable: they are loyal and even sticky, they advocate often, and they are likely candidates for upselling and cross-selling. But how much are highly engaged consumers really worth? A lot. As an example, Amazon Prime's 10 million subscribers make up only about 4% of the total customer base, but they account for nearly 10% of spend, resulting in per-customer revenue over two times greater than non-Prime customers.*

A brand's most engaged consumers are contributing far more revenue than their less engaged counterparts.

Rosetta Consulting's study further confirms that a brand's most engaged consumers are contributing far more revenue than their less

*Owen, Thomas, "Amazon Has an Estimated 10 Million Members for Its Surprisingly Profitable Prime Club," <http://goo.gl/dXRNM>

engaged counterparts: they buy more frequently and spend more in each transaction. Looking across industries, there is significant variation in the increased revenue generated by highly engaged consumers; however, it is consistently higher than average.

Highly Engaged Consumers

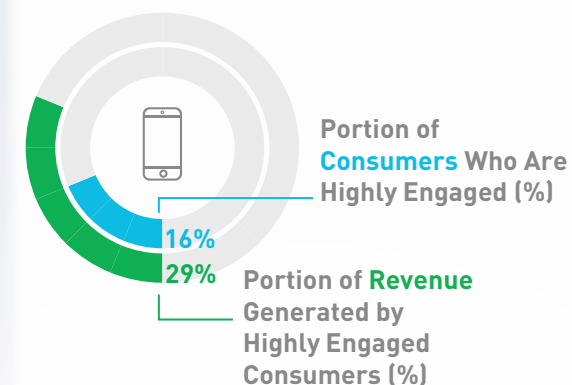
 **60%**
more spent in each transaction

 **90%**
more frequent purchases

 **3x**
annual value per year

As an example of the increased revenue generated by highly engaged customers, the charts below compare the study results across three categories. In the smartphone category, though highly engaged consumers make up only 16% of consumers in that category, they account for a whopping 29% of category revenue—a significant contribution to brand value. We see similar trends across other categories as well, including superstores and athletic clothing (also shown).

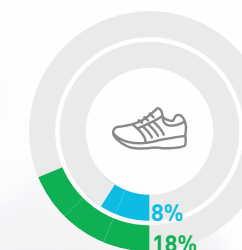
Smartphone



Superstore



Athletic Clothing



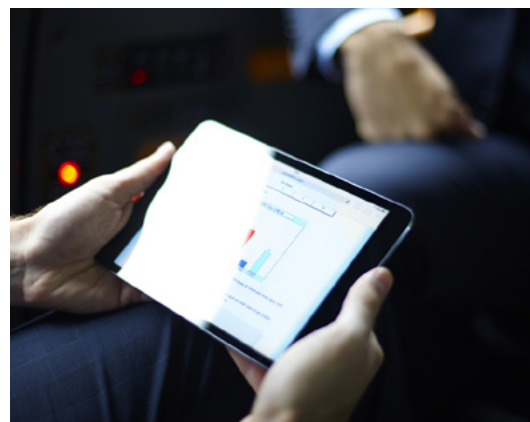
04 Company Financial Performance: The Connection to Engagement

While the immediate and potential revenue of highly engaged customers is clear from their contribution towards the four types of value outlined previously, it can still be difficult to demonstrate how customer engagement impacts brand-level financial performance more broadly. Marketers seeking to invest in engagement can find it challenging to predict the effect it will have on their company's bottom line. Data from this study, in conjunction with publicly available financial data, make it possible to explore the relationship between engagement and brand-level financial performance.

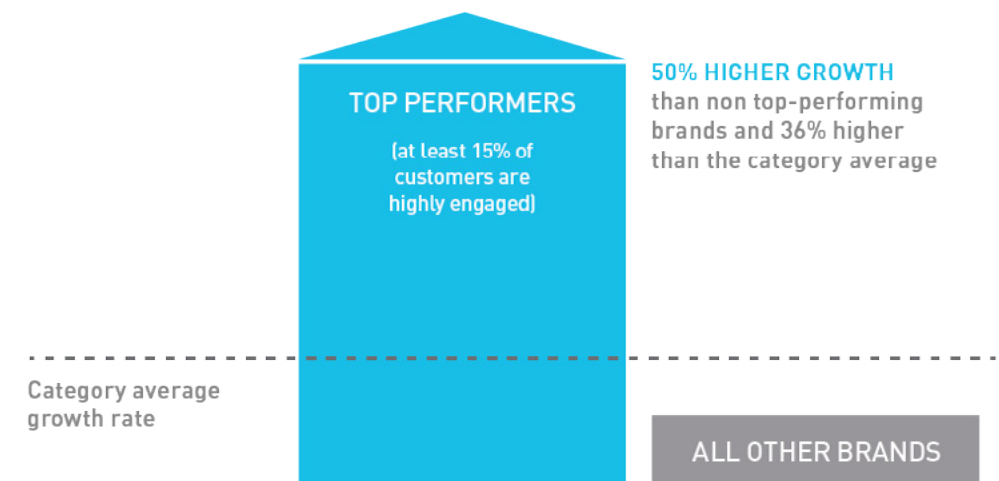
As anticipated, the results reveal that top-performing brands—those with a greater incidence of highly engaged consumers—enjoy higher rates of company revenue growth. On average, the top-performing brands experienced 50% higher revenue growth than all other brands and 36% higher revenue growth than the category average.

These findings confirm that across industries and categories, companies with higher engagement levels generate greater revenue growth over time, demonstrating the power of engagement to impact the company's bottom line.

The results reveal that top-performing brands enjoy higher rates of company revenue growth.



Category Revenue Growth of Top-Performing Brands vs. All Others (over the past 3 years)



*Companies included in financial performance analysis are publicly traded. Any companies with major mergers between 2010-2013 or significant non-consumer related revenues were excluded.

METHODOLOGY: BRAND FINANCIAL PERFORMANCE AND ENGAGEMENT

All 83 brands in the Rosetta Customer Engagement Consumer Study were designated as a top-performing brand or non-top-performing brand based on the incidence of highly engaged customers. If at least 15% of a brand's customer base is highly engaged, the brand was designated as top-performing. By comparison, on average only 7% of customers classify as highly engaged among all other brands. Top-performing brands were then compared to other brands in their category on the basis of annual revenue growth rates over the last three years.

CASE STUDY: CHIPOTLE

Chipotle has built a brand strategy and culture focused on customer engagement, helping it achieve annual revenue growth of over 20% for the past three years, compared to an average of 4% for the other fast food restaurants in Rosetta's study.¹ At the heart of Chipotle's offering is its unique approach to "foodie culture" delivered via a fast and personalized experience. Chipotle's management team reports that a key driver of success has been aligning its products, service, and marketing around a consistent vision to create an extraordinary connection to customers.

Chipotle's ability to build engagement with its customers has paid off. According to Rosetta's study, 32% of Chipotle customers are highly engaged, compared to only 15% of customers among other fast food restaurants. Additionally, Chipotle customers are more likely to recommend the brand (65% vs. 45% for other fast food restaurants) and feel good about being a customer of the brand (59% vs. 39% for others).

Amazingly, Chipotle has been able to build engagement with a relatively low advertising budget. Rather than invest in expensive mass channels such as TV or relying on promotional and price-based marketing, Chipotle has invested in targeted marketing strategies focused on increasing customers' connection with their brand. For example, Chipotle has a highly visible cross-country

event strategy called Cultivate, a festival of food, music, and ideas created to appeal to like-minded consumers who care about food. According to their management team,² "Many of these newer programs allow us to tell our story with more nuance than is afforded by traditional advertising, and help forge stronger emotional connections with our customers."

In another example, recognizing that customers often face long lines at peak times, Chipotle developed a mobile app to fill advance orders by leveraging excess kitchen capacity. Chipotle recognized the unmet customer need and resolved it by enabling customers to seamlessly skip the line, creating a frictionless experience and increasing engagement. Not only was Chipotle able to increase operational efficiency and sales capacity, but was able to simultaneously build relationships with their customers and collect direct behavioral data for further understanding and personalization.³

By living up to its mission to "change the way people think about and eat fast food" and by delivering outstanding experiences, Chipotle drives engagement through strengthened emotional bonds and shared values with their customers. Doing so has paid off with outstanding growth and financial performance.

¹Other fast food restaurants in Rosetta's study include Starbucks, McDonald's, Dunkin' Donuts, and Burger King.

²Chipotle 2013 Annual Report

³Blue Rocket, <http://goo.gl/UAgYfB>



05 Engagement as a Strategy for Growth

Investing in delivering customer engagement as a long-term strategy pays off. Cultivating and retaining engaged customers, and measuring and optimizing to increase connection to the brand throughout the customer decision journey and over time is at the heart of customer-centric growth. This not only results in increased lifetime value at the individual level, but also provides the foundation for company-wide financial impact, with greater engagement leading to strong growth across categories and industries.

Even small improvements in engagement metrics can dramatically increase your value to your customer

For more information on the value generated for consumers, please see the second white paper in the series, "**Customer Engagement from the Consumer's Perspective.**" This second white paper, also based on the findings of the 2014 Rosetta Consulting Customer Engagement Consumer Survey, examines what it means to be engaged with a brand and explores how

consumers experience engagement. For additional perspective on how brands can impact their performance on engagement please refer to the first white paper in the series, "**The Marketer's Perspective.**"

Ready to take the next step and execute on an engagement strategy to generate value for your brand? The Customer Engagement Roadmap provides a concrete business plan that prioritizes your brand's investments and brings engagement to life with the programs, processes, and execution needed for brands to better engage with consumers by delivering the experiences that matter most.

To find out more about the value engagement can generate for your brand, please contact:

Chetna Bansal

Partner

212.771.5253

chetna.bansal@rosetta.com

Kara Schnoes

Director of Rosetta Consulting

kara.schnoes@rosetta.com



ABOUT ROSETTA CONSULTING

For over 15 years, Rosetta Consulting has been a catalyst for unlocking reciprocal, long-term, engaged relationships between companies and their customers, delivering mutual and measurable value. Past client work has included creating demand-driven growth strategies based on deep customer understanding and intimacy for one out of every five Fortune 100 companies in more than 30 countries worldwide. Marketing strategies informed by these insights typically experience over a 50% lift.

Our holistic approach includes:

- A three-dimensional view of business + demand + technology
- Next-Practice, forward-looking innovation
- Integrative solutions, focused on action

Kara Schnoes, Director, Rosetta Consulting contributed to this report.

The value of highly engaged customers goes beyond spend. They are also more loyal and willing to advocate on behalf of the brand.
