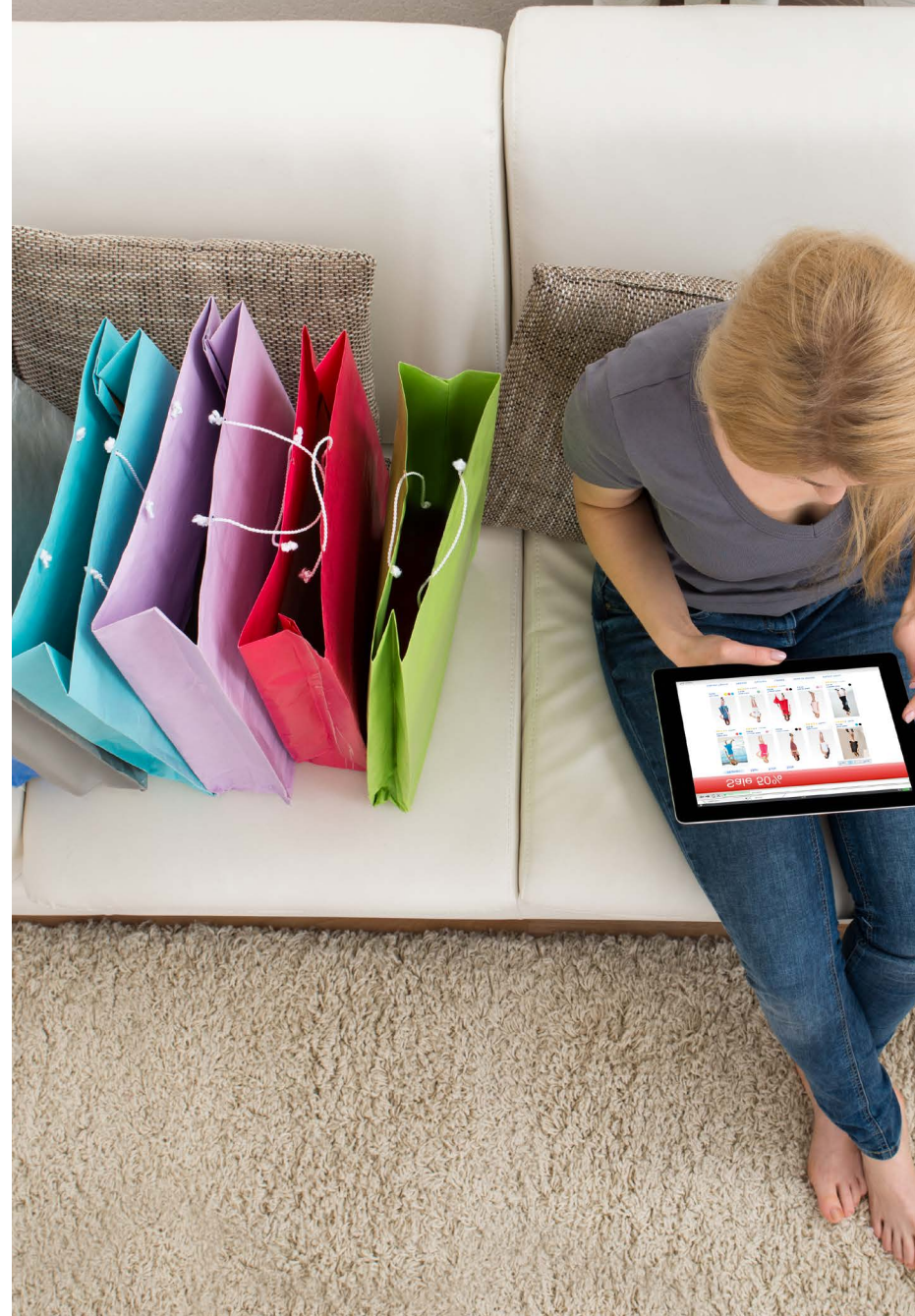


# Retention versus acquisition:

Where should you focus?



**When reviewing business plans with our clients, we often notice efforts and marketing budget are **weighted towards customer acquisition rather than retention.****

Years of data analysis have shown that this approach may not be the most efficient way to increase sales and profit. There are a finite number of relevant customers in a marketplace for any proposition.

As you grow, it will become harder to find and recruit new customers, driving a higher cost of recruitment per customer. In contrast to this, it is clear that retained customers are more predictable and more profitable than new customers, so it pays to grow their proportion.

We advise re-balancing plans to have a greater focus on driving customer retention and loyalty.

# Advantages of retained over acquired customers

It is, on average, less expensive to drive a repeat purchase with an existing customer than it is to acquire a new one.

While the difference between the costs of the two types of marketing greatly depends on the market sector, most industry experts, including Gartner and eConsultancy, estimate retention costs per customer to be 10% to 20% of the cost to acquire one.

This is on one hand due to costs associated with the marketing tool used, e.g. PPC vs. email, but it is also influenced by the likelihood of converting the targeted

customer, which is much lower for new customers.

In addition to lower marketing costs, customer spend usually increases over the course of a customer's lifetime.

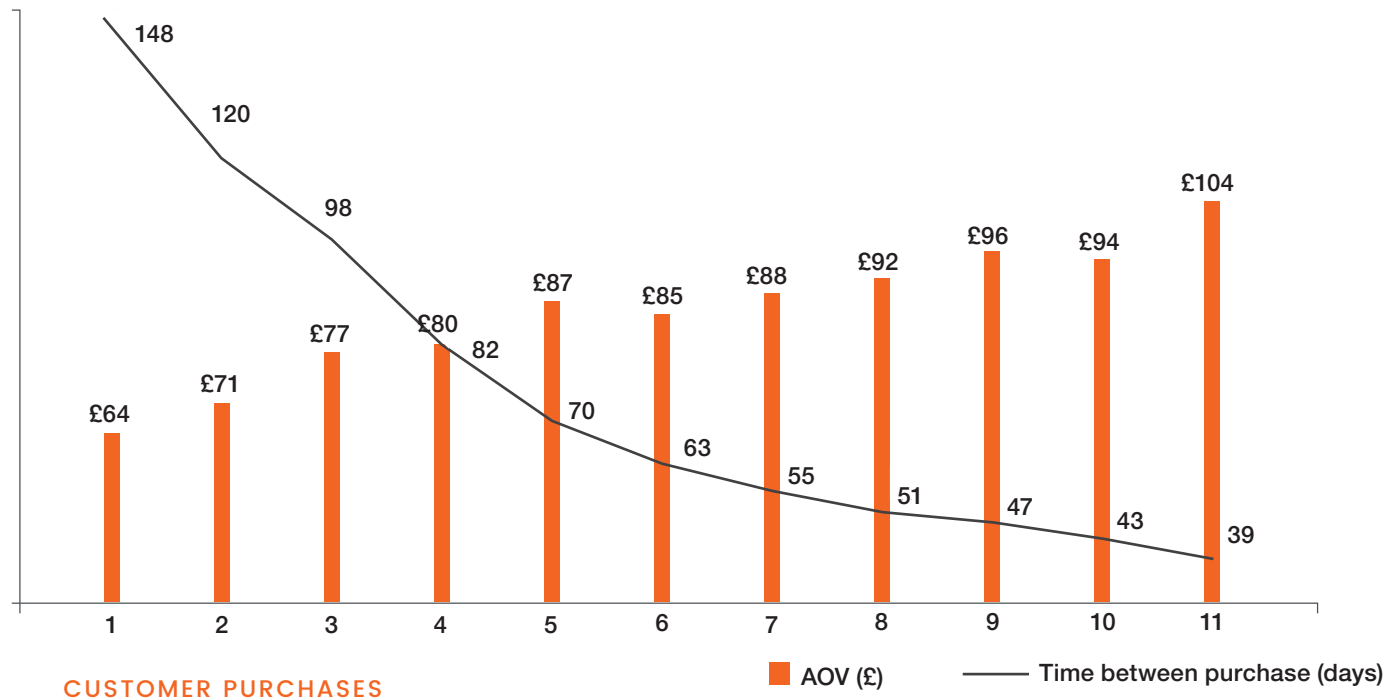
An analysis of the purchasing patterns of over 4 million consumers across a sample of 20 retailers revealed a positive correlation between the number of purchases, AOV and therefore the customer's value to the business. For example, one of our client's customer base spends on average 30% more on their fifth purchase than on their

first. In addition to spending more per purchase, retained customers also spend more frequently.

The graph on the following page illustrates for a given retailer the correlation between number of purchases, AOV and time to next purchase.

In this case, it is clear that the more purchases a customer makes, the less time it takes them to make a subsequent purchase – which is for a higher AOV.

## AOV AND PURCHASE FREQUENCY OVER TIME - UK ISOBAR COMMERCE CLIENTS



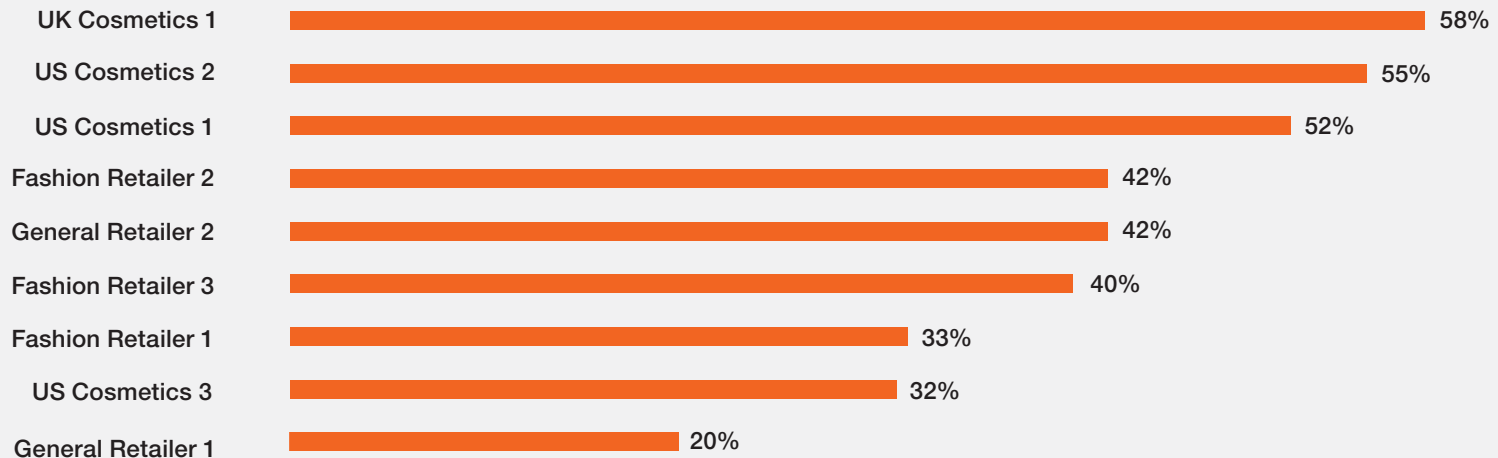
## SO WHICH INDICATORS SHOULD RETAILERS AND BRANDS TARGET IN ORDER TO INCREASE OVERALL RETENTION?

The first goal should be to get as many new customers as possible to make a second purchase. Our research consistently shows that with each purchase, the likelihood of making another purchase increases (as we saw in the chart). This means that the second purchase is by far the most difficult to secure from retained customers and should therefore be a key target. Amongst our client base, we identified second purchase rates between 20% and 58% – see below. This varying degree of success in re-engaging new customers partly depends on the nature of the products sold. However, the difference in second purchase rates between same-sector retailers also indicates that the rate can be influenced by the retailer.

**Recommended activities from which we have seen demonstrable impact include:**

- ▶ Introduction of a well-structured loyalty scheme
- ▶ Create and launch a customer lifecycle marketing plan, e.g. welcome email, re-engagement, targeted campaign based upon item purchases, etc.
- ▶ Monitor customer service and delivery against customer promise – these are key drivers of repeat spend

### 2ND PURCHASE RATE BY RETAILER TYPE - UK & US ISOBAR COMMERCE CLIENTS



## RETENTION VERSUS ACQUISITION: WHERE SHOULD YOU FOCUS?

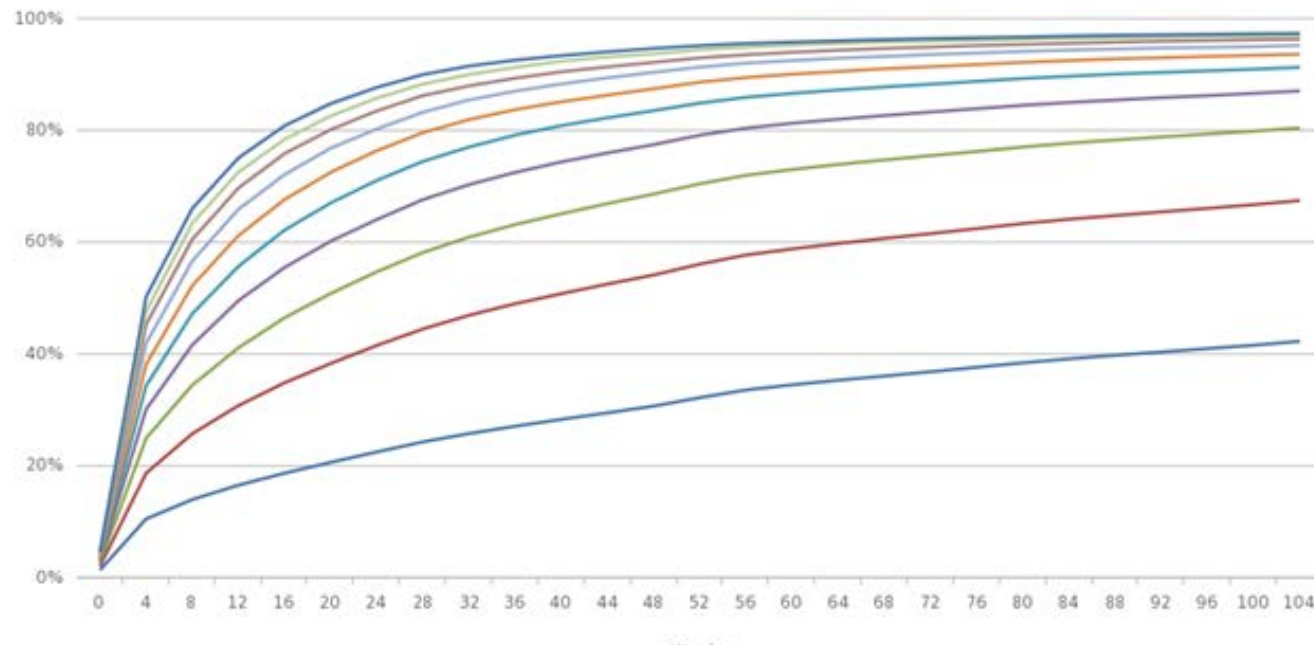
In addition to increasing the proportion of customers making a 2nd purchase, it is also desirable to reduce the time between the 1st and the 2nd purchase (and all subsequent purchases). Note the timing of activity to drive the next purchase needs to be planned and be relevant; a discounted promotion to purchase a television one week after a purchase of a television is not the right strategy.

From the chart below, we can see that for a given retailer, 50% of second purchases were made by week 20. As an initial trial, it could

be worthwhile to target a re-engagement campaign at this point. This need not preclude the customer from other relevant campaigns, but the activities need to be relevant.

Driving performance of these levers impacts customer loyalty. Isobar Commerce defines a loyal customer as a customer with a 90% likelihood of making another purchase. As you can imagine, the earliest this point is reached the better as is the more purchases loyal customers make per year.

### CUSTOMER REPURCHASE RATE BY FREQUENCY







Would you like to gain a better understanding of the purchasing habits and loyalty curve of your customers?

We have developed LIFT (loyalty insight and forecasting tool), a proprietary loyalty diagnostic tool, which includes an in-depth analysis with recommendations on how you should prioritise initiatives to drive profitable growth.

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Sources:

The Chartered Institute of Marketing, 2010, 'Making membership work for you'

Jerry Jao, August 2013, CMO.com by Adobe, 'Customer Retention Should Outweigh Customer Acquisition'

Isobar Commerce analysis

## ABOUT ISOBAR COMMERCE

Lorem Ipsum is simply dummy text of the printing and typesetting industry. Lorem Ipsum has been the industry's standard dummy text ever since the 1500s, when an unknown printer took a galley of type and scrambled it to make a type specimen book. It has survived not only five centuries, but also the leap into electronic typesetting, remaining essentially unchanged, lorem sed Ipsum is simply dummy text of the printing and typesetting industry.

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