RETAIL TREND REPORT

Customer retention post-pandemic

6 key retention insights

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Online retail is in a state of rapid change with new retailers coming to the fore. This flurry of activity has accelerated the long-term trend of rising customer acquisition costs. For example, advertising costs on Facebook have increased 60% in the last year according to Nest Performance.

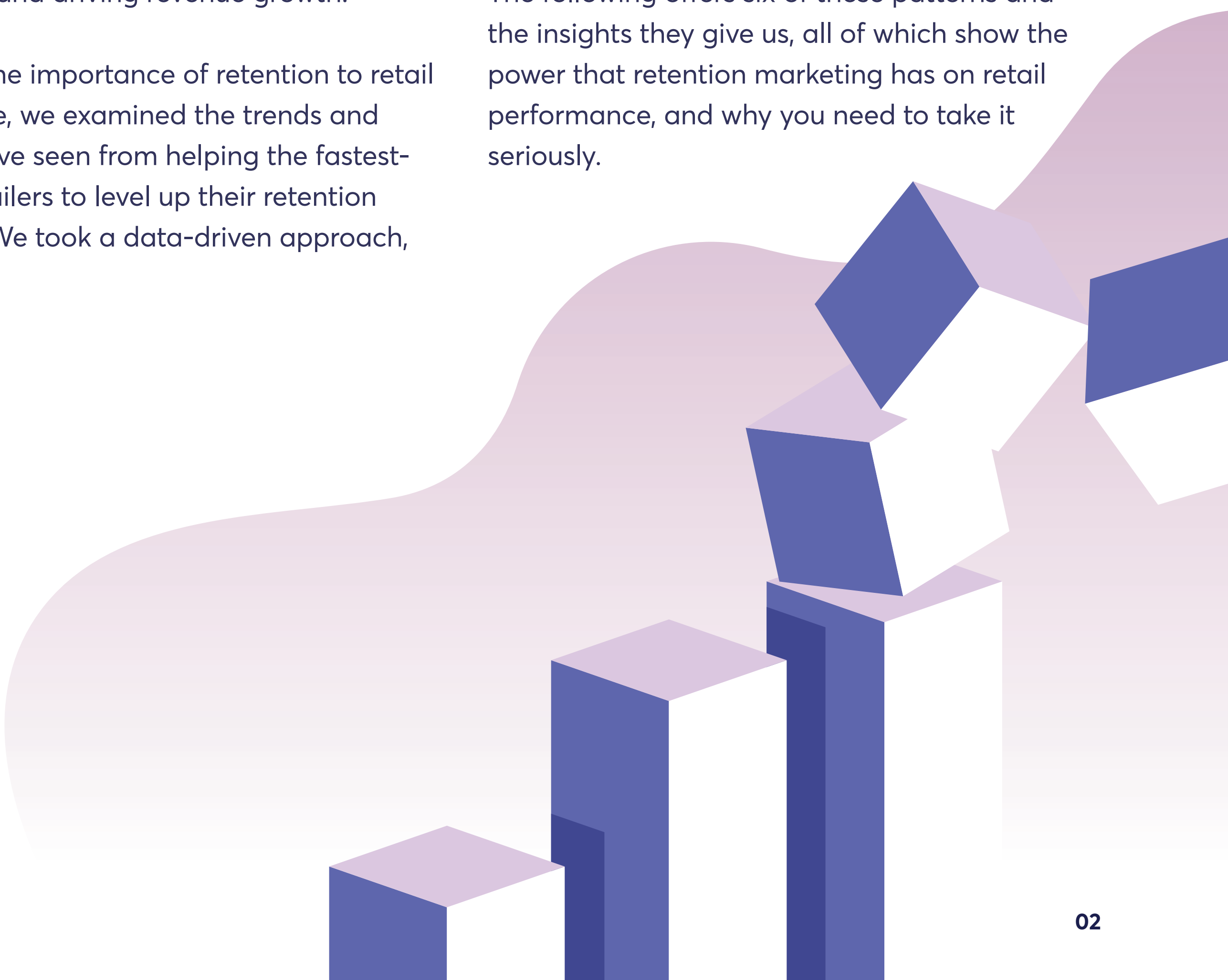
In addition, there is a move away from advertising models that rely on third-party data and tracking via cookies, resulting in many advertising platforms becoming less effective, and potentially more expensive.

This brings the importance of customer retention sharply into focus. As the cost of acquiring customers goes up, the lifetime value of a customer has to respond accordingly in order to justify the spend. Therefore, having a retention strategy that turns new customers into repeat customers, and ultimately into loyal customers, is essential to driving and solidifying your brand, and driving revenue growth.

To explore the importance of retention to retail performance, we examined the trends and patterns we've seen from helping the fastest-growing retailers to level up their retention marketing. We took a data-driven approach, bringing together 20 billion data points we've collected since 2013 to examine the relationship between different success measures, and to look for those that predict future revenue growth and Customer Lifetime Value (CLV).

We don't just look at CLV, but incorporate all other elements of retail, including how often customers shop, and how average order value develops over time. While no two businesses are the same, across different industries and different sizes, there are common patterns that we are able to detect in our data.

The following offers six of these patterns and the insights they give us, all of which show the power that retention marketing has on retail performance, and why you need to take it seriously.



01. Every 10% increase in repeat rate leads to a 4-6% increase in revenue in the next 12 months

A retailer's repeat rate is an essential metric for marketers to track. It's a measure of the health of a retention program, as well as a measure of brand satisfaction. But looking at the whole of a customer base from the beginning of time may present a misleading picture, because some repeat customers will have huge gaps in their purchase history, so for older brands, the repeat rate will skew higher.

Instead, a better way to read this statistic is to look at different cohorts, and see if they make a second purchase in a reasonable amount of time. Depending on the business, that could be within a few months, a year or possibly longer. If across these cohorts, the repeat rate improves, that's a good indication that the retention strategy is working.

What makes this so important is that it appears to have a direct impact on revenue, based on the data we have.

Every 10% increase in repeat rate (for example, going from 20% repeat rate to 22%) leads to around a 4-6% increase in revenue over the next 12 months. This shows the huge value that retention has on a retailer's bottom line, and also gives marketers a lever to pull to try and increase their brand's revenue.

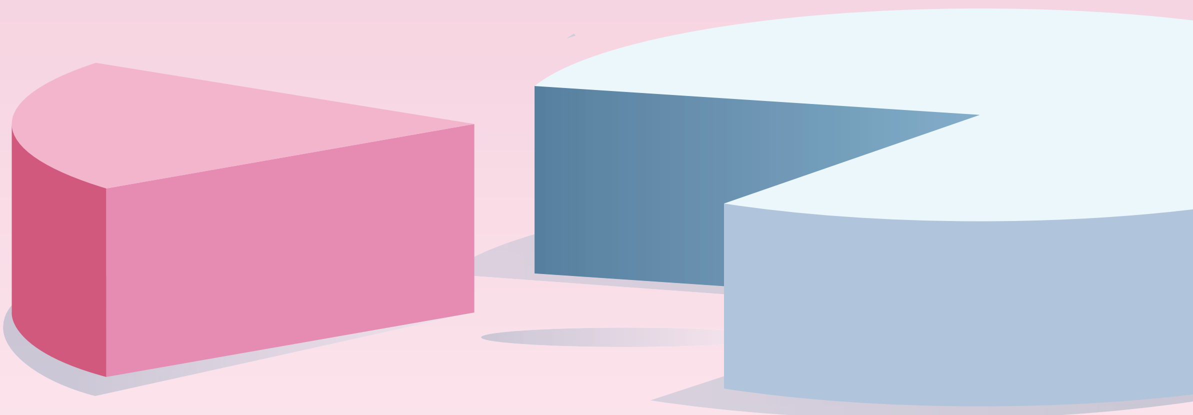
02. Subscribed customers have, on average, a higher CLV and a higher repeat rate than non-subscribed customers

Getting visitors subscribed to email updates is more important than ever. With the recent move to less third-party cookie tracking across browsers such as Chrome, as well as Apple's recent updates that mean apps no longer automatically track users, being able to retarget customers with advertisements is going to become less and less effective.

For marketers, the ability to build their own "first-party" data list by incentivizing visitors to join a marketing list will be essential to target customers effectively. Waiting until the checkout to collect a visitor's email address is no longer enough for retailers. Marketers need to persuade visitors to submit this information voluntarily and earlier on in the process in order to start the journey.

There is an incredible long-term value to subscribed contacts – it's a very low-cost way of creating touchpoints with potential customers, staying top of mind, creating demand and nurturing a lasting relationship with them. This isn't just theoretical. Our data shows that getting visitors to subscribe has a direct effect on CLV: Subscribed customers typically have a 31% higher repeat rate, place repeat orders faster, and have a 22% higher CLV on average.

The importance of focusing on a great email and cross-channel experience with personalized, meaningful content has never been more essential to long-term growth.



03.

Reducing the delay between first and second order leads to a higher CLV on average

For every retailer there is a clear window to get customers buying again. Too soon after their first order and they may not have even received the order. Too late, and their first order may just be a distant memory. Obviously, this window varies depending on a retailer's product range and category. For food and consumables, the window starts pretty soon after the first purchase. For something more durable such as bedding, it might not start until a year or more after purchase.

Whatever the average delay between first and second order is, we found that reducing that gap to the smallest possible level has a major impact on CLV. In fact, a significant reduction in repeat order delay can lead to a 20% higher CLV on average.

Making retention programs work from the start is therefore essential. This can be done by using rich engaging content related to a customer's first purchase, or suggesting complementary products that will accompany their existing purchase, or using incentives such as referral codes or discounts.

04. Automated emails need to be supported with broadcast campaigns

Automation is often viewed as a bit of a holy grail among marketers. It enables marketers to build a marketing machine where every action a customer takes triggers an automatic, personalized response, allowing marketers to focus their efforts elsewhere with confidence.

From welcome campaigns to lapsed customer workflows, automated campaigns are undoubtedly important to keeping your customers engaged. But they are not the be all and end all strategy.

When we looked into our data we found that automation only works if it's supported by broadcast campaigns. It's no surprise that broadcast campaigns are essential for demand generation, and for keeping a brand top of mind among customers.

But we found that even if a customer only opens one in 10 or 20 emails, or even none at all, they are more likely to visit when they need something than they would if they were not opted in.

Plus, marketers need customers to click on and engage with campaigns in order to trigger automated campaigns, so broadcast and automated communications really do feed off one another.

05. The sweet spot of new revenue vs. returning revenue that most retailers should aim for

Every growing retailer goes on a journey when it comes to new versus returning revenue. At the start it's exciting to grow a customer base, where all revenue is new revenue. Whereas by the time a brand is established, a vast chunk of revenue comes from its existing customer base.

To sustain growth, newer retailers need to focus on turning new customers into repeat customers, so they get the best return on their acquisition costs. Likewise, mature businesses need new blood in their customer base in order to continue to grow, assuming they have a well-established base of returning customers.

Therefore, for newer brands, having 60% of revenue come from new customers compared to 40% for returning customers is a good level to aim for. While more mature retailers should aim to keep revenue from new customers above 40%.

The balance for any given retailer will vary over time as their focus changes, but over the long run this range contains the sweet spot for most retailers to have sustained growth.

06. Understand which products lead to a higher customer lifetime value

For retailers with a wide range of products and varying price points, it may come as no surprise to learn that the first product a customer purchases is a good indicator of the future value of that customer.

Marketers need to analyze their product set and work out which products and categories are more likely to lead to more repeat purchases. This exercise helps marketers to focus their efforts and make retention marketing much more effective. One way to take action is to center acquisition efforts on those high future-value products.

Alternatively, marketers may want to look at why other products don't lead to the same kind of repeat rate and ensure those product sets have the same level of automated workflows in place to improve the repeat rate from customers.

Predictive retention is possible, and necessary for success

It's clear from the data that retention marketing is essential to the health and growth of a retailer. By focusing on the right areas now and putting in place effective workflows means that marketers can have a major impact on their brand's revenue.

It shows conclusively that the customer experience goes hand in hand with revenue. Improve the long-term customer experience, and the revenue will follow. By focusing on activities that get customers subscribed to a brand, that improve the repeat rate, and that reduce the repeat order delay, retailers should see their revenue grow faster.

Working out the activities that marketers need to do is the hardest part. Having analyzed where you can improve, you then need to be able to execute campaigns to improve your performance.

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The Ometria Methodology

The Ometria Methodology is our five-step growth framework that provides each of our customers with a custom-made CRM roadmap for reaching their strategic goals, using the Ometria platform.

It's the only retail-specific framework of its kind, and is entirely focused on growth. Retailers who use the Ometria Methodology experience on average an 82% annual increase in CRM revenue.

82%

Average annual increase in CRM revenue using the Methodology

2x

This is on average 2x faster than growth without Ometria

> We chose Ometria because they offer genuine partnership and an agile, flexible solution. We were impressed by Ometria's tech, and also by the team's retail expertise – especially when it came to the Ometria Methodology, which will provide us with a data-driven path to prioritizing and optimizing our marketing initiatives.

Federica Miselli **Digital Business Director at All We Wear Group**

> The process has been incredibly useful. The benchmarking exercise was well thought out and it was very useful to have comparisons, as this is something we can't access ourselves. These will be adopted internally to give the team clear goals to be working toward, and are also very tangible objectives to share with the exec team, which will increase engagement and focus.

Laura Hickey **Senior CRM Manager, Interflora**

If you want your own retention marketing health check using the Methodology, get in touch today.