How to Drive Repeat Purchases

The Real Value of Customer Loyalty

stitchlabs

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I. Introduction

Customer loyalty is essential to running a successful retail business. Yet in today's "always on" omnichannel retail environment, it's more difficult than ever for retailers to attract and retain the attention of connected customers. With an unprecedented array of shopping options and platforms, why should a customer keep coming back to your brand?

Delivering a superb customer experience is often touted as a key component to any successful business. However, all too often those conversations focus solely on strategies for creating the ideal experience while ignoring ways to assess return on investment.

Often undervalued, customer loyalty is the most fundamental framework for measuring customer experience and sustainable business growth. One of the best ways to analyze customer loyalty is by comparing new customers to return customers.

This paper provides data insights on the significance of return customers, the importance of understanding customer lifetime value, and strategic tactics to boost repeat revenue.

II. Data Report: The Real Value of Customer Loyalty

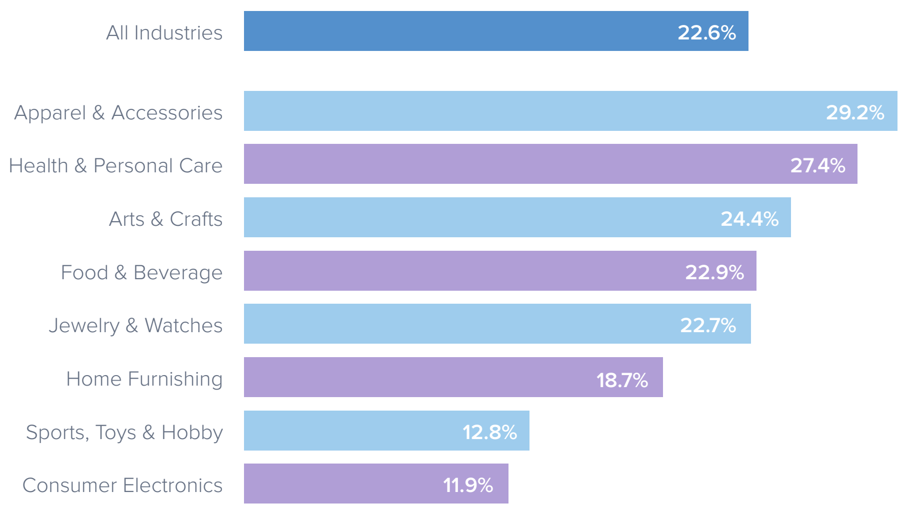
While sustainable growth requires a mix of new customers and repeat customers, the former is often under-prioritized, even though it costs about 7x more to acquire a new customer than to retain an existing one. Think about it: new customer acquisition requires costly marketing expenditures and can prove difficult to track when evaluating return on investment (ROI), whereas customers already familiar with a brand can be more easily persuaded to come back through simple promotional campaigns offering marginal discounts.

Despite the clear business case in favor of customer loyalty, several important questions need to be addressed as one starts to consider how to best balance the investment between customer acquisition and retention. A recent Stitch Labs data report helps answer these critical questions and shed light on the real value of repeat customers.

What share of annual retail revenue is typically driven by return customers?
Understanding the relative significance of return customers to your current revenue stream helps to frame how important they are to your business. After analyzing over 22 million orders made by roughly 20 million unique customers with over 2,400 online retailers, Stitch found return customers account for 22.6% of a retailer's revenue, although they only make up 11.6% of the customer base.

Take a moment to consider the implication of these figures: approximately 10% of all return customers make multiple purchases, and they account for over 20% of revenue. Despite this, most businesses spend the majority of their marketing budget competing to attract the other 90% — new customers who only make one purchase. Remember, every new customer is an opportunity to create a return customer. But most businesses under-invest in customer loyalty, putting all of their eggs in the customer acquisition basket.

Share of Revenue
From Return Customers



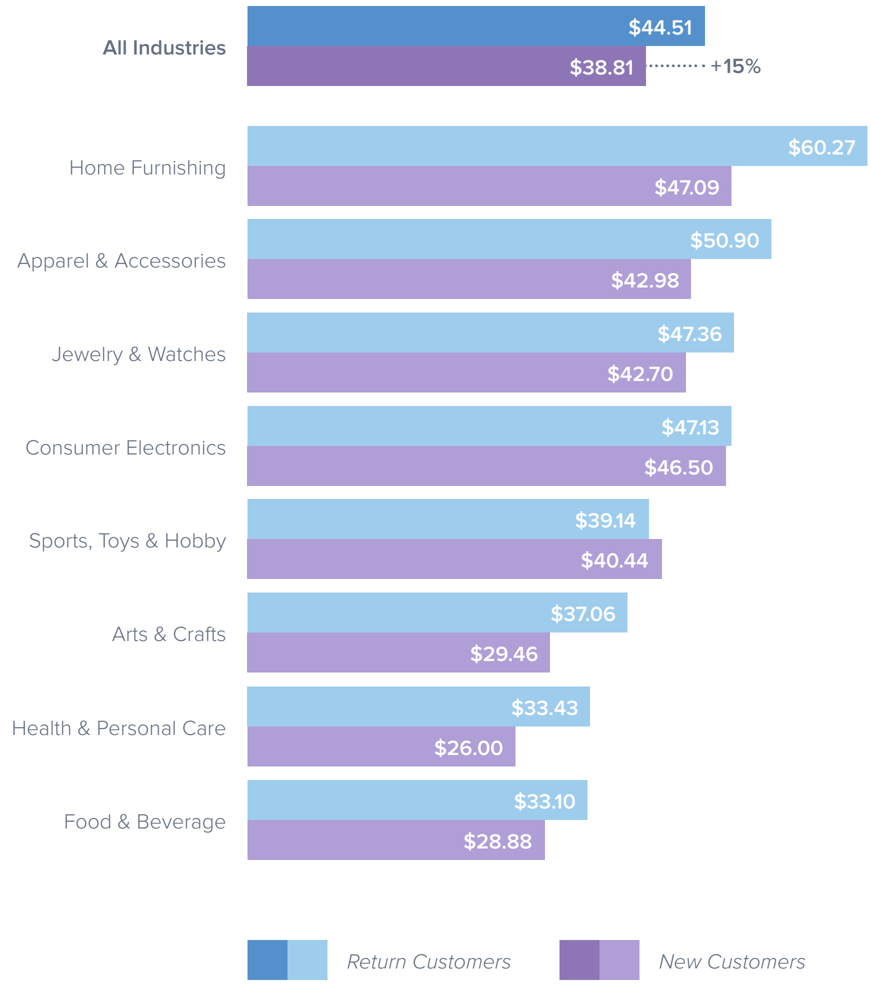
Based on the data and industry breakdown in the graph above, your business should consider the following questions:

- Are you attracting more or fewer return customers than the average for your industry?
- If your business is above the average, does that mean your loyalty program is a success or is there more opportunity for improvement?
- If your business is below the average, does this mean your loyalty program is failing or are you simply lacking customer loyalty efforts all together?
- Are you over or under-investing in customer retention?

How much does the average return customer spend on any given order?
Knowing that return customers are significant revenue drivers, just how much do repeat customers spend compared to new customers on a typical order? Answering this question is key to balancing the investment between customer acquisition and retention.

Across all industries, Stitch found that return customers spend 15% more than new customers on any given order. This trend was most pronounced in the Health & Personal Care and Home Furnishing industries, in which the relative difference was nearly 30% in each. Clearly, these are industries where customer loyalty plays an important role, and it's likely these numbers in and of themselves reflect that strong loyalty programs are already in action.

Average Revenue
Per Transaction

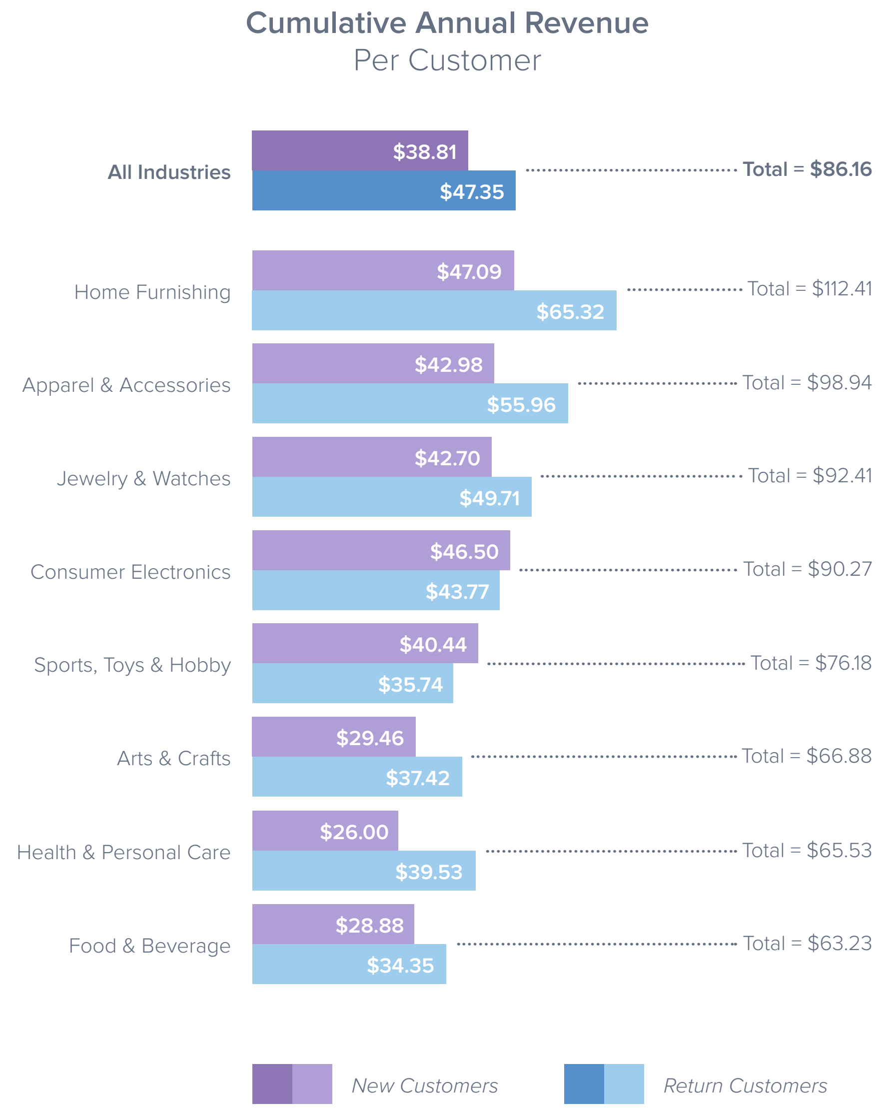


A couple prudent questions for your company to consider would be:

- How do your return customers compare to new customers on a typical order?
- Is your marketing team taking this into account when budgeting for acquisition and retention efforts?

How much does the average repeat customer spend compared to new customers?
The most obvious benefit of a return customer is the fact that they make more than one purchase. Couple this with their tendency to spend more on any given order, and the value of customer loyalty becomes even more substantial.

Over the course of a year, the average return customer spends over 120% more than new customers. In 2015, the typical return customer spent a cumulative total of $86.16, more than double the $38.81 spent by new customers. The relative difference was largest in Health & Personal Care (150%) and Home Furnishing (140%).



Questions for your company to consider include:

- How much does the average return customer spend at your store over the course of a year?
- How much can you expect in revenue from each new customer that converts to a return customer?
- Is the conversion worth the time and cost you are (or should be) currently devoting to loyalty programs and retention?

III. Calculating Customer Lifetime Value

Based on Stitch's data, there is clearly a vast landscape of untapped, cost-effective, and revenue-driving opportunities under retailers' noses. In order to strategically target your marketing efforts, you need to first understand the cost of acquiring a customer as well as the expected lifetime value of a typical customer.

To calculate your customer acquisition cost (CAC), divide your total marketing costs by your total number of new unique customers in a given time period.

The equation looks like this:

$$\text{CAC} = \text{Total Sales \& Marketing Costs (MC)} \div \text{Total Customers Acquired (CA)}$$

Marketing costs should include all promotional campaign costs (like display ads, Google Ad Words, and paid social ads), marketing team wages, as well as the cost of your marketing tools and software. If you have a sales team, this would also be included in your marketing costs. As an example, if you spent $10,000 a month in total marketing costs and acquired 500 customers, your CAC would be $20.

Once you know your CAC, calculating the average lifetime value (LTV) of a customer will allow you to determine the return on investment (ROI) from your marketing activities.

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The basic formula for determining the lifetime value of your customers is:

***LTV** =*

[Average Order Value]

x [Average Purchases per Month]

x [Expected Lifetime in Months]

x [Gross Margin]

***Average Order Value** =*

[Total Revenue over last 6 months]

/ [Total # of Orders over the last 6 months]

***Average Purchases per Month** =*

[Total # of Purchases over last 6 months]

/ [Total # of Unique Customers from the last 6 months

/ [6]

Note: you can choose a different duration length than 6 months, just be sure you are consistent.

The metric in this equation that's typically most challenging for retailers to accurately calculate is the expected lifetime of their customer base. First, you need to calculate the churn rate: take the number of customers you have at the end of a particular time period (E), say the month of April. Then subtract (E) from the number of new customers you acquired in April (N) and the amount of customers you had at the beginning of April (S). Then divide the result by the number of customers you had at the beginning of April (S). Lastly, divide 1 by the churn rate.

The full equation is:

***Expected Lifetime** =*

1 / [(E-N-S) / S]

Armed with this knowledge, you can better understand not only the overall value of your customers but also which sales and acquisition channels reach the most relevant audience. This insight can help you refine and optimize your marketing efforts.

IV. Top Strategies to Drive Repeat Revenue

1. Develop a Loyalty Program

Seventy-five percent of U.S. companies with loyalty programs generate a return on that investment. This should come as no surprise, particularly since Forrester Research has reported one loyalty program member spends up to 13% more than two non-members.

While developing and maintaining a customer loyalty program may seem like a daunting task, there are many different approaches to take - some requiring more effort and management than others.

The following loyalty program strategies have been proven to increase engagement and drive repeat purchases:

Rewards Points with Purchase

One of the most common customer loyalty strategies is to offer customers rewards points with every purchase or dollar spent with your brand. This is a strategy airlines have seen great success with over the years. The more customers spend with their company, the more rewards points they get to put towards upcoming trips with them, ensuring customers need to keep coming back to their airline.

Make sure your rewards points are easy to use and valuable enough that customers will want to use them. To motivate customers to spend more in order to receive more rewards points, retailers like Sephora have tiered their loyalty programs, setting spending milestones to reach more exclusive rewards. For a customer to advance from a Sephora Beauty Insider to a VIB (Very Important Beauty Insider), they must spend over $350; and to reach VIB Rouge status customers need to spend $1,000 per calendar year. As customers progress through this loyalty program, they receive additional, personalized rewards.

Exclusive Members-Only Offers and Events

Everyone wants to feel like a V.I.P., so start giving your customers this treatment.

Instead of offering rewards points with every purchase, some retailers opt to provide repeat customers or loyalty members with exclusive discounts, early access to promotional sales and items, and/or invitations to brand events. We've all been part of a "Buy 9, get the 10th one free!" promotion, but many of today's retailers are going well beyond this elementary loyalty tactic.

Understand what your customers value and do what you can to provide it through your loyalty program. That is exactly what Amazon did when they created Amazon Prime. They knew their customers valued free and fast shipping above all, so they created a program that would allow members exclusive access to free, two-day shipping for a wide selection of products.

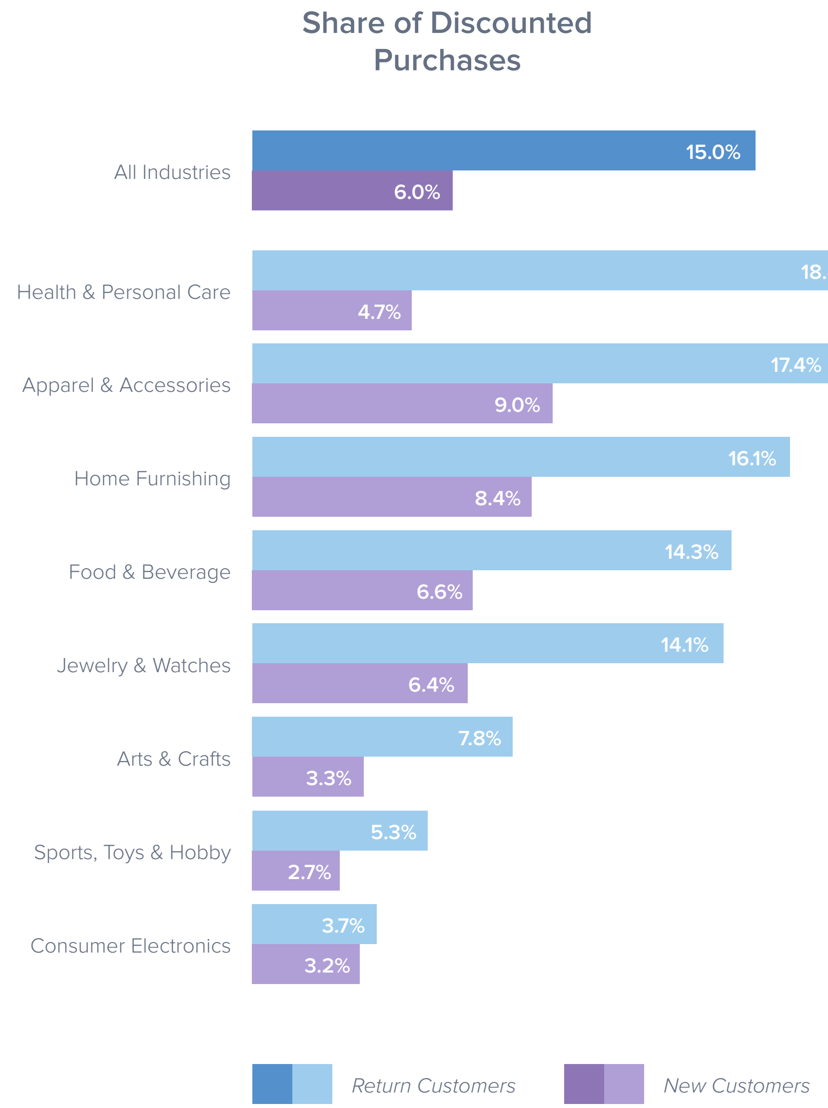
Gamified Customer Engagement Activities

Gamification is a great way to engage customers in a way that is mutually beneficial. Companies have built entire software platforms around this type of customer advocacy, but these activities can be simple. For example, use social media to ask customers to post a picture of themselves wearing your product. Have them tag your company and from these submissions, select a winner at random for a $100 gift card to your store.

The most effective consumer advocacy-building campaigns are engaging, interactive, and inspire people to support your brand enough to share it with their networks. The development of brand advocates is not to be undervalued. An App Data Room survey found that advocates tell twice as many people about their purchases and are five times more valuable than average customers. You can directly influence your bottom line by leveraging customer advocates.

2. Running Targeted and Personalized Customer Email Campaigns

One of the most common and effective methods for converting a new customer into a return customer is through exclusive and targeted email discount offers and promotions. Return customers are far more likely to take advantage of discounts than new customers, particularly in the Health & Personal Care, Apparel & Accessories, and Home Furnishing industries.



Still, targeting isn't always enough. Personalization has become a key component of strategic email campaigns, with 41% of consumers in a recent survey saying they would buy more from retailers that send them personalized emails. Putting the personal touch on customer emails has been proven to increase email open rates by 39% and reduce unsubscribe rates by 28%. While adding a customer's name is a great place to start, determining where they found you, which product(s) they have researched, and knowing their previous purchases are all ways to help you make your emails more relevant to shoppers, thereby increasing the likelihood of repeat transactions. For example, if a customer bought a bathing suit, send them emails promoting sunglasses, beach towels, and sunscreen.

Continual communication is also paramount. According to Baymard Institute, consumers abandon shopping carts at an average rate of 68%. What would it mean for your bottom line if you could convert even a percentage of those unrealized purchases? Staying top of mind is the key to reducing high shopping cart abandonment rates. Consider sending a series of emails to remind shoppers of the items they may have forgotten in their online carts.

Targeted discounts and personalized messaging are convenient retention strategies because interest in your brand has been established, order and search history data can improve success rates, and the ROI can be precisely controlled — you know exactly how much a discount will affect your margins.

3. Create a Superior Customer Experience

Crafting a truly seamless customer experience requires a mix of marketing and UX (user experience) design elements and tactics. Not only does your online brand experience need to be responsive, interactive, and easy to navigate, it also needs to be consistent, clear, and clever enough to cut through the clutter and reach customers at the right place at the right time.

Optimize your customer experience by:

Crafting a Consistent Brand Message

Whether a customer opens your email, lands on your site, or sees a post on social, they should instantly know they're interacting with your brand. Make sure you understand your customers - where they shop, what they like, and how they like to communicate - and deliver a clear and consistent message across all your sales and communication channels.

Ensuring Your Site is Mobile Responsive

If your site isn't optimized for mobile devices, you're already at a disadvantage. Not only do search engines like Google consider the mobile responsiveness of your site when determining search rankings, but 30% of online retail purchases now take place on mobile devices. Do your best to optimize for mobile search, enable mobile payments, test mobile ads, and even experiment with mobile applications to attract and engage customers.

Providing Customer Visibility Into Shipping and Delivery

At no time is the importance of communication more critical than between the moment a transaction takes place and when the product is actually delivered. Effectively communicate the status of a customer's order as it goes through the payment, fulfillment, shipping, delivery, and returns processes. Continually provide up-to-date tracking information through emails, in-app messages, social, and/or text messages to keep your customers informed and engaged.

V. Conclusion

Customer loyalty is critical to all businesses. Return customers contribute a substantial share of revenue across every industry and in a typical year they spend more than twice as much as the average new customer.

That said, designing and executing a customer loyalty program is a serious task. Beyond marketing efforts, the operational and logistical tracking that loyalty programs require can be challenging even for large-box retailers. One of our goals at Stitch Labs is to make it easier for businesses to overcome these challenges by providing automated tools that eliminate the need to waste resources on repetitive tasks—freeing up time to focus on high level strategy and tactical marketing efforts.

Take San Francisco-based lifestyle brand, Chubbies Shorts, for example. Chubbies has heavily invested in creating a unique customer loyalty program in which they send add-on gifts - branded koozies, tank tops, and coasters - to customers with every purchase. While strategically smart, this unique loyalty program proved logistically challenging. Managing their store inventory, loyalty stock, and third party logistics (3PL) operations was labor-intensive and inefficient.

By leveraging the Stitch Labs API to create a customized workflow that automatically syncs inventory tracking and order logic with their 3PL provider, Chubbies was able to solve their complex issues, streamline fulfillment, and ultimately increase repeat revenue by 70%.

To deliver a great customer experience that encourages repeat purchases, Chubbies understood they needed scalable and efficient back-end operations in place to streamline purchase orders, inventory, shipping, and fulfillment.

By connecting commerce operations and enabling flexible workflows, Stitch helps drive significant business improvements and bottom line growth for thousands of omnichannel brands like Chubbies, Flash Tattoos, and Nomad Goods. With Stitch Labs, these modern retailers get a holistic view of their business, enabling them to create superior customer experiences through automated inventory, order fulfillment, and data syncing across multiple sales channels, suppliers, and fulfillment locations.

About Stitch Labs

Stitch is an online inventory control solution that simplifies multichannel retail business. It automatically syncs inventory, orders and sales across channels, which provides retailers a holistic understanding of their operations. With Stitch, retailers save time, make better decisions, and grow their businesses. Stitch integrates with top sales channels such as Amazon, eBay, Shopify, Magento, Bigcommerce, and Square, as well as add-ons including Quickbooks, Xero, and ShipStation.

Want to learn how Stitch Labs can centralize your retail operations and help you scale intelligently? Get a customized demo from a product expert or start a free 14-day trial today.