THE BLUEPRINT FOR **ATTRACTING** AND **RETAINING** *High-ROI* SHOPPERS

retail TouchPoints
SPECIAL REPORT

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THE BLUEPRINT FOR ATTRACTING AND RETAINING HIGH-ROI SHOPPERS

Are you more focused on retaining or acquiring customers? More than **60%** of retailers consider customer acquisition to be their most important challenge for 2018, according to data from IgnitionOne. But the cost of acquiring customers is a major hurdle: Attracting a new customer costs a retail business **6X to 7X more** than retaining an existing one, according to Bain & Co.

Many retailers choose to focus more on customer retention, since a **5%** increase in customer retention can increase profitability by **75%**, according to Bain & Co.

Both retention and acquisition are vital for a retailer's longevity, but finding the right balance between them — one that works for a company's business model and growth plans — can be a struggle. However, when retailers find their "sweet spot" between these two goals, the rewards are significant. They can maximize customer engagement; more accurately predict customer lifetime value; and improve the ROI of their marketing campaigns.

This special report will explore key trends around customer acquisition and retention, including:

- How retailers can **identify the right customers worth acquiring and retaining**;
- How **brand excitement** has become the new driver of customer loyalty;
- Why stores are taking on **marketing roles;**
- Why **Prime Day** is the modern example of customer acquisition and retention success; and
- Why traditional retailers such as **Macy's** are abandoning transaction-based loyalty program formats.

> A 5% increase in customer retention can increase profitability by 75%.
>
> **- BAIN & CO.**

UNDERSTAND BRAND AWARENESS TO MAXIMIZE MARKETING ROI

Regardless of whether a retailer plans to prioritize customer acquisition or customer retention, or plans to focus on both equally, executives must understand where their current and prospective shoppers exist in the sales funnel, according to Adheer Bahulkar, a partner in the retail practice of A.T. Kearney.

"Are they aware of the brand?," Bahulkar said in an interview with *Retail TouchPoints*. "If they bought the product, are they coming back to me again? There are ways to identify where we as a brand have a major breakdown in our customer funnel. Is our biggest issue in awareness? That should become an important aspect in how you want to allocate your marketing spend."

Brands can allocate their funds based on where consumer engagement deficiencies are taking place, and also by predicting how much a shopper is willing to spend down the line.

A potential danger, however, involves overspending on already loyal customers, particularly when retailers are building out loyalty campaigns or new sales. While these campaigns often can be successful on paper and demonstrate a high ROI, the consumers who are targeted are likely to buy from the retailer anyway.

"I want to build that lifetime customer value," Bahulkar said. "I don't care how loyal this customer has been in the last five years; what I really want to know is how loyal this customer is going to be in the next five years. A mom may have bought children's wear from you for the last five years, but if that's her only child, chances are she's never going to buy from you again. She's outgrown that need. There's a certain lifecycle for how long a shopper is going to buy from you."

"I don't care how loyal this customer has been in the last five years; what I really want to know is how loyal this customer is going to be in the next five years."

- ADHEER BAHULKAR, A.T. KEARNEY

BUILD BRAND EXCITEMENT TO SECURE LOYAL CUSTOMERS

Understanding where the shopper is in the purchase lifecycle is vital: **79%** of consumers said brands must demonstrate that they understand and care about them before they will consider purchasing, according to a survey from Wunderman. Additionally, retailers must develop a **sense of brand excitement** with their consumers if they want them to both shop and return.

"Traditional loyalty in the way we think about it is a dying proposition," said Matthew Roche, CEO of Extole, noting that the definition of loyalty is changing as consumers' relationship with brands shifts. "I do think in an odd way that a lot of consumers are more loyal then they used to be," said Roche. "They talk about brands, and there's a lot more excitement about brands than there used to be — **Casper** and **Warby Parker** and even Tide. There really is a lot of brand preference and brand discussion going on."

But brands must be able to capture, motivate and exploit the brand excitement, and there's a significant cost involved. "Between Facebook, Google, **Amazon** and Apple, the rate they're going to charge you to bring in the customer is going to basically approach the marginal value of that customer," Roche added.

> 79% of consumers say brands must demonstrate that they understand and care about them before they will consider purchasing.
>
> **- WUNDERMAN**

"If you are not activating your customer base to be an off-balance-sheet sales force, you can't make money," Roche added, meaning that retailers should be actively encouraging consumer referrals to spread word-of-mouth, and leveraging consumers as brand advocates to convert more shoppers.

But don't forget about the basics when seeking to retain customers. If **the correct inventory, brand value proposition** and **in-stock availability** are not in step, sales and loyalty will plummet. Without these building blocks, consumers will have little incentive to return to the store or the site, according to Jeff Roster, VP of Retail Strategy at IHL Group.

"The most important customer satisfaction strategy is to be in stock," Roster said. "You can have the prettiest store, you can have the most technologically sophisticated web site, and all the best marketing capabilities. If I walk into the store to find a box of steel cut oats and they're not there, then I'm not happy. What's needed in 2018 is what was needed in 1918, and that's to be in stock and live up to your value proposition that you're communicating to your customers."

"What's needed in 2018 is what was needed in 1918, and that's to be in stock and live up to your value proposition that you're communicating to your customers."

- JEFF ROSTER, IHL GROUP

GENGHIS AND THE MODERN MERCHANT

By Chris Duskin, VP of Marketing, Extole

In the 13th century, when Genghis Khan made his devastating march through Jin China, he was preparing to follow his usual playbook: kill everyone. Literally, his management team felt the natural endpoint of conquest was genocide. Yelü Chucai gently nudged him to reconsider: "Genghis, buddy, if we kill everyone, who will pay the taxes?"*

To avoid confusion in this story, you, the retail marketer, are represented by the Jurchen Jin not Genghis Khan. You are the one who is allowed to survive not out of love or humanity but because of what you will yield.

Every day, you pay increasing taxes to giant media entities for whom your company's existence is a slightly irritating byproduct of your ability to pay your media bills. Your products are a way to populate search results or fill a sidebar ad or populate a newsfeed. They are not the result of your brand's creativity, passion and endurance. Your programmatic media spend is a tax that is algorithmically designed to keep you alive, barely, so that you can pay your next month's fees.

Genghis doesn't care about you.

To relieve you from this grim metaphor, know that your brand is excellent and that your products are too. There has never in history been more innovative, unique, well-made products, both digital and physical. I can literally select from hundreds of backpacks, most of which are designed with passion and purpose. You work hard to please customers, and your customers like you.

Consumers need you to win, and want you to win.

So this year, eight centuries from the desolation of the marauding hordes, lets make a pledge to spend more money with our customers and less on programmatic. Make the 10% commitment — set a goal that 10% of your new customer acquisition will be from rewarded referrals from your existing customers.

That's right, instead of paying a toll to the troll under the bridge for the courtesy of not being eaten, reward a real person who really likes your brand. Your advocates are doing the same job as your media, only better.

Can you get to 10%? It will probably comfort you that it is not only possible, but it is incredibly rewarding. Having a smoothly running referral and advocacy program will allow you to acquire customers at a reasonable (and morally defensible) CPA. The customers you acquire, and the advocates who do the referring, will be more loyal, will spend more, and will refer more frequently than those you got through any other channel.

It is time.

Or you can keep doing what you are doing. But remember that even though Genghis and his sons came around to

That's right, instead of paying a toll to the troll under the bridge for the courtesy of not being eaten, reward a real person who really likes your brand.

the idea of exploiting rather than exterminating the Jin, the Khans' taunt to Chucai was, "Are you going to weep for the people again?" It is time to work with people who will care about you - your people, your customers.

*This is not a precise translation, but reflects the spirit of his comments in the "Southern Song"

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STORES TAKE ON MARKETING ROLE TO BOOST ACQUISITION, RETENTION RATES

Traditional loyalty also has changed with the growth of online shopping. Many pure play e-Commerce retailers have bought into the idea of opening stores to help with marketing and building customer relationships. With no physical presence, online-only retailers are typically forced to spend more than their physical-store peers on marketing to acquire shoppers, according to Deborah Weinswig, Managing Director of FGRT (formerly Fung Global Retail & Technology).

"Retailers with physical stores benefit from organic customer acquisition (i.e., passing shopper traffic)," Weinswig said in an interview with *Retail TouchPoints*. "With selected Internet pure plays, customer acquisition is almost certainly driving their moves to develop a brick-and-mortar presence. This brick-and-mortar/digital divide raises the question: At what point should physical stores be considered a marketing cost? Retailers have tended to use four-wall profitability to measure the viability of a physical store — but if that store is also serving a marketing purpose, there is a case for considering subsidizing a store that drives overall customer acquisition, customer retention, brand development, etc."

> Today's physical store is measured on more than profit. Retailers can subsidize stores that drive acquisition and retention.
>
> **- DEBORAH WEINSWIG, FGRT**

2017 PRIME DAY SUCCESS REFLECTS NEW AGE OF CUSTOMER LOYALTY

Despite a very small (but growing) brick-and-mortar footprint, **Amazon** has paved the way for how retailers tackle customer acquisition and retention. Prime Day 2017 served as the biggest example of how these strategies have changed. Amazon Prime had approximately 90 million U.S.-based subscribers as of October 2017, according to Consumer Intelligence Research Partners (CIRP).

Sales during the 2017 event grew by more than **60%** compared to Prime Day 2016, and other statistics revealed just how important the event is to Amazon customer acquisition efforts:

- More new members joined Prime on July 11 than on **any single day in its history**;
- "Tens of millions" of Prime members made a purchase on the day, more than **50% higher than the prior year**; and
- Prime members purchased **seven times more Amazon Echo devices** globally than on Prime Day 2016.

The success of Prime Day showed that Amazon has built up enough brand capital to generate excitement out of what was essentially thin air. Even after the first Prime Day in 2015, which actually garnered criticism due to the randomness of the discounts offered, Amazon continued to break sales and registration records over the next two years. While the discounts may have been underwhelming at the start, Amazon's brand capital ultimately drew consumers in.

"Amazon is, perhaps inevitably, the retailer that has found something of a solution to the acquisition and retention costs associated with Internet-only retailing," said Weinswig. "Amazon Prime keeps shoppers locked in and coming back, while its rivals without such schemes are forced to rely on marketing spend to drive acquisition and retention."

More new members joined Prime on July 11, 2017 than on any single day in Amazon's history.

MACY'S PLENTI EXIT SHOWS TRADITIONAL RETAILERS MUST RETHINK REWARDS

While Amazon appears to have figured out customer acquisition and retention, **Macy's** is reevaluating how it measures the metrics; the retailer unveiled a new tiered version of its Star Rewards program in October 2017. The revamped Star Rewards program will enroll Macy's card customers into one of three levels — Silver, Gold or Platinum — based on their annual spend.

The change moves beyond a typical transaction-based rewards program to include perks such as free shipping. The decision is smart on the surface, as many consumers aren't fond of these programs — **77%** of programs that use transaction-based rewards fail within the first two years, according to data from Selfstartr.

In ringing in the new, Macy's is cutting ties with the old. The department store will end its participation in the American Express-operated Plenti loyalty program in May 2018. In making the change, Macy's wanted to reset its entire loyalty offering to focus more on rewards than discounts. Plenti points will accrue on qualifying Macy's purchases until March 15, and customers can redeem Plenti points on qualifying purchases at Macy's until May 3.

If anything, the moves from Macy's show that retailers can't be afraid to cut ties with programs they see as antiquated. After all, these programs' true value for retailers lies in providing a better gauge on the consumer relationship going ahead.

"I want retailers to experiment and I want them to have the freedom to experiment," Roster said. "I want them to have the smarts to kill something that's not working for them. I'm happier that at this point, if something is not working for a retailer, they pull out of it, and that's not negative in any way, shape or form. As we understand who our customers are and we're getting better at figuring out what they want and don't want, we need to pull the plug if it doesn't drive loyalty. It's mission critical now for retailers to really begin to understand who their customers are not just at a zip code level, but at an individual address level."

> 77% of loyalty programs that use transaction-based rewards fail within the first two years.
>
> **- SELFSTARTR**

IT'S TIME FOR NEXT-GEN ACQUISITION AND RETENTION

Macy's actions show that even the most traditional retailers understand that acquiring and retaining customers must go well beyond offering promotions or operating a points-based loyalty program. Retailers must do the work of **identifying where consumers are** in the shopper funnel, **generating brand excitement** through product curation, and **being present** when and where the customer needs them.

"We see a major opportunity for traditional retail to become smart on this topic," Bahulkar said. "Yes, there are data issues and there are organizational issues and investments necessary, but in this day and age where traffic is down and competition is fierce, the single biggest advantage that a brand can create is to identify and build customer loyalty. Brands that are not catching onto this are unlikely to survive."

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> **- ADHEER BAHULKAR, A.T. KEARNEY**

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