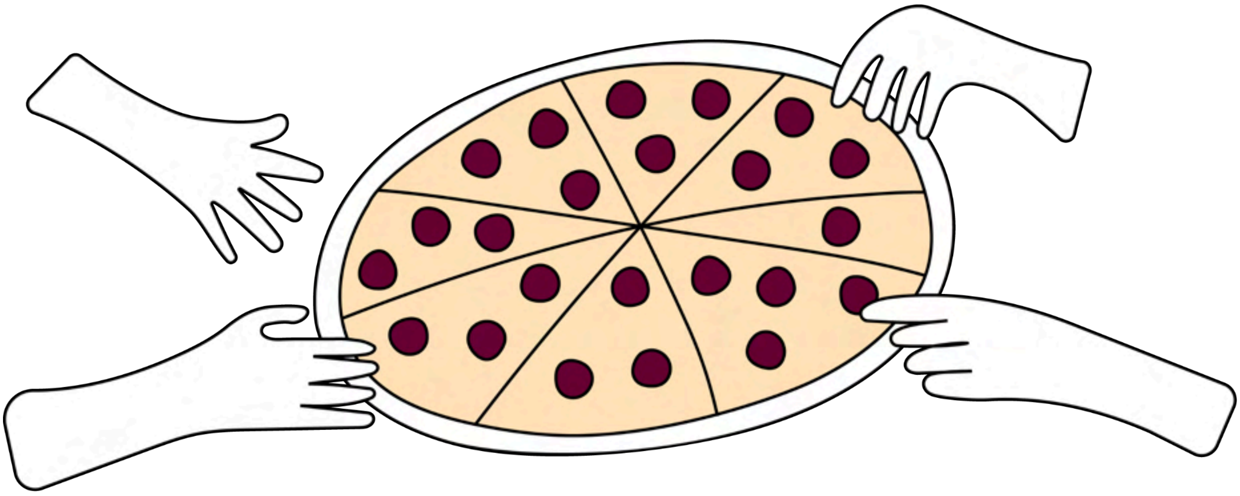
Future Commerce Learning

A Set the Table Guide

Setting the Table for Successful Customer Retention

WITH MANDI MOSHAY



We all know that raising customer retention is essential to profitability. But there's more to retention than loyalty programs and flashy marketing campaigns. Instead, it's like a rich, homecooked meal, using the right mix of ingredients like product quality, brand alignment, pricing strategy, marketing campaigns, and customer experience.

Perfecting the art of retention can be tricky. That's why we've invited Mandi Moshay to share a meal with us and help us uncover ways to build our toolbox for retention. So grab your snack and beverage of choice and let's dive in.

Meet your expert

Mandi Moshay

Mandi is the Sr. Director of eCommerce & Retention at Honeylove, a women's shapewear and intimate apparel retailer. She's been a marketing leader in the DTC space for over a decade, on both the agency side and in-house. Mandi has helped dozens of ecomm retailers of all sizes—from newly launched startups to enterprise businesses—sustainably scale by creating exceptional customer experiences that drive loyalty and increase LTV

Meet your host

Brian Lange

Brian is the co-founder and CRO of Future Commerce. He is a seasoned eCommerce and retail professional with over 15 years of industry experience. As a recognized thought leader in commerce, Brian has been featured in publications such as Forbes, Retail Touchpoints, and AdWeek. He also frequently speaks at industry events and conferences like Shoptalk, RICE, and eTail, where he shares his insights on eCommerce, retail, and technology. Brian's expertise lies in commerce, enterprise retail strategy, and direct-to-consumer.

What you'll learn in this series:

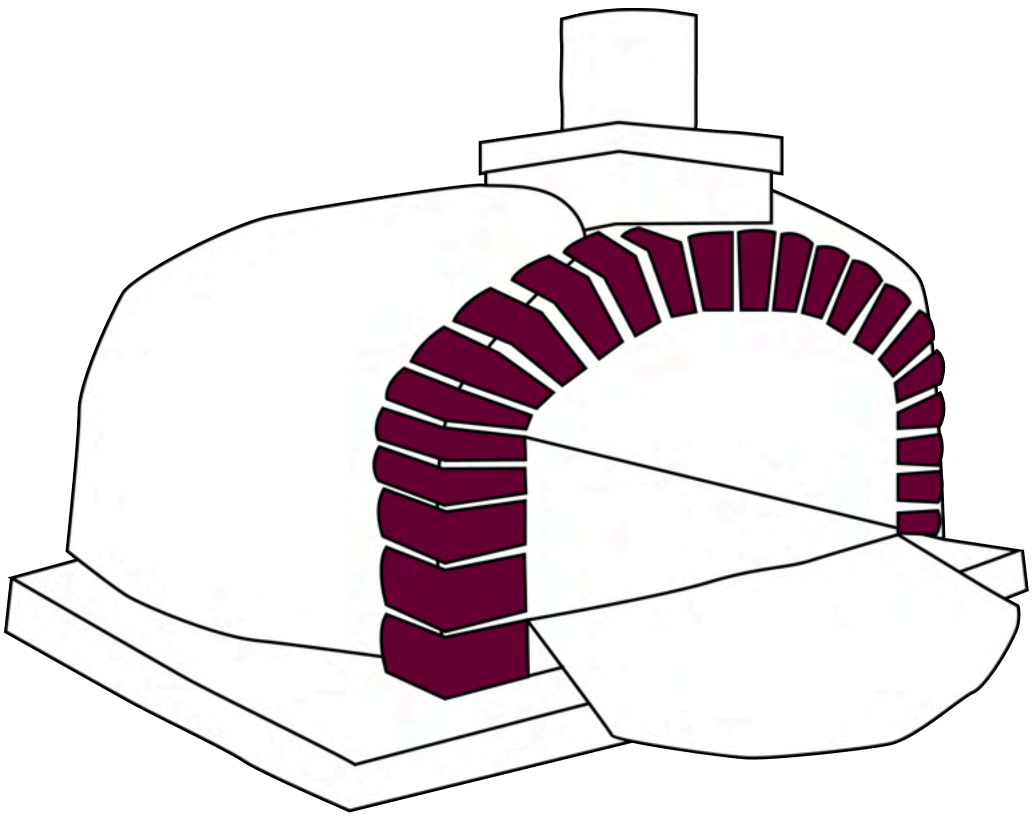
The four key levers of a thoughtful retention strategy

How to structure your business model to acquire good customers for the long haul

Your product is a solution to a problem, not merely a product

Why your ad is only the beginning of customer acquisition

How to work with your operations and finance departments to utilize your acquisition strategy for inventory management.



LESSON 1

Loyalty is More Than Good Marketing

You can't market your way into good loyalty.

The reason behind your customer's decision to repurchase from you is a lot more complex than your marketing tactics. In recent years, we've thankfully seen a great evolution of shifting focus from simplistic channel management to viewing retention more holistically. Marketing is just a nudge, not a driver of change in customer behavior, so it's important to understand the other elements of your brand experience to drive loyalty.

The Four Key Levers of a Thoughtful Retention Strategy

1

Product

Your product is a solution to a problem in your customers' lives (see Set the Table: Customer Acquisition, Lesson 3). Your product should fulfill their functional or emotional needs. This means that your customer is not going to return if your product doesn't fulfill the need they have.

The first product a customer purchases is the single best predictor of whether they will return to your brand. If your customer sees your product as good, fulfilling a need in their life, and if they decide they need more of that product or a complementary product you sell.

2

Price

Your customers' disposable income is relatively fixed over the course of 1-5 years. The price that your customer pays on their first purchase is likely the price that they're willing and able to pay for your brand. Customers who are acquired at a steep discount are unlikely to ever pay full price for your product.

In addition to your customer's ability to pay, the price for your product should be competitive with comparable products from other brands. If your product is considerably more costly than your competitors, clearly communicate your unique value proposition to your customers.

3 Brand

Your brand's alignment with your customers' values can build a steady foundation for loyalty with your customers. Your brand values can keep your brand top of mind for when your customers are ready to purchase again. Today's consumers really want to feel a connection to brands. Ways that your brand can foster connection is through reflecting your diverse audience in your brand's promotional materials.

Questions operators should understand about your brand include:

Who are you as a brand?

What does your brand stand for?

Why does your brand exist?

What sets your brand apart?

Why should your customers care about your brand?

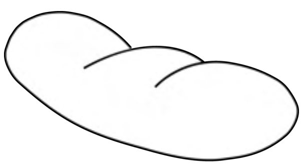
How does your brand fulfill a need or desire in your customers' lives?

4 Customer Experience

Your customers' first experience with your website, brand, and product is going to determine whether they come back. The very second experience? Fulfillment. The way you fulfill the product will decide whether or not they return. Are you fulfilling your promises for shipping? Is your product doing what your marketing materials promise it will?

It is important to remember that your customers also have macro expectations from interacting with other brands. The Amazon-i-fication of eCommerce has led customers to expect products to get to their doorstep quickly and for free. If you're unable to meet those expectations, clearly communicate with your customers why.

What about when something goes wrong? Having a strong customer service team can change your customers' perception of you. Oftentimes, experience with your CS team will change your customers' minds about your company.

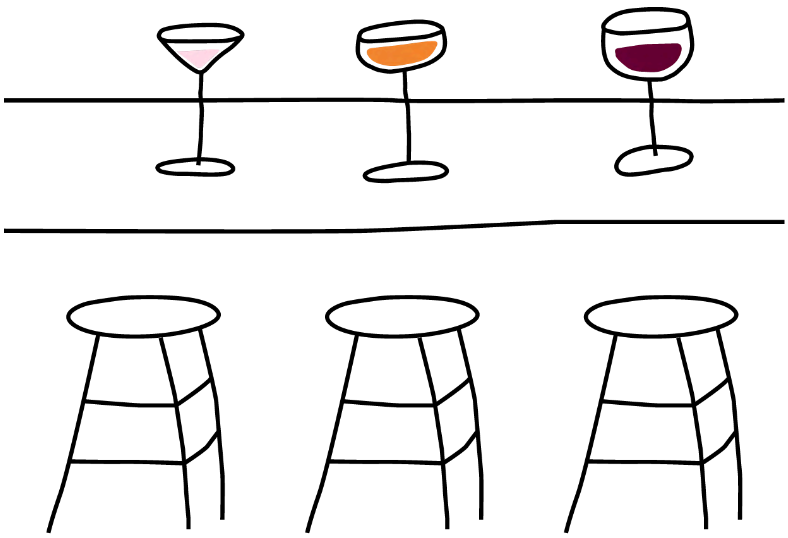


Reflection

Take a moment to review the data for your customer retention. How many of your customers return for a second purchase?

Look at your marketing strategy and your business structure as a whole. Does your company allow for your retention strategy to holistically think of your customers' interaction with your brand through the lens of product, price, brand, and experience?

What are some simple next steps you can take in your current role to move towards a more holistic view of your relationship with your customer?



LESSON 2

Product is the Foundation for Retention

The Best Predictor of Lifetime Value

Your product is the best predictor of lifetime value as well as the propensity to repurchase. Understanding the need that your product fulfills in your customer's life is paramount to your retention strategy.

Everyone on your team should be able to answer the following questions:

1 Which products do customers love most and return the least?
2 Which products are most replenishable or repeatable?
3 Which products have the most complimentary products in your offering?

Metrics to Focus On to Help Answer Your Questions

Low Return Rates and High Customer Reviews

First, look at which products have the lowest return rate. Then, look at your products with the highest review ratings. Is there any overlap? This data will help you understand which products your customers love most.

Repeat Purchases

It is most likely that the second item your customer purchases will be the same as the first. For example, if you acquire your customer on a jeans purchase, there is a 99% chance that if they repurchase from you, it will be jeans again. Find those products that have high repeat purchase rates and make them your hero product.

A Qualitative Metric: Knowing your Product for Complementary Purchases

Especially in CPG brands, it is important to fully understand your product and how it works to help your customer know what to purchase next. This requires full understanding of your product in addition to informing your customer on using other products. A thorough comprehension of how your products work and which products people purchase together most will help your brand scale in retention.

A note on returns

It is important to understand the unit economics of your products (i.e. cost to ship, cost to return, cost to acquire) to decide which products are most profitable to acquire customers on. Returns are unavoidable but thoroughly understanding your data behind returns can help your company shape messaging and unlock higher profitability as well as retention rates.

Don’t be afraid to iterate!

It can be scary, but work with your team to iterate or even discontinue products that don’t get good reviews or have a high return rate, especially if this is a product that your brand naturally acquires customers on. Remember, your customer’s first purchase experience is a key indicator of whether they’ll return to your brand or not. Take feedback from your customers and build a product that they want to purchase. It’s an investment in the short term but will lead to higher acquisition/retention, lower return rates, and sustainable long-term growth.

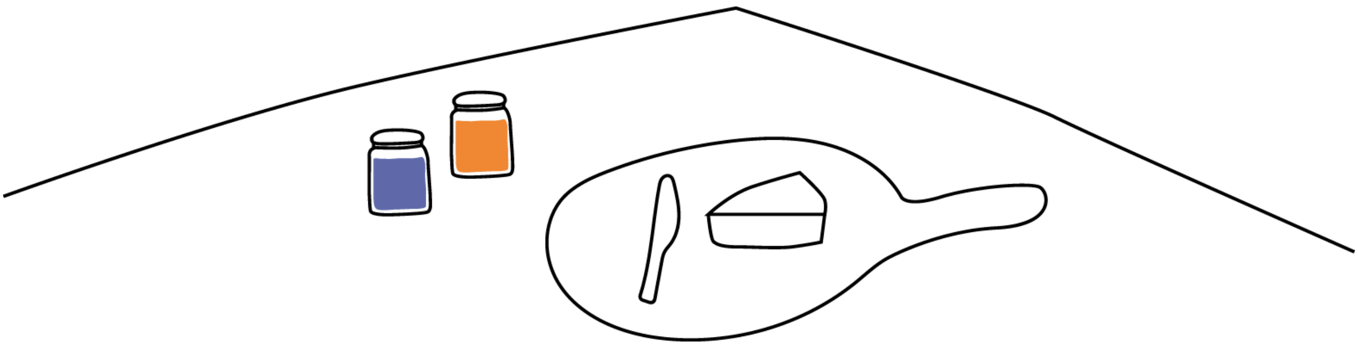
Reflection

Can you answer the three questions Mandi asked?

- Which products do customers love most and return the least?
- Which products are most replenishable or repeatable?
- Which products have the most complimentary items in your offering?

Take a moment to look at your data - are you able to identify which products have the lowest return rates? What about the highest reviews? Which products have the highest repeat purchase rates? Are these your highest-selling products?

How can you tailor your messaging to guide your customers towards these products?



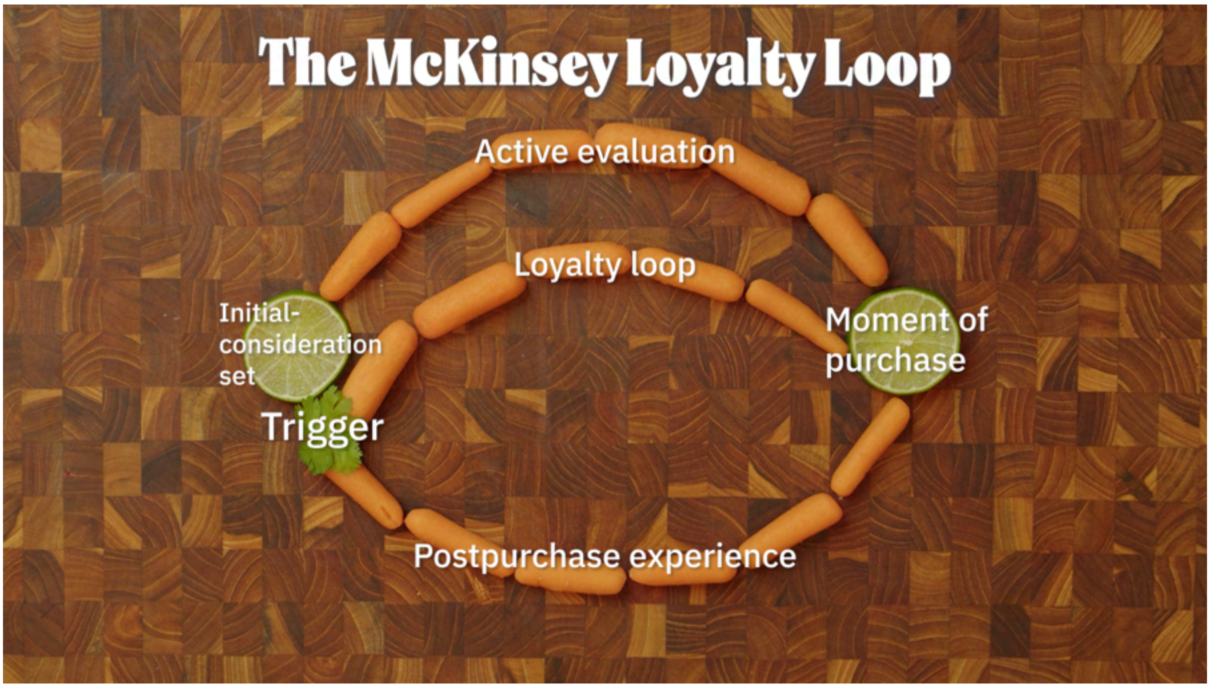
LESSON 3

Retention Starts at Acquisition

Retention isn't just magic, fancy marketing, or even just your product. Retention starts at the very beginning of the relationship you have with your customers. Acquisition and retention are two sides of the same coin. The practices you have for acquisition efforts will lay the foundation for strong retention efforts.

Loops Rather Than Funnels

The customer journey looks more like a loop than it does a funnel. The funnel is an outdated construct for understanding the customer journey. Customers are not making a decision to purchase from your brand just once. Rather, they are hitting multiple decision points over and over every time they need to make a purchase. A framework that is better suited to understanding the customer journey is the McKinsey Loyalty Loop.



Source: McKinsey & Company Customer Decision Journey, 2009

The parts of The Loyalty Loop

Trigger Point	The moment when a customer realizes their need or want for a product. Often life-stage driven.
Initial Consideration	The point where the customer considers different options & brands for their needs.
Active Evaluation	The Customer evaluates whether they need your product or not.
Moment of Purchase	The customer purchases your product.
Post Purchase Experience	The customer interacts with your product and your brand. The opportunity to build lasting relationships with the customer.
Loyalty Loop	This is where the loop begins again. The customer has a trigger point that prompts them to need or want another of your products again. The most common trigger in eCommerce is messaging, such as SMS or email.

Keep Your Promises!

We already know that a product fulfills a need in your customers' lives. But are you making sure that your product delivers on the promise that you're making in your marketing?

Your customers don't owe you loyalty. At best, only 25-20% of your customers are going to come back to purchase from you. And only 1-3% of your customer base will order from you 5 or more times. It is important to remember that your product fulfills a need in your customers' lives and that need can be fulfilled by your competitors in the marketplace. If your customer has a bad experience with your product, they'll turn to another brand to meet their needs.

Fulfilling the promises your ads make about your product is a key part of building trust with your customers. There is a delicate balance between highlighting the benefits and features of your product without overpromising and under-delivering.

Reflection

Think through your business's current approach to acquisition. Does your acquisition model look more like a funnel or a loop?

Does your marketing team have a plan for re-engaging customers after they purchase that first product? How does this fit into your acquisition plan from step one?

What are some steps your marketing team can take towards using the Loyalty Loop as your acquisition framework?

LESSON 4

Be Smart About Your Discounting Strategy

“If we don’t have something to talk about, let’s create something to talk about.”

This is a common saying in content marketing and while it’s not wrong, usually in retail, that “creating something to talk about” equates to creating a sale. Sales have their time and place in a company’s marketing calendar and help companies meet their revenue targets. But discounting too frequently can lead your brand to some problems.

The Problem with Discounting Too Frequently

Discounting too frequently can result in a low value associated with your product.

If your company runs sales too frequently, your customers will believe that your product isn’t worth the original price. This dilutes the impact of your product marketing or your unique value proposition. Customers will be trained to wait until promos to convert.

Discounting too frequently will cut into your margin.

If your profitability is dependent upon products selling for full price, discounting too frequently will make your business unprofitable. This is only exacerbated when taking acquisition costs into account.

The price your customer pays at acquisition will anchor the value they associate with your product.

In other words, if the first purchase your customer makes is on a discount, they're far less likely to come back and convert at a full price… ever. For example, if you purchase a pair of jeans for $50 that has an MSRP of $120, you'll wait until that brand is on sale for $50 again before repurchasing.

Your customer's income is relatively fixed across a 5-year period.

A customer who purchases your product at a sale price might not be able to afford your product at full price. A customer's income is unlikely to change drastically across a 5-year period, well beyond your fiscal year. If you acquire a customer at a steep discount, it might not be the right fit and you may not be capable of winning them back at full price.

The Case for Strategic Discount Seasons

We've given you a case for when not to discount. But in order to stay competitive and hit your revenue goals, odds are your brand will need to discount.

The goal should not be to do away with all discounting but to discount strategically.

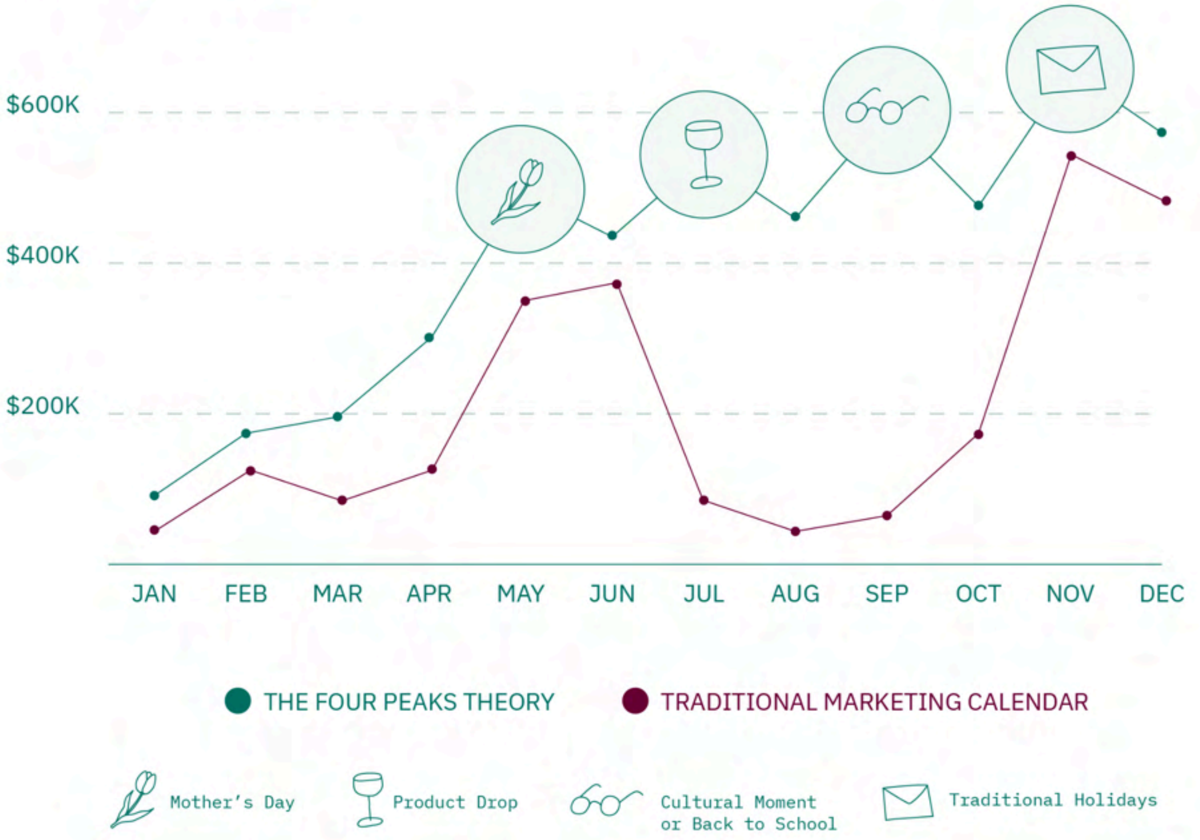
As a brand operator, you need to be strategic about when to discount, how much to discount, and how to entice the customers you acquire to repurchase from you without having to discount continuously.

The Four Peaks Theory

A great framework for discounting strategically was developed by Common Thread Collective. In a traditional marketing calendar, brands typically see two peaks of revenue. One in late spring around Mothers' and Fathers' Day, and the other at Black Friday / Cyber Monday. Under the Four Peaks Theory, brands plan promotions during the slump period to create four natural peaks of revenue.

These promotions should center around things like holidays, cultural moments, or product releases.

Revenue over time



Credit: Common Thread Collective

Ways to Encourage Re-purchasing

- Discounts and promotions
- Evergreen messaging such as completing your purchase
- Limited edition or seasonal products
- Offering freebies with purchase
- Utilizing cultural moments
- Promoting new products
- Personalizing your marketing efforts
- Early access and exclusivity
- Bundling your products and discounting larget order sizes
- Offering free shipping

Reflection

Look at your current marketing calendar. Does your brand offer four campaigns to help boost sales?

If no: Think about your product. Where would it make sense to manufacture a moment?

If yes: How can you use this theory to make your campaigns more successful?

LESSON 5

Your Retention Strategy is Only as Good as Your Data

We're all over inundated with data. However, the quality of your data is important for your retention strategy. The question isn't "how much data do you have?" it's "how are you leveraging that data?" We know it can be difficult to know where to begin with data, so we put together a few suggestions.

Harness Both First-Party and Zero-Party Data

First Party Data	Zero Party Data
Collected via interactions with your eCommerce site • Browsing Behavior • Purchase Behavior • CX Interactions	Information Shared Voluntarily and Directly by Customers • Survey Responses • Preferences • Product Reviews

Your brand should leverage both first party and zero party data in order to both inform your business operations and provide your customers with a great brand experience. When your customer voluntarily entrusts you with their information, they expect you to use that data to drive their experience on your site. Utilizing this information correctly to help create a personalized experience for customers (see Set the Table: Personalization for more!) will help drive repeat purchases from your customers.

Other benefits to leveraging first party and zero party data will allow your team to better segment your customers in order to tailor your retention campaigns. Be careful not to over segment! Pigeonholeing your customers based upon their first purchase will have an adverse impact on your retention efforts (e.g. if the first thing they buy is a t-shirt, don't exclusively recommend t-shirts on their web experience, rather show them t-shirts along with other clothing items to match the t-shirt they purchased).

The Importance of Strong Technology Partners

Your data is only as helpful as it is useful. Your company should utilize strong technology partners that can utilize the data you gather to help you analyze and make proper decisions about how to proceed in your retention campaigns.

Many platforms, such as Bloomreach, leverage AI that integrates with other platforms to help you complete your customer profile, recognize behavioral patterns, and predict the best ways to communicate with your customers. This will free your team up to use their creative energy on merchandising and messaging, rather than organizing and translating the overwhelming stream of incoming data.

Ratings and Reviews: A Goldmine of Data

Did you know your Customer Service (CS) team is on the front lines of zero-party data collection? While they may not intuitively collect quantitative data, they are collecting qualitative data. This is where your technology comes into play. Utilizing a rating tool such as OctaneAI to collect quantitative data and being in constant communication with your CS team to collect qualitative data will help your business thoroughly understand customer sentiment and make decisions about product iterations.

Breaking down the silos between your CS, customer experience (CX), product development, and marketing teams will help unlock growth potential to iterate products and create a better experience for your customers overall, driving retention and lowering return rates.

Reflection

Take a moment to write down all of the tools you use to collect and analyze data. Under each tool, write out the strengths and weaknesses of that tool as you use it in your context.

Reflect on what you wrote down for point #1. Are there any strengths that stick out to you? What about weaknesses?

Think of one concrete way that your team could improve in the way you interact with your data.

Set the Table

The Recipe for Successful Customer Retention

1. Understand the four key drivers of repeat purchases:
   - Product
   - Price
   - Brand
   - Customer Experience
2. Know your product well.
3. Remember that retention begins at acquisition
4. Be strategic about your discounting strategy
5. Utilize your data

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Trusted by over 30,000 retail decision makers, Future Commerce produces podcasts, newsletters, and custom research to help brands create goals which lead to future-altering impacts for their customers and for the world around them.

With our platform, we're helping to elevate brands who are using their most powerful tool — commerce — to bring about the change they wish to see in the world.

Forget trying to predict the future. Shape your future.

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