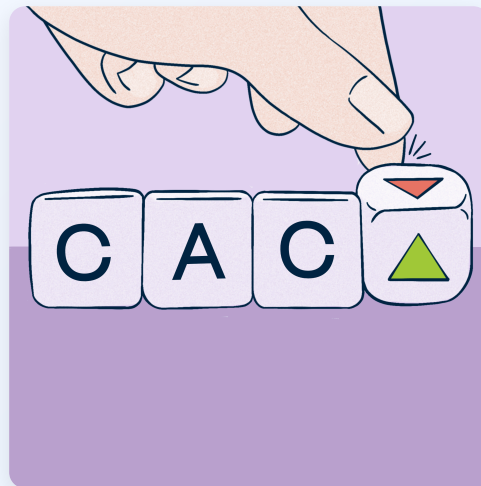# Your CAC Doesn't Matter

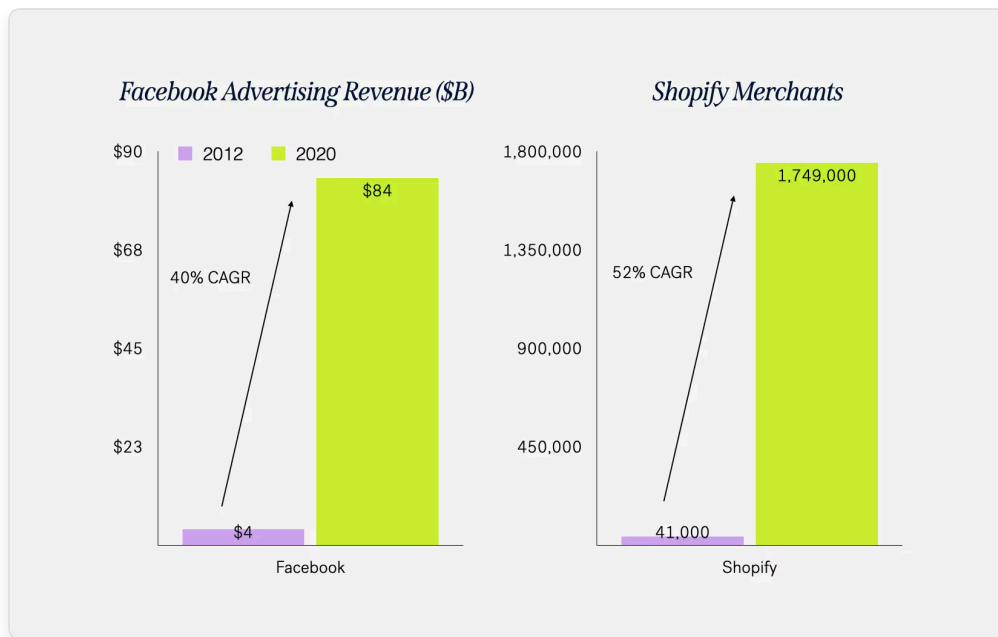Jason Bornstein
Partner
Head of Research
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The brands of the next decade will win with loyalty, not acquisition.

When Forerunner first partnered with digital brands and platforms, I was leading acquisition at **Bonobos**—a pioneering digital apparel brand for men founded in 2007, and one of the first to reach scale with $100M+ in funding backed by Forerunner, Lightspeed and Accel.

At the time, building a brand online had never been easier, but scaling a business was quite hard; the challenge of cutting through the noise was limited, while the sophistication of tools and services we've come to expect for online business were developing.

Today, the inverse is true. From distribution channels to backend technologies and everything in between, the ecommerce ecosystem has matured and **the face of the seller** has evolved as the bar for starting an online business has progressively lowered. This has intensified competition for consumer dollars and mindshare online. Facebook's advertising revenue growth and Shopify's merchant growth over the past decade captures this inversion well:

Facebook Advertising Revenue ($B) — 2012, 2020. 40% CAGR. $4 (2012), $84 (2020).

Shopify Merchants — 52% CAGR. 41,000 (2012), 1,749,000 (2020).

In a market where starting an online business is easier than ever, acquiring customers has become more expensive and competitive. To win, brands of the next decade—from venture-backed companies to long-tail merchants and SMBs—must lead with loyalty.

If the last decade met the market desire for starting online businesses and changed the game for acquiring customers efficiently and at scale online, the next decade will push forward loyalty and create opportunities for businesses to invest as many resources in loyalty as they do in acquisition.

The Power of Loyalty

Some of the most successful, beloved and iconic brands of the past few decades are built on compelling and sophisticated loyalty efforts. However, for digital brands and consumer tech platforms on accelerated trajectories, growth has historically been synonymous with acquisition. Companies typically start to identify top customers and loyalty strategies too late to make loyalty a core pillar of the business and something the company is known for in the market.

The Power of Loyalty

Company	Members	Key Loyalty Stat
NIKE	185M (2019)	Members account for 70% of sales in newly opened stores
prime	147M (2020)	Members spend 2.3x more
Marriott	130M (2019)	Members book 50% of rooms
COSTCO	105M (2020)	Membership revenue accounted for 90% of operating income in 2019
TARGET	80M (2020)	Members drove 40% of sales during holiday in 2019
ULTA	32M (2020)	Members drive 95% of sales
STARBUCKS	22M (2020)	Members drive 50% of sales
REI	18M (2020)	Returned $204M to members through rewards in 2019
SEPHORA	17M (2018)	Members drive 80% of sales
NORDSTROM	10M (2018)	Members spend 4x more

Loyalty works best when markets are competitive like they are today. Supermarkets and airlines were some of the first companies to launch loyalty programs at scale in the middle of the 20th century. Companies in both categories offered a commodity, service or product, and were smart to think of ways to keep customers in the fold. This speaks to the opportunity brands and consumer tech platforms at large have today with loyalty.

Why Lead with Loyalty?

1 *Defensible Brand Enthusiasm*   2 *Predictable Repeat Revenue*   3 *Higher Customer Lifetime Value*   4 *Compelling Acquisition Hook*   5 *Increased CAC Thresholds*

After a decade of developing and sharpening acquisition to scale companies quickly and efficiently, loyalty has the same potential to propel growth with compounding and defensible effects and to raise the bar for customers.

At Bonobos, the topic of loyalty didn't come up in earnest until about 6 years into the company's life cycle. Craig Elbert, the VP of Marketing, sharpened our perspective on LTV and customer segmentation with a memorable presentation on "Whales" (top customers) and "Piranhas" (unprofitable customers).

Like most other emerging brands and consumer tech platforms, we could have started these efforts sooner. We could have done more to move the needle on loyalty, which may have paid dividends down the line as we homed in on reaching profitability. In reality, as one of the first digital brands taking venture dollars, we obsessed over CAC (cost to acquire a customer) and hadn't conceptualized the strategy and levers for the LTV (lifetime value). While we maniacally focused on the 3x LTV:CAC benchmark, CAC received more airtime and resources than LTV.

Even the most successful consumer tech platforms with network effect, viral growth, and subscription narratives invest significant budgets into advertising, but those dollars are often directed to acquisition and top-of-funnel brand-building. Meanwhile, those with consumer-facing loyalty efforts usually introduced them relatively late in the company's journey. If a team aspires to reach the scale of these successful companies, there will be a significant marketing budget. The earlier you can align on what a loyalty budget and mindset looks like, the better.

Public Company Marketing Spend

Company	Business Model	Category	IPO Year	1 year before IPO		2 years before IPO		Loyalty Offering
				Marketing Spend	Marketing % Revenue	Marketing Spend	Marketing % Revenue	
UBER	Marketplace	Transportation	2019	$1,300	12%	$1,100	14%	Uber Rewards points (2018), Uber Pass (2018), Credit card (2017), Uber VIP (2016)
airbnb	Marketplace	Travel	2020	$713	15%	$475	13%	Superhost (2018), Delta SkyMiles rewards (2016)
DOORDASH	Marketplace	Delivery	2020	$446	50%	$81	28%	Dashpass (2018)
lyft	Marketplace	Transportation	2019	$352	16%	$316	30%	Delta SkyMiles rewards (2017), Lyft Pink benefits (2019), Hilton Honors points (2019)
GoodRx	Marketplace	Health	2020	$164	42%	$89	36%	N/A
PELOTON	Subscription	Wellness	2019	$101	23%	N/A	N/A	N/A
POSHMARK	Marketplace	Apparel	2021	$74	28%	$114	56%	N/A
THREDUP	Marketplace	Apparel	2021	$38	28%	$39	40%	thredUP Rewards & discounts (2019)
The RealReal	Marketplace	Apparel	2019	$37	20%	$32	26%	RealReal Rewards & tiered performance-based commission rates (2019)
hims & hers	Subscription	Health	2021	N/A	N/A	$53	64%	N/A

The Future of Loyalty

As a consumer, I'm loyal and a reward optimizer. I belong to Amazon Prime and Chase Sapphire Reserve, which has given me access to Lyft Pink and Doordash's Dash Pass. For a few years, I had a JetBlue credit card when my husband and I lived long-distance, and prior to that, an American Express Starwood Preferred Guest card when I had the great fortune of paying rent with American Express for no fee. Way back, I no doubt had a collection of co-branded credit cards from J.Crew, Banana Republic and Gap.

I'm not alone. According to a recent Forerunner survey, 75% of consumers belong to a loyalty program (48% belong to 3+ programs), 61% are more likely to spend where they are a program member, 50% are willing to pay to be a member of a program, and 50% would be more interested in opening a credit card if it included a loyalty program.

After a year without shopping and travel, I'm ready for something new and fresh and we at Forerunner see a wave of loyalty offerings coming. The timeliness of loyalty is especially relevant in the context of Gen Z's emerging purchasing power and brand loyalty, the increasing scrutiny on data privacy that will limit targeted advertising, and the lessening influence of traditional department store and travel reward programs.

The loyalty landscape is shifting: a path is emerging for venture-backed brands and platforms, long-tail merchants and SMBs alike to create compelling and modern loyalty offerings that have previously been reserved for incumbent at-scale brands and platforms. Successful strategies will vary by category, business model and scale. But now is the time, and the goal remains the same:

> *Find opportunities for recurring low actual cost and high perceived value rewards and recognition to keep customers coming back, build brand affinity, and create an emotional connection with customers.*

Like acquisition, LTV and loyalty have levers. There are four primary ways to improve LTV.

The first three are consumer-facing, and the fourth is more likely to be an internal effort without consumer touchpoints. With acquisition, most companies start spending on Facebook and Google, while growing into brand and top-of-funnel spend. With loyalty, there are ways to get started early and initiatives to work towards. The important thing is to start early and build loyalty as a core pillar of the business. This is a buyer's market with consumers holding the power.

Levers to improve LTV
1 Increase Average Order Value 2 Increase Order Frequency 3 Increase Customer Lifetime 4 Increase Gross Margin

Getting started: Focus on customer, assortment and data.

Customer: To kick off, think about your customer. Who is your customer? What does your business mean to them? How does it fit into their lives? Why and how do they shop with you? What behavior do you want to drive them toward? This framework should underpin your evolving approach to loyalty.

Assortment: Is your product or service complete? Are there things a customer would naturally expect to purchase from you that they can't already? Companies have a wedge into the market, and once they build trust with a customer, they are able to use the wedge to expand the assortment. At Bonobos, the wedge was pants and from there we moved to selling tops and then formalwear. This holds true for subscription and non-subscription companies, as well as service and consumer tech companies. hims&hers in the Forerunner portfolio started with hair, sex, and skin and has naturally expanded to supplements, mental health, and primary care. Spotify started with music and has moved into the broader audio

category through podcasts. Even though you can start here, revisit your assortment regularly. What else can you do for your customers over time?

Data: Do you have the ability to easily track churn, AOV (average order value) and gross margin, and roll that up to an LTV calculation? Can you track the return on the dollars you invest in loyalty? This is a must for a business to succeed and to be able to segment customers, start loyalty efforts, and learn what's working. What used to require a data science team and a heavy lift—setting up a business intelligence (BI) tool or a customer data platform (CDP)—can now be accomplished faster and with fewer resources with tools like Source Medium, RetentionX, Peel, Tydo, and Daasity for data insights and Hightough and Alloy for segmenting and syncing data across marketing tools.

Ramping up: Focus on unlocking marketing channels and surprise and delight.

Marketing channels: How are you able to stay in touch with existing customers? For decades, email has been the primary channel for driving repeat transactions. Email programs will continue to be worthy of investment and companies that succeed will prioritize custom series of emails with logic and segmentation over mass emails to the entire distribution list (see Retention Science). Additionally, text marketing has emerged as a promising channel that complements and eventually may replace email. Between Attentive, Emotive, Postscript, Charles, or Klaviyo, find a partner early and start growing your text list; it's a low-effort, low-cost, and in-the-moment medium that today feels more personal than email and has a much higher open rate—86% vs. 20%. Text can also be a strategy for turning a CX team from a cost center to a revenue driver.

Surprise and delight: What can you do that will impress consumers, but that consumers do not expect? This is an opportunity to get creative. If you have enough liquidity with sellers and buyers, you could launch a P2P resale program on your site with Archive or Treet to bring customers back and offer a higher payout for taking store credit. You could work with Swaypay to offer cashback to customers who post about their purchase on social. You could work with &Open to send digital and physical gifts to customers at scale, or include your products on Goody to provide an easy way for customers to send your product or service as a gift to their friends and family.

Established: Explore loyalty programs.

Once you have learnings and have reached a critical mass customer base, exploring a formal loyalty program can be a logical next step. These initiatives are nuanced depending on the dynamics of the category and business model.

> *Historically, loyalty programs work well in competitive markets with relatively undifferentiated products, where consumers are open to building brand affinity, and in categories that have low cost and high perceived value goods or services—think airlines, hotels, beauty and department stores.*

It's even better if the goods or services are perishable. A first class seat may be open for this flight, but not for the next, and upgrading a customer for this flight has minimal cost to the airline and incredible upside for the customer. It is important to be extra diligent when conceiving a loyalty program and to consider whether or not to introduce a point system or charge a membership fee for the program. When done well, programs can have a tremendous impact on the business and change customer behaviors. When done poorly, they can be uneconomical and challenging to unwind.

To get started, you could join a horizontal loyalty program or payment option focused on cashback (or Bitcoin), like Drop, Lolli, or Catch. You could also explore Smile or Yotpo if

you're inclined to start your own loyalty program or consider a co-branded rewards credit card with Imprint and Cardless (there can be a kick-back in processing fees to help fund the program).

> *As you map out a program, keep 'low cost, high perceived value' in mind, be creative, and listen to your customers about what matters to them.*

Offer store credit that doesn't expire, give early access to new products and sales, give cash back for posting to social media, prioritize orders in the fulfillment queue, provide a special email or phone line for customer service, offer to cover carbon offsets for the purchase, or provide final sale exemption. Your imagination will be an asset, especially if your business is omnichannel. Blume, Thirdlove, Prose, Inkbox, Rent the Runway, Italic, and HotelTonight are companies that started programs early in their company journey and may provide inspiration.

The Challenge

As you think about leading with loyalty, I encourage you to think about your favorite brands. Who has made a meaningful impact on your life? What would keep you engaged with and enthusiastic about this brand in a market where you likely have other options? Be bold! Think big. I'm a Trader Joe's loyalist and shop there weekly. For top customers, I would love to see Trader Joe's offer early access to shop in the store before lines get long; I used to plan my weekend around going first thing Sunday morning in NYC. I would join the long, winding checkout line –– wrapping from aisle to aisle –– as soon as I walked into the store and would shop from the line until I reached the cashier. Not the best experience, but something I was willing to organize my weekend around because I love the products. Today in SF, when I need flexibility, I now shop at Whole Foods.

Take this spirit and mindset to your team, and channel the energy into how you can lead with loyalty. What can you do for your customers? In the next decade, this is how brands will cut through the noise and win.