HOW RETAILERS LARGE AND SMALL CAN MORE EFFECTIVELY RETAIN CUSTOMERS

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Customer information is ripe for the picking for online retailers. But the question is: Are they able to harvest it?

A new Internet Retailer survey suggests that many online merchants lack the resources to collect and use data about web shoppers, especially when it comes to crafting customer retention campaigns.

Internet Retailer surveyed 288 retailers with total online revenues ranging from less than $1 million to more than $100 million. Most respondents reported online revenues of sub-$1 million (37%) and $1-10 million (31%), with 40% identifying as retailers that sell exclusively online. (See appendix, questions 2 and 3)

One striking result was that many of these retailers are investing little in marketing to their existing customers.

Nearly one-third of companies devote less than 10% of their marketing budgets to reaching out to existing customers, and nearly half devote 20% or less. (See appendix, question 7) That's a big missed opportunity, because consumers who have purchased from a retailer before are likely to return and buy again. The 2013 Adobe Loyal Shopper's Report showed that on average the 8% of visitors to a retail site who are repeat buyers are responsible for 41% of an e-retailer's revenue.

"There are enormous opportunities for retailers to do a better job with retention marketing," says Andrew Pearson, Vice President of Marketing for retention marketing firm Windsor Circle.

The fact that so few retailers are investing heavily in bringing customers back indicates that many are focusing on acquisition marketing. That suggests there's room for them to shift resources to retention marketing and potentially see a stronger return on marketing spend.

"In e-commerce, there's been a bit of a frenzy around acquisition the past 10 years because the e-commerce industry has evolved from nothing to being a dominant player in retail. People had been able to grow their business from that natural flood of new online shoppers," Pearson says.

But the growth in online retail sales has attracted many competitors, from the largest retail chains to nimble web-only start-ups. Many have invested heavily in technology to attract and convert web shoppers. Relying on continually attracting new customers is a questionable strategy in this environment.

But many e-retailers have yet to adapt to the heightened competition, Pearson says.

"People's budgets haven't changed much," he says. "They've kept the same strategic priorities even though the market landscape and the ROI on

acquisition has changed substantially, especially in the last five years."

Smaller businesses are spending the least on retaining customers, even in percentage terms. About one-third (33.5% for under $1 million; 34.4% for $1 million to $10 million) are shelling out less than 10% on marketing to existing customers. Companies with $11 million to $100 in annual online revenues are making a bigger commitment, with the largest cohort (26.2%) setting aside 21% to 30% for marketing to existing customers. Perhaps surprisingly, of the retailers with the highest revenues (more than $101 million), many (23.53%) spent slightly less at 11% to 20%.

Data-driven marketing gaps

A key finding of the survey is that there are opportunities for online retailers to better use customer data to improve return on marketing spend.

For example, exactly half of retailers surveyed say they send generally the same message in promotional emails and newsletters to all subscribers, including customers. In other words, half of the survey respondents are not using data to segment their marketing.

"Let's say a subscriber makes her first purchase and then the next week they're just getting more promotional emails. You're treating them like someone who's never made a purchase, and it turns people off," Pearson says.

In addition to the need for segmenting emails and newsletters, the survey revealed other gaps in data-driven marketing:

▶ More than half of retailers (56%) know their average Customer Lifetime Value (CLTV), but few have much depth beyond that. Less than a quarter have targets around CLTV goals or know CLTV by key segments. And just more than one-third know CLTV by number of purchases. "This speaks to really key business metrics that are absent from a lot of retailers' planning," Pearson says. (See appendix, question 7)

▶ When it comes to the data retailers are collecting on their customers, most have email addresses (90%), physical addresses (80%) and purchase history (85%) as part of their customer profiles. But very few have more predictive or behavioral data such as browsing activity (16.32%) "Without mapping browse behavior to subscriber and customer data, site visitors are largely anonymous to you," Pearson says.

▶ Yet many retailers cannot take easy marketing action with the data they do have about their customers: 43% of retailers say they have only basic data integration, which does not include purchase history, between their e-commerce platform and email marketing software. "Not having access to it seriously hamstrings their ability to do retention marketing to existing customers," Pearson says.

Email continues to dominate the marketing channels retailers are using to reach consumers, followed by non-paid social media. In fact, only 6% of retailers said they are not using email. (See appendix, question 12)

However, nearly half of retailers still are not presenting site visitors with personalized offers. Such tailored offers can be crucial: many shoppers who don't see what they want on a retail web site in the first 30 seconds or so move on. It's especially important to leverage the data a retailer has about existing customers to make such offers.

"Personalized offers are great tools for visitors, but because you have so much more data on customers, it's a great retention tool as well," Pearson says.

In terms of the effectiveness of email retention marketing programs, retailers say they get the most bang for their buck in three main areas: new subscriber welcome messages, new customer welcome messages and post-purchase thank-you emails.

Of retailers running the campaigns, the strongest performers were Birthday emails (28% reporting "Strong Performer") and Best Customer Rewards

(25%). When adding "Decent" and "Strong Performers", New Customer Welcome series (74%) and Best Customer Rewards (77%) were most consistent. Purchase Anniversary campaigns were reported as the poorest performer, by 40% of those running them.

Progress in linking sales and marketing

On a positive note, the Internet Retailer survey shows that more online retailers are linking the data they collect from their e-commerce platforms with their marketing technology. More than 87% of retailers surveyed reported having at least some kind of integration. (See appendix, question 13)

That's progress. Windsor Circle estimates that five years ago only about 10% to 15% of retailers were syncing their e-commerce customer data and marketing platforms.

Tahoe Mountain Sports is one retailer that illustrates the shift toward greater data access and use. A few years ago, the outdoor gear retail store—with total online revenues of under $2 million—saw that it was starting to lose the pay-per-click battle. Google's pay-per-click rates were rising, and Tahoe Mountain Sports could not compete with bigger players in the competition to acquire new customers online.

So the company shifted to a more precise and targeted customer retention strategy that was heavily reliant on email marketing.

Since then, the outdoor gear retailer has been able to mount a successful and ongoing retention marketing strategy. Tahoe Mountain Sports saw a 253% increase in sales when the company started focusing on its retention strategy.

Part of that strategy includes integrating data between e-commerce and email marketing software. Tahoe Mountain Sports says it has access to historical data on their customers, including information about the kinds of purchases they make.

As a result, the retailer has been able to execute multiple marketing initiatives concurrently and target them based on purchase frequency, history or type.

"We feel this is really the foundation of how we want to communicate with our customers," says Tahoe Mountain Sports owner David Polivy. "We want to be forward-thinking with our technology and efficient in our marketing activities. With good email data and a way to execute on it, we can really accomplish this and make it reality."

As a smaller company with limited resources, Tahoe Mountain Sports has found it challenging to execute on all the data and to effectively segment its marketing program.

"There is so much data, and it can be viewed with lots of different lenses. But there are lots of consistencies, and it's just trying to find a couple of those to capitalize on," Polivy says.

Bigger online retailers appear to be having more success in using data to enhance marketing. Companies with $11 million and more in revenues have had better luck integrating predictive data sets, forecasting customer lifetime value, and using both browser behavior and purchase history.

"Some would argue that as you get big you get to adopt software that can do that," Pearson says. "But I think what we're seeing—especially for folks still struggling to cross that $1 million mark—is that part of what is preventing smaller retailers from getting bigger is that they're not moving fast enough with some of these more advanced data-driven or retention marketing practices."

Small retailers struggle to bring shoppers back

Smaller retailers in particular report having a hard time turning one-time customers into repeat shoppers.

About two-thirds of retailers with revenues of up to $10 million see less than 20% of their

existing customers buying from their e-retail site at least three times.

There's a stark contrast between these small retailers—who account for the bulk of online retailers in this survey (68%)—and giants like Amazon and Zappos, whose repeat customers account for 60% and 75% of their orders, respectively, according to each of those companies. In this survey, about half of retailers with revenues over $10 million (32% of respondents) see more than 20% of their existing customers purchase from their e-retail site at least three times.

"There's a pretty big gap between the majority in the pack and the leaders in the pack," Pearson says.

There is also a significant difference between retention rates of retailers with under $1 million in revenue and everyone else. More than a quarter of those smaller retailers struggled to get more than 5% of customers to purchase at least three times, whereas retailers with higher revenues fell mostly within the 6% to 50% range.

"There's a pretty clear indicator that smaller retailers are having a hard time growing past that critical million-dollar revenue threshold, unless they focus on retention. They're spinning their wheels on acquisition, but not really increasing lifetime value and getting into loyalty territory," Pearson says.

Yet, few retailers are setting their sights on growing the number of repeat customers much higher in 2016, with more than half of retailers surveyed shooting for 30% retention or below. (See appendix, question 6)

Those modest targets could indicate that e-retailers are being realistic about their growth potential. "It's a good indicator that people are acknowledging that the path to successful retention does take time," Pearson says.

Low hanging fruit with cart recovery

Survey findings reveal that retailers of all sizes could be leaving money on the table by not using automated recovery emails for abandoned shopping carts, which can be one of the biggest indicators of purchase intent.

According to the Baymard Institute, nearly 69% of online shopping carts are abandoned on average. Yet more than 61% of retailers in this survey say they are not reaching out to shoppers who leave items in online shopping carts. For those that do, the most popular recovery rate choice selected was 10% to 12%, with one-quarter of retailers checking that box.

"That shows there's a big marketing opportunity for that offering in general," Pearson says. "Imagine that without cart recovery, you get 31 sales for every 100 carts. With cart recovery, you'd on average get 37 sales for every 100 carts. That's a 19% lift in sales!"

Conclusion

The key takeaway from the survey findings is that retailers have only scratched the surface in terms of exploring marketing opportunities for keeping customers engaged and coming back. A ton of room for growth remains.

That's despite the fact that retailers increasingly are starting to use the vast amount of data available to them to craft marketing messages aimed at improving customer loyalty and retention.

While most of those opportunities are weighted toward retailers making under $10 million, there's still a lot of low-hanging fruit for larger retailers, too. For example, less than 3% of survey respondents had access to predictive or enriched data (like predicted order date or demographic and/or browse behavior) in their email marketing software.

"We were surprised how much opportunity there still was to enhance both the use of data and the kind of data in marketing, and specifically in retention marketing," Pearson says. ∎

Survey Summary

This report contains detailed statistical analysis of the results to the survey titled *2015 Internet Retailer Retention Marketing Survey,* conducted by Internet Retailer with responses from subscribers and sponsored by Windsor Circle. The analysis includes answers from all qualified respondents who took the survey from April 9 through May 5, 2015. 288 completed responses were calculated for the survey.

1. What is your primary business?

Retail Chain or Store	21.9%
Virtual Merchant / Web Retailer	38.9%
Catalog/Direct Merchant	7.6%
E-commerce Service Provider	0.0%
Manufacturer/Consumer Manufacturer	16.3%
Wholesale/Distributor	7.6%
Consultant	0.0%
Online B2B seller	3.8%
Other	3.8%

2. Indicate your merchant category.

Apparel/Accessories	17.7%
Books/Music/DVD	6.3%
Consumer Electronics	8.3%
Flowers/Gifts	3.8%
Food/Drug	5.9%
Home Improvement	4.9%
Health/Beauty	8.0%
Home Furnishings	6.3%
Jewelry	3.8%
Department/Discount	3.1%
Office Supplies	2.1%
Toys/Hobbies/Sports	5.6%
Consumer Services	2.8%
Other (please specify)	21.5%

3. What is your total company (online only) annual revenue?

$101 million+	11.8%
$51 million - $100 million	4.2%
$26 million - $50 million	6.9%
$11 million - $25 million	8.7%
$6 million - $10 million	7.3%
$1 million - $5 Million	24.0%
Under $1 million	37.2%

4. What is your job title?

Chairman/CEO/President	26.4%
EVP/SVP	3.8%
CIO/CTO	2.8%
COO/CFO	1.0%
CMO	2.8%
VP	7.3%
Director/Manager	48.6%
Other (please specify)	7.3%

5. What percent of your existing customers have purchased at least 3 times from your e-retail site?

0 to 5 %	20.1%
6 to 10 %	18.4%
11 to 20 %	21.9%
21 to 50 %	20.8%
51 % or more	5.2%
I don't know	13.5%

6. Do you have a 2016 target for the percent of customers you want to be repeat customers (making 3 or more purchases)?

Less than 10%	15.3%
11-20%	22.9%
21-30%	18.0%
31-40%	14.3%
41-50%	9.0%
51-60%	10.4%
61-70%	3.5%
71-100%	6.3%

7. Approximately what percentage of your marketing budget is devoted to marketing to existing customers?

Less than 10%	29.2%
11-20%	16.3%
21-30%	15.6%
31-40%	10.8%
41-50%	10.1%
51-60%	6.3%
61-70%	8.3%
71-100%	3.5%

9. When it comes to Customer Lifetime Value (CLTV), the following statements are true (check all that apply):

We know our average, historical CLTV	55.9%
We know CLTV by key segments	23.6%
We know CLTV by # of purchases	35.8%
We have targets around CLTV goals	19.1%
We tie individual offers, rewards, and/or messaging to CLTV	18.1%
We use historical data or predictive models to forecast individual CLTV	29.5%

10. For our regular promotional emails/newsletters, we use the following segmentation approaches (check all that apply)

Some - we send different variations to subscribers than to customers	34.4%
Category - we send different variations based on category preference	26.7%
Score - we send different variations based on customer score or CLTV	10.8%
Purchase # - we send different variations based on a customer's total # of purchases	19.4%
None - we generally send the same message to all subscribers and customers	50.0%

8. Of the following marketing channels, what percent of resources devoted to that channel are focused on marketing to existing customers?

Response	Do not use	1% - 25%	26% - 50%	51% - 75%	76% -100%	Rating Average
Email	17	64	53	72	77	3.45
Social media (non-paid)	36	102	70	51	21	2.71
Social media (paid)	98	114	44	11	3	1.91
Retargeting	87	97	41	27	15	2.20
PPC (Adwords, etc)	77	108	52	24	6	2.15
Direct mail	143	57	26	20	26	2.00
On-site personalized offers	128	73	34	22	11	1.94

Survey Summary (continued)

11. Please rate the effectiveness of the following email retention marketing programs (select one answer per each description)

Response	Not running, but want to	Running, but poor performer	Running, decent performer	Running, strong performer	Rating Average
New subscriber welcome	95	63	96	31	3.22
New customer welcome	97	49	103	35	3.27
Post purchase thank you	86	63	98	34	3.28
Birthday campaign	210	21	26	18	2.46
Purchase anniversary campaign	222	20	21	9	2.33
Dynamic product recommendation	148	46	68	17	2.84
Category recommendation	143	46	77	15	2.87
Replenishment campaign (for items that need re-ordering)	200	26	37	11	2.49
Best customer rewards	183	21	47	23	2.67
Win-back campaign	173	37	52	14	2.66

12. Which of the following data do you have as part of your customer profile (check all that apply)?

Email only	90.3%
Address	80.2%
Purchase history	85.1%
Browse behavior	16.3%
Preferences (selected by customer)	26.7%
Gender	33.0%
Other demographics (age, zip code, lifestyle, etc)	55.9%
Other	6.6%

13. Describe the current state of your data integration between your e-commerce platform and email/marketing software (check one).

Basic (go-forward customer data and basic purchase data)	42.7%
Plus (historical and going forward customer data and basic purchase data)	16.0%
Enhanced (Plus, with full purchase data, product details)	21.2%
Predictive (Enhanced, + predictive, actionable data like predicted order date)	2.8%
Enriched (Enhanced, + demographic and/or browse behavior)	2.8%
Predictive + Enriched	1.0%
None	13.5%

14. Are you currently running automated abandoned cart recovery email campaigns?

Yes	38.2%
No	61.8%

15. Approximately what percent of recoverable carts (defined by abandoned carts associated with an email address that can receive cart recovery messages) are you recovering?

1% - 3%	18.2%
4% - 6%	12.6%
7% - 9%	14.5%
10% - 12%	25.5%
13% - 15%	8.2%
16% - 18%	4.5%
19% - 21%	5.5%
22% - 25%	3.6%
26% - 50%	3.6%
51% or more	2.7%

16. What e-commerce platform are you currently running?

Magento	15.28%
In-house/Custom/Proprietary	12.50%
Shopfy	6.25%
BigCommerce	4.51%
Yahoo Store	2.78%
Oracle Commerce	2.78%
IBM WebSphere Commerce	2.43%
DemandWare	2.43%
AspDotNet Storefront	2.43%
Volusion/Mozu	2.08%
MarketLive	2.08%
3dCart	2.08%
Hybris	1.74%
Other	23.96%
No ecommerce platform	16.67%

17. What email software program are you currently running?

Mailchimp	22.22%
Constant Contact	12.85%
Salesforce Marketing Cloud	6.94%
Bronto	5.56%
Listrak	3.82%
Silverpop	3.13%
Responsys	2.78%
EmailDirect	2.43%
Experian/Cheetah	2.43%
Aweber	1.74%
whatcounts	1.74%
dotmailer	1.04%
Act-On	1.04%
Other	15.97%
No email marketing	16.32%

About Windsor Circle

Windsor Circle's customer retention automation software helps hundreds of retailers keep, and get more from, their existing customers.

The platform integrates eCommerce, acquisition source, and point-of-sale data, with a retailer's email marketing software, and can enhance customer profiles with custom product and demographic data.

A Retention Analytics suite provides up-to-date metrics like retention rates, CLTV, and latency, and enables advanced segmentation on unlimited criteria.

Windsor Circle powers abandoned cart recovery emails, sophisticated personalization, and retention marketing automation by updating real, targeted customer segments, product data, and purchase history directly into your email software provider.
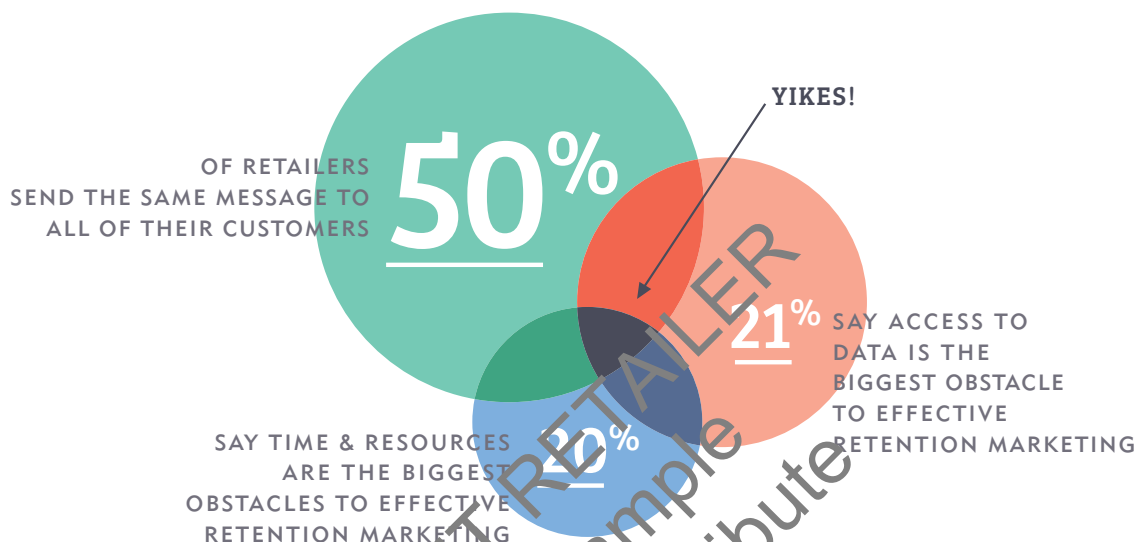
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