

A special survey report from the editors of Internet Retailer

2016 RETENTION MARKETING REPORT

Explore key trends, challenges, and opportunities reported by hundreds of e-commerce marketers and executives



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Customer loyalty is more important to retailers than ever before, now that a shopper can so easily click to a competitor's website or find another place to buy with an online search. What hasn't changed is that the cost of acquiring a new customer remains far more expensive than keeping an existing one. Yet, according to Adobe's 2014 Loyal Shopper's Report, retailers were spending 22% of their budget on retention marketing—far less than the amount they dedicated to customer acquisition, even though existing customers drove 41% of revenue. It's safe to say that, historically, customer retention programs haven't exactly been top of mind for retail marketers.



55%

of retailers are seeing less than 20% retention rates, versus 63% of retailers in this range last year.

But the results of the 2016 Internet Retailer Retention Marketing survey, sponsored by Windsor Circle, a predictive lifecycle and customer retention platform provider, indicate that may be changing. "As the cost of acquiring new customers has risen, retailers are shifting their focus to keeping the ones they have," says Andrew Pearson, Vice President of Marketing at Windsor Circle.

The survey asked 281 retail executives at companies across myriad industries and of various sizes about their marketing initiatives aimed at retaining customers. While the survey revealed a clear rise in the popularity of customer retention programs among respondents, it also uncovered several other key insights. It indicates that more retailers are budgeting for retention; email remains the primary way retailers communicate with existing customers, though social media is gaining momentum;

and a growing number of retailers are increasingly using predictive data, indicating they are implementing more sophisticated tools to provide better, more targeted experiences to their customers.

“In a more competitive ecommerce world, retaining repeat buyers is a key element to focus on,” says the senior sales strategy manager of a major U.S.-based office supply retailer. “And as the age-old saying goes, it’s easier and cheaper to retain a customer than acquire a new customer.”

Yet, there remain gaps in retention marketing efforts, where some retailers could be kicking up their retention games. The survey showed, for example, that while medium and large businesses may be shifting their focus onto retention, small retailers are lagging. Additionally, many retailers of all sizes are failing to run certain types of marketing campaigns—such as new subscriber and customer welcomes or birthday emails—that are highly lucrative and extremely easy to do, according to Pearson.

“Overall, the results are very encouraging in that many retailers are really starting to see the value and ROI retention programs provide,” he says. “But there’s still work to be done.”

Retention rising

The survey shows that 55% of respondents are seeing less than 20% retention rates (for this survey, defined as the percent of existing customers who have purchased at least three times from the e-retail site)—down 8% from

last year when 63% saw retention rates less than 20%. Small business had the weakest results in the current survey, with 61% of those retailers reporting retention rates below 20%.

“There’s a reality for smaller businesses that, in the early years, it’s important to have an acquisition focus, so you wouldn’t expect small retailers to have really high retention rates,” Pearson explains. However, he adds some companies that became successful, such as Zappos.com and Bonobos.com, placed a significant focus on retention early on. “That really paid off in their long term business models,” he says. “Seeds of future success are often planted in the early stage of a business.”

As for medium-sized businesses, 47% of those respondents reported retention rates below 20%, while 21% report retention rates between 21-50%, and 15% above 50%. Seventeen percent of respondents did not know their retention rates.

Slightly more than half (51%) of respondents from large retailers are seeing less than 20% retention rates, the survey showed. “Larger organizations are recognizing the value and importance of retention and they’re planning for it, they’re budgeting for it, they’re implementing it,” Pearson says. “But they also tend to have more resources available to them and a degree of sophistication that may be lacking in small and medium businesses.”

Surprisingly, while large retailers (making more than \$25 million per year in online sales) represented 27%



44%
of retailers report that 51% or more of their catalog is replenishable; however, of this cohort 63% are not running automated replenishment campaigns.

of the survey respondents, they made up 34% of the group who did not know their retention rate, “representing a challenge around data complexity,” Pearson explains.

“There is a common gap among many e-commerce businesses that retention rates have not been a primary metric marketers are tracking—and often, they haven’t been taught to track it,” Pearson says. “And because there are barriers to calculating this key metric, what’s happening is they’re making decisions based on other metrics that may not be as critical to long term success. Retailers need clarity into retention rate metrics and related insights, and implement tools and best practices that drive long term revenue and profitability.”

Budget boost

As retention rates are slowly moving upward, so are the financial resources retailers are dedicating toward these efforts.

According to survey respondents, more retailers are allocating more dollars to marketing to existing customers. In 2015, 38% of respondents were allocating over 30% of their marketing budgets to existing customers, but this year, 59% of respondents—regardless of company size—reported doing so.

While there is a wide dispersion in the share of marketing budget respondents devote to retaining existing customers, at least 40% of retailers in each industry report spending more than 30% of their budgets on marketing to existing customers.

According to Pearson, this retention marketing budget boost can be attributed to several factors. First, the cost of customer acquisition is going up. “Macquarie Research reported that Amazon has already captured about 23% of retail sales, and an estimated 51% of all e-commerce orders in the U.S. Additionally, more big boxes are entering the e-commerce fray, so the landscape is filling up,” he explains. “So a lot of retailers need to spend more on retaining their customers because it’s too expensive and frankly unprofitable to keep dumping money into acquisition.”

Secondly, sophisticated tools with a specific retention focus are now available, and retailers need to budget to implement them. “These tools make retention marketing scalable and cost-effective, and they now have a validated return on investment,” Pearson says.

Finally, more marketers are focused on retention. “They’re able to track it, their executive teams are asking about it, and their customers are voting with their dollars,” Pearson explains. “Retailers are seeing their competitors who do well with retention, limiting the available market for new customers. Conversely, retailers failing at retention are seeing their existing customers stolen out from under them.”

Effective communication

While there are many ways retailers reach customers, one of the most effective elements of a strong retention program is still email.



More retailers are allocating 30% or more to marketing to existing customers, we've seen a

55%

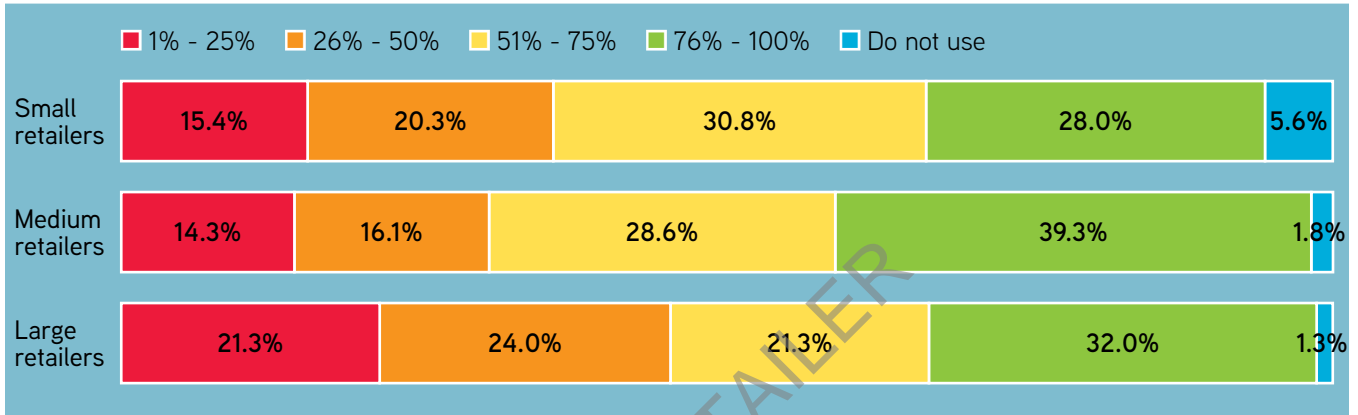
increase budgeting for retention in 2016.

According to the survey, 59% of respondents from companies of all size categories are devoting 50% or more of the resources they allocate to marketing to existing customers on email, up

shoppers,” Pearson says. “And consumers expect it.”

While email remains the king of marketing communication, social media

What percent of e-mail resources are devoted to marketing to existing customers?



from 50% in 2015. “A common theme at conferences for 10, 15 years has been ‘email is dying,’” Pearson says. “And it’s not. Email will never die.”

There are a number of reasons email continues to reign supreme. First, it’s inexpensive. “Email is still the least costly option for retention marketing,” says Jeff McRitchie, vice president of marketing at Mybinding.com, a book-binding supply and equipment company. “Telemarketing, cataloging, direct mail and retargeting are viable alternatives but come with a much lower ROI and higher risk.”

Email is also a natural method of communication for both marketing teams and the shoppers they want to reach. And with mobile devices always at hand, consumers are connected to and engaged in their email more than ever.

“Email is a cheap, easy and effective medium to communicate with

is creeping up. According to the survey, 21% of retailers—mostly medium-sized and large businesses—are devoting 26% to 50% of resources to marketing to existing customers through paid social media. That’s a 31% increase over last year.

“Social media has really started to prove itself as a great retention and loyalty-building tool,” Pearson says. He adds that certain social media feature sets—such as lookalike audiences and the ability to retarget ads—are helping drive revenue. Lookalike Audiences is an advertising feature Facebook introduced that lets an advertiser target Facebook users who are similar demographically to existing customers. Other social networks also offer similar advertising options.

Social media also speaks to young consumers, which may also explain why more retailers are focusing marketing efforts on the medium. “Younger



Regardless of size, we’re seeing at least

50%

of retailers in the small, medium, and large categories devoting 50% or more of their resources to marketing to existing customers via email.

people are spending way more time on Facebook, Pinterest, and other social channels than they are doing Google searches,” Pearson adds. “This means that if brands want to be in front of them, they need to be in ads that are in context and native to the channels they’re devoting their eyeballs to.”

Predictive data pros

As part of adopting more sophisticated retention practices, retailers also appear to be investing in making better use of their data. While there was an uptick in the number of retailers without a data integration between their ecommerce and marketing platforms (16% this year from 13% in 2015), there was also a move among respondents from just a basic integration to more advanced integrations.

“Predictive analytics help us better understand when buyers spend is down and online engagement is lower to predict a customer who may be on their way to a new primary supplier,” the office supply executive says.

“Basic” integration, which includes going-forward, real-time customer data and basic purchase data, saw a 23% decrease since last year, with 32% of retailers having a basic integration. Twenty-one percent of respondents reported having “Plus” integration—which includes historical and going-forward customer data, as well as basic purchase data—a 40% increase from 2015. Enhanced integrations—which estimates behaviors based on a customer’s historical purchasing cadence and behavior and includes “Plus” and full purchase

data and product details—saw a 19% dip this year over 2015, with 17% of respondents reporting this type of integration. “Predictive” data—which includes enhanced as well as predictive actionable data—grew 79% since last year, with 5% of retailers reporting this type of integration. “Enriched” integrations—which includes enhanced, as well as demographic and browse behavior—grew 115% this year, with 6% of retailers reporting this type of integration, with the heaviest weighting toward retailers in with \$6 million to \$10 million in online annual revenue. And “Predictive + Enriched” grew 188% this year, with 3% of retailers reporting this integration, with a heavy weighting toward retailers with online annual revenue of more than \$11 million.

“These results are indicating that retailers are getting way more sophisticated with the kind of data they’re integrating and what they’re doing with it,” Pearson says.

The previously mentioned office supply executive is one of those retailers. “Predictive analytics help us better understand when buyers spend is down and online engagement is lower to identify a customer who may be on their way to a new primary supplier,” he says.

While basic integrations saw a substantial increase, the other types of data integration did as well, which means more retailers are realizing that just getting names and email addresses into their marketing platforms is just not cutting it, Pearson explains.

“These are just phenomenal growth rates in the predictive and predictive



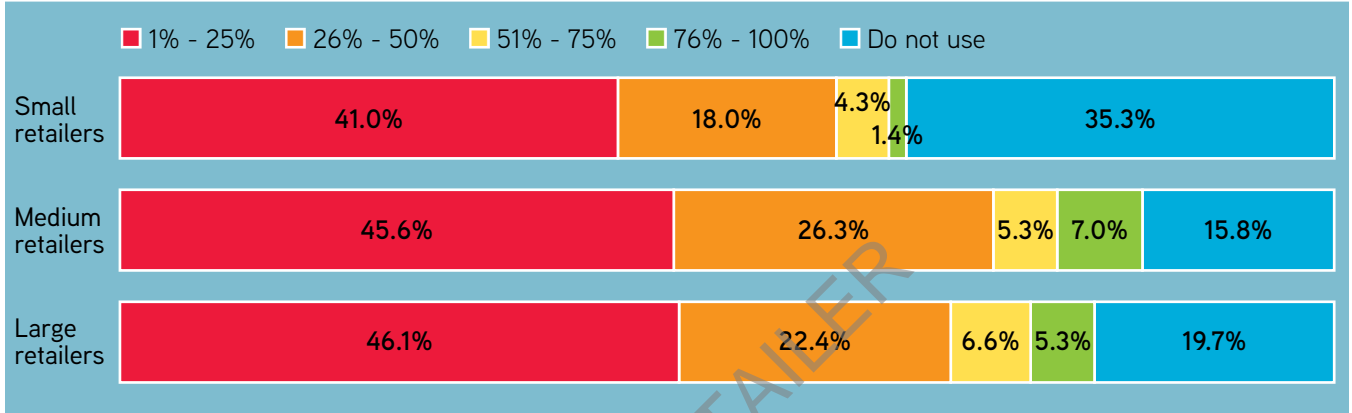
21%

of retailers, made up of mostly medium and large businesses, are devoting 26-50% of resources to marketing to existing customers on social media (paid), that's a 31% increase from last year.

plus enriched rates,” he says. “We are likely to see those more sophisticated retailers start to outpace their competition. Retailers that enrich their data or leverage predictive data fields in their

The survey showed that 29% of respondents are not sending welcome emails to new subscribers, 29% aren’t running welcome emails to consumers who buy for the first time, 32% aren’t running

What percent of social media resources are devoted to marketing to existing customers?



marketing are going to trump their competitors hand over fist.”

McRitchie attributes Mybinding’s use of predictive data to the need to get the right message in front of the right audience at the right time. This predictive data may include order date, replenishment data, product recommendations and dynamic offers. “This type of data allows retailers to send fewer messages that are more targeted in order to drive more revenue,” he says. “It results in higher open rates, conversion rates, profit per send and in lower unsubscribe rates.”

Missed opportunities

While the increasing focus on retention among retailers is encouraging, Pearson points to one huge gap the survey revealed: Many retailers aren’t taking advantage of proven marketing tactics.

post-purchase thank-you campaigns, and 76% aren’t running birthday campaigns.

“This was very surprising,” Pearson says, “There are a lot of really specific and very easy-to-implement campaigns that leverage data and do a great job helping retain customers. They are ‘must-haves,’ yet many retailers aren’t doing them.”

Pearson believes there are two possible explanations: Either retailers aren’t capturing the data they need—such as birthdates—to implement these campaigns, or they are collecting it but not connecting it with their marketing software.

Of survey respondents, 125 retailers reported having more than 50% of their product catalogue consisting of consumable products, perfectly suited for “replenishment automation” emails that help remind customers to re-order before they run out. Yet 63% of these



43%

of retailers are still batch and blasting, a 14% decrease from last year. Of this 43%, 62% of the retailers reported annual online revenue of less than \$6 million.

merchants were not running, but wanted to run, these campaigns.

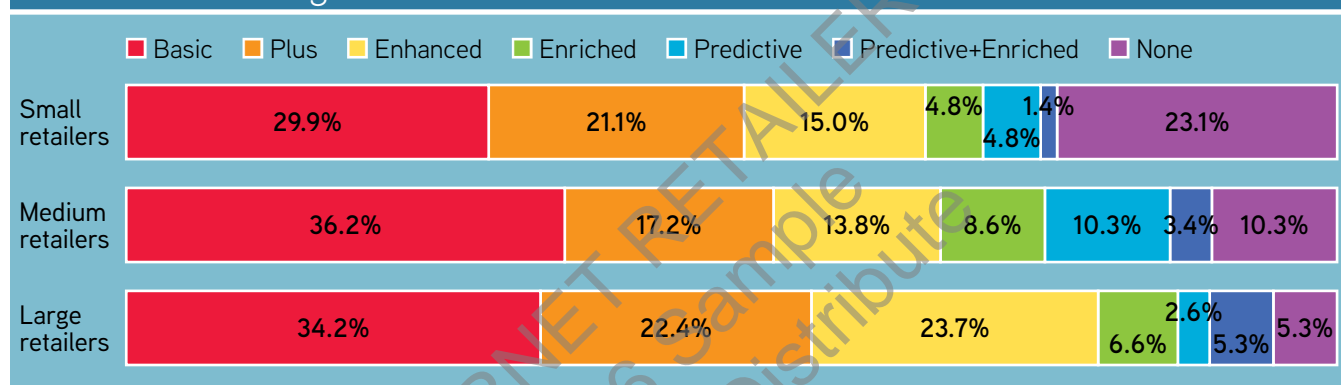
Browse abandonment campaigns, applicable to nearly any online retailer, leverage on-site browsing behavior matched to a visitor's email address, and trigger emails with relevant product or category recommendations. Yet while 62% of those running these campaigns saw decent or strong performance, 49%

of strategies and technologies that support the success of the business.

"It is an absolutely critical focus for marketers," he says. "It has major implications and ramifications for the business. Whether that retailer is doing it well or not well."

Pearson says retention programs are no longer vague—retailers can break

Describe the current state of your data integration between your e-commerce platform and email marketing software



of survey respondents were not running these campaigns, but wanted to.

"There's a direct correlation between companies—especially small businesses—that are struggling with retention rates and those who have not implemented the full suite of retention programs," Pearson says. "Automated campaigns are some of the lowest-hanging fruit when it comes to retention marketing. And even for medium and large companies, there are still many untapped opportunities."

Upping the retention game

Pearson says it's important for retailers not to treat retention as an afterthought, but as a critical set

of survey respondents were not running these campaigns, but wanted to.

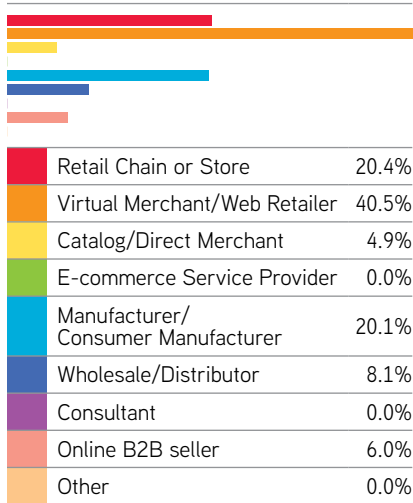
Whether a business is small, medium, or large, and regardless of whether it has been focusing on retention for a long time or not at all, Pearson says there's likely room to add new elements that will increase customer loyalty and drive revenue.

"Retailers must get to know their business and their retention metrics and implement some best practices that will immediately impact the bottom line," he adds. "Because otherwise Amazon will eat their lunch." ■

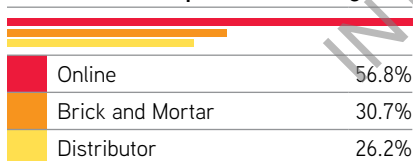
SURVEY SUMMARY

This report contains detailed statistical analysis of the results to the survey titled 2016 Internet Retailer Retention Marketing Report, 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 March 14 through May 1, 2016. 284 completed responses were calculated for the survey.

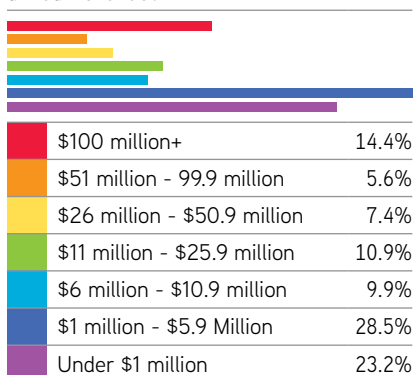
What is your primary business?



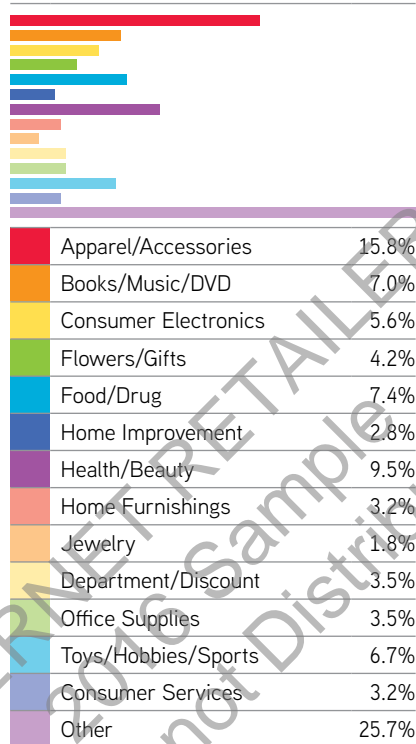
Please indicate the percent of sales from each channel. (responses are averages)



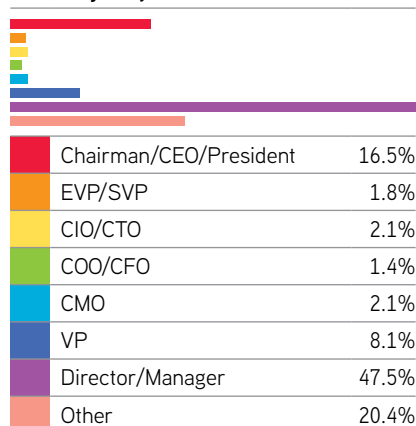
What is your total company (online only) annual revenue?



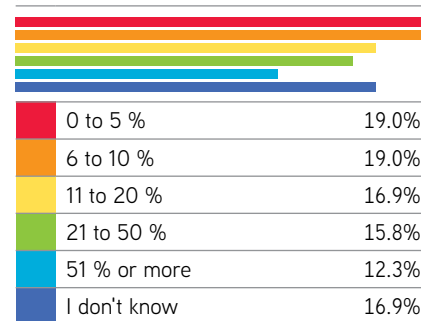
Indicate your merchant category



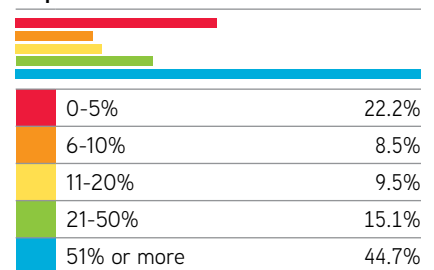
What is your job title?



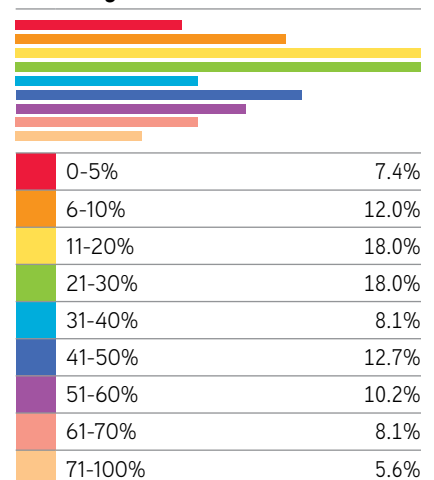
What percent of your existing customers have purchased at least three times from your e-retail site?



What percent of your product catalog is "replenishable"?



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

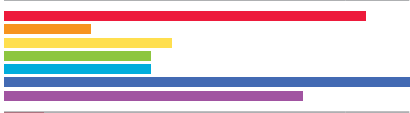


Strategies to keep customers engaged and coming back

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

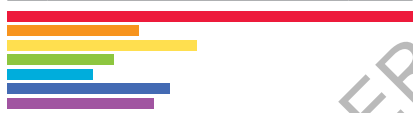
	Do not use	1% - 25%	26% - 50%	51% - 75%	76% -100%	Rating Average
Email	11	47	56	77	86	3.65
Social media (non-paid)	20	116	66	49	26	2.80
Social media (paid)	74	121	56	14	10	2.15
Retargeting	74	80	63	38	14	2.40
PPC (Adwords, etc)	57	110	58	30	12	2.36
Direct mail	134	58	24	28	27	2.10
On-site personalized offers	118	71	38	25	19	2.10

What events do you plan to go to in a calendar year? (multiple responses allowed)




IRCE	32.0%
MarketingSherpa Summit	7.7%
Shop.org	14.8%
eTail West	13.0%
eTail East	13.0%
None	35.9%
Other	26.4%

When it comes to Customer Lifetime Value (CLTV), the following statements are true. (multiple responses allowed)



We know our average, historical CLTV	53.5%
We know CLTV by key segments	17.3%
We know CLTV by number of purchases	25.0%
We have targets around CLTV goals	14.1%
We tie individual offers, rewards, and/or messaging to CLTV	11.3%
We use historical data or predictive models to forecast individual CLTV	21.5%
Not Applicable	19.4%

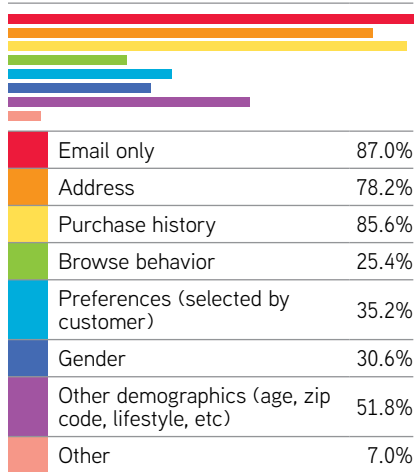
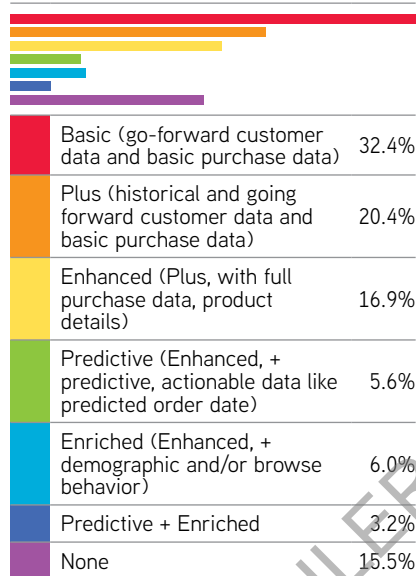
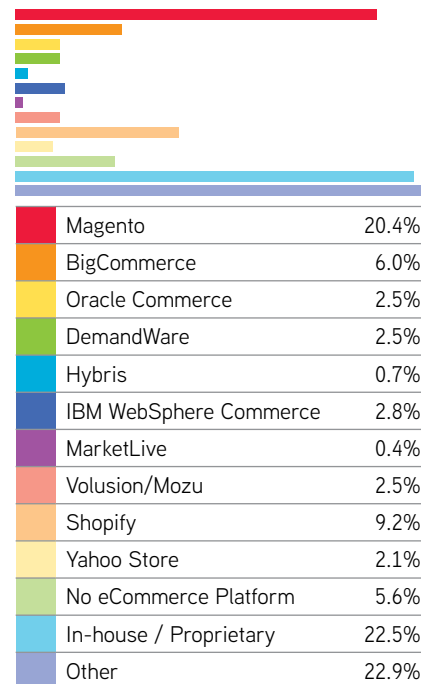
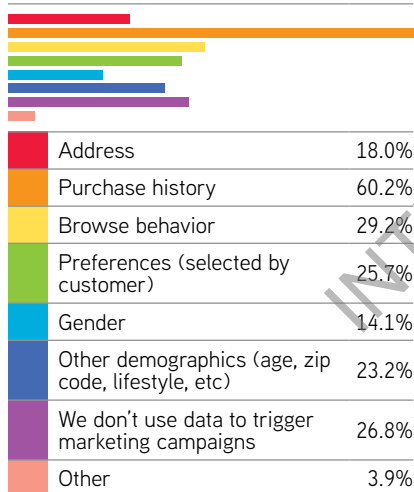
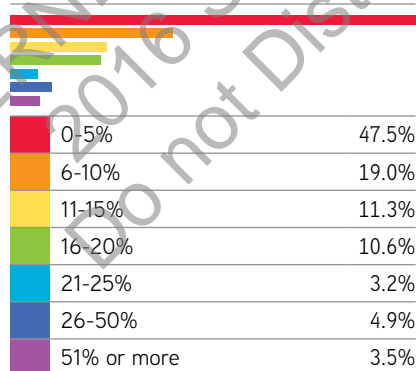
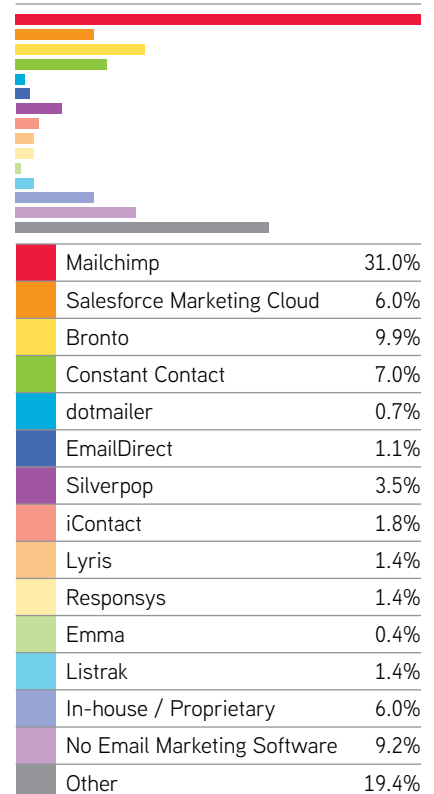
For our regular promotional emails/newsletters, we use the following segmentation approaches. (multiple responses allowed)



Some—we send different variations to subscribers than to customers	35.2%
Category—we send different variations based on category preference	33.1%
Score—we send different variations based on customer score or CLTV	10.9%
Purchase number—we send different variations based on a customer's total number of purchases	23.2%
None—we generally send the same message to all subscribers and customers	43.0%

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

	Not running, but want to	Running, but poor performer	Running, decent performer	Running, strong performer	Rating Average
New subscriber welcome	78	50	107	41	3.40
New customer welcome	78	48	112	39	3.40
Post purchase thank you	84	63	100	30	3.27
Birthday campaign	188	23	20	18	2.47
Purchase anniversary campaign	197	20	23	14	2.43
Dynamic product recommendation	145	34	64	25	2.88
Category recommendation	152	37	57	19	2.78
Replenishment campaign (for items that need re-ordering)	169	25	48	20	2.69
Best customer rewards	169	16	52	25	2.74
Win-back campaign	136	53	66	15	2.85
Browse Abandonment	129	53	55	31	2.96
Site search campaign	170	33	40	16	2.62
Price Drop	169	27	39	18	2.63
Cart Recovery	116	45	60	53	3.18
Back in Stock	172	30	35	19	2.61


Which of the following data do you have as part of your customer profile? (multiple responses allowed)

Describe the current state of your data integration between your e-commerce platform and email/marketing software.

What e-commerce platform are you currently running?

What data are you using to trigger marketing campaigns? (multiple responses allowed)

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

What email software program are you currently running?


About Windsor Circle

Windsor Circle is a Predictive Lifecycle and Retention Marketing platform. We help retailers grow customer lifetime value and increase customer retention.

Our clients see an average of 10x ROI and 17% lift in retention rates after 12 months. We have the industry's only guaranteed, enterprise grade data integrations between eCommerce and email software.

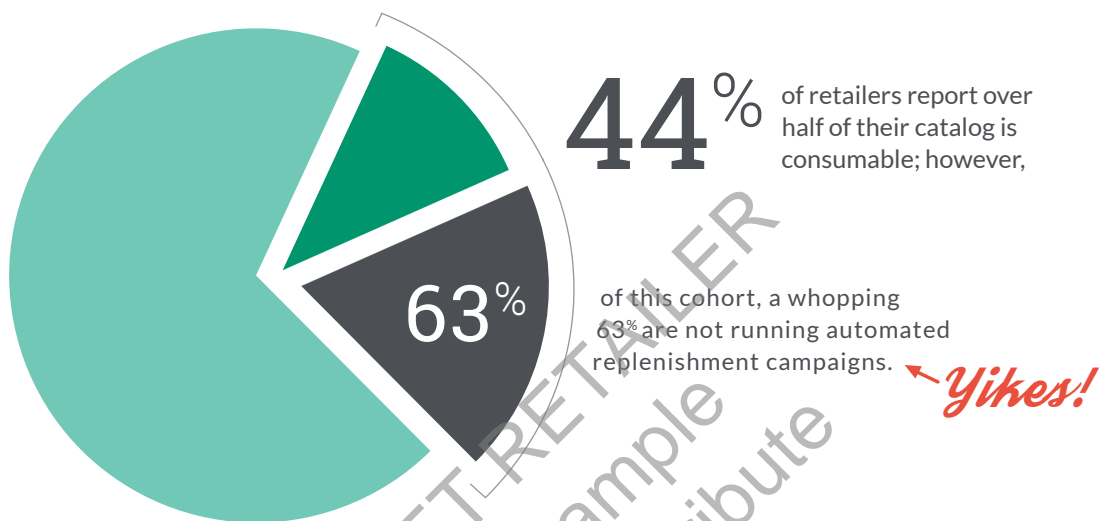
Our platform includes a retention analytics suite, custom segmentation, and behavioral tracking to build rich consumer profiles.

We power predictive, personalized, and automated marketing programs through the entire lifecycle, including browse abandonment, cart recovery, post-purchase, product replenishment, loyalty, and win-back campaigns using a retailer's existing marketing software.

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It's Time for a REALITY CHECK



Friends, we can do more with replenishment.

Introducing Predictive Product Replenishment from Windsor Circle:



One email for all of your consumable SKUs



Fantastic, optimizable email template in our app



Set frequency caps to ensure the right emails are sent at the right time

Integrate your eCommerce and email marketing platform to start sending predictive product replenishment campaigns today.

Request a demo: windsorcircle.com/productreplenishment



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