Keep Your Friends Close and Your Customers Closer

MAXIMIZING CUSTOMER LIFETIME VALUE

Introduction

The best way to start - and introduce - this book is to answer the most obvious questions first:

What is Customer Lifetime Value? And why should you worry about it?

Customer Lifetime Value (CLTV) is the predicted and anticipated monetary value that a customer can generate during his entire relationship (lifetime) with your business.

Simply put, CLTV measures the profitability of your customers.

A quick online search will render thousands of articles focused on the topic of Customer Lifetime Value. Its definition can vary and its monetary value calculation can differ as well. You can explore this rabbit hole another time, okay?

For now, you should focus on knowing why (and how) optimizing this single metric is critically important in influencing the success of your business. You need Customer Lifetime Value to:

1. Maximize your investment return.

It's expensive and hard to acquire new customers. Various studies suggest that the cost of acquiring a new customer is up to 5 times more than retaining an existing customer. In this light, increasing your Customer Lifetime Value prioritizes and focuses on maximizing your monetary return from existing customers.

2. Personalize your marketing approach to different customer segments.

Once you've utilized CLTV to identify the customer segments where most of your revenue comes from, you can adapt your marketing strategies to speak your target customer's language. The word lifetime gives us a clue as to the nature of the tactics and strategies involved here: it requires a more holistic, longer-term approach that considers every step of a customer's journey with your business.

3. Determine the consequence for every proposed strategy.

Business is all about research, implementation, evaluation and then re-implementation. This is true for every business aspect - marketing, sales and

pricing, operations, administration and even customer service. How do you know if an unchanged strategy is better than a proposed one? You check the outcome of each strategy and base it on customer retention and acquisition, of course.

4. Reactivating your customer base.

Your customers are all unique, especially in the way they generate profit for your business. Some customers bring your business below average profit, while others can give you above average revenue. Instead of exhausting all your efforts in reactivating everyone in your customer base, it makes more sense to simply focus on re-engaging those customers who had above average CLTV.

5. Implement upgraded customer service strategies to targeted customers.

It's more profitable to invest in customer services with customers who have high customer satisfaction, as evidenced by those who have higher CLTV. Knowing which of your customers have the highest CLV ensures that you know which customers you need to focus your upgraded customer service efforts on.

Not convinced yet?

A recent study published in the Harvard Business Review offers a great punchline: "The bottom line: increasing customer retention rates by 5% increases profits by 25% to 95%."

Or how about this statistic? The probability of selling to an existing customer is 60% to 70%.

Can't fully grasp the concept yet? The White House Office of Consumer Affairs puts it in simple terms: "It is 6-7 times more expensive to attract a new customer than it is to retain an existing customer."

We don't know about you, but going after low-hanging fruit seems more preferable, doesn't it?

What can you expect from this book?

In no world will we pretend to be eCommerce experts.

But, as entrepreneurs who run customer-centered companies, we know a thing or two about building businesses, growing audiences and making customers happy.

Instead of reinventing the wheel to write this book, we've done a lot of research to find the best tips, tricks and strategies that other successful eCommerce businesses have used to increase their Customer Lifetime Value.

For most businesses, we understand that time equals money. Naturally, it's absolutely impossible to try every conceivable strategy, technique or experiment in your company.

As such, you can consider this book as your shortcut to filter through the clutter and find a handful of things that you can implement to increase your CLTV - starting today.

We have split this book into four sections, each including actionable advice, examples and relevant recommendations for tools that will help you achieve success, as necessary.

This is our game plan to help you maximize customer value in a way that is useful to your business:

1. *Identify Your Top Customers & Find More of Them*

2. *Build Authentic & Profitable Relationships*

3. *Increase Your Average Order Value*

4. *Increase The Frequency of Repeat Purchases*

How should you use this book?

While we've tried to keep the book short and sweet, there's no denying that all the strategies included here seem tempting to implement in your business - all at once. Obviously, since you can't do this, we suggest you follow this systematic process instead:

1. *Read through the whole book once.*

2. *Scan through it a second time and select the top three things that you believe are:*

   a. *relatively easy to implement on your part; and*

   b. *aligns well with what you know about your customers today.*

3. *Once you've implemented your three new tactics, make sure you have the correct analytics in place to measure the impact of the various tactics to your business. (If you're not sure which software, app or metric to use, you can start by considering our recommendations in the "Tool Suggestion" sections.)*

4. *Based on your data from this, try a couple of rounds of iterations on these three tactics first before moving onto the new tactics. Focus on quality over quantity. Do not stick with a half-baked or half-assed tactic. Don't seek perfection in your iterations.*

5. *Once you feel comfortable that your newly implemented tactics are doing well, rinse and repeat the whole process.*

Note that as you implement more of these tactics, you'll learn more about your customers. This means that you'll have more and better data to refine and tweak the various tactics you've implemented over time.

As such, it's a good idea to periodically take some time out and review how these various tactics fit into your bigger picture and how they align with your existing customer database.

1

Identify Your Top Customers & Find More of Them

Identify Your Top Customers & Find More of Them

Not all customers are created equal.

We don't say this to be exclusive or biased, but - as with many other things in business - upon analysis of your customers, it's likely that you'll find them scattered along a graph that mirrors the Pareto distribution.

There's a high possibility that 80% of your company's profit comes from the top 20% customers who do business with you. You're likely to have a small number of high value customers who contribute a significant percentage to your overall revenue.

In this section, we want to help you identify who your top customers are. Once you've done this, we also want to help you find more customers like them.

Identify Your Top Customers

Your first step is to determine who your best and top customers are right now. The easiest way to determine this is to look at these three customer metrics:

1. Total time that the customer has been a customer of yours;

2. Total amount of money they've spent with you during that time; and

3. Total average money they spend with your business per year.

The third metric is an important factor as it allows you to compare apples against apples. To illustrate:

Customer A has been with you for 5 years and has spent $1,000 with you.

Customer B has been with you for 2 years only and has spent $500 with your business.

Which customer is more profitable to you?

Customer A's annual spending is $200 ($1,000/5); whereas Customer B has spent $250 per year ($500/2). By doing this calculation, this seems to suggest that Customer B will be more profitable over the same five-year period.

Without further analysis or consideration of other qualitative factors, the data suggests that your business is better off acquiring more Customer B types (instead of Customer A types).

Of course, you'll be learning more about your customers over time, so your customer identification techniques will continue to improve gradually. However, for early-stage eCommerce businesses such as yours, this initial identification method is a great place to start with, especially if you don't have bigger data samples yet.

Make Better Use of Your Data

Now that we have determined who your top customers are, we need to dive a little deeper to get to know them and develop your customer profiles. You need to do this to segment relevant groups of customers according to their shared interests or characteristics.

You can assign different types of attributes to your customer profiles by answering the following questions:

- Where are they from?

- How old are they?

- Male or female?

- What are their spending habits and/or history?

- What type of products are they purchasing from you?

- Where do they work?

- What are their job titles?

- How much is their average annual disposable income?

- What payment method do they prefer to use?

- How did you acquire them?

- How did they learn about your product or service?

- Where do they usually hang out offline and online?

These questions are just the tip of the iceberg to help you develop rich, contextual profiles about the different types of customers within your business.

Having these comprehensive customer profiles allows you to communicate and market to specific customer segments, thereby supporting our notion that not all customers are created equal.

As an example, you'll use these segments to offer your best clients exclusive opportunities to spend more money with you. Another implementation is you can target only your female customers with a new product specifically aimed at ladies.

The key here is to use and track as much customer data as possible. Much of it may not be useful on day one, but over time you can produce your own version of "big data". This can help you find correlations and efficiencies which you can capitalize on to increase your Customer Lifetime Value slowly but surely.

Following the spirit of Benjamin Franklin's age-old idiom that "A bird in the hand is worth two in the bush", let's talk about identifying your top customers and subsequently building a mutually beneficial relationship with them.

Be Personal

Think about a time when you've purchased something and felt really special. We bet that time likely relates to some kind of human interaction that was intended specifically and especially for you!

We know that all customers are unique. In an ideal world, we'd love to attend to each one of them individually to give them the best customized experience possible. Unfortunately, in the real world, we can all agree that this is not completely possible.

It's not over yet, though - you can still do a lot of small yet sincere gestures to be more personal in your customer interactions. (We'll cover a few of these later in the book.)

Note that you can actually use the information you have about your customers so you can personalize and tailor specific experiences to specific individuals.

The best part? Most marketing tools will help you with this: you can do achieve a lot with little effort in your part so the process can be automated, scalable, and thus viable.

Listen to Your Customers

Talking about feeling special... All human beings have the desire to be heard when they feel they have something to say. The quickest way to alienate a customer is to make them feel that whatever they're saying is falling on deaf ears.

When a customer reaches out to you to vent, to request something or to offer a suggestion, truly engage with them. Make them feel like they really have your full attention. Express that you're sincerely considering what they're telling you.

Nowadays, it's fairly convenient for customers to let their opinions be heard. Simply take a look at your company's social media profile and you can easily find customer comments posted all over your profile. Do not ignore these posts.

There is a reason why your customers cared enough to comment on the product or service you're offering - use social media to find out the cause of their frustration.

Remember, 89% of customers have historically stopped doing business with a company because they experienced poor customer service. You wouldn't want this to happen to your company, do you?

Another way in which you can communicate to your customers that you care about what they think is when you set up a systematic process to collect feedback from them regularly. For example, ask them to fill out a survey on your team's customer service efforts or on your product's features. You get bonus points if you can adhere to their request or implement a relevant suggestion!

Nurture Lower Value Customers

We know we said that not all customers are created equally. This doesn't mean you should neglect lower value customers; they are just as important to your business as your best customers are.

The key here is to develop and nurture those lower value customers over time. Just because someone isn't a top customer today doesn't mean he won't be a Tier 1 customer in the future, right?

Keep in touch with those customers and figure out what actions (on your part) can potentially trigger more frequent orders or higher value purchases. Naturally, this requires you to learn more about these types of customers too.

Ask yourself this: Are your lower value customers not buying more from you...

- because they have no money; or,

- because they are buying similar items from your competitors?

If your customers are spending their money elsewhere, for example, you can solve this by introducing upselling and cross-selling efforts that match your customer's spending habits.

Encourage Employee Empowerment

If a customer complains about your business, who's responsible to handle his complaint? Your front-line employees.

If you want to observe the common characteristics of your top customers, who's always communicating with them directly and consistently? Your front-line employees.

And if you're currently running a targeted marketing campaign, who will implement your promotion first-hand? Your front-line employees, of course.

Let's take handling customer complaints, for example. Peter, one of your customers, contacts your customer service hotline. Peter has been with your business for 5 years and has spent $2,000 with you already.

If Peter calls and requests free overnight shipping (even though your policy doesn't usually have this), your front-line employee can then determine if this should be granted or not. Is the $50 overnight shipping fee worth it?

If your employee knows about Peter's annual spending of $400, he can decide that the shipping cost is warranted for Peter's request.

Can you imagine what would have happened if your front-line employee didn't know about the importance of your customer's lifetime value?

Invest time and effort in training your front-line employees about the lifetime value of a customer. For you to encourage them to make great decisions, let them know that their decisions should consider how much a customer is giving (and will be giving) over the years.
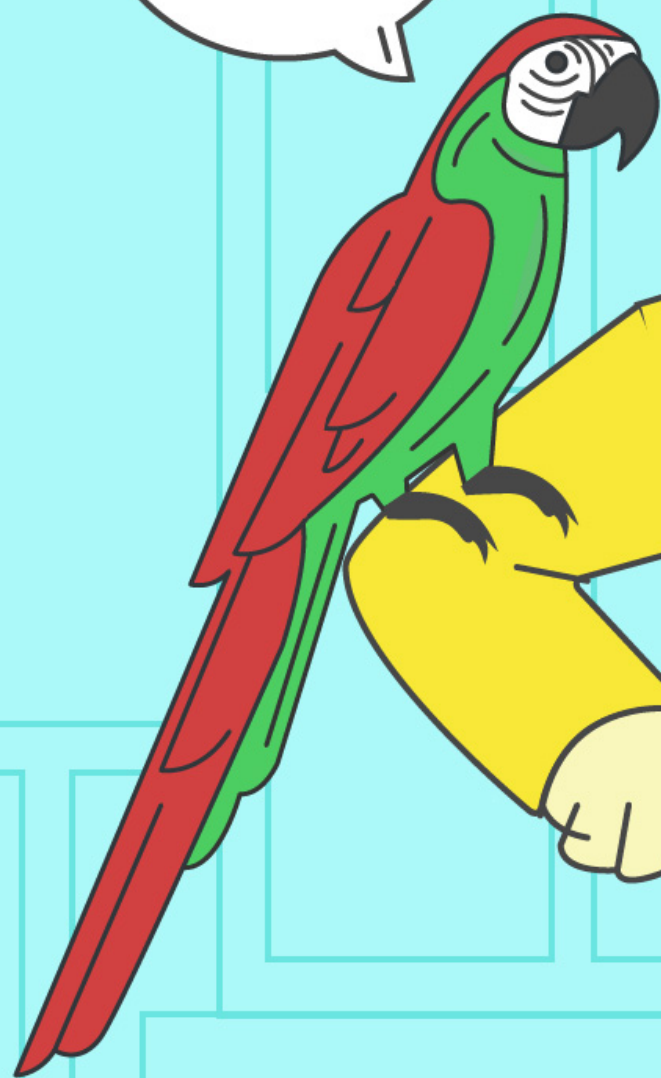
2 Build Authentic &
Profitable Relationships

Build Authentic & Profitable Relationships

Business is about the relationships that you - as entrepreneurs and business owners - manage to build with all stakeholders; especially your customers. Throughout history, the most successful businesses have been founded on great relationships with their customers.

Modern-day customers have evolved to the extent that relationships are a non-negotiable requirement. Customers want to spend their money with businesses that they feel believe in what they believe in. And while these customers understand that, ultimately, they're just another customer, they want to feel like they are special and significant to your business's community.

Nurturing your customer relationships is a key component to grow your business. Doing this can enhance both the length of time these customers stay with you and the amount of money they spend with you during that time.

It's critical for you to invest in nurturing customer relationships. Like all other relationships in life, it takes two to tango: you and your target customers need to be on the same page.

Be Human

As a human being, which do you prefer to talk to: to another human or to a robot?

Which conversation would be more interactive and natural?

Since you're an emotionally healthy individual, you answered "human-to-human communication", right? The relationship between both humans is more interactive and natural as compared to the relationship between a human and a robot, of course.

If you said robot, then you have serious socializing issues. Work on that first, okay? :)

You see, eCommerce is already an ice-cold medium as interaction happens between your human customer and your business's electronic platform over a computer (or other gadgets). The trick here is to infuse this interaction with as many personal, human touches as possible.

As much as possible, you want to replicate a real-world and human-to-human sales transaction.

A good example of this is to include a handwritten "Thank You" note in the packaging of every order. This communicates to your customers that there was definitely a human being involved in the process and that your business is about caring for people (as opposed to it being about indifferent robots).

Another simple example is to prominently display the profiles of your team on your company website. This shows your potential and actual customers exactly who they're doing business with. This also makes your team seem more accessible and approachable to them.

As a business, you can give more assurance to your customers when you reach out to them personally, instead of simply directing them to your automated help-desk. One way where you can display your human nature is by addressing FAQs using a video recording of yourself. A human simply speaking in front of a camera seems more sincere than a web page full of confusing content, doesn't it?

Have Shared Values

One of the most interesting developments for online businesses in the last couple of years has been the prevalence of publishing internal culture and value codes. The best examples of these are companies from the technology industry, Buffer and Hubspot.

Initially, these cultural codes were designed to attract prospective employees who were deemed to be like-minded, hence a cultural fit.

Now, this has evolved to the point where prospective customers use these cultural codes to determine if the company is actually a business whom they'd like to give their money.

In a study of 7,000 consumers in the United States, the United Kingdom, and Australia, 64% of customers who said they have a business/brand relationship cited shared values as the primary reason.

Best-selling author, Simon Sinek, is a major advocate of "doing business with those who believe what you believe". Definitely, this mindset seems to be gaining mainstream adoption with recent studies and statistics like this.

If your business aims to create shared values, you have to hit two birds with one stone:

- You need to enhance your company's competitiveness; and,

- You need to solve social/economic problems of the community that you're doing business with .

The easiest way to start doing this today is to make a conscious effort to tell your story as a business and brand. Tell your customers who you are, what you stand for and why you believe in your products. Subsequently, this appeals to your customers to establish that much desired personal connection with you, which is the foundation for profitable and longer-term relationships.

Focus on Customer Experience(s)

Before we get into the meat of this section, we'd like you to consider this statistic first: 7 in 10 consumers are willing to spend up to 25% more with companies that provide excellent customer service.

Additionally, if you're interested in building a sustainable business (you should!), another data you may find significant is that by the year 2020, customer experience will overtake price and product as the key brand differentiator.

The sad thing about this? Most consumers are desperate for good service and great experiences.

But here's the great news for you: it's fairly easy to compete against businesses that continue to neglect this.

As a result, it's no wonder that a recent Econsultancy report found out that 64% of companies rate customer experience as the best tactic for improving Customer Lifetime Value (followed closely by better use of data and personalisation).

When we think about fantastic customer experiences, we can't help but think about online retailer, Zappos. The fact that their CEO, Tony Hsieh, wrote a whole book, "Delivering Happiness", about customer experiences is a dead giveaway about how highly they prioritize this business activity and their customer interaction.

One of Zappos' most popular tactics is to upgrade the shipping option on orders.

For example, if you ordered a pair of shoes with a 3-day delivery option, they'll surprise you by shipping the package overnight. Just imagine your delight when you find that package on your doorstep the next day! This is an instant win for Zappos: because of this, they're much more likely to have a customer for life.

Another Zappos tactic that works well is their no-cost, 365-day, two-way returns policy. As a customer, this immediately gives me complete faith in making a purchase and knowing that I can return and exchange it (at no cost!) if I got my size wrong or if I just don't want my pair of shoes anymore. This makes me feel like my wants and needs are Zappos' top priority.

So now, you may be asking, where do you start if you want to craft better experiences for your customers? Start with the small things.

Look at your website with a new set of eyes: Is it as easy to use as you think? Is the format intuitive and user-friendly? Are there things that can help customers find and purchase what they want quicker or easier?

Focus on the language you use on your website and in your customer communication. Can you be friendlier? More helpful? More authentic, open and personal?

Sometimes, it may be just a case of a small gesture that the customer never expects. Take note of the handwritten "Thank You" note that we mentioned earlier.

Be Available

We live in an always-on, always-connected world. And unlike the advantage that shopping malls have with their shopping hours, your eCommerce store will always be open and available for business.

As a result, it's absolutely critical that you're always available to your customers - both to existing and prospective clients. The quicker you can answer a question and/or resolve an issue, the happier your customer will be.

Remember that Econsultancy report we mentioned in the previous section? The same study also shows that the best way that a company can build customer loyalty is to provide exceptional customer service 24/7.

Another striking data to help you realize the importance of being available is this: 41% of customers expect a response to their email within six hours. Yet the research data reveals that only 18% of companies deliver within this timeframe.

What does this mean for you?

Firstly, aim to be available across as many different media as possible, because you want to give your customer the option of selecting their preferred medium of communication. As a starting point, this means responding to all email queries, social media posts and even mentions of your company on Twitter & Facebook, among others.

You'll also get bonus points if you implement Live Chat on your store. Having this unobtrusive, in-browser functionality available is such a convenient way for prospective customers to ask a pre-sales question. It's also helpful for existing customers who want to get help on a problem.

The second thing you need to look at is to try be available as close as possible to 24/7. How? Respond as efficiently as possible to any communications.

The easiest way to bridge this gap is to hire (part-time) staff members in other parts of the world. This way, their timezones compliment your primary timezone and you can have coverage and availability for almost 100% on weekdays. Depending on the size of your business and team, you can get 100% coverage on weekends, too.

3 | Increase Your Average Order Value

Increase Your Average Order Value

In the first two sections of this book, we covered the fundamental aspects of increasing your Customer Lifetime Value: building profitable relationships and focusing more of your attention on your top customers.

The next two sections will cover tactical advice on how to directly influence that monetary lifetime value that you can attribute to these relationships.

First, let's look at how Customer Lifetime Value (CLTV) is translated mathematically:

CLTV = (Average Order Value) X (Number of Repeat Customers) X (Average Retention Time in Months or Years)

From this equation alone, we can pinpoint two drivers that will ultimately influence our Customer Lifetime Value:

1. The Average Order Value; and

2. The Frequency of Repeat Customers.

By increasing any one of these, we'll increase our Customer Lifetime Value.

Let's kick off with effective tactics that will increase your average order value.

Encourage A High Initial Purchase

We've included a bunch of tactics that will help you increase the value of an individual order (and thus the average order value). Implement this from the very first purchase a customer makes with you.

Studies have shown that there's a direct relationship between how much a customer spends on their first purchase and how likely a customer buys again.

Those spending the most on first-time purchases were almost twice as likely to return as those spending the least. For this reason, promotions geared for new customers are a great way to turn one-time buyers into lifelong customers.

Implement Upselling & Cross-selling

Upselling is a sales technique where a seller attempts to convince a customer to purchase upgrades in order to maximize the value of that sale.

Usually, upselling involves marketing similar products that are of higher value or of higher margins. But, this tactic can also expose the customer to options that they didn't know about or haven't considered yet.

Generally speaking, upselling implies selling something that is more profitable or otherwise more preferable for the seller.

On the other hand, cross-selling is focused on selling complimentary items that would add value to the already chosen product. A good example is buying a new iPad, as well as a Smart Cover to keep it pretty.

Both of these are age-old techniques developed by salespeople of generations gone by.

So, how do these apply in eCommerce today?

Well first off, Amazon reports that more than 30% of its revenues were as a direct result of its up- and cross-selling efforts. Considering that their revenue in 2013 was almost $75bn, we're talking about a sizeable chunk of change here.

Studies have shown that 60% of customers will buy an additional product worth 60% of the one they just bought when offered an upsell. These studies furthermore suggests that the best time to approach a customer with a welcome email including other cross-selling suggestions is immediately after their first purchase.

Another tip to implement this successfully is to include an "Other people who bought this also bought..." section. In 2006, Amazon reported that a whopping 35% of the year's sales originated from their cross-selling efforts through this tactic. This tip works because your customers believe that people with the same tastes as theirs are likely to give them better recommendations on the products that they may enjoy.

Implement Product Bundles

Another way of implementing an up- and/or cross-selling strategy is to create product bundles.

A product bundle is a predefined grouping of more than one product that are sold together. These products are usually related or complementary in a way that it makes this purchase beneficial to the customer.

The pricing of a bundle is also generally discounted (compared to the sum of individual parts). As such, product bundles are considered as attractive options for prospective customers. Employing this tactic also raises the perceived value of purchasing multiple items at once.

Product bundles are also great for merchants because they can create higher average order values and more individual unit sales. They are also helpful to produce a new advertising channel for generating traffic and a new channel for introducing new or complementary products.

Additionally, studies suggest that the conversion rates on the sales of bundles actually increase when both the bundle and individual items are available for purchase.

In both upselling and cross-selling, the goal is to make a profit and provide amazing value to your clients. Thus, do not randomly give them useless or defective products just so you can clear your old inventory.

Remember, you want to give value to your customers. You don't want to make a sale today, and then lose a customer tomorrow.

Encourage & Publicize Customer Reviews

Most of the time, merchants severely underestimate the importance of product reviews for eCommerce stores. Statistics show that publishing customer reviews (whether good or bad) on product listings has significantly positive effects on your company's metrics:

- A whopping 42% of eCommerce stores that implemented customer reviews report a higher Average Order Value. On the flipside, only 6% of eCommerce stores which published customer reviews experienced a drop in Average Order Value.

- There is a 74% increase in the conversion rate of individual product (listing) pages when you publicize customer reviews on your store.

The latter statistic is especially interesting: it supports the notion that more than 70% of eCommerce buyers consult reviews and/or ratings before making a purchase.

Publish the reviews on the same page as the "Buy" / "Add to Cart" (your Call-to-Action) buttons so that it's easier for your customers to be convinced to buy. Additionally, doing this decreases the chance that your customers will leave your website to search for reviews of your product elsewhere.

Customer reviews also have a striking effect on the value perception of prospective customers: consumers are willing to pay up to 99% more for an excellent review than a good review.

Studies also suggest that these reviews are massively influenced by the quality of service provided before and after the actual sale; in a way, your customer service becomes a direct driver in increasing your Average Order Value.

Customer reviews are also helpful to promote customer loyalty. Asking existing customers for product reviews will help make them feel like they're heard and that they're considered to be an important part of your business. This aids in nurturing mutually beneficial relationships with your customers. How do you know this? Industry-wide statistics seemingly suggest that reviews drive an 18% increase in loyalty and 21% higher purchase satisfaction.

And what do bad reviews mean to your business?

Don't panic when your product receives a bad review. Bad reviews actually help customers know what the worst-case scenario they can expect is. Essentially, bad reviews serve as risk mitigators.

And let's be real here: if you published only positive reviews, customers will tend to trust you and the reviews less. Nobody's perfect.

At first glance, bad reviews may seem counterintuitive, but they really add a touch of authenticity about you and your products. In the eCommerce world, authenticity leads to subsequent trustworthy customer relationships.

And wouldn't you want this?

Offer Free Shipping Thresholds

Today, shipping your products to any corner of the world is cheaper than it's always been. Unfortunately though, in some instances, a shipping fee is still a hefty fee that you need to incorporate in your customer's purchase amount.

One strategy to overcome this is to bake the shipping costs into your profit margins and then negotiate a volume-based discount with your shipping company of choice. Note that this strategy tends to be viable only at a larger scale. In most cases, small- to medium-sized eCommerce stores never reach this scale.

In your case, a much better way to implement free shipping is to implement a free shipping threshold. Make shipping free for orders that are in excess of a certain amount. At this point, you would digest the total transaction cost and use it to offset against your profit margins for this order.

This strategy is a win-win scenario:

- You increase your Average Order Value (because customers are incentivized to spend more); and,

- Your customers get free shipping.

Example Scenario

Your free shipping threshold is set at $100.

Your customer wants to purchase $75 worth of goods which would incur a shipping fee of $10. Thus, the full cost of their order is $85.

In this case, your $100 threshold can incentivize your customer to buy that other product (worth $40) that he's been on the fence about.

- Essentially, they only paid $30 for that extra product which makes it a good deal for them.

- In your case, you increased the value of that order from $75 to $115 (a 53% increase).

Don't believe us?

UPS reports in a 2013 study that 3 out of 4 customers add additional items to their shopping carts to make use of the free shipping threshold when the opportunity is relevant.

Offering free shipping threshold also directly fights to mitigate the number one cause for shopping cart abandonment: shipping and handling fees. If your customers don't have to worry about paying for shipping, they're less likely to abandon their carts on checkout.

Offer Cash-Back on Purchases

Offering a certain cash-back threshold on purchases has a similar effect to the free shipping threshold: it encourages your customer to purchase more goods (increases their Average Order Value) to receive a fixed fee or percentage of that value back.

For you to maximize the "cash-back" offer, make it available on future purchases only*. This way, you've technically killed two birds with one stone: increased your Average Order Value and increased the likelihood that the customer will purchase from you again (to redeem their cash back/discount).

* To be discussed in a future section.

Donate a Percentage of Your Sales

Here's another technique that works on similar principles as offering a free shipping threshold: donate a percentage of the total order value to a charity.

How do you do this?

- *Show a cost breakdown on the checkout page. Here, display the actual amount being donated to charity.*

- *To encourage a higher order value, you can also publish a prompt that compares the current donation amount to a proposed donation amount if the customer were to spend more with you.*

Why does this work? Some customers love to give a higher donation value even if this means they're spending more money with you. (The holiday season is a great time to try this option.)

Alternatively, you can bake a charitable angle straight into your revenue and business model. A great company that implements this is Toms Shoes: they donate a pair of shoes to a charity for every pair that they sell.

4 | Increase The Frequency of Repeat Purchases

Increase The Frequency of Repeat Purchases

We started the previous section by saying that we can increase Customer Lifetime Value if we increase the Average Order Value. Now, in this section, we'd like to cover a few techniques and tactics that will help you improve the Frequency of your Repeat Purchases.

You increase your repeat sales if you increase your repeat customers.

Why does it matter, anyway?

Statistics suggest that a repeat customers spends as much as 10 times more than a new customer. So, by encouraging repeat customers, you're likely to experience an exponential boost in your Customer Lifetime Value.

Also, a recent study by SumAll found that if you encourage a new customer to make that second sale, you can increase the likelihood that you'll have a lifelong customer and fan.

If your customers make one purchase, they have a 27% chance of coming back.

Great. But why settle for 27% only?

The study found that a second-time customer has a 54% chance of returning for a third purchase. By the time your customers bought from you a fourth time, you've nearly tripled the chance they'll return again.

Implement Loyalty & Rewards Programs

Traditionally speaking, loyalty & rewards programs have been a great way to incentivize your customers to buy more from you and to buy regularly from you. Why? Because doing these can only increase their rewards.

A recent worldwide survey conducted by Price Waterhouse Coopers revealed that 71% of consumers' choice of store depended on the availability of a loyalty program.

Furthermore, studies indicate that loyalty and reward programs are the biggest incentives for first-time customers to make that crucial second purchase. We all know that second-time customers are more likely to become lifetime fans and customers, right?

There are two main categories of loyalty and reward programs:

1. A points-based system:

As they spend, your customers earn points which they can use to redeem on future purchases via:

- the points are converted to a monetary value; or,

- the points are redeemable for prizes.

2. An order-value based system:

As they spend, your customers are rewarded based on the amount they spend with you. Each reward level will bring its own benefits to the customers like higher discounts or exclusive offerings. Customers who spend more are rewarded more, since higher order values mean higher customer spending.

In a way, implementing reward levels will have a similar effect of implementing a free shipping or cash-back threshold on individual purchases: you're encouraging your customers to spend more money so they can get to the next reward level.

eCommerce loyalty programs create a layer of interactivity and engagement. Use free and paid reward systems to engage with your customers and gradually increase their lifetime value. When loyalty programs are coupled with referral mechanisms, it also lowers the customer acquisition cost by encouraging others to refer the business to members in their network.

If you want to maximize the impact of your loyalty programs to your customer retention rate:

- *Don't make it hard for your customer to figure out the value of their points. Keep the conversion calculation as simple as possible. For example:*

    - *1 point = $1; or,*

    - *100 points = $10.*

- *All purchases should earn points. Don't make your customers guess about which purchases or products are eligible for reward points. Give everyone a chance to be rewarded.*

- *Your redeeming process should be as easy, intuitive and accessible as possible. Implementing too many restrictions or unrealistic thresholds will just discourage your customers to participate in your loyalty program.*

- *Make your reward points valuable and worth earning. If it's not worth it, your customers won't even bother participating in your loyalty program. For example, giving a $1 gift certificate for 1,000 points does not seem tempting, does it?*

- *You can also consider rewarding particular actions like sharing your products or promotions on social media or referring a friend to the store. For example, why don't you give a 5% discount for every successful referral? Apply the discount to both the existing customer and the new customer. Both customers get a discount and you get a new sale. This way, everyone's happy.*

Incentivize Future Purchases

On the back of rewarding your customers loyalty, the best way to get them to make another purchase is to dangle a juicy carrot in the forms of:

- Offering your customers a fixed amount or a percentage discount off of their next purchase. Since this discount doesn't apply to their current purchase, the only way to redeem it - and take advantage of the offer - is to make another purchase with you in the future.

- Adding a timeframe or expiry date to the redemption of the discounted offer. This creates a sense of urgency and makes your customers have the "I-gotta-have-it!" mindset. Also, this technique boosts the frequency of your customers' purchases.

When should you use these incentives? We've identified two main situations in which you can maximize these incentives. Use these offers to:

1. Proactively reward and engage an active customer.

In this sense, aim to double-down on the momentum of having a highly engaged customer.

A good example of this is to include a discount coupon and "thank you" note in the receipt of a first-time buyer. Since they've just made a purchase, you've garnered their attention and subsequently, their trust, during the process. This sets up the required foundation of a well-timed promotion to incentivize that crucial second purchase.

2. Reactively re-engage dormant customers.

Generally speaking, successfully implementing these offers are harder as the recipient isn't expecting you to make contact. But isn't this case actually an opportunity in disguise for you? If this incentive can cause disengaged or inactive customers to visit your store and potentially make a new purchase, the effort will still be worth it.

Improve Your Lifecycle Marketing

Lifecycle marketing refers to marketing and sales campaigns that address your customer's needs and requirements as they evolve over time.

The premise of lifecycle marketing supports one of the foundations of this book: we want to nurture long-term, authentic and profitable relationships with our customers.

Through lifecycle marketing, you can implement the three tactics that we mentioned earlier in the book:

- Make better use of the the data you have about your customers;

- Create comprehensive client profiles and personas; and,

- Personalize and tailor-fit your communications to specific customer segments.

Beyond this though, lifecycle marketing is also an exercise in relationship-building as you can gradually reveal more about your brand and its personality. In this sense, it's a two-way discovery process:

- you gather further data points about who your customers are, what they desire and how you can potentially help them achieve these; and,

- your customers discover more elements about your brand, what you stand for and how you plan to achieve your vision and mission.

Thus, lifecycle marketing should not be an exclusive exercise in sending regular promotions to your customers; it should aim to tell a story beyond those promotions and purchasing prompts.

Then again, even if you were just focused on sending promotional emails as your lifecycle marketing strategy, we have great news for you: 44% of email recipients made at least one purchase last year based on a promotional email.

The key component of lifecycle marketing comes down to the age-old adage: out of sight, out of mind.

Optimize and personalize your communication with your customers and regularly time your engagement activities to stay at the forefront of your customers' thoughts.

Create Urgency

Use urgency as a tactic to positively affect your Customer Lifetime Value, as it "forces" your customer to make a faster decision about the potential purchase, based on new and alarming information.

Consider a customer who is procrastinating about buying your product because he wants more time to think about it. If you suddenly show him a message about that product's low stock levels, he may change his mind and buy it immediately for fear of missing out.

Remember that this section of the book is all about increasing the frequency at which your customers make repeated purchases. On this light, creating urgency is a self-fulfilling prophecy, as it takes direct aim at increasing the frequency at which repeat purchases occur.

Groupon seemingly kickstarted a major trend in eCommerce by making flash sales a mainstream occurrence. Because of this, all the focus is on making a purchasing decision within a very limited amount of time. If a customer didn't act quickly enough, they'd probably never get the opportunity to take advantage of that offer again.

When urgency is coupled with an incentive, it tends to become a no-brainer for most prospective customers who have been sitting on the fence.

Another tip you can do is to display a real-time countdown timer on your website to really make the hesitant customers move ahead and buy your product. You can also include a stock urgency by adding "this product is likely to sell out soon" in your product's description.

Offer Superior After-Sales Support

Keeping your customers happy is a sure way to nurture a long-term relationship. Obviously, happy customers are much more likely to make repeat purchases than unhappy customers.

Earlier in the book, we spoke about crafting fantastic customer experiences to build authentic and profitable relationship. A recent study by Zendesk found that consumers rank quality (88%) and customer service (72%) as the two biggest drivers of loyalty.

However, most companies tend to neglect after-sales support!

Instead, they focus their resources and energy on ensuring that a new sale happens. Contrary to popular belief, this is not the most optimal decision, because loyal, repeat customers will spend exponentially more than once-off customers.

Thus, it is absolutely critical to make sure that any unresolved issue never escalates to a point where you have an unhappy and dissatisfied customer.

We've always been big believers in the notion that mistakes or bad service aren't necessarily crucial to foster customer loyalty. Mistakes happen all the time.

What should you significantly consider, then?

React positively and resolve an issue as soon as possible.

Interestingly, industry statistics seem to back us up in this regard: 95% of unhappy customers will return if an issue is resolved quickly & efficiently.

A good first impression may be enough to get you a date, but it's the last impression that can ultimately help you save your marriage.

In customer service, first impressions may be enough to get new customers.

But it's the amazing last impressions that can result in repeat purchases.

Remove All Purchasing Friction

What's the one thing that your best, most loyal and highest customers will be doing often? Purchasing products.

As such, your primary aim is to remove as much of the friction from your checkout process as possible.

Friction is anything that gets in the way of a paid purchase.

Ensure that your user interface is intuitively designed. Make it obvious and easy for customers to complete a purchase. Proactively manage friction elements such as:

- slow page loads

- possible downtime

- distracting images

- unreadable font; and,

- absence of trust symbols such as Verified Pages, Verisign logo and accredited buttons, among others.

Lastly, make sure that you have enough payment options available to meet the preferences of all your customers.

Another trick you can implement is to follow Amazon's lead in using a similar approach to their One-Click Purchase option. Amazon stores the credit card details of their existing customers so that customers can successfully complete a future purchase without needing to fill in their credit card details ever again.

Your checkout page has one goal and one goal only: to successfully complete a paid purchase. Any element that deviates from this aim should be removed immediately.

Closing Remarks

Your business can be considered successful if it interacts with customers like an authentic human and analyses its customers like an accurate machine at the same time.

Optimize Customer Lifetime Value to your advantage.

Know where you are right now.

Calculate for your Customer Lifetime Value so you can find out:

- *the financial impact of upselling and cross-selling to your existing customers; and,*

- *the monetary value of losing your current customers to your competition.*

Don't be afraid to invest money and lose some of your investment in the short-term, as long as you can recover your investment plus interest in the long run. How do you know if the risk is worth it? You need to know the lifetime value of your customers. Without this number, you're just throwing money down the drain!

Know where you want to go.

How do you ensure that your customers will buy from you not only today and tomorrow, but also during their lifetime relationship with you?

Know how you can get there.

Use CLTV to determine and subsequently personalize the customer service techniques, marketing campaigns and customer retention strategies you need to focus more of your resources into:

- *identifying your most profitable clients and connect with more of them;*

- *initiating sincere, mutually beneficial and profitable customer relationships;*

- *increasing your Average Order Value; and,*

- *increasing your Frequency of Repeat Purchases.*

In the end, optimizing your Customer Lifetime Value can be likened to shooting an arrow.

You test out the direction of the wind by shooting the first arrow, so you miss your first shot. In the same way, you figure out your Customer Lifetime Value so you know which direction your business is headed to.

Once you know the direction, you can now adjust your shooting stance so your arrow can hit the bull's eye. Once you've computed for your Customer Lifetime Value, you now know your numbers so you can adjust your marketing, advertising, customer engagement and retention strategies.

If you manage to hit the bull's eye, then that's great! If not, then try again. The same goes with your efforts to increase your Customer Lifetime Value - you want to hit the bull's eye without sacrificing too many arrows.

Large companies are able to optimize CLTV to their business's operation because they know their numbers.

The question is... Do you?