

Measuring and Improving Customer Retention in eCommerce

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Customer Retention – Have you ever thought about it?

To any eCommerce business (or Brick and Mortar store) customers are the lifelines of the business. Without them, your stores wouldn't exist. According to the Gartner Group, 80% of your company's future revenue will come from just 20% of your existing clients. In addition, did you know that it will cost your company five times more to attract a *new* customer than to keep an *existing* one?

Retaining customers has never been more important. By developing and enabling customer retention programs for your online and in-store businesses, you can effectively encourage customers to keep coming back for more, by creating positive, personalized and fun experiences.

Without proper customer retention programs in place your business will struggle to establish a strong customer base, which determines the overall success of your business. Each and every customer has a value associated with it. However, determining this value customer-to-customer has been a long and difficult struggle for merchants.

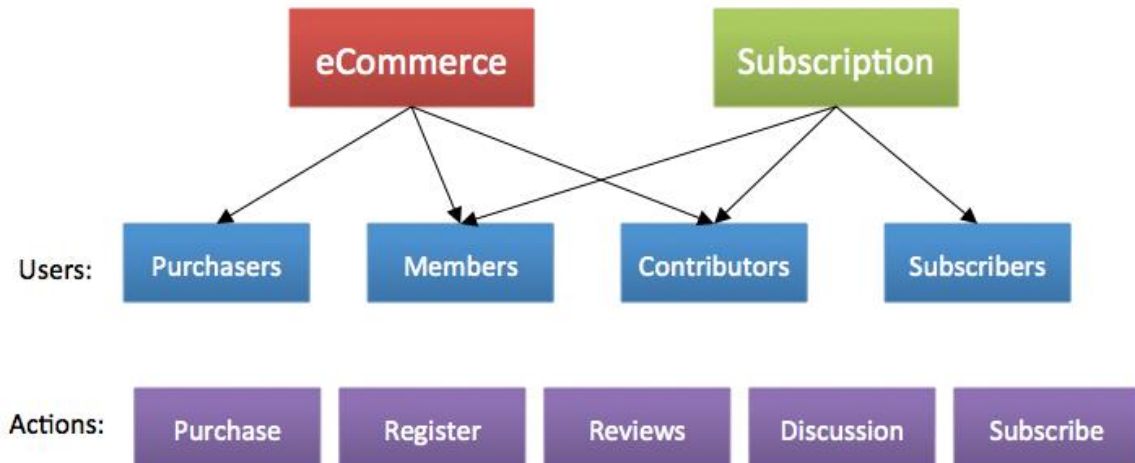
The goal of this whitepaper is to discover and understand which metrics are important when measuring the effectiveness of your retention programs, and to learn new or refine existing actionable strategies that improve customer retention.

Who Is Your Audience?

Before beginning any retention program, it's critical to first and foremost understand who your users are, and which of their actions matter to your site. The first step in determining whom your users are, is to ask yourself:

Who is your audience?

Your users will differ based on what type of business you have (eg. eCommerce based versus Subscription based). The term "users" is used in place of customers, because it includes an audience much wider than just those who convert on your site. There are four main categories of users: purchasers, members, contributors and subscribers. Why is it important to understand your users? It allows you know exactly whom you'll be targeting, and what sort of behaviors they possess. These behaviours turn into actions and those actions translate into the success of your site.



Once you have a defined idea of who your users are, it's important to then look at which actions they take, and why those are important to your business. Actions are defined as a behavior that brings value to your company. This could be anything from subscribing to a newsletter, to purchasing a product or writing a review on your site.

It all comes down to knowing your audience, who you're trying to convert, and retain. Users for an eCommerce-based site for example would have purchasers as one type of user – their action would be to purchase. However you could also have an eCommerce site that requires its users to sign up in order to purchase, so members (the user type) would have two actions: registering, and purchasing. This user and action relationship is something you can measure and infer upon as well as use as the basis of your retention strategies.

Once you have an idea of your user base, and what actions they possess, you can then start to analyze them with various metrics.

6 Key Metrics for Measuring Success

When it comes to customer retention – what's the measurement for improvement? You can't just "think" or "feel", you have to have the data to back it up. Statements like "I think have more users on the site" or "people feel better about this part of the site" don't come from successful eCommerce businesses. Turn away from feelings, and turn towards concrete data to make smart and educated decisions.

This is where measuring the data from your site comes into play. All metrics are important, however some are more important for eCommerce-based businesses as opposed to Subscription based. There are many different ways to measure your site's

performance, and below we're going to cover six critical metrics for eCommerce and customer retention.

1. Engaged Users

Engaged Users is the measure of the total number of users in your database versus the ones that actually take action (eg. convert into a sale on your website) during a specific timeframe. It can be calculated as follows:

$$\frac{\text{Converted Users}}{\text{Total Users}} = \text{Total Engaged Users}$$

For example, you can have 1,000 people on your site, but if they're not converting (whether that be through a purchase, or signing up for a newsletter), they're useless. Look at the number of concurrent users on your site, and find out how many of those actual users have recently taken action. Whether the level engagement is browsing for products, commenting on blog posts, or purchasing. It's up to you to determine the desired level of engagement for your site. That level will vary on the **type of business**, and the **type of audience** you have as well as **what type of action is considered engagement**.

2. Repeat vs. First Time Action

This metric measures how many customers actually come back to your site for a second purchase. You'll need to generate actual data to measure this. It's calculated:

$$\frac{\text{\# Repeat Customers}}{\text{\# of First Time Customers}} = \text{Repeat vs First Time Action}$$

How many people out of your total audience are purchasing for the first time? If you have 100 orders in a day, how many of those are first time purchases, and how many of those are the second, third, fourth purchase? This grouping of how many orders a customer has placed can help you segregate the data. However, initially it's important to measure first timers versus returning customers.

In order to track this data, you will need some kind of account for customers, which means you need to choose an eCommerce solution that allows you to track this – whether it's built in, or external and [integrated with an ERP](#), it's critical to have this data. For example, if you have a Brick and Mortar store, you can measure how many are repeat customers globally and how many are repeat customers strictly online.

3. Time Between Actions

Time between actions can be driven from your retention strategies. So it's important to measure how long it takes for a customer to come back to your site and convert. This is a great metric to help analyze the effectiveness of your retention program's success. It is calculated:

$$(\text{Time between Purchase A to B}) = \text{Time Between Actions}$$

You want to be able to correlate the retention strategy, and time between actions to see if your strategies are effective. For example: if you offer a discount code two weeks after a customer's first order and the time between actions is two weeks then you know there's a correlation between your retention strategy and the time between actions metric. This statistic helps to analyze a customer's life cycle, to see if they are purchasing more or less frequently. Use this information to improve your programs! Time between actions can be measured on a quarter-to-quarter basis, however depending on the product, if you have customers that purchase more frequently, a month-to-month comparison might be better.

4. Repeat Action Probability

How likely is it for your customers to come back to your site and purchase again? Loyalty snows balls quickly when customers have great experiences. If customers are having great experiences, they're much more likely to come back for more. If you have loyal customers, you can try and look at your metrics to gauge how likely they are to come back.

For example, if out of 100 people that come to your site and you have 10 that actually purchase - what you're trying to judge is how many of those 10 customers will purchase a second time. Then, how many of the nine that came back will purchase a third time and so on. This is what you're trying to determine with regards to probability. You're going to want to measure this month-to-month, and quarter-to-quarter. Looking at your data, you are able to see how many users buy for a first time, and possibly second time. From this, you can infer a probability. So if you have 10 users that buy once, out of that group of 10, one might buy 10 times.

5. Cohort Analysis

A cohort analysis involves creating various groups of users based on their first action versus their repeat actions. You can start an analysis by using the month of first purchase, and then track the lifecycle after that month. You then take the metrics associated with purchases; bring them together to help you infer future data and trends.

A cohort analysis also allows you to see the effectiveness of when strategies were initiated. You can follow cohorts of customers and their respective lifecycles while tracking it against programs that were initiated at various times for that specific cohort.

For example if a cohort was a collection of customers who made purchases in January, you can measure their lifecycle, and track it against another program that say was initiated for a cohort that began in June. Based on whatever metric you want to track (eg. Repeat Time to Purchase), you can view the effectiveness of your strategies based on groups of cohorts. A particular cohort can become a baseline or trend for whichever strategy you want to measure, and track its improvements or inefficiencies.

6. Lifetime Value of a Customer (LTV)

One of the most underutilized and least understood metric, is Lifetime Value (LTV) of a Customer. This is also, hands down, one of the most important metrics in eCommerce. Every merchant should have the ability to track individual customers. Why? Because you want to associate what kind of value each customer has to your business. The greater the value, the more important they are.

Essentially, you are inferring the total value based on a sum of projections. Using metrics #1-5, in the list above, can help you infer the LTV of your customer. This will then help you gauge success of your customer retention programs! The first step to evaluating LTV is looking at the data that's been collected by your online store now. When you're evaluating a customer, it's important to look at everything that has been done to get that customer.

Even when you're looking at financials, if you invest \$100 to acquire a customer the first time, but they only purchase \$10 worth of product, this might seem like a failure for most businesses, but when you're evaluating your programs as a whole or independently you need to evaluate their entire life cycle. So \$100 might seem a little steep to acquire one customer, but if you build up a strong base, so subsequent retention programs will only cost \$1 to get that customer back, and they buy 20 more times, that lifetime value of the customer is \$200 dollars. So in short, you're only looking at \$120 to acquire the customer, if your subsequent strategies only cost \$1.

You can project a lot of this information from the metrics covered above. For example, if a customer's Repeat Action Probability is X, then they are more likely to purchase X products over a year. From this you can then determine the length of the customer's life cycle for your site. Many metrics go into calculating LTV, however you need to tailor it to your business and how you're going to evaluate it for your online store.

Key takeaway: you need to have a [platform](#) that allows you to measure these statistics, track customers, and report data effectively.

One thing to recommend against: check out as a guest. Without actual accounts for your customers, you will never have the critical information needed to help evaluate your online business as a whole. Checkout as a guest doesn't let you know when a specific customer comes back to your site. It is possible to calculate with external services, but they are just not reliable if you looking at IP tracing for example. You want a platform that will give you a snap shot of a customer, what they've purchased, and which retention strategies went into driving that purchase to start with!

From these metrics, #1-6 above, you will be able to properly gauge the success of your retention programs.

Preparation Point #1: Know Your Customers

1. Customers Care More About Service Quality & Attitude Than Speed

Depending on your type of business, customers *will* care about that extra level of service, and handholding. It's great to ship a product in a day, but if you don't talk to your customer and tell them that, they're not going to know when the package is coming. This might cause a reluctance to shop with you again because of a lack of communication. Same thing goes for follow-up emails, if you don't send any, the customer might just forget about you.

Know your customer, and treat them the way they want to be treated. Learn their expectations. So when and if you ever run into a situation where there is going to be a delay with their product shipment, let them know, and serve them accordingly. Customers usually understand if a package is going to be delayed a day or two, as long as they are communicated with a head of time.

2. Customers Know What They Want & Are Also Willing To Help

Reach out to your customers if you have an idea that you'd like to test. Every customer knows what's best, and are usually willing to voice their opinions, as long as there are given avenues to do so. It also helps to create a community base within your site. So it's important to always give your customers feedback loops – eg. retention based feedback emails. Asking how you did with their last purchase is always a good conversation starter. If you send them an email to help your company evaluate their service, they are more likely to take that opportunity to share that experience as opposed to having them reach out themselves if not prompted. Obviously people are more willing to share their bad experiences, so encourage positive experience sharing too!

3. Customers Like Loyalty Programs, As Long As You Make Them Seem Easy

There's a story behind this... in a study customers were given a free car wash after they bought a certain amount. Customers started with a card, and for every five car washes purchased, the customer got one free. A second test for the experiment involved another card with seven car washes, but the customer got the first two stamped. So it made like it seem like they were *that* much closer to getting a free wash. When cards were cashed in, there was a higher occurrence in the second group where they had two stamped from the start.

What can be learned from this? Make loyalty programs seem easy. Giving customers a bump start to collect points increases the likelihood of participation in those programs. With active participation in your loyalty program, you are better able to interpret future data.

4. Creating Goodwill With Customers Doesn't Take A Lot Of Money

Creating goodwill with customers doesn't take a lot of money. Even small things can create a *wow factor* with your customers. It gives that extra something special while shopping. For example goodwill can come in the form of something as simple as 10% off a customer's first order. 10% is not going to kill your margins, but it's enough to keep the customer coming back, and makes them feel like they've been given something extra. It's that little tidbit to help them remember your company and their experience.

5. Customers Absolutely Adore Personalized Experiences

Customers love a personalized experience. Personalization is something very simple and easy to do. Why? Because you should have already collected a customer's information when they registered as a user on your site. So, use this data to your advantage! Throw up a welcome message when they come to your site and login. It helps to create those warm and fuzzy feelings with your customers!

For example, even when going to the movies and you swiping your Scene Card – it automatically displays your name. Usually with a message like: "Thanks for your purchase *John!*". Being more personal with your customers, helps to create a better relationship with them!

6. Customers Love Stories, So Sell Through Them

Give customers something to write home about or share with friends. Create experiences that customer will tell their friends about. They share because usually something has struck a cord with them. This word of mouth promotion helps to

promote the virality of your site. Whether they're sharing it on Twitter, Facebook, or in person, it's usually going to be the best form of marketing. All it takes is one customer to start sharing "oh I had this awesome experience, you should try it!" to start attracting the attention of more people. Therefore you can captivate more interest, and more potential customers, thus creating better conversions!

Everybody wants a story, so give them something to share!

7. Customers Will Remember Your Business If You Remember Their Name

This is similar to point #5 above. If you have your customer's names use them! Don't say "Hi Customer" when they login. When you collected their email, you have usually collected their first name as well, so address the emails you send appropriately! This creates and emphasizes a positive, personalized experience while interacting with your online store.

8. It Pays To Surprise Your Customer

Having little surprises incorporated into your online store not only creates customer retention but also builds an experience around your site. For example, when a customer reaches the checkout page, and there is a message that says "You've qualified for upgraded shipping!" this can act as a nice surprise for the customer. Whether it is upgraded shipping or a promo code off their next order, it should always be something they're not expecting. However, it can work to your advantage not to advertise that your customer will get a particular benefit for ordering, because it keeps the customer guessing. And what's going to happen? That customer is going to keep coming back. It creates a sense of "what will I get the next time I order?".

9. Selling 'Time' Over 'Savings' Can Put Your Customer In A Better Buying Mood

Creating an easy and to the point *experience* can sometimes be more beneficial than saving \$X at the checkout. Always ensure the customer is easily directed to the conversion path, and shouldn't have to rekey in information that should already be saved in their account. If a customer can easily make a purchase with limited effort, it can put them in a much better buying mood than from a site that requires the tedious input of information time and after time.

This can even come down to indexing your search properly. So when a customer searches for a particular product, they actually get *results*. If "no results found" appears, this is going to frustrate your customers, and they will most likely abandon their cart.

10. Promotions Don't Always Work For All Holidays

This point is something to be conscious about. It's important to consider the emotional experience versus savings on a website. For example, it's probably not the best practice to offer discounts on Mother's Day. Might make the customer feel awkward, or cheap. You don't want to cheap out on your Mom!

It's not always necessary or in best practice to offer promotions surrounding a particular holiday. Keep this in mind. Instead, create an experience, or feelings as opposed to bringing up money. You don't always have to focus on the dollar value. Just keep promoting those warm and fuzzy feelings with your customer!

Preparation Point #2: Track Everything That Is Relevant

It's not hard to become overwhelmed with data. It's easy to track almost anything for example, the time it takes for the customer to click from point A to point B – but what value does that give? It's critical to track items that will help to make decisions and assist in calculating the LTV of the customer. You should create retention strategies that you're going to be able to **quantify**. Being able to get a positive feeling from a customer isn't something you can really track, so focus on commerce based statistics as opposed to browsing data. Browsing statistics are helpful but they're not going to help infer financial calculations in order to evaluate your strategies.

Ask yourself: What information actually brings value to my business?

Preparation Point #3: Google Analytics Isn't Enough

This brings it back to being able to track one specific customer. Google Analytics can track your site as a whole, but can't individually track customers. You want to set something up that will give historical data of the customer. Then take that information to properly and accurately calculate metrics to help evaluate the effectiveness of your retention strategies! Without these individual statistics you won't be able to track the LTV of the customer. It's also hard to track how successful your loyalty program is against Jane Doe when Google Analytics can't tell you that it's actually Jane Doe.

Remember, move away from offering guest checkout, and sell the benefits of creating an actual account. Then track customers from start to finish (eg. order history, purchases, timing, promotions used etc). It's also good to look into built-in eCommerce reporting/customer profiles or conversely bring that data into an ERP system.

Retention Strategies – What Works and Why?

1. Targeted Promotions

Targeted promotions are based on order histories or customer segments. You target your promotions on a certain group of customers because they've bought something similar before. For example, if a customer bought a pair of Boss jeans, and you then get a new shipment of Boss jeans a month later, tell that customer about it! It helps to create a positive and memorable experience, because it shows that the business knows something about the customer, it feels personalized.

Another great way to use targeted promotions is when you have an over stock of product and want to clear it out. You'll want to pull up a list of all the customers that have purchased similar products before, and then target those individuals with the product you'd like to get rid of. Use your customer data to your advantage.

2. Cross Sells & Up Sells

You don't need to know specific data to be able to produce Cross Sells & Up Sells. It's possible to do it logically based on category or attribute levels, by relating one product to another. If you want to take the time, you can actually customize these at a product specific level (eg. Product A relates to Product F), but in the interest of a larger catalog, you're going to set rules based on cross sells and up sells. This can help clear out inventory. If you have a large quantity of product you can even set up a promotion for certain cross sells.

Yes, this helps to clear out stock for the business but customers can feel like you're helping them out in their purchase process. Remember, you're showing them products they might be interested in based on historical purchase data.

3. Simplifying the Purchase Process

A simple motto to live by: make it as easy as possible for customers and they will come back to your site. If a customer has to enter their mother's maiden name, place of birth and current colour of the sky, they're NOT going to come back. Again, make it easy for the customer to purchase your products. This relates back to getting the customer to create an account, so when they login in, all their information is already there.

PayPal is a great payment system to incorporate into your online store. Many online merchants use PayPal as it offer a simple one-step check out. Did you know that PayPal can cause a 17-21% increase in revenue when it is offered as a payment option to customers? It's safe and secure. All you need to do is enter a user name and password.

You don't have to enter your credit card information. It's all stored in your PayPal account. A simple and easy way to assist conversions.

Thinking about using online debit or verified by visa? Don't make your customers go off site, or have random pop-up windows appear; it becomes distracting and seems untrustworthy. It also can increase the likelihood of shopping card abandonment.

4. Email Marketing

Email marketing is a fine balance. It's important not to hammer your customers with emails everyday. You only want to send your customers information that is *relevant* to them! If you do have segmentation built in, it really helps to send out direct product emails (eg. male products to male customers). You don't want to send the same copy to everyone day in, and day out. If you tailor content to each user, based on those segmentations, it will bring the customer back to the site, and make them more prone to purchase!

5. UX Design Changes

Keep it simple. Focus on the purchase path for conversion. You really want to design for your customer group. Make your site easy to navigate, and very fluid. When it comes to User Experience (**UX**) design, make it across various platforms. This ensures the experience is as easy as possible for customers no matter what device they are using. If customers can't click on a button because it doesn't work, or is too big or small – they're not going to buy anything from your site.

Do not bring your customer off page. Get rid of the navigation bar once the customer is in the checkout process. Keep them on site, and directed to the path of purchase, or else they will be more likely to abandon their cart!

Finally ensure your site is visually appealing. This encourages and motivates your customer to come to your site, because it's enjoyable. It shouldn't be complex. Your site should be fun to browse. The design of your site also helps to increase its legitimacy. The nicer a design, and easier the navigation, the more trustworthy your site becomes.

6. Coupons & Offers

Have targeted campaigns relating to customer loyalty. For example, if a customer bought X amount of products, or if they reached \$1,000 in lifetime purchases – give them a special coupon, discount, or special offer. Make sure it's *targeted* to that customer. However, you can also do generic deals too. For example offering a discount for customers that sign up for the company's newsletter.

The important thing to consider is what you can do with *subsequent* purchases, keeping loyalty and retention high. It's great to have targeted promotions, but you need to figure out what strategies need to be put in place to encourage subsequent purchases. For example, send a "\$15 off your next purchase" promotion in a follow-up email. Provide them with an additional code, and if they send it to a friend you give X% off on their next purchase. Give your customers incentive to come back.

Coupons and offers is one of the most effective strategies out there, everyone likes to get a deal!

7. Product Improvement

One of the best ways to build retention, and get customers coming back is to give them a voice. Let them be able to speak to their experience. They'll be able to feel like they're a part of a community. For example, writing a review on a recent purchase. You can easily develop a community by having a ratings and reviews system incorporated into your eCommerce site. When customers see other reviews from customers, it gives them a status on the site – eg. if they've made 10 reviews, compared to someone who has made 20 reviews, they might be more likely to review more products. This helps to give a voice to customers, and creates a sense of community; one that hopefully everybody wants to be a part of.

8. Extraordinary Customer Service

They say if a customer has a bad experience they will tell twenty people. If they have a great experience, that same person will only tell two. Thus, it's crucial to do everything in your power to provide great customer service and positive experiences – even if it started from a negative one! Zappos, is an excellent example of this – they've literally written [the book on it!](#)

Rule number one: always follow-up. If customer has an issue, you should always address it! Even if there is negative feedback, you should aim to turn every negative opportunity into an extraordinary opportunity. For example your company receives a negative tweet, take that as an opportunity to rectify the issue, go above and beyond to fix it, and publicize when you do. This will give the customer the opportunity to come back, but for other customers it lets them know that if they do have future problems, it will be taken care of. At the end of the day, you want your customers (and future potential customers) to know you take good care of them, and are willing to do whatever it takes to make them happy.

9. Loyalty Programs

Having loyalty programs is a great retention strategy. It's even better when you take your Brick and Mortar program and mix it with your eCommerce site. If an individual is a great in-store customer, they should be rewarded for being a great online customer as well (and vice versa!). Make it a complete part of your business. Don't segregate! Don't let your customers get shunned online if they also shop in-store.

Put something in place for loyalty, for example \$1 = 1 point. However you don't want the first level to be 10,000 points. Make it attainable. Give them some type of status with the loyalty program. An easy thing to implement is a point-based status; you can change an icon beside their name when they login. It will encourage them to keep buying product to earn their rewards (eg. silver star, turns to gold, to platinum). Programs like these help to bring the customers back and encourage them to purchase more. It can also make them feel like they're a part of something fun!

Finally, it's important to communicate with your customers the various levels within your loyalty program. For example, you are X amount of points away from Y. If there is a certain reward level that they're approaching, highlight it when they login or during a post purchase email - eg. "On your next purchase, if you spend \$X you'll get to X reward level, and you'll get this amazing reward from it". It draws the customer back to the site. This is not just a coupon offer, it's bigger than that, and is usually something that is going to stick with them.

Final Thoughts on Retention

Be practical with eCommerce and your customer

Create a detailed analysis on who your customers are. What do they like? More important, what don't they like? After analyzing who they are, and what is important to them, you can find which technology is appropriate for your audience. Every business and industry is different. Not all strategies work the same for every business. Do your due diligence, and figure out which strategies will be best for retention. What will make your customers happy at the end of the day? What will work for them?

Revisit your strategies

Don't just settle on one group of strategies. Come back and evaluate each and every one you put into practice. Is it working well? What are the [metrics telling you](#)? If it's not working, analyze where the drop off is, and try something new or improve your existing program.

Listen and Learn

None of this matters unless you actually listen to your customers, and learn from their input. If you don't, you're going to end up wasting a lot of time and money on strategies that won't work. Always remember your customers come first, so listen to them - they know what makes them happy.

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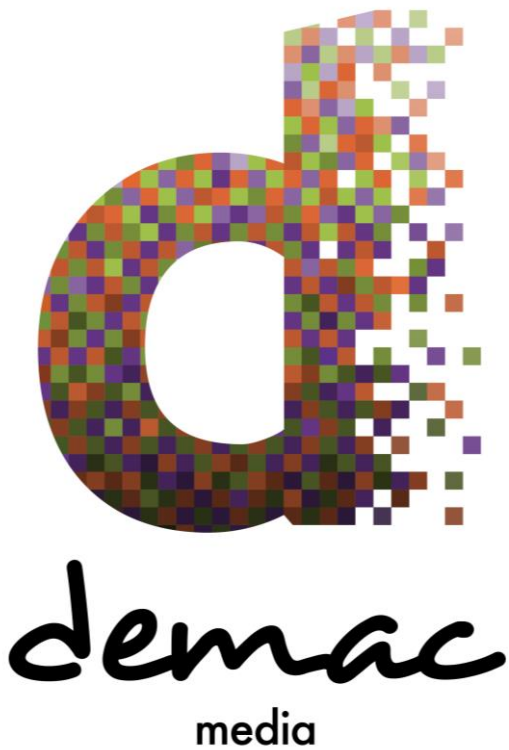


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