A recent Econsultancy report found that 64% of companies rate customer experience as the best tactic for improving customer lifetime value (CLV), followed by better use of data and personalization.

Unlock your Customer Lifetime Value

Digital Marketing

DigitalFrontier

Customer acquisition is a significant value lever that brands seek to pursue both offline and online. Online customer acquisition is an expensive, challenging, and iterative proposition that requires expertise and constant enhancements to processes involved in the acquisition phases. In order to maximize the value of customers acquired, brands work towards a superior retention strategy. A typical SWOT analysis will help brands understand the opportunities and threats they are faced with. Our anecdotal assessment of the recent e-Commerce landscape leads us to the following conclusion:

i. The barrier to entry continues to drop
ii. Switching costs are either low or non-existent

What the above premise means to brands: high Customer Defection Rate (CDR). Depending on your business and the industry vertical in which you operate, your Cost of Acquisition (CoA) will vary largely. Also, your focus might be higher on acquisition as opposed to retention. It is worthwhile to note that building a superior retention strategy is perhaps of greater importance for the simple reason that it costs much higher to acquire a new customer versus retaining an existing one. Secondly, but more importantly, customer retention helps maximize the 'Lifetime Value' (LTV) you derive out of your customers. Interestingly, while a lot of businesses focus on 'Breaking even,' measuring 'Lifetime value' is the most significant metric for businesses. This is also the least understood and most overlooked metric.

This whitepaper seeks to help with maximizing your ROI by identifying measures to reduce your online acquisition costs, measure LTV, and Customer Retention Rate (CRR), and finally value levers to improve LTV.

Simply put Lifetime Value (LTV) is the total value that a customer contributes during the entirety of his association with a business. A more complex way of measuring this will be the summation of current average order value and the Net Present Value (NPV) of all future orders minus acquisition and retention costs. Acquisition and retention costs include but are not limited to advertisement costs, digital infrastructure costs, customer service costs, operational overheads, loyalty bonus, cross-sell/upsell costs, etc.

Challenge

Customer churn is a perineal problem across industries. Brands resort to various tactics to reduce their customer churn rate. While all of this is great, are brands focused on measuring or even better maximizing their customer lifetime value? Not many brands can vouch for that. Therein lies an opportunity that is yet to be exploited to the fullest. This whitepaper seeks to help with maximizing your ROI by identifying measures to reduce your online acquisition costs, measure LTV, and Customer Retention Rate (CRR), and finally value levers to improve LTV.

Having said this, the more tailored the LTV equation is to your specific industry vertical, the more accurate it is likely to be. Below, you will find two rather simple equations to calculate your customers' Lifetime Value. As stated, this might not be completely accurate in the context of your business. Therefore, you can choose to alter the equation by feeding in the variables that are likely to impact measuring customer LTV.

(1) LTV = Average value of a sale x Number of repeat transactions x Average retention time

(2) LTV = [((T x AOV) x AGM) x ALT]

Where:

T = Average monthly transactions
AOV = Average order value
ALT = Average Customer Lifespan (in months)
AGM = Gross Margin

This whitepaper outlines five broad ways to improve LTV:

a. CoA reduction
b. Service differentiation
c. Repeat transactions
d. Service recovery
e. Persistency

CoA Reduction

Before we delve into approaches to reduce your Cost of Acquisition (CoA), let's step back to understand the standard operating model of typical online businesses with regards to CoA. Depending on your business, your approach to CoA will vary. There are two scenarios:

i. CoA less than gross margin
ii. CoA equal to or greater than gross margin

In scenario one, you will work towards containing the acquisition cost to a figure less than a fraction of the profit derived from the product. Simply put:

Profit = Product Price – Product Cost
Gross Margin = Profit – CoA

The lower your CoA, the higher your Gross Margin. Your CoA approach will be similar to scenario one, if the repeat business opportunity does not exist or if the sum total of average gross margin from multiple product sales is less than the CoA.

Scenario two is viable only in the event there is opportunity for repeat transaction and the average gross margin derived from the repeat transaction is meaningfully higher than the CoA.

With the above in mind, here are three approaches to lower your COA:

a. Identify lower CoA channels
b. Improve sales processes
c. Optimize lead conversion
d. Inbound marketing

Identify Lower CoA channels:

Inherently, your acquisition costs across channels are bound to vary. Given the varied channels available at your disposal viz. social media, email, pay per click, display, mobile, etc., depending on whether you are a B2B or a B2C business and the industry vertical you operate in, the CoA will vary, and in some cases significantly so. You can use Google Analytics or any other web analytics applications to identify your acquisition costs. If your business operates as per scenario two above, then it will be worthwhile to examine the average value derived from each channel before determining whether or not a specific channel is to be left out from acquisition marketing activities.

Improve Sales Processes

Your business could be using online channels as a lead enabler. Once leads are delivered, the onus lies with your sales teams to convert – therefore, the 'win rate' determines your success and is a key to your online marketing efficiency. Let's look at the following two sales enablers: aided sales, and unaided sales. Aided sales includes driving purchase completion assists such as phone support, online chat, etc. The cost associated with these will then have to be factored into your acquisition costs. Unaided sales, in the online context, involves driving user down the sales funnel with zero human intervention but with support from collateral on the website, intuitiveness of the website, etc. Unaided sales can be better facilitated with the help of an intuitive website, minimal navigation, clear checkout path, etc. Businesses are using comprehensive content strategies to help drive leads and conversions.

In both cases, it is important to do a dip-stick to understand processes, methodologies and jot down action points for improvement to aid your win rate and optimize conversions.

Optimize Lead Conversion

Insights gathered from lead and conversion data points suggest that a 5% improvement in leads results in 10% - 25% incremental top line revenue – or more depending on your industry vertical. This underlines the significance of optimizing your lower funnel opportunities to increase your leads. Lead conversion optimization is a vast topic in itself. Therefore, without digressing from the central topic of this paper, let me jot down the top lead conversion drivers from an online perspective:

a. Robust analytics to understand your user flow
b. PPC Conversion optimization
c. Site user experience improvement

d. Cross channel optimization
e. Content Marketing
f. Display media marketing

Inbound Marketing

Inbound marketing is the outreach mechanism directed towards people already researching about and shopping in your industry vertical. How is this different from the traditional outbound marketing mechanism? Your outreach efforts are towards people that are receptive to your messaging. Some popular inbound marketing techniques include:

U.S. Inbound Marketers spending more than $25k per year saved an average of 13% in overall Cost Per Lead (CPL) In 2013 - For an average CPL of $36 Vs. $41. U.S. Inbound Marketers spending more than $25k per year saved $14 for every new customer acquired Vs. those relying on Outbound strategies -- $254 Vs. $268.

i. Blogging
ii. Social media
iii. Content marketing
iv. Referral marketing
v. Pay Per Click
vi. Mobile marketing

Service differentiation

i. Single Customer View
ii. Multi-Channel Customer Service
iii. Facilitate multi-channel returns
iv. Loyalty schemes
v. Weekend delivery options
vi. Multiple payment options

Single Customer View

According to Wikipedia, *"A Single Customer View is an aggregated, consistent and holistic representation of the data known by an organisation about its customers."* While this is a rather complex definition for our liking, from a customer's standpoint, what this translates to is seamlessness, and consistency. For instance, a business with both offline and online presence, can delight customers that visit their digital property by retaining and linking the information gathered around the customers so the latter does not have to key in their information again. For instance, a customer who has recently purchased product X when they dropped by your store wouldn't be impressed by your recommendation engine displaying the very same product because it happens to be the most popular product in that category. Instead, if the recommendation engine already knows that the customer has purchased product X, because it is seamlessly connected with your CRM, then it can recommend an accessory related to the product. This not only creates opportunity for incremental revenue, the customer relationship is acknowledged too. Now when the customer adds that accessory to the shopping cart, should he be asked for details such as billing address and credit card information? Wouldn't that increase the possibility of cart abandonment? Yes it would! From the point of view of online business, single customer view is advantageous on several counts. Including but not limited to the following:

Benefits:

i. Better customer retention
ii. Higher ticket size
iii. Better service levels
iv. Improved Customer lifetime value

Multi-channel Customer Service

Customer Service, or the lack of it, significantly impacts your customer retention rate. Today, customers are more demanding than ever. There are multiple customer touch points. Customers expect efficient complaint handling and resolution across all of these touch points viz., email, live chat, telephone, Twitter, online form, etc. More importantly, customers expect seamlessness and consistency in tone, voice, speed and outcome across these touch points. Welcome to the world of multi-channel customer service! Social media has come to become the sounding board for a lot of disgruntled customers to make themselves heard. Given the dynamic and fluid nature of social media, it takes very little time before an issue can snowball out of control. Therefore, it becomes imperative for brands to monitor social mentions of their brand names and affiliated terms. Online Reputation Management (ORM) entails monitoring your brand's health on the web. While this is a topic that merits a separate paper, from a social media customer service perspective, ORM becomes the backbone of issue identification through to resolution.

Facilitate multi-channel returns

While businesses focus on multi-channel outreach, are multi-channel returns palatable? While there are questions around costs, book-keeping, etc., that will arise, this is something that should come as a logical next step in a multi-channel world. While there are online players that have stretched the limits too far – in that customers now take it as a given in some markets for businesses to collect products that didn't quite fit in to customer expectations from their door-step. Easy returns in the context of multi-channel returns refers to the ability for customers to return in store products that were ordered online, via telephone, etc.

Loyalty schemes

There is no better way to display service differentiation than to come up with loyalty schemes for your most valued customers. Loyalty schemes can include, loyalty points, exclusive content/products/offers specifically for the loyal customer group, exclusive clubs, etc. Service differentiation for higher value customers is a norm in several industries. Aviation is the most common example. Business class customers receive priority boarding and other perks. Customer segmentation by ticket size and LTV and thereby service differentials to your most valued customers is not out of order.

Weekend delivery options – multiple delivery locations

Amazon Prime is a great example of a tiered delivery model where standard delivery is available for free but express delivery comes with a service charge. Businesses can introduce service differentiation by introducing weekend delivery options with a fee to cover the additional overhead. While the service might come with a price-tag, the fact that it is available might in itself become a differentiator.

Multiple payment options

Lack of payment options are a major reason for cart abandonment. Abundance in payment options improves transaction completion rates, and reduces customer frustration. In certain emerging markets, "Cash on Delivery" (CoD) is a popular payment option where customers pay once the product gets delivered. This helps placate concerns around online transaction security, lack of credit/debit card penetration, etc.

Repeat Transactions

According to a recent online research, "Repeat buyers, on average, have a lifetime value 6x greater than that of one-time buyers." Here are some methods to help encourage and drive repeat transactions:

i. Focus on the channels that give your best customers from a LTV perspective. These are the channels that will give you customers that engage in repeat transactions with your business.
ii. Focus on the devices that give you customers with the highest LTV. Again this opens up the opportunity to drive repeat transactions.
iii. Understand the demographic composition of your highest LTV customers and reach out to them via channels that have been found to be successful – from a conversion perspective.
iv. Segment your customers by LTV – to get key attributes of customers that repeat orders

Service Recovery

Depending on the nature of your business – e-commerce, subscription service, membership-driven, etc., your customers could abandon the use of your product/service. Service recovery is your attempt to dispel roadblocks to get customers back on track to being service activated. In other words, it is a measure of customer retention within your service fold.

Measure Customer Retention

Customer retention rate is calculated using the following formula:

Customer Retention Rate (CRR): ((E – D)/S)*100

Where:

S: Customers at start of period
D: Customer acquired during the period
E: Customers at end of period

Here are some service recovery strategies:

i. **Custom emails:** Users who stock-up a wish-list but never return to complete the transaction are not necessarily people who don't have purchase intent. Sending custom emails to customers with saved wish-lists is a great way to engage them. Similarly, customers who have abandoned their shopping carts can be wooed back with some great relevant and time-bound offers.
ii. **Analytics:** Use your CRM and other analytics data to understand customers that are dormant over the last 3 – 6 months. Engage them via emails, social media or other alternative channels.
iii. **Web Engagement:** Advanced tools can predict user behaviour by interpreting cursor movement and speed. For instance, a discount offer pops up just as a customer is looking to exit step 2 of the shopping cart page and so forth.

Persistency

There are several instances where customers have displayed strong inclination towards your product/service but haven't converted. Engaging these customers with relevant content and strong messaging will help them turn to the brand eventually resulting in incremental business for the brand – this is money lying on the table that you should not let go. A few examples listed below:

i. Activate members into buyers
ii. Convert one-timers into repeat buyers: Someone who has purchased from you in the past is likely to purchase again if nudged with relevant messaging and offers.

Key Takeaways

Lifetime Value (LTV) is the total value that a customer contributes during the entirety of his association with a business. A more complex way of measuring this will be the summation of current average order value and the Net Present Value (NPV) of all future orders minus acquisition and retention costs.

Three approaches to lower your COA:

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Key Service Differentiation Enablers:

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ii. Multi-Channel Customer Service
iii. Facilitate multi-channel returns
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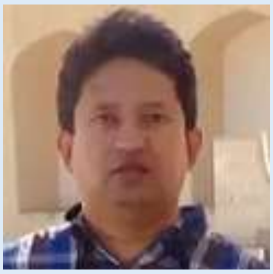
Concluding notes

Measuring conversions, cost per conversion and conversion rates help marketers plan their campaigns better. However, to be able to understand the long term outlook and benefit from hindsight, measuring your customer lifetime value is the best foot forward. While measuring LTV is the first step in the right direction, it is important to identify the key value levers of CoA reduction, service differentiation, repeat transactions, service recovery, and persistency. To reiterate, when customer acquisition costs are considered in isolation, the influence marketing channels have in driving customer acquisition is not established in its entirety. When you view CoA from the prism of LTV, a different perspective emerges from that exercise.



Vikas Anand

Vikas brings twelve years of work experience in the areas of consulting, digital media strategy, e-loyalty, online advertising, branding, social media, mobile marketing and web analytics. Prior to Digital Frontier, he worked with leading organizations such as Google, Infosys and HDFC Life.

Vikas has held senior management positions prior to founding Digital Frontier. At HDFC Life, he worked in the capacity of Senior Manager, Digital Marketing, driving the brand's digital efforts pan-India. At Infosys, he worked as part of the Management Consulting Services unit as part of the Communications, Media and Entertainment (CME) practice. During his stint there, Vikas has led strategy for e-commerce transformation of clients in the UK and Hong Kong. Prior to that, he worked with Google for four plus years and worked with advertisers in the North American market in verticals ranging from Financial Services to Retail. With hands on expertise in various digital disciplines including, online advertising, mobile apps, e-commerce and social media, Vikas is passionate about the digital landscape. He builds key differentiation to client engagements with a deep understanding of both media and transaction based outreach mechanisms.

About DigitalFrontier

Digital Frontier is a full service digital media and marketing agency offering best-in-class consulting and campaign management expertise in search marketing, social media, branding, mobile marketing, web analytics and other emerging digital disciplines including mobile apps, etc. We offer digital consulting in the areas of Online Reputation Management (ORM), SaaS deployment, content marketing, rich media and video marketing, digital commerce, content marketing, multi-channel deployment, digital asset management, etc.

For more information, contact sales@digitalfrontier.in www.digitalfrontier.in