

BENCHMARK REPORT:

HOW INVESTMENTS IN

Customer

**ACQUISITION AND
RETENTION**

DELIVER STRONG ROI

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How Investments In Customer Acquisition And Retention Deliver Strong ROI

Every retailer must balance customer **acquisition** and **retention** in order to deliver optimal business results. A hyper-focus on acquisition can lead to neglecting loyal customers and sacrificing profitability, but too great a focus on retention can stifle a company's growth prospects.

Every retailer needs to find their own optimal formula, and update the allocation of marketing resources as business needs change. Factors such as how long a retailer has been in the market, the composition of its customer base, the types of products it sells and typical product purchase cycles all strongly impact the decision-making process.

Additionally, when considering a focus on acquisition and retention, brands that look beyond the "conventional wisdom" can achieve impressive results. For example, older, traditional approaches assume that shoppers don't want to share personal data or have their interactions tracked. However, consumers' attitudes about protecting their privacy have changed: **87%** of today's loyalty program members are willing to have their activity and behavior monitored in exchange for personalized rewards or engagement, according to *The Loyalty Report 2018* by [Bond Brand Loyalty](#). Those numbers are even higher among specific customer groups, such as households with children (**88%**), Gen Z (**91%**) and affluent consumers (**94%**).

Today's consumers also are open to trying new types of technology: **95%** of loyalty members want to engage with their programs via tech that includes **AR, VR, chatbots,**

wearables and **biometrics**, according to the Bond report, which surveyed more than 50,000 consumers in North America, South America and Europe.

The first *Retail TouchPoints Customer Acquisition and Retention Benchmark Report*, based on a survey of 100 retail executives, offers insights and analysis about the most popular tools retailers are using both to attract and retain customers, as well as the methods they use to measure the success of their marketing initiatives, including Customer Lifetime Value (CLV) and multi-touch attribution. The report also delves into data covering both the popularity and impact of referral/advocacy programs, influencer marketing and loyalty programs.

We hope retail marketers, and other executives throughout the enterprise, find this information valuable when planning and executing customer acquisition and retention programs in 2019 and beyond.



Adam Blair

Adam Blair
Executive Editor

Digital Outreach Delivers Results For Customer Acquisition Initiatives

Retailers use a wide range of tools to attract new customers, reflecting the multiple touch points that now comprise the shopper journey. Digital outreach strategies are the most popular, with social networks leading the list at **77%**, followed by email (**71%**), online display ads (**62%**), paid online search (**60%**), and organic search (**59%**).

Referral marketing, which leverages existing shoppers' positive feelings about a brand to acquire new customers, also makes a solid showing, at **41%**. While influencers, both the celebrity (**25%**) and micro (**20%**) varieties, are used less frequently, that's likely because influencer marketing is a relatively new marketing solution, but one that is growing quickly.

Other industry research also confirms the growing importance of social channels for customer acquisition and retention. A 2018 [eMarketer](#) study revealed that "more retailers now have a specific budget dedicated to social media marketing (**78%**) than they do for email marketing (**67%**) and driving mobile conversion (**67%**)."

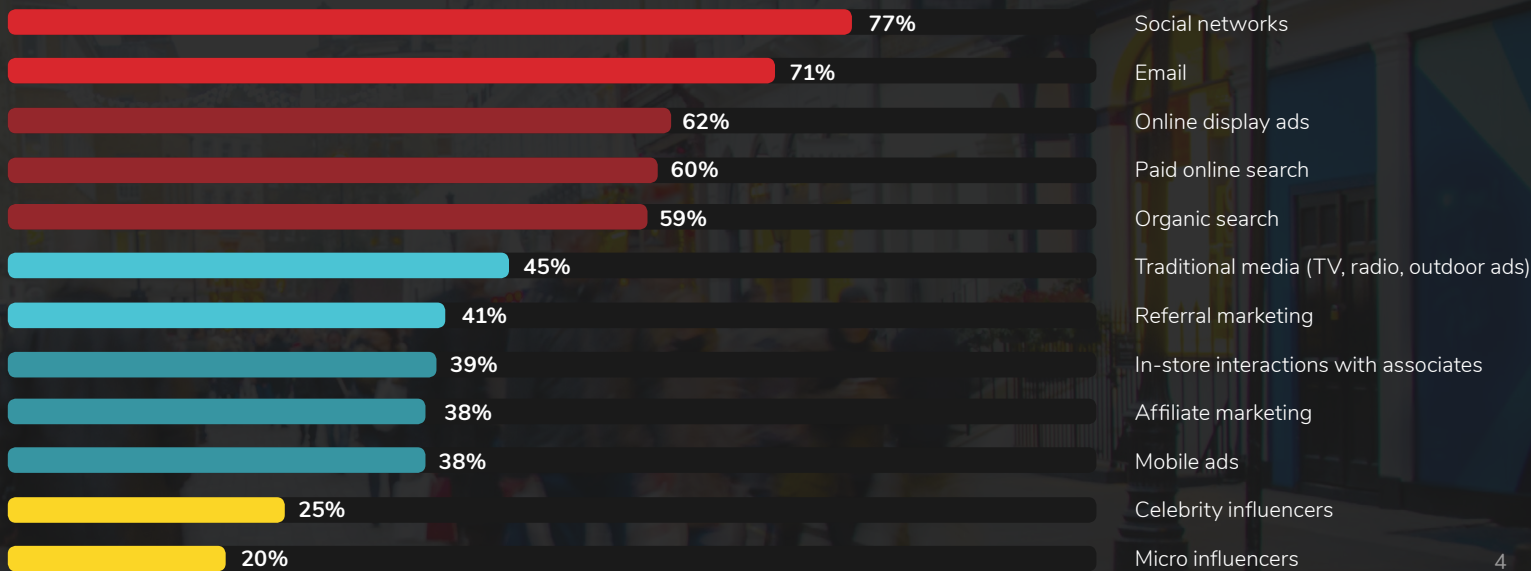
Traditional media, such as television ads, radio ads and outdoor advertising, are used by less than half (**45%**) of retailer respondents in the RTP survey. These broadcast-style tools still have the capacity to reach large numbers of potential customers, but they can be considered wasteful because they typically do not reach a specific target audience. Conversely, digital tools give retailers the ability to track consumers' interest level as well as determine which campaign is producing the most significant results. Additionally, the focus on digital aligns with numerous surveys indicating that the majority of consumers start their shopping journey online.

ACQUISITION BUDGETS ARE ON THE RISE

Budgeting decisions speak volumes about a company's priorities. The Retail TouchPoints survey reveals that the portion of marketing budgets devoted to customer acquisition is increasing for **58%** of respondents, and decreasing for only **10%**.

Which tools do you use to acquire customers?

(Check all that apply)



While the majority (**61%**) of retailers today devote less than 30% of their marketing budgets to customer acquisition, a sizable minority (**17%**) devote more than half their budgets to this goal. The largest single group, **27%**, earmarks 10% to 20% of their total budgets to acquisition.

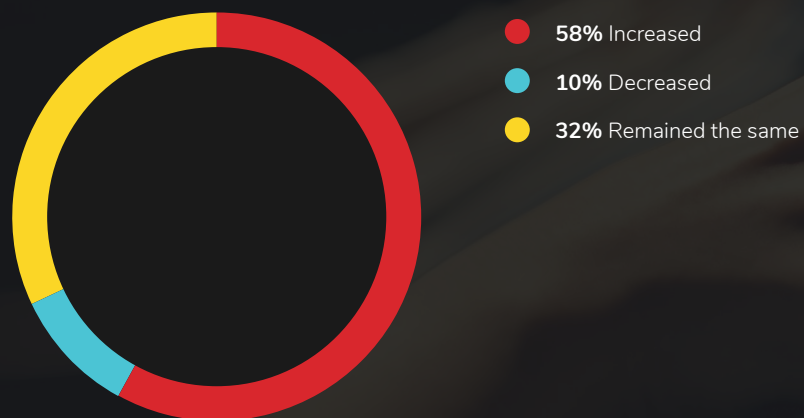
Retail marketers place a high value on customer acquisition. A 2018 [RetailMeNot survey](#) indicated that two acquisition-related factors — driving new customer growth and increasing brand awareness — are part of the top three ways brands measure the success of their offers and promotions:

- Increasing **revenue** (56%);
- Driving **new customer growth** (55%); and
- Increasing **brand awareness** and brand perception (50%).

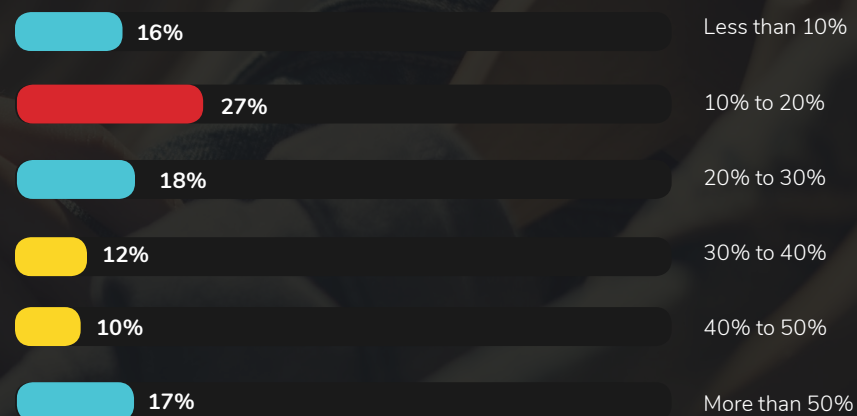
A key first step in customer acquisition is understanding where current and prospective shoppers are in the purchase lifecycle: **79%** of consumers said brands must demonstrate that they understand and care about them before they will consider a purchase, according to a survey from [Wunderman](#).

Knowing where customers exist in the sales funnel is critical, according to Adheer Bahulkar, a partner in the retail practice of A.T. Kearney. “Are they aware of the brand?” Bahulkar said in an interview earlier this year with [Retail TouchPoints](#). “If they bought the product, are they coming back to me again? There are ways to identify where we as a brand have a major breakdown in our customer funnel. Is our biggest issue in awareness? That should become an important aspect in how you want to allocate your marketing spend.”

Has your budget for customer acquisition increased, decreased or stayed the same during the past year?



What percentage of your marketing budget is devoted to customer acquisition?



Referral Marketing Takes Advantage Of The Intersection Of Acquisition & Retention

Referral marketing, sometimes known as advocacy marketing, provides retailers and other businesses with a way to combine customer retention with acquisition.

By leveraging existing, highly satisfied customers as a resource for finding new shoppers, retailers are able to multiply shoppers' positive feelings and turn them into tangible results.

A landmark Wharton School study from 2011 demonstrated the value of referral programs. As reported in the [Harvard Business Review](#), the authors studied 10,000 accounts of a large German bank over a three-year period. Referred customers were **18%** more likely to stay with the bank, and they generated **16%** more in profits, giving the bank a **60%** return on its referral investment.

A 2014 study by [Gigaom Research](#) identified key attributes of successful referral marketing programs:

- Referral provides a double reward to a business. When a transaction occurs as a result of a referral, the business **gains a new customer and also builds loyalty with an existing customer**;

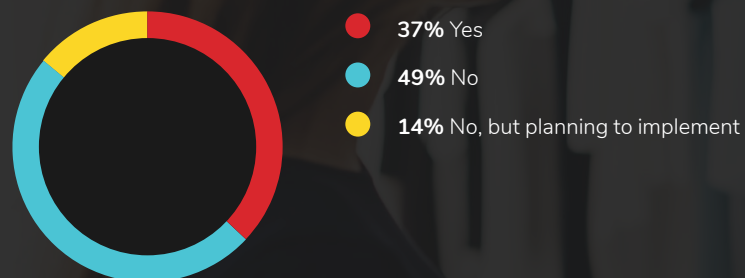
- Referral **enriches social media** by complementing social's awareness and retention value with elements of acquisition and conversion; and

- Referral can provide more value to marketers when **integrated with social and email** rather than when used in isolation.

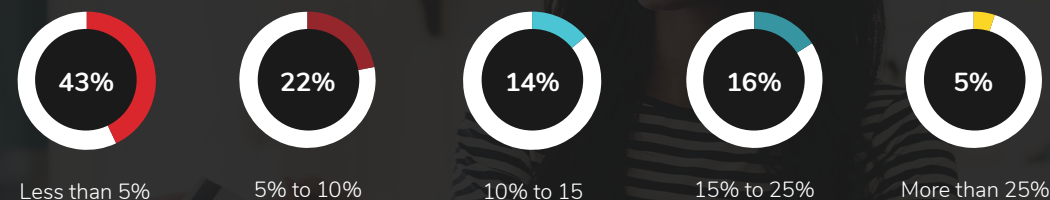
More than half (**51%**) of retailers either have already implemented referral marketing (**37%**) or plan to (**14%**).

Retailers that have invested in referral marketing are reaping the rewards. Because referral programs leverage a retailer's most enthusiastic customers, they can deliver significant increases in revenue and profitability. While **43%** of those operating a referral marketing program involve 5% or less of their customers, these programs generate 5% to 10% of revenues for **22%** of respondents, and 10% to 15% for another **24%** of respondents.

Do you operate a referral marketing program?



If you operate a referral marketing program, what percentage of your customers participate?



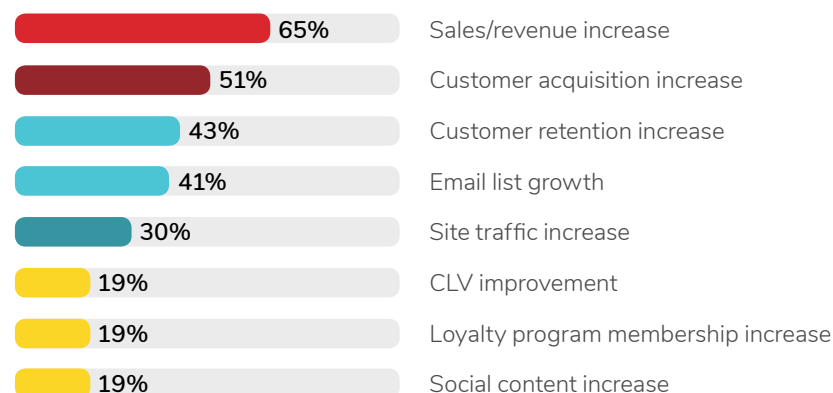
Retailers operating referral programs describe a range of bottom-line benefits:

- **65%** say engaging customer advocates and encouraging referrals produces sales and revenue increases;
- **51%** say the programs increase customer acquisitions;
- **43%** say they boost customer retention; and
- **41%** say they build up the retailer's email list.

Referral programs also can be more cost-effective than other customer acquisition techniques. While the largest group (**54%**) of retailers use the promise of future purchase discounts to encourage referrals, many use non-monetary incentives, including loyalty program points (**32%**), recognition such as a thank-you postcard (**30%**) and VIP perks (**19%**).

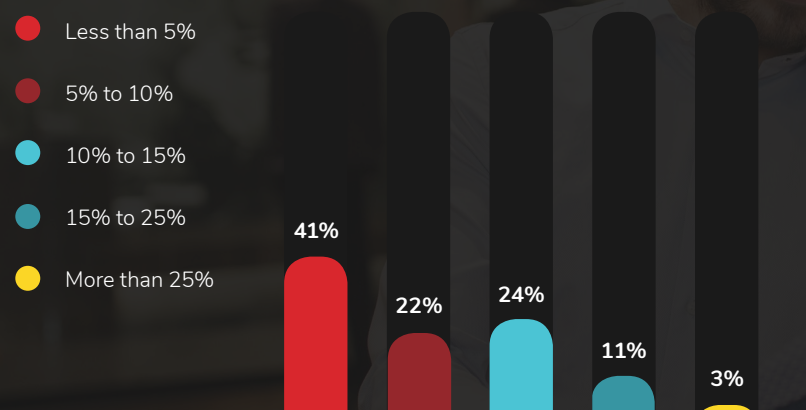
What are your biggest benefits from engaging customer advocates and encouraging referrals?

(Check all that apply)



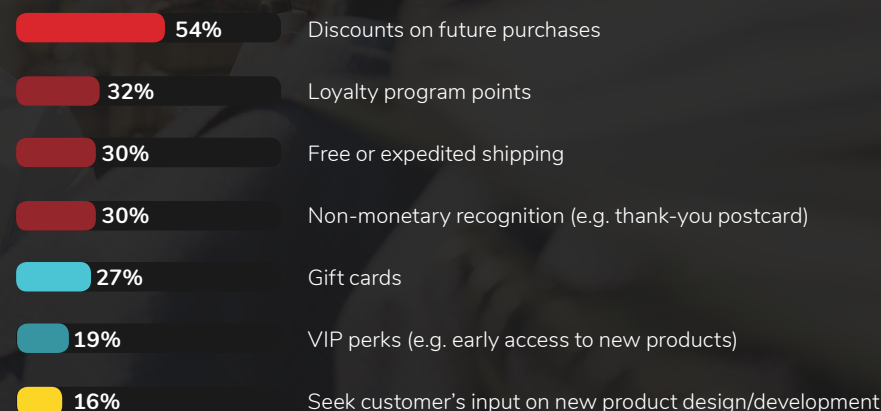
If you operate a referral marketing program, what percentage of your revenue comes from participants?

- Less than 5%
- 5% to 10%
- 10% to 15%
- 15% to 25%
- More than 25%



How do you reward customers who act as brand advocates and refer new customers?

(Check all that apply)



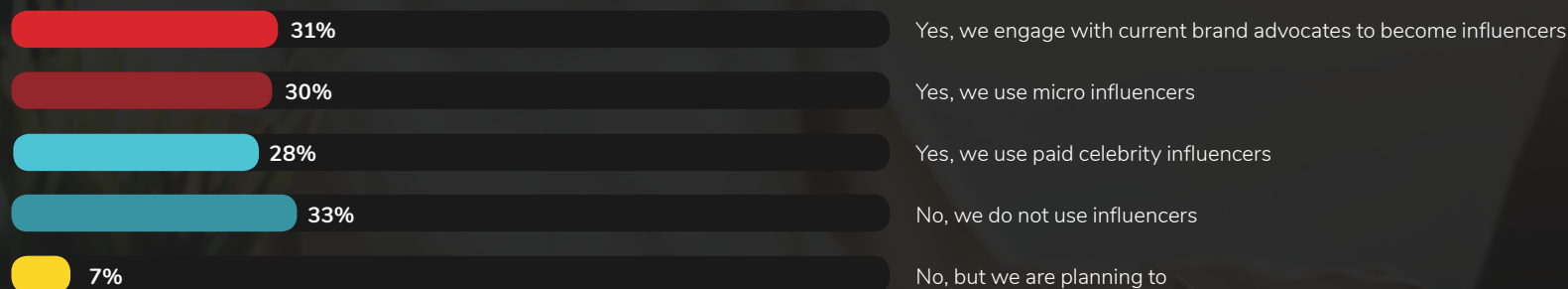
Influencer Marketing Taps The Power Of Brand Advocates

Influencer marketing is on a steep growth path as a key component of customer acquisition and retention. Estimated at **\$500 million** in 2015, influencer programs quadrupled to **\$2 billion** in 2017 and are projected to reach **\$10 billion** by 2020, according to [Bloglovin'](#).

Retailers have jumped on the influencer bandwagon, leveraging their own passionate customers (**31%**) along with celebrity (**28%**) and micro influencers (**30%**). Retailers also are getting creative: for example, [Macy's](#) has turned some of its own employees and stylists into social media brand ambassadors.

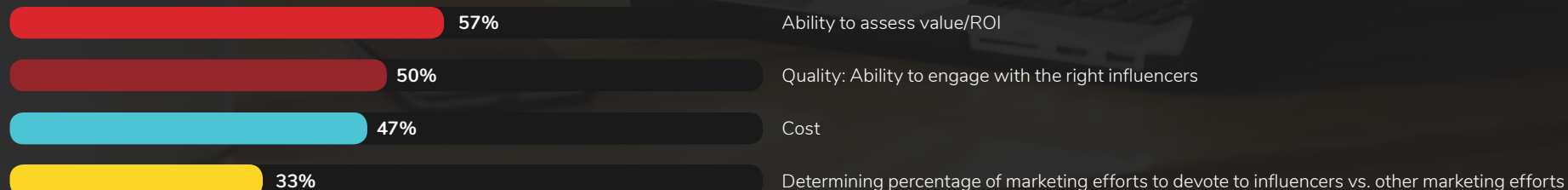
Do you use influencers?

(Check all that apply)



What are your greatest challenges with influencer programs?

(Check all that apply)

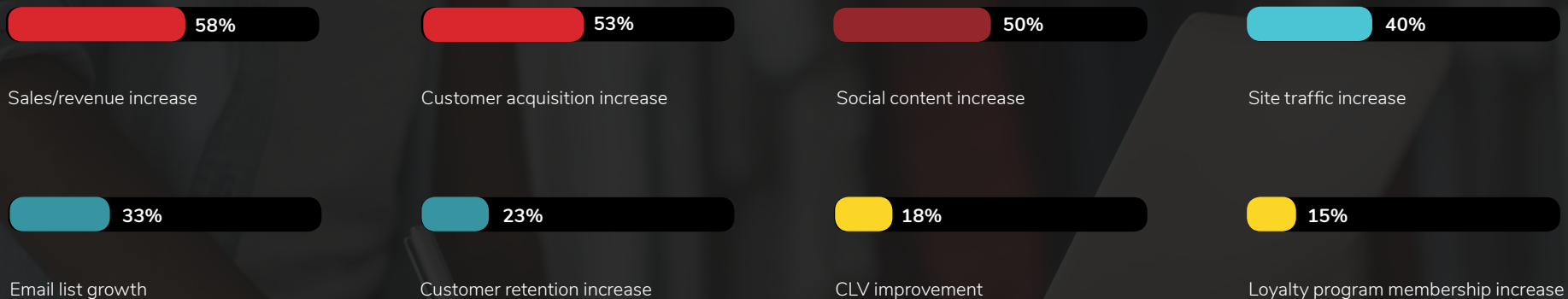


Because influencer marketing is still a relatively new customer acquisition and retention tool, many of retailers' challenges are centered on figuring out how best to use and measure these programs' impact. More than half (**57%**) name the ability to assess value/ROI as a major challenge, and **50%** are concerned about their ability to engage with the right quality influencers. One in three retailers find difficulties in determining what percentage of marketing resources to devote to influencers.

Despite the growing pains, retailers already are seeing multiple benefits from their influencer programs, led by the sales/revenue increases enjoyed by **58%** of respondents. Influencers also are a boon to customer acquisition for **53%** of retailers; additionally, they also boost social content (**50%**) and site traffic (**33%**). Influencers are used less often as a customer retention tool, which is cited as a benefit by only **23%** of retailers.

What are your biggest benefits from using influencers?

(Check all that apply)





How Storytelling And Referral Spurred The Growth Of Genetic Testing Companies

By Matt Roche, CEO, Extole



One of the greatest marketing stories of the past few years is the success of the consumer genetic testing companies. These companies have turned laboratory technologies and techniques into incredibly popular consumer products. They are experiencing real growth and massive cultural awareness. Products that 10 years ago were the province of eggheads in institutions are now a part of the cultural conversation.

But imagine being the head of marketing for one of these companies. Out of the gate, you have a demand challenge. You are not going to solve that problem with email. The subway and bus stop ads adored by the chattering classes would be filtered out like so many prescription drug ads. And search? How are you going to make people search for “Genetic Testing” in any appreciable quantity?

You are not. And they did not.

The marketing secret of the genetic testing explosion has been the story: “Hey, I am 0.5% Yakut Indian!” (yes, that is what my testing showed). Demand has come thanks to customers themselves telling the story. The “13th man” of these brands has been the fans, the fanatics, the everyday customers whose volume has driven volume. It has been the sharing of the story by literally millions of individual customers with tens of millions of their brothers, mothers and significant others.

First off, these brands give their customers a personal story to tell. Your ancestry is almost always interesting. And information about risk factors and proclivities is fascinating.

Second, give them the simplest possible way to tell the story. Automatic custom infographics, maps, charts and convenient share options. Sharing is an integral part of the product: show your ancestry. Invite your family to compare.

Finally, they recognize customers who refer with rewards. Simple sharing and instant rewards motivate people to tell their friends. Any marketer is willing to send money to Facebook and Google for a new customer, it is just one step more to offer something of value to your customer for doing the same thing.

A simpler way to understand this marketing approach is to remember your social verbs: *share, invite, refer*. A customer is someone who transacts. An active customer is one who acts on your behalf, and the actions are share, invite, refer.

The winners in today’s marketing race, like the genetic testing brands, are the ones with the most active customers. They show up at your store events, they write reviews, they tag their friends for you, they refer their friends for you, they tell your story. You win with advocacy, not advertising. But advocacy doesn’t just happen. You make it happen by building it into the customer experience and into your marketing DNA.

An accomplished entrepreneur and executive, Matt Roche is the CEO of [Extole](#), the leading advocate marketing platform. He was the founder and CEO of Offermatica, the industry’s highest-volume landing page optimization and testing platform and one of the first SaaS marketing platforms. It is now known as Adobe Target and serves billions of optimized experiences every week. Roche also was instrumental in the development of Dapper, a leader in Dynamic Creative Optimization solution, which was subsequently acquired by Yahoo!. Early in his career, he co-founded Fort Point Partners, an e-Commerce systems integrator. Roche holds a Bachelor’s Degree from Yale University.

Discounts, Shipping Offers Lead Customer Retention Tactics

When it comes to keeping customers who already are in the fold, retailers rely heavily on discounts: **77%** provide dollars off a purchase as a loyalty enticement, a full **15 percentage** points above the next-most-popular offer, free shipping, at **52%**. Other popular tools, such as gift with purchase (**38%**), influencers (either micro or celebrity, at **33%**), and expedited shipping (**23%**), may help keep customers loyal, but they also have a direct impact on retailers' bottom lines.

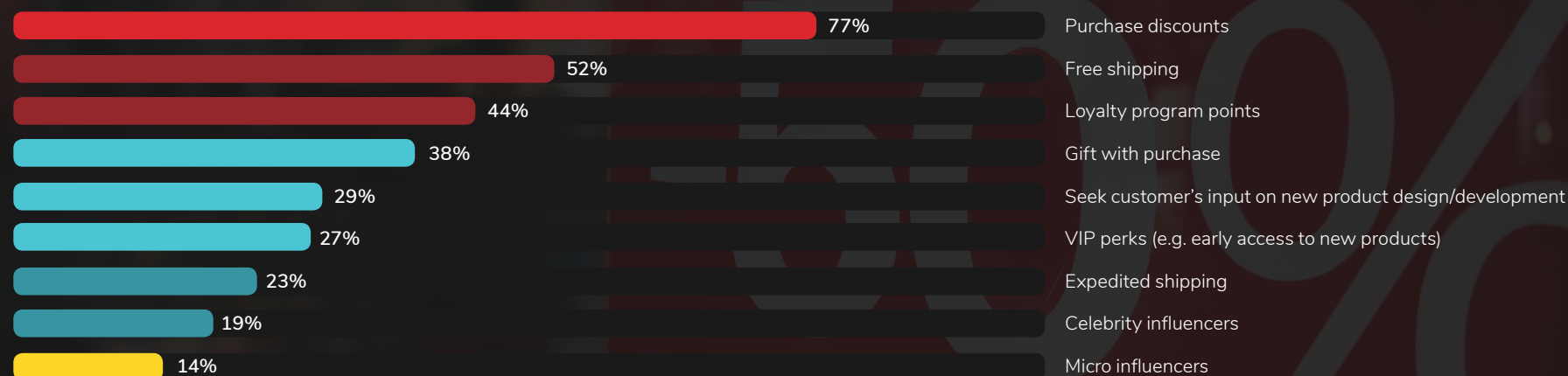
Retailers concerned about their profit margins may want to pump up their use of non-monetary rewards for customer retention, which currently are used by less than one third of retailers: **29%** seek customers' input on new product design and development, and **27%** offer VIP perks such as early access to new products. When programs like this are run well, they stimulate customer engagement and encourage retention by making consumers feel special and engaged, helping to transform moderately valuable customers into more frequent, high-volume shoppers.

Overall, retailers devote similar portions of their marketing budgets to retention as they do to acquisition: a total of **60%** put 30% or less of their budget toward retention efforts. However, only **6%** spend 50% or more of their budget in this area, compared to **17%** for acquisition.

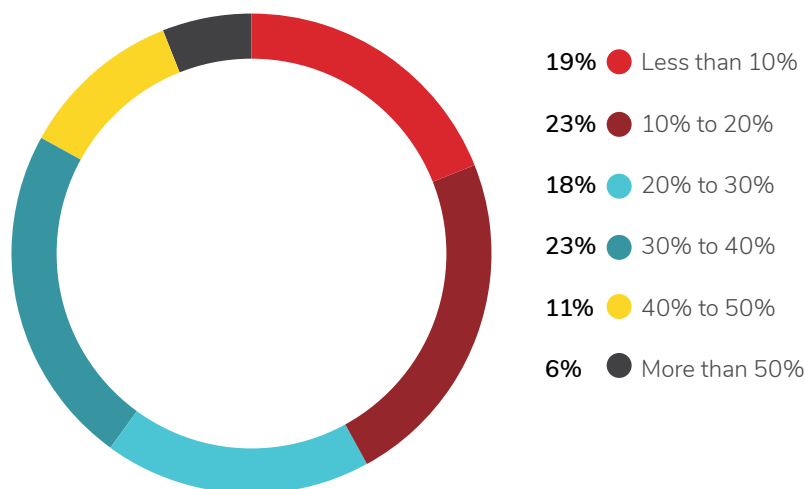
Even with relatively limited budgets devoted exclusively to customer retention, many retail marketers are able to show a significant ROI from their efforts. Nearly half (**49%**) are able to turn 10% to 30% of newly acquired customers into repeat purchasers: **25%** in the 10% to 20% range, and **24%** in the 20% to 30% range. Additionally, a total of **38%** of retailers show success rates of 30% or more: **12%** each for the 30% to 40% and 40% to 50% ranges, with **14%** achieving rates of 50% or greater.

What tools do you use to retain customers?

(Check all that apply)



What percentage of your marketing budget is devoted to customer retention?

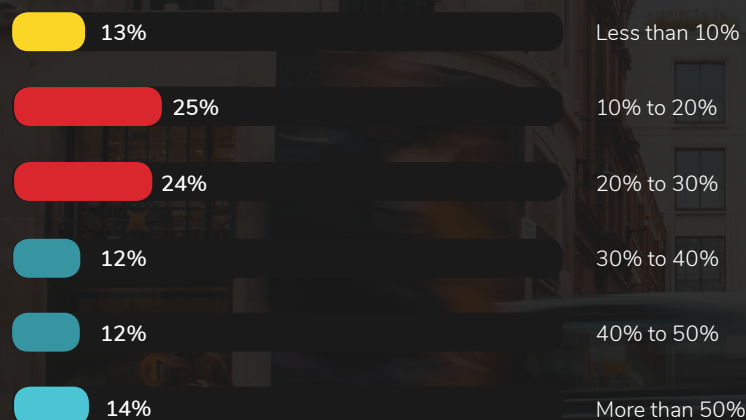


As with customer acquisition, only **10%** of customer retention budgets declined during the past year. However, less than half (**48%**) rose, compared to **58%** that increased for customer acquisition.

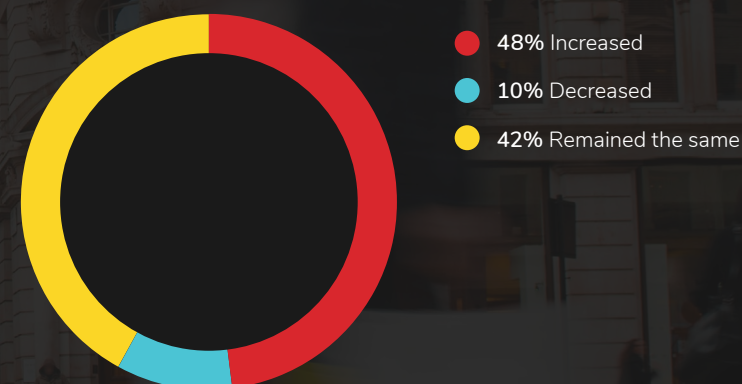
It's likely that these budget priorities are a reflection of the rewards structures within marketing departments, which tend to prize new customer acquisition over old customer retention. Businesses in general focus more on acquisition (**44%**) than retention (**18%**), according to data from [Invesp](#). This imbalance persists despite the fact that it costs **5X** as much to attract a new customer as to keep an existing one, and the probability of selling to an existing customer is **60% to 70%**, compared to **5% to 20%** for a new prospect.

Nevertheless, it's often more impressive for a marketer to show that a campaign brought in 1,000 new customers than to show the purchase activities of 1,000 existing customers — even if the latter group actually accounts for more revenues and creates higher margins.

What percentage of newly acquired customers can you turn into repeat purchasers?



Has your budget for customer retention increased, decreased or stayed the same during the past year?

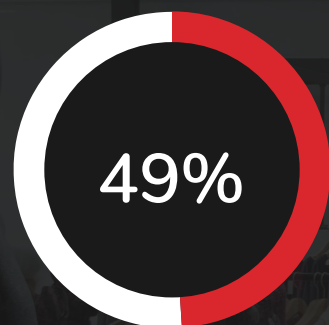


A significant percentage of retailers cite various types of competition as key challenges in driving repeat purchases: **44%** say competition from lower-price competitors is a factor, and **36%** identify losing subsequent sales to marketplaces like Amazon. Many brands are cautious about participating in marketplaces, fearing that Amazon or others will learn about their customer base and its buying patterns, and then provide a private label alternative that can be priced lower than the brand's products.

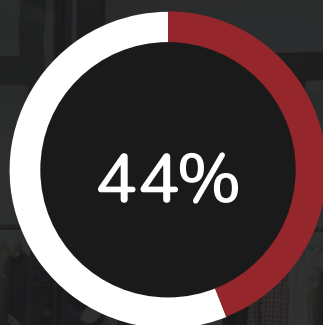
Many retailers, however, cite internal functional limitations as hurdles to converting new acquisitions into repeat customers: **35%** lack customer contact information necessary for retargeting campaigns, and **21%** say their budgets won't cover the costs of these types of campaigns. Given the value that repeat customers provide to a retailer and the costs of acquiring new shoppers, investments in both of these areas would be likely to produce a high ROI for retailers and brands.

What are your biggest challenges in driving repeat purchases?

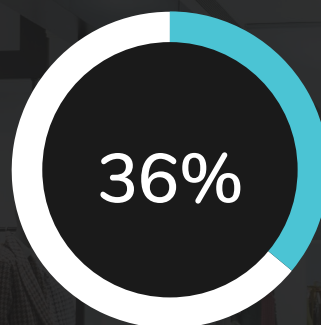
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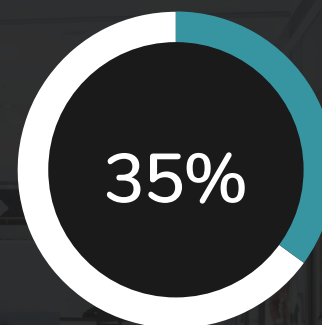
Long purchase cycles for products



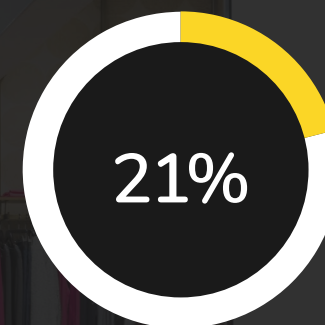
Competition from lower-price competitors



Losing subsequent sales to marketplaces like Amazon



Lack of customer contact information for retargeting



Insufficient budget for retargeting

Are Loyalty Programs An Underused Resource?

Numerous studies have shown the value that loyalty program members bring to an organization. In retail specifically, a 2016 [Accenture Interactive](#) survey revealed that loyalty program members generate **12% to 18%** more revenue than non-members.

Just over half (**51%**) of retailers currently offer a loyalty program, and another **15%** plan to implement one, so the message has been heard loud and clear.

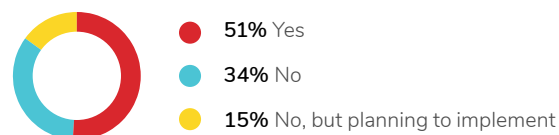
Among retailers that offer loyalty programs, **20%** include less than 10% of their total customer base as members, with **18%** in the 10% to 20% range and **16%** in the 20% to 30% group. But as a rule, loyalty program members account for more revenue than their numbers would indicate. For **25%** of retailers, loyalty program members represent 30% to 40% of their revenues, and for **22%**, members generate 50% or more of retailer revenues.

Retailers have numerous opportunities to enhance the ROI generated from loyalty programs. A good first step is training store associates to encourage members' use of the loyalty program. According to the [Bond Brand Loyalty](#) report:

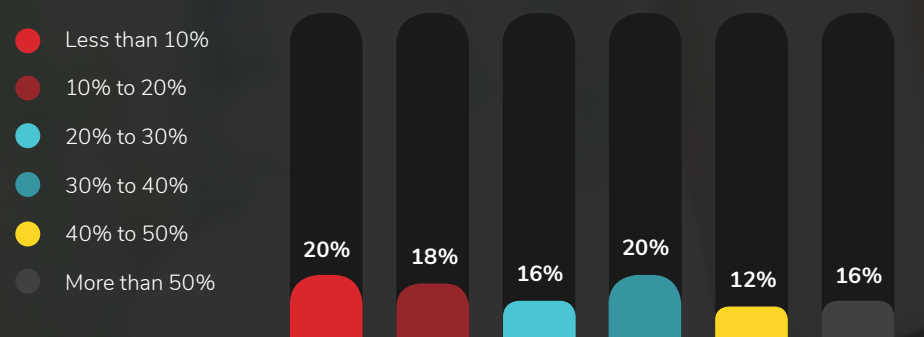
- Only **21%** of members are prompted to use the program by brand representatives;
- **20%** get help to make the most of their relationship; and
- **19%** of members feel special and recognized by brand representatives.

Another missed opportunity is in recognizing redemption activity by members. The top choice, thanking members for redemption or program membership, is performed by just **44%** of respondents, and only **34%** send confirmation emails with redemption details. An equal number, **17%**, keep members informed about delivery progress, and follow up to ask if members are happy with their redemption, and only **9%** ask members to set a new goal.

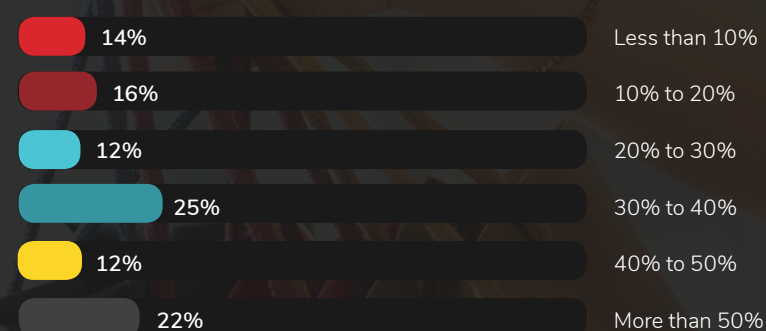
Do you offer a loyalty program?



If you offer a loyalty program, what percentage of your customers are members?



If you offer a loyalty program, what percentage of your revenue comes from members?



Retailers Struggle To Find Relevant Marketing Metrics

While retailers have become increasingly sophisticated in the areas of both customer acquisition and retention, it appears that their ability to **measure the impact** of these efforts has lagged. Only **26%** of retailers use Customer Lifetime Value (CLV) to calculate how much of a financial investment should be made in retention efforts, although **33%** of respondents are planning to do so.

In addition to making marketing more effective, using CLV can have a positive impact throughout the enterprise, in areas including advertising, promotions, financials, R&D, sourcing and product design, according to Peter Fader, the Frances and Pei-Yuan Professor of Marketing at The Wharton School, who spoke at the recent [Sourcing Journal Summit](#).

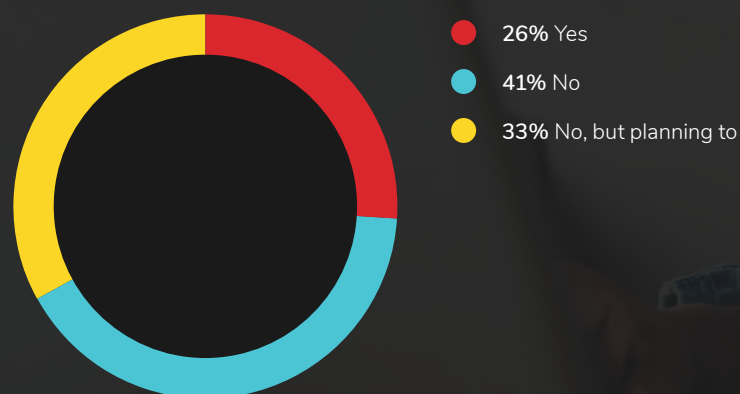
"The differences [between customers] are staring us in the face," said Fader. "And not only are customers vastly different from each other, but their lifetime value varies by orders of magnitude."

"If you can come up with a lifetime value measurement, it's like a number shining over each customer's head," Fader added. Making greater use of CLV can shift a company's entire goal structure, he noted: "Rather than focusing on product, you would want to **figure out what you could do for these really valuable customers**. What products and services should you offer to enhance the value of those customers, and to find more customers like them?"

Retailers' hesitation about making greater use of CLV may stem from the fact that they have not settled on which factors should go into their calculations. Retailers use multiple metrics to determine CLV, with the most popular being customer demographics (**54%**), email open rates (**50%**), social media activity (**49%**) and acquisition channel/method (**44%**).

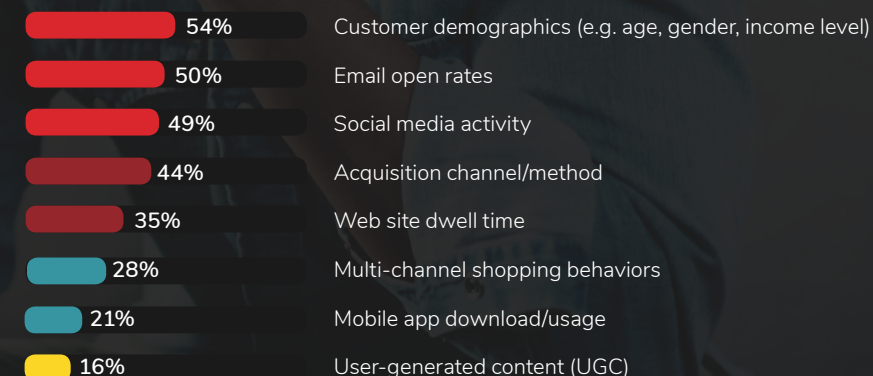
Many types of businesses face hurdles in calculating CLV, according to [Invesp](#). While **76%** of companies see CLV as an important concept, only **42%** are able to measure it accurately.

Do you use CLV to calculate financial investment in retention efforts?



Beyond recency, frequency and spend, which metrics do you use to define CLV?

(Check all that apply)



Another area where measurement tools have not kept up with the omnichannel nature of retailing today is attribution models. Shopper journeys now routinely involve multiple steps, from online research to in-store visits (and sometimes back to online), so determining which advertisement, promotion or interaction pushed the shopper towards a transaction is critical. However, **26%** of retailers don't measure attribution at all, and the same percentage focus solely on last-touch attribution.

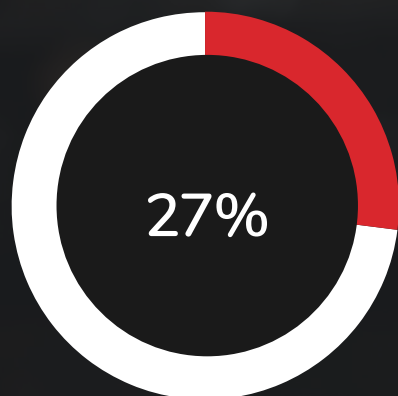
"Last click attribution is not the way to manage a business," said Charlie Cole, Global Chief eCommerce Officer at **Samsonite** and Chief Digital Officer at **TUMI**, during a session at the [2017 Retail Innovation Conference](#). "Attribution — at its core — is understanding how to market your brand on more than a last click basis."

Cole identified three data tools that he uses at TUMI to determine attribution that more closely matches the shopper journey:

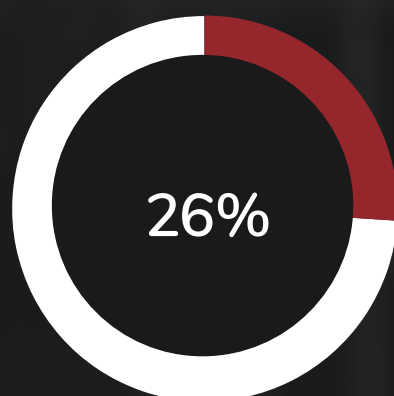
- **Google Analytics**. A free model comparison tool and a good starting point;
- **DSP, or Demand Side Platform**, which allows marketers to buy advertising around a range of publishers; and
- **DMP, or Data Management Platform**, which allows for de-duplication of devices, pulls in first- and third-party data and layers in attribution metrics.

Operating without multi-touch attribution leads to wasted marketing dollars and a lack of resources for new methods that could yield better results for both customer acquisition and retention. "We do this in retail without a second thought and we do it in a way that we don't expect accountability," said Cole. "But when we talk about attribution in a modern day world, accountability has to be expected. More importantly, it has to be demanded."

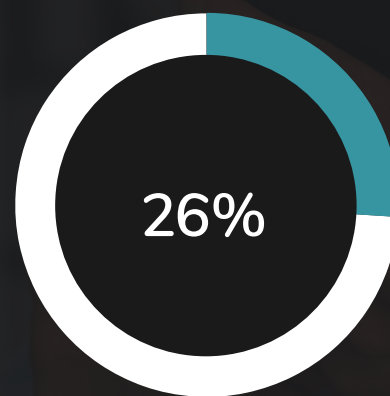
Do you use multi-touch attribution models to measure customer value?



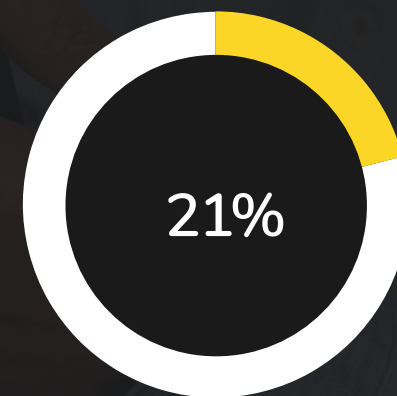
Yes



No, we just focus on last-touch attribution



No, we aren't measuring attribution



No, but planning to

Achieving The Optimal Balance Between Acquisition And Retention

While acquisition and retention initiatives often compete for marketing resources, they also share a common goal: maximizing the value of as many customers as possible. It's become a cliché to say that retailers need to be customer-centric, but clichés almost always contain a kernel of truth. Ideally, acquisition and retention strategies will be additive rather than simply competitive, with retailers using the wide range of available tools to meet today's business requirements while preparing for future needs.

Key takeaways from this first Retail TouchPoints Customer Acquisition and Retention Benchmark Survey include:

- Digital outreach strategies, including **social networks**, **email**, **online ads** and **paid and organic search**, are retailers' top choices for customer acquisition;
- **Referral/advocacy marketing** succeeds by combining both acquisition and retention, using satisfied current customers as brand advocates to bring in new shoppers;
- Influencer marketing is **growing quickly**, but many retailers are still struggling with ways to accurately measure its impact;
- Retailers rely heavily on monetary promotions to drive customer retention, but to improve their bottom line they should explore **non-monetary ways to recognize loyal customers**;
- Use of more sophisticated tools for measuring the impact of marketing initiatives, such as **CLV** and **multi-touch attribution**, is currently low but on the rise; and
- Marketers credit both acquisition and retention strategies with a number of **bottom-line benefits**, including increasing sales and revenue, boosting social content and growing both email lists and web site traffic.



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