

CUSTOM

RETAIL
CUSTOMER
METRICS

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layers like Amazon are transforming the retail industry. Those that survive (and thrive) are the ones that focus relentlessly on the customer. Successful marketing teams obsess about customer Key Performance Indicators in the boardroom and they've organized their teams and technology to be able to focus on customer goals like boosting the 1-2x buyer rate and preventing churn.

To understand which customer KPIs have the greatest impact, we examined five drivers of growth from over 100 of our retail customers (over 500 million end customers and 150 billion dollars in annual transaction volume) and uncovered the metrics that matter.

The findings? Customer acquisition is a reliable but inefficient way of driving top-line growth. The savviest retailers are focusing on increasing the engagement of their customers while they're active—a strategy that, point for point, drives three times the growth of acquisition. In this report, we'll share the metrics that drive growth and tactics to improve upon each.

INTRODUCTION

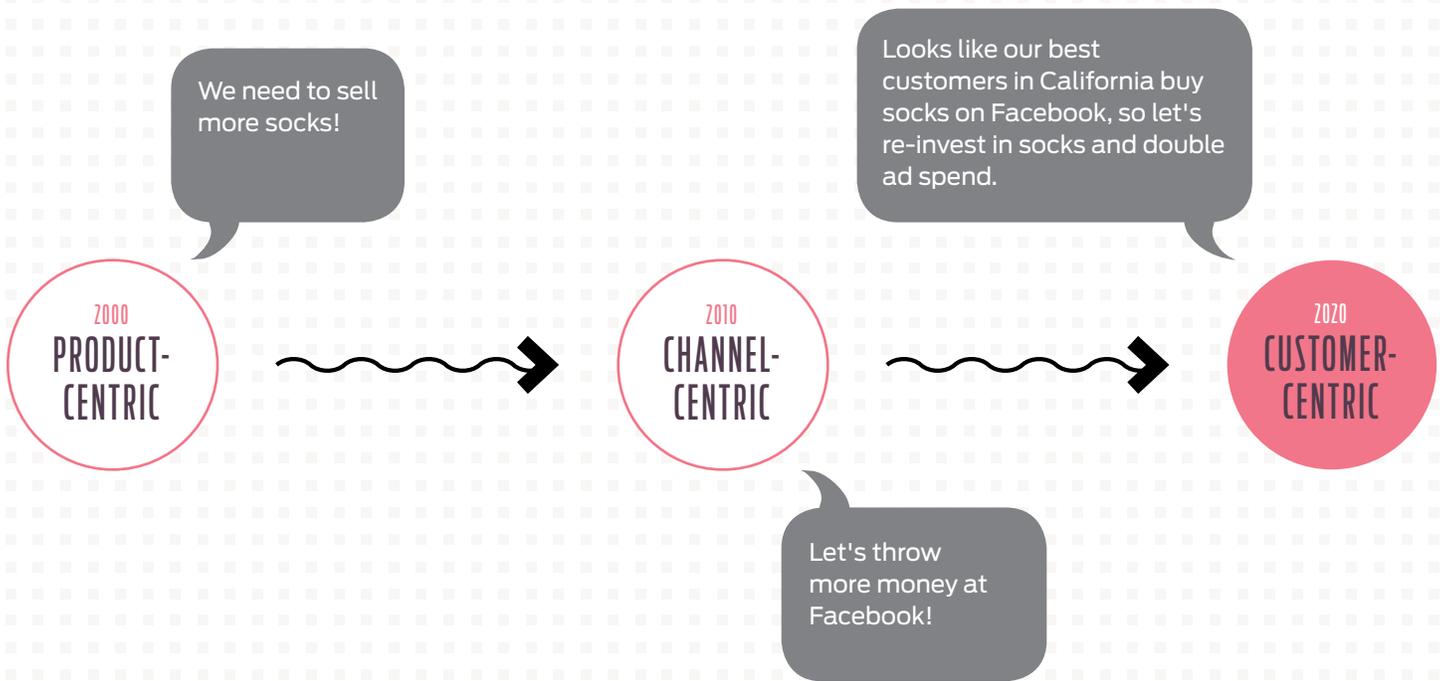
How marketers are driving value

Wherever we turn for retail news, we hear the refrain "Retail Apocalypse!" Many traditional retail stores are closing, while disruptors like Amazon and fast-fashion brands are growing and taking market share. Across Custora's customer base, year-over-year (2017-2018) revenue grew 17.2% (Not too shabby.)

We work with over 100 retailers in industries ranging from footwear to jewelry and home goods—from Bonobos to J. Crew, Uniqlo, Tiffany & Co, and The Vitamin Shoppe. Our software helps marketers surface customer insights, build predictive segments, and export customer profiles into marketing channel tools, ultimately growing customer lifetime value.

→ **17.2%**

Custora's year-over-year customer base revenue growth (2016-2017)



We were interested to uncover what was driving retail growth; specifically, what retail marketers were doing to increase sales. We're always extolling the virtues of putting data to work, so we decided to practice what we preach by examining the customer-centric drivers of growth. Over the past few years, retail organizations have begun shifting from a product-driven

mindset, e.g. "How many socks did we sell last week?" and channel-driven mindset, "How many people clicked our email this week?" to a more customer-centric mindset. "How many one-time buyers are we converting? How many customers are predicted to churn this week? What is the lifetime value of our customers?"

In this report, we'll examine the following five customer-centric Key Performance Indicators. These KPIs are the single most important source of visibility into how your marketing strategies are creating and retaining customer value.

Customer acquisition

The number of new customers a retailer acquired over the course of a year. This KPI allows retailers to benchmark how successfully they drove new customers to purchase from their brand.

Average order value (AOV)

The average basket size. This metric is calculated by dividing a retailer's revenue by the number of orders over the course of a year.

Order frequency

The average number of orders per transacting customer over the course of the year.

Retention rate

The number of customers who made a purchase over two consecutive years. A customer who has made a purchase over two consecutive years is generally assumed to have been "retained."

Reactivation rate

The number of customers who transacted after more than a year of not transacting. These customers are generally assumed to have been lost and then "reactivated."

We hope this research will help marketing leaders prioritize the customer metrics that matter most for driving growth and that we can turn this retail apocalypse into a retail resurgence.

Corey Pierson

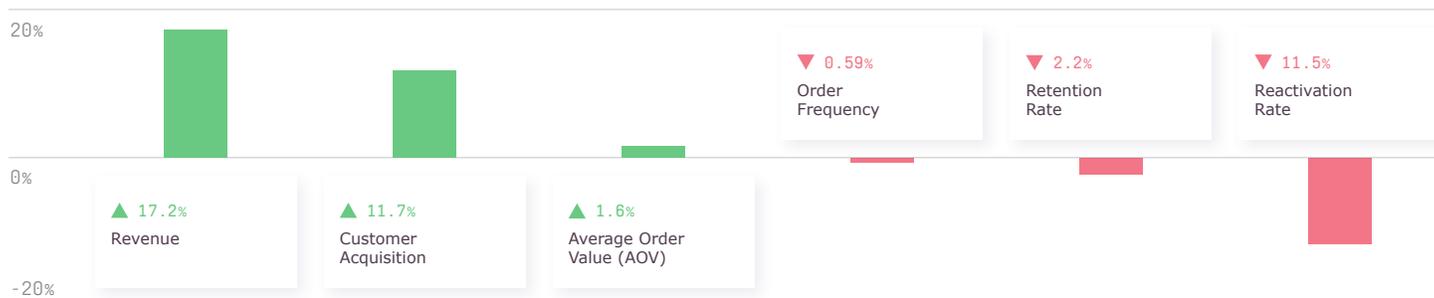
CEO, Custora

What's driving retail growth?

To uncover the KPIs driving retail growth, we first looked at revenue and the growth of five metrics year-over-year for Custora's retail customers. The data showed that revenue increased 17.2% on average, with customer acquisition

and average order value also increasing. Of the five metrics we tracked, retailers were most successful at growing the number of new customers and least successful at reactivating lost customers.

CUSTOMER-CENTRIC KPIs, YOY (2016 - 2017)





Yet don't be deceived by these results—retailers may have been most successful at acquiring new customers, but this doesn't mean acquisition is the most efficient way to drive growth. We dug deeper to understand the relationship between each of these metrics individually against growth rate. We found that each of these drivers is positively correlated with growth: focusing on any one of them is good for your business—there's no question about it.

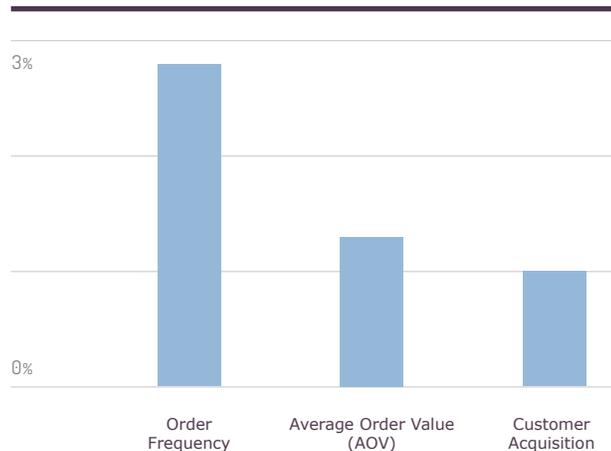
However, we wanted to understand how to think about tradeoffs. What's the unique contribution of each of them when we factor in that some of these drivers might be correlated with each other? To figure it out, we performed a multivariate analysis. A multivariate analysis helps us pinpoint the unique explanatory value of each of these factors—bearing in mind that some of them might tend to move together.

Creating new engagement opportunities is the fastest path to growth

Our analysis uncovered that of all five drivers, order frequency was the most efficient driver of growth, offering the biggest bang for every marketing buck. Increasing order frequency is the most efficient way to drive revenue growth.

For every 1% increase in order frequency, there's a resulting 2.8 point increase in revenue.

IMPACT ON REVENUE PER 1% IMPROVEMENT



Average order value and customer acquisition are also reliable ways of driving revenue. There's a 1.3 point growth in revenue for every 1% increase in AOV, and a 1 point growth in revenue for every 1% increase in customer acquisition. Interestingly, both retention rate and reactivation rate had no effect on revenue growth.

So what does it all mean?

It's not enough to simply lure lapsed customers back with steep discounts; retailers need to re-educate them on the brand's value proposition and re-build the relationship.



Order frequency and average order value are both retention metrics and are the two most effective drivers of growth. Yet the two other retention metrics, retention and reactivation rate, had no effect on revenue growth. This tells us that getting a lapsed customer to come back and make a single purchase isn't enough. In

order to drive growth, marketers need customers to meaningfully re-engage to become repeat purchasers. This is a powerful message for retailers. It's not enough to simply lure lapsed customers back with steep discounts; retailers need to re-educate customers on their value proposition and rebuild the relationship with them.

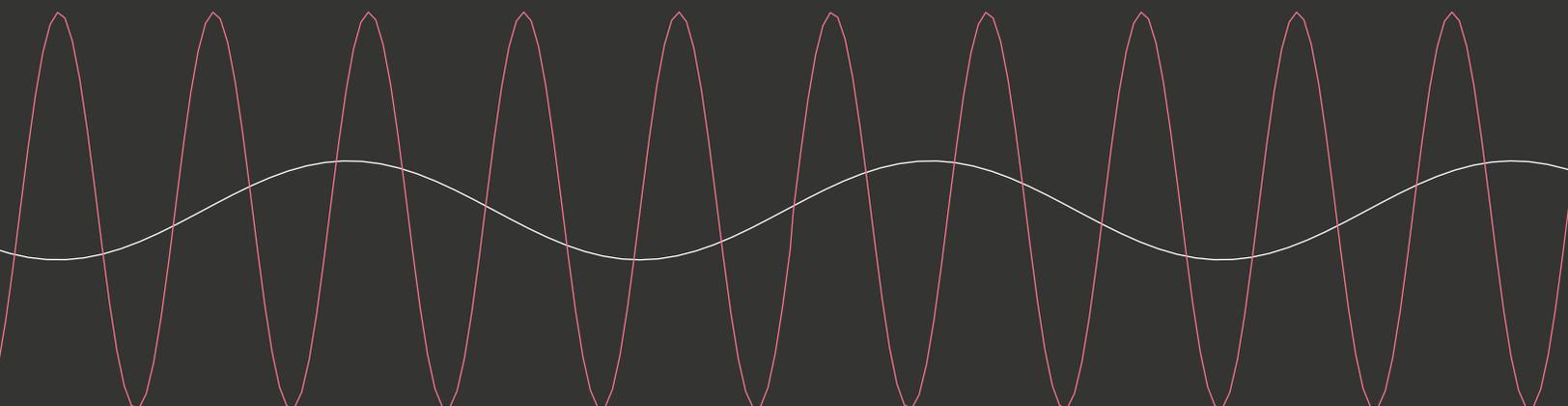
Kelly Goldston, VP of Marketing at fast-fashion brand ELOQUII, experienced this phenomenon firsthand.

“We wanted to know why customers churn, but waiting till they’re already gone results in low response rates. When we emailed our churned customers to ask for feedback, we had around half a percent response rate. So instead, we used predictive models to show us when people are exhibiting signs of churn when we still had an opportunity to talk to them. We got 2,000 responses, divided them among the organization, and we personally emailed them all and got detailed feedback. Based on that feedback, we actually changed the way we fit our garments.”

Phil Irvine, Director of CRM at the Bouqs also recognizes the importance of keeping customers engaged.

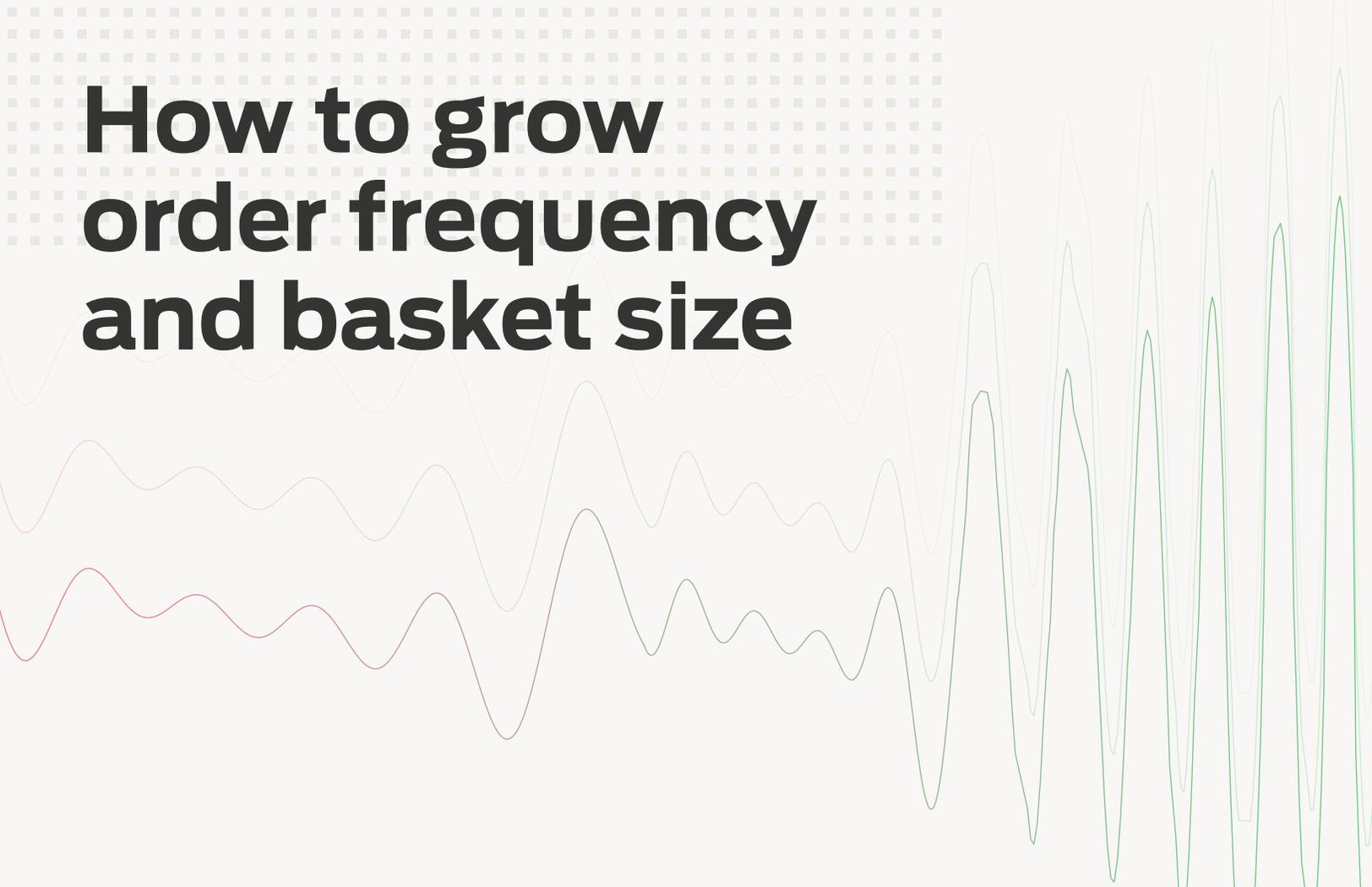
“This recent finding that order frequency is the most efficient method to drive growth is definitely in line with our strategy here at the Bouqs.

“We conducted an internal analysis analyzing differences in shopping behaviors between our best and average customers recently, and **order frequency was one of the top behaviors that differentiated these two cohorts.”**



In our industry we often encounter impulse buyers who purchase flowers for one-off special moments (Valentine's Day/Mother's Day), and then we don't hear from them again until the same event comes up the following year. A large portion of our efforts are geared around getting these customers to think of us as their primary gifting option, and aligning targeted efforts and offers to influence this desired purchase behavior.”

How to grow order frequency and basket size



Now that we've determined that shortening inter-purchase time is the key to growth, what strategies can marketers employ to increase retention of active customers? We believe the answer lies in unlocking the value of customer data. Software tools like Custora allow retailers to surface insights and build predictive segments to create more meaningful marketing communications with their customers.

Here are a few segmentation strategies for cultivating loyal customers:

ONE-TIME BUYER TRIGGERS

VIP CAMPAIGNS

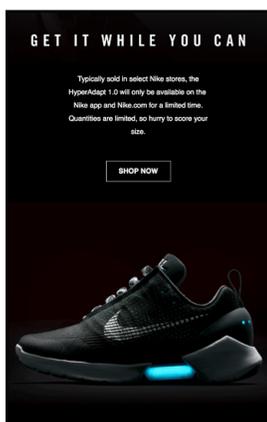
DAILY EMAIL PERSONALIZATION

ONE-TIME BUYER TRIGGERS

The 'one time buyer problem' is one of the biggest challenges retailers face—so tough, [we wrote a book on it](#). The majority of shoppers make one purchase and never come back. That "honeymoon" period just after a customer makes her first purchase is a particularly crucial time for cementing the relationship. It's when the customer is still forming an impression of the brand—getting to know the retailer and determining how the brand fits with her values and her life.

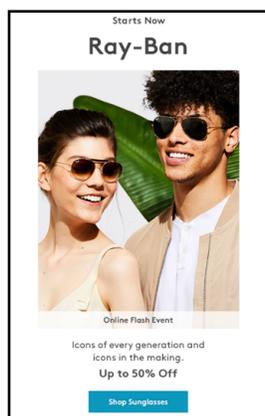
Algorithms like "k-means clustering" can help sift through large volumes of data to uncover hidden patterns—for example, customers who have similar interests or tend to purchase similar types of products. These analytic approaches can help sort even brand new customers into known clusters or "series" based on leading indicators of purchase behavior.

Here are some of the dimensions on which the marketing team might feel empowered to tailor its messaging:



Leading Message / Proposition

Do we emphasize our brand's convenience, high-fashion credentials, or affordability?



Merchandise Assortment

What types of products or brands should we showcase?



Look and Feel

Obviously all marketing communications should appropriately reflect the brand. But within those constraints, how can we tailor the imagery and messaging? Perhaps one version is approachable, another aspirational, and another whimsical.

Another meaningful segmentation dimension is value segmentation—breaking your customer base into tiers based on their spend (or predicted future spend). VIP cultivation is an essential initiative to grow the lifetime value of high potential customers—customers who have demonstrated a predictive propensity to spend a lot with the brand and go on to be among the most value contributors to the top and bottom line.

One brand that's done a great job communicating their appreciation for these customers is plus-size fast-fashion brand ELOQUII. They identify early risers—customers who may have just made their first purchase, but based on what we know about them, have an affinity to keep engaging with the brand long-term.

ELOQUII systematically rewards these customers for their loyalty with meaningful rewards—early access to sales and events. They've seen a higher response rate, increased engagement and increased order frequency during both the early access period and the actual event period.

Making efforts to reward customers who are likely to stick around for the long run and drive a lot of value **doesn't always require discounts.**

***IT'S ALL ABOUT
SHOWING CUSTOMERS
THE*** 

DAILY EMAIL PERSONALIZATION

Another strategy for cultivating loyal customers is daily email personalization—using a customer’s historical and predicted preferences to create email experiences tailored to their category and product preferences. 83% of consumers want personalization, yet only 29% think retailers are doing a good job. Data fragmentation sits at the core of this issue. Tools like Custora help collate all your customer data, enrich it with predictive insights, and then allow you to clone these customer attributes and insights across every tool in your marketing stack.

One of Custora’s customers, a West Coast fashion retailer, saw a 1.5% overall lift in revenue for the entire business after powering emails with predictive user insights. And because experiences are constantly evolving based on predicted future behavior, the results are showing no signs of fatigue.

In this report, we examined five customer-centric KPIs—customer acquisition, average order value, order frequency, retention rate, and reactivation rate. Customer-centric KPIs are the single most important source of visibility into how your marketing strategies are creating and retaining customer value.

CUSTOMER-CENTRIC KPIs ARE THE SINGLE MOST IMPORTANT SOURCE OF VISIBILITY.

While many brands focus on acquisition and winback strategies, they may be missing the most efficient way to drive revenue growth—a re-engagement strategy while customers are active. Creating new engagement opportunities by shortening inter-purchase time is the fastest path to growth, and with the amount of customer data available to retailers today, retailers have more visibility than ever into how their marketing strategies are creating customer value.

The key to fundamentally transforming customer economics is to cultivate long-term relationships with customers from the moment they first engage with the brand and to step in with the right message when they show signs of fading away. The first step to achieving this goal is to begin tracking customer metrics, such as 1-2x buyer rate and customer lifetime value. Once these benchmarks are in place, marketers need to use the insights gleaned from customer data—such as “who are our VIP customers?” or “Who has an affinity for bell bottom jeans?” to create a meaningful experience, and keep customers coming back for more.

ABOUT CUSTORA

Custora is a business-to-consumer CRM activation platform built to help marketers leverage customer data across marketing systems and tools.

First, Custora connects to all your customer data and uses predictive analytics to surface individual customer insights. Custora then provides marketers direct access to build segments, answer complex customer-centric questions, and stream user-level insights across any marketing channel.

More than one hundred leading retail brands, and 7 of the 20 largest US retailers, use Custora to acquire and retain valuable customers and improve customer lifetime value. For more information, visit custora.com.



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