



Creating Greater Revenues Through Retention

Or, how to make more with less

by Erica S. Thomsen

Abstract:

"Creating Greater Revenue Through Retention" seeks to demonstrate the power of reallocating a portion of an acquisition budget to retention and the subsequent improved revenue and improved profit margins on that revenue. It also seeks to educate the reader on the effectiveness of an online marketing retention strategy and the basic steps needed to implement such a strategy.

Everyone understands that as a company, you need customers to make money. Billions of dollars are spent every year on acquiring new customers. The amounts spent in this worthwhile endeavor range from millions spent on 30 second Super Bowl ads to thousands on print ads to a couple hundred dollars spent on placing banner ads on the Internet. The intent is to gain market share by attracting more customers, which of course leads to increasing revenue.

In the retail sector of companies acquiring customers through online methods, which are generally less expensive than traditional print and radio/television ads, the cost of acquiring a new retail customer ranges from \$14 to \$55 per customer (Source: Shop.org, Boston Consulting Group, May 2001.)

Customer Acquisition Costs and Online Experience for B2C eCommerce Retailers, by Channel, 2001

		Web-based top performers (1)	Catalog-based companies	Store-based companies	All web-based companies	All companies
Relationship marketing	Acquisition cost	\$14	\$14	\$34	\$55	\$29

Note: (1) Average performance for the top 50% of web-based retailers on each individual metric. (2) Excludes travel, event tickets, automotive referrals, and auctions.
 Source: Shop.org, Boston Consulting Group, May 2001

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An often overlooked strategy for increasing revenues is customer retention. Repeat sales, up-sell, cross-sell and viral marketing are ways to not only build customer loyalty, but to increase revenues without as great an increase in your company's expenses as straight acquisition strategies. Based on the survey cited above, the same retailers found that by spending from \$6 to \$24 on retention, **half what they spent on acquiring new customers, these repeat customers accounted for 34%-55% of their company revenue.**

Customer Acquisition Costs and Online Experience for B2C eCommerce Retailers, by Channel, 2001

		Web-based top performers (1)	Catalog-based companies	Store-based companies	All web-based companies	All companies
Relationship marketing	Acquisition cost	\$14	\$14	\$34	\$55	\$29
	Revenue from repeat buyers	55%	40%	34%	42%	40%
	Retention cost	\$6	\$8	\$16	\$24	\$13

Note: (1) Average performance for the top 50% of web-based retailers on each individual metric. (2) Excludes travel, event tickets, automotive referrals, and auctions.
 Source: Shop.org, Boston Consulting Group, May 2001

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So what does that mean to your company?

Let's take a look at the numbers for "All Companies." If a new customer cost \$29 to acquire and a repeat customer costs \$13 to retain and you sell them both your \$30 widget, your company has made \$1 from the new customer and \$17 from the repeat customer.

Companies will always need to acquire more customers, as natural turnover exists. However, by re-budgeting a portion of marketing funds from acquisition to retention, most companies will see a greater return on investment (ROI.) Especially when the retention strategy is based in online tactics, companies find the ROI to be significant.

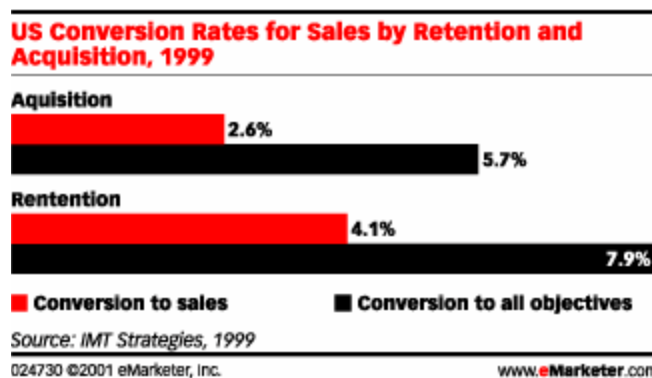
Isn't this the same as e-commerce?

Online retention strategies should not be confused with e-commerce. You may never need to have your customer complete an online sales transaction. For example, a restaurant may use its online retention strategy to entice patrons to visit more often, or take advantage of catering specials – which makes e-commerce not necessary for this situation. Other companies may find that a retention marketing strategy fits in beautifully with their existing e-commerce system. Online retention strategies are flexible and can stand on their own, independent from e-commerce.

Retention vs. acquisition

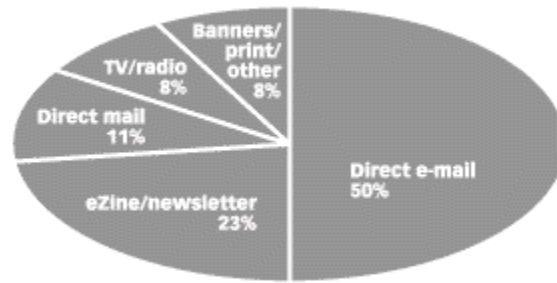
One lesson that tends to quickly stand out once companies begin to shift some of their focus to retention strategies is this: Existing customers are more likely to purchase your products and services.

According to IMT Strategies in 1999, sales conversion rates for retention strategies were almost double those for acquisition.



So what should your online strategy be for increasing customer retention, and subsequently revenues? It should be designed to fit your needs and your customers' needs. The most cost-effective way to do this is with email, specifically, permission based email. Not only are customers more responsive to permission-based email, current technology gives your company the ability to reach each of your customers on a personal level with messages targeted just to them, something that can't be done with direct mail, print ads or SPAM (unsolicited commercial email.)

Most Responsive Marketing Methods Worldwide, 2001 (as a % of media buyers)



Source: Opt-in News, 2001

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People like to receive relevant email and the response difference between untargeted messages and targeted noted below in the study by e2 Communications in 2000. They found response rates for targeted email three times greater than those untargeted.

Targeted eMails Improve Response Rate, 1998 & 1999



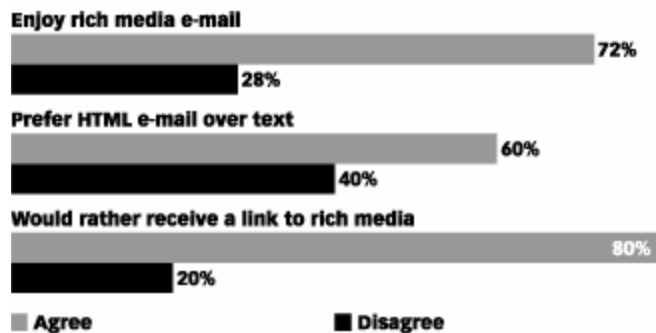
Source: e2 Communications, 2000

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Email also gives your company to be creative to the degree that your customers support. For example, rich media emails can display an exciting canvas to proliferate your company's brand and message while offering information relevant to your customer in an interesting manner. Not all of your customers can support media rich email or want to, and with email you can alter the presentation of the content based on each customer's preferences.

US Online Consumers' Attitudes Towards eMail Rich Media and HTML Content, March 2001 (as a % of respondents)



Source: Valentine Radford, 2001

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So how do you start an online retention strategy?

First things first: devise your *Privacy Policy*. It is of utmost important that your customers know the information they give you is protected and will not be sold to any third parties. Then follow it completely and constantly.

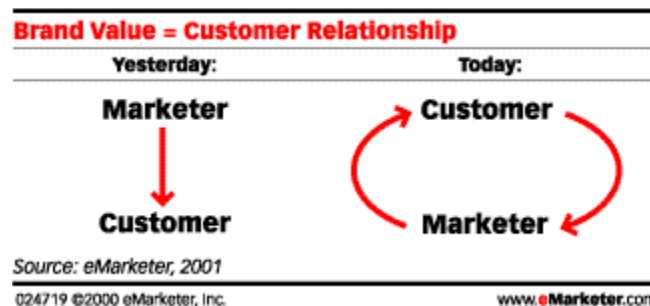
Decide **what you can offer to your customer base that is relevant** to them. It may be as simple as a local florist sending out email reminders of birthdays and anniversaries, or more complex – such as offering content based on a customer’s interest, buying history and stated preferences. In this example, the florist could include what the customer sent for his mother’s birthday last year and offer suggestions on arrangements in his price range that do not include plush toys (because the customer’s profile states that his mother doesn’t like them) in the email reminder the customer receives. The decisions you make in determining what you have to offer will be the base for the database design that holds the profile information you’ll be collecting on an on-going basis.

Next you begin to *convert your offline customers* by gaining their permission and collecting their email addresses. There are many methods for collecting the information you need, and they should be applied to best match your company’s needs.

If you already have online customers, you identify which ones you have permission to send messages to and use industry proven methods to convert as many as possible to *permission-based customers*.

Your next step - make sure your customers have an *easy and simple way to change their profile* information. Email addresses change, preferences change. The customer that cannot easily update their information or change preferences such as frequency will not hesitate to withdraw their permission.

Once you have the Privacy Policy, determined what you have to offer the customers, the database of permission-based profiles and an interface to allow customers to update their profile, you are ready to begin exciting, revenue sharing stage of *sending relevant and personalized permission-based emails*.



Now that you have them, how do you keep them wanting more?

There are many ways to keep your customers interested and the strategy for ongoing maintenance of your online strategy is even more important than the starting of it.

An experienced *Email Marketing Expert* can help you create the best ongoing maintenance strategy for your company. Many of these experts have already learned the methods that work best for different situations and how to compensate when you aren’t getting the results you want. Their

knowledge can keep companies from making costly novice mistakes and alienating customers, in addition to offering sophisticated strategies for optimum email marketing results.

Even with the experts, however, your company will have to continue to *offer fresh content* to customers, whether it's new product information, discounts on existing products and complimentary services or content that showcases other aspects of your company.

Give the customers what they want. Ask them – incorporate feedback surveys into communications and use the feedback to improve your content offering.

Be as *personalized* in the messages as possible. Let the customer know that the message you are sending is just for them with more than a “Dear Bob.” Use the information you have received from the customer to send them *messages that are relevant to them*. Include content that is based on their interest or buying history (or both!)

What do you do if they leave?

Attrition is part of the natural order. Some customers will leave. If they do decide to withdraw permission, respect their decision. Do not send them any email once the permission is withdrawn under any circumstances. This includes “Why did you unsubscribe?” emails. Once a customer lets you know they no longer want to receive email from you, anything you send after that is considered SPAM, no matter how good your company's intentions may be.

Since your retention strategy has most likely been funded by reallocating a small portion of the funds previously budgeted for acquisition, chances are your acquisition strategy is still bringing in new customers. Make sure that as you acquire new customers you collect their permission and email address across all your sales channels, since these new customers will then be eligible for repeat customer status.

What are the types of systems available for online strategies?

If your company doesn't have experience with online marketing, or the resources to devote to the technical aspects of preparing and maintaining the technology, you may want to consider outsourcing your online strategy. There are basically three different levels available, depending on the amount you are comfortable outsourcing:

- 1) Fully integrated systems: these are added to your existing technology and can be administered by a third party or your own company;
- 2) Partially integrated systems: these systems tend to be administered by the third party; and
- 3) Non-integrated systems: these systems are usually hosted and administered by the third party and your data is collected and protected by the third party.

Who can help a company develop an effective online retention strategy?

Blue Steel Software, LLC believes that an effective online strategy can do more for your company's revenues, dollar for dollar, than anything else currently available.

We offer a system to send highly personalized and relevant email marketing messages to your customers. The system can be fully or partially integrated into your existing ODBC compliant data-

base, or used as a stand-alone system with its own database. It is designed to work in conjunction with existing CRM products, so that our powerful tools can be used to compliment your existing customer relationship management software.

Blue Steel Software also offers consulting services to assist companies in determining their online marketing strategies, development of content, and presentation of content.

Blue Steel Software employs veterans of the Internet Industry with years of experience in effective online marketing and customer satisfaction strategies.

For many companies, the greatest financial benefit is achieved by leveraging a managed, fully out-sourced, email marketing initiative to the experts at Blue Steel Software.

Visit our web site at <http://www.bluesteelsoftware.com> for more information.

About the author:

Erica S. Thomsen is the President and co-founder of Blue Steel Software, LLC. She has years of experience in the areas of customer satisfaction and online marketing. Prior to Blue Steel Software, she was the VP of the SmartClicks division of SmartAge.com Corp. Her vision was responsible for SmartAge.com being a leader in the area of Customer Support.

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About Blue Steel Software, LLC

Blue Steel Software gives companies the opportunity to increase revenues by reallocating a portion of the money spent on acquisition and focusing it on retention strategies. The Blue Steel Software Solutions help companies create and implement their retention strategies by utilizing the experience and knowledge of the team and the software solutions to execute email marketing strategies. Blue Steel Software is based in Charlotte, North Carolina.

www.bluesteelsoftware.com