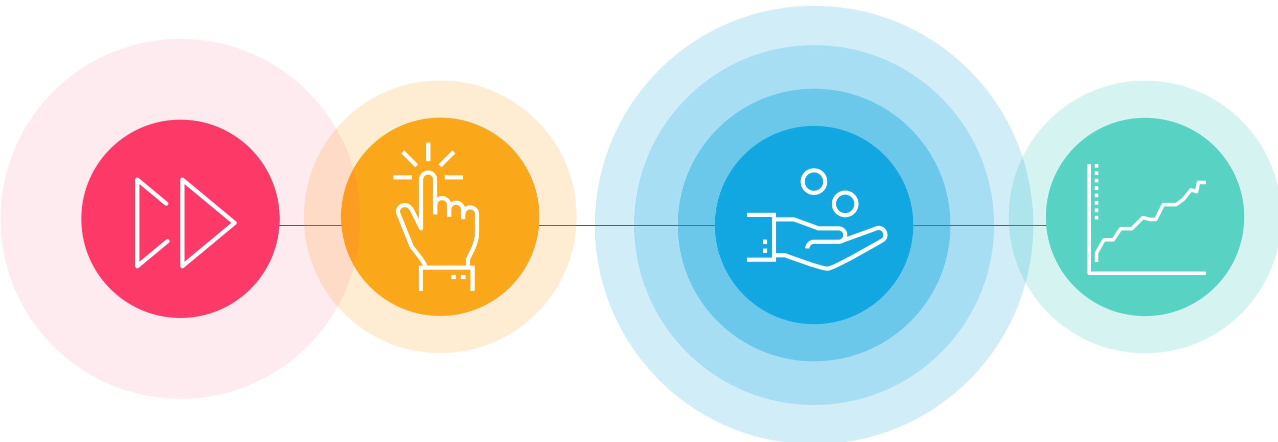
ZAIUS

4 STEPS TO MAXIMIZING CUSTOMER LIFETIME VALUE

Customer Lifetime Value is the most underappreciated B2C metric.

Underappreciated, you say? We measure customer lifetime value and it's really important to us, you say. Sure it's a common metric, but why is it important to your business? For most B2C marketers, customer lifetime value is used as an input to determine how much is reasonable to spend to acquire a new customer, or customer acquisition cost (CAC). But for the top-performing B2C companies in the world, customer lifetime value is *the* metric on which business decisions are made.

Here's why:



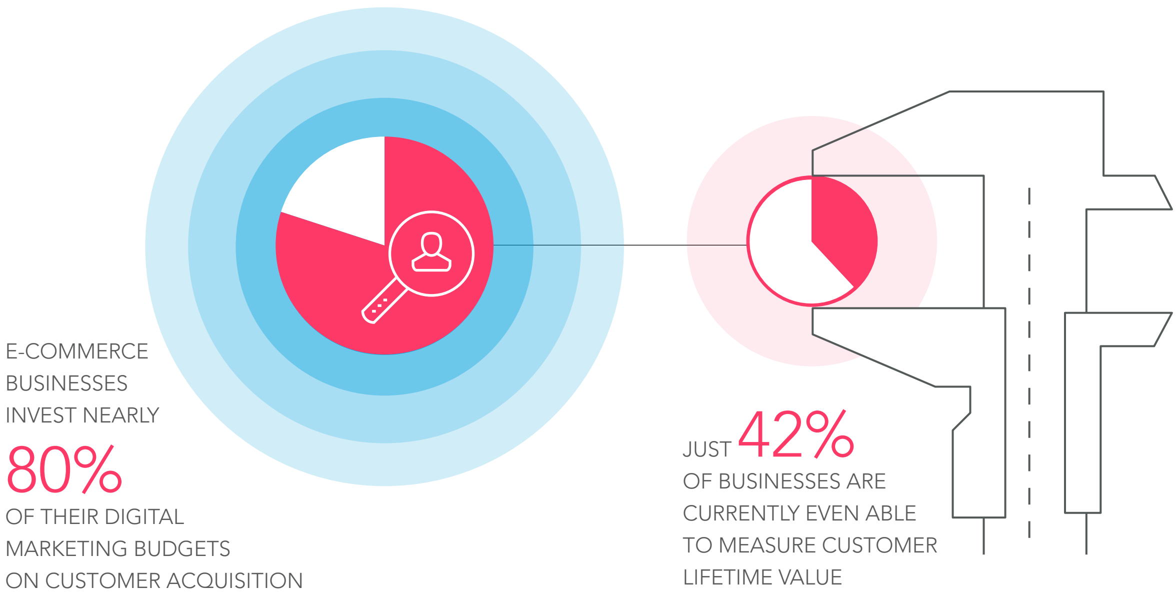
IT'S A FASTER PATH TO REVENUE

IT'S AN EASIER PATH TO REVENUE

IT'S A MORE PROFITABLE PATH TO REVENUE

AND OF COURSE, IT JUSTIFIES INCREASED SPEND ON CUSTOMER ACQUISITION

Unfortunately, even in a world where it costs five times more to acquire a new customer than it does to keep current customers[1], online retailers and other e-commerce businesses are continuing to invest nearly 80% of their digital marketing budgets on customer acquisition and just 42% of businesses are currently even able to measure customer lifetime value, let alone accurately.[2] These two points are more closely related than they seem at first glance.



By simply using some rough approximation of customer lifetime value to justify acquisition spend, companies are focusing on the wrong side of the equation. What they don't realize is that investing in maximizing customer lifetime value is indeed the most profitable - and increasingly, the **fastest** - path to revenue growth. Take, for example, that for each 1% of shoppers who return for a subsequent visit, overall revenue increases by approximately 10%. This means if online retailers retained 10% more of their existing customers, they would double their revenue.[3] Here's another way of looking at it - reducing your customer defection rate by 5% can increase your profitability by 25% to 125%.[4]

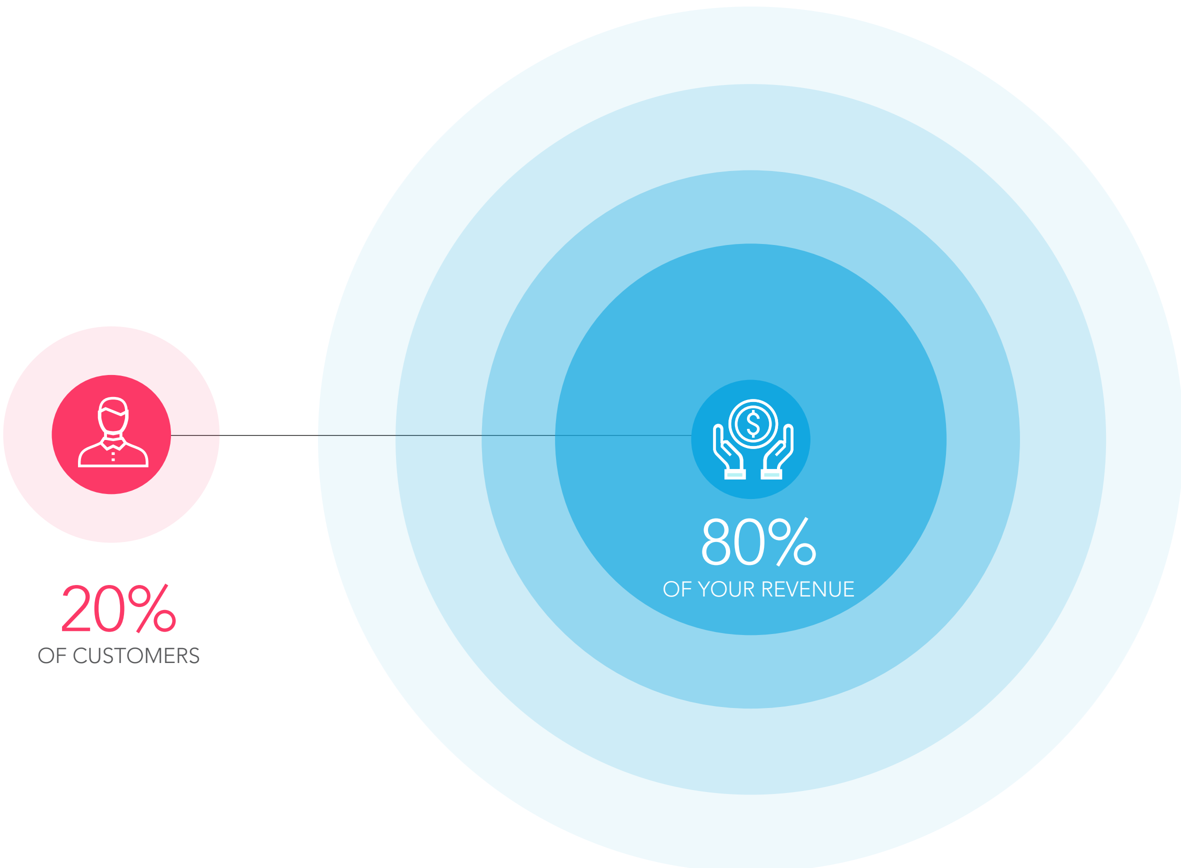
Growing revenue through driving up customer lifetime value can also be viewed as the **easiest** way to do it. While customer marketing is complex, technology is making it exponentially more manageable and effective. Take for instance, the probability of selling to an existing customer is 60-70% on average, while the probability of selling to a new shopper is 5-20%.[5] And that returning customers spend on average 67% more than first-time customers.[6]

So if growing customer lifetime value (CLTV) is so fast and easy, why isn't every B2C marketer talking about it? The reality is that while increasing CLTV is, for most businesses, generally a faster, easier, and more profitable path to revenue, it takes a significant shift away from the traditional marketing focus on volume and a re-focus on the quality of every customer interaction. Our goal is to show you how.

The Pareto Principle

Before we move on, it's important to understand a business rule that our clients consider every time they make a business decision. You've probably heard it before - the "80/20 rule" is known as the Pareto Principle and can be broadly applied to business. Examples include 80% of sales coming from 20% of products, or 80% of profits attributed to 20% of staff time spent. In the case of revenue, it is commonly true that 80% comes from just 20% of your customers. If you haven't already, take a look at your own customer data to understand how your business compares.

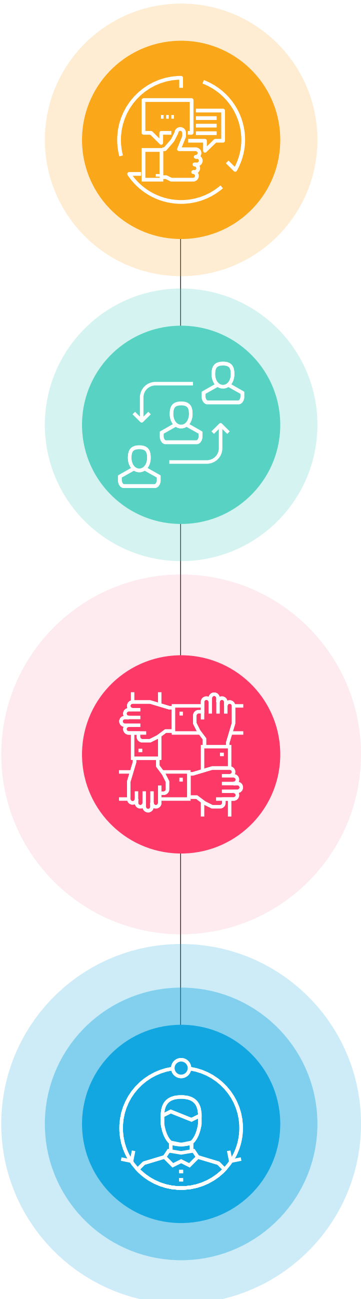
When you are able to identify the 20% of customers driving 80% of your revenue, you've taken the first step toward maximizing customer lifetime value. The next step is understanding. What attributes and behaviors do they have in common? How do they interact with your brand across devices and channels? How frequently do they make a purchase? Which products or services do they purchase the most? Only then can you determine the most effective strategies to increase their loyalty, drive more of your customers to repeat purchase and acquire more customers with behavioral and demographic profiles closest to those who are driving the most revenue for you. Keep this in mind as we dig into the top strategies for maximizing customer lifetime value.



The good news

Focusing in on and maximizing customer lifetime value is not difficult if you are committed to it and have the right tools. The facts presented here should be enough to convince any and all stakeholders that if you're not committed to maximizing your customer lifetime value, you're missing out on an enormous opportunity. If you need any additional justification, know that just a 5% increase in customer loyalty would increase the average profit per customer by 25-100%.[7]

So what should you do next? We've laid out the four key steps to maximizing customer lifetime value below.



1. Unify all of your customer interactions in one system of record.

This is no longer a luxury - it is a prerequisite to finally achieving customer-centricity which will unlock your ability to maximize customer lifetime value.

2. Model your customer lifecycle.

This is not as daunting as you think. However, in order to model your true customer lifecycle, you must tie cross-channel behavioral data together with purchase history details, and do it in **real-time**.

3. Leverage customer understanding to engage customers when and where it will be most effective.

When you understand where your customers are in their lifecycle and how they are interacting with your brand, you can leverage that to engage customers when and where it will be most effective.

4. Identify the key drivers of lifetime value.

Marketers still struggle to tie ROI to non-direct-response campaigns. But today it is not only possible to attribute revenue to investments like social media, it's critical. Take it a step further by identifying the key attributes driving customer lifetime value and double down on those investments.

Unifying all of your customer interactions in one system of record

Unless you are able to understand your individual customer's behaviors across all channels, you are not equipped to maximize customer lifetime value. It's not enough to look at how an individual customer interacts with email, website, and mobile app in silos. Channel-centric approaches to marketing and analytics limit the potential of customer lifetime value. The proliferation of marketing technology and point solutions has caused customer data to be more fragmented than ever, making it difficult to understand cross-channel behavior and engage customers when and where it will be most effective.

Take for instance your typical email marketer. When this traditionally channel-centric marketing professional makes the decision of which emails to send to whom at which times, that decision is most often based on data about how that has customer responded to emails in the past. Did the customer open email X? Click email Y? Has the customer engaged with any of the emails I sent in the last month? It is possible to incrementally increase effectiveness of an email program by asking these questions and tailoring strategy to them, but it's the wrong approach, and it certainly isn't customer-centric. *Picture this: the very same customer that hasn't engaged with your emails in the last month is using your mobile app weekly to browse men's sportswear and purchased two items last week.* You may then realize that the email content you were sending was not relevant to the customer and respond by changing up your approach.

Choosing a solution:

As a B2C business with a high volume of customer interactions and transactions, the technology vendor that you choose to unify your customer data must be able to process and store millions of event-level interactions across all channels, resolve customer identities, and create a marketer-ready, channel-agnostic, single customer system of record.

The best solutions store all data at the event-level, which enables real-time and on-demand segmentation and "any-to-any" attribution, which allows you to attribute any behavior to any other behavior (eg. 70% of customers that view $1,000 watches purchase $10 watches).

Understanding customer behavior and modeling your lifecycle

Possibly the most significant benefit of unifying every customer interaction is that you're able to model a customer lifecycle that goes beyond purchases over time. There is a lot that happens between purchases, from opening and clicking emails to researching product pages on your website, engaging with your mobile app to interacting with your brand on Facebook. Truly maximizing customer lifetime value requires understanding each lifecycle stage and the campaigns that will drive customers through it.

The first step is to segment your customers by number of purchases - no purchases, one purchase, repeat purchase, and loyal customers. If you're already doing this, you're off to a good start. But it's critical that you move beyond number of purchases to understand the drivers of the next purchase - not just the email that triggered the customer to buy, but which pages they visited, how many times they visited a product page, which products they added to their cart, how long between adding to cart and checking out, and so on. When you examine customer behavior between purchases, you unlock an entirely new, more actionable layer of understanding. Now you can refine your marketing to drive conversions between lifecycle stages. For example,

- **Awareness to Interest**
- **Interest to Consideration**
- **Consideration to Intent**
- **Intent to Purchase**

The list goes on, but this is a good place to start. To expect that a customer will quickly jump from being aware of your brand or product to making a purchase is unrealistic most of the time. That's why it's critical that you understand lifecycle stages - so you can more effectively move a customer along through it and ultimately increase their lifetime value.

Choosing a solution:

The solution you choose must have a layer of understanding - data alone is not enough. The best software automatically segment your customers into lifecycle stages. Ecommerce platforms often do this using purchase history alone, but that's only a fraction of the picture. Choose a solution that uses cross-channel behavior paired with purchase history to build your lifecycle.

This requires that the solution can ingest data from your website (both mobile and desktop visits), e-commerce platform, and email service provider at a minimum, and if applicable, your mobile app and in-store point-of-sale data as well. Most importantly, it must be able to resolve customer identity from one channel to another so that all of the interactions can be tied to an individual (see Step 1). It's critical that all of this is done in real-time in order to act on these segments (see below).

Leveraging customer understanding to engage them more effectively

Once you better understand your customers at an aggregate level, and more importantly, as individuals, that understanding should drive every customer interaction (also known as true customer-centricity). By applying a complete understanding of your customers to your channel-specific communications, your customer interactions become more relevant to them, leading to better customer experiences, and more effective, leading to repeat purchases and higher average order values. While it's easy to think the latter is more important, don't. It's only more directly attributable to revenue. Bear in mind that positive customer experience strengthens customer relationships with your brand regardless of whether or not it leads directly to revenue. And if you're not driving brand loyalty through relevance, you run the risk of having the opposite effect. In fact, disloyalty, often caused by blind channel-centricity, can stunt company growth by 25-50%.[8]

Let's revisit the "men's sportswear" customer scenario above. Now that our customer-centric view drives our customer engagement, instead of making decisions about which emails we're going to send and when, we start making decisions about whether to employ an email, push notification, browser prompt, targeted social marketing, or some combination of the four – and we have the information and segmentation to make sure each individual customer is communicated with in the most effective way possible.

Choosing a solution:

Must be channel and software agnostic, making customer insights and understanding available to any channel for more intelligent, effective customer engagement wherever and whenever that may be.

Beware solutions that claim to deliver emails and other communications as well as customer understanding. They're rarely great at either and will not scale with marketers as communication channels are changing and growing rapidly.

Identifying the key drivers of customer lifetime value

One of the most significant gaps in any marketing organization, channel- or customer-centric, is attribution. In typical marketing cycles, analysis follows action. In this context, attribution can and should happen throughout.

Many years after social media began its ascent as a critical marketing channel, marketers are still unable to effectively measure social media ROI. Even "tried-and-true" channel-attribution methods fall far short of perfection. Creating a funnel that attributes a single purchase (goal) to one or multiple campaigns is not enough. What about the second and third purchases of the customer who made their first purchase after viewing an ad on Facebook? Most companies aren't prepared to conduct this kind of analysis and therefore are only seeing a fraction of the value driven by each campaign. This is the key to discovering drivers of customer lifetime value.

Beyond campaigns, today's marketers must be able to attribute behaviors to other behaviors. Let's revisit the watches example above. When you know that 70% of customers that view $1,000 watches end up purchasing $100 watches, you can start to construct a funnel that goes beyond campaign to purchase. Understanding your customer behavior at this level empowers you to activate intelligent campaigns built specifically to double-down on the shopping patterns that generate higher customer lifetime value.

Choosing a solution:

Must be able to attribute any and all customer interactions to any other customer interaction - from broad engagement to specific transaction - and process attribution models on the fly. This makes possible the calculation of lifetime value by virtually any attribute.

When you understand attributes that correlate positively with customer lifetime value, you'll be in a position to optimize your marketing for it. In order to do this effectively, your solution must capture and store all customer interactions at the event-level. Pre-aggregated or pre-calculated analytics are not flexible enough to conduct the type of analysis you need to discover the drivers of customer lifetime value.

What To Do Next: Get Customer-Centric

By now, it should be crystal clear that if customer lifetime value is not your top marketing metric, or at least one of them, you're missing out on a massive opportunity to grow revenue quickly and easily - and profitably. As your top customer metric, you need to be focused on not only improving it, but maximizing it. **Channel-centric approaches to marketing and analytics limit the potential of customer lifetime value**. The proliferation of marketing technology and point solutions has caused customer data to be more fragmented than ever, making it difficult to understand cross-channel behavior and engage customers when and where it will be most effective. To truly maximize customer lifetime value, we recommend the following four steps:

1. **Unify all of your customer interactions in one system of record.**
2. **Model your customer lifecycle (using more than just purchase data).**
3. **Leverage customer understanding to engage customer when and where it will be most effective.**
4. **Identify the key drivers of lifetime value (and repeat).**

If you take no other step, take step 1.

The most important step - because all others depend on it being done well - is step 1. The careful unification of cross-channel customer behavior is a prerequisite to doing the other three steps well. Every customer interaction must be resolved at the customer level (eg. Jim opened email A, added product B to cart on web browser, researched products C, D, and E using the mobile app, and ultimately bought product D in-store) to make advanced lifecycle segmentation, customer engagement, customer-centric analytics and cross-channel attribution possible.

[1] Retrieved 16 June 2016 from Forrester Research (Alan E. Webber, "B2B Customer Experience Priorities In An Economic Downturn: Key Customer Usability Initiatives In A Soft Economy," Forrester Research, February 19, 2008) http://www.destinationcrm.com/Articles/Web-Exclusives/Viewpoints/Listen-to-the-Voice-of-the-Customer-53239.aspx

[2] Retrieved 16 June 2016 from Invesp: http://www.invespcro.com/blog/customer-acquisition-retention/

[3] Retrieved 16 June 2016 from Adobe Marketing Group: http://blogs.adobe.com/uk/2012/09/12/retail-marketers-time-to-bring-your-customers-back/

[4] Retrieved 16 June 2016 from Destination CRM: http://www.destinationcrm.com/Articles/Web-Exclusives/Viewpoints/Listen-to-the-Voice-of-the-Customer-53239.aspx

[5] Retrieved 16 June 2016 from Marketing Metrics: http://altfeldinc.com/pdfs/Customer%20Loyalty.pdf

[6] Retrieved 16 June 2016 from Bain & Company: http://www.loyaltymarketing.com/simpliblog/bid/313901/5-Interesting-Loyalty-Marketing-Stats

[7] Retrieved 16 June 2016 from Destination CRM: http://www.destinationcrm.com/Articles/Web-Exclusives/Viewpoints/Listen-to-the-Voice-of-the-Customer-53239.aspx

[8] Retrieved 16 June 2016 from Bain & Company: http://www.bain.com/publications/articles/loyalty-effect-the-hidden-force-behind-growth-profits-and-loyalty-book.aspx

About Zaius

For direct-to-consumer marketers who need to increase revenue, Zaius B2C CRM unifies all customer interaction data in a single platform, empowering marketers to understand revenue-drivers and orchestrate campaigns that maximize customer lifetime value. Unlike Salesforce, Adobe, and other legacy solutions, Zaius is truly channel-agnostic, and arms marketers with the event-level behavioral intelligence needed to engage customers whenever and wherever it will be most effective.

To learn more about creating your customer system of record and taking the four steps to maximizing customer lifetime value, give us a call at

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or email us at

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