The Ultimate Guide to Customer Retention for 2023

TWILIO
Segment

A guide for retaining your customers

Customer retention is a fundamental aspect of contemporary business. In light of prevailing economic circumstances, characterized by intense competition, rapid technological advancements, and global uncertainty, the significance of prioritizing customer retention cannot be overstated.

According to Twilio Segment's latest Growth Report, the majority of businesses (93%) are taking measures to adjust to the current macroeconomic climate and plan for an economic downturn. Among these steps, focusing on customer retention is the most common (43%).

As operational expenses continue to increase, businesses are faced with reducing margins, which calls for an extended lifetime value (LTV) of their customer base. In addition, it's vital for companies to distinguish themselves by providing superior products and services and exceptional customer experiences.

Notably, retaining an existing customer is between 5 to 25 times less expensive than acquiring a new one. Therefore, increasing revenue from current customers, enhancing brand loyalty, and boosting lifetime value are profitable pursuits.

To support businesses in developing strong customer relationships and responding to evolving customer requirements, we created this guide with practical strategies and data-gathering tools, such as a customer data platform (CDP).

Contents

Current trends impacting **customer retention**

Numerous reports suggest that businesses are reducing budgets, downsizing, and laying off employees. Additionally, the gradual phase-out of third-party cookies is making it increasingly challenging for companies to attract new customers. Furthermore, businesses are seeking to expedite their data maturity process to maximize the value of their data, making customer retention a prevalent concern among many business executives.

While it may be tempting to seek a short-term solution by acquiring new customers, a more prudent approach is to prioritize existing customers.

According to Forrester's 2021 Global Marketing Survey, B2B organizations generate over three-quarters of their annual revenue from existing customers. Improving the customer experience post-sale is a top priority for CMOs, with 56% of marketing leaders identifying it as a key objective in their business strategy for the next two years.

The ROI of customer **retention**

Customer retention serves as an indicator of customer satisfaction, the quality of customer experiences, and the value proposition of a business in the marketplace. It's also crucial for achieving growth. Despite achieving exceptional customer acquisition, it's difficult to compensate for the revenue loss resulting from high churn rates.

Take the chart below. Looking at a five-year timeframe, a company with a 2.5% churn rate will become 50% larger than a company with a 5% churn rate, on a revenue basis.

Churn's Impact on Total Revenue

— Total revenue –2.5% churn   — Total revenue –5% churn

If you want to model this for yourself, check out this calculator.

In addition to churn, consider the following benefits when measuring ROI.

Save on acquisition costs

Customer retention is widely recognized as the ultimate growth strategy as it's imperative for scaling a business successfully. Over the past few years, customer acquisition rates have surged. It's worth emphasizing that acquiring a new customer is between 5 to 25 times more expensive than retaining an existing one.

Increase lifetime value (LTV)

Lifetime value refers to the expected revenue a business will earn from a customer throughout their relationship. Customer lifetime value is an important metric for forward-thinking strategies; these projections are often how companies plan for growth.

More upsell and cross-sell opportunities

As customers exhibit brand loyalty, the company can gain more comprehensive insights into the features or products that they deem particularly valuable. This, in turn, creates further opportunities for upselling and cross-selling.

For example, The Motley Fool was able to leverage real-time customer profiles to better identify upsell opportunities among its customers, analyzing people's membership level, interest, and so forth to customize product tours and display relevant on-site ads. The result? Incremental revenue that had a huge impact on their bottom line.

Better customer feedback

Ultimately, the survival of a business hinges on its ability to synchronize with its customers. It's crucial to comprehend why customers remain loyal to a brand or, just as importantly, why they churn. A comprehensive understanding of these aspects can be achieved through a combination of customer data and feedback.

Customer feedback is invaluable for understanding people's experience with your brand or product. For long-term customers, this feedback will become more nuanced, as they have an understanding of how the customer experience has evolved (and whether or not a business has become too reliant on the status quo).

Increase chance for referrals

Word-of-mouth matters. When people are referred to a new business by a friend, they are four times more likely to convert – and much more likely to become high-value customers.

When customers exhibit brand loyalty, it's a clear indication that a business is performing well in certain aspects such as providing value through its product offerings or delivering a superior experience when compared to its competitors.

The rising cost of
customer acquisition

Acquiring new customers is a time and resource-intensive process. It involves identifying potential prospects, building trust, and persuading them to purchase from your business. In contrast, existing customers have already navigated through these stages, making it easier to sell to them again. Furthermore, a business has access to detailed information about these customers, allowing for recommendations and offers that are relevant to their preferences.

Focusing on retention can offset some of the softness in net-new acquisition. Even in boom times, customer retention should be a key consideration, particularly as costs continue to rise.

Over the past 18 months, businesses have experienced a sharp increase in customer acquisition costs due to Apple's implementation of IDFA changes. According to FeedMob, the adoption of iOS 14.5+ has forced a shift towards a CPM pricing model for mobile user acquisition, which has become increasingly expensive over time. FeedMob's analysis shows an 80% YoY increase in CPM for clients who spend over $100 million annually. As adoption of iOS 14.6 continues to rise, this trend may persist, leading businesses to seek more efficient supply sources and explore alternative testing budgets beyond Facebook, Instagram, and other social media platforms.

> Identifier by Advertiser (IDFA) is an anonymized unique identifier assigned by Apple to a user's device. It allows an installed mobile application to track user behavior across other companies' apps, websites or offline properties for ad targeting, personalization and measurement.

Another factor contributing to the rising cost of customer acquisition is the prioritization of user privacy by browsers and government regulators. This is exemplified by Google's announcement to phase out third-party cookies on Chrome by 2024. Consequently, businesses must revise their entire strategies to adapt to this new landscape.

Consider downloading our ebook, "Digital Advertising in the Cookieless World," to gain insight into how to lessen the impact of these changes on your digital advertising strategies.

Retention metrics
to measure

Retention metrics tell you how many customers are returning to your business. It's a critical metric, as it highlights whether new customers that you acquire (often at significant cost and effort) stick around or abandon you for greener pastures.

Think of a time when you had a bad shopping experience. Perhaps the product or service didn't live up to the hype on the company's website, or their customer service was non-existent. Sometimes, that's all it takes for a customer to never return.

Consumers have a lot of choices, and they won't stick around if they don't feel valued. Knowing how customers are feeling can be as easy as tracking a few metrics – and making changes when you see the level of engagement slow down, before it drops off completely.

Where should you start?

Before jumping ahead to the metrics, keep these two points in mind:

- Pick your North Star metric. Choose the one that's most important to your team. Starting with one makes it easier to track your progress. You can track additional metrics once you clearly see where your North Star is leading you.
- Have a CDP in place that's tracking customer data across multiple different channels.

Customer retention

This is the percentage of existing customers who remain customers after a given timeframe. Your customer retention rate can help you better understand what keeps customers with your company, and can signal opportunities to improve your level of customer service.

To calculate it, start with the number of customers you have at the end of a specified time period. Let's use a calendar year (Dec 31). Next, subtract the number of new customers gained during that time period (Jan 1 - Dec 31). Then, divide that number by the number of customers at the start of the year (Jan 1). Lastly, multiply by 100 to get a percentage.

Put another way, if a company had 100 customers at the start of the calendar year, ended the year with 100 customers, and added 10 customers over that time period. They would have a customer retention rate of 90 percent: [(100-10)/100] x 100 = 90 percent.

Customer churn

The churn rate, also known as the rate of attrition or customer churn, is the rate that customers stop doing business with a company. It's most commonly expressed as the percentage of service subscribers who discontinue their subscriptions within a given time period.

For a company to expand its customer base, its growth rate (measured by the number of new customers) must exceed its churn rate (the number of customers who left). Even if your customer acquisition is doing well, it's hard to make up lost revenue from high churn rates.

Customer lifetime value (LTV)

This rate is the monetary value of a customer relationship, based on the present value of the projected future cash flows from that relationship. Customer lifetime value is an important concept in that it encourages organizations to shift their focus from quarterly profits to the long-term health of their customer relationships.

Repeat customer rate

Optimizing this rate is a great way to increase customer loyalty and expand your brand reputation. The repeat customer rate is the percentage of your customer base that has made more than one purchase. To calculate it, divide the number of repeat customers by the total number of customers. Multiply the result by 100 to get a percentage.

Upsell and cross-sell ratio

The upsell ratio is the percentage of customers within a cohort that purchase an upgrade to a higher-quality version of the product or service initially selected. The cross-sell ratio is the percentage of customers within a cohort that purchase a complementary item (such as adding a comb or brush to their cart after first selecting a hair dryer).

To calculate either ratio, you need to know how many customers you offered the upsell or cross-sell opportunity to and how many took it. Divide the "take" rate by the number of times the opportunity was offered to consumers. Multiply the result by 100 to get a percentage.

First-party data and **customer retention**

Customer Retention
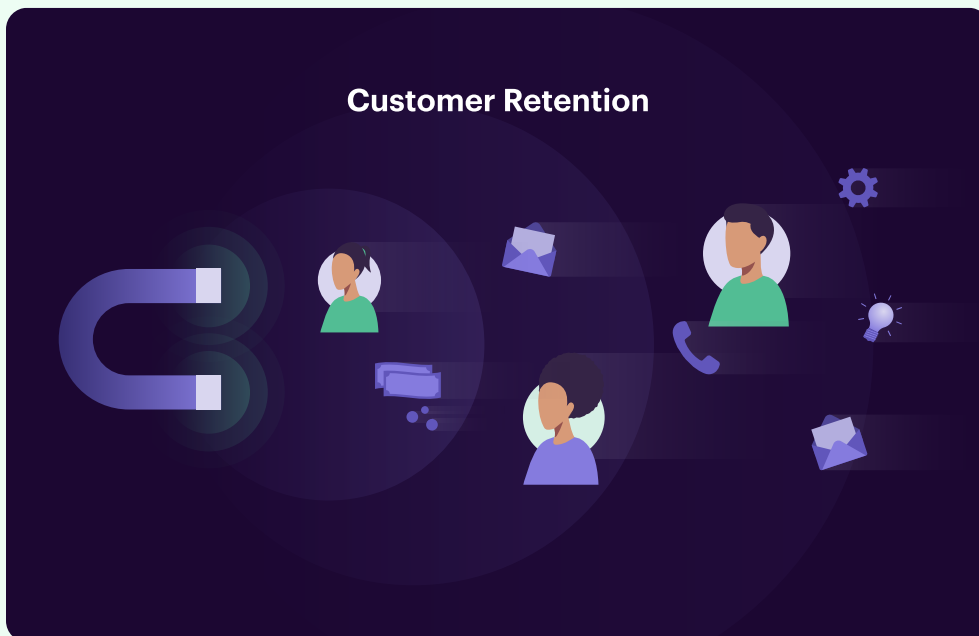
Businesses have access to a wealth of data about their customers. However, not all customer data is equally reliable in providing actionable insights and building customer relationships.

This is leading to a major shift in data sources – a shift from third-party cookies to first-party data. Monitoring customer journeys using consented, first-party data will help businesses understand which activities produce the most desirable results so they can repeat them.

Moving forward, access to first-party data will be critical for marketers to reach existing customers in a privacy-friendly way while providing a valuable and personalized experience.

First-party data also enables advertisers to retarget customers, or even power more efficient lookalike targeting in platforms like Google, Facebook, or Pinterest. To learn more about the benefits of first-party data, download our ebook: The Fundamentals of First-Party Data.

Retention campaigns + **templates**

When was the last time you looked for opportunities to re-engage customers to make another purchase or upgrade their service? The sad reality is that few businesses have the right data and technology to implement retention strategies at scale.

If you're not focusing on marketing to current customers after the sale, now is the time to build a cohesive strategy for customer retention.

It helps to break retention down into three stages. **Early-stage** retention focuses on getting new customers to stick around. **Middle-stage** retention focuses on keeping customers who've stayed with you past the onboarding period and have made a repeat purchase. **Late-stage** retention focuses on increasing the longevity and loyalty of your customers.

Below, we outline 5 retention campaigns that get results – and we show you how to implement them, step by step.

Note: We've included templates that show how to set up these campaigns with Twilio Engage. Here's how to set up your own Engage workspace.

01 Customer Onboarding

Early-stage retention campaign

Once you've acquired a customer, that's the best time to begin thinking about retaining them. You put a lot of money and effort into attracting them in the first place, so it's important to help them understand the value of your product or service so they'll continue coming back for more.

The process begins with a good onboarding experience. You may think the primary goal of onboarding is to help customers engage with your product. While that's an important component, there's more to it. A well-executed onboarding campaign also helps drive customer retention.

Customer onboarding will look different for every business, but the pillars of any successful strategy remain the same. You'll need a way to quickly and reliably:

- Collect first-party data from every touchpoint
- Build dynamic, real-time customer profiles
- Share this data with downstream engagement tools to launch personalized campaigns

All these capabilities exist in a customer engagement platform like Twilio Engage, where you can build personalized marketing campaigns across every channel and create meaningful experiences for both new and longtime customers.

Template

In this template, we show how to send a welcome email for onboarding new customers to encourage product usage that leads to increased lifetime value.

1. Create the entry condition with the step name **Product Purchased.**

    a. All users who performed **Order Completed** exactly **1 time**.

2. Send a Welcome email.

3. Add a delay of **2 days.**

4. Add a Send Email step called **Product Tutorial.**

5. Add a delay of **3 days.**

6. Add a Send Email step called **Point Out Different Features.**

7. Add a delay of **2 days.**

8. Add a True/False split. Split the user around a computed trait of **Engaged with Product Tutorial** at least **1 time** in the last **7 days.**

    a. For the True branch, send customer another piece of content.

    b. For the False branch, send customer reminder about the **Product Tutorial.**
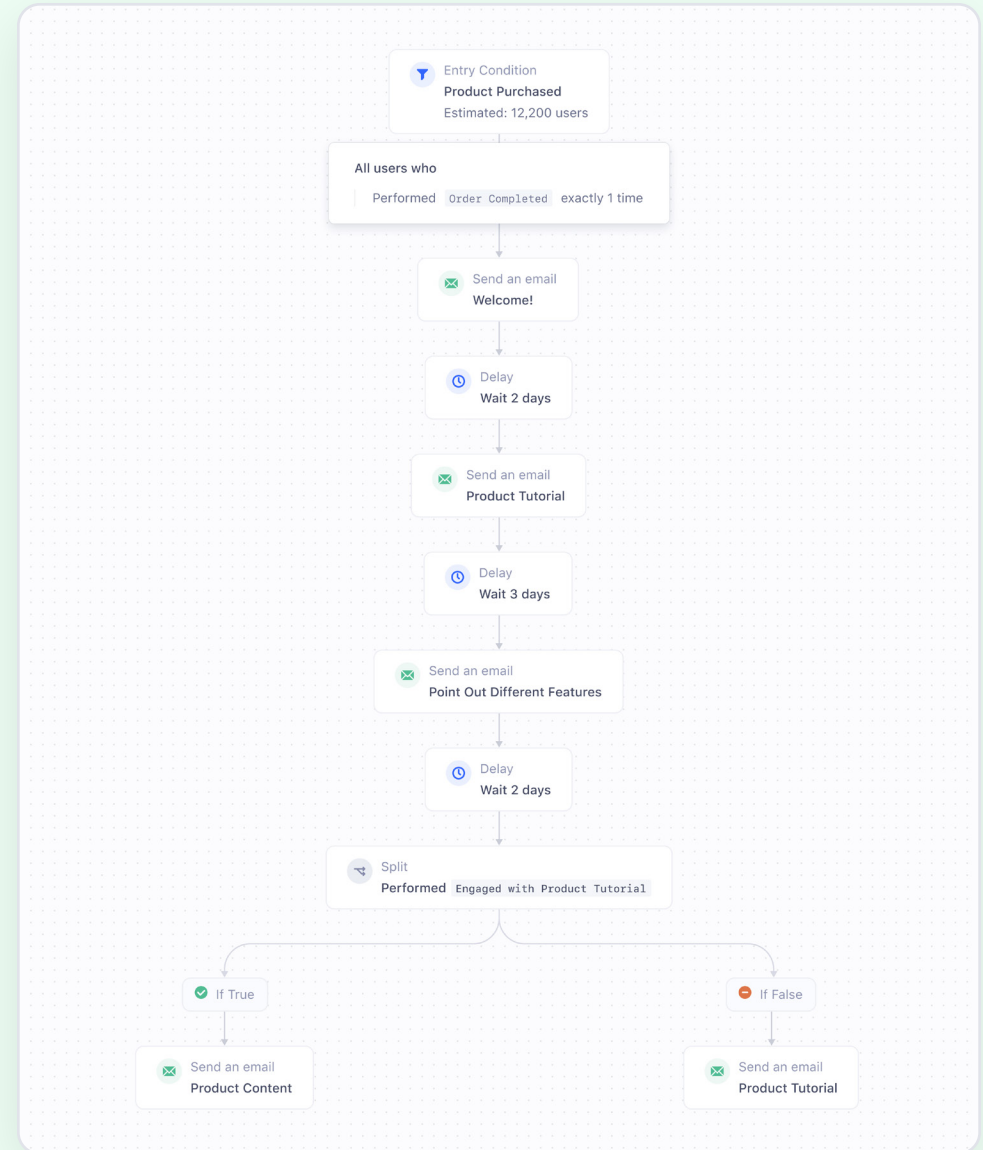
02 Repeat Purchase

Mid-stage retention campaign

Encouraging customers to make repeat purchases puts you one step closer to retaining them. This is important because repeat customers are often responsible for a significant portion of a company's annual revenue – depending on the product category.

By encouraging repeat purchases, you're showing customers that you value their business and want them to keep coming back. This can help build stronger relationships with your customers and increase their loyalty to your brand.

This campaign can also lead to increased revenue and reduced marketing costs. Repeat customers are more likely to spend more money over time, as they become familiar with your products or services and develop a level of trust with your brand. And it's generally less expensive to retain existing customers than to acquire new ones. By encouraging repeat purchases, you can also reduce your marketing costs and focus your resources on other areas of your business.

Template

In this template, we show how to convert one-time buyers into repeat purchasers by delivering communications in their preferred channels.

1. Create the entry condition with the step name **Completed Purchase with No Recent Transactions.**

    a. All users who performed **Order Completed** exactly **1 time**.

    b. All users with **No Orders Completed** in the past **90 days.**

2. Add a multi-branch split.

    a. Branch 1: Customers who have the trait **Most Frequent UTM Source** equals **Email.**

    b. Send promotional discount to destination: **Email.**

    a. Branch 2: Customers who have the trait **Most Frequent UTM Source** equals **SMS.**

    b. Send promotional discount to destination: **SMS.**
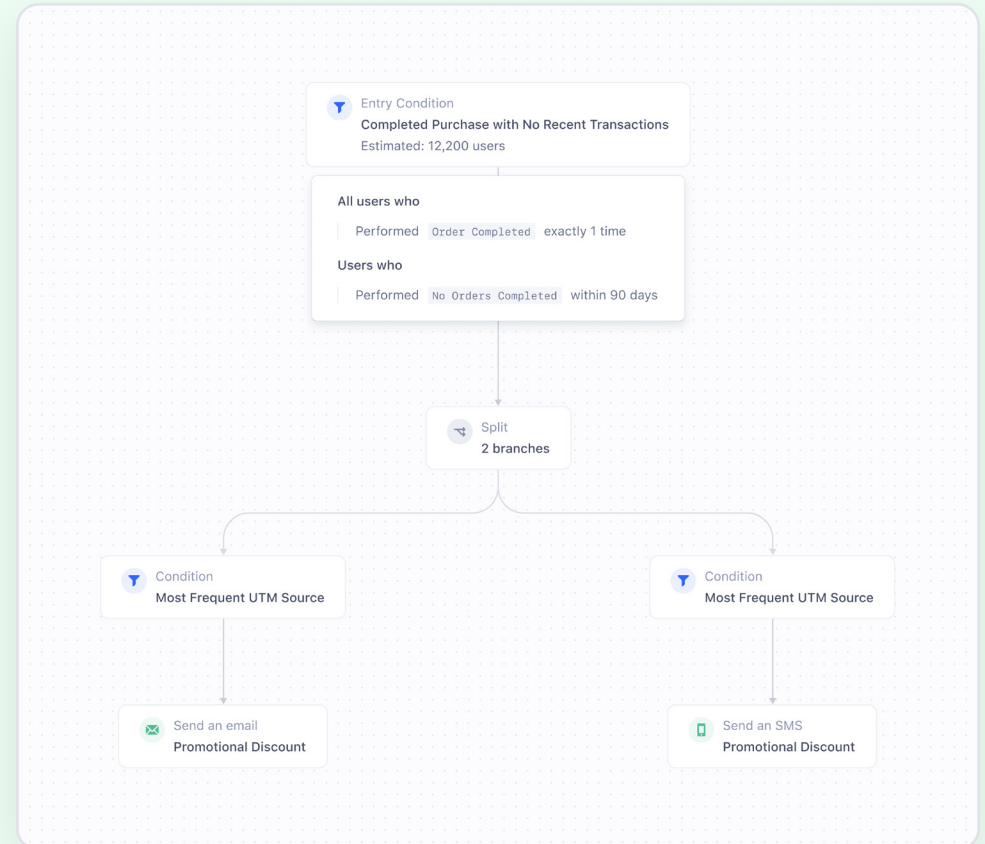
03 **Win-Back**

Mid-stage retention campaign

Customer win-back retention campaigns can be an effective way to boost customer loyalty and increase revenue. However, it's important to approach these campaigns with sensitivity, as lapsed customers may have had a less than positive experience. By addressing their concerns and offering a compelling reason to return, you can win back their trust and loyalty.

The first step is to identify which customers have stopped doing business with your company. This is where a customer data platform such as <u>Segment</u> can be extremely helpful in tracking customer touchpoints. Once lapsed customers have been identified, it's important to understand why they stopped doing business with you. This could be due to a past negative interaction, a better offer from a competitor, or simply a change in personal circumstances.

Based on why customers have lapsed, the next step is to craft a targeted message that addresses these concerns and offers a compelling reason for them to return. The message can then be delivered through the right channel, whether that's email, sms, social media, or another form of communication. To further entice customers to return, your company can offer incentives such as discounts, free shipping, or other perks.

Template

In this template, we focus on sending a personalized re-engagement email and SMS promo offers to low recency customers.

1. Create the entry condition with the step name **Low Recency Customers.**

   a. All users who performed the **Item Purchased** event **zero times** and have made a purchase but not in the last **180 days.**

2. Add a **Send Email** step called **Send Re-engagement Email.**

   a. Personalize the message with merge tags to invite users to view new products related to their **most common purchase category.**

   b. Add a conversion goal to track users who performed the **Product Purchased** event at least **1 time** within **7 days** after message delivery.

3. Add a delay of **7 days.**

4. Add a True/False split. Split the audience around a computed trait of **Item Purchased** at least **1 time** within **7 days.**

   a. For the True branch, send the list of users to an SMS step to receive a purchase survey.

   b. For the False branch, send the list of users to an SMS step to receive a discount code.

      i. Add merge tags and test the SMS before you send it.

      ii. Define a conversion goal of **Item Purchased** at least **1 time** within **7 days** after message delivery to track the campaign performance.
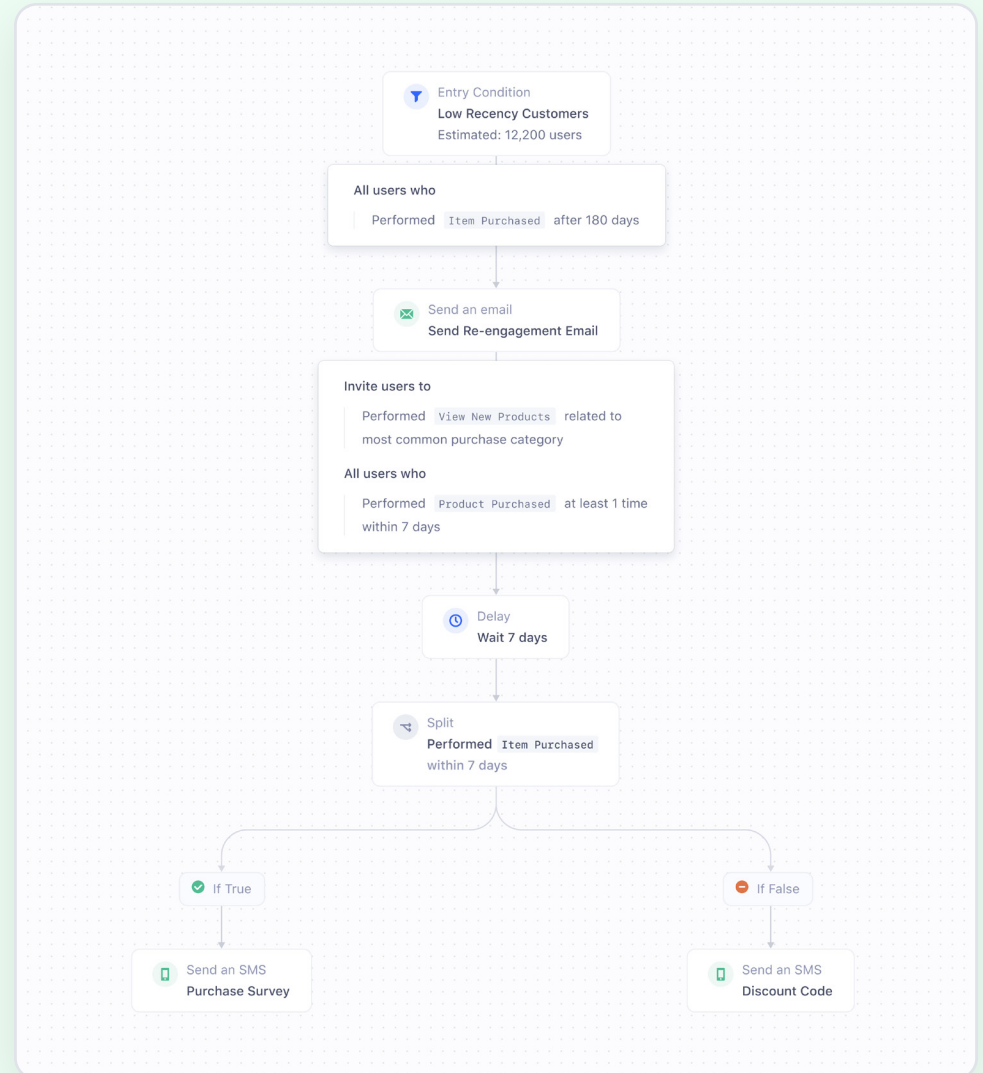
04 **Cross-Sell**

Mid-stage retention campaign

Have you ever shopped for a pair of hiking boots online and before checking out you saw recommendations for hiking socks, trekking poles, and water bottles? It's no coincidence those suggestions appeared at that time. They complement your original product search perfectly.

Cross-selling is the practice of offering customers related products or services to the ones they're already purchasing. When done correctly, cross-selling can help improve customer retention by enhancing the overall value and experience that a customer gets from your company.

The ideal situation is one where your customer is not aware of a product or service that would improve their experience. You find them on their customer journey at the ideal point, via their preferred contact method, and they react positively and purchase the recommended product.

Cross-selling also helps to increase customer engagement by providing shoppers with more reasons to interact with your company. It's an effective retention strategy because customers appreciate seeing items related to what they're buying, and the business benefits from making more sales without additional ad spend.

Template

In this template, we show how to help customers discover new products they may be interested in to drive retention and higher lifetime value. Let's say you have a shaving company and want to cross-sell other products such as shaving cream and aftershave to complement a razor purchase.

1. Create the entry condition with the step name **Order Completed.**

    a. All users who performed the **Order Completed** event **1 time** within the **last 14 days.**

2. Add a wait duration of **2 days.**

    a. Delay to avoid sending an email immediately after they purchased.

3. Add a multi-branch split. Split the users on the **Condition of Computed Trait** of **Unique Product Ordered.**

    a. Branch 1: For users whose **Product Ordered** trait does not include Shaving Cream or Aftershave.

        i. Send: Email with cross-sell items including: Shaving Cream and Aftershave.

    b. Branch 2: For users whose **Product Ordered** trait does not include Razor or Aftershave.

        i. Send: Email with cross-sell items including: Razor and Aftershave.

    c. Branch 3: For users whose **Product Ordered** trait does not include Razor or Shaving Cream.

        i. Send: Email with cross-sell items including: Razor and Shaving Cream.

05 Customer Loyalty

Late-stage retention campaign

Starting a loyalty program can be an effective way to increase customer retention by incentivizing repeat purchases. By offering rewards or discounts for repeat purchases, customers are more likely to return to the business to earn these benefits.

A loyalty program allows businesses to engage with customers more frequently and build a stronger relationship. By offering exclusive rewards or personalized offers, businesses can make customers feel valued and appreciated, which helps to increase loyalty.

A successful loyalty program can also encourage customers to refer their friends and family to the business. By offering rewards for referrals or for sharing information about the program on social media, businesses can increase their customer base and improve customer retention.

It can also provide businesses with valuable data about their customers' preferences and purchase history. This data can then be used to personalize the customer experience and tailor future offers and rewards to individual customers, which can improve customer retention.

Template

In this template, we show how to send a promotional gift to repeat customers to promote ongoing loyalty based on LTV.

1. Create the entry condition with the step name **Loyalty Program.**

   a. All users who performed the **Order Completed** event at least **2 times** and where the price is greater than **100**, any time in the last **90 days.**

2. Add a delay of **3 days.**

3. Add a True/False split. Split the users around a computed trait of **LTV > $1,000.**

   a. For the True branch, send the list of users to an email step to receive a free promotional product worth $50 with your next order with code Gift50 at checkout.

      i. Set the conversion goal conditions to track when an **Order Completed** event occurs **1 time**. Where the property of discount code equals **Gift50** and the time window is set **7 days** after the message is delivered.

   b. For the False branch, send the list of users to an email step to receive a free promotional product worth $25 with your next order with code Gift25 at checkout.

      i. Set the conversion goal conditions to track when an **Order Completed** event occurs **1 time**. Where the property of discount code equals **Gift25** and the time window is set **7 days** after the message is delivered.

Note: *You can build similar campaigns with SMS or use both email and SMS to contact subscribed users on their preferred channels.*
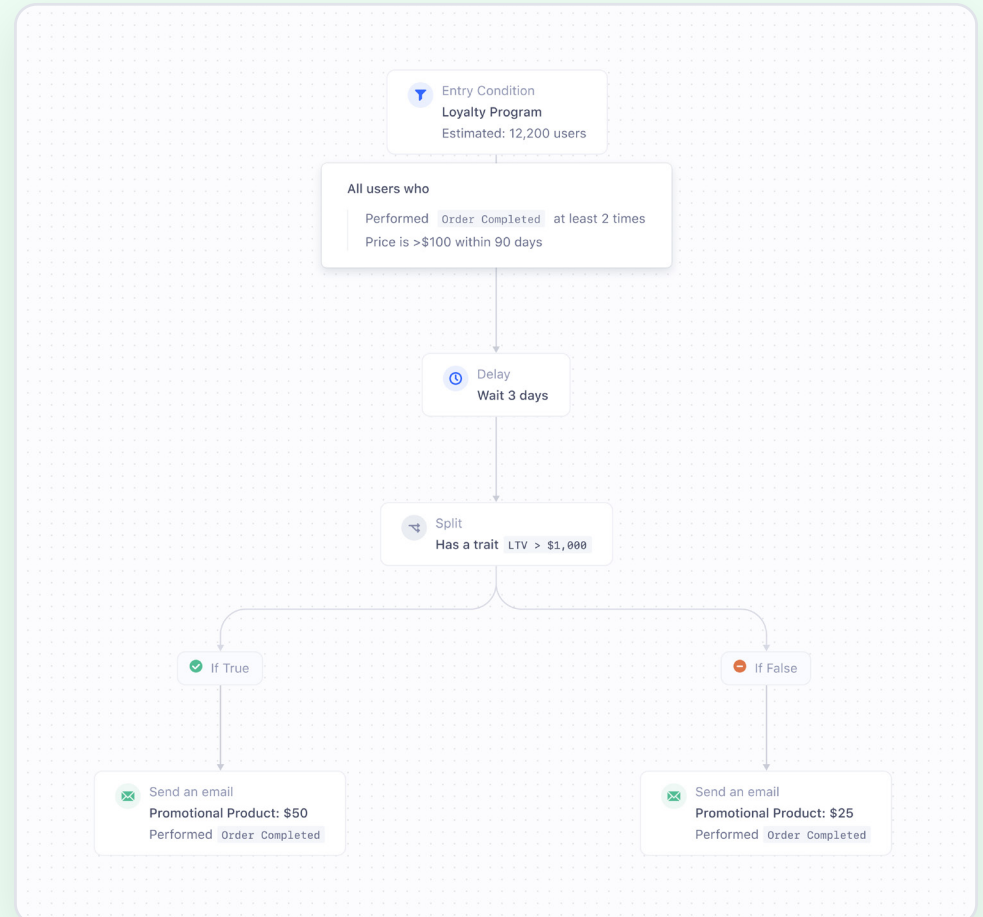
Conclusion
Improve marketing efforts
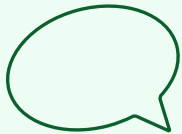
Over the past 10 years, the growth at all cost mindset has been the norm. But today, business growth looks dramatically different. With a variety of factors at play, from a tumultuous global economy to businesses shifting how and where they work, the "growth over all else" mindset is officially over.

In its place is a more strategic, calculated approach to growth, where businesses are doubling down on sustainable paths, such as long-term customer loyalty and profitability. Companies are refocusing their workforce, budgets, and business strategy around efficiency.

As business budgets decline, marketing departments will need to be thoughtful and creative about what technology they use and how they maximize existing budgets for new campaigns.

Customer data can unlock the next frontier of business growth.

A personalized experience lends itself to customer loyalty and retention. In a volatile market, engaging the customers you have on channels that they want to be communicated with has never been more important.

How do you deliver on those experiences? By owning quality first-party data. Learn more about how a CDP can deliver better customer engagement for your business. Sign up for a free trial today, or chat with a member of the team.

About
Twilio Segment

To increase customer retention, companies look to a CDP – a centralized tool that helps modern businesses collect, govern, synthesize, and activate customer data.

Twilio Segment is the leading CDP with more than 400 pre-built integrations to different data sources and destinations. It provides a complete solution that eliminates the need for manual data cleansing, complex data engineering processes, and analytics reporting functions. By automating all of the backend customer data operations, Twilio Segment puts companies in a position to get the most out of their first-party data and retain customers at a higher rate.

As consumer sentiment, industry trends, and regulatory enforcement push companies away from depending on third-party data, the need for an alternative source of customer data cannot be understated. First-party data is the solution, bringing a competitive advantage as it fills the gaps where third-party data falls short: accuracy, relevance, and building customer trust.

Schedule a demo to learn how to get the most out of your customer data with Twilio Segment.

Want to learn more?

6 Ways to Drive Customer LTV

This guide discusses how to calculate customer lifetime value (LTV), and six key strategies to drive success across your marketing and customer engagement campaigns.

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Your Guide to Quitting Third-Party Cookies

This guide shares how companies should plan and begin to implement ways to personalize their customer experiences as third-party cookies are phased out by 2024.

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Omnichannel Marketing: A Complete Guide for 2023

This guide provides an in-depth look at omnichannel engagement, how to implement it, and a look at the future of a cookieless omnichannel approach focusing on personalization.

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If you would like to learn more about what Twilio can do for your business,
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