

# Introduction to Customer Development

**Five Stages for Moving Customers From Prospect to Loyalist**

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# **What Is Customer Development??**

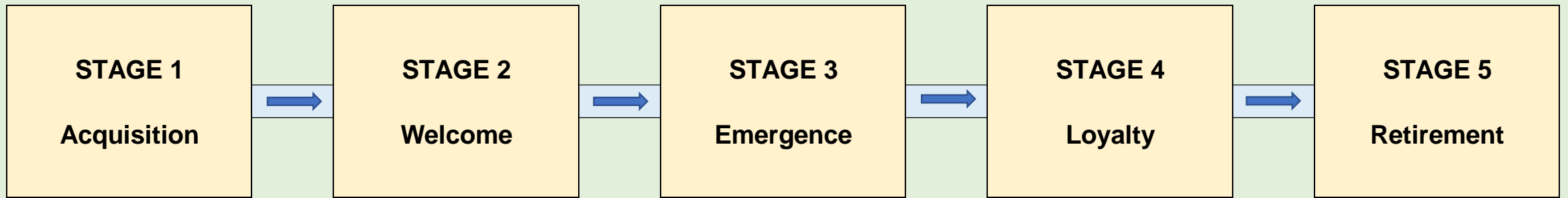
**Customer Development is the process by which brands facilitate the movement of an individual from Prospect to Loyalist.**

**Each stage of the process is important.**

**No stage can be skipped or cheated.**

**Many stages are ignored. This causes brands “trouble”. When we ignore a stage, customers do not progress along the Development spectrum as fast as they should progress, costing my clients future sales and future profit.**

# The Five Stages of Customer Development



# Acquisition

**You can't have a Loyal Customer unless you first Acquire the customer.**

**My average client possesses a twelve-month buyer file with an annual repurchase rate of about 35%.**

**This means that for every 100 customers who purchased in 2019, just 35 will purchase again during 2020. The brand must find 65 new/reactivated buyers to replace the customers lost during the year.**

**This is why Acquisition is so critically important. Most of my clients spend about 20% of the marketing effort they should spend on Acquisition strategy.**

# Welcome

**You can't have a Loyal Customer unless you Acquire a customer, and then migrate the customer "quickly" from a first purchase to a second purchase. This is called the "Welcome" stage.**

**The most productive clients I work with quickly move a customer from a first purchase to a second purchase. They don't waste any time whatsoever, and for good reason ... a typical first-time buyer is responsive for anywhere between four weeks and thirteen weeks, and then quickly fades into the Retirement phase of Customer Development.**

# The Life Table

We measure the effectiveness of our Welcome efforts via a measurement technique called a “Life Table”.

The table contains “conditional probabilities”. Read down the “Month” column. This is the number of months since the last purchase. Go to the row where Month = 6. Notice that a customer who bought for the first time (1x to 2x column) has a 1.4% chance of buying in Month = 6 given that the customer did not purchase in months 0/1/2/3/4/5.

Base Life Table Rebuy Rates

Month	Incremental Rebuy Rates				Cumulative Rebuy Rates			
	1x to 2x	2x to 3x	3x to 4x	4x to 5x	1x to 2x	2x to 3x	3x to 4x	4x to 5x
0	4.5%	7.7%	11.5%	16.3%	4.5%	7.7%	11.5%	16.3%
1	7.0%	16.7%	28.6%	42.6%	11.2%	23.1%	36.8%	52.0%
2	3.0%	5.2%	7.8%	10.0%	13.9%	27.1%	41.7%	56.8%
3	2.0%	4.0%	5.4%	6.8%	15.6%	30.0%	44.9%	59.7%
4	1.8%	3.4%	4.7%	5.4%	17.1%	32.3%	47.4%	61.9%
5	1.6%	3.0%	4.0%	5.2%	18.4%	34.3%	49.5%	63.9%
6	1.4%	2.8%	3.9%	4.6%	19.6%	36.2%	51.5%	65.6%
7	1.3%	2.7%	3.9%	3.8%	20.6%	37.9%	53.4%	66.9%
8	1.1%	2.3%	3.1%	3.4%	21.5%	39.4%	54.9%	68.0%
9	1.1%	2.3%	2.8%	3.7%	22.4%	40.7%	56.1%	69.2%
10	1.3%	2.6%	3.3%	3.2%	23.4%	42.2%	57.6%	70.2%
11	1.7%	2.8%	2.9%	3.4%	24.7%	43.9%	58.8%	71.2%
12	2.5%	3.0%	2.9%	2.2%	26.6%	45.5%	60.0%	71.8%
13	1.8%	2.0%	1.9%	1.7%	27.9%	46.6%	60.8%	72.3%
14	1.1%	1.5%	1.6%	1.3%	28.7%	47.4%	61.4%	72.7%
15	0.7%	1.1%	1.2%	1.8%	29.2%	48.0%	61.9%	73.2%
16	0.6%	1.0%	1.1%	1.3%	29.7%	48.5%	62.3%	73.5%
17	0.6%	0.8%	1.0%	0.8%	30.1%	48.9%	62.7%	73.7%
18	0.6%	0.9%	1.1%	1.0%	30.5%	49.4%	63.1%	74.0%
19	0.7%	1.0%	0.9%	0.8%	30.9%	49.9%	63.4%	74.2%
20	0.7%	0.9%	0.7%	0.0%	31.4%	50.3%	63.7%	74.2%
21	0.6%	0.7%	0.7%	0.4%	31.8%	50.7%	63.9%	74.3%
22	0.6%	0.6%	0.5%	0.3%	32.2%	51.0%	64.1%	74.4%
23	0.5%	0.5%	0.2%	0.6%	32.5%	51.2%	64.2%	74.5%
24	0.7%	0.2%	0.0%	0.0%	33.0%	51.4%	64.2%	74.5%

# The Life Table: Welcome

Go to the top of the “1x to 2x” column. Here we are measuring the probability of a customer buying for the second time.

In the month the customer was acquired the customer has (in this example) a 4.5% chance of buying for a second time.

If the customer doesn’t buy, we move down one row to Month = 1. Now the customer has a 7.0% chance of buying for a second time.

Base Life Table Rebuy Rates

Month	Incremental Rebuy Rates				Cumulative Rebuy Rates			
	1x to 2x	2x to 3x	3x to 4x	4x to 5x	1x to 2x	2x to 3x	3x to 4x	4x to 5x
0	4.5%	7.7%	11.5%	16.3%	4.5%	7.7%	11.5%	16.3%
1	7.0%	16.7%	28.6%	42.6%	11.2%	23.1%	36.8%	52.0%
2	3.0%	5.2%	7.8%	10.0%	13.9%	27.1%	41.7%	56.8%
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6	1.4%	2.8%	3.9%	4.6%	19.6%	36.2%	51.5%	65.6%
7	1.3%	2.7%	3.9%	3.8%	20.6%	37.9%	53.4%	66.9%
8	1.1%	2.3%	3.1%	3.4%	21.5%	39.4%	54.9%	68.0%
9	1.1%	2.3%	2.8%	3.7%	22.4%	40.7%	56.1%	69.2%
10	1.3%	2.6%	3.3%	3.2%	23.4%	42.2%	57.6%	70.2%
11	1.7%	2.8%	2.9%	3.4%	24.7%	43.9%	58.8%	71.2%
12	2.5%	3.0%	2.9%	2.2%	26.6%	45.5%	60.0%	71.8%
13	1.8%	2.0%	1.9%	1.7%	27.9%	46.6%	60.8%	72.3%
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# The Life Table: Welcome

If the customer doesn't buy in Month = 1, then we move down one row to Month = 2. Now the customer has a 3.0% chance of buying for the second time.

Notice that in months 0/1/2/3 the customer has a reasonable chance of buying again.

After three months, the customer proceeds a slow drop into Retirement.

Base Life Table Rebuy Rates

Month	Incremental Rebuy Rates				Cumulative Rebuy Rates			
	1x to 2x	2x to 3x	3x to 4x	4x to 5x	1x to 2x	2x to 3x	3x to 4x	4x to 5x
0	4.5%	7.7%	11.5%	16.3%	4.5%	7.7%	11.5%	16.3%
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3	2.0%	4.0%	5.4%	6.8%	15.6%	30.0%	44.9%	59.7%
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6	1.4%	2.8%	3.9%	4.6%	19.6%	36.2%	51.5%	65.6%
7	1.3%	2.7%	3.9%	3.8%	20.6%	37.9%	53.4%	66.9%
8	1.1%	2.3%	3.1%	3.4%	21.5%	39.4%	54.9%	68.0%
9	1.1%	2.3%	2.8%	3.7%	22.4%	40.7%	56.1%	69.2%
10	1.3%	2.6%	3.3%	3.2%	23.4%	42.2%	57.6%	70.2%
11	1.7%	2.8%	2.9%	3.4%	24.7%	43.9%	58.8%	71.2%
12	2.5%	3.0%	2.9%	2.2%	26.6%	45.5%	60.0%	71.8%
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14	1.1%	1.5%	1.6%	1.3%	28.7%	47.4%	61.4%	72.7%
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23	0.5%	0.5%	0.2%	0.6%	32.5%	51.2%	64.2%	74.5%
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# The Life Table: Welcome

If you were going to try to Develop this customer, pushing the customer to a second purchase, would you Develop the customer in Months 0/1/2/3, or would you work hard in other months when the customer isn't responsive?

Obviously, you are going to work hard to convert the customer to a second purchase in Months 0/1/2/3. This is the timeframe when Welcome Programs are so important. You must convert the customer to a second purchase, and you must convert him/her quickly.

Base Life Table Rebuy Rates

Month	Incremental Rebuy Rates				Cumulative Rebuy Rates			
	1x to 2x	2x to 3x	3x to 4x	4x to 5x	1x to 2x	2x to 3x	3x to 4x	4x to 5x
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7	1.3%	2.7%	3.9%	3.8%	20.6%	37.9%	53.4%	66.9%
8	1.1%	2.3%	3.1%	3.4%	21.5%	39.4%	54.9%	68.0%
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# The Life Table: Welcome

Now read across to the section titled “Cumulative Rebuy Rates”.

Instead of conditional probabilities, this portion of the table focuses on cumulative probabilities.

Read down the “1x to 2x” column. Within twelve months, 26.6% of first-time buyers (in our example) purchase for a second time (my client average is in the low 30% range). After two years only 33% of customers bought for a second time.

Base Life Table Rebuy Rates

Month	Incremental Rebuy Rates				Cumulative Rebuy Rates			
	1x to 2x	2x to 3x	3x to 4x	4x to 5x	1x to 2x	2x to 3x	3x to 4x	4x to 5x
0	4.5%	7.7%	11.5%	16.3%	4.5%	7.7%	11.5%	16.3%
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2	3.0%	5.2%	7.8%	10.0%	13.9%	27.1%	41.7%	56.8%
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7	1.3%	2.7%	3.9%	3.8%	20.6%	37.9%	53.4%	66.9%
8	1.1%	2.3%	3.1%	3.4%	21.5%	39.4%	54.9%	68.0%
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11	1.7%	2.8%	2.9%	3.4%	24.7%	43.9%	58.8%	71.2%
12	2.5%	3.0%	2.9%	2.2%	26.6%	45.5%	60.0%	71.8%
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# The Life Table: Welcome

Look at the rows in the table that are **red**.

Months 0/1/2/3 are your classic “Welcome” period. The customer is going to be responsive, and you’ll need to use all of the tools at your disposal to quickly convert these customers to a second purchase.

Look at Recency = 11/12. These customers briefly “reappear” at the anniversary of a first purchase. Use this window to your advantage!!

Base Life Table Rebuy Rates

Month	Incremental Rebuy Rates				Cumulative Rebuy Rates			
	1x to 2x	2x to 3x	3x to 4x	4x to 5x	1x to 2x	2x to 3x	3x to 4x	4x to 5x
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7	1.3%	2.7%	3.9%	3.8%	20.6%	37.9%	53.4%	66.9%
8	1.1%	2.3%	3.1%	3.4%	21.5%	39.4%	54.9%	68.0%
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# Which Attributes Should I Target After a First Purchase?

First Order Customer Attributes			
12 Month Repurchase Rate			
	Average Price Segment		
<u>Items</u>	<u>Low</u>	<u>Medium</u>	<u>High</u>
1	17.4%	21.5%	21.9%
2	21.6%	25.2%	28.5%
3	25.3%	27.9%	32.8%
4 to 5	32.1%	31.8%	34.3%
6+	35.0%	39.0%	44.1%

# Which Attributes Should I Target After a First Purchase?

First Order Customer Attributes				
12 Month Repurchase Rate				
	Categories Purchased From			
<u>Items</u>	<u>1</u>	<u>2</u>	<u>3</u>	<u>4+</u>
1	20.8%			
2	23.1%	28.9%		
3	25.4%	30.9%	30.2%	
4 to 5	30.6%	33.4%	31.6%	35.5%
6+	34.9%	35.7%	37.3%	40.6%

# Which Attributes Should I Target After a First Purchase?

First Order Customer Attributes			
12 Month Repurchase Rate			
<u>Items</u>	<u>App</u>	<u>Mobile</u>	<u>Desktop</u>
1	16.2%	23.5%	24.4%
2	19.7%	25.8%	28.5%
3	25.0%	28.6%	31.2%
4 to 5	28.5%	32.7%	34.5%
6+	34.3%	36.5%	40.3%

# Welcome Program

**The newly acquired customer will never become loyal if you don't work hard to  
Develop the customer after a first purchase.**

**There are many attributes that help you target “who” you should try hard to  
“Welcome”. I frequently build regression models for clients with these  
attributes.**

**Number of Items in the First Order (more is better).**

**Number of Categories Purchased From (more is better).**

**Price Point Bands (your mileage will vary).**

**Merchandise Category Preference (there's always one key category).**

**Marketing Channel in a First Purchase.**

**Month of a First Purchase (December is often “bad”).**

# **Welcome Program: Email Personalization**

**It is a common practice to leverage email personalization for first-time buyers in the first three months following a first purchase.**

**Use regression models to categorize first-time buyers into A/B/C/D/F grades (best to worst).**

**Based on the merchandise purchased in a first order, feature complementary items in all email campaigns, on a personalized level, to quickly push the customer to a second purchase.**

**Across Emerging/Loyal Customers, you know if you are doing a good job of Customer Development if your email marketing program delivers at least \$0.20 per delivered email message, and generates about 30% (hopefully more) of annual sales among existing buyers.**



# Emergence

**“Emergence” is defined as a customer who has purchased for the second, third, or fourth time. It is during this timeframe that the customer “Emerges” from low-response to high-response. Each additional purchase teaches you more about the customer, enabling you to have a closer relationship with the customer.**

**If you do a good job of Developing the customer through Emergence, your customer can become Loyal, allowing you to generate a disproportionate amount of profit from the customer.**

# The Life Table: Emergence

Compare incremental repurchase rates for customers going from a 2<sup>nd</sup> to a 3<sup>rd</sup> purchase (2x to 3x) vs. those who just bought for the first time.

The rates are significantly higher, aren't they? They're frequently 25% to 100% higher. The customer is “emerging”, and is beginning the process of bonding to your brand (in this example ... your mileage will vary ... and frequently be better than what is presented here).

Base Life Table Rebuy Rates

Month	Incremental Rebuy Rates				Cumulative Rebuy Rates			
	1x to 2x	2x to 3x	3x to 4x	4x to 5x	1x to 2x	2x to 3x	3x to 4x	4x to 5x
0	4.5%	7.7%	11.5%	16.3%	4.5%	7.7%	11.5%	16.3%
1	7.0%	16.7%	28.6%	42.6%	11.2%	23.1%	36.8%	52.0%
2	3.0%	5.2%	7.8%	10.0%	13.9%	27.1%	41.7%	56.8%
3	2.0%	4.0%	5.4%	6.8%	15.6%	30.0%	44.9%	59.7%
4	1.8%	3.4%	4.7%	5.4%	17.1%	32.3%	47.4%	61.9%
5	1.6%	3.0%	4.0%	5.2%	18.4%	34.3%	49.5%	63.9%
6	1.4%	2.8%	3.9%	4.6%	19.6%	36.2%	51.5%	65.6%
7	1.3%	2.7%	3.9%	3.8%	20.6%	37.9%	53.4%	66.9%
8	1.1%	2.3%	3.1%	3.4%	21.5%	39.4%	54.9%	68.0%
9	1.1%	2.3%	2.8%	3.7%	22.4%	40.7%	56.1%	69.2%
10	1.3%	2.6%	3.3%	3.2%	23.4%	42.2%	57.6%	70.2%
11	1.7%	2.8%	2.9%	3.4%	24.7%	43.9%	58.8%	71.2%
12	2.5%	3.0%	2.9%	2.2%	26.6%	45.5%	60.0%	71.8%
13	1.8%	2.0%	1.9%	1.7%	27.9%	46.6%	60.8%	72.3%
14	1.1%	1.5%	1.6%	1.3%	28.7%	47.4%	61.4%	72.7%
15	0.7%	1.1%	1.2%	1.8%	29.2%	48.0%	61.9%	73.2%
16	0.6%	1.0%	1.1%	1.3%	29.7%	48.5%	62.3%	73.5%
17	0.6%	0.8%	1.0%	0.8%	30.1%	48.9%	62.7%	73.7%
18	0.6%	0.9%	1.1%	1.0%	30.5%	49.4%	63.1%	74.0%
19	0.7%	1.0%	0.9%	0.8%	30.9%	49.9%	63.4%	74.2%
20	0.7%	0.9%	0.7%	0.0%	31.4%	50.3%	63.7%	74.2%
21	0.6%	0.7%	0.7%	0.4%	31.8%	50.7%	63.9%	74.3%
22	0.6%	0.6%	0.5%	0.3%	32.2%	51.0%	64.1%	74.4%
23	0.5%	0.5%	0.2%	0.6%	32.5%	51.2%	64.2%	74.5%
24	0.7%	0.2%	0.0%	0.0%	33.0%	51.4%	64.2%	74.5%

# The Life Table: Emergence

I like to look at cumulative repurchase rates after 3/12/24 months.

**2-Time Buyer Conversion = 30% after three months, 46% after twelve months, and 51% after twenty-four months.**

**3-Time Buyer Conversion = 45% after three months, 60% after twelve months, and 64% after twenty-four months.**

**4-Time Buyer Conversion = 60% after three months, 72% after twelve months, and 75% after twenty-four months.**

Base Life Table Rebuy Rates

Month	Incremental Rebuy Rates				Cumulative Rebuy Rates			
	1x to 2x	2x to 3x	3x to 4x	4x to 5x	1x to 2x	2x to 3x	3x to 4x	4x to 5x
0	4.5%	7.7%	11.5%	16.3%	4.5%	7.7%	11.5%	16.3%
1	7.0%	16.7%	28.6%	42.6%	11.2%	23.1%	36.8%	52.0%
2	3.0%	5.2%	7.8%	10.0%	13.9%	27.1%	41.7%	56.8%
3	2.0%	4.0%	5.4%	6.8%	15.6%	30.0%	44.9%	59.7%
4	1.8%	3.4%	4.7%	5.4%	17.1%	32.3%	47.4%	61.9%
5	1.6%	3.0%	4.0%	5.2%	18.4%	34.3%	49.5%	63.9%
6	1.4%	2.8%	3.9%	4.6%	19.6%	36.2%	51.5%	65.6%
7	1.3%	2.7%	3.9%	3.8%	20.6%	37.9%	53.4%	66.9%
8	1.1%	2.3%	3.1%	3.4%	21.5%	39.4%	54.9%	68.0%
9	1.1%	2.3%	2.8%	3.7%	22.4%	40.7%	56.1%	69.2%
10	1.3%	2.6%	3.3%	3.2%	23.4%	42.2%	57.6%	70.2%
11	1.7%	2.8%	2.9%	3.4%	24.7%	43.9%	58.8%	71.2%
12	2.5%	3.0%	2.9%	2.2%	26.6%	45.5%	60.0%	71.8%
13	1.8%	2.0%	1.9%	1.7%	27.9%	46.6%	60.8%	72.3%
14	1.1%	1.5%	1.6%	1.3%	28.7%	47.4%	61.4%	72.7%
15	0.7%	1.1%	1.2%	1.8%	29.2%	48.0%	61.9%	73.2%
16	0.6%	1.0%	1.1%	1.3%	29.7%	48.5%	62.3%	73.5%
17	0.6%	0.8%	1.0%	0.8%	30.1%	48.9%	62.7%	73.7%
18	0.6%	0.9%	1.1%	1.0%	30.5%	49.4%	63.1%	74.0%
19	0.7%	1.0%	0.9%	0.8%	30.9%	49.9%	63.4%	74.2%
20	0.7%	0.9%	0.7%	0.0%	31.4%	50.3%	63.7%	74.2%
21	0.6%	0.7%	0.7%	0.4%	31.8%	50.7%	63.9%	74.3%
22	0.6%	0.6%	0.5%	0.3%	32.2%	51.0%	64.1%	74.4%
23	0.5%	0.5%	0.2%	0.6%	32.5%	51.2%	64.2%	74.5%
24	0.7%	0.2%	0.0%	0.0%	33.0%	51.4%	64.2%	74.5%

# The Life Table: Emergence

I typically look for a twelve-month buyer rate of 60% or higher before I begin to consider a customer as being “Loyal”.

It takes three purchases in this case before the customer crosses that barrier (and at only 60.0%).

In general, a customer who purchases for a fifth time is close to loyal. For that reason, we focus on Emergence as a timeframe where we try to get the customer to do “many” things.

Base Life Table Rebuy Rates

Month	Incremental Rebuy Rates				Cumulative Rebuy Rates			
	1x to 2x	2x to 3x	3x to 4x	4x to 5x	1x to 2x	2x to 3x	3x to 4x	4x to 5x
0	4.5%	7.7%	11.5%	16.3%	4.5%	7.7%	11.5%	16.3%
1	7.0%	16.7%	28.6%	42.6%	11.2%	23.1%	36.8%	52.0%
2	3.0%	5.2%	7.8%	10.0%	13.9%	27.1%	41.7%	56.8%
3	2.0%	4.0%	5.4%	6.8%	15.6%	30.0%	44.9%	59.7%
4	1.8%	3.4%	4.7%	5.4%	17.1%	32.3%	47.4%	61.9%
5	1.6%	3.0%	4.0%	5.2%	18.4%	34.3%	49.5%	63.9%
6	1.4%	2.8%	3.9%	4.6%	19.6%	36.2%	51.5%	65.6%
7	1.3%	2.7%	3.9%	3.8%	20.6%	37.9%	53.4%	66.9%
8	1.1%	2.3%	3.1%	3.4%	21.5%	39.4%	54.9%	68.0%
9	1.1%	2.3%	2.8%	3.7%	22.4%	40.7%	56.1%	69.2%
10	1.3%	2.6%	3.3%	3.2%	23.4%	42.2%	57.6%	70.2%
11	1.7%	2.8%	2.9%	3.4%	24.7%	43.9%	58.8%	71.2%
12	2.5%	3.0%	2.9%	2.2%	26.6%	45.5%	60.0%	71.8%
13	1.8%	2.0%	1.9%	1.7%	27.9%	46.6%	60.8%	72.3%
14	1.1%	1.5%	1.6%	1.3%	28.7%	47.4%	61.4%	72.7%
15	0.7%	1.1%	1.2%	1.8%	29.2%	48.0%	61.9%	73.2%
16	0.6%	1.0%	1.1%	1.3%	29.7%	48.5%	62.3%	73.5%
17	0.6%	0.8%	1.0%	0.8%	30.1%	48.9%	62.7%	73.7%
18	0.6%	0.9%	1.1%	1.0%	30.5%	49.4%	63.1%	74.0%
19	0.7%	1.0%	0.9%	0.8%	30.9%	49.9%	63.4%	74.2%
20	0.7%	0.9%	0.7%	0.0%	31.4%	50.3%	63.7%	74.2%
21	0.6%	0.7%	0.7%	0.4%	31.8%	50.7%	63.9%	74.3%
22	0.6%	0.6%	0.5%	0.3%	32.2%	51.0%	64.1%	74.4%
23	0.5%	0.5%	0.2%	0.6%	32.5%	51.2%	64.2%	74.5%
24	0.7%	0.2%	0.0%	0.0%	33.0%	51.4%	64.2%	74.5%

# Emergence

**We want the customer to do “many” things.**

**Buy from many merchandise categories.**

**Buy many items per order, from many price points.**

**Buy from many marketing channels / retail stores.**

**Buy during many different months/seasons.**

**Visit the website many times per month.**

**Click through many email campaigns.**

**Velocity: Buy often within a short timeframe.**

**My regression models tell me that “many” is important. The more categories / items / price points / marketing channels / seasons the customer purchases in, the faster the customer moves through Emergence and into Loyalty. Please work hard to embed “many” into your Emergence Marketing Strategies.**

# Loyalty

**Eventually the customer arrives at a fifth purchase.**

**From this point forward, the customer has a good chance of staying Loyal to your brand. This is where so much of your profit is generated.**

**But please remember, the customer cannot get to a fifth purchase if the customer isn't Acquired, Welcomed, and migrated through Emergence.**

**For that reason, Loyalty is more of an “outcome” than anything else. If you have a large number of Loyal buyers, you've done something right Developing customers over time!**

# Loyalty

**This table illustrates Cumulative Annual Repurchase Rates by Months Since Last Purchase.**

**In this example, when the customer purchases for the fifth time, the customer has a 64.1% chance of buying again in the next year. The customer is essentially Loyal.**

**But. But! Look at what happens if the customer does not repurchase after a month? The annual rebuy rate decreases to 52.8% ... not Loyal. Oh.**

**Cumm 12 Month Repurchase Rate**

<u>Recency</u>	<u>Freq = 1</u>	<u>Freq = 2</u>	<u>Freq = 3</u>	<u>Freq = 4</u>	<u>Freq = 5</u>	<u>Freq = 6</u>	<u>Freq = 7</u>
1	24.4%	43.0%	51.3%	58.8%	64.1%	69.2%	73.4%
2	18.6%	32.6%	40.2%	47.6%	52.8%	57.6%	61.6%
3	16.9%	30.5%	38.1%	45.7%	51.2%	56.0%	59.6%
4	16.0%	28.9%	36.6%	44.3%	49.6%	54.4%	57.3%
5	15.1%	27.5%	35.1%	42.8%	48.0%	52.6%	54.8%
6	14.3%	26.3%	33.7%	41.4%	46.5%	50.8%	52.2%
7	13.7%	25.1%	32.5%	40.2%	45.0%	48.8%	49.7%
8	13.1%	24.1%	31.3%	38.9%	43.3%	46.9%	46.9%
9	12.6%	23.2%	30.2%	37.8%	41.7%	44.7%	44.3%
10	12.1%	22.4%	29.1%	36.5%	40.1%	43.2%	41.7%
11	11.6%	21.6%	28.1%	35.4%	38.7%	41.2%	39.3%
12	11.0%	20.6%	26.7%	33.5%	36.2%	38.8%	37.5%
13	10.3%	19.3%	25.0%	30.4%	32.7%		
14	9.8%	18.3%	23.6%	28.0%	30.1%		
15	9.4%	17.7%	22.5%	26.6%	28.1%		
16	9.1%	17.1%	21.7%	25.4%	26.6%		
17	8.8%	16.4%	20.9%	24.3%	25.1%		
18	8.5%	15.9%	20.2%	23.3%	23.7%		
19	8.2%	15.3%	19.4%	22.3%	22.3%		
20	7.9%	14.8%	18.7%	21.2%	21.3%		
21	7.7%	14.4%	18.0%	20.2%	19.9%		
22	7.4%	13.8%	17.4%	19.1%	19.1%		
23	7.2%	13.2%	16.7%	18.0%	18.1%		
24	6.9%	12.6%	15.9%	17.0%	17.3%		

# Loyalty

**In other words, just because a customer is Loyal doesn't mean you stop marketing to the customer.**

**You still have to keep up the hard work to encourage the customer to keep purchasing.**

**The customer is always in a constant state of Decay ... and if you don't do your job, the customer won't do his/her job, and the customer will gradually Retire from your brand.**

**Cumm 12 Month Repurchase Rate**

<u>Recency</u>	<u>Freq = 1</u>	<u>Freq = 2</u>	<u>Freq = 3</u>	<u>Freq = 4</u>	<u>Freq = 5</u>	<u>Freq = 6</u>	<u>Freq = 7</u>
1	24.4%	43.0%	51.3%	58.8%	64.1%	69.2%	73.4%
2	18.6%	32.6%	40.2%	47.6%	52.8%	57.6%	61.6%
3	16.9%	30.5%	38.1%	45.7%	51.2%	56.0%	59.6%
4	16.0%	28.9%	36.6%	44.3%	49.6%	54.4%	57.3%
5	15.1%	27.5%	35.1%	42.8%	48.0%	52.6%	54.8%
6	14.3%	26.3%	33.7%	41.4%	46.5%	50.8%	52.2%
7	13.7%	25.1%	32.5%	40.2%	45.0%	48.8%	49.7%
8	13.1%	24.1%	31.3%	38.9%	43.3%	46.9%	46.9%
9	12.6%	23.2%	30.2%	37.8%	41.7%	44.7%	44.3%
10	12.1%	22.4%	29.1%	36.5%	40.1%	43.2%	41.7%
11	11.6%	21.6%	28.1%	35.4%	38.7%	41.2%	39.3%
12	11.0%	20.6%	26.7%	33.5%	36.2%	38.8%	37.5%
13	10.3%	19.3%	25.0%	30.4%	32.7%		
14	9.8%	18.3%	23.6%	28.0%	30.1%		
15	9.4%	17.7%	22.5%	26.6%	28.1%		
16	9.1%	17.1%	21.7%	25.4%	26.6%		
17	8.8%	16.4%	20.9%	24.3%	25.1%		
18	8.5%	15.9%	20.2%	23.3%	23.7%		
19	8.2%	15.3%	19.4%	22.3%	22.3%		
20	7.9%	14.8%	18.7%	21.2%	21.3%		
21	7.7%	14.4%	18.0%	20.2%	19.9%		
22	7.4%	13.8%	17.4%	19.1%	19.1%		
23	7.2%	13.2%	16.7%	18.0%	18.1%		
24	6.9%	12.6%	15.9%	17.0%	17.3%		



# Loyalty

**Even if the customer buys for a sixth time, the customer quickly Decays from a 69.2% annual repurchase rate to just 57.6% if the customer remains inactive for just one month.**

**At a seventh purchase, the customer has a 73.4% chance of buying again ... but notice that the customer quickly slumps down to 61.6% after a month and 59.6% after two months.**

**Decay is a major issue at any stage, requiring vigilance and perseverance!**

**Cumm 12 Month Repurchase Rate**

<u>Recency</u>	<u>Freq = 1</u>	<u>Freq = 2</u>	<u>Freq = 3</u>	<u>Freq = 4</u>	<u>Freq = 5</u>	<u>Freq = 6</u>	<u>Freq = 7</u>
1	24.4%	43.0%	51.3%	58.8%	64.1%	69.2%	73.4%
2	18.6%	32.6%	40.2%	47.6%	52.8%	57.6%	61.6%
3	16.9%	30.5%	38.1%	45.7%	51.2%	56.0%	59.6%
4	16.0%	28.9%	36.6%	44.3%	49.6%	54.4%	57.3%
5	15.1%	27.5%	35.1%	42.8%	48.0%	52.6%	54.8%
6	14.3%	26.3%	33.7%	41.4%	46.5%	50.8%	52.2%
7	13.7%	25.1%	32.5%	40.2%	45.0%	48.8%	49.7%
8	13.1%	24.1%	31.3%	38.9%	43.3%	46.9%	46.9%
9	12.6%	23.2%	30.2%	37.8%	41.7%	44.7%	44.3%
10	12.1%	22.4%	29.1%	36.5%	40.1%	43.2%	41.7%
11	11.6%	21.6%	28.1%	35.4%	38.7%	41.2%	39.3%
12	11.0%	20.6%	26.7%	33.5%	36.2%	38.8%	37.5%
13	10.3%	19.3%	25.0%	30.4%	32.7%		
14	9.8%	18.3%	23.6%	28.0%	30.1%		
15	9.4%	17.7%	22.5%	26.6%	28.1%		
16	9.1%	17.1%	21.7%	25.4%	26.6%		
17	8.8%	16.4%	20.9%	24.3%	25.1%		
18	8.5%	15.9%	20.2%	23.3%	23.7%		
19	8.2%	15.3%	19.4%	22.3%	22.3%		
20	7.9%	14.8%	18.7%	21.2%	21.3%		
21	7.7%	14.4%	18.0%	20.2%	19.9%		
22	7.4%	13.8%	17.4%	19.1%	19.1%		
23	7.2%	13.2%	16.7%	18.0%	18.1%		
24	6.9%	12.6%	15.9%	17.0%	17.3%		

# Loyalty

Each purchase “buys you time”.

**Recency = 1 / Frequency = 1: 24% Rebuy**

**Recency = 8 / Frequency = 2: 24% Rebuy**

**Recency = 14 / Frequency = 3: 24% Rebuy**

**Recency = 17 / Frequency = 4: 24% Rebuy.**

**Recency = 18 / Frequency = 5: 24% Rebuy.**

**A 5x buyer can lapse for 18 months and is just as responsive as a brand new buyer.**

**Cumm 12 Month Repurchase Rate**

<u>Recency</u>	<u>Freq = 1</u>	<u>Freq = 2</u>	<u>Freq = 3</u>	<u>Freq = 4</u>	<u>Freq = 5</u>	<u>Freq = 6</u>	<u>Freq = 7</u>
1	24.4%	43.0%	51.3%	58.8%	64.1%	69.2%	73.4%
2	18.6%	32.6%	40.2%	47.6%	52.8%	57.6%	61.6%
3	16.9%	30.5%	38.1%	45.7%	51.2%	56.0%	59.6%
4	16.0%	28.9%	36.6%	44.3%	49.6%	54.4%	57.3%
5	15.1%	27.5%	35.1%	42.8%	48.0%	52.6%	54.8%
6	14.3%	26.3%	33.7%	41.4%	46.5%	50.8%	52.2%
7	13.7%	25.1%	32.5%	40.2%	45.0%	48.8%	49.7%
8	13.1%	24.1%	31.3%	38.9%	43.3%	46.9%	46.9%
9	12.6%	23.2%	30.2%	37.8%	41.7%	44.7%	44.3%
10	12.1%	22.4%	29.1%	36.5%	40.1%	43.2%	41.7%
11	11.6%	21.6%	28.1%	35.4%	38.7%	41.2%	39.3%
12	11.0%	20.6%	26.7%	33.5%	36.2%	38.8%	37.5%
13	10.3%	19.3%	25.0%	30.4%	32.7%		
14	9.8%	18.3%	23.6%	28.0%	30.1%		
15	9.4%	17.7%	22.5%	26.6%	28.1%		
16	9.1%	17.1%	21.7%	25.4%	26.6%		
17	8.8%	16.4%	20.9%	24.3%	25.1%		
18	8.5%	15.9%	20.2%	23.3%	23.7%		
19	8.2%	15.3%	19.4%	22.3%	22.3%		
20	7.9%	14.8%	18.7%	21.2%	21.3%		
21	7.7%	14.4%	18.0%	20.2%	19.9%		
22	7.4%	13.8%	17.4%	19.1%	19.1%		
23	7.2%	13.2%	16.7%	18.0%	18.1%		
24	6.9%	12.6%	15.9%	17.0%	17.3%		

# Loyalty

**Should we invest in a customer?**

**The answer can often be “yes”, if the transaction is profitable or close-to-profitable.**

**Pretend that a customer is at Recency = 9, Frequency = 3 (30.2% annual rebuy rate). If we convert the customer to a 4<sup>th</sup> purchase, the rebuy rate increases to 58.8%. If we don't convert the customer, the rebuy rate decreases to 29.1%. So again, if the marketing effort can be done profitably (or close to profitably), do it!!!**

**Cumm 12 Month Repurchase Rate**

<u>Recency</u>	<u>Freq = 1</u>	<u>Freq = 2</u>	<u>Freq = 3</u>	<u>Freq = 4</u>	<u>Freq = 5</u>	<u>Freq = 6</u>	<u>Freq = 7</u>
1	24.4%	43.0%	51.3%	58.8%	64.1%	69.2%	73.4%
2	18.6%	32.6%	40.2%	47.6%	52.8%	57.6%	61.6%
3	16.9%	30.5%	38.1%	45.7%	51.2%	56.0%	59.6%
4	16.0%	28.9%	36.6%	44.3%	49.6%	54.4%	57.3%
5	15.1%	27.5%	35.1%	42.8%	48.0%	52.6%	54.8%
6	14.3%	26.3%	33.7%	41.4%	46.5%	50.8%	52.2%
7	13.7%	25.1%	32.5%	40.2%	45.0%	48.8%	49.7%
8	13.1%	24.1%	31.3%	38.9%	43.3%	46.9%	46.9%
9	12.6%	23.2%	30.2%	37.8%	41.7%	44.7%	44.3%
10	12.1%	22.4%	29.1%	36.5%	40.1%	43.2%	41.7%
11	11.6%	21.6%	28.1%	35.4%	38.7%	41.2%	39.3%
12	11.0%	20.6%	26.7%	33.5%	36.2%	38.8%	37.5%
13	10.3%	19.3%	25.0%	30.4%	32.7%		
14	9.8%	18.3%	23.6%	28.0%	30.1%		
15	9.4%	17.7%	22.5%	26.6%	28.1%		
16	9.1%	17.1%	21.7%	25.4%	26.6%		
17	8.8%	16.4%	20.9%	24.3%	25.1%		
18	8.5%	15.9%	20.2%	23.3%	23.7%		
19	8.2%	15.3%	19.4%	22.3%	22.3%		
20	7.9%	14.8%	18.7%	21.2%	21.3%		
21	7.7%	14.4%	18.0%	20.2%	19.9%		
22	7.4%	13.8%	17.4%	19.1%	19.1%		
23	7.2%	13.2%	16.7%	18.0%	18.1%		
24	6.9%	12.6%	15.9%	17.0%	17.3%		

# Retirement

**Every single customer is in a state of Decay. Sure, some customers will purchase without the need for any marketing (the best marketers Develop customers who love products / merchandise so much that they don't need marketing to buy ... they just buy).**

**But many of your customers need a constant reminder that you matter, or the customer gradually slides into Retirement.**

**Cumm 12 Month Repurchase Rate**

<u>Recency</u>	<u>Freq = 1</u>	<u>Freq = 2</u>	<u>Freq = 3</u>	<u>Freq = 4</u>	<u>Freq = 5</u>	<u>Freq = 6</u>	<u>Freq = 7</u>
1	24.4%	43.0%	51.3%	58.8%	64.1%	69.2%	73.4%
2	18.6%	32.6%	40.2%	47.6%	52.8%	57.6%	61.6%
3	16.9%	30.5%	38.1%	45.7%	51.2%	56.0%	59.6%
4	16.0%	28.9%	36.6%	44.3%	49.6%	54.4%	57.3%
5	15.1%	27.5%	35.1%	42.8%	48.0%	52.6%	54.8%
6	14.3%	26.3%	33.7%	41.4%	46.5%	50.8%	52.2%
7	13.7%	25.1%	32.5%	40.2%	45.0%	48.8%	49.7%
8	13.1%	24.1%	31.3%	38.9%	43.3%	46.9%	46.9%
9	12.6%	23.2%	30.2%	37.8%	41.7%	44.7%	44.3%
10	12.1%	22.4%	29.1%	36.5%	40.1%	43.2%	41.7%
11	11.6%	21.6%	28.1%	35.4%	38.7%	41.2%	39.3%
12	11.0%	20.6%	26.7%	33.5%	36.2%	38.8%	37.5%
13	10.3%	19.3%	25.0%	30.4%	32.7%		
14	9.8%	18.3%	23.6%	28.0%	30.1%		
15	9.4%	17.7%	22.5%	26.6%	28.1%		
16	9.1%	17.1%	21.7%	25.4%	26.6%		
17	8.8%	16.4%	20.9%	24.3%	25.1%		
18	8.5%	15.9%	20.2%	23.3%	23.7%		
19	8.2%	15.3%	19.4%	22.3%	22.3%		
20	7.9%	14.8%	18.7%	21.2%	21.3%		
21	7.7%	14.4%	18.0%	20.2%	19.9%		
22	7.4%	13.8%	17.4%	19.1%	19.1%		
23	7.2%	13.2%	16.7%	18.0%	18.1%		
24	6.9%	12.6%	15.9%	17.0%	17.3%		

# Retirement

**Let's assume that if a customer has an annual repurchase rate between 15% and 20% that the customer is about to enter Retirement.**

**When does a customer retire?**

**1x Buyers = After 2-5 Months.**

**2x Buyers = After 13-19 Months.**

**3x Buyers = After 18-24 Months.**

**4x Buyers = After 21 Months.**

**5x Buyers = After 21 Months.**

**Cumm 12 Month Repurchase Rate**

<u>Recency</u>	<u>Freq = 1</u>	<u>Freq = 2</u>	<u>Freq = 3</u>	<u>Freq = 4</u>	<u>Freq = 5</u>	<u>Freq = 6</u>	<u>Freq = 7</u>
1	24.4%	43.0%	51.3%	58.8%	64.1%	69.2%	73.4%
2	18.6%	32.6%	40.2%	47.6%	52.8%	57.6%	61.6%
3	16.9%	30.5%	38.1%	45.7%	51.2%	56.0%	59.6%
4	16.0%	28.9%	36.6%	44.3%	49.6%	54.4%	57.3%
5	15.1%	27.5%	35.1%	42.8%	48.0%	52.6%	54.8%
6	14.3%	26.3%	33.7%	41.4%	46.5%	50.8%	52.2%
7	13.7%	25.1%	32.5%	40.2%	45.0%	48.8%	49.7%
8	13.1%	24.1%	31.3%	38.9%	43.3%	46.9%	46.9%
9	12.6%	23.2%	30.2%	37.8%	41.7%	44.7%	44.3%
10	12.1%	22.4%	29.1%	36.5%	40.1%	43.2%	41.7%
11	11.6%	21.6%	28.1%	35.4%	38.7%	41.2%	39.3%
12	11.0%	20.6%	26.7%	33.5%	36.2%	38.8%	37.5%
13	10.3%	19.3%	25.0%	30.4%	32.7%		
14	9.8%	18.3%	23.6%	28.0%	30.1%		
15	9.4%	17.7%	22.5%	26.6%	28.1%		
16	9.1%	17.1%	21.7%	25.4%	26.6%		
17	8.8%	16.4%	20.9%	24.3%	25.1%		
18	8.5%	15.9%	20.2%	23.3%	23.7%		
19	8.2%	15.3%	19.4%	22.3%	22.3%		
20	7.9%	14.8%	18.7%	21.2%	21.3%		
21	7.7%	14.4%	18.0%	20.2%	19.9%		
22	7.4%	13.8%	17.4%	19.1%	19.1%		
23	7.2%	13.2%	16.7%	18.0%	18.1%		
24	6.9%	12.6%	15.9%	17.0%	17.3%		

# Retirement

**Your job is to not let the customer slide / decay into Retirement!!**

**Now you can clearly see why a Welcome Program is so critically important. First-time buyers quickly slide into Retirement, requiring the marketer to implement a Welcome Program immediately.**

**Highly Emergent customers and Loyal customers tend to slide into Retirement after about two years of inactivity.**

**Cumm 12 Month Repurchase Rate**

<u>Recency</u>	<u>Freq = 1</u>	<u>Freq = 2</u>	<u>Freq = 3</u>	<u>Freq = 4</u>	<u>Freq = 5</u>	<u>Freq = 6</u>	<u>Freq = 7</u>
1	24.4%	43.0%	51.3%	58.8%	64.1%	69.2%	73.4%
2	18.6%	32.6%	40.2%	47.6%	52.8%	57.6%	61.6%
3	16.9%	30.5%	38.1%	45.7%	51.2%	56.0%	59.6%
4	16.0%	28.9%	36.6%	44.3%	49.6%	54.4%	57.3%
5	15.1%	27.5%	35.1%	42.8%	48.0%	52.6%	54.8%
6	14.3%	26.3%	33.7%	41.4%	46.5%	50.8%	52.2%
7	13.7%	25.1%	32.5%	40.2%	45.0%	48.8%	49.7%
8	13.1%	24.1%	31.3%	38.9%	43.3%	46.9%	46.9%
9	12.6%	23.2%	30.2%	37.8%	41.7%	44.7%	44.3%
10	12.1%	22.4%	29.1%	36.5%	40.1%	43.2%	41.7%
11	11.6%	21.6%	28.1%	35.4%	38.7%	41.2%	39.3%
12	11.0%	20.6%	26.7%	33.5%	36.2%	38.8%	37.5%
13	10.3%	19.3%	25.0%	30.4%	32.7%		
14	9.8%	18.3%	23.6%	28.0%	30.1%		
15	9.4%	17.7%	22.5%	26.6%	28.1%		
16	9.1%	17.1%	21.7%	25.4%	26.6%		
17	8.8%	16.4%	20.9%	24.3%	25.1%		
18	8.5%	15.9%	20.2%	23.3%	23.7%		
19	8.2%	15.3%	19.4%	22.3%	22.3%		
20	7.9%	14.8%	18.7%	21.2%	21.3%		
21	7.7%	14.4%	18.0%	20.2%	19.9%		
22	7.4%	13.8%	17.4%	19.1%	19.1%		
23	7.2%	13.2%	16.7%	18.0%	18.1%		
24	6.9%	12.6%	15.9%	17.0%	17.3%		

# Retirement

**Your odds of converting a customer who slides into Retirement are low.**

**Worse, the math works against the marketer. If a customer has a 15% chance of buying next year, the customer has an average chance of buying in given month of about 1.35%.**

**Pretend you have 10,000 customers in this state. Pretend your marketing activities increase response by 10%.  $10,000 * 0.0135 * 0.10 = 13.5$  incremental customers. You work hard and get almost no benefit.**

**Cumm 12 Month Repurchase Rate**

<u>Recency</u>	<u>Freq = 1</u>	<u>Freq = 2</u>	<u>Freq = 3</u>	<u>Freq = 4</u>	<u>Freq = 5</u>	<u>Freq = 6</u>	<u>Freq = 7</u>
1	24.4%	43.0%	51.3%	58.8%	64.1%	69.2%	73.4%
2	18.6%	32.6%	40.2%	47.6%	52.8%	57.6%	61.6%
3	16.9%	30.5%	38.1%	45.7%	51.2%	56.0%	59.6%
4	16.0%	28.9%	36.6%	44.3%	49.6%	54.4%	57.3%
5	15.1%	27.5%	35.1%	42.8%	48.0%	52.6%	54.8%
6	14.3%	26.3%	33.7%	41.4%	46.5%	50.8%	52.2%
7	13.7%	25.1%	32.5%	40.2%	45.0%	48.8%	49.7%
8	13.1%	24.1%	31.3%	38.9%	43.3%	46.9%	46.9%
9	12.6%	23.2%	30.2%	37.8%	41.7%	44.7%	44.3%
10	12.1%	22.4%	29.1%	36.5%	40.1%	43.2%	41.7%
11	11.6%	21.6%	28.1%	35.4%	38.7%	41.2%	39.3%
12	11.0%	20.6%	26.7%	33.5%	36.2%	38.8%	37.5%
13	10.3%	19.3%	25.0%	30.4%	32.7%		
14	9.8%	18.3%	23.6%	28.0%	30.1%		
15	9.4%	17.7%	22.5%	26.6%	28.1%		
16	9.1%	17.1%	21.7%	25.4%	26.6%		
17	8.8%	16.4%	20.9%	24.3%	25.1%		
18	8.5%	15.9%	20.2%	23.3%	23.7%		
19	8.2%	15.3%	19.4%	22.3%	22.3%		
20	7.9%	14.8%	18.7%	21.2%	21.3%		
21	7.7%	14.4%	18.0%	20.2%	19.9%		
22	7.4%	13.8%	17.4%	19.1%	19.1%		
23	7.2%	13.2%	16.7%	18.0%	18.1%		
24	6.9%	12.6%	15.9%	17.0%	17.3%		



# Retirement

**Don't let “tiny math” work against you.**

**Work hard to keep customers active, thereby minimizing decay.**

**When a customer buys for the first time, the customer is only active for a few months before sliding into Retirement. You worked so hard to Acquire the customer. Why waste your Acquisition efforts?**

**Focus on those first three months via a credible Welcome Program!**

**Cumm 12 Month Repurchase Rate**

<u>Recency</u>	<u>Freq = 1</u>	<u>Freq = 2</u>	<u>Freq = 3</u>	<u>Freq = 4</u>	<u>Freq = 5</u>	<u>Freq = 6</u>	<u>Freq = 7</u>
1	24.4%	43.0%	51.3%	58.8%	64.1%	69.2%	73.4%
2	18.6%	32.6%	40.2%	47.6%	52.8%	57.6%	61.6%
3	16.9%	30.5%	38.1%	45.7%	51.2%	56.0%	59.6%
4	16.0%	28.9%	36.6%	44.3%	49.6%	54.4%	57.3%
5	15.1%	27.5%	35.1%	42.8%	48.0%	52.6%	54.8%
6	14.3%	26.3%	33.7%	41.4%	46.5%	50.8%	52.2%
7	13.7%	25.1%	32.5%	40.2%	45.0%	48.8%	49.7%
8	13.1%	24.1%	31.3%	38.9%	43.3%	46.9%	46.9%
9	12.6%	23.2%	30.2%	37.8%	41.7%	44.7%	44.3%
10	12.1%	22.4%	29.1%	36.5%	40.1%	43.2%	41.7%
11	11.6%	21.6%	28.1%	35.4%	38.7%	41.2%	39.3%
12	11.0%	20.6%	26.7%	33.5%	36.2%	38.8%	37.5%
13	10.3%	19.3%	25.0%	30.4%	32.7%		
14	9.8%	18.3%	23.6%	28.0%	30.1%		
15	9.4%	17.7%	22.5%	26.6%	28.1%		
16	9.1%	17.1%	21.7%	25.4%	26.6%		
17	8.8%	16.4%	20.9%	24.3%	25.1%		
18	8.5%	15.9%	20.2%	23.3%	23.7%		
19	8.2%	15.3%	19.4%	22.3%	22.3%		
20	7.9%	14.8%	18.7%	21.2%	21.3%		
21	7.7%	14.4%	18.0%	20.2%	19.9%		
22	7.4%	13.8%	17.4%	19.1%	19.1%		
23	7.2%	13.2%	16.7%	18.0%	18.1%		
24	6.9%	12.6%	15.9%	17.0%	17.3%		



# Customer Evolution

## Customers Acquired in June ... 1yr Later

12th Month	LTD Freq = 1	LTD Freq = 2	LTD Freq = 3	LTD Freq = 4	LTD Freq = 5	LTD Freq = 6 to 10	LTD Freq = 11+
Recency = 1 Month	0.0%	0.8%	0.6%	0.2%	0.1%	0.3%	0.3%
Recency = 2 Months	0.0%	1.0%	0.5%	0.2%	0.1%	0.1%	0.1%
Recency = 3 Months	0.0%	0.5%	0.3%	0.1%	0.0%	0.0%	0.0%
Recency = 4 Months	0.0%	0.4%	0.3%	0.2%	0.1%	0.1%	0.0%
Recency = 5 Months	0.0%	0.6%	0.2%	0.1%	0.1%	0.1%	0.0%
Recency = 6 Months	0.0%	1.0%	0.5%	0.2%	0.1%	0.1%	0.0%
Recency = 7 Months	0.0%	0.9%	0.4%	0.1%	0.1%	0.0%	0.0%
Recency = 8 Months	0.0%	2.1%	0.7%	0.2%	0.1%	0.1%	0.0%
Recency = 9 Months	0.0%	1.9%	0.5%	0.1%	0.0%	0.0%	0.0%
Recency = 10 Months	0.0%	1.6%	0.3%	0.1%	0.0%	0.0%	0.0%
Recency = 11 Months	0.0%	1.1%	0.2%	0.0%	0.0%	0.0%	0.0%
Recency = 12 Months	0.0%	1.8%	0.2%	0.1%	0.0%	0.0%	0.0%
Recency = 13 Months	74.9%	2.8%	0.2%	0.0%	0.0%	0.0%	0.0%
Totals	74.9%	16.4%	5.0%	1.7%	0.6%	0.9%	0.5%

# Customer Evolution

## Customers Acq. In September ... 1yr Later

12th Month	LTD Freq = 1	LTD Freq = 2	LTD Freq = 3	LTD Freq = 4	LTD Freq = 5	LTD Freq = 6 to 10	LTD Freq = 11+
Recency = 1 Month	0.0%	1.4%	0.7%	0.3%	0.2%	0.3%	1.5%
Recency = 2 Months	0.0%	0.6%	0.4%	0.2%	0.1%	0.1%	0.3%
Recency = 3 Months	0.0%	0.6%	0.4%	0.2%	0.1%	0.1%	0.2%
Recency = 4 Months	0.0%	0.8%	0.3%	0.1%	0.1%	0.1%	0.1%
Recency = 5 Months	0.0%	0.9%	0.4%	0.1%	0.1%	0.2%	0.1%
Recency = 6 Months	0.0%	0.5%	0.2%	0.1%	0.0%	0.2%	0.2%
Recency = 7 Months	0.0%	0.5%	0.2%	0.1%	0.1%	0.2%	0.1%
Recency = 8 Months	0.0%	0.6%	0.3%	0.1%	0.1%	0.4%	0.1%
Recency = 9 Months	0.0%	1.3%	0.4%	0.1%	0.2%	0.4%	0.1%
Recency = 10 Months	0.0%	0.9%	0.4%	0.4%	0.1%	0.3%	0.0%
Recency = 11 Months	0.0%	2.2%	1.0%	0.2%	0.1%	0.3%	0.0%
Recency = 12 Months	0.0%	3.9%	0.5%	0.1%	0.0%	0.0%	0.0%
Recency = 13 Months	69.9%	2.2%	0.1%	0.0%	0.0%	0.0%	0.0%
Totals	69.9%	16.3%	5.4%	2.0%	1.1%	2.6%	2.6%

# Customer Evolution

## Customers Acq. in December ... 1yr Later

12th Month	LTD Freq = 1	LTD Freq = 2	LTD Freq = 3	LTD Freq = 4	LTD Freq = 5	LTD Freq = 6 to 10	LTD Freq = 11+
Recency = 1 Month	0.0%	2.3%	1.0%	0.4%	0.2%	0.3%	0.1%
Recency = 2 Months	0.0%	2.4%	0.9%	0.3%	0.1%	0.1%	0.0%
Recency = 3 Months	0.0%	1.2%	0.4%	0.2%	0.1%	0.0%	0.0%
Recency = 4 Months	0.0%	0.8%	0.3%	0.1%	0.0%	0.0%	0.0%
Recency = 5 Months	0.0%	0.4%	0.2%	0.1%	0.0%	0.0%	0.0%
Recency = 6 Months	0.0%	0.4%	0.2%	0.1%	0.0%	0.0%	0.0%
Recency = 7 Months	0.0%	0.6%	0.2%	0.1%	0.0%	0.0%	0.0%
Recency = 8 Months	0.0%	0.8%	0.2%	0.1%	0.0%	0.0%	0.0%
Recency = 9 Months	0.0%	0.8%	0.2%	0.1%	0.0%	0.0%	0.0%
Recency = 10 Months	0.0%	0.8%	0.2%	0.0%	0.0%	0.0%	0.0%
Recency = 11 Months	0.0%	0.8%	0.2%	0.0%	0.0%	0.0%	0.0%
Recency = 12 Months	0.0%	2.0%	0.3%	0.1%	0.0%	0.0%	0.0%
Recency = 13 Months	76.6%	2.9%	0.2%	0.0%	0.0%	0.0%	0.0%
Totals	76.6%	16.2%	4.5%	1.5%	0.6%	0.6%	0.1%

# Customer Evolution

The path to Loyalty is a long, hard path that few new customers achieve.

The previous two slides show us just how hard it is.

June Newbies: 16.4% 2x, 5.0% 3x, 1.7% 4x, **2.0% = Loyal.**

September Newbies: 16.3% 2x, 5.4% 3x, 2.0% 4x, **6.3% = Loyal.**

December Newbies: 16.2% 3x, 4.5% 3x, 1.5% 4x, **1.3% = Loyal.**

Notice that new customers in September are about five times more likely to become Loyal after a year than are customers who are acquired in December.

Seasonality plays a **big** role in Customer Development.

# Customer Evolution

**Where possible, focus Acquisition efforts in the 1-4 months prior to your Peak Season. In other words, if your Peak Season is November 20 – December 25, try hard to acquire as many customers as possible in September and October.**

**Why should we do this?**

**Because then the customer “double-dips”. In other words, the customer buys for the first time in, say, October ... and then the customer is most receptive to a Welcome Program at the very time when you enter your Peak Season (a time when the customer is pre-disposed to be highly responsive). You “double-dip” ... you multiply high response by high seasonality, causing your first-time buyers to jump a huge Hurdle.**

**September Loyalty after 1 Year (in my example) = 6.3%. December = 1.3%.**

# **Customer Resume**

**I produce what is called a “Customer Resume” for Acquisition Cohorts.**

**I follow the customers for a year, calculating key metrics after twelve months.**

**The “Customer Resume” allows me to see when I should acquire customers to have the best chance to generate Loyal buyers over time.**

**The “Customer Resume” allows me to measure Future Value ... I can calculate average sales in the next year, and if I so desired, I could calculate 12-month future profit.**

**Let’s take a look at a Customer Resume by Month of Acquisition.**

# Customer Resume Monthly Summary

	<u>Oct</u>	<u>Nov</u>	<u>Dec</u>	<u>Jan</u>	<u>Feb</u>	<u>Mar</u>	<u>Apr</u>	<u>May</u>	<u>Jun</u>	<u>Jul</u>	<u>Aug</u>	<u>Sep</u>
Segment Buyers	107,430	138,886	85,476	44,016	33,784	29,250	37,802	42,284	50,200	28,246	24,918	61,584
Rebuy Rate	24.3%	22.4%	19.7%	22.9%	24.6%	23.4%	23.6%	21.3%	21.6%	24.8%	26.9%	26.9%
Orders per Repurchaser	1.527	1.488	1.511	1.679	1.882	1.765	1.824	1.691	1.832	2.729	3.332	2.990
Items per Order	3.793	3.887	3.947	3.765	3.619	3.810	3.697	3.671	3.397	2.659	2.257	2.288
Price per Item Purchased	\$12.62	\$12.16	\$12.54	\$13.07	\$13.78	\$13.47	\$13.39	\$13.24	\$13.61	\$13.76	\$14.10	\$14.11
Average Order Value	\$47.87	\$47.26	\$49.49	\$49.22	\$49.85	\$51.31	\$49.50	\$48.60	\$46.24	\$36.58	\$31.82	\$32.29
Demand per Buyer	\$73.11	\$70.34	\$74.77	\$82.62	\$93.83	\$90.58	\$90.27	\$82.17	\$84.73	\$99.85	\$106.01	\$96.55
Demand per Inventory	\$17.76	\$15.77	\$14.69	\$18.96	\$23.07	\$21.23	\$21.27	\$17.52	\$18.27	\$24.72	\$28.51	\$26.00
% New Merchandise	22.9%	20.6%	20.9%	22.3%	23.4%	22.0%	22.3%	19.7%	22.1%	33.6%	40.3%	36.6%
% Existing Merchandise	77.1%	79.4%	79.1%	77.7%	76.6%	78.0%	77.7%	80.3%	77.9%	66.4%	59.7%	63.4%
% Above Average Price	67.7%	67.2%	66.3%	68.6%	68.5%	70.4%	69.2%	69.2%	68.3%	56.2%	51.9%	54.2%
% Below Average Price	32.3%	32.8%	33.7%	31.4%	31.5%	29.6%	30.8%	30.8%	31.7%	43.8%	48.1%	45.8%
1x Buyers	75.7%	77.6%	80.3%	77.1%	75.4%	76.6%	76.4%	78.7%	78.4%	75.2%	73.1%	73.1%
2x Buyers	17.0%	15.9%	13.9%	15.2%	15.3%	15.2%	15.3%	14.6%	14.3%	13.8%	13.9%	14.7%
3x Buyers	4.7%	4.3%	3.7%	4.5%	4.8%	4.7%	4.6%	4.0%	4.3%	4.8%	4.4%	4.8%
4x Buyers	1.4%	1.3%	1.2%	1.6%	2.0%	1.6%	1.7%	1.3%	1.5%	1.7%	1.9%	1.7%
5x Buyers	0.5%	0.4%	0.5%	0.7%	0.9%	0.6%	0.6%	0.4%	0.4%	0.9%	1.1%	1.0%
6x-10x Buyers	0.6%	0.4%	0.4%	0.9%	1.2%	1.1%	1.0%	0.7%	0.7%	1.8%	2.7%	2.4%
11x-15x Buyers	0.1%	0.1%	0.0%	0.1%	0.2%	0.1%	0.3%	0.3%	0.3%	1.4%	2.2%	1.9%
16x+ Buyers	0.0%	0.0%	0.0%	0.0%	0.1%	0.0%	0.0%	0.0%	0.1%	0.4%	0.7%	0.5%
Emerging Buyers	23.1%	21.5%	18.8%	21.3%	22.1%	21.5%	21.6%	19.9%	20.1%	20.3%	20.2%	21.2%
Loyal Buyers	1.2%	0.9%	0.9%	1.7%	2.4%	1.8%	1.9%	1.4%	1.5%	4.5%	6.7%	5.8%

# Customer Resume

**I observe a correlation between higher repurchase rates and increased sales of new merchandise!**

**“Demand per Inventory” (average sales in the next twelve months) surges for customers acquired in August/September, because those customers “double-dip” on a second purchase during the Christmas season.**

**There may be a correlation between customers buying items that are selling below the historical average price for the item and higher annual repurchase rates.**

**Customers acquired in November/December (Christmas Season) might be easy to acquire, but they do not Develop to Loyal status, do they?**



# Customer Resume

**The Customer Resume can be run for any customer segment, at any stage in the life cycle, allowing you to see how customers evolve and change.**

**Two popular versions of the Customer Resume include:**

**By Marketing Channel.  
By Merchandise Category.**

**Strong Hint: As the customer emerges, you want customers who buy via email marketing and via direct load ... any customer not driven by marketing who continues to purchase is worth a ton of profit!! Among Emerging / Loyal buyers, try to generate 30%+ of sales via email marketing and 40%+ of sales via direct load without marketing attribution (both leveraging personalization). You p&l will appreciate your Customer Development efforts.**

# **Advanced Topic: Simulations**

**While I won't cover the details of Customer Development Simulations here, I want you to think carefully about the “cause-and-effect” of your Customer Development tactics.**

**If you personalize your website via merchandise ... if you personalize email marketing via merchandise ... if you strive for creative excellence ... if you properly leverage print campaigns and television/radio and search and social and digital tactics ... you will see a nice increase in your Customer Development efforts.**

**A simulation tool allows you to see the impact of your efforts over time.**

**Let's look at two examples ... a base case ... and one with a 20% bump due to credible and relentless Customer Development tactics.**

# Simulation Base Case After 1 Year

100,000 Simulated Customers: Base Case													
	1x	2x	3x	4x	5x	6x	7x	8x	9x	10x	11x - 15x	16x+	
<u>Recency</u>	<u>Buyers</u>	<u>Buyers</u>	<u>Buyers</u>	<u>Buyers</u>	<u>Buyers</u>	<u>Buyers</u>	<u>Buyers</u>	<u>Buyers</u>	<u>Buyers</u>	<u>Buyers</u>	<u>Buyers</u>	<u>Buyers</u>	<u>Totals</u>
1	0	2,051	759	299	118	70	39	7	3	1	0	0	3,347
2	0	1,511	593	269	82	31	18	6	1	0	0	0	2,511
3	0	973	566	201	69	26	10	1	1	2	0	0	1,849
4	0	994	529	189	57	19	8	3	2	0	0	0	1,801
5	0	1,073	533	148	50	17	4	1	0	0	0	0	1,826
6	0	1,035	463	168	18	8	3	0	0	0	0	0	1,695
7	0	1,201	451	127	18	4	4	1	0	0	0	0	1,806
8	0	1,297	450	88	16	4	1	0	0	0	0	0	1,856
9	0	1,504	431	83	10	0	0	0	0	0	0	0	2,028
10	0	1,727	356	38	5	1	0	0	0	0	0	0	2,127
11	0	1,971	232	22	0	0	0	0	0	0	0	0	2,225
12	0	2,416	92	1	0	0	0	0	0	0	0	0	2,509
13	74,420	0	0	0	0	0	0	0	0	0	0	0	74,420
Totals	74,420	17,753	5,455	1,633	443	180	87	19	7	3	0	0	100,000

# Simulation +20% Response Case

## 100,000 Simulated Customers: Test Case

	1x	2x	3x	4x	5x	6x	7x	8x	9x	10x	11x - 15x	16x+	
<u>Recency</u>	<u>Buyers</u>	<u>Buyers</u>	<u>Buyers</u>	<u>Buyers</u>	<u>Buyers</u>	<u>Buyers</u>	<u>Buyers</u>	<u>Buyers</u>	<u>Buyers</u>	<u>Buyers</u>	<u>Buyers</u>	<u>Buyers</u>	<u>Totals</u>
1	0	2,257	1,014	520	208	127	48	20	15	5	1	0	4,215
2	0	1,622	781	369	161	74	38	16	7	0	2	0	3,070
3	0	1,113	712	319	131	74	34	8	3	0	1	0	2,395
4	0	1,018	629	286	123	36	12	11	3	0	1	0	2,119
5	0	1,163	647	264	69	21	11	1	2	0	0	0	2,178
6	0	1,204	592	208	71	26	4	2	1	0	0	0	2,108
7	0	1,308	569	168	45	9	2	1	0	0	0	0	2,102
8	0	1,441	554	155	25	8	2	0	0	0	0	0	2,185
9	0	1,511	547	87	11	4	0	0	0	0	0	0	2,160
10	0	1,789	413	76	7	0	0	0	0	0	0	0	2,285
11	0	2,079	325	21	2	0	0	0	0	0	0	0	2,427
12	0	2,616	127	4	1	0	0	0	0	0	0	0	2,748
13	70,008	0	0	0	0	0	0	0	0	0	0	0	70,008
Totals	70,008	19,121	6,910	2,477	854	379	151	59	31	5	5	0	100,000

# Simulation Differences After 1 Year

**Difference: More Productive Outcome vs. Less Productive Outcome**

	1x	2x	3x	4x	5x	6x	7x	8x	9x	10x	11x - 15x	16x+	
<u>Recency</u>	<u>Buyers</u>	<u>Buyers</u>	<u>Buyers</u>	<u>Buyers</u>	<u>Buyers</u>	<u>Buyers</u>	<u>Buyers</u>	<u>Buyers</u>	<u>Buyers</u>	<u>Buyers</u>	<u>Buyers</u>	<u>Buyers</u>	<u>Totals</u>
1	0	206	255	221	90	57	9	13	12	4	1	0	868
2	0	111	188	100	79	43	20	10	6	0	2	0	559
3	0	140	146	118	62	48	24	7	2	(2)	1	0	546
4	0	24	100	97	66	17	4	8	1	0	1	0	318
5	0	90	114	116	19	4	7	0	2	0	0	0	352
6	0	169	129	40	53	18	1	2	1	0	0	0	413
7	0	107	118	41	27	5	(2)	0	0	0	0	0	296
8	0	144	104	67	9	4	1	0	0	0	0	0	329
9	0	7	116	4	1	4	0	0	0	0	0	0	132
10	0	62	57	38	2	(1)	0	0	0	0	0	0	158
11	0	108	93	(1)	2	0	0	0	0	0	0	0	202
12	0	200	35	3	1	0	0	0	0	0	0	0	239
13	(4,412)	0	0	0	0	0	0	0	0	0	0	0	(4,412)
Totals	(4,412)	1,368	1,455	844	411	199	64	40	24	2	5	0	0

# **Advanced Topic: Simulations**

**When you apply a credible Customer Development Program, you get results that when simulated over a year show that you have more Emerging and Loyal Buyers.**

**3,667 more Emerging Customers (2 orders to 4 orders).**

**745 more Loyal Customers (5+ Orders).**

**Instead of 25,580 2+ Buyers you end up with 29,992 2+ Buyers.**

**Not shown in the tables:**

**Annual Sales in the Base Case = \$16.18 per customer.**

**Annual Sales in the Test Case (+20% Response) = \$20.71 ... a 28% Increase.**

**Gains over time become multiplicative. When applied against all segments?**

**Well, you've become a Customer Development Expert!**

# Customer Development

**From a marketing/analytics standpoint, there are five stages in the Customer Development Process.**

**Acquisition  
Welcome  
Emergence  
Loyalty  
Retirement**

**You (yes ... you) play a major role in Developing your Customer Base.**

**Effort is required to push the customer out of the Welcome stage, and if you don't push the customer out of this stage the customer isn't going to become Loyal. Focus a lot of effort on the first three months after a first purchase.**

# Customer Development

**You have so many tools at your disposal. Two of the tools are critically important.**

**Website Personalization.**

**Email Marketing Personalization.**

**You'll know if you are doing a great job at Developing Customers because 30%+ of your sales will come in via email marketing and 40%+ of your sales will come in via direct load (without marketing attribution) among Emerging/Loyal buyers.**

**Customers will simply love you, engage with you, and buy from you.**

**These tools are not high-cost tools. Use them! Personalize based on merchandise preferences (which typically yield gains in response of 10% to 50% across my consulting projects ... average = 15% to 20%).**



# **Customer Development**

**Leverage all of your CRM-centric tactics to “profitably” drive the customer from Welcome to Emergence to Loyalty.**

**Print / Catalogs if the Audience is Older.  
Events.**

**Discounts / Promotions (where appropriate ... don't overdo them).**

**Videos / Content / Programming.**

**Offline Advertising to Stimulate Continued Awareness.**

**Digital Marketing Tactics to Capture Customers Considering Alternatives.**

**Social to Amplify the Lifestyle of Your Customers / Prospects and to Sell.**

**Loyalty Programs / Points / Perks.**

**Leverage all of the tools at your disposal. Carefully think about each tool and how it applies to a customer via Welcome, Emergence, and Loyalty.**

# Questions? Help With Your Own Project?

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