

HOW TO IDENTIFY AND WIN BACK LAPSED CUSTOMERS

Smart marketers know that keeping current customers is the most efficient way to increase revenue, with loyal customers typically accounting for 20 percent of a company's total customers but driving 80 percent of the overall revenue.¹

To improve brand loyalty and customer retention, you'll want to take steps to deliver more relevant content that keeps customers connected with your company and prevents them from becoming inactive. And one of the best ways to achieve this is by working more automated, behavior-driven emails into your post-purchase messaging mix. (For ideas, see our "Additional Resources" section on p. 3).

Even with the strongest post-purchase messaging programs in place, though, you'll have to deal with some lapsed customers. In this tip sheet, we'll outline two simple, data-driven processes you can use to accurately assess who your lapsed customers are so you can build campaigns to re-engage them. And we'll offer a few suggestions for how you might win back these lapsed customers.

Identifying Lapsed Customers

Many companies rely on guesswork rather than hard statistics to define customer inactivity, an approach that can lead to misidentifying lapsed customers and render reactivation campaigns less effective. A data-driven approach that includes analysis to determine typical purchase behaviors can yield better results.

Let's take a look at two simple, data-driven processes you can use to accurately identify your lapsed customers.

Approach #1: Use purchase frequency to identify inactive customers

With this approach, you identify your average-customer purchase frequency and combine this with a look at each individual customer.

For example, imagine your store is a bicycle retailer, selling everything from bicycles to helmets. For the average customer, the time between their first and second purchase is 94 days.

Using this data, you can now identify that new customers should be considered "lapsed" when at least 94 days have passed since their first purchase.

But what about repeat customers? You should also examine the purchase frequency for customers that have made at least two or three purchases. For example, you might identify that once customers have become comfortable with your brand and completed at least two purchases, their average purchase frequency is every 62 days.

Using this data, you can now create two sets of rules:

- New customers become lapsed if their next purchase does not occur within 94 days
- For repeat, loyal customers, they become lapsed if their next purchase does not occur within 62 days

By accounting for both new and repeat purchasers, you'll be well positioned to reconnect with customers before they become so disengaged that they defect to competitors.





Approach #2: Use RFM analysis to identify your lapsed customers.

A slightly more sophisticated option for data-driven marketers is to incorporate timing, frequency and purchase amount into your evaluation. RFM analysis uses the concepts of recency, frequency and monetary rankings to segment customers based on their past-purchase behaviors. For instance, you can use RFM analysis to organize customers into quartiles (25 percent increments) or deciles (10 percent) based on each purchase behavior.

Because this approach incorporates additional purchase behaviors such as the total number of purchases and the total lifetime value of the customer, it creates a more sophisticated view of your lapsed customers.

In this example, we'll use RFM analysis to identify lapsed customers as:

- Customers who previously purchased frequently
- Customers that have a high ranking for total amount spent with your brand
- Customers that have not made a recent purchase

Let's take a look at how we might use quartiles for recency categorization:

- Top 25% — customers that have purchased most recently and rank in the top 25 percent of customers according to their most recent purchase. For example, these might be customers that have purchased within 30 days.

SUCCESS STORY: MILK&MORE

Part of the Dairy Crest Group PLC, milk&more offers a huge and ever-expanding range of essentials — including bread, milk, fresh seasonal fruit and vegetable boxes — to more than 1 million homes all over the United Kingdom.

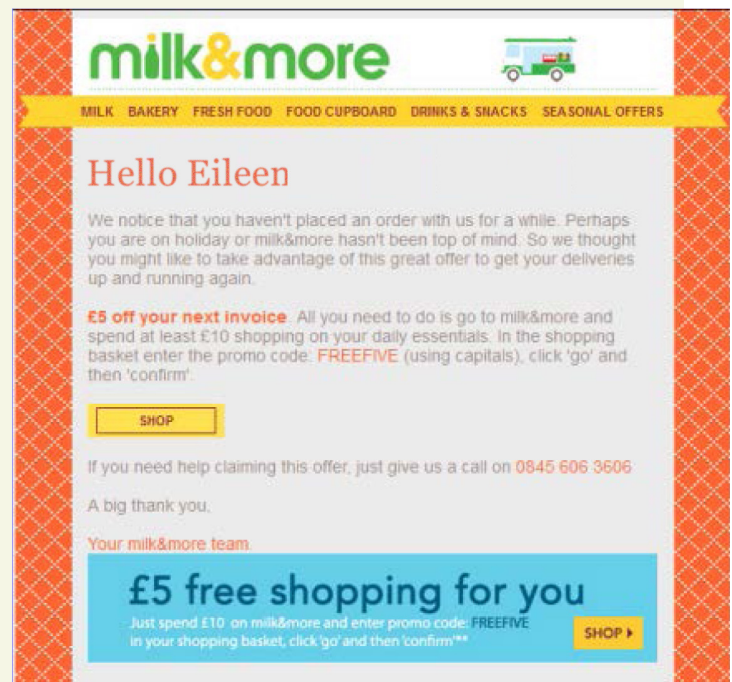
To help increase its online success, milk&more wanted to transition from a “spray and pray” email approach to a more behavior-driven, individualized model. Understanding that the ability to segment was key to a more engaged audience, it sought to take greater advantage of automation to deliver more personalized, relevant content.

Working closely with a Silverpop product advisor, milk&more focused on taking advantage of Silverpop's Programs functionality to meet these goals.

Its new initiatives included a “Lapsed” customer campaign geared toward contacts that hadn't recently placed an order. To reach these customers, milk&more created a program to incentivize them to re-activate and place another order. If contacts don't interact with the email within seven days, their name is automatically sent to the call center for follow-up to learn more about why the customer is no longer using milk&more's services.

In all its communications, milk&more uses dynamic content to make its emails more personalized. For example, the incentive banner sent to lapsed registrants as part of milk&more's re-engagement program will appear again in the milk&more newsletter to the same subscriber until they take advantage of it.

The lapsed series was a huge success for milk&more, with average open rates of 43 percent and approximately 20 percent of recipients taking advantage of the incentive offer.





- Next 25% — customers that have purchased within the next frequency period. This might be 31 to 90 days ago.
- Next 25% — this ranking could contain customers that purchased 91 to 365 days ago.
- Bottom 25% — these are your customers that haven't purchased recently and rank in the bottom 25 percent of customers according to their most recent purchase. These might be customers that purchased more than a year ago.

Next, repeat this exercise for frequency (number of purchases) and monetary (total amount spent across all purchases).

Then, we combine these classifications. The customers that fall into the following categories will typically be classified as lapsed customers:

- Recency: bottom 25%
- Frequency: top 25%
- Monetary: top 25%

By combining these three classifications, it's easy to extend your analysis beyond just recency and zero in on those inactive contacts who were at one point loyal, repeat customers.

Whichever method you choose, identifying your lapsed customers is just the first step. Now it's time to reach out to these customers with personalized campaigns and win them back.

Re-Engaging Lapsed Customers

Customers that were once repeat, loyal customers are ideal targets for reactivation campaigns. So, if someone hasn't made a purchase within the typical time frame, put them into a win-back campaign.

Messaging is critical here. Consider a "We've missed you" theme and highlight some cool stuff they may have overlooked since their last purchase. Pull in some top sellers or related dynamic content and offer an incentive to help re-engage them. Examples include:

- Complimentary item or discount if recipient purchases within a certain date ("Free chocolate bar if you place an order over \$30 by Oct. 31!")
- Cross-sell or upsell offers introducing new products relevant to the customer based on past purchases. ("Learn more about how the 2014 model is 2x faster!")
- Offers to replenish products for customers that ordered perishable products. (Paper, batteries or food are common examples.)

You might also consider requesting feedback and surveys that can be shared with your customer service team for direct follow-up. Other

ideas include "best of" lists, unusual subject lines, testimonials, and/or invitations to connect in another channel or update preferences.

If you can leverage purchase data within your marketing automation system, you can automate these re-engagement campaigns. When automated, customers will start to receive re-engagement content the moment they begin to qualify as a "lapsed" customer.

While this tip sheet focuses on two specific approaches for measuring customer inactivity, there are other areas such as Web behaviors and scoring that you might want to incorporate into your re-engagement strategy. Please see the "Additional Resources" section for more ideas on the topic.

Regardless of what data-driven approach you take to the challenge of identifying and re-engaging lapsed customers, the key is to get started. It costs six to seven times more to acquire a new customer than to retain an existing one², and the average spend of a repeat customer is 67 percent more than a new one³.

So, what are you waiting for? Take these tips and start leveraging your existing customers to drive more profit.

Additional Resources:

1) Ebook: "[15 Post-Purchase Emails That Build Loyalty and Drive Revenue](#)"

2) Ebook: "[Print Money Today: 7 Emails Marketers Should Automate to Drive Revenue](#)"

3) Blog: "[Are You Engaging? 5 Ways to Keep Customer and Prospect Attention While You Have It](#)"

4) Blog: "[Engagement Scoring: Giving B2C Marketers a Catalyst for Effective Nurturing](#)"

5) Video: "[Re-Engaging Inactive Subscribers](#)"

6) Video: "[Leveraging Post-Purchase Emails to Drive Engagement and Revenue](#)"



Footnotes

1-FiveStars, "What Is Your Current Marketing Focus? Surprising Facts About Customer Loyalty"

2-Bain & Company, "Prescription for Cutting Costs"

3-Inc.com, "10 Ways to Get More Sales from Existing Customers"

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