



What's so bad about New Customers?

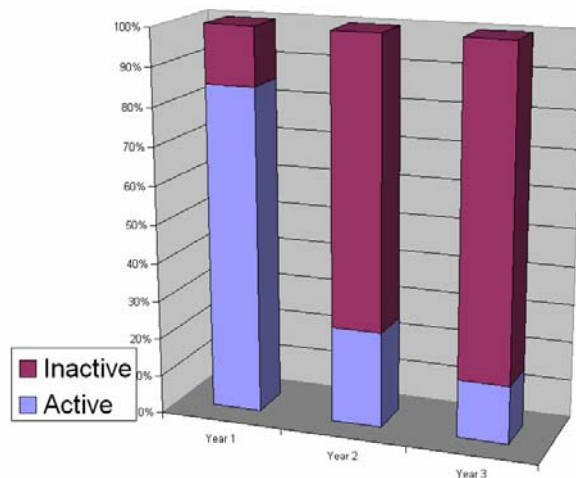
by Roy Wollen

Executive Summary

New customers are either loyal advocates in training, or a hole that will drain company resources from the moment they get on your database. Taking the long term view of customer acquisition programs will give you tools to distinguish between the two.

The mysterious one time buyer

The sad truth in our industry is that most new buyers never blossom into loyal fans. In fact the majority of new buyers never even buy twice.



Different offers, channels, seasons attract a different crop of new buyers. You'd think it would be relatively simple to predict who will blossom and who won't. We certainly put a lot of resources into marketing communications from welcome kits, to catalogs, to e-mails, you name it. It's as if all one time buyers are the same, receive the maximum throttle of our attention until we run out of gas (perhaps 1 year into the relationship). One time buyers who don't buy again, get destined for the reactivation

programs of next year, like my old **Earth, Wind and Fire** CDs which ended up in the discount bin of the record store (OK, I'm dating myself).

Naturally, not all one time buyers are the same. The trick is to recognize who will become your company's advocate, buying across channels and promoting your brand to friends and colleagues. But with only 1 or 2 days worth of history, how can you separate out the 10% from the run of the mill, coupon toting switchers, who'll jump ship the next time a sweet offer comes from your competitor?

There is history in them thar hills

Using a customer database, you can turn back the clock to analyze what happened to new buyers say 2 years ago or last year. These buyers were "new" once, and will provide wonderful clues as to what your company did right. The buyers that buy again are evidence

of that; those that remain one timers give you clues for what to avoid. What should you look for?

Clues new buyers will provide

Dimension	Examples	What to look for
Original Channel	TV versus Retail versus Direct mail versus Online	Each channel will attract a different crop of new buyers
Source (online)	Search engine (MSN, Google) Type of match (exact, broad) Type of keyword (generic, brand, discount, big ticket) Day of week and daypart (when they searched or converted) Landing page (what content pushed them over the edge?) Affiliate program that generated this new customer	Search engines and Affiliates excel at generating new buyers, but don't promote loyalty on their own. Do you know the Lifetime Value of online generated buyers?
Source (offline)	Mail versus Point of Sale Type of list (compiled, co-op, response, subscriber, modeled) List select (hotline, female) Type and number of list matches (match to rental)	Expensive lists may pay off in attracting repeat buyers, but is it worth the cost?
Original Date	Day, Month, Season of first purchase (even time of day)	Look for radically different behavior for customers acquired during holiday periods (i.e., less loyal)
Original Product	Number of items and number of different departments What product or service was purchased in which combination?	One of the best predictors of repeat purchasing and loyalty. Make sure you don't get overwhelmed with SKU level details.
Original Amount	Related to original product	The higher the expenditure, the more

		likely a repeat purchase. Customers who being at twice the average should get a “thank you” phone call
First out of stock experience	Was the item in stock? If it was on back order, how long did it take to fulfill? Was the merchandise kept or returned for exchange or refund?	Customers are more put off by how you deal with out of stock issues, than the initial problem
Original Order	Presence of sales promotions (e.g., Free Shipping, coupon, \$ off) Point or mileage earning bonus	Full price buyers are indicating their desire for your product/service, not their affinity to a “deal”
Geography	Distance to store, dealership or branch County size and population density Geo-demographic cluster	Some clusters simply work better, particularly if they are situated in or out of a trading area
Demographics	Lifestage indicators (age, income, children’s age, home ownership, new home)	Sometimes very powerful, but you don’t need to overlay your whole database to gain insight

Long term success of short term programs

The long term view of customer acquisition is a job for a customer database. Without one, success is solely measured on response rate and initial sales, not activations, repeat purchases, renewals and loyalty. This leads to binge acquisition, where an acquisition manager is rewarded for simply bulking up a customer database. That’s a roller coaster ride with giant spikes of acquisition that may not go anywhere.

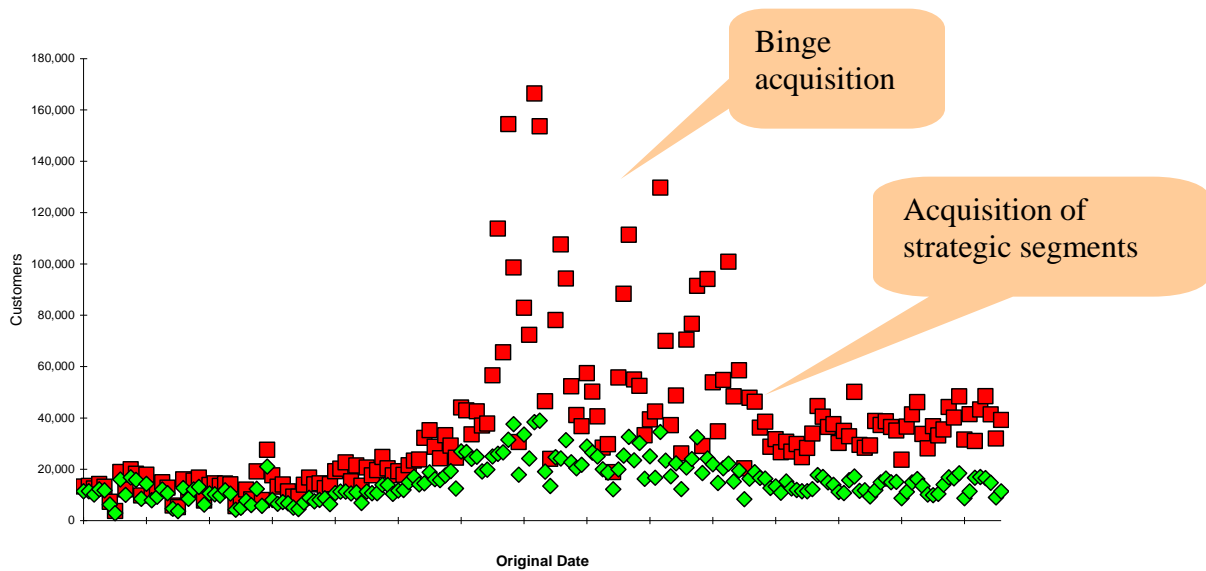
0x ► **1x** ► **2x** ► **3x+**

The real success is not getting customers to go from 0x to 1x (no purchase to 1 purchase), but from 1x to 2x, then 2x to 3x+. The paradigm shift here is to focus on the best customers then build acquisition programs around finding more of them. This starts with 3x+ and works backwards.

What should you look for?

- Velocity: average time it takes new buyers to order a second time
- Product Affinity: kinds of products purchased on the first order and in what combination, then what was purchased next
- Context and influence: For b2b marketers, what else is happening at that site? Are there advocates to refer to? For b2c marketers, what else is happening at the household?
- Initial offer: Bribery, premiums and discounts will often lead to high response rates but will attract a disproportionate amount of 1x buyers.

New customers acquired during promotional binges will bloat your customer database. Acquisition programs should attract the right kind of customer.



Recommendations

Beyond sheer increases in database size, today's best marketers focus on the value of new customers and measure value over the long term.

- Study what happens after the acquisition event using facts from your customer database to guide you to the best new customers.
- Explore “clone” models that identify your best customers and track back to how to find more of them.
- Acquisition roller coaster. Resist the urge to get swept away by acquisition programs that produce high numbers of new buyers, stellar response rates but become a drag on company resources after the initial sale.
- Track strategic segments. Reward acquisition managers for their ability to attract the right kinds of new customers. Establish profiles of who the target audience is based on Lifetime Value and attrition studies using empirical facts from your existing customer base.
- Keep your customer database clean. Duplicate records mean there are genuine repeat buyers masquerading as several one timer buyers. This causes over contacting and irrelevant communications (“welcome” message to repeat buyers). These experiences will annoy your loyal fans and cost you money.
- Partner with your broker. Share your acquisition campaign results and Lifetime Value (LTV) work as input to their recommendation engines. Don't accidentally dismiss sources with mediocre response rates but spectacular repeat purchasing and LTV.
- Standardize your source codes to codify your acquisition decisions. This will have a huge reward when you analyze what happened over time and which ideas paid off.

About Database Insight, Inc.

Database Insight, Inc. offers practical advice on how to improve your direct- and interactive marketing by deepening your understanding of your customers.

We offer consulting for direct marketing clients through exceptional people, forward thinking solutions and analytics. We bring to bear 20 years of experience understanding customers via database analysis.

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