The ROI from Marketing to Existing Online Customers

Adobe® Digital Index

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Table of contents

Executive summary

Digital marketers intuitively recognize that existing customers are more valuable than new ones, but they too frequently fail to prioritize marketing programs designed to bring them back. In fact, Forrester Research estimates that individual resellers spend almost 80% of their interactive marketing budgets on the mass acquisition vehicles search and display advertising.[1]

Although the value of marketing to existing customers was well studied years ago, recent data on the ROI of these customers online is relatively scarce. This report quantifies the value of greater marketing focus on these visitor segments by breaking site visitors into three categories: shoppers (no previous purchase), returning purchasers (one previous purchase), and repeat purchasers (multiple previous purchases). Report findings are based on analysis of anonymous data from 33 billion visits from 180 online retail websites representing US$51 billion in annual US online retail sales and €18 billion in European retail sales.

Findings from the report include:

- In the US, 40% of revenue comes from returning or repeat purchasers, who represent only 8% of all visitors (for equivalent European data see Appendix tables).
- Marketers in the United States and Europe must bring in 5 and 7 shoppers, respectively, to equal the revenue of 1 repeat purchaser.
- Most of the revenue improvement in purchaser segments can be attributed to increased conversion rates which are up to 9 times those of shoppers.
- Repeat purchasers account for even more revenue during the holiday season and times of slow economic growth.

Marketing and e-commerce leaders can use these findings to benchmark their performance and to justify incremental budget for marketing to existing customers and for optimizing site conversion. Moreover, since the impact of existing customers becomes more pronounced during the holiday season, retail businesses should act quickly during the fall season to increase the percentage of purchaser visits.

Introduction

The average retailer spends more than US$20 million annually on interactive marketing to persuade prospects to visit its websites, explore its product offerings, and make purchases.[1] Because only a small fraction (approximately 1%, See Table 6) of these prospects actually purchase, retail marketers spend the bulk of their digital ad budgets acquiring new visitors, primarily through search and display advertising.

This focus on acquiring new customers can be an expensive game, one that is difficult to sustain as competition increases and as consumer confidence and the global economy remain uncertain. A recent study of CMOs reports that 78% of executives say that more scrutiny is placed on their marketing efforts compared with a year ago. "We're in a 'prove it' economy in which advertising that doesn't lead to a sale tomorrow gets cut".[2] European retailers are impacted even more by the economy as the year-over-year GDP growth in the European Union is shrinking at 0.1% versus US GDP, which is growing, albeit at the slow rate of 2.3%.[3] As a result, retailers face pressure to generate better results from each dollar of their marketing spending.

Additionally, focusing on new customer acquisition appears to be at odds with well-established knowledge about the superior value of existing customers. If existing customers are more valuable, why do marketers continue to spend the bulk of their advertising budgets on media that does not distinguish between new and existing customers?

To explore this seeming contradiction, Adobe Digital Index analyzed 33 billion anonymous visits to 180 online retail websites in the United States and Europe. These sites generated approximately US$51 billion and €18 billion, respectively, in annual online retail sales.

The implications from this analysis indicate that retailers should shift marketing spend to increasing revenue from existing customers. Such a shift will result in significant increases in overall revenue, especially during time periods in which revenue matters most.

Marketers budgets biased towards acquisition

Three visitor segments

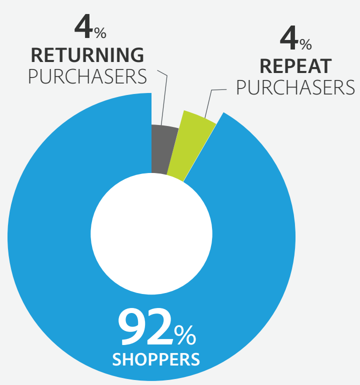
To conduct the analysis, we separated site visitors into three mutually exclusive segments illustrated in Figure 1 (and referred to throughout this report). The visitor data used for segment assignment is independent of time period and browser cookie deletion (See Methodology for detailed definitions).

- Shoppers: No previous purchase
- Returning purchasers: One previous purchase
- Repeat purchasers: Multiple previous purchases

Figure 1

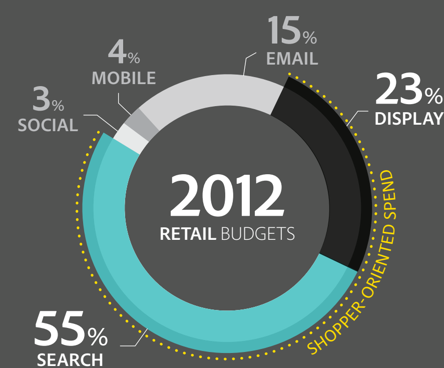
Budgets and visitor composition are aligned

The contribution of each of these visitor segments is shown in Figure 2. Not surprisingly, shoppers comprise the vast majority of site visitors, as shown in Figure 2. In the US, returning purchasers and repeat purchasers comprise only 4%, respectively (for equivalent European data see Appendix tables). Similarly, the bulk of retail marketing budgets is spent on media designed to attract shoppers, with the average retail marketer spending over US$20 million per year on search and display advertising, nearly 80% of their interactive budget (see Figure 2).[5] In contrast, media that are better suited for marketing to returning purchasers and repeat purchasers, such as email and social media, comprise a much smaller percentage of digital marketing budgets. Digital marketing designed to target past site visitors and customers, such as display ad retargeting, are not significant enough to be broken out in the forecast.



Visitors by segment (US)

Figure 2



Source: Forrester US Interactive Marketing Forecast by Industry 2012 - 2016

US retail marketing budget forecast

Figure 3

Budgets and revenue contribution are not aligned

Although shoppers generate the most site visits and consume the bulk of marketing budgets, they do not generate proportional amounts of revenue. Rather, as shown in Figure 4, returning and repeat purchasers deliver over 40% of the US revenue even though they only comprise 8% of the visitors.

Revenue distribution (US)

Figure 4

Why returning and repeat purchasers are more valuable

If returning and repeat purchasers generate a disproportionate amount of online revenue, why don't marketers allocate more of their budgets to increasing revenue from these customer segments? Although the data does not tell us the strategy behind existing budget allocations, it does provide a compelling case for why these customer segments warrant higher priority and increased attention.

Three to seven times higher revenue per visit

Perhaps the most critical performance metric used by online retailers is revenue per visit (RPV), or the average amount of revenue visitors generate on each visit. Against this metric, our analysis shows that returning purchasers generate three times higher RPV than shoppers. In other words, if retailers can persuade a shopper who has made his or her first purchase to come back again, that subsequent visit would yield on average three times as much.

Furthermore, our analysis shows that repeat purchasers generate much higher RPV than shoppers. In the United States, it takes 5 shoppers to deliver the same RPV as 1 repeat purchaser, and in Europe that ratio is even higher at 7 to 1 (see Figures 5 and 6).

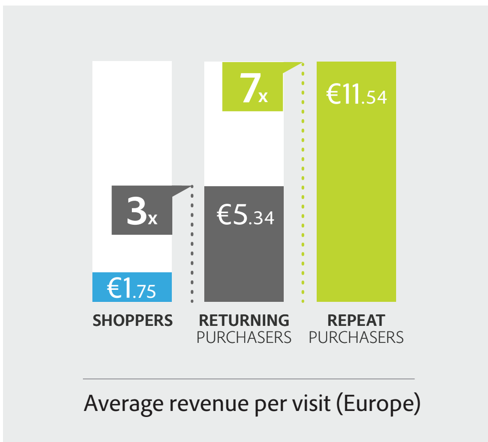


Figure 5

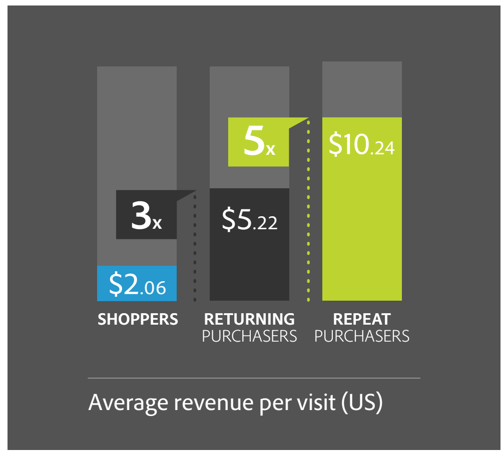


Figure 6

Stepping up in good times—and bad

Over the year, returning and repeat purchasers outperform shoppers, but they especially deliver when revenue counts. In the United States and Europe, these visitor segments generate even greater revenue during the holiday season. The bump in holiday revenue generated by these segments is most dramatic in Europe, where the increase in revenue from shoppers during the holiday season is 4%, but the increase from returning purchasers is 23%, nearly 500% higher (see Figure 7). The United States sees a higher percent increase in Shopper RPV at 17% (see Figure 8) which increases by nearly 30% to 22% for returning purchasers.

Figure 7

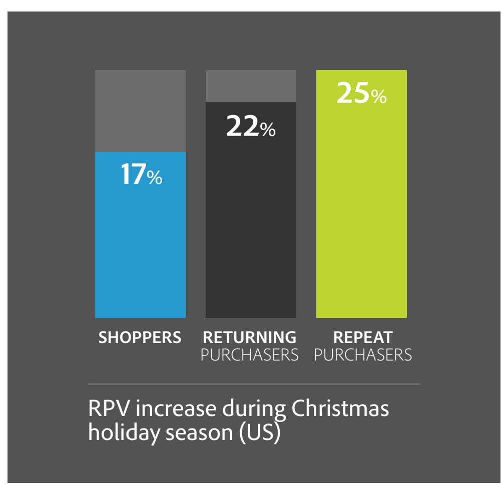


Figure 8

Repeat purchasers also deliver more during economic difficulties. In Europe, where overall GDP growth in the past year has been anemic or negative, repeat purchasers have become more important, driving a steadily higher RPV (see Figure 9). In contrast, repeat purchaser share of revenue in the United States, which saw a 2.3% increase in GDP during the same period, remained fairly flat. Looking specifically at repeat shoppers in Q2 2011 versus Q2 2012 provides further evidence of their importance in slow economies (see Figure 10). In Europe, repeat purchasers' share of revenue increased by 3 percentage points in a recession, while the share declined by 1% during the same time period in the United States.

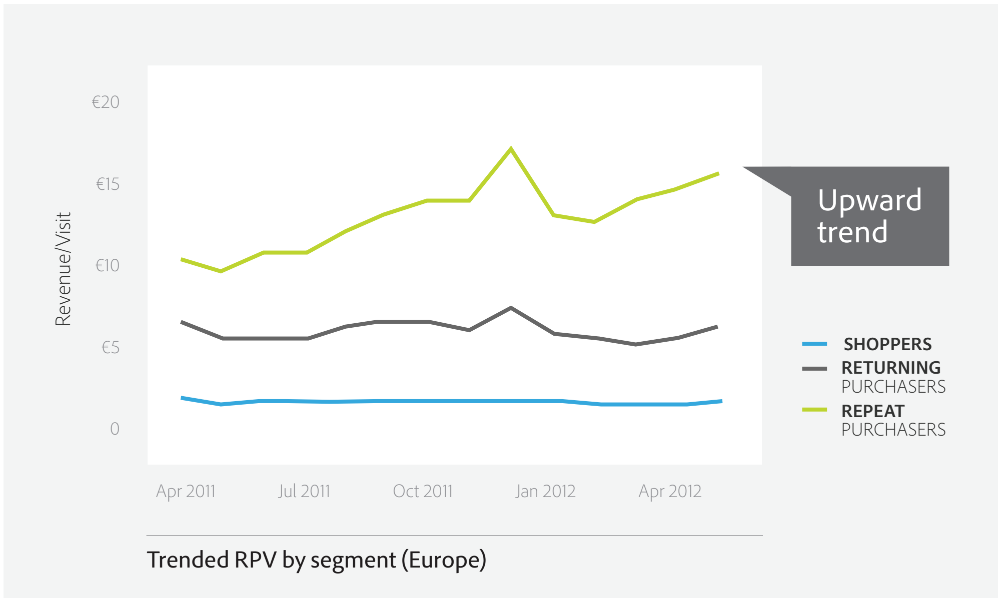


Figure 9

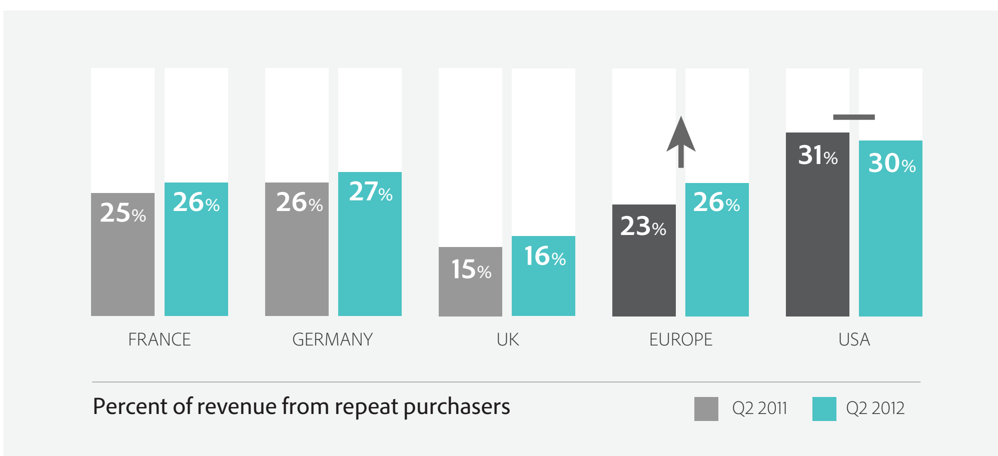
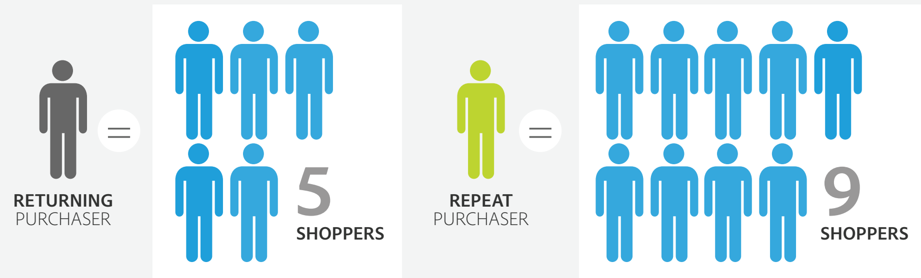


Figure 10

Conversion rates the driver of higher RPV

To understand why returning and repeat purchasers have higher RPV, we examined the two drivers of this metric: average order value (AOV) and conversion rate. AOV for returning and repeat purchasers, respectively, was 3% and 15% higher than shopper US AOV. The increase in AOV occurs because these visitors buy 16% and 30% more items, respectively, in each purchase. (see Appendix, Tables 4 and 5).

While these increases in AOV are meaningful, they do not drive the three to seven times RPV increases for returning and repeat customers. Rather, the principal driver of higher RPV is conversion rate. The conversion rate of shoppers was 1% (see Appendix Table 6). In contrast, as shown in Figure 11, the conversion rates of returning and repeat purchasers were five and nine times, respectively, the conversion rate of shoppers. This increase is driven by robust improvements in both add-to-cart and cart conversion rates (See Appendix, Tables 7 and 8).



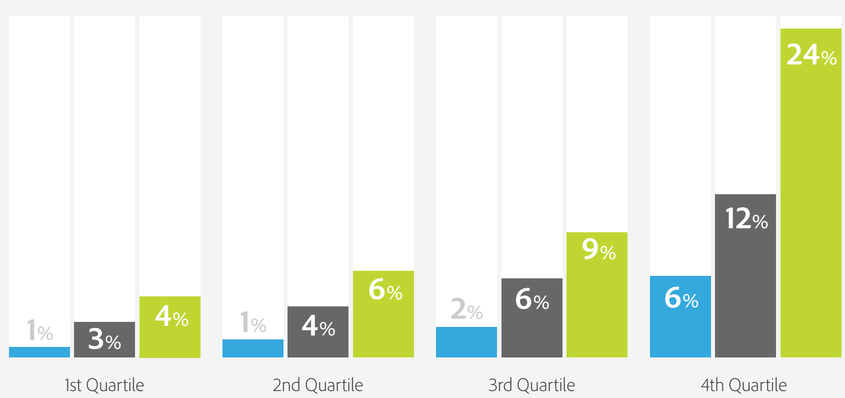
Conversion rate by visitor type (US and Europe)

Figure 11

The superior economic benefit of return and repeat purchasers is astounding: Across all retail metrics, they outperform the much larger shopper segment. Although the data does not reveal the reasons behind their superior performance, we surmise the reasons include greater familiarity with the retailer's brand, its products, and website; higher trust and confidence that items purchased will arrive as promised; and lower levels of transaction friction (accounts, passwords, shipping information, and so on). Additionally, companies that personalize the customer experience have much more data with which to personalize for returning and repeat purchasers than they do for shoppers.

Millions in revenue ready to be harvested

What should retailers do to generate more revenue from shoppers, returning purchasers, and repeat purchasers? To answer this question, we divided the analyzed retail sites into quartiles based on the distribution of overall site's conversion rate for shoppers. This analysis, shown in Figure 12, indicates that the relationship between shoppers, returning purchasers, and repeat purchasers is the same regardless of the overall site conversion rate. It also suggests that retailers should pull two levers to increase revenue from each segment that could yield millions in additional revenue for savvy online retailers.



Conversion rate by quartile and segment (US and Europe)

Figure 12

Lever 1: Improve overall conversion

Because superior conversion is the main reason why returning and repeat purchasers deliver higher RPV, retailers should start with conversion optimization, an area for which Figure 12 shows most retailers have significant room for improvement. Top-quartile sites (the upper 25%) have shopper conversion rates that are five times higher than sites in the lower two quartiles. Similarly, top-quartile returning and repeat purchaser conversion rates are three to four times and four to six times higher, respectively than those of the lower two quartiles.

This demonstrates that site-wide improvements in conversion positively impact the conversion rates of all three visitor segments, especially for sites whose overall site conversion rates fall into the first and second quartiles. To further confirm this fact, we reviewed the sites in the top quartile and found extensive use of optimization techniques such as robust site search, product and checkout recommendations, and personalized browsing experiences—techniques that improve site conversion rates across the board.

Lever 2: Motivate past customers to come back

The next action retailers can take is to turn shoppers into returning purchasers and returning purchasers into repeat purchasers. The data suggests that the key to doing so may be to target prior site visitors more aggressively to get them to return more frequently. The top quartile sites previously referenced saw overall conversion rates between the first and second visits climb 70%, followed by additional increases (albeit at a lower rate) in subsequent visits (see Figure 13). Digital media such as email, display ad retargeting, and loyalty program promotions and rewards are tools marketers can use to promote return visits and subsequent purchases. Similarly, marketers should use the data that they have on existing returning and repeat purchasers to target audiences with similar demographic and web behavioral profiles.

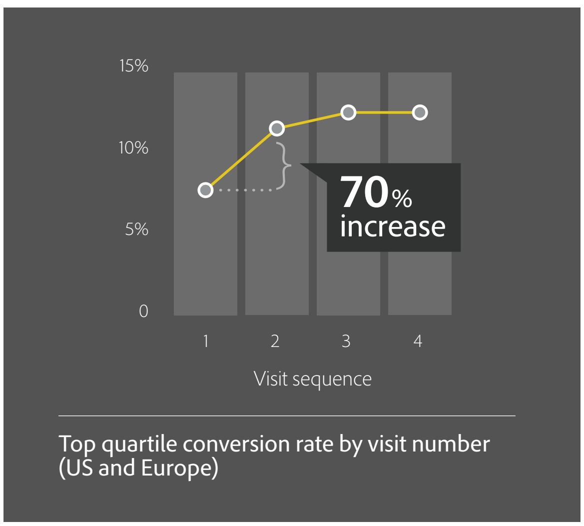


Figure 13

Millions in revenue on the table

The financial rewards for marketing to returning and repeat purchasers are significant. We estimate that for each 1% of shoppers who return for a subsequent visit, overall revenue will increase by approximately 10%.

The cumulative impact of this change is tremendous. Based on our sample, in the United States, an online retailer could increase its overall revenue by as much as US$39 million annually by getting 1% more first-time purchasers (e.g. shoppers who have made their first purchase) to visit again and become returning purchasers. Similarly, in Europe, a 1% increase in returning purchasers would be worth as much as €11 million per average retailer.

Conclusion

Returning and repeat purchasers generate a disproportionately large share of revenue for online retailers. They do so primarily because they convert at much higher rates than shoppers. Despite this fact, however, the majority of retail digital marketing budgets are spent on media that does not effectively target these more productive customer segments.

Retailers can achieve tremendous revenue gains by shifting their marketing budgets to better target these customer segments. They can start by optimizing site conversion rates across the board and aggressively migrating customers with one or two purchases to make additional site visits. Top quartile sites have already achieved significant gains in both these areas, generating conversion rates of 24% for repeat purchasers.

Returning and repeat purchasers not only generate higher revenue throughout the year, but they also perform even better during the holiday season and difficult economic times. Moreover, their incremental site visits provide additional data with which to personalize the site experience and enrich the profiles used to target similar visitors. Because these critical customers segments deliver so much value when it matters most, the sooner retailers increase their focus on them, the better.

Methodology

This report presents findings from an analysis of 33 billion visits, from PCs, tablets, and smartphones, made to more than 180 mobile and traditional brand websites registered in the United States and Europe based on visits from April 2011 through June 2012. The samples include brands in the retail industries and are categorized by country based on the source of visits. Only websites with more than 50% of visits originating from a given geography were included.

Countries in Europe include Belgium, Denmark, Finland, France, Germany, Italy, Netherlands, Norway, Sweden, and the United Kingdom. Average metrics were calculated using the aggregated metrics of all websites in the study; for each metric the top and bottom 5% were removed. The visits analyzed were anonymous and consisted of all visits to these websites as measured by the Adobe® Digital Marketing Suite. No weighting factors were applied to the data. Non-euro currencies were converted to Euros based upon currency rates on June 30, 2012.

Definitions

Shoppers are visitors who have (a) never purchased on any previous visit or (b) who have purchased one time but have not since returned to the site.

Returning purchasers are visitors with one prior site purchase who then make subsequent visits in which they either (a) do not purchase, or (b) purchase a second time but subsequently do not return.

Repeat purchasers are visitors who have made at least two purchases and who have come back to the site at least one time subsequent to their second purchase.

Revenue per visit (RPV) is calculated by dividing the overall revenue in a given time period by the total site visits.

Conversion rate is calculated by dividing the total orders in a given time period by the total site visits.

Items per order is calculated by dividing the total items sold by total orders.

Average order value (AOV) is calculated by dividing total revenue by total orders.

About Adobe Digital Index

Adobe Digital Index publishes research on digital marketing and other topics of interest to senior marketing and e-commerce executives across industries. Research is based on the analysis of select, anonymous, and aggregated data from over 5,000 companies worldwide that use the Adobe Digital Marketing Suite, powered by Adobe technology and solutions, to obtain real-time data and analysis of activity on their websites.

For additional information about this report, contact Austin Bankhead, director, Adobe Digital Index, at *DigIndex@adobe.com*.

About Adobe

Whether it's a smartphone or tablet app, a game, a video, a digital magazine, a website, or an online experience, chances are that it was touched by Adobe technology. Adobe's tools and services enable its customers to create groundbreaking digital content, deploy it across media and devices, and then continually measure and optimize it based on user data. By providing complete solutions that combine digital media creation with data-driven marketing, Adobe helps businesses improve their communications, strengthen their brands, and ultimately achieve greater business success. Adobe's content authoring solutions lead the industry, enabling its visitors to more effectively produce, distribute, and monetize digital content. Adobe also delivers the most innovative solutions for optimizing marketing campaigns and maximizing return on every marketing dollar.

Appendix: Selected data and endnotes

Table 1: Percent of visitors by visitor segment

Q2 2012			
Country/Region	Shoppers	Returning Purchasers	Repeat Purchasers
France	88%	6%	6%
Germany	80%	8%	12%
United Kingdom	90%	5%	5%
Europe	90%	5%	5%
United States	92%	4%	4%

Table 2: Percent of revenue by visitor segment

Q2 2012			
Country/Region	Shoppers	Returning Purchasers	Repeat Purchasers
France	64%	13%	23%
Germany	62%	12%	26%
United Kingdom	73%	11%	16%
Europe	62%	12%	26%
United States	59%	11%	30%

Table 3: RPV by visitor segment

Q2 2012			
Country/Region	Shoppers	Returning Purchasers	Repeat Purchasers
France	€ 1.83	€ 5.49	€ 11.76
Germany	€ 2.53	€ 6.19	€ 10.59
United Kingdom	€ 2.13	€ 5.10	€ 11.53
Europe	€ 1.75	€ 5.34	€ 11.54
United States	$ 2.06	$ 5.22	$ 10.24

Table 4: Items per order by visitor segment

Q2 2012			
Country/Region	Shoppers	Returning Purchasers	Repeat Purchasers
France	3.4	3.6	4.3
Germany	3.7	4.2	4.3
United Kingdom	3.3	3.7	4.1
Europe	3.7	4.5	5.0
United States	3.8	4.4	4.9

Table 5: AOV by visitor segment

Q2 2012			
Country/Region	Shoppers	Returning Purchasers	Repeat Purchasers
France	€ 130	€ 132	€ 138
Germany	€ 107	€ 110	€ 118
United Kingdom	€ 137	€ 138	€ 144
Europe	€ 119	€ 123	€ 136
United States	$ 116	$ 117	$ 137

Table 6: Conversion rate by visitor segment

Q2 2012			
Country/Region	Shoppers	Returning Purchasers	Repeat Purchasers
France	0.7%	4.1%	8.1%
Germany	0.8%	6.2%	10.2%
United Kingdom	0.9%	5.1%	9.1%
Europe	0.8%	5.4%	9.4%
United States	0.9%	5.4%	9.1%

Table 7: Add- to-cart rate by visitor segment

Q2 2012			
Country/Region	Shoppers	Returning Purchasers	Repeat Purchasers
France	9.2%	16.4%	23.2%
Germany	8.4%	15.1%	23.1%
United Kingdom	11.2%	17.0%	25.1%
Europe	8.0%	15.3%	23.3%
United States	8.1%	15.2%	23.4%

Table 8: Cart completion rate by visitor segment

Q2 2012			
Country/Region	Shoppers	Returning Purchasers	Repeat Purchasers
France	25.3%	37.1%	46.1%
Germany	35.2%	43.4%	51.0%
United Kingdom	27.2%	41.2%	49.3%
Europe	28.1%	40.1%	47.1%
United States	30.0%	45.0%	52.0%

[1] Source: Shar VanBoskirk, "US Interactive Marketing Forecast by Industry 2011-2016," Forrester Research, November 15, 2011.

[2] Source: Ad Age Staff, "Catching Up With Adland Over Coffees And Cocktails," Advertising Age, October 10, 2011.

[3] Source: Consensus Forecast, May 2012.

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8/12