

RTG Newsletter

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FROM THE PRINCIPAL'S OFFICE

Claude Johnson of ART contributed this month's article. Claude specializes in CRM and his incisiveness and style of writing make for enjoyable, informative reading. If you have any questions regarding a CRM program, you can e-mail us at info@retailtechgroup.com

Bob Amster



Principal

STRIKE WHILE THE IRON IS HOT!

A real-life experience in customer retention

A few months ago when I was presenting the results of a customer analysis to the president of one of my clients, I asked him what his customer retention rate was. He asked what precisely did I mean by "retention rate", since the term means many things to many people. My definition is **the % of customers who make two or more purchases within six months**. [Rather simple definition. *I know, I know*. In fact I've frequently used one of the many other definitions of retention. But for this case study, we used the simple definition above.]

So I asked him, if 1,000 customers purchased this month, how many will purchase again in the next 6 months? **How many will still be your customers in 6 months?** The president thought for a few seconds then proudly announced that 90% of his customers would repurchase in the next 6 months. I was a little shocked. I told him that he might be right, but my experience would lead me to believe that it might be less. [Was that diplomatic or what?] In fact, if he were right, his retention rate would be the highest I had ever seen or ever heard of. [It turned out his actual retention rate was about 30% leaving him a little room for improvement.] Isn't it amazing how removed some executives are from what is really happening in the stores?

There are many articles stating that you can increase company profits by increasing retention. Some say you can increase profits as much as 75% by increasing customer retention as little as 5%. Some say it's 10, 15, or 20 times cheaper to keep a customer than to acquire a new one.

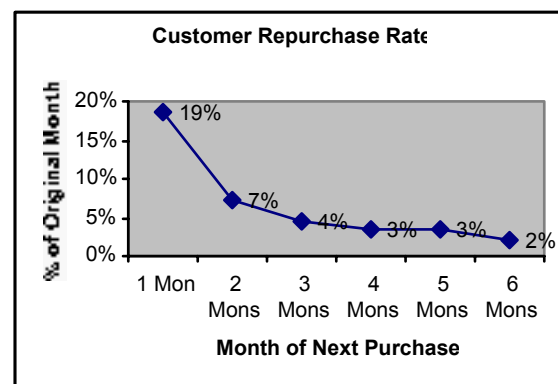
After showing the president that his actual retention rate was only 30%, he told his executive staff, "Go out and increase retention." Not that easy, Mr. President. Many books tell you theories of how to increase customer retention and lots of consultants, like me, make their living helping companies do just that.

However, before developing a retention program, you must determine the rate at which your customers are being retained currently. The chart below tracks how long it took to make a second purchase from a sample of 100,000 customers who had purchased in the month prior to the test. [This analysis can only be accomplished with a customer database that tracks customer purchases.]

The number of customers by **month of second purchase** is:

1 mo. after purch.	19,000 or 19%
2 mos. after purch.	7,000 or 7% second purchasers
3 mos. after purch.	4,000 or 4% second purchasers
4 mos. after purch.	3,000 or 3% second purchasers
5 mos. after purch.	3,000 or 3% second purchasers
6 mos. after purch.	2,000 or 2% second purchasers

The retention rate, in this case, is 39% over 6 months. Notice in the chart how dramatically the rate falls after the second month. Before you develop your retention program, you must learn how much time should elapse before you pull the trigger on targeted communications to retain the customer.



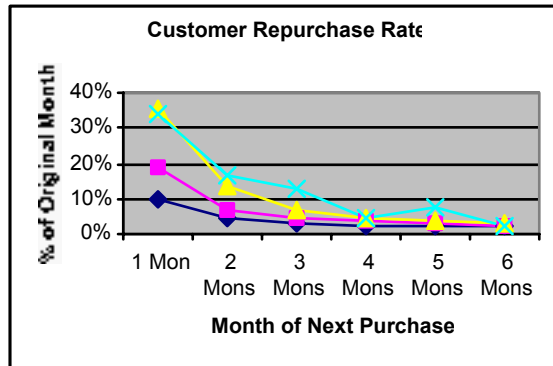
Every retailer will have a different Repurchase Rate Curve. And it will vary across the seasons. But all curves that I've seen show dramatic falloff from month 1 to month 3, leveling after month 3 or 4, settling at a rate 1s-3% per month thereafter.

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See the chart below reflecting 4 different retailers – all 4 have similar curves with different starting points that fall off very quickly and approach a steady state after a few months.



My military tactical officer at West Point in the 60's stated that "knowledge without action costs lives." Your actions hopefully will not cost lives, but they can be very important to your company's success. So what actions

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Coach Leather Goods

We are pleased to announce that Coach, New York, NY retained RTG to assist with the implementation of CRS' Encore, Focus and Found. Shaun Magee has responsibility for overall project management.

can you take from this knowledge? You can either say, "Whoa is me" or make some changes to lift the curves. [Remember, small lifts of the curve equate to lots of sales increases.]

1. Communicate to your customers more often and much more timely, especially after purchases.
2. Prevent customers from aging beyond month 3 without having made a purchase.
3. Reward loyalty because this increases transaction counts over time.
4. Develop multiple offer programs to stimulate store traffic.
5. Measure retention to identify progress in different customer segments.

After my dear, gentle wife saw the curves (in the chart, not my waist), she said, "Strike while the iron is hot." She finally understands what I do all day long.

Remember: Don't stop communicating to your customers. There are still years of gold in "them thar hills", if mined properly.

In addition to manufacturing fine leather goods, there are currently over 200 Coach stores in the United States, with more expected to open this calendar year. In addition, Coach has built a strong presence in the U.S. through Coach boutiques located within select department stores and specialty retailer locations. The catalogue is an important advertising and sales vehicle for Coach, both domestically and abroad. In 1999, Coach launched its on-line store at www.coach.com. Coach also operates stores and shops in nearly 200 locations in eighteen countries outside the United States. *

*Re-printed from www.coach.com

The Retail Technology Group:
www.RetailTechnologyGroup.com
is located at:
761 Rock Rimmon Road
Stamford, CT 06903-1216
Telephone 203 329-2621
bamster@retailtechgroup.com