Customer Acquisition and Retention

An Optimisation Guide 2023

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Meet the experts

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"We are delighted to present you with our 'Customer Acquisition and Retention – An Optimisation Guide 2022/3' report, supported by Lucidworks. This report will give you valuable insight into how you can improve the performance of each customer group and marketing channel. You can also compare your performance to industry standards. Read on to discover the most effective strategies to inspire conversion and loyalty."

About

We help our members understand and improve their online retail performance through a busy programme of performance benchmarking, data analysis, insight, best practice-sharing, and events. We have been tracking online sales since 2000 – and now measure over 120 individual metrics in a series of indexes, providing in-depth intelligence on online and mobile sales, delivery trends, marketing ROI and channel performance.

Editorial:

Ellie-Rose Davies, Content Executive at **IMRG**

Andy Mulcahy, Strategy and Insights Director at **IMRG**

Matthew Walsh, Data and Retail Director at **IMRG**

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"Customer acquisition and retention are pivotal to retail success and never so more than with the current economic outlook and rocketing customer acquisition costs.

To successfully navigate these dual challenges, retailers need to understand customer intent and correctly interpret what their customers wish to learn, discover, or purchase, and then successfully match the need with the desired product or information.

The theory is simple, but delivery is complex. Understanding customer intent and preferences, a lack of data, siloed systems and merchandising and search platforms that frequently are not state of the art, are all significant challenges. Read on to discover what 'great' should and can look like, when supported by class leading technology."

About

You have to understand what someone wants before you can give them what they need. In a digital experience, it can be tricky to figure out a buyer's goal. Lucidworks believes that the core to a great digital experience starts with search and browse. Lucidworks captures buyer behaviour and utilises machine learning to transform the digital experience for the world's most innovative organisations, connecting people with the products, content, and information they need.

The world's largest brands, including Lenovo and Crate & Barrel rely on Lucidworks' suite of products to power commerce applications that delight buyers and empower employees. Learn more at Lucidworks.com.

Editorial:

Nick Jones, General Manager International at **Lucidworks**

Methodology

IMRG conducted a survey that gathered invaluable information from leading UK retailers about their customer segment performance and the effectiveness of marketing channels in acquiring and retaining customers.

We surveyed 32 retailers, but their participation scores for each question varied based on the information they could provide. We provided retailers with identical definitions of the customer segments to ensure a collective understanding and to help facilitate precise market benchmarks.

To better understand how we have classified customers, please see below, where you will find the customer classification breakdown and the relevant definitions we have worked from.

The survey was conducted in April 2023. This report refers to additional research conducted by IMRG.

	New Customer	Existing Customer	Reactivated Customer	Active Customer
2020 & Earlier	✕		☺	
2021	✕	☺	✕	
2022	☺	☺	☺	☺

No data was recorded for reactivated customers in 2021.

Below are the definitions each retailer used in their answers:

- **New Customer** is someone who has never shopped online with you before.
- **Existing Customer** is someone who has shopped with you at least once in the current calendar year and at least once in the previous calendar year.
- **Reactivated Customer** is a prior customer who did not purchase from you in the previous year but re-engaged in the current year. (Reactivated customers equals 100% NEW & EXISTING)
- **Active Customer** is classified as someone having made a purchase in the current year.

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Introduction

Many UK retailers are striving for increased prosperity in 2023 by focusing on two crucial elements: acquisition and retention. By prioritising these key areas, retailers can expand their customer base and reinforce loyalty-driven relationships with their customers.

Read on and learn how to effectively market to different types of customers and compare your performance to other UK retailers...

Key Insights:

- Average order numbers and frequencies
- Average order values
- Email opt-in and opt-out rates
- Email frequencies
- The cost and value of acquisition channels
- Customer lifetime values by segment

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Average orders received from new, existing, and reactivated customers, 2021 Vs 2022

The first answer to our survey generated 25 responses. We asked the retailers to provide their average order share, which we broke down by their new customers, existing customers, and reactivated customers. The data revealed that the highest average order share for 2021 and 2022 was from new customers, and this customer segment only experienced a 2-percentage point decline in 2022 (50% in 2021 & 48% in 2022).

Existing customers gave retailers an equal share of orders across 2021 and 2022, averaging 42%. The consistency in orders for existing customers alongside the high new customer shares suggests that despite the cost-of-living crisis skews that heavily impacted UK customers in 2022, many retailers saw consistency and relative stability.

It is significant that in 2021 and 2022, reactivated customers provided the lowest average order share for retailers. However, it is encouraging that this segment experienced a growth of 2 percentage points in 2022 (8% in 2021 & 10% in 2022).

Out of all the orders received in 2021 and 2022, what percentage came from each of the customer segments – new, existing, and reactivated?

	New Customer	Existing Customer	Reactivated Customer
2020 & Earlier	✕		☺
2021	✕	☺	✕
2022	☺	☺	☺
Av Order Share in 2021	50%	42%	8%
Av Order Share in 2022	48%	42%	10%

Calculated as total number of orders from customer segment divided by total orders for the time period. No data was recorded for reactivated customers in 2021.

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Orders received per online retail product category, 2021 Vs 2022

The chart presented here represents the average share of new customer orders split by three online retail product categories (clothing, health & beauty, and home & garden) and 'other' retailers. Out of all the product categories surveyed, home and garden retailers received more orders from new customers, except for the first retailer surveyed in that product category (retailer 19).

New customer order share for home & garden retailers in 2022 was very similar to 2021, although slightly lower. In 2022, 90% of a health & beauty retailer's orders came from new customers.

Just four clothing retailers saw growth in new customer orders in 2022 relative to 2021, suggesting less reliance on or success around strategising customer acquisition.

New customer rate - 2021 Vs 2022
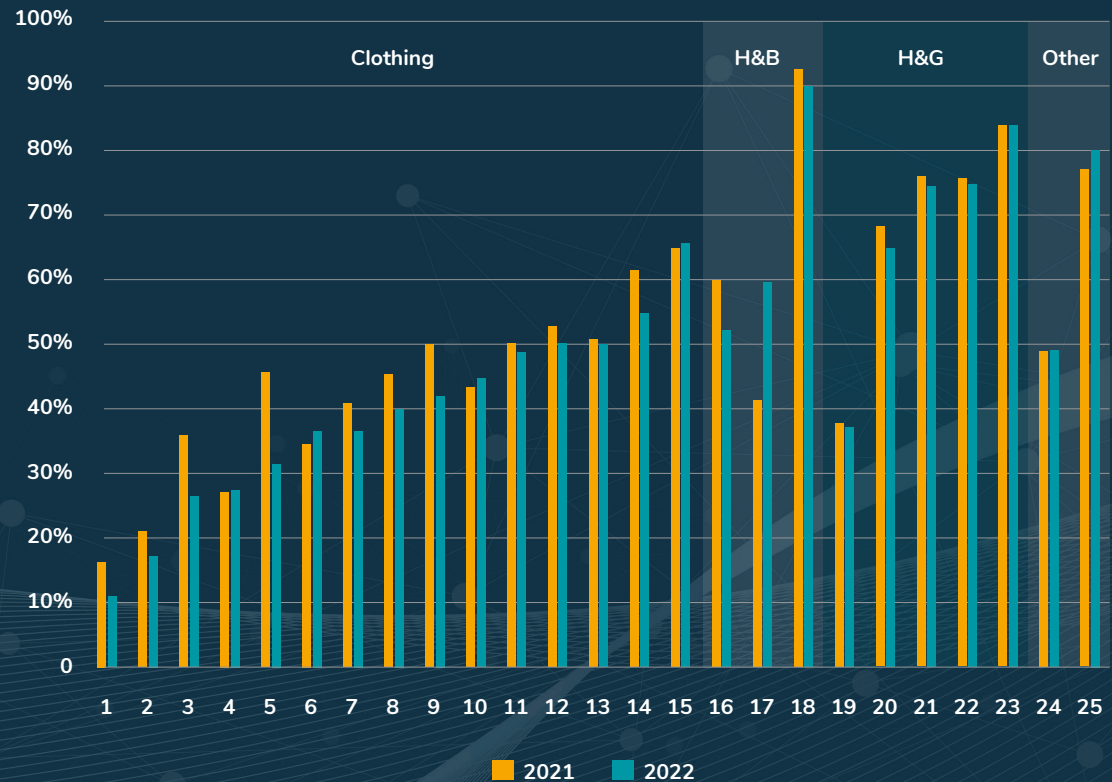
Order frequencies for each customer segment in 2021 and 2022

In 2022, existing customers had the highest average order frequency of 2.61, even though new customers generated the highest average order share for retailers. These 25 retailers have found that their existing customers place orders more than twice as often as new customers during their first year.

Existing customers generally have a better feel for a brand and might have developed trust with these retailers.

Reactivated customers, while having not ordered from the retailers in the previous year, had a respectable average order frequency in 2021 (1.60) and 2022 (1.48), making this customer segment the second most frequent purchaser despite having the lowest average order share.

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This data reflects well on the ability of retailers to understand customer intent and present relevant products to their existing customers. As customers shop, they leave 'signals' indicating brand and style preferences, preferred price points, and a whole multitude of other information that enables retailers to better personalise product offerings and better serve their customers.

What is the average order frequency for each of the customer segments in 2021 and 2022 – new customers, existing customers & reactivated customers?

	New Customer	Existing Customer	Reactivated Customer
2020 & Earlier	✕		☺
2021	✕	☺	✕
2022	☺	☺	☺
Av Order Frequency in 2021	1.32	2.77	1.60
Av Order Frequency in 2022	1.27	2.61	1.48

Calculated as total number of orders divided by total number of customers per segment. No data was recorded for reactivated customers in 2021.

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The cost-of-living crisis' effect on average order frequencies

IMRG hypothesised that owing to the cost of living crisis in 2022, more customers would be less loyal to certain brands. We predicted that they would switch to a cheaper retailer they had not shopped with before and subsequently make repeat purchases from that retailer.

New customers ordered slightly less in 2022 (0.5), and this small change signifies purchasing behaviour changes elsewhere, such as opting for cheaper or more long-lasting items.

In 2022, all customer segments had fewer orders, showing the difficulties of ecommerce in a financial crisis. Though, with the economic challenges, it is promising that the most change retailers experienced was from their existing customers, which only saw 0.16 fewer orders in 2022.

The average order frequency for new customers and existing customers in 2021 Vs 2022, demonstrating the slight change between the two years

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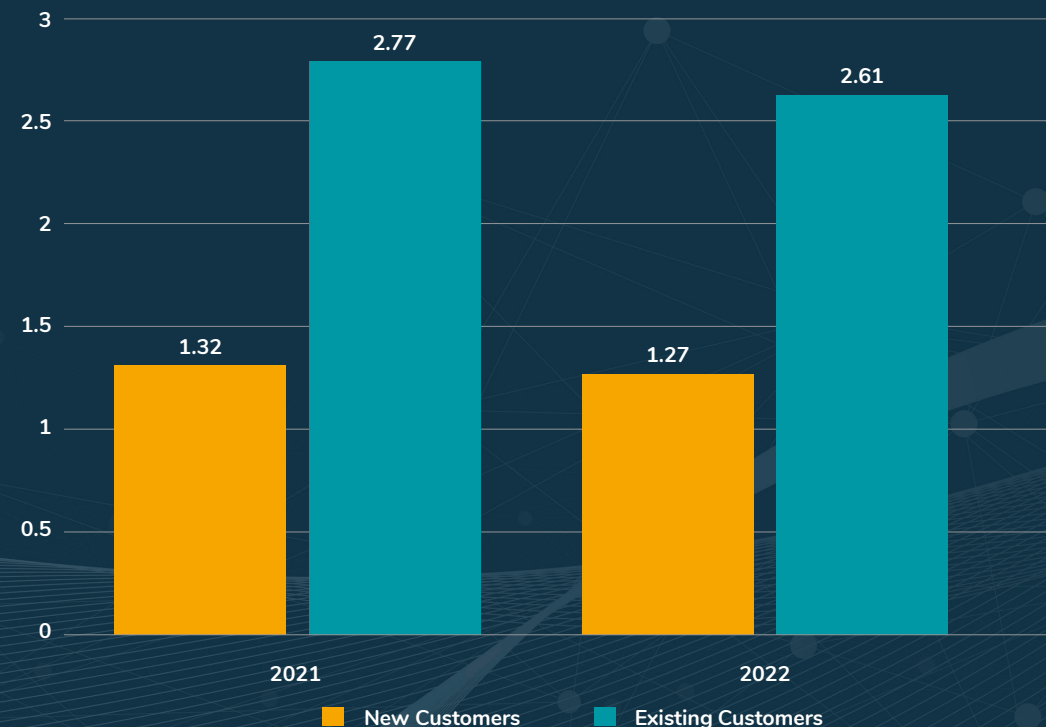
Customer order frequency in 2022 split by product categories

The clothing sector has seen substantially higher average order frequencies from existing customers than new customers in 2022. Most clothing retailers experienced 2-3 times more orders coming from their existing customer base and at a much higher rate than the other product categories.

Health & beauty and home & garden retailers saw less disparity between the two customer segments; existing customers just took the lead in average order frequencies. There were fewer repeat orders by new customers for all product categories, averaging 1 – 1.8.

The lower rate of frequencies for new customers is unsurprising given that recent IMRG research has revealed that new customer acquisition was the topmost important activity marked by retailers to achieve their growth targets in 2023.

Customer order frequency split by product category for new and existing customers, 2022

Legend: New (orange), Existing (teal)
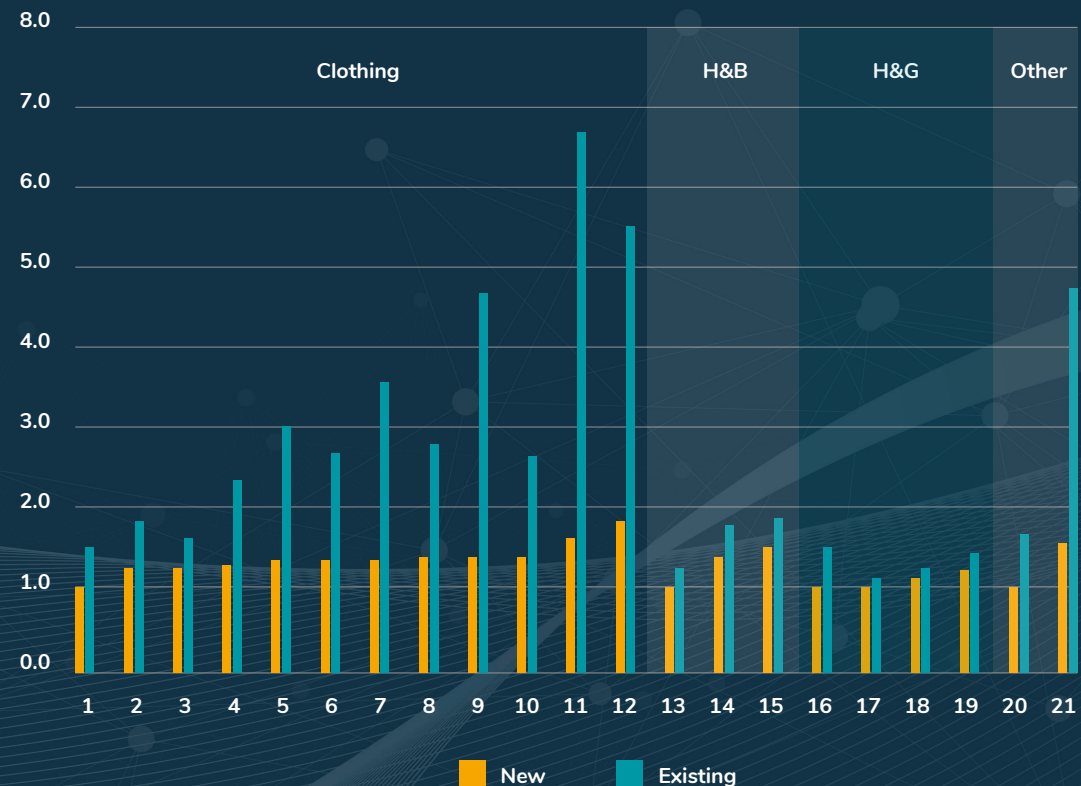
Average order value per customer segment, 2021 Vs 2022

In 2022, the average order values grew for new and existing customers (by £17 formerly and £20 latterly). Both represent a 21% value increase.

Yet again, existing customers, who had an average order value of £111 in 2022, have revealed themselves to be greatly valuable for retailers looking to improve key growth metrics.

On average, new customers spent £98 per order in 2022 - a rise from £81 in 2021. One possible explanation is that inflation has caused many retailers to increase their item prices to reduce the pressure on their margins.

Reactivated customers are the single customer segment to experience a decline in average order values in 2022 from 2021, albeit only a £1 decrease.

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AOV data highlights the commercial opportunities for retailers to better serve existing customers. When retailers are able to use their data to better understand customers and merchandise more relevant offerings, they can increase AOV, merchandise premium products to the customer segments that display affinity to those brands, and avoid needless discounting that eats margin.

What was the average order value for each of the customer segments across 2021 and 2022?

	New Customer	Existing Customer	Reactivated Customer
2020 & Earlier	✕		☺
2021	✕	☺	✕
2022	☺	☺	☺
Av Order Value 2021	£81	£91	£70
Av Order Value 2022	£98	£111	£69

Calculated as gross order value divided by total number of orders per segment. No data was recorded for reactivated customers in 2021.

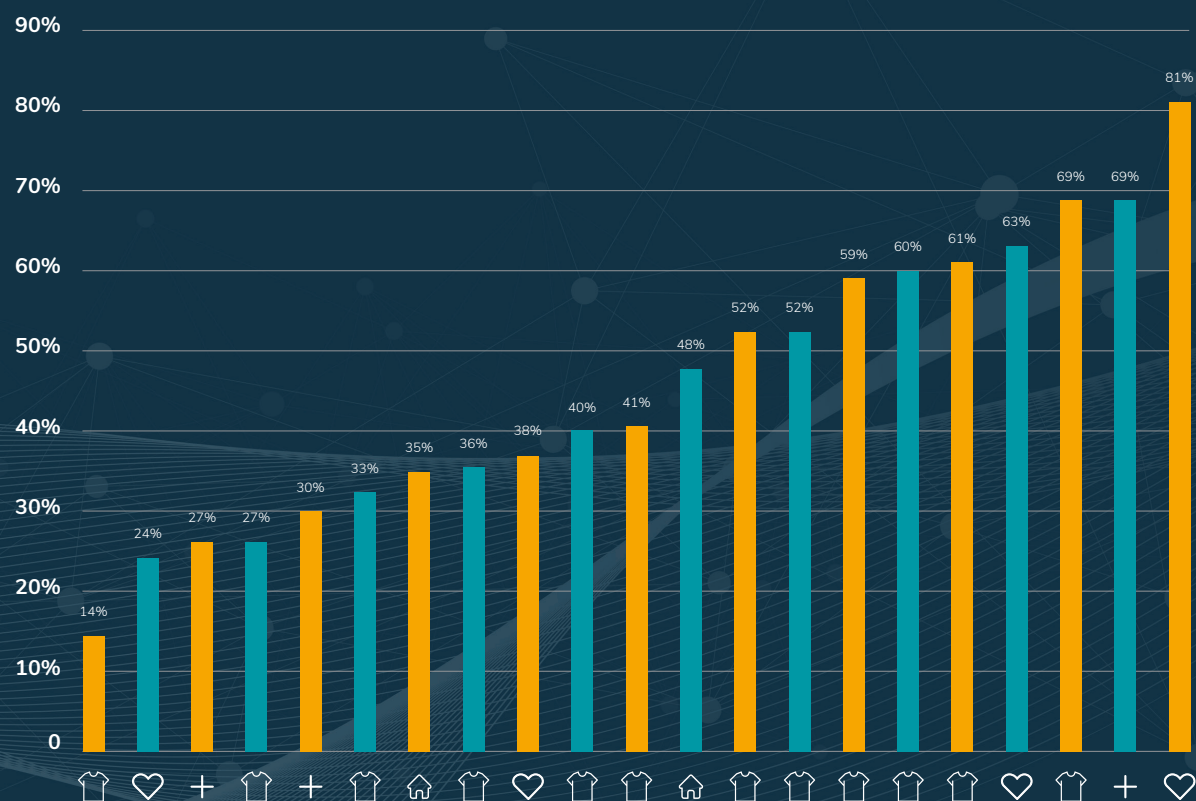# The use and value of email marketing in online retail

Average email opt-in rates per product category

The chart on this page reveals the average email opt-in rates of 21 retailers who answered this question. On the X axis, you will see circular icons representing the online retail category of each retailer; The white t-shirt symbols are clothing retailers, the heart icons are health & beauty retailers, the houses are home & garden retailers, and the white plus symbols are the 'other' product categories.

There is no significant trend that implies one online retail product category will see greater email opt-in rates than another. But, we can gather that the average retailer achieved an email opt-in rate of 46% from their active customer base in 2022.

The almost equal divide between active customers who have opted-in and who have not opted-in reveals a preference split. Therefore, it would be wise for retailers to have multiple customer touchpoints.

What is the email opt-in rate of your active customer base?, 2022

Bar chart values (left to right): 14%, 24%, 27%, 27%, 30%, 33%, 35%, 36%, 38%, 40%, 41%, 48%, 52%, 52%, 59%, 60%, 61%, 63%, 69%, 69%, 81%
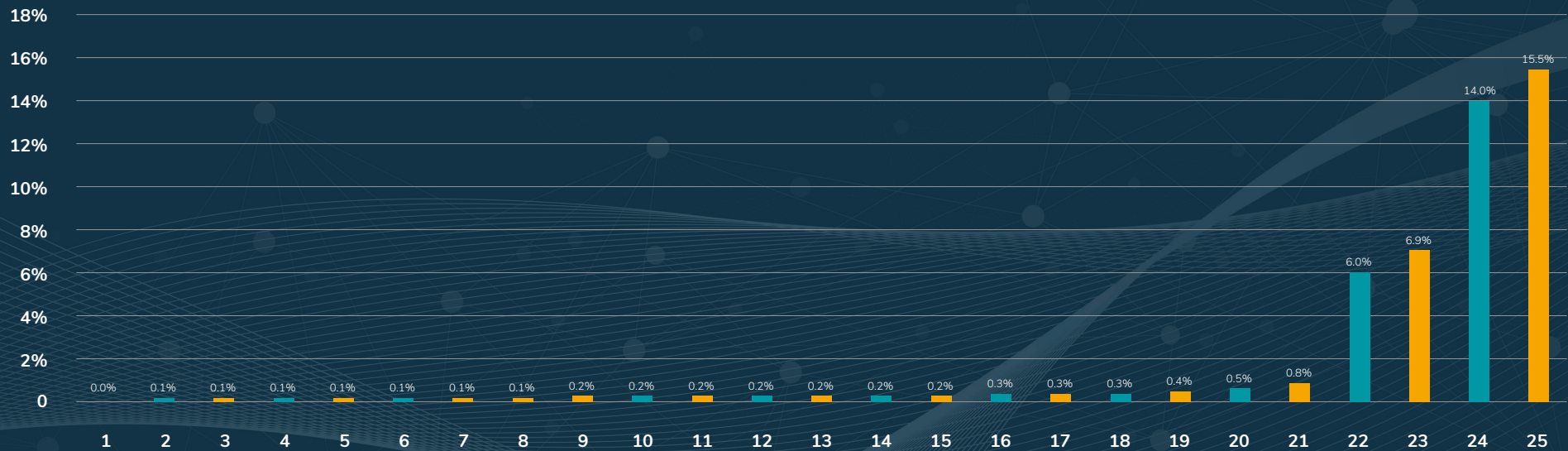
Average email unsubscribe rate

There are multiple reasons why an active customer might unsubscribe from a retailer's emails, including; They might have only subscribed as a part of a promotion and have no interest in keeping the relationship, the retailer might be sending too many irrelevant emails for their customers, they wish to tidy their inbox or keep their email communications strictly professional, or they might have had a bad experience with the brand, etc.

However, the average retailer has an email unsubscribe rate of just 1.9%. Therefore, this data suggests that retailers can optimise this marketing channel for better conversion.

Four retailers had a much higher unsubscribe rate than the rest of the respondents. Presuming they are less representative of the UK retail population, the rate without these four retailers is 0.2%.

What was your email unsubscribe rate in 2022?

Bar	Value
1	0.0%
2	0.1%
3	0.1%
4	0.1%
5	0.1%
6	0.1%
7	0.1%
8	0.1%
9	0.2%
10	0.2%
11	0.2%
12	0.2%
13	0.2%
14	0.2%
15	0.2%
16	0.3%
17	0.3%
18	0.3%
19	0.4%
20	0.5%
21	0.8%
22	6.0%
23	6.9%
24	14.0%
25	15.5%

## Retailers reveal their average number of email messages in 2023

We asked our respondents how many different email messages they sent their customers across their whole database in February 2023, a relatively normal trading month after Black Friday, Christmas, and January promotions.

From 23 retailers who could provide this information, the average number of individual email messages sent in February 2023 was 18.

This is a high number of emails considering that February only totalled 28 days in the calendar.

The mode was 15 email events sent across their entire customer database, and seven retailers revealed that they sent over 18 email messages during this period. One retailer sent as many as 41 emails to their customers.

How many different email messages did you send in February 2023?
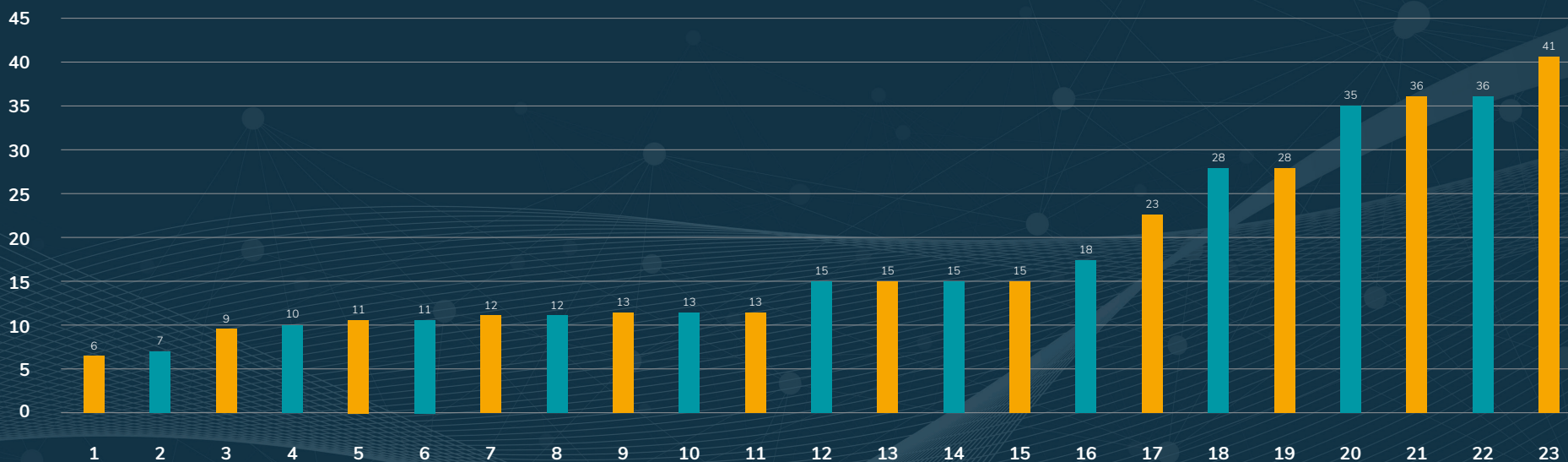
The number of different emails is explained as individual email events, such as one promoting a sale, one promoting a new product, one promoting a competition - Not the number of individual customers that were sent an email this month.

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The correlation between number of emails and unsubscribe rate

Some might expect that the retailers who send more emails to their customers will receive higher unsubscribe rates, given that customers might view it as a pestering activity. However, as we can see, there seems to be no sign that customers have ill feelings towards a high number of emails.

For example, out of two retailers that sent 11 emails to their customers in February 2023, one retailer experienced a 14% unsubscribe rate, whereas the other retailer experienced a 0.2% unsubscribe rate.

When you compare the retailer that sent six emails to the retailer that sent 41 emails, both only experienced a 0.1% unsubscribe rate.

The number of emails retailers sent compared to their unsubscribe rate, February 2023

Number of Emails	Unsubscribe Rate
6	0.1%
7	0.1%
11	14.0%
11	0.2%
12	0.1%
12	0.4%
13	0.5%
13	0.0%
13	0.1%
15	0.2%
15	0.2%
15	6.0%
15	0.1%
18	0.2%
23	0.2%
28	0.2%
28	0.3%
35	0.1%
36	0.2%
41	0.1%

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The cost and value of customer acquisition

The cost of acquiring customers through paid marketing has risen significantly from 2021 to 2022, especially for display ads (up 37%) and affiliate ads (up 47%). Consequently, customer acquisition and retention have become more difficult.

Although affiliates have seen the largest cost increase, it remained the cheapest channel for acquisition in 2022, at £9.80. On average, affiliates cost retailers £36.44 less than display ads.

Measuring channel cost-effectiveness through the last-click model largely suits the framework of affiliate marketing, where cashback or voucher code sites, for example, are commonly credited for conversion.

It would be incorrect to presume that the other, more costly, channels are ineffective. While they do not often generate good results for last-click attribution, they can build brand awareness and image.

What is the average cost of acquiring a customer via paid search, paid social, display ads and affiliates? *(Calculated on a last click basis).*

	Paid Search	Paid Social	Display	Affiliates
2021	£15.79	£32.15	£33.64	£6.67
2022	£18.41	£39.26	£46.24	£9.80
Change	+17%	+22%	+37%	+47%

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Conversion rates for traffic per acquisition channel - *Affiliates take the lead*

The affiliate channel generated the highest amount of traffic (8%) and proved over 2x more effective than other marketing streams. As customers have become more cost-conscious in a cost-of-living crisis, they might seek promotions on affiliate sites, which often provide generous discount codes to their visitors.

In second place was organic search, presenting the value of search engine optimisation to ensure retailers are positioned high on the results page. Organic marketing can help save on acquisition costs.
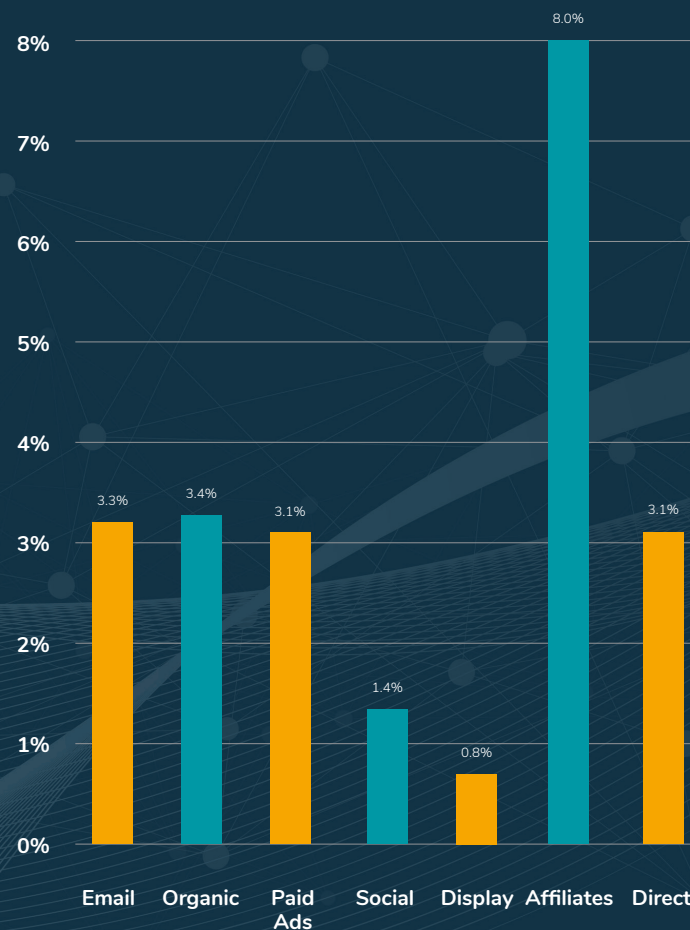
Closely behind organic search are email, paid ads, and direct marketing, all ranging from 3.1% to 3.3%, with email marketing achieving the highest conversion rate of this range. Direct communication with strong personalisation can upstream traffic to online retail sites.

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When it comes to the comparison of acquisition cost and conversion rate, retailers rightly need to focus on the channels which offer the best value for money - affiliates, paid ads, and of course organic search and email marketing.

But the effectiveness with which retailers can convert new customers depends on their ability to understand search needs and match customers with the right products, the first time they search and browse. This is hard with traditional lexical search platforms that poorly interpret intent-laden long-tail search strings. Thankfully help is at hand in the form of AI and vector search that better connects and converts new customers with the products they're looking for.

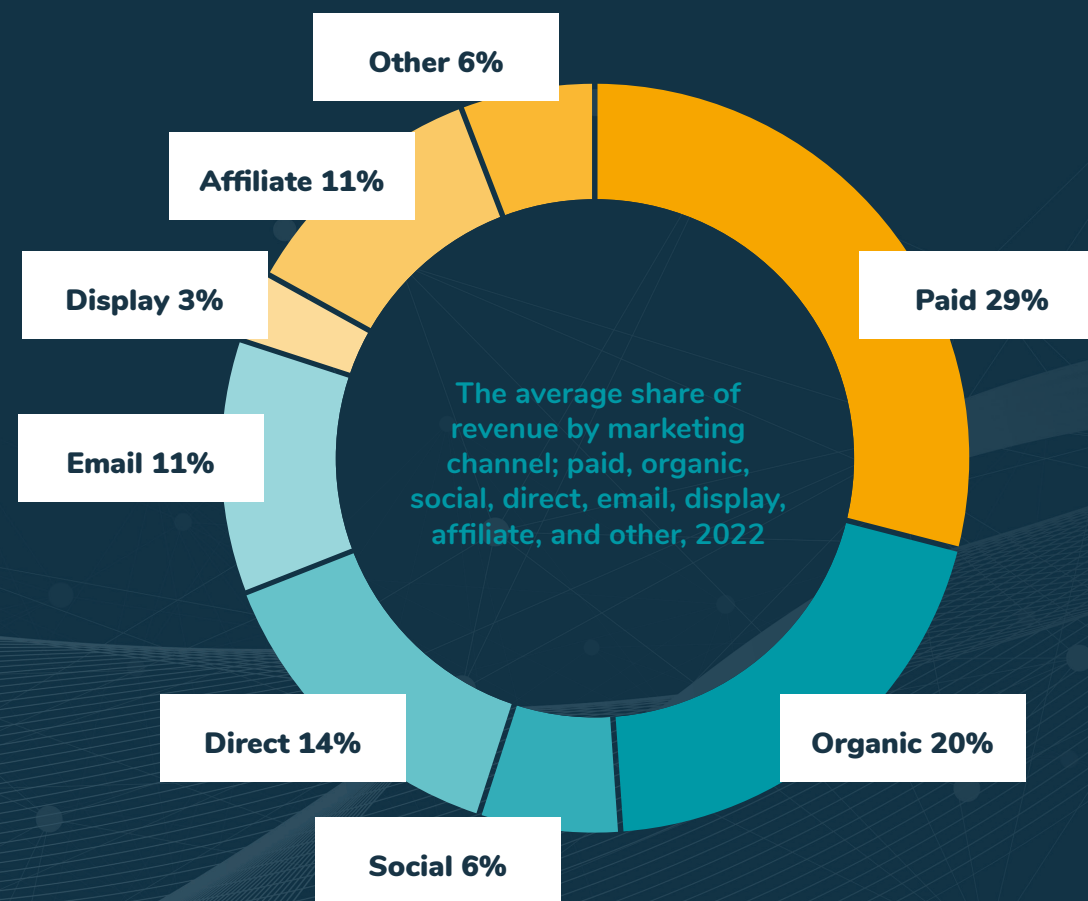**Industry average conversion rates based on total sessions and last click, 2022**

Bar chart values:
- Email: 3.3%
- Organic: 3.4%
- Paid Ads: 3.1%
- Social: 1.4%
- Display: 0.8%
- Affiliates: 8.0%
- Direct: 3.1%

The average share of revenue by marketing channel in 2022 -
Paid search, the revenue catalyst

We asked the retailers to provide their share of revenue split by the seven marketing channels in 2022. This data helps us to learn which channel offers the highest return on investment (ROI) when calculated on the last click.

While paid ads offered comparatively low conversion rates for traffic (3.1%), they proved to be the most successful at generating revenue for the respondents, averaging 29% of the share. Although this method is the second most costly, it presents a high ROI for retailers who have utilised this strategy. In second place again is organic search, taking 20% of the revenue share.

The UK population is heavily engaged in social media, viewing video and image content daily. Yet social and display ads have proven the least effective for revenue growth. Nonetheless, many customers might find inspiration from social media and then visit the retailers' website or products on a search engine. Therefore, while not often directly, it still holds value in ecommerce today.

Other 6%

Affiliate 11%

Display 3%

Email 11%

Paid 29%

The average share of revenue by marketing channel; paid, organic, social, direct, email, display, affiliate, and other, 2022

Organic 20%

Direct 14%

Social 6%

Mapping out the average lifetime value of customer segments in 2022

Active customers – their average tenure

We asked retailers what their average tenure was of their active customer base in 2022 to get an average loyalty duration of a repeat customer.

On average, active customers are loyal to a brand for 40 months. A tenure of over three years is a considerable time for customers to be in a retailer's database with Covid-19 and cost of living skews. Clothing retailers had an average of 49 months, and health & beauty retailers saw an average tenure of 29 months for their active customers. This implies clothing retailers have a better time than other online retail product categories at driving customer loyalty.

Here are the average tenures of retailer's Active Customer base:

- **Total market average: 40 months**
- **Clothing retailer average: 49 months**
- **Health & beauty average: 29 months**

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Existing and reactivated customers – their lifetime sales value

We curated the 15 retailers who provided their average order values and their lifetime sales value for their existing and reactivated customers to see if there are any patterns.

It would be futile to study individual retailers with starkly different order values as it would provide little context. By investigating both measurements together, we can see if certain product categories or average order values have similar lifetime values.

As you navigate the chart, you can see which retailers experience value from their retained customers (existing and reactivated). By dividing the customer lifetime value by the average order value, we learn how well each retailer generates revenue.

4.9 is the average ratio result of all retailers surveyed. The multi-category retailer (marked in grey) maximised revenue the most, where their customers provided an average score of 13.33.

The Lifetime Sales Value is a sum of the gross revenue from all existing and reactivated customers across history and provides an average to a per-customer figure. The colour dots represent the different product category each retailer belonged to.

What is the average lifetime sales value for all your existing + reactivated customers? (Comparing lifetime value and average order value)

- 🟧 Clothing
- 🟦 Beauty
- ⬜ Home & Garden
- 🟩 Sports & Outdoors
- ⬛ Multi Category

Life Time Value

Average Order Value

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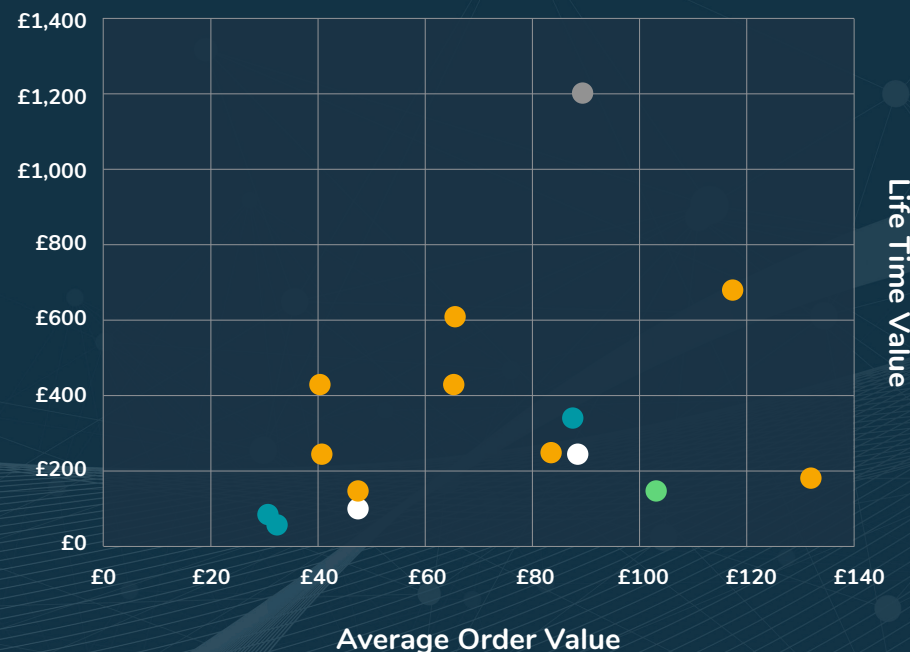
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Site search: A valuable tool for conversion

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With conversion rates up to 3x the levels of those not using site search, this underlines the critical importance of the onsite search function for retailers. Previous research by the IMRG indicates that onsite search is used by 30% of customers. This highlights the potential revenue gains that retailers can make prioritising investment in class-leading search and merchandising platforms.

The data reveals that the search feature on online retail websites is valuable, and it is especially good at converting existing customers (7.6%). New customers who use search have a slightly lower conversion rate (5.6%), whereas the conversion rate for customers not using search was very low (2.6%).

Existing customers might convert at a higher rate because they are used to navigating the website and might have a better sense of what products they like from the retailer.

Between 1st Jan to 31st Dec 2022, what was the conversion rate for new and existing customers who used site search during their session?

	CVR Rate
New customers using search	5.6%
Existing customers using search	7.6%
Any customer not using search	2.6%

Calculated as number of all orders received from new and existing customers that used the search functionality divided by the total number of new and existing customer sessions that used search.

Conclusion

Social and display ads have proved less profitable channels for investment as they struggle to generate revenue and traffic to retail sites. However, this is true based on a last-click model, so answers may vary if measured in alternative ways.

Paid, organic, email, and affiliate marketing have created desired results for retailers, with paid ads taking the lead for boosting revenue, and affiliate marketing being the cheapest and most effective method to incorporate and drive traffic.

Existing customers are the most frequent top-performing customer segment, holding the utmost value for retailers. Retailers may want to consider ways to encourage customer loyalty, especially with new and reactivated customers who may not make repeat purchases. Email marketing is a method that has proved effective with low drop-out rates and can be used to inspire loyalty among customers.

Retailers might also begin to optimise their search function and inspire more customers to use it, given that customers who do have higher conversion rates than those who don't.

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Lucidworks: Techniques to improve customer acquisition and retention

Successful customer acquisition starts with the initial (expensive) ad click, but from then on is all about helping new customers quickly find their way to the right products. The key to a best-in-class digital experience starts with search and browse — it's the place where customers act with the most intent, reducing bounce rates and boosting conversions.

Customer retention requires the same technologies but deployed differently, using all the known customer attributes and preferences, whilst interpreting intent, to delight customers with the products and information they want.

Technology underpins success in customer acquisition and retention; for too long search and merchandising has been the 'Cinderella' of ecommerce, with little investment in technologies that can make a tangible difference. Retailers need a powerful, adaptable search platform that captures user behaviour and utilises machine learning to connect shoppers with the products, content, and information they need.

Companies that adopt AI-powered search and merchandising tools that can interlink with wider LLM offerings will be able to reduce customer acquisition cost and maximise customer-lifetime-value. This upgraded technology will make the most of company investments in paid media and social ads to win and retain customers.

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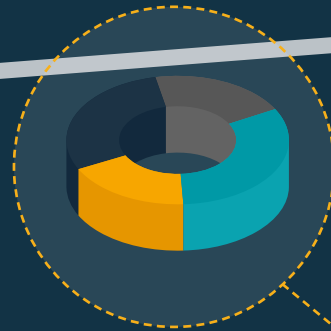**Lucidworks**

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