



***The Startup
guide to build a
PROFITABLE
CUSTOMER
BASE***

ILOVEFASHIONRETAIL

Let me give you a secret formula to grow your ecommerce business. Are you ready?
Alright, here you go:



Ok, I exaggerated. It's not really a secret formula but it's definitely the only way you can grow your startup into a sustainable ecommerce business.

- You get customers = Customer Acquisition
- You keep them = Customer Retention
- You grow them = Customer Growth

I can tell you from my experience working with so many ecommerce startups that there are only few businesses out there who're actually working on customer acquisition, retention & growth at the same time. Most of them (and you might be one of them) are focussed on the first step, ie. "Customer acquisition - getting new customers". They have a definite plan to acquire new customers but they're doing very little if anything to deliberately activate their customers or retain them; let alone growing them. They're so busy in acquiring customers that they end up ignoring the leakages. They're focussed on the short term benefits, such as how to get customers to buy for the first time. That's it.

On the other hand, ecommerce businesses that grow are usually the ones who pay attention to all 3 steps of growth, ie - getting, keeping and growing customers. So in this article, let me share a growth plan for your ecommerce business. I hope it helps you grow your customer base and take it to the next level.

To make this article actionable, I have divided it into 4 logical steps:

1. Step 1: Customer Acquisition - How to Acquire more customers?
2. Step 2: Customer Activation - Getting them to subscribe or buy for the first time
3. Step 3: Customer Activation - Getting them to buy for the second time
4. Step 4: Customer Loyalty - Getting them to buy again and again

ECOMMERCE CUSTOMER LIFECYCLE

1. PROSPECT CUSTOMER

This is the first stage when your customer subscribes to your website via email, social media or both. He/she is interested in your brand and waiting to be sold.

2. FIRST TIME PURCHASE CUSTOMER

This is customer activation stage when your prospect customer decides to buy from your website for the first time.

3. SECOND PURCHASE CUSTOMER

The customer was happy from his/her first purchase. So he/she just bought for the second time and is looking forward to buying again in the future.



4. LOYAL CUSTOMER

The customer has bought from your ecommerce website 4 times or more in the given sales cycle of your brand.

You can look at these steps as evolution phases that will occur as you turn your potential customers into high value, loyal customers. Please note that not every prospect progresses to the next stage; many customers will drop off in the process...but your goal should be to decrease the drop-offs at each stage, in order to achieve a high growth rate.

Ecommerce Growth Strategy Step 1:

Customer Acquisition - How to Acquire more Customers?

Welcome to step 1 - Customer Acquisition. Customer Acquisition is such a broad topic that it's nearly impossible for me to cover everything in a single article. Thus, I am only going to focus on strategy part of the customer acquisition process. Broadly speaking, Ecommerce customer acquisition can be classified into 3 types:

- **Outbound Marketing:** You pay Facebook, Google, Public Relations, TV and other paid channels to drive customers to your ecommerce website
- **Inbound Marketing:** You create much unique value for your customers in the form of content (articles, blog post, videos, webinars, keynote conferences etc)
- **Both:** You invest in paid channels and you create lot of value to attract customers to your website

It doesn't matter if you're a big company or a small company, you use outbound, in-bound or both for customer acquisition. Conventional wisdom says that the more you can spend, the more customers you can acquire; but even that can fail without the right customer acquisition strategy.

Here are the essential components of customer acquisition:

1. Customer Lifetime Value
2. Customer Archetype
3. Word of Mouth

Customer Acquisition Step 1: Know your CLV

If I ask you - “How much money can you spend on acquiring a new customer?” If you don’t know the 'Lifetime Value of your Customer (aka. CLV), you might say that - "I can only spend so much I can earn if they buy from my website". So if the average profit margin of your products is \$75 and I suggest you a marketing channel in which your Cost Per Acquisition (CPA) is \$100, your first reaction might be.. “NO NO, I can’t spend that much because I wouldn’t even make that much money if they buy from my website”. The problem here is that you’re not even expecting them to buy from you again in the near future, mainly because you don’t have a process or strategy to make your customers buy again. It’s time to change that thinking.

In reality, the initial first sale is not the total sale from a customer. Your maximum CPA is actually dependent on the Lifetime Customer Value and thus you can spend more than your average profit margin to acquire a new customer.

Knowing the Lifetime Value of your customers can help you answer 3 fundamental questions:

1. Did you pay right money to acquire customers from each marketing channel?
2. How much could you spend on keeping them?
3. Which marketing channels are giving you the highest CLV?

Now, let me help you calculate your brand’s CLV. Here is the magical formula:

$$CLV = GML \left(\frac{R}{1 + D - R} \right)$$

Huh..that scary algebra. I would love to demonstrate how you can calculate CLV of your brand but I don’t want to invent the wheel. There are plenty of good articles out there to make it easy for you to calculate your brand’s CLV.

[Excellent Analytics Tip #17: Calculate Customer Lifetime Value](#)
[How to Calculate the Lifetime Value of Ecommerce Customers](#)

Please note that there are two types of CLV figures which you might want to know for your brand:

- **Historic CLV:** It's the addition of the gross profit from all historic customer purchases
- **Predictive CLV** (*that's recommended*): Predictive CLV is predictive analysis of previous customer purchases, while also factoring various behavioural indicators which gives a projection of the lifetime value of a customer. The best thing about predictive CLV is that it becomes more and more accurate with every customer purchase and interaction.

Here is my favorite resource on [CLV by Kissmetrics](#), in which they have demonstrated the CLV calculation of Starbucks in the form of a very easy to follow Infographic.

Still not convinced?

25%-40% of the total revenues of stable ecommerce businesses comes from returning customers. And repeat customers drive approx. 3-7 times more revenue per visit than one-time buyers.

Now once you know what's the predictive CLV of your brand, you'd have the right frame of mind to 'wisely' invest your precious time and money in customer acquisition. You will start valuing customers more and you will be more prepared to go an extra mile to acquire, retain and grow them.

Customer Acquisition Step 2: Know your Customer Personas / Archetype

I have written about customer data multiple times in my [previous posts](#), stating why it's so important to know your customers. But I find it worth repeating because - knowing your customers is the most important step of your customer acquisition process because you want to go where they are and you can only do that if you know who they're.

While there are 'n' number of things which you should know about your customers; from the customer acquisition standpoint, here is what you need to know about them:

- Age group
- Geography
- Income Group
- Types of profession
- Designations
- Interests

The above information basically dictates where you you can find your best customers and give you a clear direction about the places where you can reach them:

- The blogs, magazines & newspapers they read (and when)
- What kind of content they consume everyday
- Social Networks they use (and when)
- Things they search for in Google
- What mobile apps they use
- What computer or mobile devices they use
- What time they're in the office and what time do they reach home
- Who influences their buying decision? etc.

You basically want to know what's the typical day in the life of your customers. If you skip this step, you might well end up promoting your brand at places at times when your customers are not even there.

Customer Acquisition Step 3: Acquire

Once you know your CLV and customer archetype, it's time now to drive traffic to your website and acquire customers. Please note that I didn't say 'convert' or 'sell' but 'acquire'. The whole objective here is to acquire them now; and sell them immediately or later whenever they're ready. That's the long term and right way of acquiring customers in ecommerce.

Essentially, there are 4 ways you can acquire customers:

- **Registration:** You make them register on your website
- **Register & Purchase:** You make them register on your website and purchase (or checkout as guest)
- **Subscribe:** You make them subscribe to your newsletters
- **All of above** - You make them register, purchase and subscribe

Customer Acquisition Step 4: Test & Iterate

Customer acquisition is an on-going process and with each passing day, your intelligence about your customers should improve, which can't be done without testing. And the way online marketing works, you have to always keep testing your customer archetype against each target channel. You need to be more more agile - always experimenting your demographics on Facebook, Google Adwords. You even should test your in-bound content to see which ads or content is giving you most engagement for a given customer archetype.

If you're not getting enough engagement and conversions, may be you're at the wrong place at the wrong time because you haven't yet figured out exactly who your customers

are. Similarly, you may be reaching wrong customers if your customers are landing on your website, they subscribe or register, but they don't buy; or only they only buy when you give them big discounts. Don't marry yourself to the archetype or a marketing channel too soon. Take your time, test and iterate until you start hitting the sweet spot.

And sometimes, it's not the inaccurate customer archetype but irrelevant proposition on the landing page which may be hurting your customer acquisition rate. Always look to show highly targeted landing pages that are relevant to acquisition channels from where your customers land.

These experiments can save you decisive amount of money, in terms of money wasted on acquiring wrong customers. Remember, your mistakes and failures in customer acquisition should be as small as possible.

Ecommerce Growth Strategy Part 2:

Customer Activation - Getting them to buy for the first time

Ecommerce studies suggest that only 0.25% of new visitors landing on your online store purchase but if you can make them come back to your website, they're 9 times more likely to buy from you. Thus, against how many of us believe that customers who want to buy will buy on the first visit, there are very few who actually do that. For most of your customers, it usually takes a sequence of visits before they're ready to purchase. In today's competitive ecommerce climate, you just can not build a sustainable business on top of customers who'd only buy once and never come back.

In this part, I want to talk to you about customer activation, which I consider to be part of customer retention. Like I said, customer acquisition happens when you make a prospective visitor on your website subscribe to your email list or when he/she makes the first purchase. For many retailers, their marketing efforts stop right there. The acquired customers & email subscribers are left to become dormant. They soon become just an 'entry' in your MailChimp or website's server. These customers never buy and they never even open your emails. All the money spent on the acquiring these customers goes wasted.

Can this be avoided? Of course, it can be avoided. You need a customer reactivation strategy in place to make them come back in future.

So, what do I mean by customer activation? Customer activation means that when a customer subscribes to your emails or makes the first purchase, how can you make them

buy. How you open them for future business, so that you can later turn them into regular customers who will buy from your website in the years and years to come.

Goals of Customer Activation

- **Goal 1:** To convert ‘potential customers’ into customers
- **Goal 2:** To gather information (such as location, gender, interests etc) about your ‘customers’ & ‘potential customers’

Now, let me share few tried and tested customer activation techniques which you can apply on your newly acquired customers:

1) Customer Activation Step 1: Send welcome emails

Don’t plunge your new subscribers & registered users straight into receiving your regular offer broadcasts. Don’t forget to welcome them and build a rapport first.

Welcome emails are the first few emails your customers should receive when they first register, subscribe or purchase. It’s one of the best way of activating your new email subscribers and potential customers for future business.

Welcome emails are a very underutilized marketing instrument by most ecommerce startups. They either don’t send any welcome email and if they do, it’s just poorly designed and not well thought out.

- 74.4% of consumers expect a welcome email when they subscribe. [[source](#)]
- Subscribers who receive a welcome email show, on average, 33% more long-term engagement with that brand. [[source](#)]
- Welcome emails generate 4x the total open rates and 5x the click rates compared to other bulk promotions. [[source](#)]
- Welcome emails can see more than 3 times the transactions and revenue per email over regular promotional emails. [[source](#)]

In this article, I don't want to talk about best practices for designing welcome emails though. There are [plenty of online resources](#), which demonstrate the art of crafting compelling welcome emails and there are examples from some of my favorite brands.

Some important tips though:

- **Email right after a prospect signs-up:** Many retailers miss the trick when they time their welcome email too late. Ideally, you should send them a welcome email, right after they sign up, mainly because their interest levels are highest then. Even the smallest delay of 30 minutes can negatively impact your customer activation rate.
- **Get the frequency right:** Welcome emails can also be used to set the email frequency. If you send the welcome emails one after the other too soon, your customers might feel that you're going to bomb their inbox. So it's always good to test and figure out your optimal email frequency.
- **Segment** - Don't send a generic welcome email to everyone. Here is a simple way you can segment your new subscribers:
 - New newsletter subscribers - who've never received emails from you before and potentially have less exposure to your brand
 - First-time buyers who've never received emails from your brand and also have limited exposure
 - First-time buyers, who have received your welcome series

My whole point here is that - as part of your customer activation endeavour, you must start start sending a series of logical and compelling welcome emails to your customers and subscribers immediately after you acquire them. It's a brilliant way to build a closer relationship with your customers, and making them receptive to your future email communication.

2) Customer Activation Step 2: Personalized email communication

We see many retailers using emails for marketing as if it's 2005. They still use words such 'email blasts'. Unfortunately, one size fits all approach of blasting cookie cutter promotional emails not only is a serious under-utilization of email as a marketing channel, it can also destroy your brand's reputation. People will either unsubscribe, report you as a spammer or stop opening your emails. Just remember that every time your customers get an irrelevant marketing message from you, they lose respect for your brand, and they are less likely to open your next email even if the next email is relevant to them. You can only make your customers immune with an irrelevant email communication. There are many email solutions out there, such as [Bronto](#), [Windsorcircle](#) & [Ometria](#), which you can use to send intelligent emails to your customers.

3) Customer Activation Step 3: Retargeting / Remarketing

I am sure you already know by now - what retargeting is. We all see how we're chased by brands everywhere after we visit their website. They'd show us their ads wherever we go - Facebook, Google, Blogs we read etc. They're just everywhere. They would even show us pictures and offers of exact products we visited on their website. I know - creepy but effective.

There are plenty of retargeting tools which you can use such as [Facebook Custom Audience](#), [Google Adwords](#), [Adroll](#) etc. Again, the objective of this article is not to teach you how to do customer retargeting, but to make you start seeing customer retargeting as an activation & retention tool, as with it - you're creating the much needed brand recall after the initial interactions.

If you're getting really low conversions from your retargeting ads (in other words, if people are not buying even after being reminded again and again), it's a sign that maybe you should revisit your market fit.

4) Customer Activation Step 4: Trust development

Trust development is an extremely important part of customer activation & retention. You can not activate or retain your customers if you can't make them trust you in your initial engagements.

- **Promise amazing shopping experience:** Nudging nervous prospects with reassuring brand messages via email and re-targeting ads helps a great deal in making them active. The idea here isn't to sell but promise great shopping experience.
- **Show them authority:** Instead of showing them product offers in all your emails and retargeting ads, you can show compelling and relevant content. Remember that new customers aren't always looking to be sold, sometimes what they want from you is reaffirmation that you're an absolute fit for them as a brand.
- **Show them user generated content & social proofs:** In the reactivation stage, it's also the right time to show them social proofs. Feel free to show them your products reviews, customer testimonials, and major PR mentions.

5) Customer Activation Step 5 - Use offers intelligently: Intelligent offerings are one of the biggest marketing instrument you have for customer activation and reactivation. Send emails with generous yet intelligent offers. An offer you send to someone who hasn't bought lately should be more generous than offer for someone who recently made their first purchase. While the former one might appreciate a bigger discount, the later might make second purchase just for free shipping. Similarly, you might have to put a super generous offer in the email subject line of customers who bought from you in the past but now are not even opening your emails.

The odd unexpected promo is sometimes what it takes to make them take an action. Remember, there is nothing wrong in giving discounts and free stuff as far as you're doing it intelligently and discreetly.

Getting them to buy for the Second time

Yes, it is possible to increase the second purchase rate of your store, ie - you can increase the fraction of customers who buy for the second time.

I wish I could give you some fancy online marketing techniques right away but getting your customers to buy for the second time primarily requires sticking to the basics of running a business. It's exactly what they teach you in management schools and it sure warrants a book.

Let me give you the 8 business practices, which I think are most important from the ecommerce business standpoint to increase the second purchase rate of your online store.

1. Quality of products & service

Obviously customers will only buy for the second time if their first experience with your product and service was 'good enough', which in today's competitive environment means exceptional. If you goof-up with the product quality or the service, you can lose the customer forever and no marketing technique can help you bring him back.

2. Inventory

Your product buying decisions too have a direct impact on the second purchase rate of your website. You can't make your customers buy again and again with an irrelevant product inventory. In fact, when you make bad inventory decision, you end up spending multiple times more money on selling products which your customers don't even want at the first place. Use customer data and be as intelligent as you can about your buying decisions. Look to only fill out your inventory with winning products.

Now, let's talk about other techniques that are more specific to ecommerce retailers:

3. Stay in touch

Making more customers purchase from you for the second time requires you to stay in touch with them, via emails & social media. The last thing you want to do is to send your customers redundant offers, content & products. Look to stay in touch with them for the right reason. Update them via email & social media:

- when you restock a product that they were interested in
- whenever there is a great offer that's relevant to them
- whenever there are new products in the category they browse most
- whenever there is a new blog post which is about a topic that they're interested, etc.

4. Stay new

Keep your website new with fresh graphics and products. Shuffle your products. If a product is not selling, try taking new pictures and rewriting product descriptions. Never let your returning customers feel that they're buying from an unsold stock. Always welcome them with fresh banner graphics. This way you can expect your return customers to buy more often.

5. Create urgency

As a retailer, your motive should always be to create and maintain a feeling of 'positive' scarcity in your communication with the customers. If you new products, restocked products, new offers, let them know that it's there for limited period and that they should take an action now.

6. Post-purchase campaigns

Instead of sending generic promotional emails, you can craft a specific email campaign (series of emails) for your first time customers. The goal of this email campaign would be to encourage first time customers to continue engaging with the brand, and possibly make second purchase by tying-in absolutely relevant offers.

7. Mobile app

Mobile app has to be the most effective way to stay close with your first time customers and encouraging them to make their second purchase. This is because a Mobile app enables you to send alerts & push notifications for the most relevant new content, products and offers on your website. An engaging mobile app. can indeed help you dramatically increase the number of repeat buyers on your website.

8. Retargeting ads

Again, retargeting ads using Facebook custom audience to show relevant product & offer banners to customers on Facebook can be of great help in getting your customers to make their second purchase. All you need to do is upload segment of customer emails (of specific purchase history) to Facebook custom audience and show them relevant offers when they're on Facebook.

Ecommerce Growth Strategy Part 4:

Customer Retention - Getting them to buy again and again

You acquired customers, you made them buy for the first and second time. Now it's time to strive for real growth - Customer Loyalty, converting the first & second time buyers into regular, loyal customers. It's the defining difference between where your startup brand may be right now and all the greatness it can achieve.

But first let's try to define customer loyalty and make it more quantifiable so that we can make it look more achievable.

In today's ecommerce climate, loyal customers can be said to be loyal if they make 4 or more transactions in a given time period. In fact, the definition of 'customer loyalty' also depends on the nature of your business, the products you're trying to sell and its sales cycle. For example, if you're selling luxury watches online, your loyal customers can be ones who buy more than 3 or more watches every year and if you're selling formal shirts, you can have customers who buy couple of shirts every month. So whatever that metrics is, you need to define it, so that you can set a clear goal and make a strategy to achieve it. So how do you maximize loyal customers? It's not as complicated as you might think.

The whole objective here is to minimize the churn rate. Churn rate is the annual percentage rate at which customers stop subscribing to a service. In context of ecommerce customer acquisition, it is the rate at which your active customers become inactive or your buying customers become non-buying. So, it's actually the opposite of customer acquisition. If you're decreasing the churn rate, you're actually increasing your

website's customer acquisition rate. You know minimizing churn rate is far less expensive than acquiring a new customer or reactivating a churned customer.

1) Customer Retention Step 1: Keep up the good work

This one is simple. Just keep it up with the good job you have been doing to acquire and activate your customers, so you always have new, top of the line, potentially loyal customers entering the funnel.

2) Customer Retention Step 2: Know your loyal customers

Many ecommerce retailers don't know who their loyal customers are. Don't be one of them. As a rule of thumb, you can consider top 2-3% customers with the highest CLV to be your most loyal customers. Stay focussed on engaging and nurturing them. Do whatever it takes to keep them.

3) Customer Retention Step 3: Treat them like VIPs

Again, there could be 'n' number of ways how you can make your most loyal customers feel like VIPs. All you need to do is, make them feel special. Let me briefly touch few of them:

- Have your senior employees call them for personalized rewards and offers
- Offer them exclusive access to your new collection before you make it available for general public
- Invite them for an exclusive VIP membership with special benefits, such as invitation to exclusive events.
- While fulfilling their order, have your employees add handwritten thanks note
- Give top priority to the support request (exchange, refund, delivery, etc) of your loyal customers

Closing lines

The techniques and approaches in this article are just a part of all the marketing work that goes into building profitable ecommerce business in today's competitive business environment. But this article can be used as a ecommerce growth blueprint by fashion or non-fashion ecommerce start-ups.

As usual, if you have any questions about any of the action item in this blueprint, just leave them in the comment section below and we'll do our best to answer them.



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