



The case for Customer Engagement:

Engaged customers are
happy (and loyal) ones.

Through our ongoing series of whitepapers, we at Smith have examined the overall importance of [Customer Lifetime Value \(CLV\)](#) and also looked closer at [customer acquisition strategies](#), the first of three pillars in increasing CLV. In our previous paper, we discussed how it is vital for companies to learn everything they can about their customers and use that information to improve their efforts to attract new, valuable ones.

In this, the third whitepaper in our Customer Lifetime Value series, we explore the second of these pillars: customer engagement.

We will examine the most effective methods to keep your customers engaged, particularly through methods that make your company's eCommerce platform more simple, personal and welcoming, grow your relationship with your customers and ultimately improve your organization's overall CLV.

Customer engagement (CE) is all about building relationships—not just connections, but also relationships—with the people to whom your company sells its products. It’s the process where you nurture the connection between you and your customers—both new and existing—to keep them genuinely engaged with your company. Customer engagement is best accomplished through valuable and relevant content, products, and services which, if done well, ultimately results in your customers continuing to move along the sales funnel.

Engaged customers are happy customers, and happy customers are loyal ones.

When reviewing your customer data, there are two metrics to use to judge your CE efforts: Conversion Rate and Average Order Value.

Conversion Rate (CR) measures the percentage of unique visitors to your company’s website that ultimately make a purchase. You can drill down for more specificity in conversion rates by measuring against certain steps of the sales funnel, such as “Add to Cart” or “Checkout”]

Conversion Rate helps you assess the performance of your eCommerce channel and track purchasing decisions for customers at any stage of the buying process. This way, you can identify where engagement is breaking down, which will allow you to investigate and address those problem areas.

Average Order Value (AOV) is the average dollar amount spent each time someone makes a purchase from your company’s eCommerce site.

Again, you can use more advanced or nuanced measurements—such as revenue per visitor, average basket size or units per transaction—that can give you even more detailed AOV information.

Conversion Rate (CR)

$$\frac{\text{Daily purchases} \text{ --- } 1,000}{\text{Daily unique site visitors} \text{ --- } 5,000}$$

$$\text{CR} = 20\%$$

Average Order Value (AOV)

$$\frac{\text{Total revenue} \text{ --- } \$50,000}{\text{Number of orders} \text{ --- } 800}$$

$$\text{AOV} = \$62.50$$

Effective customer engagement strategies

There are many strategies you can employ to improve your customer engagement.

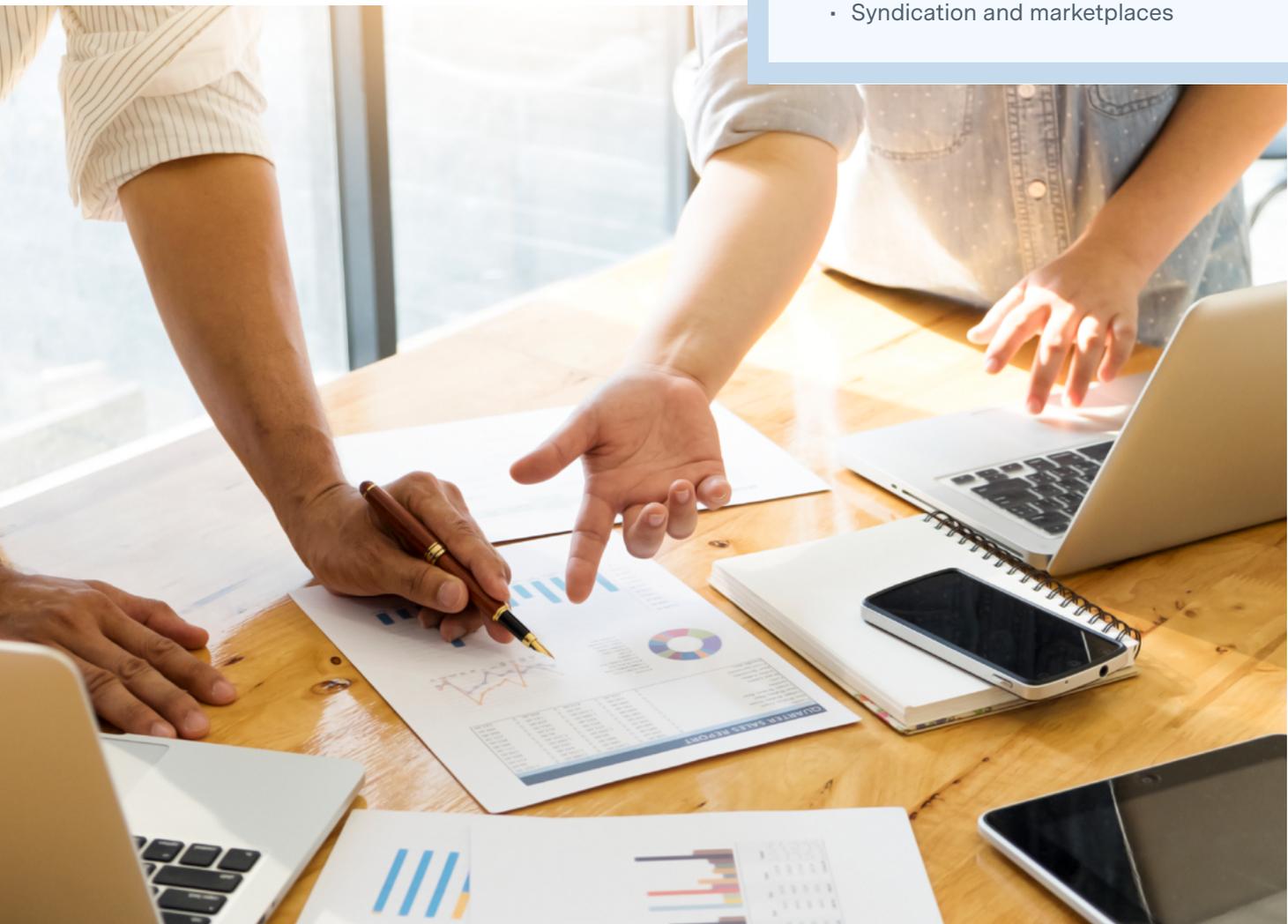
Let's explore each to see how they can be used to help your organization.

Three primary areas:

- Personalization
- Omnichannel commerce
- Intelligent search

Four secondary areas:

- Guided selling
- Content and community
- Self-service
- Syndication and marketplaces



Personalization

Emotion is a big part of the sales process. Each customer is a human being with needs—both business and personal—and making customers feel comfortable is a vital piece of any commerce experience.

One way to engage your customers and fuel that feeling of comfort is to provide a customized experience that's relevant to them personally—that reflects their unique tastes, behaviors, goals and previous transactions. An eCommerce experience can be personalized in three ways:

- Collaborative filtering
- Cohort analysis
- Next best action

Collaborative filtering

It isn't always possible to provide 100 percent personalized experiences to every individual customer, so an important step is to group customers together into segments with similar characteristics and personas. You could segment by age, income, industry, type of trade conducted, etc., and then apply broad personalization rules to all customers within that segment.

This segmentation is a type of collaborative filtering, which is a way to automatically make predictions about the interests of one user based on the information you collect about the preferences of many other users. The data works together (i.e. "collaborates") to create filters through which you provide information to targeted customers.



It's a simple premise—people of similar tastes (or backgrounds, or in similar areas of interest) will like or want the same things. For example, if Customer A and B have similar tastes then it's generally safe to assume that if Customer A buys a product, Customer B will also be interested in that product if it's presented to them.

Collaborative filtering automates the large-scale process of putting that information in front of the right customers, matching segments of similar interests together.



Interested in learning more about Customer Engagement?

Visit smithcommerce.com/customer-engagement-whitepaper to download the full whitepaper.

There are two ways to apply this type of filtering: user-based or item-based. In item-based filtering, you match users with items based on what they have previously purchased, viewed, or searched for.

In user-based filtering, you present products drawn from a user's interests—through aforementioned searches and views—and through deeper insight data like item ratings and reviews, which are then compared to similar users. Users are served items that match the interests, likes and preferences of similar users in their segment, broadening the potential product pool.

Critically, this type of filtering relies on collecting sufficient first-party data on your customers interests and preferences. This data can be collected at several points within the journey, from account creation and registration to surveys and customer reviews collected post-purchase—just to name a few.

The more data you can gather about customers' interests, likes, dislikes, purchasing habits and

demographics—particularly via willing disclosures—the better you'll be able to target them with personalized offerings.

This process may seem intimidating, but there are plenty of great recommendation systems out there that use collaborative filtering algorithms and machine learning to enable exactly this type of personalization. There is no need to build your own solution (unless you really want to).

Powerful as it is, collaborative filtering also has some limitations. It is only able to create recommendations based on similar tastes within customer segments, which may fall short if robust internal data or segmentation doesn't exist.

Understanding cohort analysis

Cohort analysis lets you go deeper and be more dynamic by grouping your customers based on behaviors rather than just by their personas or tastes. And combining cohort analysis with effective collaborative filtering can result in incredibly powerful personalization for your customers.