CONVERSION CAST

How HBloom Increased Their Lifetime Value of a Customer from $29 to Over $4,000

Our Guest:

John Warrillow runs Value Builder System, a company that helps entrepreneurs improve the value of their customers over time. He specializes in increasing lifetime customer value and has written a couple books on the subject, one of them being *Built to Sell* (2011) and most recently, *The Automatic Customer* (2015).

The Test:

John tested his theory of applying a standard business practice in a non-standard field to increase the lifetime value of a customer and offer new customer acquisition opportunities with one of his clients Sonu Panda of HBloom. HBloom sells flowers and took a unique approach to selling in the industry by implementing John's theory.

Traditionally, in America, flower stores try to lure customers in to buy flowers whenever they can and rely on holidays like Mother's Day only to end up with expensive real estate of stores, high costs to gain customers, and a low chance of repeat customers.

John worked with HBloom to provide a unique offering to the flower industry by creating a subscription model for their business. The model focused on a specific cohort of customers that consisted of hotels, restaurants, spas, etc. (businesses that rely on the aesthetics of presentation) in the area that would buy flowers on a regular basis. HBloom explained they would sell and deliver flowers every two weeks to the business and take the old flowers so the employees of these businesses don't have to worry about displaying fresh flowers. In order to receive this service month after month, businesses would buy a subscription with HBloom.

The Result:

Creating a subscription model for customers that regularly display flowers took the lifetime value of a customer from $29 to over $4,000.

How to Create a Subscription Model for Your Business:

In John's latest book, *The Automatic Customer*, he talks in length about how to create recurring revenue in any industry. On ConversionCast he shared his strategy of developing a subscription based model in practically any industry to increase the lifetime value of a customer. When you first start to conceptualize a subscription based model for your business, John explained the strategy in this way: "imagine if you could reach inside the head of your customer and reprogram it to get them to buy from you in the way you would ideally like them to buy from you". Once you determine how the customer would buy from your business, create a subscription offer based on the ideal relationship you want to have with your customer. In order to start thinking in terms of a subscription model for your business, John advises asking, "what does it look like, in an ideal scenario, to buy from us as a company?". Once you answer this question, you can then create a subscription.

John gave an example of how a pool company would implement this strategy. Traditionally, pool companies install swimming pools and sell chemicals. If a pool company innovated their selling by applying the subscription model, they could offer more than just the installation package. The model would include the pool company opening the pool in spring, dealing with the chemicals in the summer, and closing the pool in the fall. They would also offer service in rebalancing chemicals every two weeks. The subscription would result in a do-it-for-you, hassle free, annual pool maintenance contract where the customer doesn't have to worry about balancing chemicals on their own.

The most important element you need in creating a subscription model is to account for the cost of acquiring customers while increasing lifetime value of a customer. One of the most common mistakes John shared not only when using this strategy, but in business in general, is that people don't spend enough on sales and marketing. He stated that when you "think about your business in terms of the customer's lifetime value, only when you look at the life of a subscription do you realize how you much you can spend to acquire a customer". Instead of following the inefficient practice of being paid upfront and little money left to afford marketing (especially if you're a small business), develop a model that focuses on increasing the lifetime value of a customer that will allow you to comfortably spend money on acquiring new customers. John emphasized an important ratio to be used in this strategy- **3 LTV (Lifetime Value): 1 CAC (Costumer Acquisition Cost)**. This ratio represents 3 times the amount of lifetime value to the cost of acquiring a customer. This ratio is what venture capitalists look for when considering investing in your company. Keeping this ratio top of mind will allow you to look at the full picture when implementing the strategy and provide assistance in setting your budget for marketing to new customers.