

Customer Lifetime Value

Costs

Acquisition cost	
Estimate how much it costs in marketing and incentives to get each customer for the first time.	
Marketing expense	
Estimate how much you need to spend on average per customer, per year to market to your existing customers.	

Customer behavior

Purchases per year	
Enter the average number of purchases each customer would make each year.	
Average purchase	
Estimate the average purchase amount each customer would make for each transaction.	
Estimated Customer Lifespan	
Estimate the number of years your average customer remains with your business.	

Gross margin

Gross margin is net sales less the cost of goods sold (COGS). Or in other words, it's the amount of money you retain after incurring the direct costs associated with producing the goods or services you sell.

Net sales	
Cost of Goods Sold	
Gross Margin Percentage	





Customer Lifetime Value

Customer Lifetime Value (CLV) is a prediction of the value each customer can bring to your business, considering the customer's purchasing behavior, the length of the customer relationship, and the costs associated with acquiring and servicing the customer.

One of the key reasons for measuring CLV is to understand the value of customer retention, as selling to repeat customers should be more profitable than acquiring new ones.

CLV helps you understand how much you should spend to acquire new customers and retain or encourage customers back.

Calculating CLV involves determining the customer's purchase history, the length of the customer relationship, and the customer's gross margin.

The real value of one customer spending \$100 at a time

Assume you spend \$200 for new customers, then \$20 to get them to come back each time (averaged over all your activities). Each customer spends \$100, 10x/year and stays as a customer for 5 years. Your gross margin is 50%.

The lifetime value of that customer is \$2,200.

When they come into your business, treat them as a \$2,200 profit sale, not a \$100 sale.

The obvious benefit is the on-going (almost) guaranteed revenue from a customer returning and the (should be) lower cost to keep them happy. Returning customers often pay more, accept price increases, and have fewer complaints.

The referral bump

It's common knowledge one happy customer will tell multiple people about the great experience you've provided, spreading the word to potential new customers you don't need to spend advertising money on attracting.

In today's environment loyalty can change quickly where consumers can spread good news (or bad) almost immediately via social media. If you want customers to refer, have a plan in place and a budget, such as allocating staff time, personal follow-up calls, thank you emails, social media coverage, case studies, prior notice of sales or a formal reward system (like air points rewards) to encourage positive word of mouth.

The business principle of "lifetime value" means that instead of looking at a customer from the standpoint of one transaction, you look at it from the perspective of their lifetime of doing business with you.