CLV − Customer Lifetime Value − What does it Really Mean?

By Mary Eule

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Customer Lifetime Value (CLV) can get a little tricky, but I'll try to make it simple. By now you've probably heard the term yet may not fully understand how to use it effectively, if at all. That's because every "Tom, Dick and Mary Marketer" have done their best to make it more complicated than necessary.

The hardest part of calculating CLV is figuring out exactly what your customers' "lifetime" really is.... and the only accurate way to arrive at that number is by getting, storing and analyzing your customers' data. Period. If you've been in business for a while, this should be easy to get, but if you're a start−up you're going to have to estimate this based on industry standards.

Although there are several ways to arrive at CLV, the easiest is to calculate:

1. The average length of time a customer stays your customer

2. The number of transactions that an average customer will have with you during that time and

3. The average dollar amount per transaction

Multiply these together and you'll arrive at a usable number. But remember, junk in, junk out... so make sure your original numbers are accurate!

Once established, you can use your CLV as a benchmark for developing a realistic customer acquisition (or retention for that matter) budget. For example, let's say you find out that your average customer:

1. Stays with you for 5 months

2. Purchases something from you 3 times per month

3. Spends an average of $2 per transaction

In this case your average CLV would be $30. Based on this, it would be foolish to spend even $20 to gain one customer... you'd be left with little, or no, profit (unless of course, your margins are outrageously high). On the other hand, your customers may hang in there for 22 months, spend $20 per transaction and purchase from you a greater number of times. Since your CLV would be much higher, you could afford to pay more to gain a customer. Again, the specifics differ widely and there are many factors to consider, Also note that this does not include any costs associated with preserving this customer relationship. In the real world these must be included.

It is crucial that you understand your CLV and use it to guide your communication decisions! (A good

book on this subject is Donald Lehmann and Sunil Gupta's, "Managing Customers as Investments"... visit our website,

www.StrategicMarketingAdvisors.com

for a review and ordering information.)

3. Your specific goals, such as: * Acquiring "x" numbers of new customers * Increasing the number of current customer transactions * Increasing the length of time your customers remain your customers

4. Proposed media costs and actual/forecast response and sale rates (you can find these out online or from any reputable advertiser)

Once armed with this information, you'll be in a good position to choose. Here's an example of how this might work. Let's assume the following:

* I am a widget retailer

* My goal is to get 1,000 new customers this year

* I will get 200 customers whether I do "anything" or not... (for example word−of−mouth, walk− ins, etc.)

* That means, I need to acquire the remaining 800 using some form(s) of advertising

* I can spend $40,000 to "buy" these 800 new customers

* My CLV is $40

* After careful consideration, I decide to conduct a direct mail campaign

* Based on my careful research and experience, I know that I can sensibly assume that 1% of my audience will respond by calling (called a "response rate") and that 80% of the responders will become new customers.

* Given this forecast and my goal of 800 new customers, I know that I'm going to have to mail out 100,000 sales letters.

* As luck would have it, the cost to create, print and mail one letter is 37 cents (using 3rd class postal rates) which comes to $37,000... leaving me with a $3,000 "fudge factor"

So, let's see where I stand...

1. The campaign cost is well within my budgeted amount of $40,000, my forecasts are reasonable based on industry standards and experience, and can realistically accomplish my goals. So everything is perfect, right? Wrong.

2. 800 customers with a CLV of $40 will result in revenues (over time no less) of only $32,000! That's called a losing proposition!

What should I do?

1. In the short term, find out if there are less expensive advertising vehicles that may bring you similar results.

2. Find ways to reduce the direct mail costs without sacrificing response and sale rates (e.g. one color vs. four; lighter paper stock).

3. Identify ways of increasing the sales rates (for example beef up the offer; send to more people - you'll get economies of scale this way so the per piece price will drop dramatically and you'll acquire more customers)

4. Offer added products to increase your customer's average transaction amount

5. Institute robust retention programs aimed at increasing the longevity of your average customer

Although this is a very simple example of how CLV works, it clearly demonstrates how important understanding it is to your business. Without considering CLV, you'll be shooting in the dark − potentially wasting thousands of dollars and commiting serious, or even devastating, blunders.

Mary Eule specializes in helping small and medium−sized businesses get and keep profitable customers. Formerly a Fortune 500 marketing executive; founder of two successful small businesses and award−winning speaker, Ms. Eule is President of Strategic Marketing Advisors, LLC. and co−author of a new book, "Mandatory Marketing: Small Business Edition". She has a BA in Journalism/English from the University of Maryland and earned her a master's degree in marketing from Johns Hopkins University. Log onto her website:

http://www.StrategicMarketingAdvisors.com

for free articles,

newsletter and helpful marketing tools, tips and templates... and/or to purchase the book.

Customer Lifetime Value − The Key To Maximizing Your Profits!

By Larry Lim

The greatest asset to your business is your Customer, specifically, your Customer Lifetime Value.

In my many years in Sales and Marketing, I've met many CEOs and business owners who don't have much clue as to what Customer Lifetime Value is, much less its importance and the impact it has on their bottomline. To most of them, what matters most is to increase revenue by continuously acquiring new one−shot customers.

This is one of the fatal mistakes that many business owners make; it's a sad scenario, but it's also the reality. Let me tell you something: it'll cost you 5 times more to attract a new customer than it is to bring one of your past customers back to you.

I don't know you personally, but if you're a smart business owner, you'll understand that every cent you invest in advertising is going towards acquiring new customers. You'll also realise that once you've acquired the customers, you just can't afford to let them go.

So what's Customer Lifetime Value?

Customer Lifetime Value is defined as the total value, in monetary terms, of your average customers spanning the entire period that these customers are likely to do business with you. It's the potential contribution of your customers to your business over a period of time.

Here's how to calculate your Customer Lifetime Value:

1). Let's say you've 2,000 steady customers and these customers remain with you for an average of two years; for the past two years, your net profit was $700,000.

The Customer Lifetime Value can be calculated as: $700,000/2,000 = $350.

What this means is that over an average customer lifespan of two years, each new customer you could acquire and keep is worth $350 to you in profits.

2). If you do not have the actual figures, you'll have to estimate. As the Customer Lifetime Value will have a significant impact on your bottomline, my advice is that you be prudent and conservative in your estimation.

Why is it so important to you and your business?

Lifetime Customer Value is important to you and your business for the following reasons:

1). Knowing the Lifetime Value of your customers is crucial to you and your business as it serves as a benchmark without which you'll be groping in the dark.

When you know the Lifetime Value of your customers, you can determine how much time, effort and money you can afford to invest to acquire that customer in the first instance.

In other words, you can invest more today to reap a much larger profits later down the road as long as your cashflow is healthy and can support it.

Every marketing campaign that you undertake costs you money as well as reaping you benefits such as increased sales, enhanced corporate image, etc. But how can you be sure that the benefits would outweigh the costs or investments? This is where knowing the Customer Lifetime Value is so powerful − it helps you to determine this even before you launch your marketing campaign.

2). When you realize that customers are actually an ongoing stream of revenue as opposed to a one−shot sale, you can re−focus your marketing efforts.

Instead of contantly struggling to acquire more and more new customers, you can now begin to focus on keeping your existing customers longer and selling to them repeatedly, in other words, repeat sales.

You may spend more like making stronger and more attractive offers than your competition in acquiring new customers now who will be your money spinners tomorrow.

This makes sense because you now know that on average you'll more than make it back over the years that the customers are with you and therefore you could afford to break even or even lose money now in acquiring the new customers.

Start shifting your focus to Customer Liftime Value and maximise your profits today.

Start to have a proper understanding of Customer Lifetime Value because it's key to the success of your business. It'll allow you to acquire more customers than your competition through better and more attractive offers; it'll dramatically increase your bottomline through more repeat sales and shoot your profits through the roof.

Larry Lim is a practising marketing strategist and tactician who dishes out effective marketing strategies and tactics that will enable you to successfully start and grow your business on the Internet.

Check out his website −

http://www.marketingsphere.com

− that is jam−packed with secret marketing

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Menopause, Andropause And Other Hormone Imbalances Impair Healthy Healing In People Over The Age Of 30!