

How to calculate and use your **Customer Lifetime Value**

With the growth of online communications, there are many ways of reaching prospects and customers, and in order to be profitable, organisations must look at the projected Customer Lifetime Value (CLV) of their customers to determine where to focus their marketing and sales budgets.

In this ebook, you can calculate your customers' CLV to help you identify your customer profitability and see the value of committing to a customer-centric business model. Maximizing CLV is integral to business profitability. When you look at the metrics of the Cost to Acquire Customers (CAC) and the CLV to track the different types of customers via CRM, you can also identify at which point they become profitable, which will have an immediate effect on your business strategy.



What's in this ebook?

- Understanding the importance of CLV
- The difference between customer service and customer experience
- How to calculate CLV
- 8 steps to profit from CLV
- Next steps

1. Understanding the importance of Customer Lifetime Value

When you understand the value of long-term customer relationships, your company will be able to make more accurate profit predictions. Having a definable metric that speaks to the customer experience and drives the overall 'tone' of your brand and conversations with any customer facing employee, is essential to building the lifetime value of the customer.

Companies who do not look to decrease their Cost to Acquire Customers will see that the majority of new customers do not contribute to the profit of the businesses in the first two or three years of acquisition. In addition, the acquisition of new customers can cost five times more than satisfying, retaining and potentially cross-selling and upselling to current customers.¹

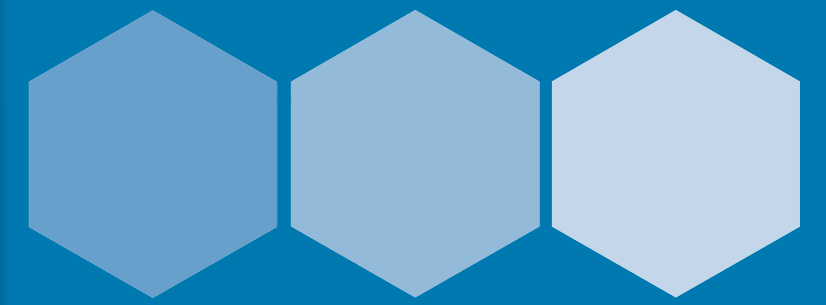
Identifying and working to retain the most valuable key accounts is crucial to future success.

Understanding and analysing CLV will help you know at which point customers become profitable, which is essential to marketing and retention programmes, sales targeting, financial forecasts and other strategic concerns. Getting a handle on CLV will crucially help you identify any additional investment - financial and from a resource point-of-view required to retain customers, inform marketing campaigns, support sales account management and, most importantly, optimise customer service.

Remember to use a Customer Relationship Management (CRM) solution to:

- Organise customer information, metrics and other essential indicators
- Ensure key clients are appropriately profiled and targeted
- Find and engage desirable prospects.

1. B2B Customer Experience Priorities In An Economic Downturn: Key Customer Usability Initiatives In A Soft Economy, Forrester Research, 19 February 2008



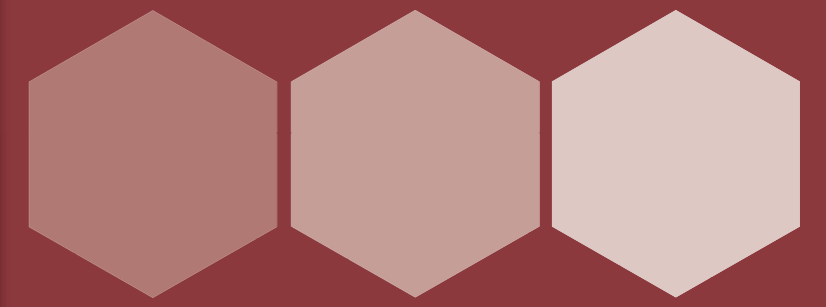
According to Bain & Company, margins are boosted when companies simply retain current customers, estimating just a 5% increase in customer retention can have a 75% increase in a company's profitability.

The Economics of E-loyalty, Bain & Company, 7 October 2000

2. The difference between customer service and customer experience

An important part of best practice CLV management is understanding the difference between 'customer service' - *the delivery of service to customers before, during and after a purchase* - and 'customer experience' - *the sum of all experiences a customer has over the course of the relationship, including discovery, interaction, purchase and advocacy*. As such, good customer service, if not using customer data correctly, can lead to a poor customer experience.

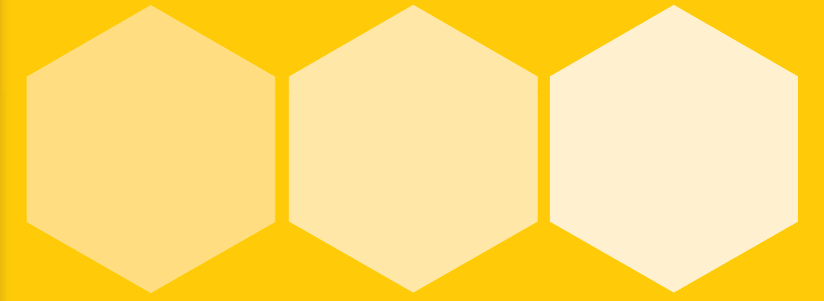
Therefore, the key to delivering a superior customer experience is knowledge. For example, when service reps contact customers, it is vital that they are aware of prior communications, preference and interactions (whether good or bad) that the company has had with that person. Because, when unorganised, seemingly excellent customer service can turn into a sub-standard customer experience dramatically impacting potential customer value. For example, if a customer informs a company about a problem, provides feedback or states a preference, they expect it to be recorded, remembered and acted upon in upcoming interactions. Failing to do so can result in a deeply unsatisfied and incredibly annoyed customer – costing the company loyalty, advocacy and upsell or cross-sale revenues.



82% of customers view customer experience as a competitive differentiator.

Deloitte 2013 Global Contact Centre Survey Report

3. How to calculate CLV



Step 1 - Get all your data ready and start segmenting

Before we start calculating CLV, you need to get your data ready. Decide how far back you will look to extract your data - a period of five years is normally recommended.

It is equally important to segment your customers first in order to get an accurate picture of the data.

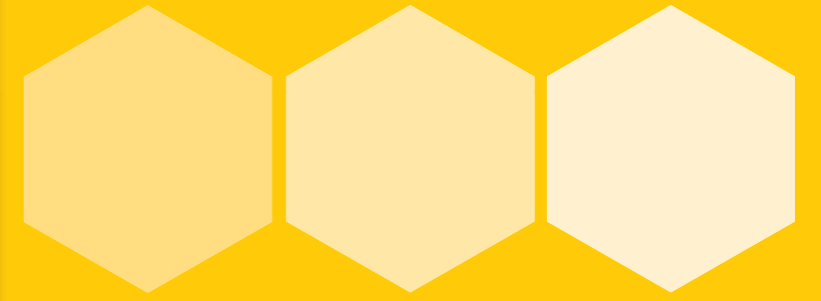
Why is segmentation necessary? For example, if a small business owner with 1 - 5 users bought a specific software product with basic features for £10k and another medium sized business with over 50 users bought an enhanced version of the software product for £50k, the average sale of the product would be £30k. However, the data would be inaccurate because, in reality, a £30k spend on software would be outside the price bracket of Customer 1 and it might not fit the requirements for Customer 2. Furthermore, the average customer's data based on users and size of company is basically worthless.

By segmenting your customers by demographic, by products purchased, by location, you can get a clearer idea of the purchasing habits of your customers. You can actually see who is driving your business. You can then look to focus your efforts on the segments that appear most valuable to you.

Step 2 - fill in the boxes below to find out your average customer sale by segment.

Average Customer Sale in £/€					
Customer 1	Customer 2	Customer 3	Customer 4	Customer 5	Average across 5 customers

3. How to calculate CLV



Step 3 - Review your customer data to see how often they purchase from you

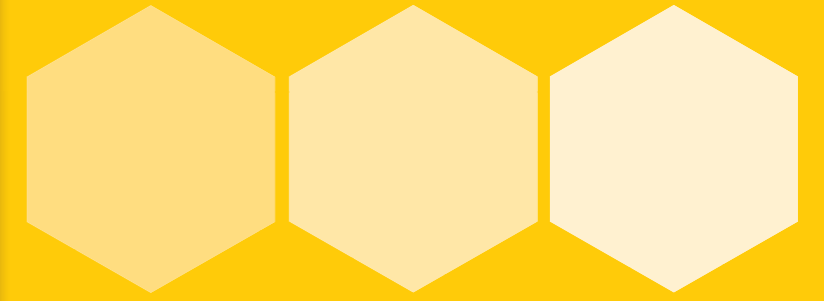
Find out how many repeat sales, upsell, cross-sell opportunities closed within your chosen period time for each customer segment.

This will also help you see which of your customers keep wanting to return to you. Repeat transactions are especially relevant for companies whose customers have irregular sales cycles.

Fill in the boxes below to find out the average number of repeat transactions by segment.

Average Number of Repeat Transactions					
Customer 1	Customer 2	Customer 3	Customer 4	Customer 5	Average across 5 customers

3. How to calculate CLV



Step 4 - Review your customer data to see how long your customers keep purchasing from you.

First time customers might get excited about purchasing from you, but over time they might forget why they purchased from you in the first place.

If you charge a yearly fee or monthly fee, it is easier for you to view the data and to see how long your customers remain with you. However, if you do not have regular subscription fees, you can still find out this information by specifying the gap of inactivity where you decide a customer is no longer a customer, and then measure the time period between the customer's first and last purchase. The period of inactivity in which you determine a customer has lapsed, depends on the nature of your business.

For example, if your customers normally buy weekly from you then if they have stopped purchasing from you in the last three months, then they are no longer customers. If you are in a business where your customers only purchase from you twice a year, then a period of inactivity might be 12 months.

Fill in the boxes below to find out what the average retention time in months or years of a customer by segment.

Average Retention Time in Months or Years of a Customer					
Customer 1	Customer 2	Customer 3	Customer 4	Customer 5	Average across 5 customers

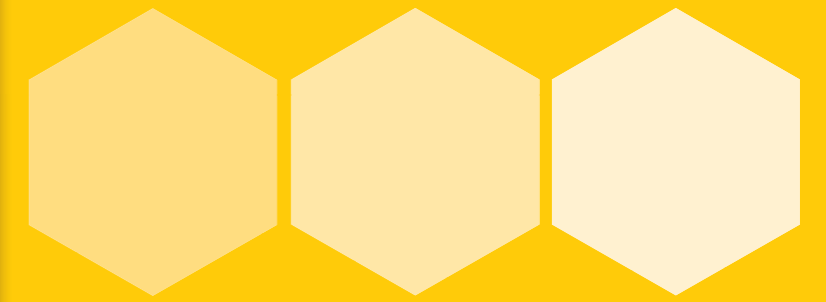
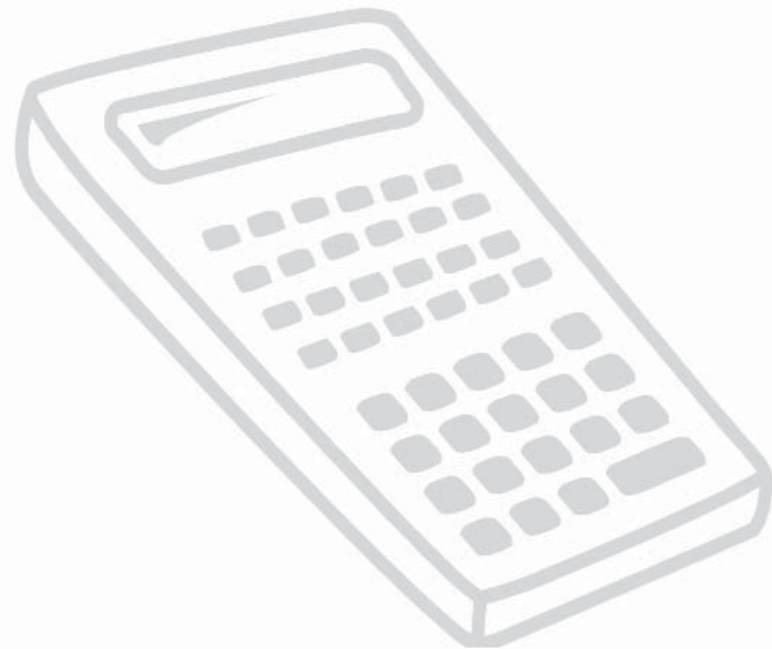
3. How to calculate CLV

Step 5 - Calculate

Customer Lifetime Value formula

$$\begin{aligned} & (\text{Average customer sale}) \times \\ & (\text{Average Number of Repeat Transactions}) \times \\ & (\text{Average Retention Time in Months or Years of a customer}) \end{aligned}$$

Your estimated Customer Lifetime Value is £/€



You can repeat this calculation as an average or individually for each customer segment to identify your most profitable customers.

4. Once your calculation has been completed, follow these eight steps

1. Complete a customer lifetime analysis on all existing customers

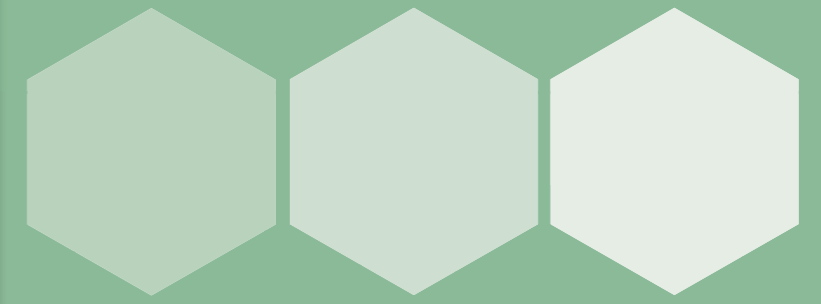
You will now be able to identify your current key customers, your potential key customers, your general population and customers who will never be profitable to keep.

2. Segment your data and create a retention plan

Next, segment your data according to customer worth. If you apply the same retention and customer journey experience to every customer, this would have significant financial impact, as well as stretch resources. Therefore, it is critical to segment your data and create a separate retention strategy for each segment, according to the customer's projected value. You would then deliver different marketing tactics to the different segments. For example, key accounts would receive a customer magazine and quarterly sales face to face visits while your less profitable accounts would receive an online version of the magazine and a follow up phone call.

3. Send the right communications

There is a risk of tainting a relationship if you don't offer relevant and anticipated communications to your customers. By using marketing automation software to trigger communications based on customer behaviour, you can develop a fruitful relationship with your customers. Once a prospect becomes a customer, plan your communications and assign your marketing budget according to the projected profitability of the customer (as mentioned in *Steps 1 and 2*).



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4. Streamline processes

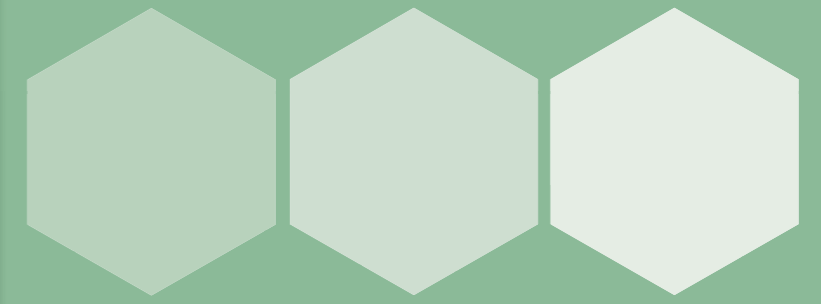
If your service reps are manually undertaking tasks like call logging or saving emails, then productivity is limited. Simply implement the right CRM software, which will automatically record and track such data and allow your reps to subscribe customers to specific campaigns with a few clicks. Being efficient will impress your customers and free-up time for more qualitative interactions that help build stronger relationships.

5. Get varied with media

These days, there is a consumer expectation that companies should interact across a range of media, in particular via social media, with every smart company having some sort of customer-specific presence on social media. Proactively handling customer service, via a social media management tool seamlessly integrated with your CRM, can help you resolve issues more quickly, ensuring you are able to get to the information you need to see faster.

6. Instil loyalty

Successful customer retention begins from the first point of contact and continues throughout the entirety of the relationship. Continually exceeding customer expectations will help gain loyal advocates and in the digital world, a happy customer can spread the word to hundreds, if not thousands – and in certain magical instances, millions of prospects. When you send personalised messages that are right on target, addressing needs and reflecting preferences, you will build strong bonds with current customers and help nurture new relationships. In creating a single customer view, you can ensure you have the full picture of every customer and that you are reflecting that knowledge in every interaction.



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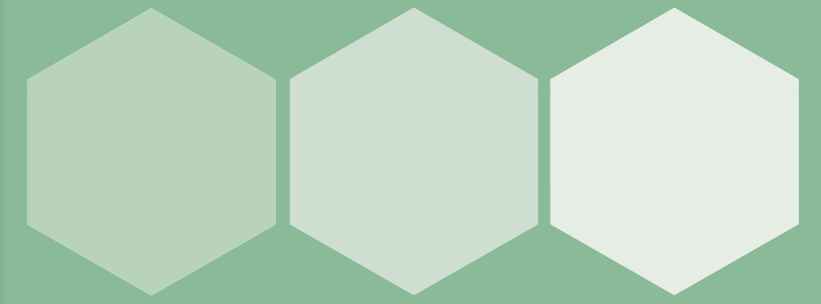
4. Once your calculation has been completed, follow these eight steps

7. Show you care

Successful customer retention begins from the first point of contact and continues throughout the entirety of the relationship. Continually exceeding customer expectations will help gain loyal advocates and in the digital world, a happy customer can spread the word to hundreds, if not thousands – and in certain magical instances, millions of prospects. When you send personalised messages that are right on target, addressing needs and reflecting preferences, you will build strong bonds with current customers and help nurture new relationships. In creating a single customer view, you can ensure you have the full picture of every customer and that you are reflecting that knowledge in every interaction.

8. Empower service reps

By centralising your entire service team's knowledge into one accessible hub of past product issues and allowing reps to customise their own filterable history feeds, you can rapidly increase the speed at which customer issues are met and, hopefully, resolved at the initial stage. Plus, if their issue is more advanced or if you utilise reps who are regularly at customer premises, then having mobile access to this type of information is imperative. Using the right CRM, you can set up new cases, on the move, for reps within their area, to increase their productivity and escalate support issues to the right reps wherever they are.



“Continually exceeding customer expectations will help gain loyal advocates.”

Next Steps

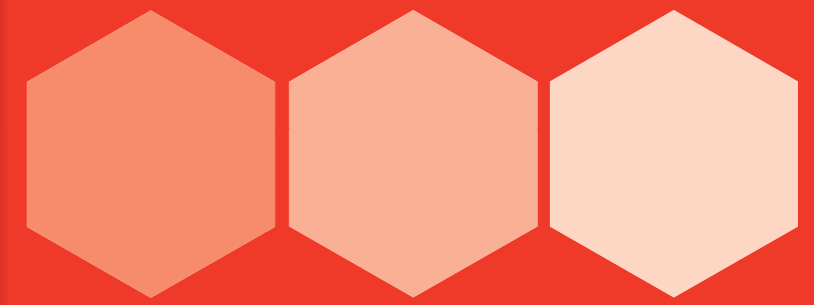
We hope this ebook has helped you understand the value of your long-term relationship with your customers, and you have seen how it has an impact on your chosen company strategy and profit predictions.

You can provide a good customer experience and avoid such situations by using a flexible and well-integrated CRM system – accessible to all departments in the company – to capture all customer interactions, feedback, records, and other information. Ideally, your CRM system should ensure that even if your teams are geographically separated or on the road, they can still use their mobile devices to check in. Even if your customer data is potentially sensitive and needs to be stored in your office premises, it is still possible to access it remotely via a secure web link.

Evaluate your CRM needs in more detail by using the resources listed below or discuss your CRM requirements with an expert by calling our friendly team on **+44 (0)845 555 99 55** or emailing info@max.co.uk.

Resources

[WHITEPAPER: Maximizing customer lifetime value by optimising customer experience](#)



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