OVERVIEW OF CUSTOMER ACQUISITION

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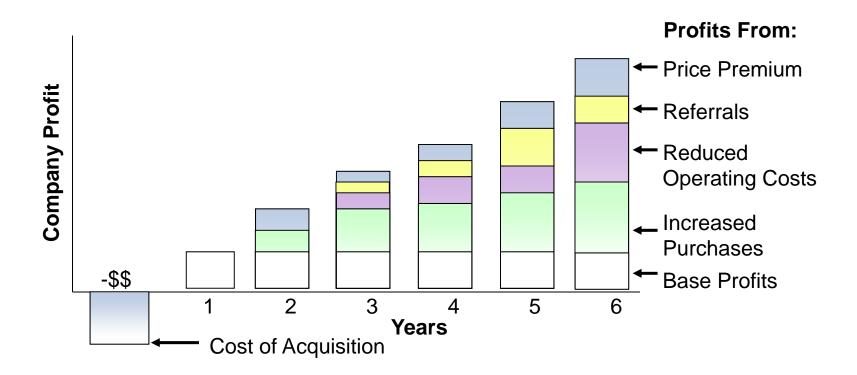


How To Forecast Demand: Overview

- Customer acquisition economics
 - Customer value over time
 - Customer lifetime value and return on investment
 - Customer equity
- Customer acquisition principles and examples
 - Acquisition targeting approach
 - Example: Making a splash, treatment and selection
 - Research: Acquisition methods and geography

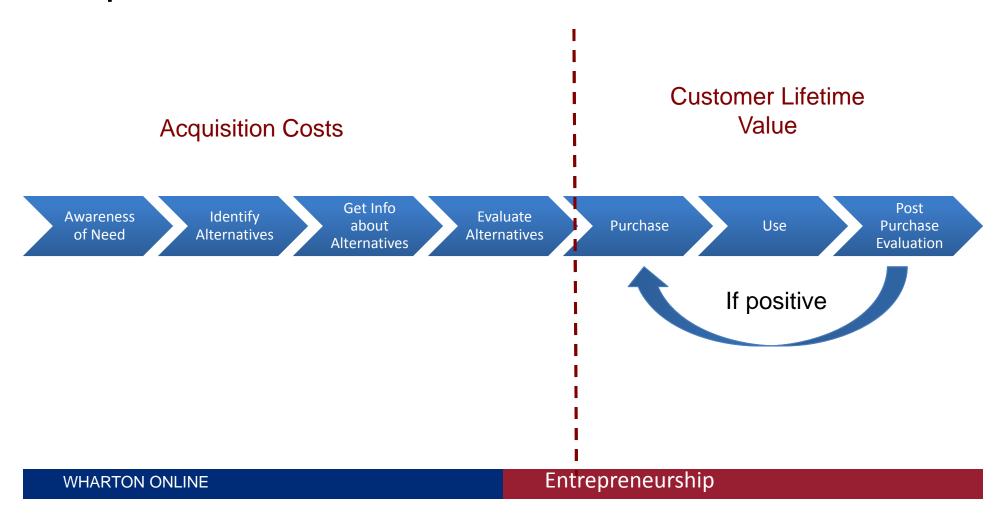


Customer Value Over Time



Entrepreneurship

Acquisition and Lifetime Value



Customer Lifetime Value (Concept)

- Acquisition costs
- The following are adjusted for periodicity
- Retention rate
 - Estimated as the percentage of customers returning when they have the option to leave
- Revenue
 - The amount spent per period
- Costs
 - Variable marketing costs of retention and servicing
- Discount rate

Customer Lifetime Formulas

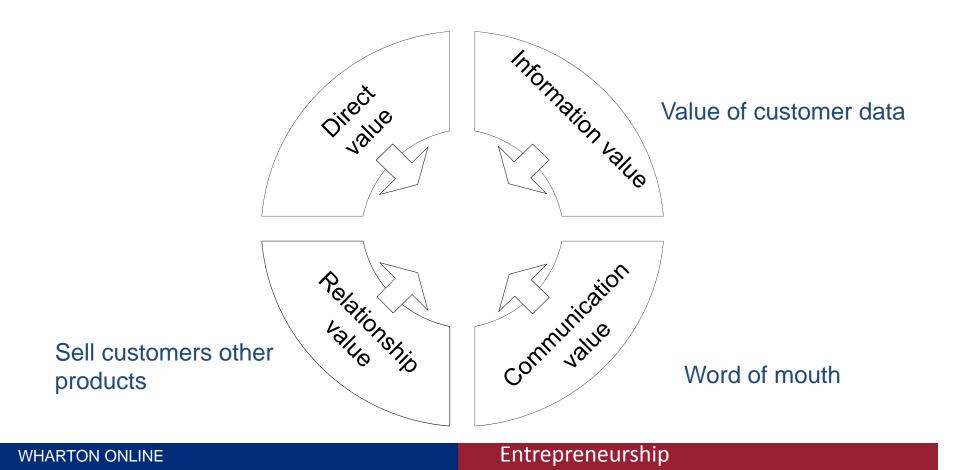
- In what follows ...
- m = margin = (p c)
- *r* = retention per period
 - Estimated as the percentage of customers returning when they have the option to leave
- **d** = discount rate (or, **i** = interest rate)
- *t* = index for time periods
- **ROI** = **divide** by initial acquisition

Customer Lifetime Value Formulas

$$CLV = \sum_{t=0}^{T} m \frac{r^t}{(1+d)^t}$$

$$CLV = \sum_{t=0}^{\infty} \frac{(p-c)r^{t}}{(1+i)^{t}} = m \frac{r}{(1+i-r)}.$$

Customer Equity



Acquisition Targeting

- Be selective (initially) and acquire so long as CLV is positive!
- Be prepared to see acquisition efforts get harder!
- Be aware that the more leverage you get from retention the more you should be prepared to pay to acquire
- Be informed that investors like to see as much recovery as possible from fewer transactions
- Be reminded that customers are heterogeneous on
 - Retention profit potential
 - Acquisition recovery time

Making a Splash: Selection and Treatment



Research: Acquisition Methods by Geography



Last Word







ONLINE