**Customer Lifetime Value**

Customer Lifetime Value is the net present value of all future streams of profits that a customer generates over the life of the relationship with the firm

“Success is getting the right customers … and keeping them,” – Charles Cawley, Founder MBNA

Diagram

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**Measuring CLV**

CLV = Profit Margin \* Margin Multiple – Acquisition Cost

CLV = m \* [r/(1+i-r)] – AC

Where m = annual margin

r = annual retention rate

i = discount rate

AC = acquisition cost

Margin multiple = r/(1+i-r)

*Lifetime Value of a customer is LV = m \* [r/(1+i-r)] – AC*

**Insights for Trice**

**Chart, line chart

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* Trice has observed a major downfall in customer lifetime value. There is a trend in 2019 where we see a slight decline in LTV, however, due to covid, the decline has continued and Trice has not been able to recover from the impact
* In an effort to recover from this, Trice has pumped in more funds for customer acquisition which did increase their customer base and to some extent their sales numbers, but LTV has been negative since then clearly showing us that acquisition alone isn’t an appropriate strategy to recovery.
* Trice will have to concentrate on the other 2 strategies, namely, expansion and retention. They need to improve their retention rate for which they can assess the problem areas and competition, and concurrently focus on creating expansion methods of upselling, cross-selling, recommendation systems to be able to increase their customer LTV
* In 2018, Trice acquired its most valuable customers with minimum spend and maximum LTV, whereas in post covid times, they have burnt funds trying to acquire customers and lost focus on retention.
* The company has only focused on registrations/sign-ups which can be seen from the recent LTV and Revenue per customer data, that majority of these customers have not ordered even once. This depicts another area that needs more focus is to bring in valuable customers that could actually purchase from Trice instead of trying to increase the customer base.
* Loyalty programs paired up with cross-sell and upsell could be a potential best way for Trice to increase their retention rates.
* Incorporating our findings from the survey with the insights gained from the LTV model, we conclude that feature expansion (recommendations, upsell, cross-sell) paired with a loyalty program for customer retention will help Trice recover and thrive. Another example of the need of expansion was the survey response regarding the need for more payment options.
* When it comes to the age group of 16-20 and their interest in freebies, Trice should measure them up against their LTV for that segment and then decide if pumping in more money for them is beneficial at all.

Table

Description automatically generated**Most Recent Customers Acquired by Trice**

Table

Description automatically generated**Most Valuable Customers of Trice with Highest LTV**

**Strategies to increase customer value**

1. Customer acquisition

Customers can be acquired using methods such as

* Scaling up volume by spending more on existing channels or developing new acquisition channels
* Improving performance by decreasing cost per acquisition or shifting mix towards high-value customers

1. Customer expansion  
   Expansion can be done by various methods that include increase in usage, upsell (switch customers to higher priced product or service), bundling or cross-selling and reducing costs.

Customer Recommendation Systems

* Customer Recommender systems are popular in ecommerce and digital content settings.
* They are useful in context involving a large number of users facing a large number of products
* There is considerable heterogeneity in user preferences for attributes
* Users are unaware or uncertain about products
* Constantly evolving / cold start problems
* Recommender system algorithms include:
  + Collaborative filtering: this can be User based or Item based
  + Matrix Factorization methods: predicting unknown values using latent factors involves finding the values of the user and item latent factors that minimize the error sum of squares.

1. Customer retention  
   Customer Churn is a major impact metric for any organisation. Some of the major causes of churn involve:
   * Company’s poor ongoing customer experience (structural) or a specific incident causes serious customer dissatisfaction (event-based)
   * Competition having promotion (causes switching) and superior value proposition in product or service
   * Customer’s needs change

Impact of Retention on Market Share

The 3 drivers of retention and loyalty are:

* + Experience
  + Loyalty Programs
  + Cross-selling

**Conclusion**

* Customers are assets
* Lifetime Value of a customer is LV = m \* [r/(1+i-r)] – AC
* Three key levers of growth
  + Customer acquisition (AC)
  + Customer retention (r)
  + Customer expansion (m)