**Disciplined Entrepreneurship Workbook**

# Step 17: Estimate the Lifetime Value (LTV) of an Acquired Customer

## Worksheet

### Inputs to the Worksheet

**One-Time Charge(s)**

What will your one-time charges be for each customer? (e.g. initial purchase price of product)

**€0 (Freemium model – no upfront cost)**

What is your estimated profit margin on your one-time charges? ( (One-Time Charge – Marginal Production Cost) / One-Time Charge = Profit Margin -- e.g. if your one-time charge is $100 and the cost to make that one unit of product is $20, your profit margin is (100-20)/100 = 80%) (General estimate is fine and don’t add more precision that is appropriate at this point – it can be misleading)

**Not applicable (no upfront fee)**

What is the life of the product before a customer has to repurchase the product? **Not applicable (ongoing access via subscription)**

What % of customers will repurchase? **Not applicable for one-time purchase model**

What will your recurring revenue streams be?

1. **Monthly Premium Subscription: €7/month**
2. **Annual Option: €65/year**
3. **Estimated effective annual revenue per paying user: €60**

What is your profit margin on your recurring revenue streams?

**~85% (digital service, low marginal costs)**

What is your retention rate for your recurring revenue streams?

After 1st year: **100%**

After 2nd year: **60%**

After 3rd year: **45%**

After 4th year: **35%**

After 5th year: **25%**

What other revenue sources will you have? What will your profit margin be, and is there a yearly retention rate applicable to them?

1. **Referral partnerships (estimated €5 per user/year on avg)**
2. **Margin: ~80%**
3. **Retention: Same as recurring (based on user activity)**

What will your cost of capital be? (If you don’t know, assume 50%. If you do know, explain below why you think your cost of capital will be different.)

**50% (standard assumption for early-stage startups)**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Calculations to Estimate the LTV | | | | | | |
| Input | t = 0  (Today) | t = 1  (1 year) | t = 2  (2 years) | t = 3  (3 years) | t = 4  (4 years) | t =5  (5 years) |
| A. One-time Revenue Amount | 0 | 0 | 0 | 0 | 0 | 0 |
| B. - One-time Revenue Profit Margin (%) | 0 | 0 | 0 | 0 | 0 | 0 |
| C. - One-time Revenue Profit (row A \* B) | 0 | 0 | 0 | 0 | 0 | 0 |
| D. Recurring Revenue Amount | 0 | 60 \* 100% = 60.00 | 60 \* 60% = 36.00 | 60 \* 45% = 27.00 | 60 \* 35% = 21.00 | 60 \* 25% = 15.00 |
| E. - Recurring Revenue Profit Margin (%) | 0 | 85% | 85% | 85% | 85% | 85% |
| F. - Recurring Revenue Profit (row D \* E) | 0 | 51.00 | 30.60 | 22.95 | 17.85 | 12.75 |
| G. Other Revenue Amount | 0 | 5 \* 100% = 5.00 | 5 \* 60% = 3.00 | 5 \* 45% = 2.25 | 5 \* 35% = 1.75 | 5 \* 25 = 1.25 |
| H. - Other Revenue Profit Margin (%) | 0 | 80% | 80% | 80% | 80% | 80% |
| I. - Other Revenue Profit (row G \* H) | 0 | 4.00 | 2.40 | 1.80 | 1.40 | 1.00 |
| J. Sum of Profit for time period | 0 | 51.00 + 4.00 = 55.00 | 30.60 + 2.40 = 33.00 | 22.95 + 1.80 = 24.75 | 17.85 + 1.40 = 19.25 | 12.75 + 1.00 = 13.75 |
| K. Default cost of capital factor: Discount factor to NPV (@50%/year and assuming units of time = years)[[1]](#footnote-1) | 1.0 | .67 | .44 | .30 | .20 | .13 |
| L. NPV of each item (row J \* K) | 0 | 55.00 \* 0.67 = 36.85 | 33.00 \* 0.44 = 14.52 | 24.75 \* 0.30 = 7.43 | 19.25 \* 0.20 = 3.85 | 13.75 \* 0.13 = 1.79 |
| **M. Sum of All NPVs (sum of all cells in row L)** | **0 + 36.85 + 14.52 + 7.43 + 3.85 + 1.79 = 64.44** | | | | | |

### Interpretation of Estimation

* 1. What would you round your LTV estimation to? What range do you feel comfortable with?

**We would round our LTV to €65 per customer. We feel comfortable with a range of €60–€70, depending on final retention behavior and partner revenue share models.**

* 1. Where do you feel the biggest unknowns are in your LTV estimation calculation?

**The biggest unknowns lie in the actual user retention over 12+ months, and how frequently users will remain active enough to generate referral or upsell revenue.**

* 1. Does the number seem reasonable?

**Yes, the estimate is reasonable considering comparable platforms like Nomad List and TripIt, which operate with similar pricing structures and margins. Our freemium model allows broad reach and conversion to subscription adds revenue flexibility.**

* 1. What are the key drivers of the LTV if you want to increase it?

1. **Improving user onboarding and activation**
2. **Increasing monthly-to-annual subscription conversions**
3. **Launching high-margin upsells (e.g., concierge services, offline guides)**
4. **Enhancing community-led referrals**
   1. Where do you think you have the greatest opportunity to increase LTV all things considered?

**The greatest opportunity lies in extending customer retention through consistent value delivery and adding tiered upsell options that scale with user commitment. Enhancing in-app engagement and loyalty incentives will also drive both recurring and partner revenue per user.**

1. To calculate the present value (PV) of a future value of cash (FV) where i = the interest rate and t = units of time past, the formula is PV = FV \* ( 1 / (1+i)t ) [↑](#footnote-ref-1)