

CUSTOMER LIFETIME VALUE IN E-COMMERCE: ADVANTAGES AND STRATEGIES

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OVERVIEW

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Introduction to Customer Lifetime Value (CLV)

Definitions and Formula

- Customer Lifetime Value (CLV) refers to the total amount of revenue a company can expect from a single customer throughout the business relationship.
- In e-commerce, CLV is crucial because acquiring new customers is becoming more expensive, and retaining current ones gives higher ROI.
- Formula:
- $CLV = \text{Average Order Value} \times \text{Purchase Frequency} \times \text{Customer Lifespan}$



Why CLV Matters in E-Commerce

- Forecasts Revenue: CLV helps predict how much revenue can be expected from existing customers.
- Informs Budgeting: It determines the budget for acquiring new customers without losing profitability.
- Supports Customer-Centric Strategy: Businesses can prioritize loyal, high-value customers and personalize their experience.
- Increases Efficiency: Instead of casting a wide net, companies can focus on customers who bring the most value.





ADVANTAGES OF FOCUSING ON CLV



01

Higher Profitability: Returning customers are more likely to purchase again, and often spend more per order.



02

Stronger Loyalty: Brands that understand and reward customers foster deeper relationships



03

Lower Acquisition Cost: It's 5–7 times more costly to acquire a new customer than to retain an existing one.



04

Improved Word-of-Mouth: Loyal customers become brand advocates, generating organic referrals



05

Smarter Marketing Decisions: Target campaigns based on real behavioral and value-based data



STRATEGIES TO IMPROVE CLV



01

Personalization: Use browsing and purchase data to suggest relevant products. Tailor landing pages and promotions.



02

Loyalty Programs: Reward points, discounts, exclusive previews to encourage repeat purchases.



03

Excellent Customer Service: Provide fast, helpful, and omnichannel support (chat, call, email).



04

Post-Purchase Engagement: Follow-up emails, care tips, and recommendations based on recent purchases.



05

Win-Back Campaigns: Reach out to inactive customers with offers and personalized messages.



Case Study – Amazon: Amazon: A CLV Powerhouse in Global E-Commerce

◆ About Amazon:

- Founded in 1994; the world's largest e-commerce platform.
- Operates in 100+ countries, with millions of active users and an extremely diversified product range.

◆ Amazon's CLV-Focused Strategies:

• Amazon Prime Membership:

- Free delivery, early access, Prime Video, and exclusive deals.
- Drives high-frequency, high-loyalty user behavior.

• Personalization Engine:

- Product recommendations based on browsing, purchase history, and wishlist.
- Uses AI & ML to optimize the customer journey.

• One-Click Ordering & Fast Delivery:

- Reduces cart abandonment and creates convenience-driven loyalty.

• Customer Service & Returns:

- Easy return process, 24/7 support, and proactive order tracking enhance trust.





Results

According to data from Statista (2023), the following key metrics highlight the effectiveness of Amazon's CLV strategies, particularly among Prime members:"

- Higher Spending: Prime members spend more than double annually compared to non-members.
- Increased Purchase Frequency: Prime members place orders nearly twice as often.
- Enhanced Retention: The annual retention rate for Prime members is significantly higher.
- Improved Conversion Rates: Prime members exhibit a much higher conversion rate.

Metric	Prime Members	Non-Prime Users
Annual Spend per User	~\$1,400	~\$600
Purchase Frequency (per year)	25+ orders	~14 orders
Retention Rate (Yearly)	~93%	~70%
Conversion Rate	~74%	~13%

Challenges in Implementing CLV Strategies

- Data Issues: Incomplete or scattered customer data hampers accuracy.
- Complex Forecasting: Predicting future value requires advanced analytics.
- High Costs: Loyalty programs and personalization need upfront investment.
- Privacy Regulations: GDPR and data laws limit data usage.
- Team Misalignment: Lack of coordination between teams affects execution



Conclusion

- Customer Lifetime Value (CLV) is a crucial metric for long-term success in e-commerce.
- Companies like Amazon and Nykaa leverage CLV strategies to drive higher retention, spending, and loyalty.
- Implementing CLV comes with challenges, but the benefits outweigh the risks when done right.
- A strong focus on CLV leads to sustainable growth, better customer relationships, and higher profitability.



THANK YOU!