

- 1) What is the lifetime value of a typical customer in each of the four segments, in current dollar values? Compare these figures to the "Gross margin" figures in the original spreadsheet. What can you learn from this comparison?

Segments / Segment description	Gross margins	Customer lifetime value
Large accounts	\$63,000	\$1,18,548
Large accounts, rebate	\$36,000	\$88,831
Small accounts	\$10,800	\$17,388
Small accounts, rebate	\$7,200	\$14,818

- "Large accounts" have high CLV when compared to other segments. The CLV is almost double the gross margin for large. SyPhone should retain the customers of large accounts segment than the small account.
- 2) Of the 15,000 customers SyPhone has today, how many will still be SyPhone customers in five years? What is the overall churn rate after five years? Answer the same questions, segment per segment.

	# of customers in 0 yrs	# of customers after 5 yrs	
Segments / Periods	N+1	N+5	Churn rate
Large accounts	500	46	91%
Large accounts, rebate	2000	689	66%
Small accounts	5000	566	89%
Small accounts, rebate	7500	1907	75%
	15000	3207	79%

- "Large accounts" have maximum churn rate of 95% and "Large accounts, rebate" have minimum churn rate of 66%.
 - In general, customers who get rebate are more loyal and stayed with SyPhone than who did not get rebate.
- 3) With a discount factor of 35%, reconsider Question 1. What changes do you notice, in both absolute and relative terms? In terms of customer value, what is the consequence of focusing on the short term?

35% discount

Segments / Segment description	Number of customers	Gross margins	Customer lifetime value
Large accounts	500	\$63,000	\$77,299
Large accounts, rebate	2000	\$36,000	\$52,099
Small accounts	5000	\$10,800	\$11,730
Small accounts, rebate	7500	\$7,200	\$9,197

10% discount

Segments / Segment description	Number of customers	Gross margins	Customer lifetime value
Large accounts	500	\$63,000	\$1,18,548
Large accounts, rebate	2000	\$36,000	\$88,831
Small accounts	5000	\$10,800	\$17,388
Small accounts, rebate	7500	\$7,200	\$14,818

- CLV decreased in all four segments after introducing 35% discount rate
- Focusing on short term profits will lead to decrease in customer life time value in all the segments.
- Large accounts customers have higher lifetime value than small account customers in both the discount category

- 4) Build an Excel spreadsheet to estimate how much a *prospective* customer is worth, depending on whether that customer is offered a rebate. What do you learn from the updated spreadsheet? Explain the logic behind your findings and conclusions. On the basis of these results, what sales and marketing strategies would you recommend for SyPhone?

←----- For one customer ----->

Segments / Segment description	Prospective Customers	Customers Won	Costs of service	Revenues	Gross margins	Customer lifetime value (CLV)	Pre Sale Cost for each customer	Fixed cost	Customer Acquisition Cost (CAC)	CLV-Acquisition Cost (Customer Worth)	CLV:CAC
Large accounts	100	20	\$1,17,000	\$1,80,000	\$63,000	\$77,299	35000	20000	55000	\$22,299	1.40544
Large accounts, rebate	100	35	\$1,08,000	\$1,44,000	\$36,000	\$52,099	20000	20000	40000	\$12,099	1.30247
Small accounts	100	25	\$13,200	\$24,000	\$10,800	\$11,730	6000	3000	9000	\$2,730	1.30333
Small accounts, rebate	100	40	\$12,000	\$19,200	\$7,200	\$9,197	3750	3000	6750	\$2,447	1.36246

- **Customer Worth = Customer Lifetime Value (CLV) – Customer Acquisition Cost (CAC)**
- **CAC = Presale Cost of 1 customer + Fixed Cost**
- **Presale cost of 1 customer = Total presale cost/Customers won**
- **Total presale cost = presale cost of one account * Prospective customers**
- Customer Worth of "Large account" is \$22,299 – highest.
- Customer Worth of "Small account, rebate" is \$2447 – lowest.
- In general, "large accounts" have high customer worth. Large account without rebate has almost double the value of large account with rebate.
- CLV:CAC ration of "large account" is 1.4 – not a good business model.

- Marketing Strategy
 - SyPhone should work on getting many Large accounts. Marketing should be pushed to attract large customers rather than small.
 - Spend more on presales, promotion, advertising to attract larger customers.
 - Attractive offers to transfer customers from small account to larger account
- Sales Strategy
 - New "Large account, rebate" plan with \$90 monthly payment can be introduced. This will attract customers.
 - New "Large account, rebate" plan with \$70 monthly, while decreasing the discount factor to 25% from 35%.
 - Can to try to cut down the Fixed cost and cost of service.