MKTG 565 – DDM

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**Case Assignment (TEAM) – Tuscan CLV**

**Please answer the following questions:**

* What is the expected lifetime value of a customer whose initial purchase is less than $50?
* What is the expected lifetime value of a customer whose initial purchase is $50 or greater?
* Based on these expected lifetime values, what marketing plans might be advisable?
* Do you have any suggestions for additional lifetime value analyses?

**Write-up Instructions**: Please label your calculations, footnote any assumptions, etc.

* Page 1: Spreadsheet showing CLV calculations for <$50 group
* Page 2: Spreadsheet showing CLV calculations for $50+ group
* Page 3: Discussion (one page maximum)
* Hints: (1) When calculating the CLV, you should count the initial purchase as Year 0 and then do the calculation for 5 further years, where Year 1 is the first year that gets discounted. (2) Any acquisition cost should be included in the calculation at time 0.

Some help:

You’ll need the following to calculate CLV:

* *Acquisition Cost*
* *Initial Investment per customer*
* *Yearly average number of orders per customer*
* *Annual Development/Retention Costs*

There are two ways to do the assignment

1. Do the calculations on an individual customer basis using:



where Qt = the quantity purchased in period t  
 πt = the margin on purchases in period t  
 dt = the discount rate (cost of capital) where d = [1+(interest rate×risk factor)]   
 Dt = costs to develop the relationship in period t  
 Rt = costs to retain the customer in period t  
 A = initial acquisition cost  
 n = the number of periods

The first term in this equation captures the net revenues received from a customer – discounted over time. The second term captures the ongoing costs to develop and retain the relationship – discounted over time. The final term reflects the initial cost to acquire the customer.

1. Calculate CLV on an aggregate basis for a group of customers and then divide by the number of initial customers to get CLV.