Customer Lifetime Value (CLV) is a critical metric used by businesses to assess the long-term value that a customer brings to the company over the entire duration of their relationship. Here's a breakdown of the key points related to CLV:

1. **Definition**: CLV represents the Net Present Value (NPV) of the stream of future profits expected from a customer's lifetime purchases. It takes into account all the revenues generated from the customer's purchases and deducts all associated costs, discounted to present value using the Time Value of Money concept.
2. **Discounted Cash Flows (DCF)**: CLV analysis utilizes Discounted Cash Flows to account for the time value of money. This means that future profits and costs are adjusted to reflect their present value, considering the opportunity cost of capital and the risk associated with future cash flows.
3. **Estimation Challenges**: Estimating CLV can be complex and challenging due to the multitude of variables involved, such as customer acquisition costs, retention rates, purchase frequency, average order value

**Discounted Cash Flows (DCF):**

Discounted Cash Flows (DCF) is a financial valuation method used to estimate the present value of future cash flows by applying the Time Value of Money principle. In the context of Customer Lifetime Value (CLV) analysis, DCF is employed to discount all future profits and costs associated with a customer's purchases to their present value.

Here's a closer look at how DCF works within the context of CLV:

* **Time Value of Money (TVM)**: The Time Value of Money principle states that a dollar today is worth more than a dollar in the future due to its potential earning capacity. This is because money can be invested to earn returns over time. Therefore, future cash flows must be adjusted to reflect their present value.