# Customer Lifetime Value

# What is Customer Lifetime Value (CLV)

# How would we know the future value of a customer?

# A Simple Metric - Netflix

| | |
|---|---|
| Expected Customer Lifetime in Months | 20 |
| Average Gross Margin per Month per Customer | $50 |
| Average Marketing Costs per Month per Customer | $10 |
| Average Net Margin per Month per Customer | $40 |
| Customer Lifetime Value | $800 |

# Lifetime Value of a Customer (CLV)

- Just like we use Net Present Value (NPV) to evaluate investments and companies, we use CLV to evaluate customer relationships
- CLV is the expected NPV of the cash flows from a customer relationship

**CLV is defined as the discounted sum of all future customer revenue streams minus product and servicing costs and remarketing costs.**

# The Base CLV Model

$$CLV = \underbrace{\boxed{[\ \$M - \$R\ ]}}_{\text{Short-Term Margin}} \times \underbrace{\boxed{[\ (1 + d) / (1 + d - r)\ ]}}_{\text{Long-Term Multiplier}}$$

# Example 1 - Netflix

Netflix charges $19.95 per month. Variable costs are about $1.50 per account per month. With marketing spending of $6 per year, their attrition is only 0.5% per month. At a monthly discount rate of 1%, what is the CLV of a customer?

If Netflix cuts retention spending from $6 to $3 per year, they expect attrition will go up to 1% per month

Should they do it?

# CLV-Initial Margin

- Customer pays before using the service
  - e.g., apartment rentals, Netflix, Hulu

- Customer pays after using the service
  - e.g., credit cards

**CLV = [$M–$R]*[(1+d)/(1+d-r)]**

**CLV = [$M–$R]*[r/(1+d-r)]**

# Key Takeaways

# What Is CLV Used For?

- To determine how much to spend to acquire a customer.
- To determine how aggressively to spend to retain a particular customer or group of customers
- To value a company

# Conclusion

- Customer Lifetime Value can provide a forward looking measure of the customer relationship.
- It can connect marketing strategies to financial consequences.
- Strategic marketing alternatives, (e.g., targeting, and promotion campaigns) can be evaluated based on whether they improve customer retention, and lifetime value