Customer Lifetime Value

What is Customer Lifetime Value (CLV)

How would we know the future value of a customer?

A Simple Metric - Netflix

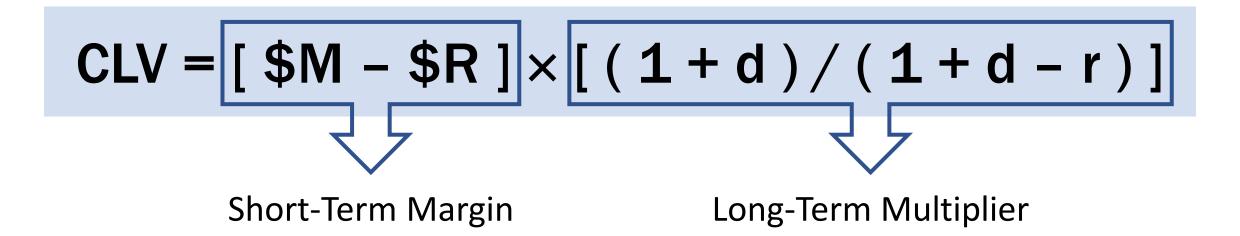
Expected Customer Lifetime in Months	20
Average Gross Margin per Month per Customer	\$50
Average Marketing Costs per Month per Customer	\$10
Average Net Margin per Month per Customer	\$40
Customer Lifetime Value	\$800

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



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