Base CLV

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	$0
Average Net Margin per Month per Customer	$50
Customer Lifetime Value	$1000

Lifetime Value of a Customer (CLV)

- Just as 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

- Net margin per Netflix customer = M – R = $50
- Retention rate = r = 80%
- Number of customers who joined Netflix in June 2014 = 100

Month	Number of Customers	Total Net Profit	Total Net Profit	Present Value of Total Net Profit
June 2014	100	[M – R] * 100		
July 2014	r * 100 = 80	r * 100 * [M – R]		
August 2014	r * (r * 100) =	r^2 * 100 * [M – R]		
September 2014	r * (r * (r * 100))) =	r^3 * 100 * [M – R]		

The Base CLV Model

\$M	Contribution per period from active customers: Contribution = Sales Price – Variable Costs
\$R	Retention spending per period per active customer
r	Retention rate (fraction of current customers retained each period)
d	Discount rate per period
Present value of net profit calculation is extended up to infinity	

$$\mathbf{CLV = [\ \$M - \$R\ ] \times [\ (1 + d) / (1 + d - r)\ ]}$$