Power of CLV

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Practice Prize Report

The Power of CLV: Managing Customer Lifetime Value at IBM

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Customer management activities at firms involve making consistent decisions over time, about: (a) which customers to select for targeting, (b) determining the level of resources to be allocated to the selected customers, and (c) selecting customers to be nurtured to increase future profitability. Measurement of customer profitability and a deep understanding of the link between firm actions and customer profitability are critical for ensuring the success of the above decisions. We present the case study of how IBM used customer lifetime value (CLV) as an indicator of customer profitability and allocated marketing resources based on CLV. CLV was used as a criterion for determining the level of marketing contacts through direct mail, telesales, e-mail, and catalogs for each customer. In a pilot study implemented for about 35,000 customers, this approach led to reallocation of resources for about 14% of the customers as compared to the allocation rules used previously (which were based on past spending history). The CLV-based resource reallocation led to an increase in revenue of about $20 million (a tenfold increase) without any changes in the level of marketing investment. Overall, the successful implementation of the CLV-based approach resulted in increased productivity from marketing investments. We also discuss the organizational and implementation challenges that surrounded the adoption of CLV in this firm.

Key words: customer relationship management; customer lifetime value; field experiment; return on marketing contacts; missing value imputation
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Resource Reallocation: Enterprise Software

Decile	No Sales Calls Until 2004	At least one Sales Call before 2004	Customer Segment
1	$350,471	$2,124,483	Super High CLV
2	$993	$125,460	High CLV
3	$669	$43,681	Medium CLV
4	$638	$23,624	
5	$623	$17,499	
6	$611	$13,675	
7	$534	$10,513	
8	$444	$8,051	Low CLV
9	$369	$5,023	
10	$80	($35)	

- Establishments with no sales calls until 2004: 767
- Establishments with sales calls by 2004: 2,713

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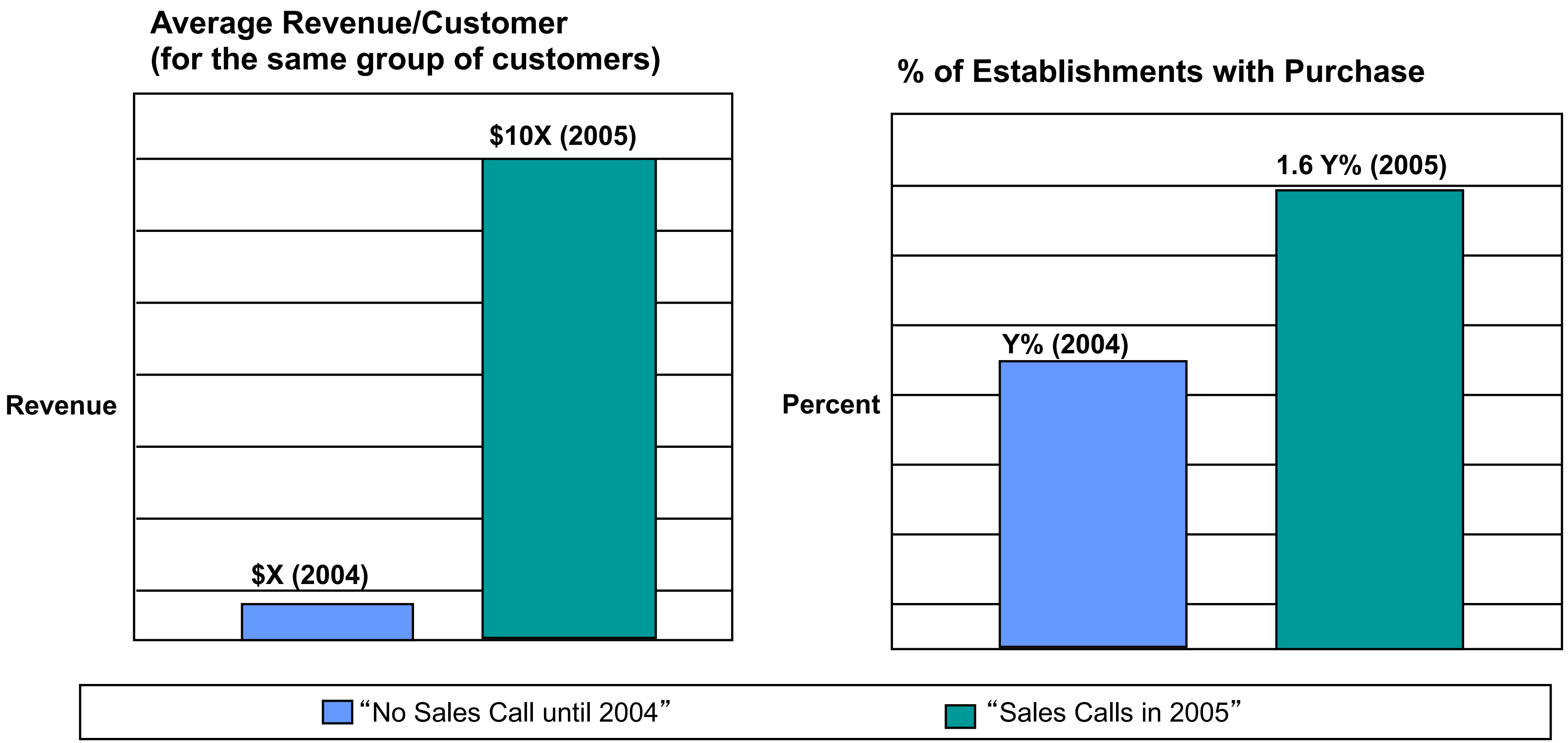
CLV-Based Resource Allocation



Incremental revenue attributed to net new accounts targeted by sales force using customer profit model recommendations = $ 19.2 million