Horses for Courses

CLV: Horses for Courses

- Time horizon—infinite or three to four years
- Initial margin
- Cohort and incubate
- Contractual or noncontractual business model

CLV: Time Horizon

Percent of CLV Accruing in First Five Years						
Discount Rate	Retention Rate					
	40%	50%	60%	70%	80%	90%
2%	99	97	93	85	70	47
4%	99	97	94	86	73	51
6%	99	98	94	87	76	56
8%	99	98	95	89	78	60
..						
...						
20%	100	99	97	93	87	76

Source: Farris, Paul, Neil Bendle, Phillip Pfeifer, and David Reibstein. *Marketing Metrics*, 2nd Edition. FT Press, 2010.

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)]