## **Definitions**

**ACL** (**Average Customer Lifespan**)**3** - figure out the average number of years a customer stays active with your company. Once you have your customer lifespan, you'll divide that by your total customer base to get the average.

ACL**3** = (SUM of Customer Lifespan) / Number of Customers

**Lifespan** / **Customer Lifespan** (**Individual Customer Lifespan**)**5** - Lifespan measures the length of time a specific customer has been purchasing from or engaging with a business until they churn or become inactive.

Lifespan **5** = Date of Last Purchase − Date of First Purchase

**CV** (**Customer Value**)**1** - represents the average monetary value that each customer brings to your business during a time frame.

CV **1** = Average Order Value x Purchase Frequency

CV **3** = Average Purchase Value x Average Number of Purchases

**CLV or CLTV** (**Customer Lifetime Value**) **3** - is a metric that indicates the total revenue a business can reasonably expect from a single customer account throughout the business relationship.

CLV **1** = (Average Purchase Value x Purchase Frequency) x Average Customer Lifespan.

CLV **3** = CV \* Average Customer Lifespan

**Predictive CLV** **3** - the predictive CLV model forecasts the buying behavior of existing and new customers using regression or machine learning. Using the predictive model for customer lifetime value helps you better identify your most valuable customers, the product or service that brings in the most sales, and how you can improve customer retention.

**Historical CLV** **3** - the historical model uses past data to predict the value of a customer without considering whether the existing customer will continue with the company or not. With the historical model, the average order value is used to determine the value of your customers. You'll find this model to be especially useful if most of your customers only interact with your business over a certain period.

**LTV** (**Lifetime Value**) **4** - is the average amount of revenue one single customer generates for the duration of their business with you.

LTV**0** = Average order value x purchase frequency x lifespan

LTV**1** = (Average profit per transaction x Number of transactions per period x Average retention period in periods) / (1 + Discount rate - Retention rate).

**CAC** (**Customer Acquisition Costs**)**2** - is a business metric that determines how much it'll cost your organization to attract new customers. A company's CAC is the total sales and marketing cost that go into earning a new customer over a specific period. This is an important metric to consider when determining the profitability of your company because it compares the amount of money you spend on attracting customers against the number of customers you actually gained.

CAC **2** = (Cost of Sales + Cost of Marketing) / Number of New Customers Acquired.

**AOV** (**Average Order Value**)**1** - or average purchase value, represents the average amount of money that a customer spends every time they place an order.

AOV **1** = Total Sales / Order Count

**PF** (**Purchase Frequency**)**1** - represents the average amount of orders placed by each customer.

PF **1** = Total Orders / Total Customers

**LTV:CAC ratio** **4** - helps you understand your customers’ overall spending with your business based on how much you spend to acquire them. You’ll see whether you’re outspending on acquisition or missing out on valuable opportunities to gain new customers because you don’t spend enough. A good LTV to CAC ratio is 3:1.

***Sources:***

**0** <https://www.lifetimely.io/blog-posts/why-cohort-analysis-beats-all-other-approaches-to-calculating-ltv>

**1** <https://www.shopify.com/blog/customer-lifetime-value>

**2** <https://blog.hubspot.com/service/what-does-cac-stand-for>

**3** <https://blog.hubspot.com/service/how-to-calculate-customer-lifetime-value>

**4** <https://blog.hubspot.com/service/ltv-cac-ratio>

**5** AI tools, with no data source.

**Note**: *Please be aware that you may find some metrics, such as CAC (customer acquisition costs), having slightly different calculations in various sources:*

‘Basic’ CAC = Total Marketing Expenses / Number of New Customers Acquired

‘Blended’ CAC = (Total Marketing Expenses + Sales Expenses) / Total New Customers