

Successes & Strategies

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The Lifetime Value of A Customer *Why is it worth knowing? Read on.*

Customers are pretty important people, don't you think? I would hope your answer is a resounding 'YES!' Have you ever tried to figure out how important they are? I'm talking about putting an actual dollar figure on it. With a little work you can figure it out, but more on that later.

Here is why you should know it

Before we proceed with 'how,' let's talk about 'why.' I would bet that if you actually knew how much money each new customer would put in the cash register (and eventually the bank) over the entire term you have them as a customer, it might change your mind about what you would be willing to do to get one. Additionally, it might also affect how far you should be willing to go to keep the ones you already have. To illustrate, I'll present the example of a grocery store for you. The grocery chain *knows* the lifetime value of a young adult customer is approximately **\$150,000!** Is there any doubt now why they invest weekly in an eight page circular with their latest sale? Or why they might be willing to lose money on staple items like milk, if it means you will come back? This is why I preach the absolute critical nature of providing awesome customer service every time. This is why I believe it is important to get feedback from your customers to find out what you are or aren't doing well. I'm sure you know that getting a new customer is much harder than keeping one. I hope the importance is now hitting home.

Here is how you do it

You may have to dig a bit for this information, depending on how you maintain your customer records, but I am confident that you can do a rough calculation of Customer Lifetime Value (CLV). Step one: Obtain a complete list of all customers you had for the most recent fiscal year who actually bought something from you. From that list write down in years how long you've had the customer. Hopefully your receivable records/system has this information. If not, estimate.

Then a few simple calculations and you get your CLV:

$$\frac{\text{Total Sales for Year}}{\text{Total Customers}} = \text{Average Annual \$ Sales Per Customer}$$

$$\frac{\text{Total Years of All Customers}}{\text{Total Customers}} = \text{Average \# of Years A Customer Remains}$$

$$\text{CLV} = \text{Average Annual \$ Sales Per Customer} \times \text{Average \# of Years A Customer Remains}$$

An example

What would that mean to a business with say \$1 million in annual sales, 200 customers and an average length of stay of 6 years? On average each new customer that walks in the door is worth approximately \$30,000 in sales over their lifetime. Whatever it works out to be in your case, I'll bet it ends up being more than you thought. *Each and every customer is important because they mean a lot of money to you over the time you serve them.* Now let me make them a bit more important to you. In our example let's assume each customer over those 6 years of time with you refers two of their friends. Keeping our averages intact, now each customer is worth \$90,000 in sales to you!

Summing up

When you know your CLV, your goal then should be to improve it. You'll hear it here a lot. *What you can measure, you can manage.* Armed with your CLV, you can more intelligently make marketing decisions. You can see the importance of referrals and why you might want to ask for them more often. The key is recognizing that each customer is your most precious asset. You hopefully are now a little more motivated to go after new customers when you know exactly how much they mean to you in dollars and cents. You should also be motivated to do an exceptional job retaining your current customers. Knowing your CLV should be a number that you and your Team should consider a necessity. Every time you or your Team deals with a customer, they'll know exactly what is at stake!