



In the previous session of the ‘**Blackboard and Whiteboard Series**’, we got to know how customer segmentation helps in Spending Market Dollars Wisely on Acquiring High Value Customers. To acquire high value customers, you need to know how to determine the value of customers, which you will understand better through this document.



## Introduction

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### What is the primary performance driver of your business – ROI?

What about the returns you get from customers not only today, but throughout your customer’s lifetime?

While financial metrics such as operating profits, revenues and EBITDA are only approximate measures to gauge customer value, calculating customer lifetime value (CLV) is one way of gaining a deeper perspective of your business and the potential value it could generate in the future.

## Make Customer Value Exceed Customer Acquisition

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Customer value should precede customer acquisition. It is a known fact that customer retention is far better and cost effective than acquisition. And customer value plays a big hand in retaining high value customers. To create customer value, you need to constantly reinvent, refine and evolve customer experience and service. As Bob Dylan says, “If you’re not busy being born, you’re busy dying.”

### “Quotable Quote”

“ Business must be run at a profit... else it will die. But when anyone tries to run a business solely for profit, then also the business must die, for it no longer has a reason for existence.”

**- Henry Ford**



**Let's take iconic innovator Steve Jobs' perspectives and put it to practice. Think about it:**

- Are you developing innovative ways to create customer value?
- Are you thinking 'out of the box' to develop value by giving customers what they don't know they need as yet?
- Are you in sync with cutting edge concepts?
- Are you working towards creating a niche generation of customers?
- Are you inventing and innovating to create an everlasting impact?

## Determining Customer Value

**By understating Customers' Lifetime Value (CLV), you can gain strategic insights, such as:**

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- Identifying which customer segments to invest in further
- Finding new markets and customers to target
- Determining which product and services need to be offered and promoted to specific segments
- Adjust pricing strategies to gain maximum value
- Identifying dormant or 'unprofitable' customers that you should focus less on
- Establishing investment areas which are not generating growth

### The Fundamental Concept

By knowing Customer Lifetime Value:

- You can get to know what customers want,
- You can get better at giving customers what they want,
- Customers will get better at staying with you.

Customer Loyalty  
Increases Value!

Customer lifetime value helps in making customized and timely marketing programs based on transactional data of that customer. In the B2B market, knowing customer lifetime value enables sales teams analyze business data to develop tailored marketing campaigns.

For those who wish to challenge themselves with the CLV / LTV calculation, here's a basic formula that may work:

### CLV

$$= (\text{profit per cycle}) * (r / (1 + i - r))$$

$$= \text{profit per cycle} * \text{retention multiple}$$

### Where

**r** is the retention rate per cycle (e.g. 80%) and

**i** is the discount rate per cycle (e.g. 25%)

*Some businesses choose to ignore the discount rate. This not advised as it may make the business look viable when in reality it may not be.*

To understand lifetime value better the following aspects need to be considered:

- ▶ **Assess the profit contributed by each customer (in the current year)** - Evaluate the revenue generated from each customer after deducting any attributed cost incurred in servicing the client. If there many customers, segmenting into groups based on product type or buyer behavior will help in estimating revenue generated by each segment.
- ▶ **Establish an estimate on how long you wish to retain each customer** – Rather an absolute measure, establishing a relative time frame of the duration of a customer relationship is important. Three questions that will help here are:
  - ➔ Who are your loyal customers?
  - ➔ How many of them are likely to be repeat customers?
  - ➔ How often do they transact with your business?
- ▶ **Evaluate the cost of customer acquisition and retention** – On a yearly basis, determine what the cost is to acquire or retain customers. Some customers require higher upfront marketing investment or larger discounts, but little to no cost to retain. And some customers may require regular monthly reselling efforts.



- ▶ **Calculate** – Develop a simple, yearly cash flow including cost of acquisition, retention and cash flow projected over the lifetime of customer relationship. Ensure to include any capital costs or investments and deduct any overhead expenses of your operating costs.

By calculating customer value, you will be able to analyze previous investments and gain a better understanding on future marketing investments. Customer value is more than knowing the lifetime period, it is about providing an everlasting experience.

As visionary Steve Jobs beautifully stated, “If I’d asked customers what they wanted, they would have told me, ‘A faster horse!’” People don’t know what they want until you show it to them. That’s why I never rely on market research. Our task is to read things that are not yet on the page.”

*To creating priceless value for  
a generation of customers!*





## About Info CheckPoint

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Info CheckPoint is a preferred provider of credible business to business (B2B) information, database management and marketing solutions. We understand the value of driven, directed and dynamic databases and therefore emphasize on high quality data which translate to invaluable information. For us a database is a business intelligence tool.

Our advanced search application allows instant access and provides segmented data to facilitate targeted communication significant in leveraging business growth. Through this interface you can obtain information that is customized to business requirements and enables focus on primary target markets appropriately.

At Info CheckPoint we adopt a scientifically based, technology driven and manually validated comprehensive data verification process. Utilizing data quality tools, techniques and tactics, we emphasize on maintaining data that is verified, validated, accurate, current, relevant and hygienic.

To gain access to power packed databases or for more information, please visit Info CheckPoint

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