TEMPLATE

Customer Lifetime Value

Costs	
Acquisition cost	$ 100
Estimate how much it costs you in marketing and incentives to acquire a new customer.	
Marketing expense	$ 15
Estimate how much you need to spend on average per customer, per year to market to your existing customers.	

Customer behavior	
Purchases per year	6
Enter the average number of purchases each customer would make each year.	
Average purchase	$ 100.00
Estimate the average purchase amount each customer would make for each transaction.	
Estimated Customer Lifespan	5.0
Estimate the number of years your average customer remains with your business.	

Gross margin	
Gross margin is net sales less the cost of goods sold (COGS). Or in other words, it's the amount of money you retain after incurring the direct costs associated with producing the goods or servcies you sell.	
Net sales	$ 300,000
Cost of Goods Sold	$ 120,000
Gross Margin Percentage	60.0%

$ 3,000	$ 1,800	$ 1,640
Revenue per customer	**Gross Margin per customer**	**Total Lifetime Value**

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Customer Lifetime Value

The business principle of lifetime value means that instead of looking at a customer from the standpoint of one transaction, you look at the entire relationship they have with your business from beginning to end.

Customer Lifetime Value (CLV) is a prediction of the value each customer can bring to your business.

One of the key reasons for measuring CLV is to understand the value of customer retention because selling more to repeat customers will bring more profits than continuously needing to acquire new ones.

It helps you understand the answers to these questions:

- How much should you spend to acquire new customers?
- How much should you invest to retain or encourage back customers?
- Are your products and offers well-suited for your best customers?

If you have a customer loyalty plan in place to reduce the chance of unhappy customers, there's a real gain for you when it comes to the potential damage a disgruntled customer could do to your business.

Consider this: research says that one unhappy customer may tell as many as 11 others about the bad experience.

These 11 then tell up to 5 others. You've then lost 67 customers, i.e., the one that won't come back, the eleven who were told and then 55 (11 x 5) who were told second hand. (1 + 11 + 55 = 67).

Could you afford to lose 67 customers?

If you want customers to be loyal, you need to start planning for it before they become a customer. In today's market, loyalty can erode quickly because consumers have so many choices. Plus, for many goods and services, the Internet lets anyone buy just about anything anywhere.

Right from the start you need to budget for what that loyalty will cost you. These include costs such as staff time, advertising, rewards, and promotions.. It is getting harder to just rely on doing a great job and being a really nice person.

Set a budget

For example, you spend $2 each day at a local coffee shop. After overheads and materials, what would the shop pay to keep your loyalty for $2? Probably nothing. But if you go every working day, that daily coffee could add up to more than $500 in a year. If you go for 10 years, that is $5,000.

Looking at it this way, it makes sense for the coffee shop to spend some money—even a few hundred dollars—to keep you coming back.