
How to Reach Phase 3 with Customer Lifetime Value?

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Phase 3 is profit. How to get there?

You don't want to calculate Customer Lifetime Value (CLV) just for your collection and to show off.

The goal of this session was to create a list of actionable steps you can do with individual customer's CLV.



Assumptions of these slides

Ideally, you shouldn't start calculating CLV without strong business hypotheses and some use case in your mind.

We unfortunately talk about it the other way around.

We focus mainly on e-commerce.

CLV

Defined as *the present value of the future net cash flows associated with a particular customer.*

[Peter Fader - Customer Centricity](#)

How does CLV look like in reality?

customer_id	date_calculation	predicted_CLV 52 weeks	predicted_CLV lifetime
123	1.1.2015	150	203,65
123	1.2.2015	145	203,65
123	1.3.2015	130	151,12
123	1.4.2015	115	137,81
123	1.5.2015	115	137,81
123	1.6.2015	102	133,13
123	1.7.2015	100	131,09
123	1.8.2015	95	130,01
123	1.9.2015	90	120,73
123	1.10.2015	210	450,55
123	1.11.2015	200	410,91
123	1.12.2015	195	353,99

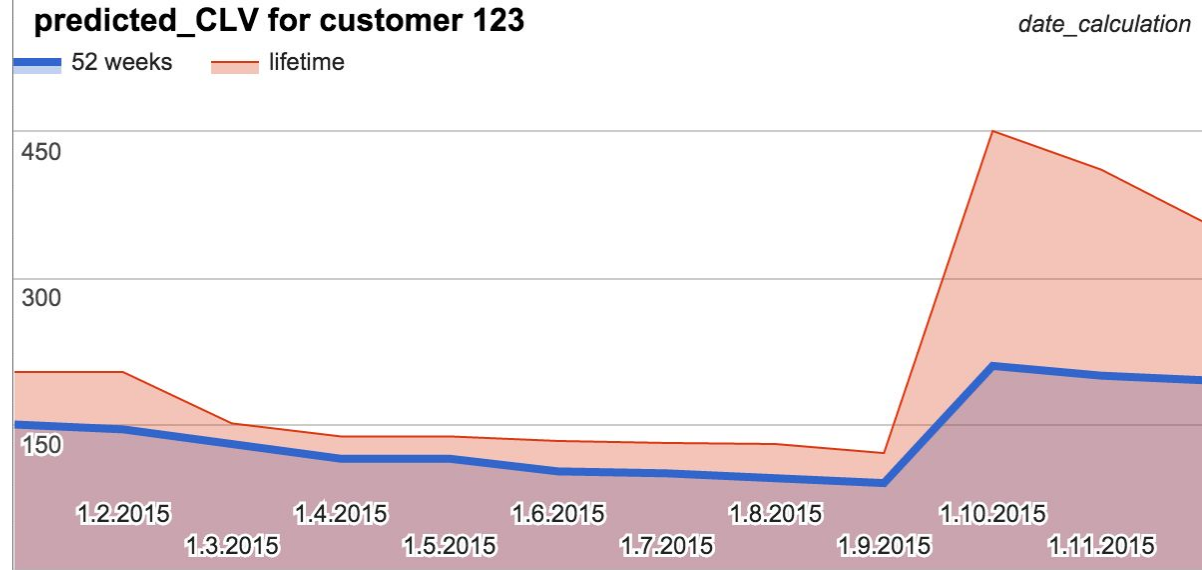
For each customer you typically estimate lifetime profit (discounted in following years).

I've found out that for better actionability it is useful to estimate profit for some shorter term: $\frac{1}{4}$ to 3 years. This should be selected depending on the nature of business when your customer have high probability of repurchasing.

Also, you typically calculate CLV each month/week/day in order to see how your predictions evolve.

How does CLV look like in reality?

Your monthly calculations for each customer. Naturally, CLV models change when customer purchases and “fade out” the value when the customer is inactive.



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Oh, so what?



Main areas where online marketers can benefit from CLV

Theoretically:

- Customer Acquisition - Expansion - Support - Retention
- Direct Campaigns
- Customer Intelligence (CRM, managerial reporting)

Ideas of use cases like those mentioned on [The Wise Marketer](#), on [Econsultancy](#) and [Custora](#) are nice, but lack details.

1) Customer Acquisition

How much can we afford to pay for a new customer? What is the true value per acquisition? Should that differ from CPA / ROAS targeting?

What products drive higher CLV?

How fast can we estimate CLV for a fresh user/customer?

When can we compare CAC and Historical Profit + CLV?

2) Customer Expansion

For what segments of customers should we increase/decrease marketing activities (/costs)? When?

When can we push marketing efforts on fresh customers?

What is the impact of (up|x)-selling on CLV?

What if CLV estimation rises?

3) Customer Support

Who can (not) be given a discount?

Who should wait in a queue for a support?

Should we give a customer a gift or an exclusive deal?



4) Customer Retention

How much can we afford to pay to retain a customer and still being profitable?

What to do when CLV estimation drops?

How to treat customers with low or negative CLV?

Should we give incentives when CLV rises?



5) Direct Campaign Evaluation

Decide which customers by CLV to select for a campaign.

Can we get top 10% customers by CLV?

Use ratio of CLV as max costs per campaign.

Evaluate campaign by change in CLV.

6) Customer Intelligence and managerial reporting of your customer base

How does CLV/Customer Equity evolve? For various companies, markets, customer types, segments of customers.

How well can we forecast sales?

Where will high profits come from? What are profit drivers?

Gnomes are happy that they've found out what Phase 2 means and they know how to use CLV practically to reach Phase 3.



Did it still sound too general? Do you know how to use it for optimizing specific online channels (AdWords, Sklik, Facebook, e-mailing etc.)?

Please send me your ideas of actionable use cases of CLV :-)

Thank you

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Underpant gnomes deserve their copyright for imagery.

See [South Park S02E17](#) for full reference.
