Customer Lifetime Value

Marketing

What a customer is worth over the relationship, not the transaction.

Lifetime value is margin per period times expected lifetime, discounted to today.

$$CLV = (Margin \times Retention) \div (1 + r - Retention)$$

80% retention 1 ÷ (1 – 0.8).	**About 5 years average life**
90% retention Doubles the value.	**About 10 years**
CAC above CLV	**Growth destroys value**

THE COMMON MISTAKE

× Using revenue rather than margin

✓ Using contribution after cost to serve

High-revenue customers are sometimes unprofitable once returns, support and discounts are counted.

Small retention gains compound enormously. Moving from 80% to 90% retention doubles the average customer lifetime.