

What is Customer Lifetime Value (CLV)?

Customer lifetime value (CLV) is a measure of the total income a business can expect to bring in from a typical customer for as long as that person or account remains a client.

What is customer lifetime value and why is it important?

CLV is the amount of money a customer is predicted to spend with your business for the duration of your relationship with that individual. It's an important metric, and the way you approach it can both define your business and could vary significantly depending on what you're trying to get from your business.

How is CLV used in marketing?

Customer Lifetime Value is calculated by multiplying your customers' average purchase value, average purchase frequency, and average customer lifespan.

What is the formula for CLV in marketing?

The typical formula used to calculate customer lifetime value is Customer lifetime value = customer value x average customer lifespan. It's essential for customer success and support teams to understand CLV because it's always less expensive to maintain an existing relationship than to create a new one.

The CLV model has only three parameters: (1) constant margin (contribution after deducting variable costs including retention spending) per period, (2) constant retention probability per period, and (3) discount rate.

The simplest way to calculate CLV is:

CLV = average value of a purchase x number of times the customer will buy each year x average length of the customer relationship (in years)

So a marathon runner who regularly buys shoes from your shoe store might be worth:

$\$100$ (per pair of shoes) x 4 (pairs per year) x 8 (years) = $\$3,200$

And the mom of a toddler might be worth:

$\$20$ (per pair) x 5 (pairs per year) x 3 (years) = 300

How To Increase Customer Lifetime Value?

Focusing on Customer Satisfaction and Customer Retention is the way to increase lifetime value of your customers (learn more about retention metrics here). Here are 5 effective ways how this can be achieved and maintained.

1. Offer a Referral Program

Referral programs are a great way to increase customer lifetime value. Referred customers have 16% higher lifetime value and 18% less churn (also known as customer attrition). Furthermore, 81% of consumers trust recommendations from people they know, and 55% of people share their new purchases on social networks.

This means that by offering a referral program, you improve your CLV and get the additional benefit of exposure to new possible customers, which then can be turned into loyal customers.

2. Provide Targeted, Personalized Campaigns

56% of digital marketers agree that email marketing is the most effective digital marketing tactic for customer retention. However, many businesses fail to deliver meaningful content. Instead of providing valuable content, they limit themselves with automated campaigns without offering any real value.

Sending targeted and personalized campaigns lets you focus on specific customers and help them be engaged with content specifically tailored to them. Check AI-suggested personalization for specific groups of your customers with Verfacto.

3. Put Them First – Hear Your Customers

Whether the majority of your customers are happy or not, you'll notice by your business performance. But to measure their satisfaction more accurately, always collect the necessary data. In this case, a short survey works well. In there, you can include:

On a scale from 1 to 10, whether the customer would recommend your products to someone else.

Where could things be improved (product description, presentation, delivery costs, etc.)

Optional short comment for any additional feedback.

Giving your customers a way to share their feedback makes them an important part of your business growth. By listening to customers' feedback and improving where you can, they will appreciate the effort and will likely continue to stay loyal to your brand.

4. Create Content to Keep Customers Engaged

Content marketing is here to stay, and it definitely helps your customers feel closer and more engaged with your brand – especially if you do it right. When you create content focusing on your customer's common pain points, or focused on educating and leading your leads through the sales funnel, you have much more chances to increase CLV and decrease the cost for acquiring customers.

When customers develop a relationship to your brand they will not only be loyal to you for longer, but also help promoting your brand through their social media platforms or word-of-mouth. When they are your biggest fans, chances are they purchase more and more often from you too, and publishing content that is helpful to them – be it on your blog, social media or through e-mail marketing – is a great way to do so.

5. Optimize Your Customer Service

Better customer service leads to a better customer experience which, as a result, increases customer retention and improves customer lifetime value. Make sure your business is active on multiple social media channels, as 66% of customers use at least 3 different communication channels to contact support.

Then, look into which channels your clients use the most and allocate resources accordingly. Clients usually expect a fast response to their questions, requests, and complaints, so ideally, you should provide 24/7 live chat support.

However, if you don't have the means to do that, respond to clients as fast as possible, as 84% of consumers expect a response within 24 hours if they post complaints on social media.

6. Reward Your Most Loyal Clients

By calculating your lifetime value of every customer, you will see which customers are the most loyal to you (see it in one click with Verfacto). This is a perfect time to foster your relationships with these customers by giving them special offers. These offers can include cheaper (or free) shipping, early access to new items and guaranteed order availability for limited and exclusive stock, and more.

Rewarding your most loyal customers will undoubtedly increase their satisfaction and retention long term.

7. Benefit from Cross-Selling and Upselling Strategies

Another way to increase customer lifetime value is by using strategies like upselling and cross-selling. The goal here is to offer better solutions for your customers while increasing their average order value or even purchase frequency.

While showing customers a complementary product or service to the one they are currently researching or by presenting them a better option with a higher price and more benefits, you increase your chances to increase your revenue.

These are great strategies used by several online businesses that are worth trying. You can also benefit from strategies like contextual targeting, to make sure your customers get the right ads at the right time.

What is a good CLV ratio?

Your product pricing, cost of goods, and churn rate are represented in the CLTV. This ratio is a simple number that can be measured internally and against peers. Generally, it's accepted that a CLTV : CAC ratio of **3 or higher** is healthy.

Clv decision making:

Using CLV to Determine Marketing and Promotion Budgets

At yorCMO, we create a budgeting framework for each audience based on its CLV. For example, a company typically will look for 10% to 20% returns on investment for acquiring new clients. Another way to look at it: for every dollar you spend on client acquisition, there should be a 5 to 10 times return.

Let's use 10% as an easy example. If a client is worth \$10,000 CLV, a company should be agreeable to spending \$1,000 to acquire the client.

Retention costs (marketing and sales efforts) over the life of a client also should be calculated to ensure a satisfying profit. You can see how this helps determine which campaigns and projects to invest in and how far to go in your efforts to acquire and retain a client. It also can be very helpful in setting specific objectives for long-term sales.

Knowing CLV not only helps you determine how much to spend on marketing, but it can help you justify marketing costs