

# Calculate CLV

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**Note** – This is one from a sequence of exercises from the Customer Lifetime Value subject outlined in the Strategic Marketing Process eBook. Download the free e-book [www.growthpanel.com/marketing-tools/index.html](http://www.growthpanel.com/marketing-tools/index.html) and subscribe to this subject at [www.growthpanel.com/versions/get-started.html](http://www.growthpanel.com/versions/get-started.html) to download from Growth Panel’s Intelligent Marketing Platform.

*Some of the graphics in this PDF might not display properly.*

Use **146-G** to calculate your CLV for a single customer or multiple customer segments.

## CUSTOMER DATA COLLECTION

The sheet will ask you for the following values for each of your customer segments. [Competitive Positioning can help with segments]

CUSTOMER DATA	VALUE
Customer segment	
How many purchases do you think an average customer will make before the relationship ends (the customer no longer buys from you)?	
Average length of time between purchases (in days)	
Average revenue per purchase	
Gross profit margin for the revenue generated by these customers (as a % of revenue)	

The rest of the CLV section provides more detail about generating estimates or more reliable data for any of these data points.

## FINANCIAL DATA COLLECTION

The sheet will calculate the Net Present Value (NPV) of the profit you expect to generate from each customer group.

**NPV:** The value of a future stream of cash flows in today’s dollars.

In general, it's better to have a given amount of money today than tomorrow. If you have it today, you can invest it and earn a return. If you don't have it until tomorrow, you miss the chance to invest, and inflation may also eat away at its value.

**EXAMPLE:** If you were offered \$5000 a year from today, how much would you take if you could have it today instead? Would you take \$4500 if you could have it today instead? \$4,800? \$4,000? The amount you're willing to take today is the Net Present Value (NPV) of the \$5,000.

It's important to calculate NPV to prevent overspending on marketing and/or operations. If you think a customer will spend \$10,000 a year with you for three years, that customer isn't worth \$30,000 because that \$10,000 in years two and three is actually worth less than \$10,000 today. Calculating NPV will give you a more accurate value for the customer.

Gather two additional values to calculate NPV:

FINANCIAL DATA	VALUE
<p><b>Discount rate:</b> The rate of return that you would expect from a proven investment such as the stock market.</p> <p>You can ask your finance department to provide this figure.</p> <p>Use a number that is net of estimated inflation. For example, if you think you can earn a 10% annual return in the stock market and inflation will be 2% for the year, enter 8% (10%-2%).</p>	<p>%</p>

**ONCE YOU'VE ENTERED THE DATA**

The spreadsheet will then produce the NPV of the Customer Lifetime Value for each of your customer segments. It will also show you the relative value of each segment to your company.

Use **146-H** to summarize your findings and track them over time.