Example of customer life-time value (clv) case study

Business, Company

Customer Life-time Value (CLV) can be defined as the present value of profits that are expected in the future as the result of customer purchases. It considers the cost of providing the service/selling a product, future purchases and the profit margin associated with these expected purchases. Calculating CLV helps companies to evaluate acquisitions of new customers, to assess the most appropriate level of investment in attracting new customers and helps to understand which customers they should invest into. The simplest method to calculate CLV can be expressed with a formula CLV = Annual Customer Revenue * Company Profit Margin * Number of Loyal Years (Brink & Berndt, 2008). Considering that the price of pizza in the local store is $5. 99 and I purchase pizza approximately twice per week, then the Annual Customer Revenue will be 2 * 52 (weeks per year) * $5. 99 = $622. 96. According to Houston Chronicle, the profit margin for a pizza considering overheads and the cost of ingredients is 18% (Metcalf, 2013). Finally, I will remain a loyal customer for 4 years during my stay in college. Therefore, CLV = $622. 96 * 18% * 4 = $448. 5312. This calculation method considers the absolute value of profits and not the present value. The latter method is more complex, but could help to evaluate CLV more accurately. If I refer 10 people to the store over a year and 25% of them will become loyal customers, then my overall CLV will increase by 10 * 25% * $448. 5312 = $1794. 1248. Hence Total CLV = $1794. 1248 + $448. 5312 = $2242. 656. CLV is a complex concept that requires considering numerous parameters in order to evaluate the value of customers. However, it also demonstrates that loyal customers are much more valuable for the company than temporary ones. Therefore, companies should primarily target their most devoted clients and provide them with an incentive to continue purchasing products/services. One of the ways to stimulate customer loyalty is to give special “ perks” to the best customers. Although this treatment may seem discriminatory to the new clients, it is effective in retaining those, who bring more CLV to the company.

References

Brink, A., & Berndt, A. (2008). Relationship marketing and customer relationship management. (1st ed.). Lansdowne, South Africa: Juta and Co Ltd.

Metcalf, T. (2013). How much profit margin in pizza? Houston Chronicle, Retrieved from http://smallbusiness. chron. com/much-profit-margin-pizza-62139. htm