Sample essay on customer lifetime value calculation for fgb using the given tool

(Instructor Name)

First Gulf Bank (FGB) is one of the largest banks in the UAE, with a range of services ranging from corporate banking to consumer banking. The bank was awarded the " Best Bank in United Arab Emirates" in 2013 at the Banker Middle East Industry Awards 2013, and features in the Forbes list of Top 500 Companies in the Arab World at the sixth rank, and the third in the UAE (FGB, 2014).

The average per capita income in UAE was approximately $41, 000 per annum in 2013 (World Bank, 2014). Assuming the average FGB customer earns at least 20 per cent more than the national average; the per capita income of the customers is $48, 000 per annum. Of this, at least 50 per cent would be payments towards loans and investments through the bank. Assuming a weekly transaction of $500, we get $24, 000 spent through the bank annually. The customer is not likely to switch banks frequently therefore a retention rate of 80 per cent is suitable. Monthly newsletter updates to the customer will cost $5 per month. Therefore, the customer lifetime value for a period of six years can be calculated as shown below. Cumulative Net Present Value of the customer shows that the bank will break even on the customer acquisition only in the 2nd year. However, if the bank can retain the customer for a period of 6 years, then the net present value of the customer is $2, 985, generating almost 100% return on the initial acquisition cost. This amounts to a 16 per cent YOY return for the bank, which is significant.

The present calculations assume a fixed spend for the period of six years, and therefore a fixed return in profit per year. However, over time, most

customers will see a rise in their incomes over time and therefore are likely to invest more – buying bigger homes, taking more loans and making more investments. All this will lead to a rise in the actual spending of each customer, and the expected present value will therefore rise along with the profit per customer per year, assuming the bank is able to retain the customer over the period of six years.

The customer lifecycle can be mapped somewhat as follows:

After one year, the bank can offer the customer a credit card based on his credit which provides value to the customer as well as earns money for the bank through transaction charges.

If the bank manages to retain the customer for longer, he is likely to buy a house, and take a housing loan from the bank, on which FGB earns profit off the interest. The customer in turn gets a slightly lower rate of interest, thereby saving him money on the loan repayments.

The bank can also sell the customer investment plans and manage his portfolio of stocks. The customer gets the advantage of better returns due to his portfolio being managed by a professional bank, and the bank earns brokerage on his transactions as well as commissions from the investment companies.

All this will raise the value of the customer to the bank, and the customer in turn can take advantage of numerous services of the bank in one location, without having to manage multiple accounts. He also saves money on transaction charges, etc. due to his long term association with the bank, and the bank in turn can offer these discounts due to the lower cost of acquisition

of the customer for incremental products and services. Therefore, it makes sense for FGB to calculate the CLV of the customer and work towards retaining the customers that it acquires for a reasonable period of time. In the banking sector, customers do not change banks quickly, therefore, this is relatively easy to execute and achieve.

References

FGB (2014) About FGB, available online at http://www. fgb. ae/en/about-fgb/index. aspx last accessed 2 December 2014.

World Bank (2014) GDP per capita (current US$), available online at http://data. worldbank. org/indicator/NY. GDP. PCAP. CD/countries/AE? display= graph last accessed 2 December 2014.