

Life Time Value of a Customer

Sustainable relationships create ongoing and future wealth.

This calculation provides a basis on which to estimate the financial value of a customer to you over a life time. A customer could also use it to assess the potential long term financial worth they have to a supplier. Noting, of course that financial return is only one dimension of value.

In either case, understanding the longer term view will encourage or support the building of effective, value-add relationships.

The calculation has the following components:

- average purchase value per X period
- expected longevity of the purchase behaviour
- margin
- probability (or 'fudge factor') that the previous factors hold true.

The LTV calculation is:

$$\begin{array}{ccccccc} \boxed{} & \times & \boxed{} & \times & \boxed{} & \times & \boxed{} & = & \$ \text{ Life time} \\ \text{Average} & & \text{\# periods x} & & \text{Margin} & & \text{Fudge} & & \text{Value} \\ \text{purchase} & & \text{(longevity} & & & & \text{factor} & & \\ \text{value per} & & \text{of} & & & & & & \\ \text{period} & & \text{behaviour)} & & & & & & \end{array}$$