



## The Value of Lifetime Value

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### CRM Refresh

As part of a past GoToU article, we defined Customer Relationship Management as the function that maximizes the value of the customer relationship *to* the customer, *for* the customer's benefit and the company's profits. It's about using information and engaging in dialog. CRM is a long-term solution. It's about lifetime value and share of customer (or optimizing *all* of a customer's purchases with your company's products/services). Most importantly, CRM is a business process. It's finding ways to add value to the customer relationship in the customer's terms. It requires buy-in from the top and sharing information throughout the entire enterprise.

To a marketer the customer is the standard unit of measurement. Remember, without customers we have no business. And, it's the profitable customers that require little cost to serve and have a full potential for revenue that support overall business success.

### The Customer P & L

Business success is frequently measured by a financial P & L (profit and loss) statement. As marketers we can also measure business success by a customer P & L. The more most-profitable customers that we acquire (or customers acquired and then grown into profitable customer relationships) offset by those that are lost therefore results in a high customer profit margin. This equation can be better illustrated by the following:

I learned once that the average Honda customer was worth approximately \$250,000. We all know Honda cars are not that expensive. Nonetheless, this figure stood for not just the two or three Honda cars a customer would buy over their lifetime but also the Honda generator, Honda lawnmower, Honda snow blower, and various referrals to friends and colleagues. This dollar amount startled me as it made me think about my customers and client's customers in a completely different light. Get a new customer and add \$250,000 to the lifetime P&L. However, lose a customer and deduct that!

Therefore, your company's retention rate of its customers has great significance for creation of value. For example, if an enterprise can increase its retention rate from 80 - 90%, it doubles customer lifetime from 5 - 10 years. Bottom line — Longevity creates value!

### Lifetime Value

Lifetime value is a marketing measurement that has been used for many years. A simple definition is: *"how much profit a certain customer segment will generate over its lifetime measured in increased sales, lower costs of doing business, referrals and higher profit-margin business."*<sup>1</sup>



*In Tune Monthly* magazine is a publication of which I am co-owner of that reaches music making students in grades 7 – 12, and their teachers, right in the classroom ([www.intunemonthly.com](http://www.intunemonthly.com)). The over 42,000 middle and high schools it currently serves are responsible for over 4 million 12-18-year-old musicians. Advertisers of *In Tune*, for example, understand that promoting a Gibson guitar or a Conn Selmer saxophone to a music student in this age demographic could pay significant dividends in brand preference formation, increased customer acquisition and lifetime value creation. Therefore, the potential for a longer true life of frequent product sales is one attraction of promoting to this audience.

So, do you know the lifetime value of your customers? Take the first step and start writing down the answers to these questions to better find out:

- What is the average order per customer?
- How many times (frequency) does a customer order from you in one year?
- How many different products and services do each customer, on average, order from your company?
- How long is a customer retained? (years, months, projects)
- What is each customer capable of purchasing in terms of dollar volume in one year?
- How many referrals does each customer average per year?
- What is your average cost per acquisition per customer?

The Lifetime Value of your customer may surprise you. Perhaps you're a one project business with an opportunity to grow profitable customer relationships with added products and services? Perhaps you're not leveraging a referral strategy as much as you could be? Or, maybe you could be optimizing each order with added services beyond your existing offering—all in an effort to drive a higher Lifetime Value of your customers.

At the end of the day it is the most profitable, long-standing customer relationships that will sustain and grow your business. Understanding each new customer's Lifetime Value changes a business' perspective on acquiring new customers and growing existing ones.

#### ***About the Author***

Angelo Biasi is General Manager of SMART Marketing Solutions, LLC, a leading full-service integrated marketing company in Naples, FL since 2001. He has helped create and execute marketing plans and integrated marketing solutions for companies such as Playtex, Bic, Rogaine, Tauck, and over 35 colleges and universities, to name a few. Angelo has an MBA in Marketing from the University of Connecticut and has taught Marketing at New York University for over five years. For more information or to learn more, email him at [abiasi@smartmarketingllc.com](mailto:abiasi@smartmarketingllc.com), visit [www.smartmarketingllc.com](http://www.smartmarketingllc.com) or call 239.963.9396.