

Calculating Customer Lifetime Value (Impact of Future Years)

In this exercise, your task is to calculate the customer lifetime value (CLV) for two retailers (there is one example already being provided to assist you).

In the activity, we will also consider the impact of the number of years (that is, the customer's lifetime) in the calculation.

In the following tables, the formula to calculate customer lifetime value is:

$$CLV = \{(annual\ revenue - annual\ costs) \times years\ a\ customer\} less\ initial\ acquisition\ costs$$

Please note: The first table uses several years for the lifetime period, whereas the second table assumes that the customer only deals with the firm for one year only.

PART A Looks at Future Years	Example	Retailer A	Retailer B
Annual Revenue	\$500	\$3,000	\$1,100
Annual Costs	\$100	\$1,000	\$100
Years a Customer	5 yrs	5 yrs	3 yrs
Acquisition Cost	\$500	\$2,000	\$500
CLV	\$1,500		

PART B Looks at One Year Only	Example	Retailer A	Retailer B
Annual Revenue	\$500	\$3,000	\$1,100
Annual Costs	\$100	\$1,000	\$100
Years a Customer	1 yr	1 yr	1 yr
Acquisition Cost	\$500	\$2,000	\$500
CLV	- \$100		

Student Discussion Questions

1. Complete the calculations for the two retailers. In the top table (Part A) you will calculate CLV using multiple years, whereas in the second table (Part B) the customer stays for only one year.
2. Which of the two retailers have the more valuable customers - based on the top table (Part A) only?
3. Now which of the two retailers have the more valuable customers - based on the second table (Part B) only?
4. Based on this, what impact does the lifetime (number of years) figure have on the overall calculation?
5. Therefore, how important is it for firms to try and enhance customer loyalty (that is, years a customer)?
6. Based on the information shown, would the retailers benefit more from:
 - a. Trying to acquire customers more efficiently (that is, a better use of their promotional mix) OR
 - b. Trying to extend customer loyalty (that is, hold customers for an extra year)?