

Working with Customer Lifetime Value

In this activity, you need to work through a customer lifetime value exercise (CLV). You need to calculate the customer lifetime value for both the accounting firm's business and individual customers.

Given these calculations, what advice would you have for the firm?

About the Accounting Firm

An accounting firm currently provides accounting and taxation advice to 1,000 businesses and 2,000 individuals. In the past year around 100 business customers and 500 individual customers were acquired through various marketing campaigns. One of their accountants has determined the following:

- The total spent on the marketing campaign to attract new business customers was \$1,000,000,
- The total spent on the marketing campaign to attract new individual customers was \$500,000,
- The annual servicing cost of the average business client is \$5,000, and \$500 for an individual client,
- The average annual income for a business client is \$10,000,
- The average annual income for an individual is \$1,000, and
- The average time they remain a client is 10 years (business) and 4 years (individual).

For this exercise, use the following formula:

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

(Remember you are trying to calculate this information on a PER customer basis, not an aggregate of total customers.)

Student Discussion Questions

1. Should this firm focus on acquiring new business OR individual customers (or both)?
2. Which of the following approaches would likely have the greatest impact on CLV?
 - a. Enhancing customer loyalty
 - b. Growing income/revenue per customer
 - c. Reducing acquisition costs
 - d. Reducing service costs