Interpreting Customer Lifetime Value

Your task of this customer lifetime value activity is to compare the following two measures of customer lifetime value for two different firms (Firm One and Firm Two). Below is the output from an online customer lifetime value calculator for both of these firms.

As you will know, customer lifetime value (CLV) is calculated using the following formula:

- Annual profit contribution per customer (for each year) multiplied by
- % of customers retained each year, then less
- The initial cost of customer acquisition
- With each yearly figure adjusted by an appropriate discount rate

Firm One's Customer Lifetime Value calculation

Customer Lifetime Value Calculator	
With a discount rate and financial outcomes	
Average Customer Acquisition Cost	$ 750.00
Customer Retention Rate pa	80.0%
Average Annual Profit per Customer	$ 250.00
Please enter the above numbers on a per customer basis	
Discount Rate %	10.0%
CLV Calculator Outcomes	
CLV *(No discount)* =	**$ 500.00**
CLV *(With discount)* =	**$ 83.33**
IRR =	**13.3%**
First Full Payback Year	**5**
Simple ROMI =	**66.7%**
Present Value ROMI =	**11.1%**

Firm Two's Customer Lifetime Value calculation

Customer Lifetime Value Calculator		
With a discount rate and financial outcomes		
Average Customer Acquisition Cost	$	500.00
Customer Retention Rate pa		60.0%
Average Annual Profit per Customer	$	300.00
Please enter the above numbers on a per customer basis		
Discount Rate %		10.0%
CLV Calculator Outcomes		
CLV *(No discount)* =	**$**	**250.00**
CLV *(With discount)* =	**$**	**100.00**
IRR =		**20.0%**
First Full Payback Year		**3**
Simple ROMI =		**50.0%**
Present Value ROMI =		**20.0%**

How to Read the Customer Lifetime Value Output

The top white section of the calculator is the ***input*** and the bottom gold section is the ***output***.

- Two customer lifetime value numbers have been provided, with the second one takes into account the discount rate.
- IRR is the internal rate of return, which is the average percentage return on the acquisition cost over time.
- Payback is the number of years taken to recover the acquisition cost of the customer
- The simple ROMI is the customer lifetime value (without discounting) divided by the acquisition cost.
- And the present value ROMI is the customer lifetime value (with discounting) divided by the acquisition cost.

Student Discussion Questions

1. Which company has the more impressive customer lifetime value calculation? Which metric/s did you consider to draw this conclusion?
2. What are the key differences between the two firms, based on the elements of the customer lifetime value calculation?
3. What elements do you suggest that these firms work on in order to improve their customer lifetime values?
4. Are the additional financial metrics provided at the bottom (e.g. internal rate of return and payback) helpful of distracting in distinguishing between the two firms performance?