MANTHAN

FOCUS ON CUSTOMER LIFETIME VALUE FOR HIGH-PERFORMANCE MARKETING

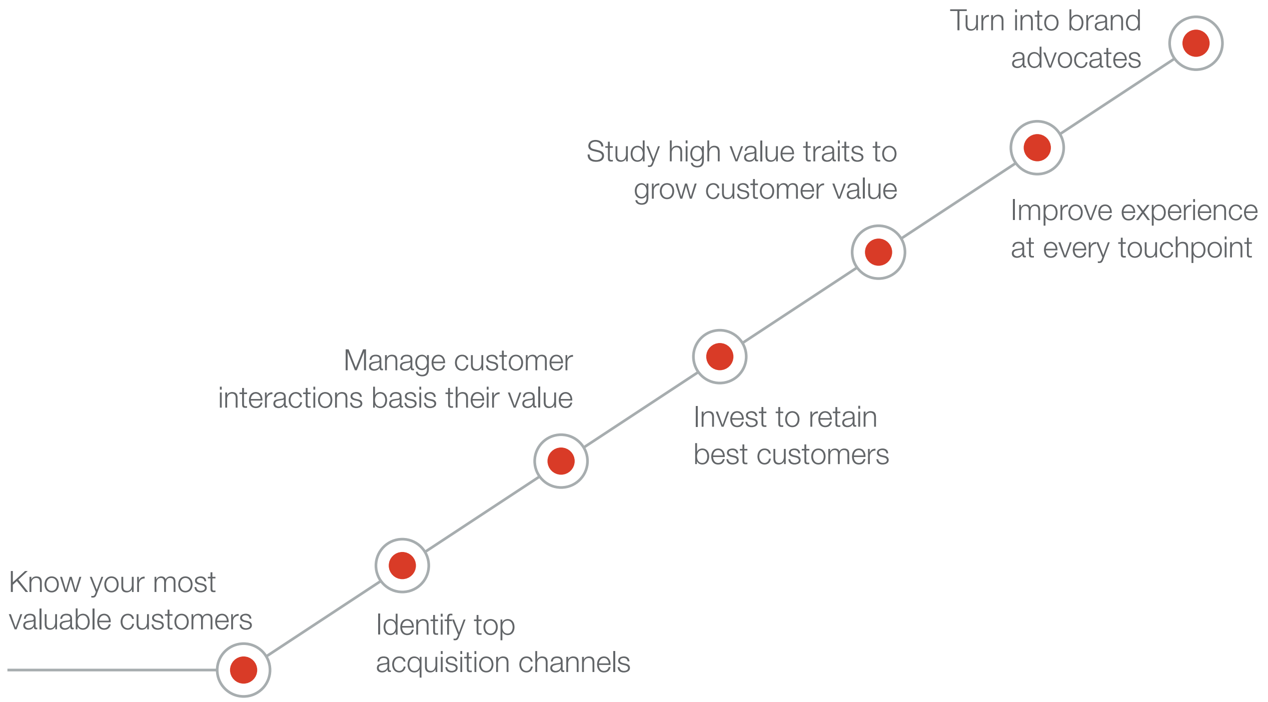
The business case for knowing each customer's lifetime value

Customer Lifetime Value (CLV) is the profit a business can earn during their entire relationship with a customer and is an indicator of customer engagement and retention. It shows which customers will offer you the highest value in the future, providing a tangible way to approach future customer acquisition and engagement strategies.

In spite of being a critical metric that can help manage customer strategies and interactions better, few retailers monitor CLV regularly. The ones that have adopted use of CLV early on do so at an aggregate business level – often for computing and tracking the result of marketing efforts.

In the age of the customer, it is a must to use CLV at an individual customer level and drive optimizations.

Optimize customer acquisition, prioritize dealings and maximize value



Instead of a product-centric approach that attempts to track profitability or improve short term ROI of a channel, a customer-centric approach to CLV helps you understand who your most important customers are; and suggests tactics that can drive long-term relationships with high value customers.

Most businesses, especially those with non-subscription or non-contractual revenue model, have difficulty computing CLV due to gaps in data, varying re-buy periods and/ or lack of analytic rigor and resources. This is especially true of fashion retail, as loyalty programs are not popular, and customers don't return at fixed intervals. It's important for retailers to deploy the right models to predict the likelihood of churn at specified intervals along with the approximate purchase value, without getting too caught up with the exact dollar value calculated .

Use customer lifetime value to bring about a change in mindset

CLV enables retailers to adopt strategies that maximize value, rather than minimize cost. Here is a five-point action list to effectively use CLV and boost your business' profitability

Segment customers based on lifetime value → Allocate budget basis customer value → Create tier-based customer service plan → Identify products that serve high-value customers → Formulate a customer acquisition plan that maximizes CLV

1. Segment customers based on their value to their business. Understanding behaviors that high value vs. one-time shoppers exhibit can provide retailers with a fresh perspective to look at its customer segments.

2. Appropriately map out marketing tactics (promotions, channels, frequency, etc.) and allocate budget. An apparel retailer that considers all customers equal is spreading its marketing dollars too thin. Investing more heavily in shoppers with highest potential value can significantly increase return on spending

3. Determine how to allocate service support across the different value segments. Customer loyalty must be rewarded, whether it is through faster service, easy returns, free delivery, try and buy, or priority support – fashion retailers need to make their top customers feel special even after a sale is made.

4. Identify product categories and touchpoints to serve and connect with high-value customers. It's important to stay in touch with customers who have stayed with you and have a high lifetime value. Understanding their needs, the experiences they desire, what moments delight them, what interactions annoy customers is important to maintain the right connect. Fashion customers love the research that goes into making a purchase, but dislike returning the product. A better understanding of needs of your best customers can make your recommendations bang-on and reduce returns.

5. Form a customer acquisition plan that focuses on maximizing future value, rather than minimizing costs or generating highest leads. As marketers, it's tempting to acquire customers cheaply, however, if the customers you acquire through Facebook turn out to be more valuable than those acquired through direct mail, you are better off spending on Facebook to achieve a high CLV: CAC ratio. Similarly, for a customer with CLV of $1500, you would earmark not over $150 in acquisition spending, and tune your promotion strategy to grow customer value.

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How to calculate CLV

CLV often incorporates elements such as purchase value, share of full-value merchandize, visit frequency and response to promotions. However, a holistic view of CLV also includes understanding if the customers advocate you on social media, are the first ones to try your new products, readily share data with you and give you ideas that help you grow.

Broadly, there are two ways in which lifetime value is calculated.

Descriptive (Historical) approach: This approach analyzes the historical purchases of the customer over a fixed period. Simply put, you add up the revenues from the purchases made by the customer in the given timeframe. This can be difficult since not all transaction data is identified at a customer level, and customer re-buy periods can vary quite a bit. A sound calculation for fashion and specialty retailers would require a 3-year window, while for grocery, it can be limited to 2 years. This time frame ensures that you have enough customer identifiable transactions to account for repeat purchases.

This is a backward-looking approach that does not account for different marketing tactics might have brought the customers onboard, and how their past interactions have resulted in varying behaviors and CLV. Additionally, if your marketing approach has changed since then, you are more likely to appeal to a set of customers with remarkably different CLVs than you did before.

Due to these shortcomings, historical purchases aren't a great predictor of the future value. Nevertheless, the descriptive approach is a good starting point to compute CLV that can be used to guide marketing spend.

Predictive approach: This is a more scientific and rigorous approach that predicts customer survival probability and calculates CLV. Survival analysis computes the probability of a customer surviving each week (i.e. not churning) over a specific period, say 3 years. For survived customers, the value of spend in future is then predicted basis her spend in the explanatory (modelling) period. To keep an eye of the model performance, the error/ deviation of predicted customer value from actual realized value is also computed.

This is a powerful technique that delivers accurate results even when customer first purchase dates are different, and they have different rebuy periods.

In addition, by including other behavioral data and loyalty program metrics, NPS scores, customer engagement history, the algorithm can determine what variables influence customer retention. This technique can be extended to estimate the number of visits each customer will make before they churn, which can then be used by marketing to intervene with targeted retention campaigns before they start showing signs of churn.

Manthan's take on customer lifetime value

Computation of CLV requires having large volumes of historical identifiable customer data, with repeat transactions. To understand customer behavioral attributes and marketing efforts that influence CLV, retailers need to analyze the available data across different dimensions and test marketing hypothesis.

In the past, this required retailers to build the tools and right people to cleanse, integrate and manage customer database, set up an analytics practice and run the computations. Manthan's Customer Marketing Platform has made long-drawn out implementation cycles a thing of the past. It addresses the data management, integration, advanced analytics and reporting needs of retailers in a proven manner.

Manthan provides a pre-packaged solution with advanced algorithms that customer insights professionals look for. These out-of-the-box capabilities make it easy for marketing and data analysts to:

a. Compute CLV of customers for different use cases
b. Score customers based on CLV model outputs on an ongoing basis
c. Assess how historical campaigns have impacted CLV
d. Track customer behavior and CLV changes over time in response to marketing campaigns

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How are you using customer lifetime value today?

ABOUT US

Manthan is a leading cloud analytics company that has pioneered analytical applications for consumer-facing businesses. We excel in the application of decision sciences, advanced math, and artificial intelligence and have a restless ability to invent and bring ideas to life. Headquartered in Bangalore with offices in Santa Clara, London, Dubai, Mexico City, Singapore and Manila, Manthan's current client footprint spans 22 countries. Leading investment firms like Norwest Venture Partners, Temasek Holdings, and Eight Roads (Fidelity International Limited) feature on Manthan's board. **For more information, go to www.manthan.com**