

## What is it worth to invest in developing a relationship with each new customer, given that you can market to him or her over time?

Values in blue are sample data. You will need to replace these values with your own numbers.

Observe the affects of each additional referral on the Net Present Value of each Customer

This will tell you a lot about the importance of quality customer service and overall satisfaction with your product or service.

## Customer Lifetime Value

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Assumptions							
<b>Average Initial Product / Service Price</b>		<b>\$100.00</b>				Price of the first product / service a customer is likely to buy	
	Net Profit / Customer	<b>\$30.00</b>					
<i>Net Margin /Customer</i>		<b>30.0%</b>					
<b>Average Follow-On Product / Service Price</b>		<b>\$35.00</b>				Price of add-on products / services	
	Net Profit / Customer	<b>\$20.00</b>					
<i>Probability of Future Purchases</i>		<b>20%</b>				Likelihood of customer buying a follow-on product / service	
<b>Average Update / Service Contract Price</b>		<b>\$30.00</b>				If there is on-going service contract	
	Net Profit / Customer	<b>\$20.00</b>					
<i>Probability of Purchasing Ongoing Update/Service</i>		<b>10%</b>				Likelihood of customer buying any on-going service	
<b>Term: Years they are likely to be a Customer</b>		<b>5</b>					
	Number of Repeat Sales / Year	<b>1</b>				How many times per year would a customer likely buy a product or service?	
<b>Number of Likely Referrals / Year</b>		<b>0.1</b>				Additional customers who buy because of the original happy customer	
	<i>Cost of Money / Inflation</i>	<b>8%</b>				Estimate the interest rate or investment return you would earn on your money	
Current Number of Customers in Database		<b>25,000</b>				How many customers can we mail to today?	
Cost to Acquire a Customer (CAC)		<b>\$25.00</b>				Total Marketing Costs divided by Number of Customers (from Income Statement)	
	<i>Customer Base Turnover / Attrition Rate</i>	<b>20%</b>				Estimate the rate at which you must replace lost customers every year.	
Assumptions Calculations		Year 1	Year 2	Year 3	Year 4	Year 5	Total
Revenue from Initial Product / Service Sales		\$100	\$6	\$6	\$6	\$6	\$122
	<i>Net Profit</i>	\$30	\$3	\$3	\$3	\$3	\$43
Revenue from Ongoing Update / Contract Services		\$3	\$2	\$2	\$2	\$2	\$13
	<i>Net Profit</i>	\$2	\$2	\$2	\$2	\$2	\$8
Revenue from Referral-Generated Business		\$10	\$1	\$1	\$1	\$1	\$12
	<i>Net Profit</i>	\$3	\$0	\$0	\$0	\$0	\$4
<b>Total Revenue Per Customer</b>		<b>\$113</b>	<b>\$9</b>	<b>\$9</b>	<b>\$9</b>	<b>\$9</b>	<b>\$147</b>
	<b>Total Profit Per Customer</b>	<b>\$35</b>	<b>\$5</b>	<b>\$5</b>	<b>\$5</b>	<b>\$5</b>	<b>\$55</b>
Net Present Value of Future Revenue		<b>\$131</b>					The total revenue from a customer in today's money
<b>Net Present Value of Future Profit</b>		<b>\$48</b>					The total profit from EACH customer in today's money
	<i>Current ROI on Customer Acquisition</i>	<b>92%</b>					Return On Investment, based upon the above Customer Acquisition Cost
<b>Net Present Value of Customer Database</b>		<b>\$452,734</b>					Net Present value of all potential future sales to our growing customer base.

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