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Definition

Customer Lifetime Value (CLV) can be seen as the expected financial benefit from customer retention investment to build customer loyalty, Simply, it is the total amount that you expect your customers to *spend* on your product throughout their lifetime.

Lifetime Value of a Customer

By calculating CLV, you as a 0kM manager can measure the expected financial benefits from customer retention investment to build customer loyalty You will be able to know which of your customers you should invest in and the one that you don't need to bother yourself about.

The calculation of the lifetime value of your customer will reveal the lifetime cost of the customer which includes acquisition cost, operation expenses and

customer services that you offer to your customer. It will also show the expected lifetime revenue of a customer.



At the end of this article, readers should be able to:

- Define Customer Lifetime Value
 - Appreciate the Importance of CLV
 - Appreciate how to maximize the lifetime value of a customer
 - Appreciate the purpose of CLV in an enterprise
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Importance of CLV

From what we have said, CLV will allow customer-centric organizations to know what they should expect from their customers. There are many benefits that accrue to CCEs.

One of the benefits that can be attributed to CCE is the fact that it allows organizations to minimize wastage and maximize cost.

It will help you to know the number of resources that you could spend on a particular customer

Another benefit of lifetime value *is* that it will allow organizations to come up with strategies and programs that will enable them to give their customers a “wow” experience.

If you have a profitable *customer* base, you will not want to lose them. You will want to put pieces of machinery in place in order to ensure that the customers are satisfied so that they can remain with you for life.

That is why you have to carry out a comprehensive CLV analysis of your customers in order to know the proper way of serving them better.

Maximizing Lifetime Value of a Customer

This requires that you maximize the rate of new customer acquisition, the conversion rate of prospects to buyers and the repeat frequency of existing

customers.

When you want to get the best from your customers, you have to improve the rate at which you convert prospects to buyers. You must also guide against losing your hard-earned customers to your competitors.

You should know that it is very expensive to acquire new customers. Besides, the new customers are not contributing to your profit base now, they will be contributing in the future.

It is from your existing customers that the bulk of your profit is coming. That is why it is not logical for you to build your business on your first-time buyers alone.

In a product-centric enterprise, profits are determined by calculating the cost of the product and other associated costs and subtracting it from the total cost but in a CCE, you have to consider the customer service cost and weigh it against the lifetime value of a customer.

You have to increase what you spend on customer value. Therefore CLV is a projection of what a customer will be worth in the future.

The purpose of CLV is to encourage the organisation to spend a large percentage of its resources on adding value to its customers.

The application of CLV is to encourage organizations to embark on programs that will improve customer lifetime value.

SUMMARY OF THIS ARTICLE

In this article, we have discovered that:

CLV is the expected value that a customer is expected to contribute to your organisation over their lifetime.

CLV is also the calculation of the acquisition cost, operating expenses and customer services.

CLV will help organizations minimize wastage and maximize cost.

With the knowledge of CLV you should be able to raise the exit barrier and draw more people to your lifecycle.

CLV can help organizations spend their resources effectively on adding value to their profitable customers.

Brainstorming Session

What is Customer Lifetime Value? How can you maximize the lifetime value of a customer?

Discuss the reasons why top management in various organisations in Nigeria are afraid of CRM.

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Action Point

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