Customer Lifetime Value

Understanding how customer relationships create value over time and where commercial effort should be prioritised.

THE BUSINESS PROBLEM

Current revenue alone can misrepresent customer importance. Customer Lifetime Value (CLV) considers the value of a relationship over time, helping businesses compare acquisition, retention and development decisions on a more consistent basis. The appropriate method depends on data maturity, business model and decision horizon.

Three questions guide the analysis

01

What value are we measuring?

Choose revenue, contribution margin or another economically meaningful outcome.

02

Over what horizon?

Align historical or predicted value with the decision being made.

03

How will CLV change action?

Use value alongside cost, risk and customer needs - not as a label in isolation.

What evidence could we use?

Customer	Tenure	Orders	Revenue	Margin
C012	38 mo	24	£3,420	£1,160
C083	16 mo	11	£1,740	£590
C291	7 mo	4	£510	£175

Illustrative data only. The exact variables, definitions and observation windows should be determined by the business decision and available evidence.

How the analysis works

1
Define value
Which financial measure matters?

2
Set horizon
Historical, future or combined value?

3
Estimate CLV
Choose a method appropriate to the data.

4
Segment value
How is value distributed across customers?

5
Use & monitor
Does CLV improve resource allocation?

Possible analytical approaches

Historical CLV	Summarise realised customer value to date.
Cohort value	Compare cumulative value across acquisition groups.
Predictive CLV	Estimate future value using behavioural or probabilistic models.
Margin-based CLV	Prioritise economic contribution rather than revenue alone.

From Analysis to Business Action

The analytical output is only useful when it changes a decision, can be interpreted responsibly and has a measurable outcome.

WORKED EXAMPLE

The example below is illustrative rather than a claim about a real dataset. It shows how analytical output can be translated into business interpretation and action.

Illustrative value profiles

PROFILE	VALUE PATTERN	POTENTIAL ACTION
High established	High cumulative value; stable activity	Protect experience and avoid unnecessary discounting.
Emerging	Lower history; strong recent trajectory	Support development and relevant cross-sell.
High value at risk	Strong history; declining engagement	Prioritise retention where economics justify it.
Low current value	Limited value to date	Use cost-effective service and development strategies.

Illustrative results only. Definitions, thresholds and recommendations should be validated in the context of the organisation, decision and available data.

Potential business applications

ACQUISITION

Compare acquisition cost with expected value.

RETENTION

Prioritise economically important relationships.

DEVELOPMENT

Identify realistic opportunities to deepen value.

SERVICE

Align resource intensity with value and customer need.

How success should be measured

Value growth	Does the strategy increase realised customer contribution?
CAC payback	Does expected value justify acquisition cost?
Retention economics	Is retained value greater than intervention cost?

DELIVERABLES

Analysis framework · Business interpretation · Prioritised actions · Measurement approach

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