

ZODIAC

Customer Lifetime Value

InfoTrust and Peter Fader of Zodiac and Wharton



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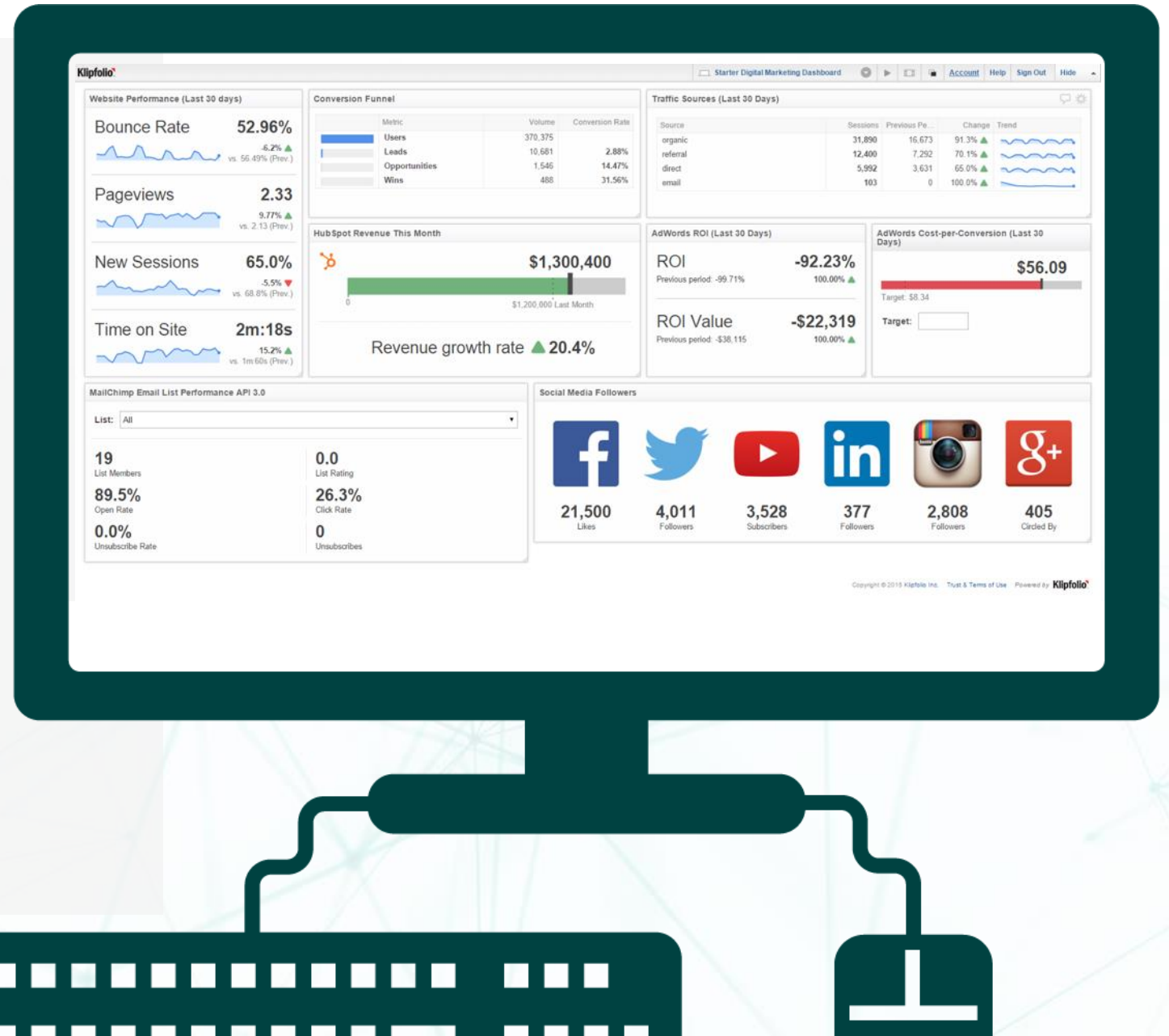
Agenda.

1. Common Marketing Metrics Today
2. Alternative Metrics to Consider
3. So You Figured Out CLV
4. CLV, GA, & AdWords
5. Benefits and Examples
6. Q&A

Common Marketing Metrics

The background features a complex network of thin teal lines connecting small dots, creating a web-like pattern. A large white rectangle is centered on the page, containing the title text. Below the title, there is a short teal horizontal line, and a longer teal horizontal line is positioned at the bottom of the white rectangle.

Common Digital Marketing KPIs



Common Metrics & KPIs

- Some Marketers use **Click-thru Rate (CTR)** to measure success of their acquisition campaigns.
- A smaller percent of Marketers move beyond clicks and measure **Visits/Visitors** and **Bounce Rates** (engagement).
- A fraction of Marketers will calculate **Conversion Rates**.
- All of the above is still focusing on short term success. Even measuring conversion rates means declaring success after a **ONE-TIME INTERACTION**.

Most Marketers Today

- Measure success through Cost Per Acquisition
- Would you use this metric for other types of acquisition activities?
 - Employees
 - Contractors or lawyers
 - Business technology
- Should be using Value Per Acquisition!

Long-Term Vision and Customer Experience

Consumer behavior is dynamic. It is:

- **full of micro-moments.** One car buyer had 900 digital interactions before she chose her new SUV and drove it off the lot (Luth Research).
- **cross-device.** Over 75% of online adults (18–54) start an activity on one device and then continue or finish it on another (Google/IPSON).
- **cross-channel.** 76% of people who search on their smartphones for something nearby visit a business within a day (Google).

Long-Term Success

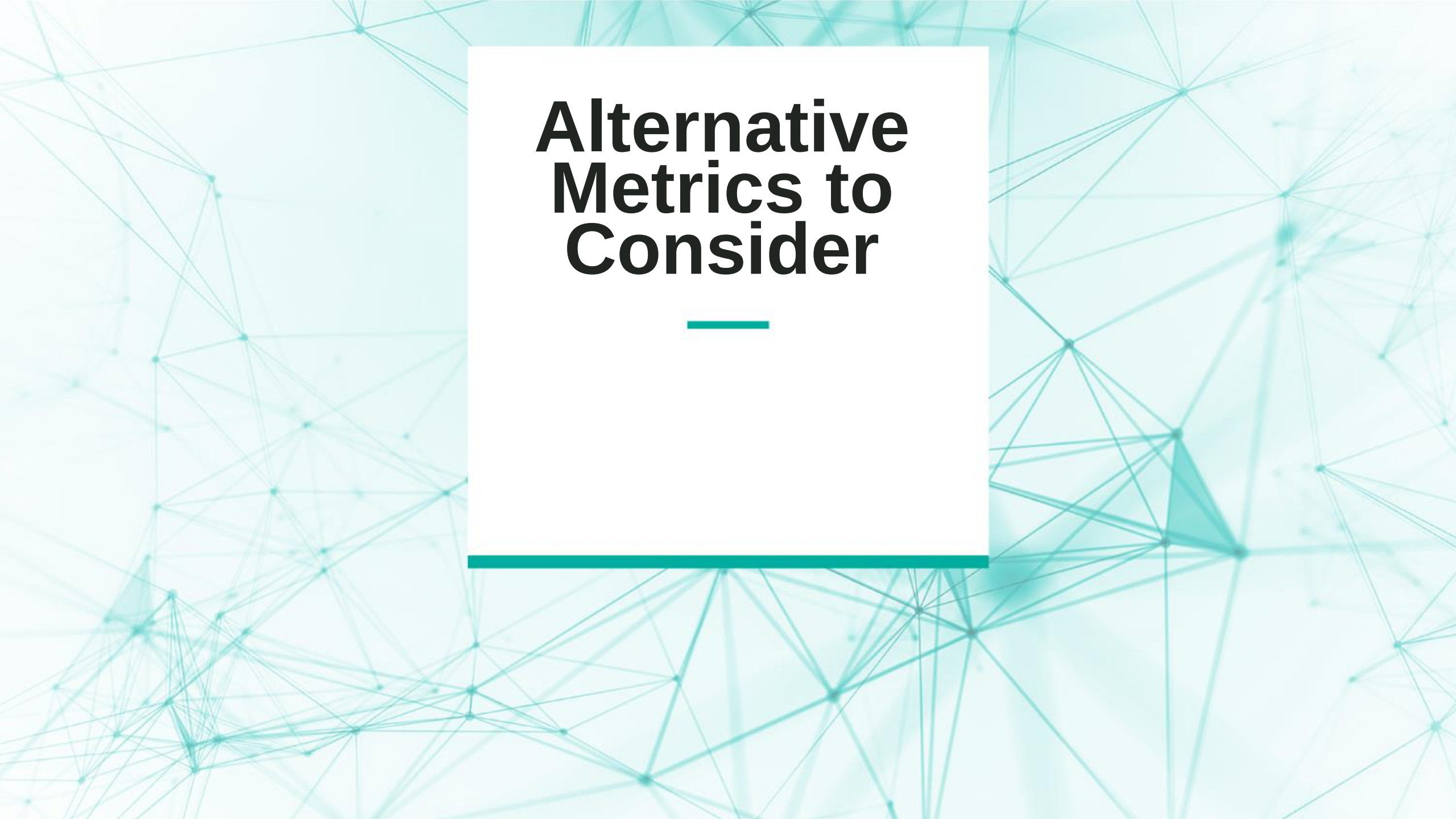
- We need to focus on real success, not simply the first conversion.
- It is not cost-efficient to design optimal customer experience for everyone, you have to **choose where to invest**.
- Focus your finding the customers that create value for the company, long term.

“I reserve the best hugs, kisses, smiles, love, respect and my deepest admiration for Marketers and Analysts who use Lifetime Value computations!.”

Avinash Kaushik

Web Analytics 2.0, Web Analytics: An Hour A Day

Alternative Metrics to Consider

The background of the slide is a light blue network diagram. It consists of numerous small teal dots (nodes) connected by thin teal lines, creating a complex web of connections. A white rectangular box is centered on the slide, containing the title text. Below the title text, there is a short teal horizontal line, and a longer teal horizontal line is positioned at the bottom of the white box.

What is **C**ustomer **L**ifetime **V**alue?

CLV is the present value of the future (net) cash flows associated with the customer

- A forward-looking concept, not to be confused with (historic) customer profitability
- Complete profitability analysis should be very careful in accounting for costs, discount factor, etc.

Why is CLV Important to Your Company?

- Shows what your customer acquisition spend should be
- Helps you find the actual value of your customers beyond statistics like NPS, engagement, clicks, etc.
- Dictates allocation of marketing resources
- Helps evaluate campaign ROI
- Sanity check for sales forecasts
- Helps prioritize customer metrics that contribute to customer-based corporate valuation



Real Life Examples



Standard “textbook” formula to calculate CLV:

Where:

t =planning horizon

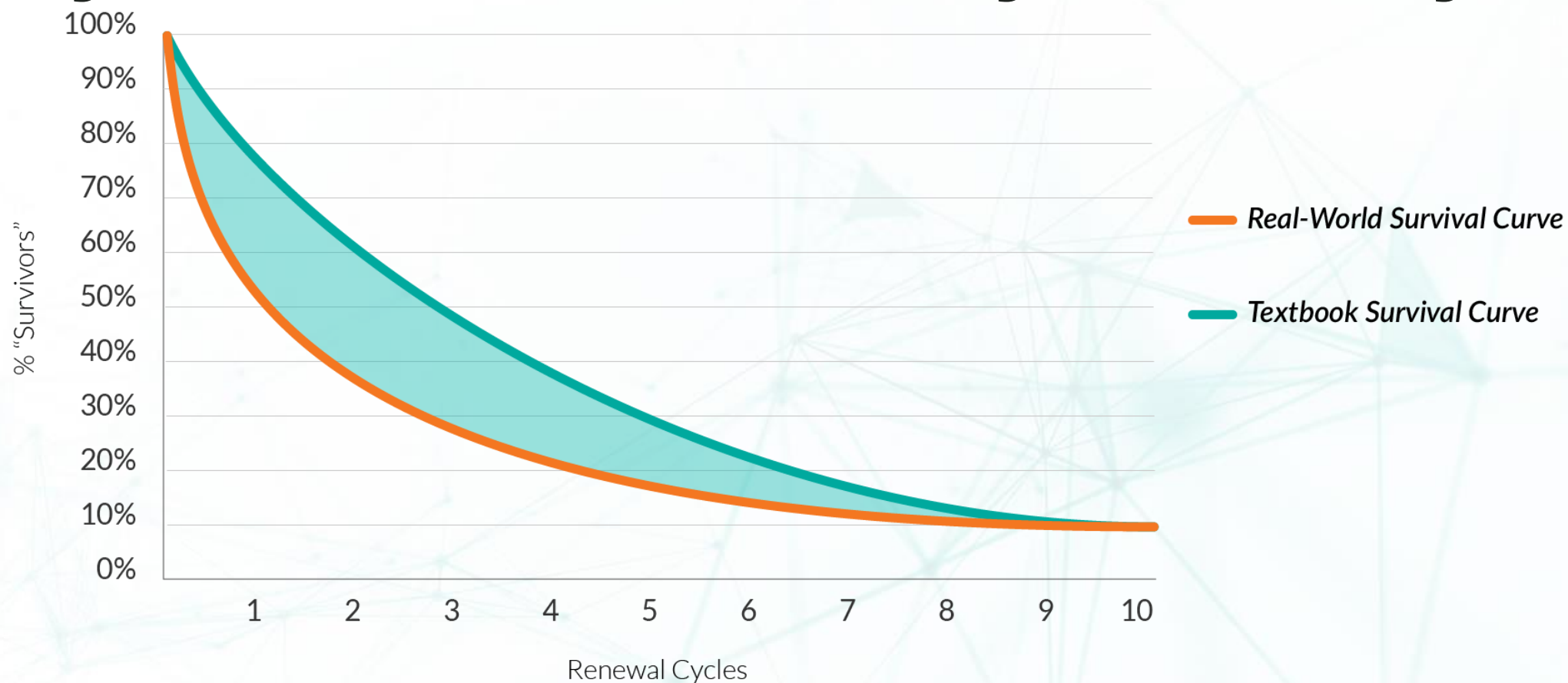
m =net cash flow per period

r =retention rate

d =discount rate

$$CLV = \sum_{t=0}^T m \frac{r^t}{(1+d)^t}$$

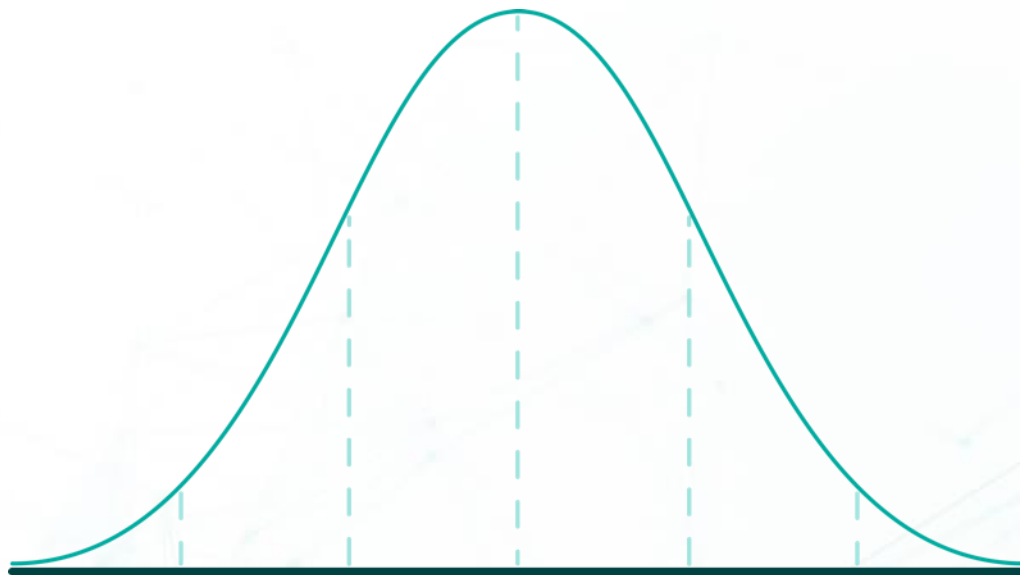
Why the formula leads you astray:



Why Standard Methods Are Incorrect

- Doesn't take into account when the customer was acquired
 - Existing vs. just acquired vs. future
- Assumes unrealistic trajectory
- Contractual vs. non-contractual
- Transaction type: continuous vs. discrete

Customers Have Different CLV's:



CLV Distribution

The Myth



CLV Distribution

The Reality

How Zodiac Calculates CLV:



So You Figured Out CLV



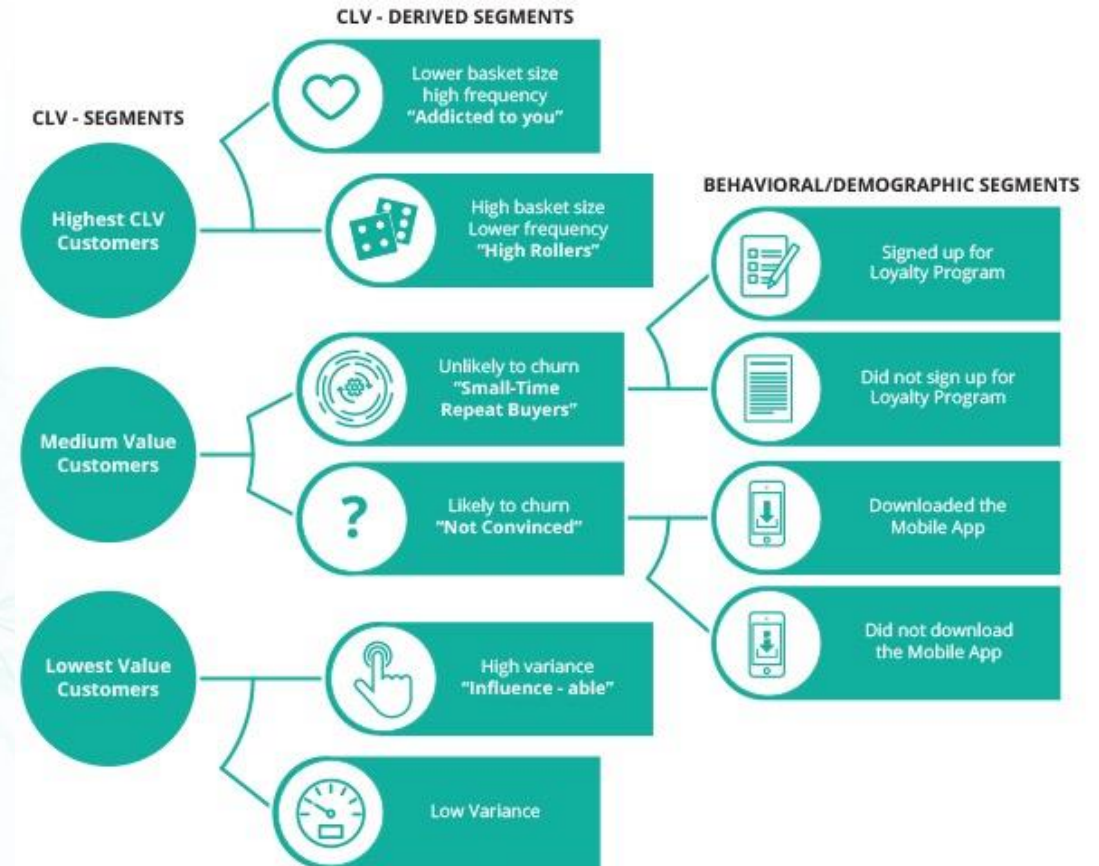
Using CLV & Predictive Analytics to Optimize Your Campaigns

Segment your customer base

- Profile them
- Understand their unique needs and characteristics
- Adjust the offering to each one

Policies for CLV Segments

- High Value – Recognize
- Medium Value– Grow
- Low Value – Cost-control





High-Value Customers

Know who they are

Show them the love!

Carefully tailor your offering to their unique needs

Be willing to invest in genuine “value-add” products/services

Be very attentive to minor problems

But don't annoy them



Medium-Value Customers

Get them into your loyalty program

Get them to download your app

Get them to refer others



Low-Value Customers

Reduce costs

Low-cost winback campaigns (email)

Selective acquisition

Ensure/accelerate payment

Prepaid plans can be great here

Ditto for “subscription commerce”

How to Apply CLV to Your Business

Use genuine CLV – accept no substitute!

Celebrate heterogeneity: There is no “average customer”

But, recognize the limits of getting too granular

- 1:1 marketing can be dangerous and potentially unprofitable

- Use well-defined tiers/segments instead

Profiling/targeting aspects rely on traditional STP principles

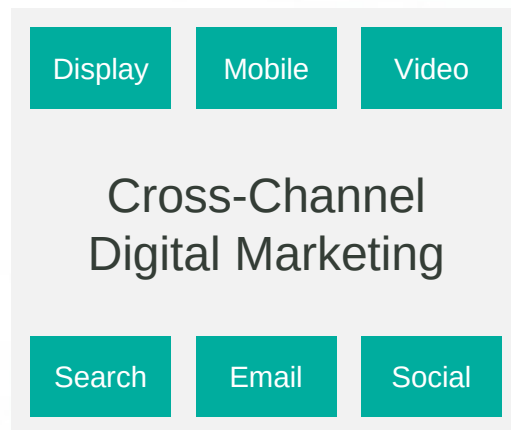
Run field experiments when possible



CLV, GA, & Adwords

Using CLV in Marketing:

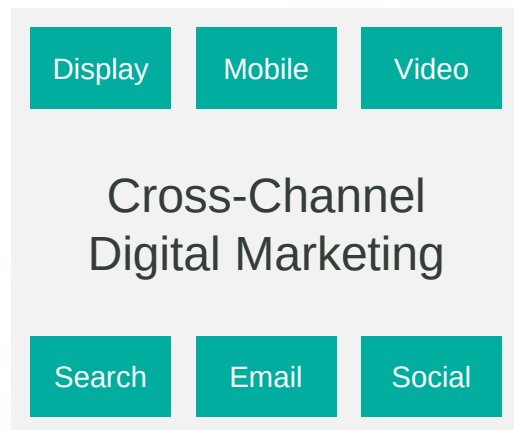
Accountable Marketing Performance
Across Channels and Devices



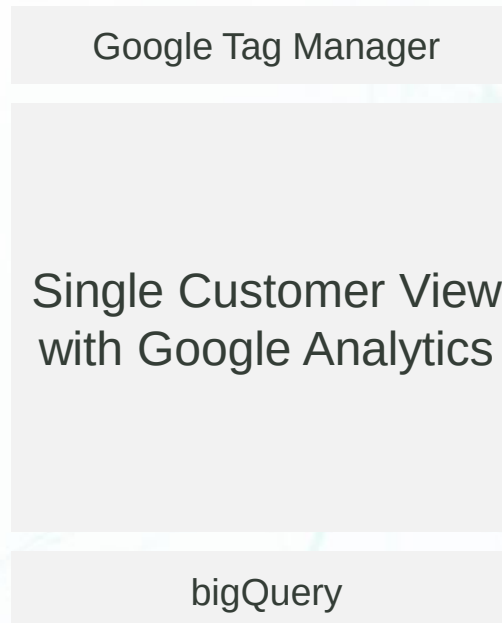
Re-Use Data & Tags For Programmatic
Marketing & Remarketing

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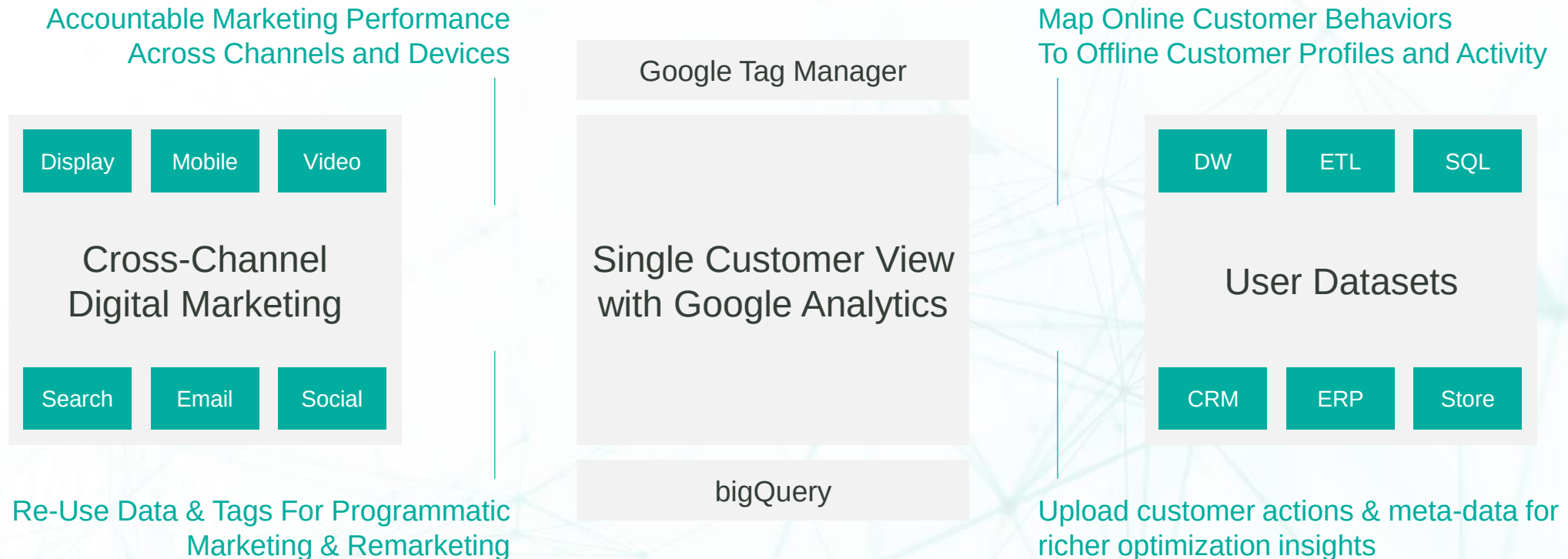
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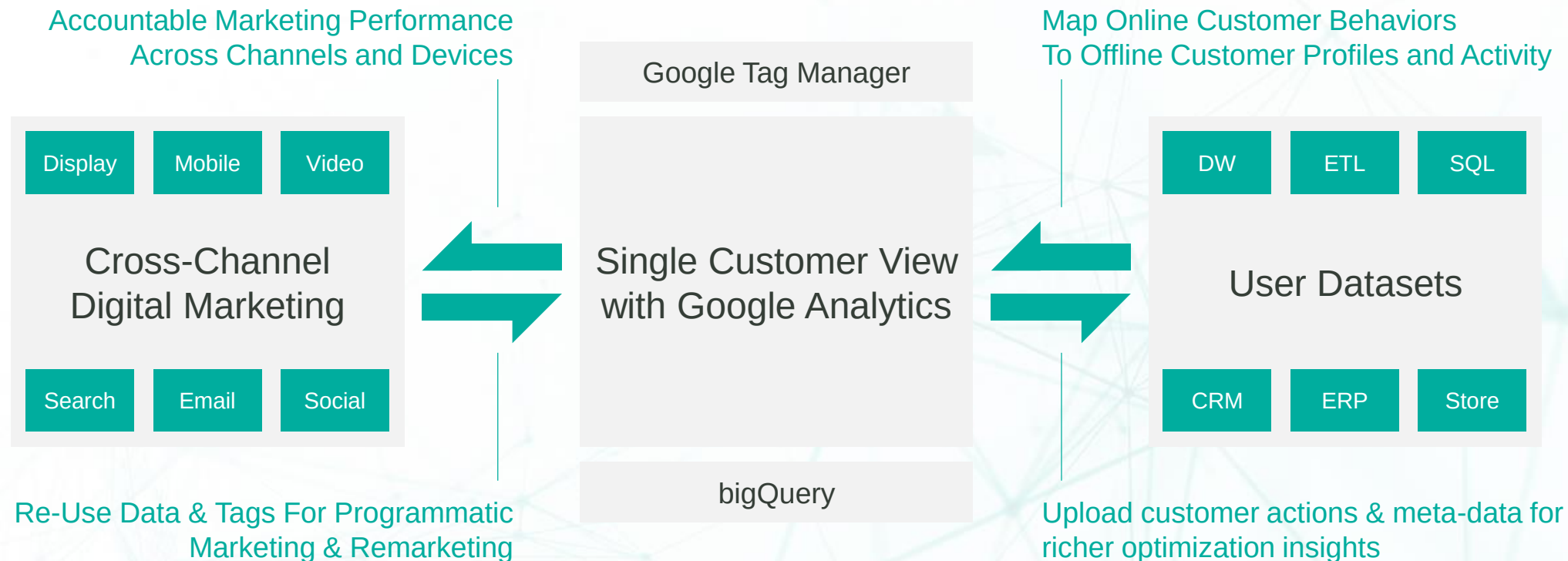
Re-Use Data & Tags For Programmatic
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Using CLV in Marketing:



Using CLV in Marketing:



Bring CLV to Life:



1. Visitor comes to the site and completes a purchase



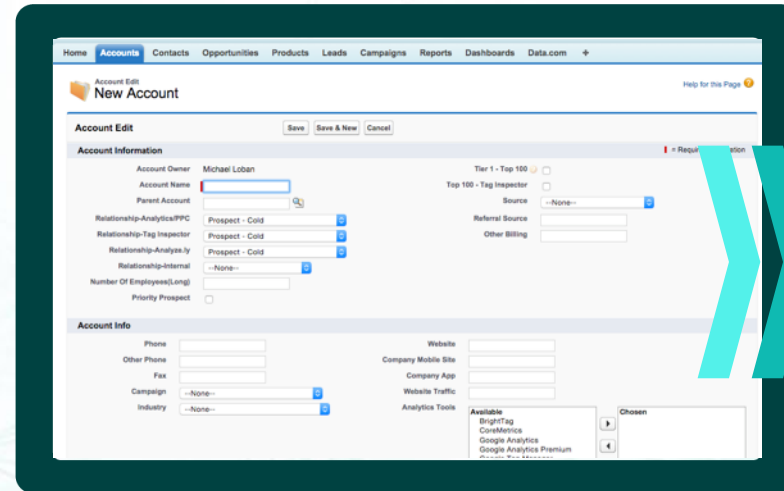
CRM

2. Customer data and transaction history is being recorded in your CRM



3. We take data from CRM and import into GA

Google Analytics



Google Analytics

CLV in Google Analytics:

User ID ?	Pageviews ? ↓	On-Site Calls ?	Phone Orders ?	Phone Order Revenue ?	LTV ?
	48 % of Total: 6.18% (777)	73 % of Total: 100.00% (73)	73 % of Total: 100.00% (73)	\$7,300.00 % of Total: 100.00% (\$7,300.00)	\$6,344,000.00 % of Total: 100.00% (\$6,344,000.00)
1. 311	3 (6.25%)	3 (4.11%)	3 (4.11%)	\$300.00 (4.11%)	\$312,000.00 (4.92%)
2. 101	2 (4.17%)	2 (2.74%)	2 (2.74%)	\$200.00 (2.74%)	\$208,000.00 (3.28%)
3. 103	2 (4.17%)	2 (2.74%)	2 (2.74%)	\$200.00 (2.74%)	\$156,000.00 (2.46%)
4. 105	2 (4.17%)	2 (2.74%)	2 (2.74%)	\$200.00 (2.74%)	\$364,000.00 (5.74%)
5. 106	2 (4.17%)	6 (8.22%)	6 (8.22%)	\$600.00 (8.22%)	\$312,000.00 (4.92%)

Bring your online and offline sales into Google Analytics. Import LTV to optimize campaigns for the long-run, and not just short term conversions.

CLV in Google Analytics:

User ID ?	Sales Calls ?	Mailers Sent ?	Offline Sales ?	Revenue ?	Customer Lifetime Value ?	ROI
	68 % of Total: 100.00% (68)	22 % of Total: 100.00% (22)	\$74,100.00 % of Total: 100.00% (\$74,100.00)	\$352,000.00 % of Total: 100.00% (\$352,000.00)	\$37,150,000.00 % of Total: 100.00% (\$37,150,000.00)	\$41,300.00 % of Total: 109.26% (\$37,800.00)
1. 978987	16 (23.53%)	4 (18.18%)	\$4,800.00 (6.48%)	\$0.00 (0.00%)	\$7,500,000.00 (20.19%)	-\$73,500.00(-177.97%)
2. 345345	12 (17.65%)	1 (4.55%)	\$5,000.00 (6.75%)	\$12,000.00 (3.41%)	\$600,000.00 (1.62%)	\$10,350.00 (25.06%)
3. 780780	10 (14.71%)	6 (27.27%)	\$14,000.00 (18.89%)	\$0.00 (0.00%)	\$9,000,000.00 (24.23%)	-\$77,800.00(-188.38%)
4. 235235	9 (13.24%)	2 (9.09%)	\$5,400.00 (7.29%)	\$80,000.00 (22.73%)	\$3,700,000.00 (9.96%)	\$47,650.00(115.38%)
5. 3425436	6 (8.82%)	0 (0.00%)	\$4,800.00 (6.48%)	\$64,000.00 (18.18%)	\$2,300,000.00 (6.19%)	\$45,050.00(109.08%)
6. 78078	6 (8.82%)	0 (0.00%)	\$4,800.00 (6.48%)	\$0.00 (0.00%)	\$2,400,000.00 (6.46%)	-\$20,600.00(-49.88%)
7. 23423	4 (5.88%)	1 (4.55%)	\$2,300.00 (3.10%)	\$46,000.00 (13.07%)	\$1,700,000.00 (4.58%)	\$30,400.00 (73.61%)
8. 75684	4 (5.88%)	4 (18.18%)	\$13,400.00 (18.08%)	\$0.00 (0.00%)	\$1,300,000.00 (3.50%)	-\$600.00 (-1.45%)
9. 346346	1 (1.47%)	2 (9.09%)	\$15,000.00 (20.24%)	\$150,000.00 (42.61%)	\$5,050,000.00 (13.59%)	\$113,050.00(273.73%)
10. 768678978	0 (0.00%)	2 (9.09%)	\$4,600.00 (6.21%)	\$0.00 (0.00%)	\$3,600,000.00 (9.69%)	-\$32,700.00(-79.18%)

Import LTV to optimize campaigns for the long-run, and not just short term conversions.

Building Targeting Segments with CLV

Create a segment in GA that you want to market/remarket to.

Turn the Segment into an Audience and share it with the correct AdWords account under the Property Settings inside of Google Analytics.

Link Configuration [Edit](#)

View: *www.alicesresort.com*
 Destination account: *Manager Account: AliceMCC, 123-456-7890*

2

Audience definition

Create New

Import Segment

Recommended Audiences

Smart List ?

All Users

New Users ?

Returning Users ?

Building Targeting Segments with CLV:

- See GA audiences in AdWords (Shared Library > Audiences). You'll see Google Analytics audiences and some automatically-generated AdWords audiences as well.
- AdWords makes a look-a-like audience called a [Similar Audience](#) of users who HAVEN'T YET VISITED YOUR WEBSITE.
- You can market to essentially new people who are highly qualified and looking for the same things as your leads and customers.

Building Targeting Segments with CLV:

Target customers that you know



Exclude current customers to only reach new customers



Reach users similar to your customers



CLV Success Stories: dressbarn

- Challenge: How to best allocate marketing dollars among the 11 million customers in the brand's database?
- Using Zodiac's cloud-based software dressbarn-
 - *Identified previously undetected high-value segments: Zodiac's high-value customer segment spent 48% more with the brand than the average customer.*
 - *Learned that 48% of dressbarn's total customer base is responsible for 87% of the company's gross profits*
 - *Enabled new investments in high-value customers, which netted them an 11% improvement in ROI*



Identify cost-savings opportunities

dressbarn saved \$1.8 million by discontinuing high-cost mailers to customers who proved to be low-value.



“Instead of trying to reach the 11 million people on our mailing list, maybe I can focus on sending things to those 3 million customers who are actually going to shop with us. I also want to keep people engaged and prevent them from lapsing.”

Sandi Michels

dressbarn's VP of Consumer Insight



CLV Success Stories: **Wahoo Fitness**

- Wahoo Fitness, an online fitness retailer, built a variety of segments for a Facebook lookalike campaign to promote their new ELEMNT GPS bike computer in March 2016.
- They built several lookalike audiences from different sources, including:
 - People who had signed up to be notified of the ELEMNT's launch
 - People who had "liked" a variety of similar fitness product categories on Facebook
 - People who had signed up for a contest on a biking website
 - An audience built by a third party
 - Customers who already owned a Wahoo bike computer product that Zodiac predicted to be high future spenders

Wahoo Fitness

The results were striking

The lookalike audience created from the Zodiac high-value customer base had 3x+ the ROAS when compared to all other segments.





CLV Success Stories: Pelican Waters

Discovered that the ROI for paid advertising was **actually 130% higher** than previously measured.

Learnings:

- 15% of all offline sales are influenced by AdWords
- 21% of all sales start with AdWords

“Offline transactions which had 0% visibility and were dependent solely on inaccurate or incorrect customer feedback are now fully attributable to their proper marketing channel. This allows us to make quick, smart decisions on trends across all forms of marketing, both online and offline, and how consumers jump from desktop to mobile and office computers.”

Robert Prentice

*Director of Marketing & Product
Development, Pelican Water Systems*

Q&A

Common Questions & Concerns

1. How much data do we need to begin measuring CLV?
2. CLV is good, but I have no idea what will happen in a year. Why should I focus on maximizing CLV tomorrow, instead of sales today?
3. I work for a CPG company, and we do not have any customer data. What should we be doing?
4. How does the quality of data collection impact CLV analysis?

Want More?

Visit www.zodiacmetrics.com and infotrustllc.com

Follow us on Twitter:

@zodiacmetrics and @faderp

@infotrustllc and @Michael_loban

Come see Pete in person or participate in the Sim in San Francisco at www.customercentricityconference.com

Want to personally ask questions of Pete and Michael? Join us for “CLV Office Hours” on June 15th 10-11 ET” Please email Kaylie Kipe at kaylie@infotrustllc.com to reserve your spot.