

## How much is a customer worth to you?

Few companies accurately measure the lifetime value of a customer. This information drives many decisions within your company and provides clarity to all sales and marketing activity.

To calculate the average lifetime value of a customer analyse your customer base as follows:

- 1) What is the average net profit from a customer order?
- 2) How many times each year does the average customer buy?
- 3) How many years does the average customer stay with you?

*Measure net profit in the way that best suits you and when calculating these figures use a worst case scenario, not a best customer.*

Multiply the net profit by the number of orders per year by the number of years. This gives you the average lifetime value of a customer to your business. So, how can you use this information?

**1) When compensating your salespeople.** If you know that, for example, the average value of a new customer to your business is £5,000, but this accrues in many small orders over three years, then you can decide how much of this total value to share with your salesperson upfront, rather than compensating them for each individual order. Clearly, you will need to ensure that they still perform the required customer services functions to retain the customer!

**2) When planning marketing expenditure.** Using this approach you can have an unlimited marketing budget! Simply allocate, say 5% of the lifetime value of a customer to attracting it. Staying with the example above, if you know that for every 100 cold telemarketing calls you receive 1 new customer with lifetime value of £5,000, you could happily pay £300 per 100 telemarketing calls made. You could even pay the telemarketing company (or employee) £300 per new customer - that way you have an unlimited budget!

**3) When planning any sort of other business decision.** If you know the lifetime value of a customer, you can judge the impact of any business decision against this benchmark and understand the impact of this decision on your business. For example, your decision to reduce your customer services staff by 50% and push them towards web-based support means that it is likely your customers will stay with you for less time. If you have a loyal customer base and an average retention of 10 years, this may not be wise. However this may be a good decision if your average customer retention is only 3 months and 1 or 2 orders.

There are many other ways within your business that you can use this information. Do the calculation and watch for a week and you will be amazed at how much easier decisions are to make with the right information to hand.

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## Coaching Questions

As a coaching organisation, it is our role to ask more questions than we answer. So, in order to help your thought process along here are three coaching questions to consider:

- 1) What other sort of information would be great for you to know about your business?
  - a. Where could you get this from?
  - b. How would you use it?
  - c. When are you going to get it?
- 2) Do your customers know how much they are worth to you?
  - a. If they did, how would they respond?
  - b. Do you want to share this information with them?
- 3) How much are you worth to your suppliers?
  - a. Do they know this?
  - b. Could you re-negotiate with them if they did?

Please do email me ([simon@apexcoaching.co.uk](mailto:simon@apexcoaching.co.uk)) your answers to these questions and I will spend an hour with you (for free) talking about your business and where you want to take it.

## About Apex Coaching Ltd

Apex Coaching helps people and companies find and release their latent potential for the benefit of themselves, their company and the wider community. They do this by using a mix of Business and Personal coaching techniques combined with hands-on experience of running businesses.

The core areas that Apex Coaching focuses are:

**Leadership.** Every division of every department of every company needs leaders. Leaders are people that take responsibility for making a difference. They are highly valued by companies for the contribution they make and quickly progress through the company ranks. Apex Coaching's approach is to help you grow your own leaders and leadership skills.

Empowering people to become leaders is the quickest and most effective way to grow the person and grow the person's contribution to the company. Whether you run a company, own your own business, or work for someone else, developing your leadership skills will make a huge difference to your life. Apex Coaching will help you become a leader.

**Business growth.** It is the natural role of businesses to grow. If a business is not growing (or not growing fast enough), there is something wrong. Apex Coaching will bring sales, marketing and management coaching to bear to help you get back onto your growth track and begin to aim for exponential growth – you can do it with the right help!

**Sales growth.** The only consistent differentiator between companies today is their ability to sell. Production, product development, distribution, etc can all offer transitory advantage to a company, but competitors quickly catch up. The only way to consistently outperform is to excel in sales. With a strong background in sales and sales management, Apex Coaching is ideally placed to help you to gain this competitive advantage – for good.

For more information please:

Visit our website [www.apexcoaching.co.uk](http://www.apexcoaching.co.uk)

Email us at [important@apexcoaching.co.uk](mailto:important@apexcoaching.co.uk)

Call Simon West on 01672 541636

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