

Customer Lifetime Value: A Philosophy for Now and the Future

By Stan Pohmer

Have you ever seen or read about the hordes of people camped outside an Apple Store or an Apple affiliate retailer such as Best Buy for days in advance of a new product release, just so they can be one of the first to buy it? And when they come out of the store, they proudly show it off to the others in line; it's like they just received the Holy Grail!

And they know full well that the software is faulty and will need to be updated numerous times for the product to work properly and all of the functions and programs can be activated.

I look at these crowds with bewilderment, but I should be looking at Apple in awe for their ability to generate this kind of response to their products.

Remember that the vast majority of consumers already have a smartphone, a tablet and a

computer; these sales are for a replacement/upgrade of existing Apple products or for converting users of other brands to Apple. Truly "new" users of electronics are a relatively small portion of Apple's sales.

To put some numbers to this, here are some quick facts on Apple's performance just in the fourth quarter of 2014, the strongest in their history:

- 74.5 million iPhones sold, at an average retail of \$687, selling at the rate of 575 per minute of every day in the quarter
- 21 million iPads sold
- 5.5 million Mac computers sold

So what's Apple's secret to driving these kinds of sales? Having great product with new technology, new features, new programs and software, and new designs are a prerequisite, but it's more than that!



Stan Pohmer

Starbucks is another example of a company that baffles me with their success.

Why would any consumer go to Starbucks an average of 4.2 times per work week and spend an average of \$5.90 each time for a cup of coffee when there are lots of less expensive competitors to go to?

Do beverage companies such as Coca-Cola spend hundreds of millions of dollars marketing and advertising just to get you to buy a 12-pack for \$3 at the supermarket or big box store?

How can they justify that expense on that small sale value? At face value, this is a losing return on investment (ROI).

Long-Term Return

If we tried to rationalize the investments Apple, Coke and Starbucks make for an iPhone, a single cup of coffee or a can of Coke, the ROI calculation doesn't make financial sense.

But what all of these companies share is a business model built not on selling one product at a time, a transactional model, but on a longer term view based on the concept of customer lifetime value (CLV).

The simple definition of CLV is the measurement of the total expected revenue from a customer over their entire relationship with a company.

Yes, the register ring on a single transaction today is important to your immediate success, but establishing a relationship with your customer over the long term to keep them coming back is what ensures that you can operate profitably tomorrow, next year and five and 10 years down the road.

Incorporating a CLV philosophy into your strategic business thinking changes your whole perspective of what you do and how you do it. I'll use Starbucks as an example:

- We can look at their business transactionally, selling a single cup of coffee for \$5.90 one at a time.

- We can view it with a slightly longer timeframe and start to look at things more experientially ... selling a cup of coffee 4.2 times each week for \$5.90, for a total value of \$123.90 per customer.

- We can take a longer-term view of selling a cup of coffee 4.2 times per week for \$5.90 for a longer retention period of 52 weeks each year. We now have a very valuable customer who is spending more than \$6,400 with you annually.

Even at \$5.90 for a cup of coffee and looking at things transactionally, it's tough to justify allowing a customer to literally set up shop in their store, providing charging stations and free Wi-Fi.

To maximize the potential of CLV is all contingent on being able to consistently maintain quality standards, service standards and the overall experience delivered.

But viewing things on a longer-term perspective of a month, a year or a lifetime, it makes perfect and justifiable sense on an ROI point of view.

And since you're measuring the transaction value and frequency of visit with CLV, you can more easily justify the effectiveness of new strategies, products and programs to help drive increased transaction value (e.g., adding breakfast and lunch sandwiches to

their assortment) or frequency of visit (e.g., loyalty cards and other marketing initiatives).

But building on the relationship to maximize the potential of CLV is all contingent on being able to consistently maintain quality standards, service standards and the overall experience delivered.

The Right Customers

Peppers and Rogers, industry leaders in the field of customer relationship marketing, a process also known as 1-to-1 marketing, say, "You don't have to think about all customers. You just have to think about the right customers."

Commenting on the Coke lifetime value example noted earlier, they point out, "If I'm Coke, I really want to know which 10 percent of the customers in the U.S. drink 75 percent of the colas. I want to get as big a share of those customers as possible. I want them to be Coca-Cola loyalists, not just cola loyalists."

It's impossible to focus all of your efforts on every customer and expect the same results from each one of them; you need to invest your available resources – time, money and effort – on the customer segments that will generate the highest rate of return for you.

In context of the lifetime value philosophy, let's

take a look at the two most important customer groups to target.

First is your most valuable customers (MVC), those who currently do the most business, yield the highest margins, are most willing to collaborate and tend to be the most loyal.

You probably enjoy the highest "share of customer" with them because you are their preferred place of purchase. The key focus with this group, because of their current importance to you, is retention, ensuring that you maintain their loyalty over the long term.

The second customer segment is the most growable customers (MGC). This customer can be a current MVC with high potential to become even more important to you, or a new or existing small-volume customer that has the capacity to become an MVC.

This growth can be generated through cross-selling, through keeping the customer loyal for a longer period of time, or by changing the customer's behavior and getting them to operate in a way that is more efficient (and profitable) for you.

The key to developing the basis of the lifetime value philosophy is to positively engage your target audience frequently.

These customers want to feel special; they want a reason to spend their time and money with you, instead of one of your competitors.

Simple activities like customer surveys and point-of-sale data capture analysis can help identify your high-revenue customers and those with a higher level of interest in a given product or category.

Try to get this information at the lowest level possible (i.e. demographics, interest in small container plants, specifically flowering perennials or landscape shrubs, specifically flowering varieties or trees, specifically fruit varieties), so you can tailor marketing that matches each customer's specific needs and interests.

The lifetime value philosophy requires changes in the way you think, the things you do and how you do them. The longer it takes to start this approach in your business, the more it delays the lifetime benefits you can accrue ... **LGR**

Stan Pohmer is president of Pohmer Consulting Group in Minnetonka, Minnesota. He can be reached at spohmer@pohmer-consulting.com or 952.545.7943.



Premier Distributor of Lawn, Garden, Home and Holiday Supplies



**NEW CUSTOMER
SPECIAL OFFER**

**10% Off Initial Order
of \$895 or more!***

Use Program # A01N1

Call Today! 800-257-8220

*Valid for new customers only. Not available through our website, must call in. Customer must be located within Arett Sales territory only. Offer good through 4/1/15.

GET READY FOR SPRING with ARETT SALES

Arett Sales has OVER 40,000 lawn, garden, home and holiday products, including private label brands, trending categories, and name-brand, high-demand merchandise.

All priced to make you more profitable!

EASY ORDERING!

- Online ~ www.arett.com
- Phone ~ 800-257-8220
- Through our Mobile App

~ Download today via Apple App Store or Google Play!



9285 Commerce Hwy., Pennsauken, NJ 08110 • 800-257-8220
fax 856-751-0604 • mail@arett.com • www.arett.com



Write in 837

- Brochures
- Catalogs
- Circulars

- Email marketing
- Gift & loyalty cards
- Logo design
- Mailing services
- Newspaper Ads
- Postcards
- Signage
- Website
- Plus so much more!

Greensmith
Graphics
A division of Arett Sales

create inspire grow

800-395-6009 • fax 856-751-7167
info@greensmithgraphics.com

WE OFFER ALL YOUR MARKETING
SERVICES UNDER ONE ROOF!

