Increase **customer lifetime value**:

1 **Pro-actively:** Constantly aim to delight customers and find ways to increase loyalty,

2 **Actively:** Establish means to stay in touch with your customer & to measure their behaviours, e.g. through loyalty programs.

3 **Reactively:** Retain customers through high switching barriers / switching costs and recovery actions where possible.

Zappos CEO and Co-founder Tony Hsieh "The payoff is not in the current quarter or the current year, **the payoff is probably going to be two or three years down the line.** So it's about how long-term you are thinking."

"The questions that need to be asked of **big data** are:

1. not just what will trigger the next purchase, but what will get this **customer to remain loyal**;
2. not just what price the customer is willing pay for the next transaction, but what will be the **customer's life-time value**; and
3. not just what will get customers to switch in from a competitor, but what will **prevent them from switching** out when a competitor offers a better price." (professor Niraj Dawar)

Exit fees, search costs, cognitive effort, learning costs, equipment, infrastructure costs, start-up or support costs, financial risk time & effort, social risk, emotional cost / psychological risk

Worksheet - Customer Lifetime Value

Take action now & boost your innovation skills:

1. Try find out the repeat customer rates for (a) your company (b) in your industry.

2. Try find out your company's customer lifetime value after 1 year, 2, 3, 5 years - this data should exist in your company or try work out differently.

3. Which of the 3 categories listed in the article does your company fall into? What are a few ideas to improve customer lifetime value proactively?

Notes:

There are many websites showing how to calculate the customer lifetime value. Most of them are flawed in that they don't discount future revenues by the cost of capital. If you like to calculate your customer lifetime value, use the Harvard Business School excel tool: hbswk.hbs.edu/Documents/archive/docs/lifetimevalue.xls

It would be better to use the methodology applied within your company. Cost of capital (CAC) might be called also WACC (weighted average cost of capital) in your company. For established companies this should be around 10%-13% (yes even in today's near zero interest rate times).

For some start-ups that get tons of venture capital (like Uber) CAC might be much lower, for others it might be much higher (up to 25%).

Check article: http://www.innovationtactics.com/customer-lifetime-value-1/

Notes - Customer Lifetime Value Date: