BUSINESS GROWTH

# POWER PRINCIPLES


*principle 6*

## Lifetime Customer Value

*What are your customers
really worth?*

Far too many business owners are locked into a short-term view. It's a natural tendency to think something like: "I place an ad that costs $1,000. That ad brings in 230 responses, and of those, 21 turn into actual sales. At $90 per sale, I have a gross income of $1,890. When I subtract the cost of the ad I end up with $890. Next I subtract my other expenses associated with producing or buying my product wholesale, fulfilment, salaries and other factors, and I end up with about $230 in net profit."

Results like these can seem discouraging. After all that money spent and effort, you end up with a tiny $230. To get another $230, you have to do it all over again -- buy another $1,000 ad, and all the rest. This is where a lot of business people drop out and try something else that seems more profitable.

But wait -- this view of things is too short sighted. The initial ad brought in 21 new, paying customers. What if that same business person had read my earlier item on back-end marketing and had a second-tier product ready to sell after each of those 21 customer paid $90 for the first? What if his second-tier product sold for $65 and 13 of the 21 also bought it in addition to the first product? That's an additional $845, which you add to the first $230 for $1,075! Suddenly things are looking a lot more profitable - but this is still not the end.

**Repeat customers are the backbone of any business**

If the seller does what he must to keep the customer satisfied and coming back for the next three to five years, each of those customers may end up spending another $400 or $500. If each of those original 21 customers is converted into a long-term customer spending $500 each, that's $10,500! Now, we're talking.

It's reasonable and perhaps even conservative to expect another $500 in sales over the next five years from each customer you capture with your initial ad, for which you paid $1,000 - which had actually generated more than 10 times that cost - $10,500. Furthermore, each of those initial customers will often refer a friend, (or you can be even more proactive by asking for a referral) and sometimes more than one friend to also make a purchase. You pay nothing for a word-of-mouth referral - and the result is even more profit that can be tied to your original ad expenditure.

**Remember who your customers are – they are another word for sales**

So what you should do is calculate the lifetime value of each customer. Doing so helps you realise that you can spend a lot more on ads and other marketing tools to go out and get them simply because the long-term payoff is literally… fantastic. When you know that the lifetime value of each customer may be $500 to $900 each, for example, then a $1,000 ad that gets you 21 of them is a real bargain.

Another benefit of knowing the lifetime value of your customers is that because you know that a $1,000 ad – as per the above example - will generate $10,500, it provides you with the ability to plan and estimate your future cash flow with a degree of certainty.

Furthermore, should you ever want to sell the business, demonstrating this knowledge could have a tremendous impact on the capital value and therefore the sale price.

All of this requires a long-term view and planning, however, to happen. You have to be prepared with back-end products to sell, you have to sell quality and make the customer want to come back, you have to develop a healthy relationship with your customers, and more. But when you plan and take a long-term point of view, you set yourself up for long-term success. You also gain the confidence of spending what you need to spend to get new customers, knowing that it will pay off.