

The Power of Understanding "Life Time Value" in Your Business!

Understanding Life Time Value is probably one of the most important concepts to grasp in marketing your business.

I find business owners say they understand the concept but when put to the test often don't really understand how it could be used to build powerful offers and to grow their business. So hopefully this may help...

In very simple terms you can calculate Life Time Value as follows - (example in red)

$$\begin{aligned} & \mathbf{1. \text{ The average sale price } \$100} \\ & \text{Minus} \\ & \mathbf{2. \text{ The cost of the sale } \$60} \\ & \text{Equals} \\ & \mathbf{3. \text{ The profit per sale } \$40} \\ & \text{Multiplied by} \\ & \mathbf{4. \text{ The number of sales per year } 12} \\ & \text{Equals} \\ & \mathbf{5. \text{ The profit per year } \$480} \\ & \text{Multiplied by} \\ & \mathbf{6. \text{ The number of years as a customer } 5} \\ & \text{Equals} \\ & \mathbf{7. \text{ The Life Time Value of a Customer } \$2,400} \end{aligned}$$

The average sale value is calculated by dividing your total annual turnover by the number of sales transactions.

You can see this is a simple mathematical formula. So what does it all mean? How can this be used in your business?

Firstly, it means each average customer is worth \$480 Profit per year or \$2,400 over the projected life of a customer.

The question is, if a customer is worth \$2,400 Profit to you over a life time how much would you be prepared to spend to acquire a new customer? \$200, \$400? More??

Using this formula you can now see how businesses can now put together some very irresistible offers.

Does it make sense for you to give up \$200 of your profit to get a customer who is going to earn you \$2,400. Of course the answer is Yes!

So let's take this a little further with an example -

Say you operate a health shop and sell vitamins. Your average customer spends \$100 each month. To attract a new customer you put together an offer where you will give the first months vitamins worth \$100 away free. This is just to get someone to try your product. If you are looking to buy vitamins that would be attractive.

The cost of the offer is \$60 per customer ex any promotion costs.

Now let's say you attract 10 new customers who try the vitamins. After the first month 5 continue to buy vitamins from you each month. 5 don't return.

So the potential value of the new customers is \$12,000 (5 X \$2,400)

The cost of acquiring the new customers is \$600 (10 X \$60)

Your Net Life Time Profit is \$11,400 from the promotion or in the first year \$1800 ($\$480 \times 5 = \$2400 - \$600 = \1800)

Now does it make sense to spend \$600 to get a \$1800 profit. Of course it does.

You can now see the power of knowing the Life Time Value of a customer. This simple formula could be applied to any business. First you must know your key numbers before giving this a try. Work this formula and you can generate profits for a life time by creating a series of irresistible offers.

The secret then is to have a system in place to welcome the customer and to encourage them to re buy.

More details can be found about this in our new book ["Profits For Life"](#)

About Doctor Profit

Alistair Gray - Doctor Profit is a Business Growth and Profit Improvement Specialist.

Work with Alistair and **you are guaranteed to improve your profits.**

He works with small to medium sized businesses who have potential to become market leaders. He recommends low cost or no cost strategies **to help you achieve sales and profit gains of 45-60% within about 90 days.** Individual results may vary.

He will help you grow your business, make it more profitable and help you prepare it for sale, license, franchise or even float your business at a huge profit within 3 years or less depending upon what your goals are.

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