CUSTOMER | LEAD VALUATION

Don't Market by the Numbers

Chart Your Own Course

When discussing the value of a customer many look to the one-time transactional outcome of the effort. But marketers instinctively understand that there is much more to the value of a customer than a one time sale.

We see this play out in advertising and marketing efforts every single day. Why are companies spending so much time wooing customers to get a low cost product?

They're not. They're spending that much money to get a brand loyalist, a repeat customer. They've done their research to know that most of their customers are repeat customers, so they are willing to spend more money to get new ones, knowing they will be worth more over the long term.

They've calculated the Lifetime Value of their Customer. (LTVR)

Lifetime Value of a Customer (LTVR)

The value of a customer is more than the sale, the value is the LIFETIME Value, not the initial transaction. The value of a lead is how much, based on the LTVR, you are willing to spend to get a new customer.

Simply done, this calculated by considering the total sales dollar amount divided by the total number of unique customers over a specified time frame (typically 5-10 years). There are a few ways of doing this, simple ways and more complex PhD level ways. For the sake of this exercise we are using the simple way. (Or simply ask your accounting department for it, they likely have a number.)

NOTE: This method is not exact, and does not take into consideration the cost of acquisition and nurturing for initial or repeat purchases.

- Simple Valuation of LTVR
    1. Select a time frame (5 -10 years depending on your product lifecycle, upsells)
    2. Identify total # customers
    3. Identify total # repeat customers
    4. Identify total # repeat orders
    5. Identify total $ sales

> NOTE: This is designed to show the basic method of calculating LTVR. This is typically done for each customer segment, and weighting the targeting of new customer lead generation, and in Account Based Marketing (ABM) this is done specifically for repeat customers by segment.

$$\text{LTVR} = \frac{\text{(Total Unigue Customers)}}{\text{(Total Sales)}}$$

- Example

A sneaker company sells sneakers for $100 a pair. Almost half of their customers (45%) bought from them an average 6 times during a 5 year time period. They sell 1,000 pairs a year as single orders.

$$\$160 = \frac{(5{,}000) - (5{,}000 \times 0.45) + ((5{,}000 \times 0.45) / 6)}{(\$500{,}000)}$$

← Total # unique customers

Value of a Lead

So now that you know how much your average customer is worth, you can better determine what you are willing to spend to get a new one. We know the term CPL (Cost Per Lead) and can calculate based on the expectations that the lead will convert through the sales funnel. Based on the quality of the lead, we can assess the valuation of getting leads in those sales stages.

A lead at the Awareness stage is far less likely to convert than one at the decision stage, making a Decision stage lead more qualified, and therefore worth paying more for. Consider it also means you may have already spent money to get that lead through the previous two stages.

- Sales Funnel Stage

You can calculate the lead quality at each stage by determining the conversion rate to the next stage, and then backing out the estimated lead cost value at each stage. Note you will also need to consider the previous amounts spent if this is a repeat customer, and assess the value of the liklihood of conversion and increased LTVR of that particular customer against the liklihood of conversion. (Repeat customers in decision stages are far more likely to convert than newly aquired ones, increasing the conversion rate probability).

I know, we didn't realize how much math would be involved in a liberal arts career.

Most companies rely on standard benchmark lead valuations by industry, by platform, to make decisions. However, as companies grow, customer-bases expand, and cost vs time to close schedules tighten, it IS possible to better predict where and when to spend marketing dollars to help meet sales targets, based on lead quality.

Education CPL benchmarks range fromn $27-$66 per lead, across platform.

- track conversion rate at each stage
- (can do by repeat customer vs first time, but for this, do overall)
- Calculate value based on the lifetime value of each stage, throughout the funnel (value of converting to different stages in the funnel)

  - *That's the reason for the phrase -- you spend more to GET a customer than to KEEP one.*
  - *Unfortunately, it's converted to not nurturing existing customers, because most companies don't do ROI on maintaining customers, and only see the A-G connection, and not the steps in between.*