

# Make Customer Lifetime Value Your Polaris For Long-Term Growth

This Customer-Obsessed Metric Brightens The Path To Profitability

by Brandon Purcell and Allison Snow

September 26, 2019

## Why Read This Report

Customer lifetime value (CLV) — isn't new, but it's gaining traction as customer insights (CI) professionals seek to maximize efficiency, demonstrate economic value, and leverage advances in data management for strategic purposes like customer experience improvement. CI pros should read this report to understand how CLV can be a unifying metric in the path profitability.

## Key Takeaways

### **CLV Can Be A Firm's Unifying Metric**

CLV plays a highly strategic role in helping firms achieve organizational alignment, make important strategic business decisions, and pivot toward becoming customer-obsessed.

### **CLV Shines A Light Toward Profitability**

Firms can apply CLV at tactical levels as well, boosting margins by enabling them to make investment decisions that they balance against potential return.

### **CLV Doesn't Need To Be Perfect**

Firms shouldn't hesitate to initiate a CLV effort — but they should launch the effort with transparency about elements of the calculation that aren't quite perfect.

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with [Srividya Sridharan](#), Aldila Yunus, and Diane Lynch  
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[The Forrester Wave™: B2B Customer Analytics, Q1 2019](#)

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## CLV Was Lost At Sea, But Today, The Wind Is At Its Back

Customer lifetime value is a familiar concept. A component of customer analytics since the 1970s, it still appears in daily conversations about customer profitability and growth.<sup>1</sup> Because of its ubiquity, it's tempting to conclude that companies have CLV all figured out — but the data tells a different story. Only 52% of measurement and analytics pros say they're using CLV.<sup>2</sup> Further, only 20% of global B2B marketing decision makers and 16% of global B2C marketing decision makers consider customer lifetime value to be among their most important marketing metrics.<sup>3</sup> The wind is changing, though. Customer insights leaders increasingly recognize the importance of calculating a more customer-focused metric like CLV and infusing it throughout their businesses. Three factors are driving renewed interest in CLV:

The catalyst for interest in CLV at one firm could be summed up in one word: margin.

- › **Profitability priorities in budget conscious climates.** As businesses face pressure to demonstrate bottom-line growth, they frequently face make-or-break investment allocation decisions of all kinds. Linda Feng, marketing sales and analytics manager at Chevron, tells us she could sum up the catalyst for interest in CLV at her firm in one word: margin. In response to the eternal edict to “do more with less,” customer insights and revenue pros have to balance spend — on acquisition, retention, cross-sell, and even service — with potential customer value.
- › **Pressure to demonstrate value in economic terms.** Translating activity metrics to financial outcomes is a perpetual thorn in the sides of both customer insights professionals and the stakeholders they serve. This gap creates a lot of tension in organizations, not only with sales counterparts but also with colleagues in finance. In fact, Maggie Merklin, executive VP at Analytic Partners, says it's not uncommon to see the CFO as the genesis for interest in CLV. Because customer lifetime value is the summary measure of economic value of the customer, it captures value in financial terms. It absorbs key factors that concern finance, like customer acquisition cost, discount rate, and churn.
- › **Better data management chops.** Over the course of the past few years, businesses have made some progress in how they manage their data.<sup>4</sup> Eric Bradlow, vice-dean of analytics at The Wharton School, acknowledges that access to relevant data is a key driver in the resurgence of interest. CLV is a pipe dream without a sound customer data management strategy, but when there's an effective strategy in place, it becomes an attractive method to enhance customer understanding.

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## Keep Your Business On Course With CLV As Your Polaris

The pursuit of profitability and demonstrated economic value, as well as advances in data management, represent the crest of the wave of CLV enthusiasm. Its trough, however, is filled with a host of challenges that are common in the transition to customer-centric business models. When properly designed, implemented, and managed, CLV can serve as a unifying companywide strategic framework that:

- › **Powers the transition from product-focused to customer-obsessed.** Insight into customer lifetime value demands shifting the paradigm from computing value by product to computing value by customer — an imperative for modern businesses.<sup>5</sup> The pursuit of understanding CLV can be the forcing function that organizations need to start breaking down those walls. When a large North American consumer electronics brand set out to enhance a new measurement approach, its leaders recognized that it didn't need aggregate-level business metrics but rather a customer-centric common currency metric of value. The firm turned to CLV instead.
- › **Expands the planning horizon from short-term to long-term.** Companies envision a long-term, sustainable future but often manage to (and incent) short-term milestones. This leads to an overemphasis on acquisition and a shortsighted de-prioritization of cultivating customer relationships. This mindset persists, in part, because there's been no generally accepted formula to capture and forecast the longer-term performance of a company. Jordan Elkind, head of product management at Custora, says that "shifting from a single focus on acquisition-related metrics to longer-term metrics is necessary to understanding the long-term health of customer relationships." Customer lifetime value is a key metric that a business can rally around to understand long-term profitability.
- › **Serves as a beacon for cross-departmental alignment.** Every business wants to decrease customer acquisition cost, increase deal value, boost customer satisfaction, and prevent churn. However, optimizing against any of these objectives in isolation can lead to undesirable behaviors, poor decisions, and misaligned incentives across firms. For example, organizations often view acquisition investment as an expense. However, that deliberation doesn't always consider return on their spend. CLV captures the ambitions of multiple stakeholders but with additional context — balancing interests such as costs for finance, service for customer support, and churn for account management or customer success.
- › **Guides a mindset shift from volume to margin.** More leads! More web visits! More deals! Those are familiar rallying calls from execs, sales leaders, and marketers. That's not surprising, as it's unusual to find incentive structures, metrics rubrics, or performance plans that don't align to quantity. Customer lifetime value is the metric that can capture better margin, retention, and loyalty — key indicators of business health — over classic metrics that emphasize volume. In B2B firms, for instance, the use of CLV as an assessment of success could ease the strife that arises from the transition from inbound marketing to target accounts, which often results in a decrease in volume-based success indicators.

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## Ferry Your Way Toward Profitability With CLV

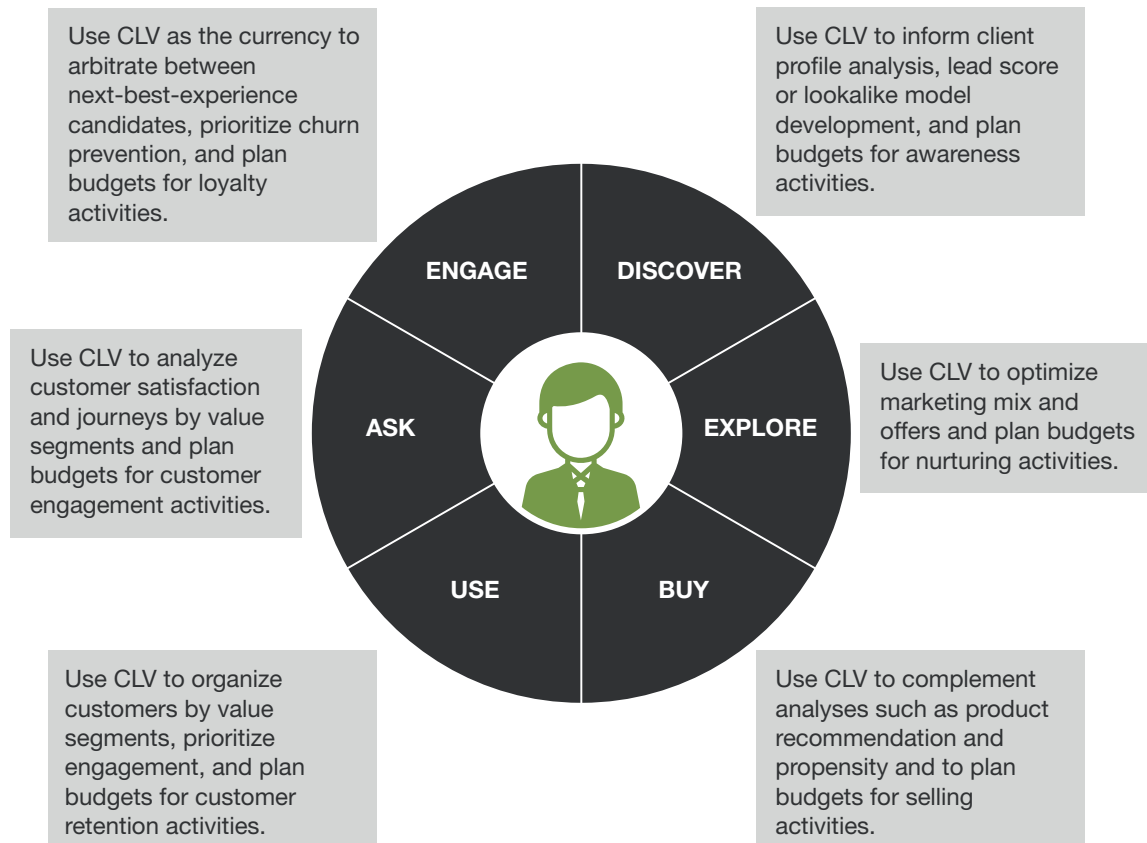
CLV isn't just a strategic lever; it's also a tactical one that firms can apply to high-value outcomes across the customer lifecycle. It can meaningfully inform go-to-market planning and acquisition strategies as well as customer experience development at any point in customers' relationships with firms (see Figure 1). Apply CLV tactically to:

- › **Cultivate acquisition targets with high-value potential.** Mature firms leverage CLV to plan their customer portfolios.<sup>6</sup> Look-alike modeling can combine predictive analytics and customer lifetime value to identify potential VIPs. Heath Podvesker, chief revenue officer at Ekimetrics, encourages insights pros to “understand what attributes make a high-CLV customer and take action on those.” One way to take that action is to incorporate specific attributes of high-value customers into formulas for lead scoring and ideal client profile analysis. Simon Poulton, VP of digital intelligence at Wpromote, sought to isolate attributes of one-time buyers so his team could de-prioritize outreach to them, resulting in a 35% increase in spend efficiency.
- › **Manage engagement spend across the customer lifecycle.** Calculating CLV gives firms a better handle on how to allocate budget. By doing so, program teams can focus higher-cost acquisition efforts — like personalization — on prospects with high-value potential, invest in programs that engage and retain high-value customers, and automate engagement for lower-value segments. Or revenue pros can use CLV, in conjunction with churn analysis, to determine whether it's worth spending dollars on retaining specific customers.<sup>7</sup> A well-known outdoor-clothing company identifies customers who demonstrate propensity for high lifetime value and gives them the “red carpet” treatment, personalizing outreach and targeting them strategically to drive a second purchase. Custora, a consulting firm that helps retailers get insights from their customer data, works with firms that offer personal shopping experiences, handwritten notes, and early access to new collections as experiences for customers deemed high value.
- › **Customize pricing at the buy stage.** The downward-sloping demand curve in an Economics 101 textbook demonstrates that demand decreases as prices increase. But this isn't the hard-and-fast rule it appears to be. In fact, many firms adopt personalized pricing — setting prices higher for customers that exhibit behaviors associated with high value. Travel aggregators like Expedia and Orbitz have long differentiated airfare and hotel prices based on customers' device types, browsing behaviors, and other factors.<sup>8</sup> They do this because, in economic terms, charging a uniform price to all customers prevents additional revenue capture.<sup>9</sup>

CLV isn't just a strategic lever; it's a tactical one that informs go-to-market planning and acquisition strategies across the customer lifecycle.

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**FIGURE 1** Tactical Applications Of CLV Across The Customer Lifecycle**Recommendations****Set Sail With A “Progress Over Perfection” Mindset**

When it comes to customer lifetime value, CI pros should have no expectations that any meaningful progress will happen overnight. Rather, they should view the initiative as manageable segments of a transformative process. To make continuous progress with customer lifetime value:

- › **Define ownership.** If customer lifetime value is to perform as the unifying guiding principle that it has the potential to be, it requires influential ownership. According to Eric Bradlow, it's a requirement that a single individual is empowered to position it as a macro-level decision-making tool. That may live at the C-level in terms of hierarchy, or in the finance, marketing, or revenue team in terms of domain, as long as the role has enough influence to activate the metric at the company level.

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- › **Find the right calculation for your business.** One core reason that many CLV projects fail is disagreement about the right way to calculate it. Unlike other metrics such as conversion rate or average order value, there's no single universally agreed-upon equation for CLV. Instead, the equation you use will largely be determined by the industry you're in, the types of transactions your customers perform, the data sources to which you have access, and your overall analytical maturity. Refer to Forrester's companion CLV calculation guide, "[How To Calculate Customer Lifetime Value For Your Business](#)," to find the right equation for your firm.
- › **View CLV as a decision-making input, not a decision maker.** This initiative isn't as simple as "figure out which customers are worth more and spend more on them." The calculation might actually introduce difficult decisions about organizational strategy. For instance, one logical strategy is to segment low-CLV customers and seek to turn them into high-CLV customers. According to Eric Bradlow, a better strategy might be to compute CLV for an existing customer base, identify high-CLV customers, and then acquire customers that historically look like high-CLV customers. Ultimately, though, such decisions are informed by many factors regarding your business strategy, of which CLV is only one.
- › **Cultivate adoption by osmosis and transparency.** Don't be afraid to do some public relations work. When it comes to encouraging buy-in and awareness of CLV, there are few methods better than old-fashioned repetition. Julie Schmidt, formerly SVP of analytics at Allant Group, a marketing analytics company, says her clients see smoother adoption when they consistently reinforce how CLV plays an active role as a decision-making tool and an indicator of business and customer health. Julio Hernandez, global customer center of excellence lead and customer advisory practice lead at KPMG, adds that transparency into the calculation is also a critical factor in trust and, therefore, adoption, telling us, "Where you're drawing from a fact base, say that; when you're substituting proxies for missing data, acknowledge that, too."

## What It Means

### CLV Will Rock The Boat

As the resurgence of interest in CLV progresses and adoption accelerates, we expect it to be a positive connector that spans both customer experiences across the lifecycle and internal business alignment. But it won't be without significant disruption to existing norms. For CI pros, customer lifetime value will inspire:

- › **A new vision for customer analytics — the next best experience.** Given everything you know about a customer, what's the right experience to deliver to him or her? Today, the answer is largely dependent on whom you ask in the organization. Marketers will look at the customer's propensity to buy, and customer experience pros will look at their need for service. In the face of conflicting next-best-experience candidates, brands will need a common currency to unite lines of business and arbitrate between them.<sup>10</sup> With CLV as that currency, the notion of next best experience will

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allow companies to invest in *potential* value, not *immediate* value — which may at times seem counterintuitive in the short term. Julio Hernandez at KPMG sums this up by saying that companies “need to think of customers as a balance-sheet item instead of an income-statement item.”

- › **A systemic stratification of service levels and associated consequences.** Customer lifetime value has already received some backlash because it provides the rationale for companies to differentiate levels of service.<sup>11</sup> High-value customers may enjoy superior service and lavish offers. Low-value customers, on the other hand, may receive minimal service, or may even be subtly provoked to churn. Whether or not using CLV in this way makes sense for your brand is dependent on your value proposition. For instance, a credit union that’s inherently member-owned and not for profit may value treating all customers equally, while a publicly listed large retail bank has a responsibility to its shareholders to pursue profitability, even if it means widely varying customer experiences.
- › **An accelerated amplification of other analytical methods.** There’s great power in blending analytics techniques for increased accuracy and more-precise action, and customer lifetime value is a stellar partner to many customer analytics techniques.<sup>12</sup> For example, companies in highly competitive markets where customers are ready to switch vendors whenever better deals come along (think telecommunications providers) will boost their retention efforts with sophisticated churn analysis — and invest in messaging and content development specifically to retain profitable customers.
- › **A backlash from customers that can and will quantify value.** After all, value is a two-way street. Much as Uber drivers rate their passengers, your customers will have a methodology to rate you as well. This represents significant risk for companies that care about the value *of* customers but lose sight of value *for* customers.<sup>13</sup> The good news is that the pursuit of CLV is inherently customer-centric and can strengthen companies’ abilities to understand what customers value. By tracking how the CLVs of different customer segments wax and wane over time, companies will be able to infer which experiences customers find valuable and which they don’t.



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## Supplemental Material

### Survey Methodology

Forrester/Burtch Works Q3 2018 Global State Of Customer Analytics Online Survey was fielded to 144 North American analytics and measurement professionals with knowledge of customer analytics practices. For quality assurance, Burtch Works screened respondents to ensure they met minimum standards in terms of job responsibilities.

Forrester fielded the survey in July 2018. Respondent incentives included a choice of two reports from Forrester's customer analytics playbook.

This survey used a group of respondents selected by Burtch Works with expertise in customer analytics, data science, business intelligence, and digital analytics who likely had knowledge of their organization's analytics and measurement practices, and it is therefore not random. This data is not

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guaranteed to be representative of the population, and, unless otherwise noted, statistical data is intended to be used for descriptive and not inferential purposes. While nonrandom, the survey is still a valuable tool for understanding where users are today and where the industry is headed.

**Companies Interviewed For This Report**

We would like to thank the individuals from the following companies who generously gave their time during the research for this report.

Allant Group	Ekimetrics
Analytic Partners	KPMG
Bose	VisionEdge Marketing
Chevron	The Wharton School at the University of Pennsylvania
Custora	Wpromote

**Endnotes**

<sup>1</sup> Source: Michael Schrage, "What Most Companies Miss About Customer Lifetime Value," Harvard Business Review, April 18, 2017 (<https://hbr.org/2017/04/what-most-companies-miss-about-customer-lifetime-value>).

Source: Khadeeja Safdar, "On Hold for 45 Minutes? It Might Be Your Secret Customer Score," The Wall Street Journal, November 1, 2018 (<https://www.wsj.com/articles/on-hold-for-45-minutes-it-might-be-your-secret-customer-score-1541084656>).

<sup>2</sup> Forrester and Burtch Works conducted a survey of 144 analytics and measurement professionals about their top priorities, challenges, and plans for the future. Source: Forrester/Burtch Works Q3 2018 Global State Of Customer Analytics Online Survey.

<sup>3</sup> Source: Forrester Analytics Global Business Technographics® Marketing Survey, 2018.

<sup>4</sup> New data leadership roles have emerged in recent years with responsibility for the management and governance of data across the organization: In 2018, 50% of global data and analytics decision makers said their firm had a chief data officer; that rose to 58% in 2019. And 47% say they have a chief analytics officer in 2019. Source: Forrester Analytics Global Business Technographics Data And Analytics Surveys, 2018 and 2019.

What's more, despite perennial data challenges, overall customer analytics sophistication rose in 2018. We saw a substantial rise in the number of leaders: 37% of firms have become leaders in 2018, up from 26% in 2017. We attribute this to improved data management. Leaders leverage data from an average of nine different sources to perform their measurement and analytics, and more complex data sources. See the Forrester report "[The State Of Customer Analytics 2018](#)."

<sup>5</sup> The age of the customer recasts how firms operate and create value. Customer-obsessed businesses have strategies, operations, and leaders that are centered around the customer. These firms have higher levels of revenue growth, customer satisfaction, and employee satisfaction than their competitors. The age of the customer continues to intensify and the race for customer obsession is on. See the Forrester report "[The Customer-Obsessed Enterprise](#)."

<sup>6</sup> See the Forrester report "[Master The Mechanics Of Analytics For Revenue Growth](#)."

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<sup>7</sup> See the Forrester report “[Master The Mechanics Of Analytics For Revenue Growth](#).”

<sup>8</sup> Source: Rafi Mohammed, “How Retailers Use Personalized Prices to Test What You’re Willing to Pay,” Harvard Business Review, October 20, 2017 (<https://hbr.org/2017/10/how-retailers-use-personalized-prices-to-test-what-youre-willing-to-pay>).

Source: Katie Pedersen, Greg Sadler, and Virginia Smart, “How companies use personal data to charge different people different prices for the same product,” CBC, November 25, 2017 (<https://www.cbc.ca/news/business/marketplace-online-prices-profiles-1.4414240>).

<sup>9</sup> But beware — while this type of price differentiation isn’t illegal, it could easily lead to customer backlash. And, while there’s a correlation between behaviors that are associated with high customer lifetime value and a willingness to pay more, it’s not a guaranteed technique; savvy brands test CLV-based pricing before deploying it widely.

<sup>10</sup> See the Forrester report “[Come Together \(Right Now\) To Deliver The Next Best Experience](#).”

<sup>11</sup> Source: Khadeeja Safdar, “On Hold for 45 Minutes? It Might Be Your Secret Customer Score,” The Wall Street Journal, November 1, 2018 (<https://www.wsj.com/articles/on-hold-for-45-minutes-it-might-be-your-secret-customer-score-1541084656>).

<sup>12</sup> See the Forrester report “[TechRadar™: Customer Analytics Methods, Q2 2016](#).”

<sup>13</sup> See the Forrester report “[Value For Customers: The Four Dimensions That Matter](#).”

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