

Lifetime Value Pays Small Business Dividends

If you are one of those business owners who are constantly lookout for new clients; stop for a minute and think about your existing clients? The answer to your revenue prayers may be right in front of your nose.

Our existing clients are pure gold because they are the people who are most likely to buy from you at any given time. In other articles I've talked about increasing average spend and number of visits through customer service but now I'd like to get to grips with the lifetime value of a client or customer.

Have you ever stopped to think what your clients are worth to your business over their lifetime? Do you know how long you keep your clients for? Most of us never give it a thought; is it six months, two years, five years or even fifteen years? Check your records and you may be in for a surprise.

To work out the lifetime value of a client you also need to know the average client spend and how many times a year the average client purchases from you. You now have all the data you need to work out a lifetime value. Simply multiply lifetime by average spend by number of visits to work out the value of your client.

Here's an example:

Let's say you keep your clients for five years and the average spend in your business is \$300 and customers use your services three times a year. That makes the lifetime value of your client \$4,500. So why do we need to know that? Well for a starter, next time Mrs Bloggs calls you up and waffles on as she always does ... don't think of her as Mrs Bloggs who is a pain in the proverbial ... think of her with a little sign on her forehead that says "I am worth \$4,500", it makes smiling and being nice a hell of a lot easier.

It also helps you focus on where to spend your time, energy and dollars when it comes to customer service and marketing. Let me ask a question?

Do you shop at the same supermarket every week? And what would you spend there every week \$100, \$200, \$300? How long have you been shopping at that supermarket, a year, two years, five years? Do the math ... if you are spending \$200 a week, 45 weeks of the year and you've been doing that for five years you are worth \$45,000 to your supermarket. That's your lifetime value to your supermarket. Now, when was the last time your supermarket told you they loved you? When was the last time they rewarded you for being a valuable shopper?

So, when was the last time you did something special for your long term customers? It's easy to take them for granted but they are a solid source of revenue so it makes sense to allocate some of your marketing budget to keep them loyal and keep them spending.

Mazda Australia is a great example of understanding the lifetime value of your customer. Mazda know that buyers of their sports and performance vehicles like RX8's and MX5's tend to be very loyal and often upgrade to new models every 2 - 3 years. That means over ten years a client can be worth over \$100,000.

They have developed a program to acknowledge and reward this group of customers. A few months after you buy one of their performance cars you receive an invitation to a Mazda Driver Day at a capital city motor racing circuit. They have a specialised team of driving experts who travel around Australia conducting the drive days which are fun defensive driver training courses where you get to push your new car in safe conditions. During the day you try slaloms, braking and cornering exercises and you get plenty of personal driving tips and defensive driving information. The day includes lunch and even a "goodie bag" with sunscreen caps and Mazda merchandise. If you were to buy an off the rack defensive driving course you would have to pay at least \$350.

Can you imagine the loyalty they create with this reward for their customers? The cost of the day is tiny when compared to the lifetime value of their clients ... plus they get 20 – 30 Mazda fans in the one place all raving about their cars and of course the company that sold them!!

So, how can you acknowledge the lifetime value of your clients?

- If you are retailer you could invite your special clients to a pre season launch where one of your suppliers, industry guru or designers can give a demonstration
- If you are a consultant you could take your top ten clients to a seminar or presentation on a relevant topic, buy them lunch and feel the client "love" in the room. Buy them a relevant business book or gift them an extra hour of your time
- For service businesses it could be as simple as an unexpected gift with their next purchase, an extra months subscription, a credit they can use later in the year or perhaps a free session
- You could invite your special clients to VIP party or event to celebrate their contribution to your business
- It could simply be a heartfelt thank you via email or a letter.

So next time you put together a marketing program to find new clients don't forget the lifetime value of your existing clients and spend your marketing resources to keep those great clients you already have.