A Simple Way to Calculate Customer Lifetime Value

A Simple Way to Calculate Customer Lifetime Value (CLV)

Customer lifetime value (CLV) is one of the most important metrics an Ecommerce business should be tracking. CLV enables you to determine the value of each customer, and how much you can spend to acquire and retain each customer. This metric becomes more insightful when you begin segmenting your existing customer base.

If you conducted a Google search on how to calculate CLV, you would find that there are many ways to calculate CLV.

Although more advanced methods for calculating CLV exist, we will provide a simple way for you to get the information you need to refine your approach to customer acquisition.

For this simple method, we will need to calculate the following variables:

- Average Order Size (AOS)
- Average Order Frequency (AOF)
- Customer Value (CV)
- Average Customer Lifespan (ACL)

If your current Ecommerce platform does not make this information readily available, you can export this data into a spreadsheet to perform the calculations. Columns required will be:

- Customer Name
- Total Revenue
- Number of orders by customers
- Number of days between first order date and last order date

If you need to calculate this manually, download your customer data with the columns highlighted above and follow the 5 steps outlined below.

Step 1: Calculate Average Order Size (AOS)

The average order size (AOS) is the average amount of money that a customer spends each time they place an order.

Your average order size is calculated by calculating your total customer revenue for a given period and dividing the total orders performed by these customers to calculate your average order size.

> **Average Order Size (AOS)**
>
> **AOS** = Total Revenue / Total # of Orders

Step 2 Calculate Average Order Frequency (AOF)

The average order frequency (AOF) represents the average amount of orders placed by each customer.

Your average order frequency (AOF) is calculated by calculating the total number of orders for a given period and dividing the total number of customers for a given period.

> **Average Order Frequency (AOF)**
>
> **AOF** = Total # of Orders / Total # of Customers

Step 3: Calculate Average Customer Value (ACV)

The average customer Value (ACV) is the average revenue value that each customer brings to your business during a given timeframe.

The average customer value can be determined by multiplying the average order size (AOS) with the average order frequency (AOF).

Average Customer Value (ACV)

ACV = AOS / AOF

Step 4: Calculate Average Customer Lifespan (ACL)

The average customer lifespan is the average time between the number of days between first order date and last order date of all of your customers. Convert the average number of days into years. For example, if you determine that the ACL is 1,277.5 days, this would equate to an ACL of 3.5 years.

Average Customer Lifespan(ACL)

ACL = 1st Order Date - Last Order Date

Step 5: Calculating the Customer Lifetime Value (CLV)

To calculate your average customer lifetime value (CLV) using this simple method, multiple your average customer lifespan (ACL) to your average customer value (ACV).

Customer Lifetime Value (CLV)

CLV = ACL / ACV

Bringing everything together, using the data below as an example, we can determine that the average customer lifetime value is $187.50.

Variables	Data	Formula
Total Revenue	**$25,000,000**	
Total # of Customers	**2,000,000**	
Total # of Orders	**$500,000**	
Average Order Size (AOS)	**$50.00**	**AOS** = Total Revenue / Total # of Orders
Average Order Frequency (AOF)	**1.5**	**AOF** = # of Orders / # of Customers
Average Customer Value (ACV)	**$75.00**	**ACV** = AOS X AOF
Average Customer Lifespan (ACL)	**2.5**	**ACL** = 1st order date - last date
Customer Lifetime Value (CLV)	**$187.50**	**CLV** = ACL X ACV
Gross Margin%	**50%**	
CLV Gross Margin Contribution	**$93.75**	

Ultimately, to determine the CLV margin contribution for each customer, we can multiply the gross margin percentage to CLV to calculate the CLV grow margin contribution. In this example, with a gross margin percentage of 50%, our CLV grow margin contribution would be $93.75 to determine how much money we should budget to acquire and retain customers.

Not all customers are valued equally. Depending on the type of business you are in, you can further segment your customer base in order to gain insights on the value of each segment:

- Most Purchases
- Geography
- Product and service line
- Order frequency
- Order value

Tactics to Increase Customer Lifetime Value

Based on the variables used to calculate customer lifetime value, it is evident that by increasing the average order size (AOS), average order frequency (AOF) or both, we can increase customer lifetime value. In addition to these variables, average conversion rates can influence the customer lifetime value. Below are some tactics to increase customer lifetime value:

- Tactics for increasing average order frequency
  - Nurturing the rights customers, with personalized content and offers, at the right time with email marketing campaigns
  - Stay in front of customer with retargeting ad campaigns
  - Create a loyalty program that rewards order frequency
  - Customer Service and Return Programs
- Tactics for increasing average order size
  - Offer free shipping with order sizes of $X
  - Present bundled offers
  - Present upsell and cross-sell offers
  - Create a loyalty program that rewards spending levels
- Tactics for increasing conversion rates
  - Provide social proof with online reviews
  - Personalize content and offers to the right customer at the right time
  - Provide free shipping
  - Offer discounts
  - Provide exit offer on checkout

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