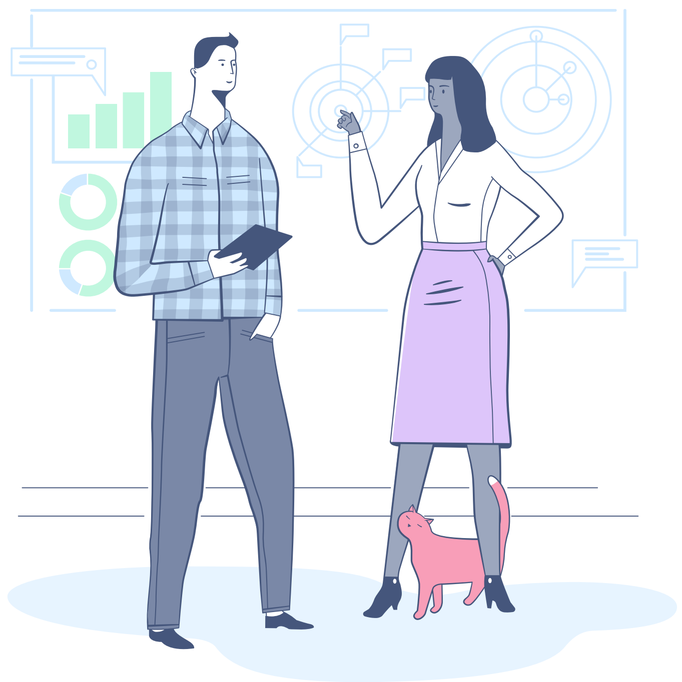
paddle

Customer Lifetime Value (CLV)

What is CLV?

How much revenue a typical customer will bring in during their relationship with your company.



Why measure CLV?

It's a viability measure:

High customer lifetime value is a sign of product-market fit and brand loyalty, giving a clear picture of how well your product or service resonates with your customers. This also helps you evaluate how well your company is likely to perform in the future.

Informs customer acquisition spending:

Your customer acquisition costs might exceed the value of the customer's first purchase. But that same customer could end up making you more money over time. Calculating CLV provides an actionable answer to this key question.

Enables more efficient marketing:

Understanding how your customers spend makes it easier to tailor your marketing efforts, to ensure you retain your most valuable customers while increasing revenue from less valuable ones.

How to calculate CLV

CLV = Average Monthly Recurring Revenue per User (ARPU) / Customer Churn Rate

Here's a quick explainer of the formula:

ARPU:
The average revenue of all your currently active user accounts. You can find it by calculating monthly recurring revenue / total number of users.

Churn rate:
The number of subscribers that unsubscribed or stopped paying in a given period of time. For example: You had 100 subscribers last year and lost 5, so your churn rate is 5%.

*Make sure that both ARPU and churn rate are taken from the same time period for which you want to measure CLV.

Top tip: You can calculate CLV based on historic purchase data or based on predictions of what your customers will spend in the future.

Four factors that affect CLV

1. **Price Point:** If you offer a range of services at different price points, customers will have different CLVs depending on the service they are subscribed to.

2. **Business model or product type:** CLV will differ depending on whether your product is designed for long-term use or if it naturally allows for customers to drop off after a certain period (for example when they've used your product to complete a finite task).

3. **Billing Model:** Customers expanding or contracting their use of the product during their time as a customer will alter your overall CLV.

4. **Customer segment:** Different types of customer have different purchasing patterns. Segmenting CLV by your different customer segments can help provide a clearer picture.