



Mu Sigma

Customer Strategy - 1

Do The Math

Chicago, IL
Bangalore, India
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July 5, 2018

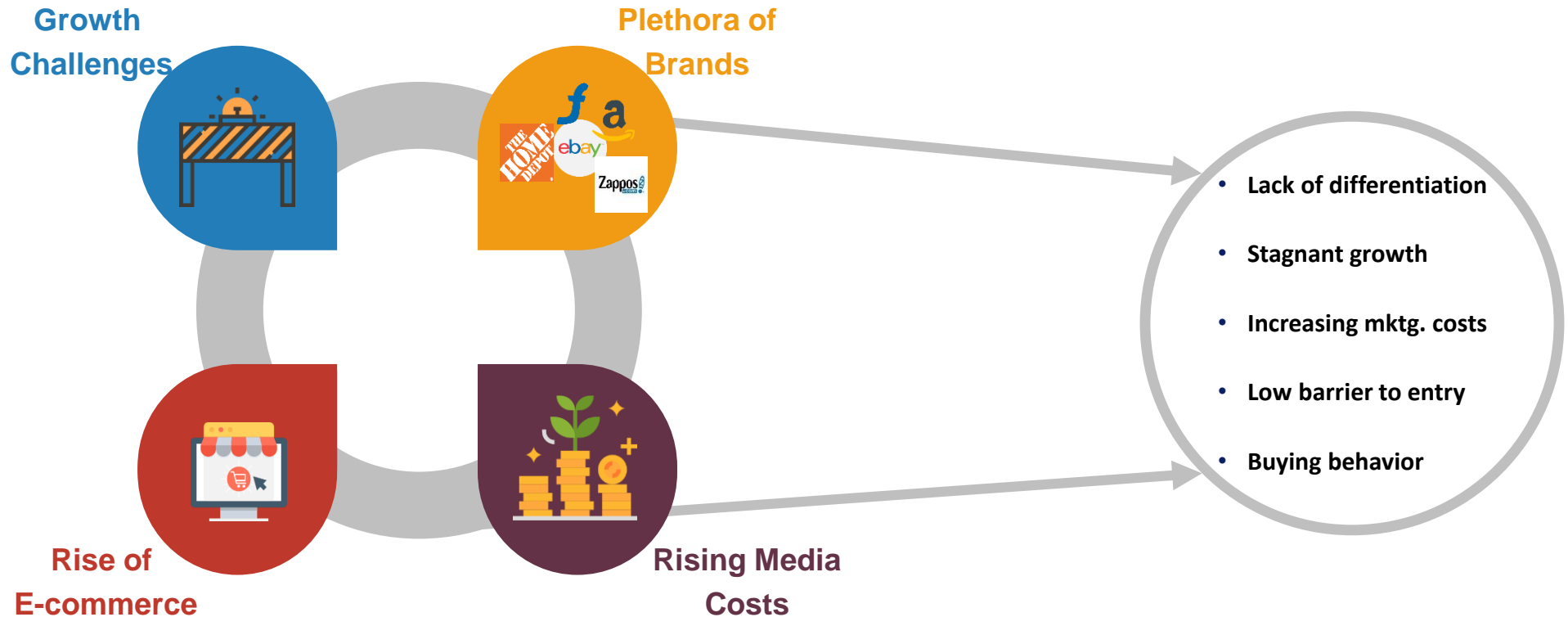
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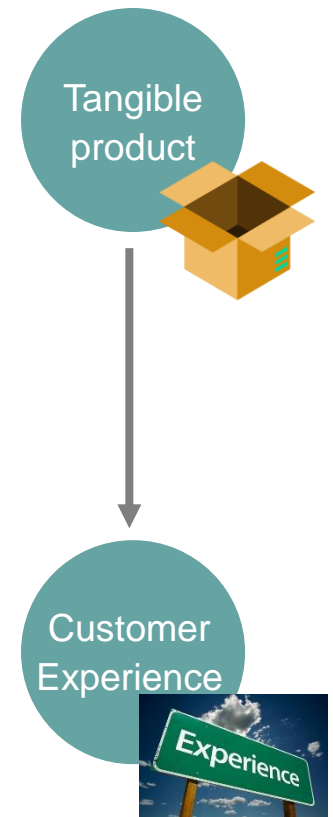
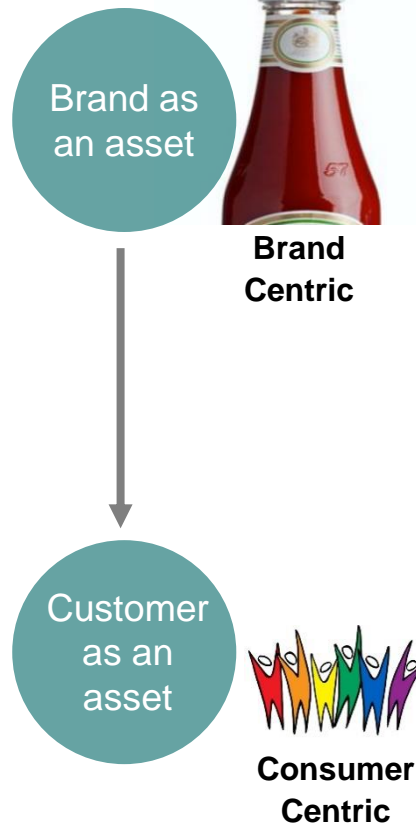
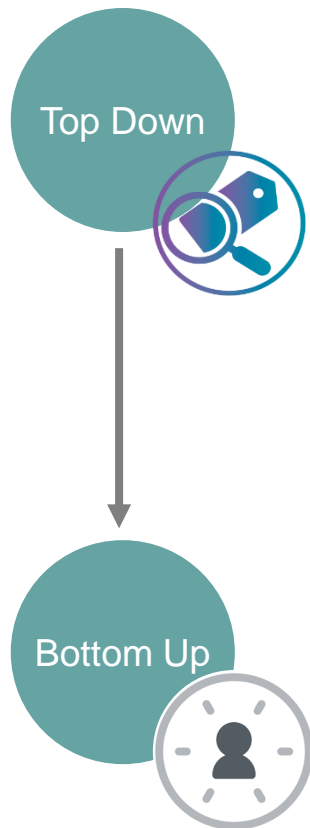
Let me ask you...



The Marketplace is constantly changing and therefore the old marketing rules no longer apply



The new market has significantly changed the way businesses think



The Customer is an asset!



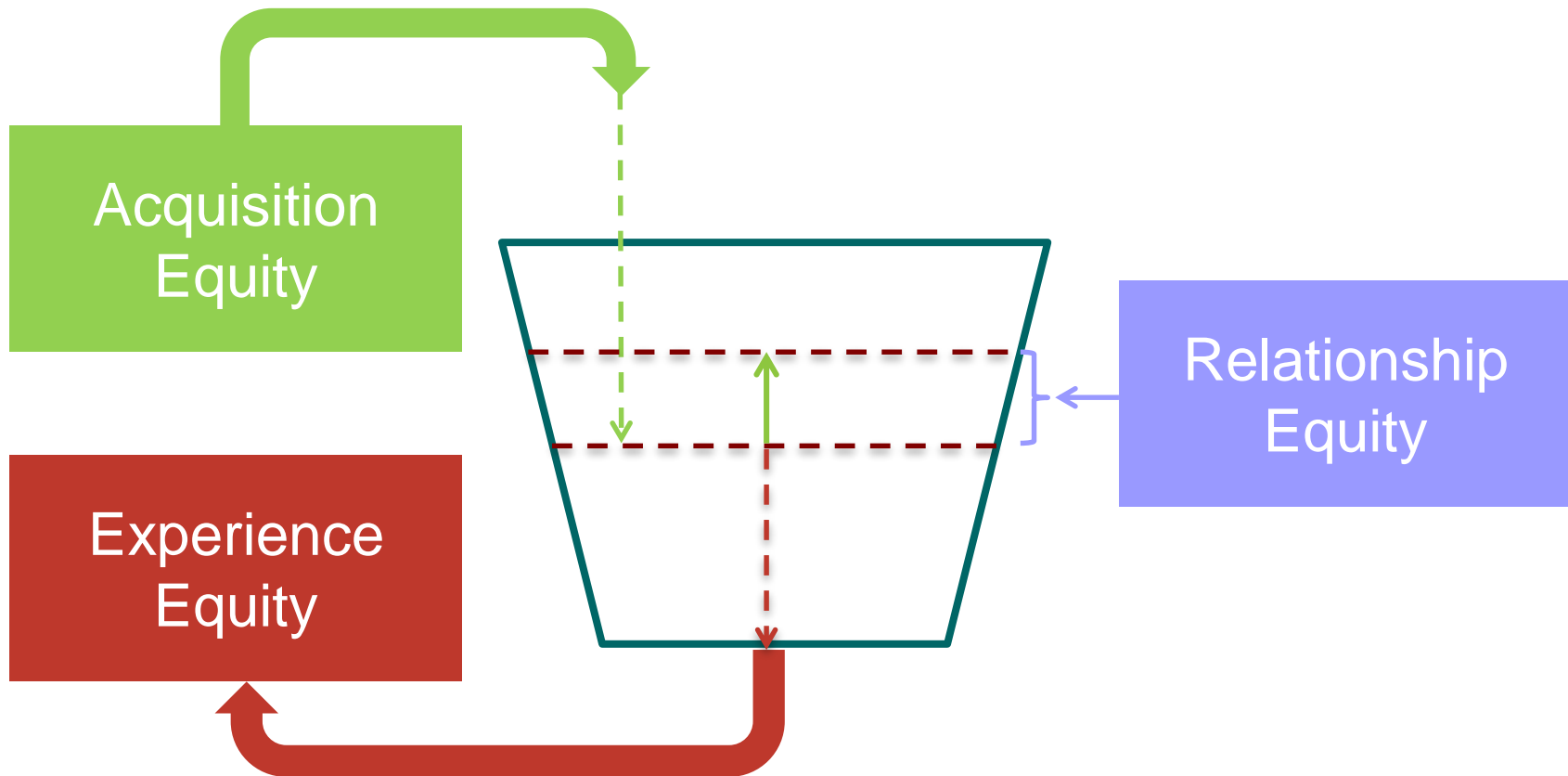
Vigil Aunty @famousaunty

Introducing all new travel pillow by #Indigo Airlines.



6:03 PM - 7 Nov 2017

“There’s a hole in the bucket dear Liza dear Liza...”



Understanding CLTV

Transaction v/s Relationship

Amortizing the cost of acquiring a customer over a period of time

Implication of retention

...not just retaining customers but enhancing the relationship with them over time

Organization level, segment level and customer level

CLTV calculation – a broad overview

Revenues

	2017	2018	2019
Key Items			
Customers Acquired	20,000	0	0
Retention %	0%	40%	45%
No of existing customers	0	8,000	3,600
Referred customers	0	1,000	480
% referred	0%	5	6
Total customers	20,000	9,000	4,080
Avg. customer value	1,500	1,600	1,700
Total Revenue	30,000,000	14,400,000	6,936,000

Costs

	2017	2018	2019
Key Items			
Total Revenue	30,000,000	14,400,000	6,936,000
Service costs	18,000,000	7,200,000	3,121,200
Service costs %	60%	50%	45%
Cost of acquisition	8,000,000	0	0
Cost of referral program	0	1,200,000	576,000
Loyalty set up	500,000	0	0
Loyalty running costs	0	70,000	70,000
Total costs	26,500,000	8,470,000	3,767,000

CLTV

	2017	2018	2019
Key Items			
Gross Profits	3,500,000	5,930,000	3,169,000
Discount rate	1.00	1.15	1.36
NPV	3,500,000	5,156,522	2,330,147
Cumulative NPV	3,500,000	8,656,522	10,986,669
LTV (Cumulative NPV/ Number of Customers			
	175	962	2,693

CLTV – An exercise!

Mr. Jones was acquired by the Auto mortgage team of a Bank

The expected revenue from Mr. Jones is \$300 in 2018, \$250 in

The Bank sells him another product – a personal loan in 2018. The cost of acquisition is just \$30 because the customer was in the database

Had the Bank acquired the customer for the personal loan from the market, the cost may have been \$500.

The revenues from personal loans is \$300 in 2019, \$250 in 2020 and \$250 in 2021.



Calculate the CLTV

The problem of ignoring Acquisition in the CLTV

If Mr. Jones had bought and stayed only an auto mortgage, his revenues would have been \$800 and cost \$500 to acquire.

CLTV is \$300.

If Mr. Jones had been sold the auto mortgage by one product group and a personal loan from another product group, the revenues would be \$1600 and \$1000 cost to acquire.

CLTV is \$600.

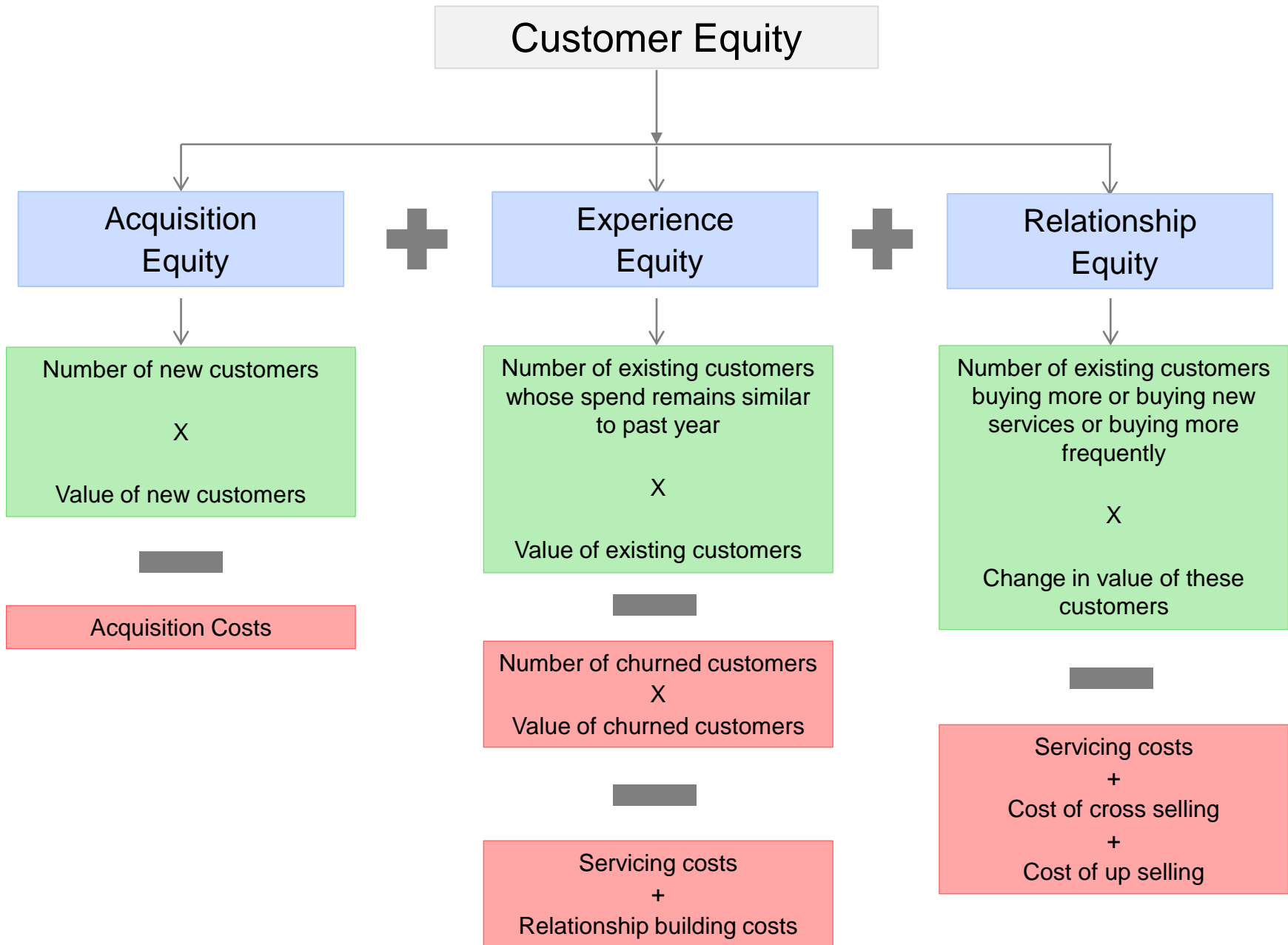
If Mr. Jones were treated as an asset belonging to the bank, then the cost of acquisition would be \$530 ($\$500 + \30) first selling him an auto mortgage and then upselling a personal loan - and revenues would be \$1600.

CLTV would be \$1070.

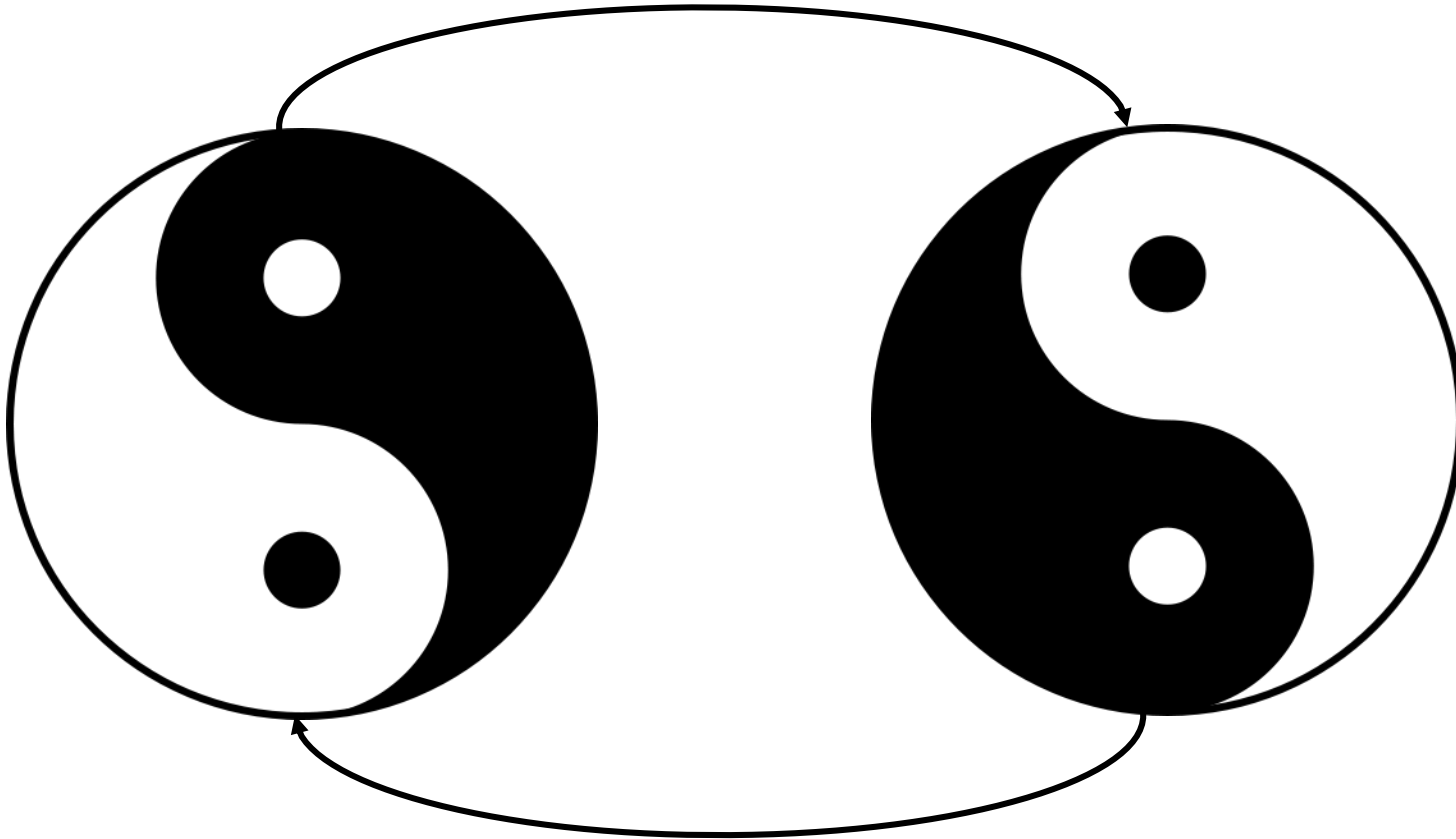
Remove acquisition costs and see what happens?

Another question for you...





The beginning and end of Customer Strategy



CLTV/ Customer Equity – illustration of decisions one can make

RETENTION

- Which customers should we retain?
- How much should we spend on retaining them?
- How can we reward and recognize our “gold” customers?
- Which customers should we let go?
- Which aspects of the experience are most critical to impact?



ACQUISITION

- Which customers should we target?
- How can we best reach these customers?
- How much should we spend on acquiring new customers?
- How can we get more referrals from existing customers?

RELATIONSHIP

- To which customers should we cross sell?
- How can incentivize the “silver” customers to move to “gold”?
- How can we reward and recognize our “gold” customers?

Acquisition



Retention



Expansion



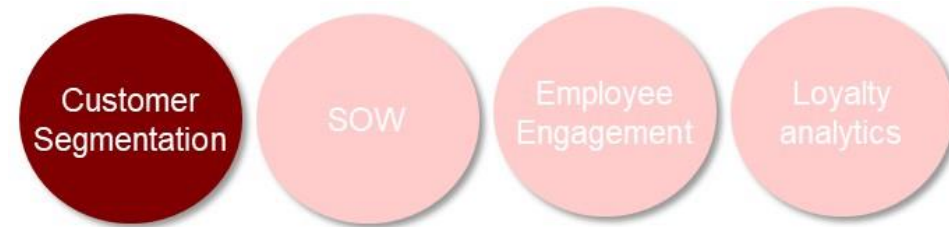
Acquisition



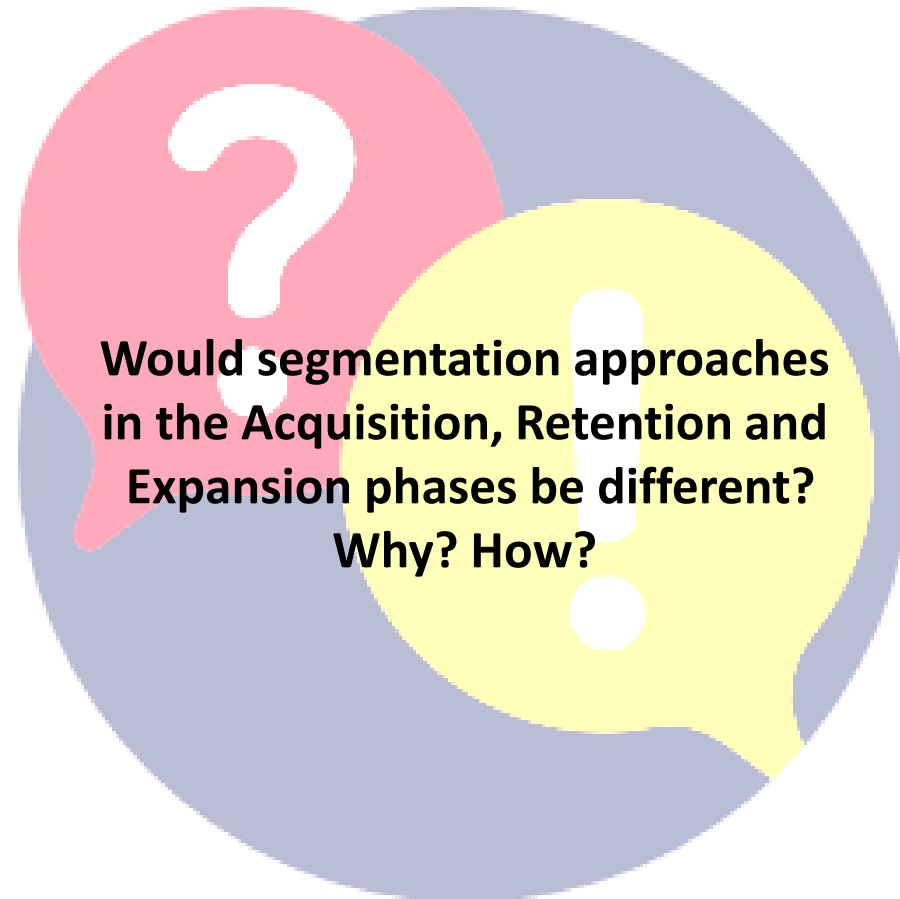
Retention



Expansion



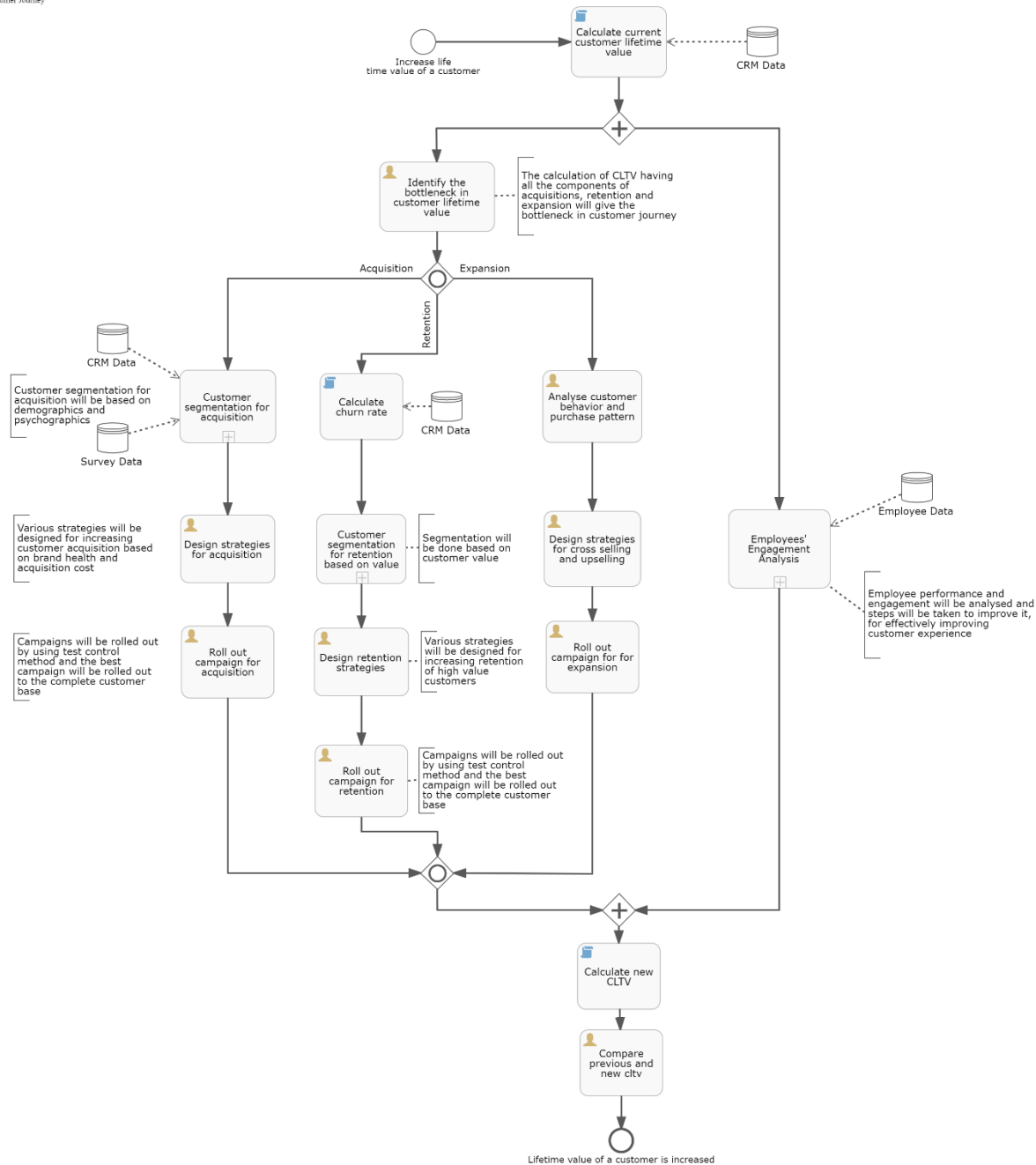
One more question for you...



**Would segmentation approaches
in the Acquisition, Retention and
Expansion phases be different?
Why? How?**

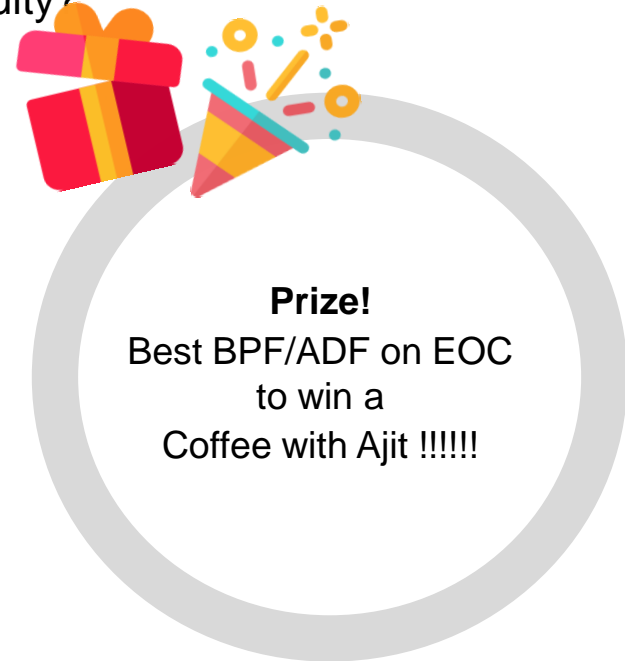


CLTV EOC...A new Journey



Home Work

- ▶ Rework a POV for a CLTV project that you have done.
- ▶ Prepare a BPF and ADF around CLTV
- ▶ Would segmentation approaches in the Acquisition, Retention and Expansion phases be different? Why? How?
- ▶ What is the difference between CLTV and Customer Equity?





Next Session – Customer Journey



Thank You