QUANTIFYING YOUR STRATEGIC CUSTOMER'S LIFETIME VALUE

What's at stake if you lose a strategic customer? To find out, calculate their lifetime value with the following steps:

Step 1

GRADE

Grade the relationship from A for excellent to F for failing:

____

Step 2

ANNUAL SALES

Write the annual revenue that the customer generates:

$______________

Step 3

RELATIONSHIP REVENUE

Multiply the annual sales from Step 2 by the number of years relationships typically last for your company (use 10 if you're not sure):

______ X $___________ = ____________

Years — Annual Sales — Relationship Revenue

Step 4

PROFIT MARGIN %

If possible, use Option 1 and start with your firm's average gross margin percentage and adjust for SAM.* If you cannot estimate, use Option 2 (the Relationship Revenue calculated in Step 3) as your estimated Lifetime Value:

Option 1:

______%

Margin

-OR-

Option 2:

$______________

Relationship Revenue

**Decrease* SAM Margins for Volume Discounts, Co-investment, and Extra Resources Required. *Increase* SAM Margins for Longer Relationships, More Opportunities to Share in Value Created, and Introductions to New Markets.

Step 5

THE BOTTOM LINE

Multiply the profit margin from Step 4 by the relationship revenue from Step 3:

_____% X $__________ = $__________

Margin — Revenue — Lifetime Value

SOURCE: THE SEVEN KEYS TO MANAGING STRATEGIC ACCOUNTS, SHERMAN, SPERRY & REESE, PGS.134-135