



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

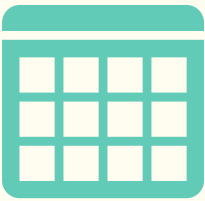


ANNUAL SALES

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):

$$\begin{array}{ccccccc} \underline{\hspace{2cm}} & \times & \$ \underline{\hspace{2cm}} & = & \underline{\hspace{2cm}} \\ \text{Years} & & \text{Annual Sales} & & \text{Relationship} \\ & & & & \text{Revenue} \end{array}$$

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:

$$\begin{array}{c} \underline{\hspace{2cm}} \% \\ \text{Margin} \end{array}$$

-OR-

Option 2:

$$\begin{array}{c} \$ \underline{\hspace{2cm}} \\ \text{Relationship Revenue} \end{array}$$

*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:

$$\begin{array}{ccccccc} \underline{\hspace{2cm}} \% & \times & \$ \underline{\hspace{2cm}} & = & \$ \underline{\hspace{2cm}} \\ \text{Margin} & & \text{Revenue} & & \text{Lifetime Value} \end{array}$$