How To Figure Out Your Customer Lifetime Value

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1. **Determine Your Average Customer Expenditure**
   
   For example, if you have 5 orders that each spend: $12, $23, $150, $45 and $60, you would do this:
   
   \[
   12 + 23 + 150 + 45 + 60 = \frac{290}{5} = $58 \text{ is your average order.}
   \]

2. **Determine Your Average Customer Purchase Cycle**
   
   How often do your customers come back to spend money with you again. Is it a week? A month? A year?
   
   Maybe they bought 8 times, 6 times, 12 times, 3 times and 7 times per year.
   
   \[
   8 + 6 + 12 + 3 + 7 = 36
   \]
   
   \[
   36 / 5 = 7.2 \text{ times per year is your average purchase cycle.}
   \]

3. **Determine Your Average Customer Value Per Year**
   
   Now put those two individual customer numbers together and let’s get a firm average customer value per year.
   
   So if Mr. $12 buys from you 8 times a year (12×8), he’s worth $96 per year. Say the rest of your customers are worth $138, $1800, $135, and $420.
   
   \[
   96 + 138 + 1800 + 135 + 420 = \frac{2589}{5} = $517.80 \text{ is your average customer value per year.}
   \]

4. **Determine Your Average Lifetime Customer Value**
   
   How many years you think your average lifespan is. Is it 5 years? 15? 25?
   
   Let’s say your average customer stays with you and reorders your birdseed for 10 years. That brings your average customer LTV to $5,178. You now have your LTV.