

Management Pillar: Organizing Your Business Around "Lifetime Value"



As you build your business, it's going to be increasingly important for you to measure and make decisions based on the "lifetime value" of your customers. The lifetime value is the average "total amount of purchases" a customer makes over their lifetime of doing business with you. Start by taking your total lifetime business sales and dividing by your total number of customers to get a "quick and dirty feel" for the process. Next, see if you can get more accurate in order to make better investment decisions.

Quick And Dirty Lifetime Value

1) Begin with the total lifetime sales of your information product business. This would be the total amount of sales your business has done since it started.

2) Next, take the total sales of your business and divide by the total number of customers that have purchased from you.

This will give you a number that isn't perfectly accurate, but starts directionalizing your mind and preparing you for more accurate calculations and decision making.

Accuracy And Decision Making

Next, it's time to see if you can get a more accurate reading of the "true" lifetime value of one of your customers. One method is to calculate the lifetime values of customers that are a few years old. This allows them to "mature" - and it allows you to see how they purchase over a longer period of time. See if you can get a clearer picture of lifetime value so you can make better decisions. Finally, write down the lifetime value of a customer, and use it to make decisions about how much you can afford to invest to generate new leads and traffic to your website. This metric can help you make MUCH better decisions.