Chapter 3
Customer Lifetime Value

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ABSTRACT

This chapter indicates the prospect of customer lifetime value (CLV) and the importance of CLV in global marketing. CLV is the total of the financial profit, calculated from the existing period to the future. CLV develops the optimal strategies for customer engagement, promotes the understanding of potential value of a customer, and enables the workforce to effectively improve customer relationships. CLV can be a crucial perspective for costs to be associated with the promotions and communications to attract the new customers and retain the existing customers. CLV can help individuals estimate a customer's monetary worth to a business after factoring in the value of the relationship with a customer over time. The chapter argues that promoting CLV has the potential to enhance marketing performance and reach strategic goals in global marketing.

INTRODUCTION

Customer lifetime value (CLV) is the present value of all future profits obtained from customers over the life of their relationship with a company (Benoit & van den Poel, 2009). Companies have been increasing their focus on establishing and maintaining the good customer relations during the customers' life in the company (Haenlein, Kaplan, & Beeser, 2007), and thus, researchers and practitioners have realized the importance of the lifetime value of customers. CLV is the value of a customer's entire lifetime with the company, forecasts in the literature usually focus on a short-time period (Donkers, Verhoef, & de Jong, 2007).

CLV has been studied under the name of customer value, customer equity, and customer profitability (Kahreh, Tive, Babania, & Hesan, 2014). CLV, as an important metric in customer relationship management (CRM), has attracted the widespread attention over the last decade (Chen & Fan, 2013). In relationship marketing, CLV is the discounted profit streams of a customer across the entire customer life cycle (Ma, Li, & Chen, 2008). Companies can manage customers with different age groups, gender, and self-construal characteristics with different strategies to maximize benefits at different levels of customer loyalty to improve CLV (Qi, Qu, Zhou, & Li, 2015).

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This article aims to bridge the gap in the literature on the thorough literature consolidation of CLV. The extensive literatures of CLV provide a contribution to practitioners and researchers by indicating the important perspectives on CLV in order to maximize the impact of CLV in global marketing.

BACKGROUND

Berger et al. (2006) indicated that companies need to consider revenues and costs based on cash flow of profits in measuring CLV. CLV is the sum of the revenues gained from company's customers over the lifetime of transactions after the deduction of the total cost of attracting, selling, and servicing customers, taking into account the time value of money (Hwang, Jung, & Suh, 2004). Companies can be more profitable if they identify the most profitable customers and invest disproportionate marketing resources in them (Malthouse & Blattberg, 2005). A profitable customer is one who can create profits, increase revenues, and assist in reducing losses (Kotler & Armstrong, 1996), and the difference between the revenues and costs generated by a customer is CLV (Dwyer, 1989).

CLV is presented to evaluate customers in terms of recency, frequency, and monetary (RFM) variables (Cao, Yu, & Zhang, 2015), toward to describe the value of a client through time in terms of profitability (Moro, Cortez, & Rita, 2015). Measuring RFM is an important method to evaluate CLV (Liu & Shih, 2005). Bult and Wansbeek (1995) explained the RFM terms (i.e., recency, frequency, and monetary perspectives). R (Recency) is the period since the last purchase, and a lower value corresponds to a higher probability of the customers making a repeat purchase. F (Frequency) is the number of purchases made within a certain period. Higher frequency indicates higher loyalty. M (Monetary) is the amount of money spent during a certain period. A higher value indicates that the company should focus more on that customer (Bult & Wansbeek, 1995).

IMPORTANT PERSPECTIVES ON CUSTOMER LIFETIME VALUE

This section emphasizes the prospect of CLV and the importance of CLV in global marketing.

Prospect of Customer Lifetime Value

Customer lifetime value (CLV) is viewed as the present value of the future cash flows associated with a customer (Pfeifer, Haskins, & Conroy, 2005). The main goal of CLV is to specify the importance level of each customer for a company (Hiziroglu & Sengul, 2012). CLV considers a customer's value to the company based on predicted future costs and transactions (Kumar, 2010). Glady et al. (2009) defined CLV as the discounted value of future marginal earnings, based on the customer's activity. Knowing the CLV of individual customers enables the decision maker to improve the customer segmentation and marketing resource allocation efforts (Kim & Lee, 2007) and this perspective will lead to the higher retention rates and profits for the company (Hawkes, 2000).

CLV models can estimate the value of a customer over the entire customer's lifetime (Kahreh et al., 2014). The application of CLV in marketing, used for segmenting customers or formulating strategies, has been found in literature (Cheng, Chiu, Cheng, & Wu, 2012). Kim et al. (2006) proposed a CLV computation model considering the past profit contribution, potential benefit, and defection probability