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Customer Lifetime Value in Organizations

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***Abstract*— Companies have shown their interest to be customer oriented rather than product oriented. They prefer to be more customer oriented coupled with having more customer data accessibility which is both possible through Customer Lifetime Value (CLV). The main goal of CLV is to specify the important level of each customer for a company. It shows that how much customers are worth to the company over the length of time that they count as the company's customer. Also CLV is a metric for deciding whether a group of customers have enough value to be acquired, retained, continued the relationship with them or not. Through this study CLV and its three main parts known as customer acquisition, customer retention, and customer development are discussed.**

***Index Terms*— Customer Acquisition, Customer Development, Customer Lifetime Value,Customer Retention**

I. INTRODUCTION

This article is a review article which reviews the past literatures regarding CLV and discusses therelated researches to this article which have previously published by others.

In different businesses, it is not correct to give equal time and behaviour to all customers and it might not be useful to retain relationship with all customers, as some might cost a lot to service (Knox *et al.*, 2003; Becker *et al.*, 2009; Ekinci *et al.*, 2014). Companies want to train customers with long-term relationships to create more sales and make more profits. Currently in many industries such as telecommunications companies, retailers and banks and so on, more emphasis is on customer information and transaction data collection to find out key customers of companies or their consumption behavior or even their consumption time interval(Ma *et al.*, 2011).

Also, the move towards a customer-centered approach coupled with the increasing availability of customer transaction data has led to an interest in understanding and estimating Customer Lifetime Value (CLV) for the companies. Knowing the CLV of individual customers enables the decision maker to improve the customer segmentation and marketing resource allocation efforts (Kumar *et al.*, 2006; Kim and Lee, 2007) and this in turn will lead to higher retention rates and profits for the firm (Hawkes, 2000).However, since not all customers are financially attractive to the firm, it is crucial that their profitability be determined and that resources be allocated according to the CLV (Sohrabi and Khanlari, 2007).

II. CUSTOMER LIFETIME VALUE

Customer Lifetime Value (CLV) has been studied under the name of LTV, customer value, customer equity, and customer profitability (Hwang *et al.*, 2004; Sohrabi and Khanlari, 2007; Kahreh and Kahreh, 2012).To the best of our knowledge, it was Bursk(1966) who introduced the concept now commonly referred to asCLV with his suggestion that firms use the "investment value" of a customer to guide marketing spending decisions. Attention directed toward CLV helps shift focus from transactions (finding more buyers for the firm's products) to relationships (finding more ways to serve the firm's customers). Using CLV to guide marketing decisions also encourages firms to recognize differences among customers and begin to create value though differential treatment. For these and other reasons, the concept of CLV receives much attention from marketing practitioners and academics (e.g., Rust *et al.*, 2000; Blattberg *et al.*, 2001; Gupta *et al.*, 2006; Blattberg *et al.*, 2009).

CLV has been a topic of interest for some years upon which plenty of academics and marketing managers have been dwelling. The main goal of CLV is to specify the importance level of each customer for a company. Such questions as what sort of marketing strategies should be preferred for which customers, how much investments should be made for them and which marketing campaigns should be followed can all be determined by calculating lifetime value of customers(Hiziroglu and Sengul, 2012).

Strategically, CLV is a key concept for any business includes retail and marketing based business and understanding on it will transform the business perspective to a great performance, both current and future prospects (Kumar *et al.*, 2006; Berman and Evans, 2007; Baum and Singh, 2008; Epstein *et al.*, 2008; Glady *et al.*, 2009). Fundamentally, retailer can use CLV to estimate the current value of all its customers. Customer is an asset to the business (Gupta and Lehmann, 2003) and retailers must know how to valuing their customers (Gupta *et al.*, 2004). How much the business valuing the customers is more important, rather than how the business values them.

Moreover, CLV is a way of measuring how much customers are worth to a corporation over the length of time that they are considered to be the corporation's customers. The lifetime for customers will vary from industry to industry and from brand to brand (Aghaie and Jafari, 2006). The lifetime of customers comes to an end when their contribution becomes so small to be significant, unless steps are taken to revitalize them. In this regard, extending customer life cycles has to be taken into consideration(Aghaie, 2009). CLV is a disaggregate metric that can be used to identify profitable customers and allocate resources accordingly (Kumar and Reinartz, 2006).

In addition, CLV is used as a metric for deciding whether a group of customers is worth acquiring(Blattberg *et al.*, 2008), as a means to value the firm (Gupta *et al.*, 2004), and as an objective to be managed(e.g., Blattberg *et al.*, 2008; Kahn *et al.*, 2009, , Chapter 28).By understanding and managing CLV a company not only allocates resources to its customers more effectively, but also becomes better able to focus on developing long-term customer relationships(Tavakolijou, 2009).

CLV can be used as an indicator for assessing a customer's worthiness. It is often used among the medium to large organizations for predicting future revenues from their customers. CLV can be widely used in various domains of different natures, purposes and objectives. CLV is the best basis for making decisions on the market and customer strategy. Through the prediction of the customers' profitability, an organization can drive the business decision on how much to invest in a customer for profits optimization(Yean and Khoo, 2010).

There are different divisions for CLV but this study aims to follow Buttle (2008) who believed in CLV as three main management processes consisting of customer acquisition, customer retention, and customer development.

A. CUSTOMER ACQUISITION

Some companies' processes are not suitable to know their profitable customers correctly. Targeting right customers and acquiring them entail an attention to matching customers with future profitability, running company offerings, and helping the overall business risk. Customer acquisition helps those new product start-ups and new business launches that want to attract more customers.

According to Gupta and Zeithaml(2006) customer acquisition refers to the first-time purchase by new or lapsed customers. This kind of process could be a risky and costly step, especially with new customers as they might not be a suitable match for the firm's value proposition (Bolton and Tarasi, 2007).

B. CUSTOMERRETENTION

Most of the times customer retention is cheaper and easier than customer acquisition especially in constant markets which has low growth rates. Retaining profitable customers increases a firm's overall profitability (Kumar and Rajan, 2009).

In addition, customer retention is the probability of a customer being "alive" or repeat buying from a firm. In contractual settings (e.g., cellular phones, magazine subscriptions), customers inform the firm when they terminate their relationship. However, in non-contractual settings (e.g., buying books from Amazon), a firm has to infer whether a customer is still active(Gupta *et al.*, 2006).

C. CUSTOMER DEVELOPMENT

Customer development focuses on specific customers because all customers do not have the value to develop. The main goal of this process is to increase the value of retained customers to the firm which leads to enhancement of the growing value of retained customers. In addition to these, Murphy (2005) believed in customer development as a term which usually refers to two key areas of activity:

- Up-selling: selling more to the same customers, increasing 'share of wallet'.
- Cross-selling: selling other products to the existing customer base."

Those profits which have produced by customers at any time will change by up-selling and cross-selling.

III. SUMMARY

Companies want to train customers with long-term relationships. They have shown their interest to be more customer oriented and to have betteraccessibility to customer data. Customer Lifetime Value (CLV)and its three main management processes (customer acquisition, customer retention, and customer development) have made it easier for the companies to extend their relationship with the customers and make more profits. These three management processes help organizations to find the right way to acquire more customers, retain them, and then develop more relationships with those retained customers. CLV and its processes showed to the companies that all customers have no value to keep and to enhance the relationship. There should be a strategy in each company to realize high value customers, those customers that bring more profit to the company.

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