Customer Lifetime Value

Aisling Mcmahon

ELEVENSES

Explore what LTV is
Showcase what can be done,
Understand how to integrate in your business & how Google can help.

John Wanamaker, 1900s

"Half the money I spend on advertising is useless; the trouble is, I don't know which half."

John Wanamaker, 1900s

Most advertisers today are marketing to their average customer

13%

of organisations say they're making the most of their available data

Forbes Insights, 2018

Think with Google

62%

of people expect brands to deliver a consistent experience

(But only **42%** think they do)

Think with Google

We talk-the-talk, but we do not walk-the-walk

**What Do You Consider To Be Important Ad Spending Optimization Metrics?**

Metric	% of Respondents, Global
Customer Lifetime Value	27%
Impressions / Web Traffic	19%
Brand Recognition & Lift	18%
Closed-Won Business	15%
Last-Click Attribution	13%
Multi-touch Attribution	8%

% of Respondents, Global

16%

Of CMO's say they are measuring LTV *accurately*

Google

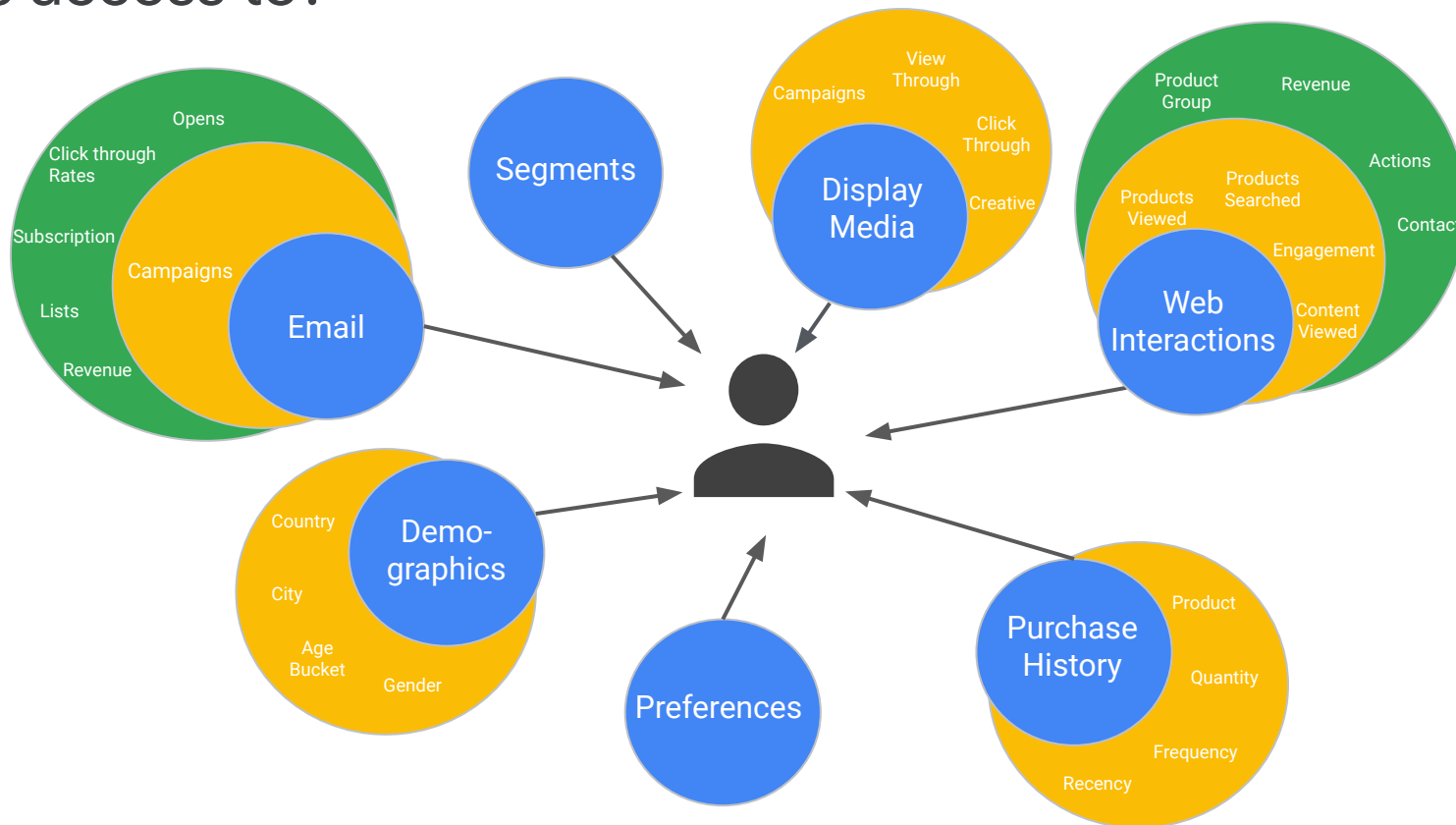**Source:** Mary Meeker - Internet Trends (2018), eMarketer - CMO Council (2016)

How do we identify, understand, and reach our <u>most valuable</u> customers based on all the information we have as a business?
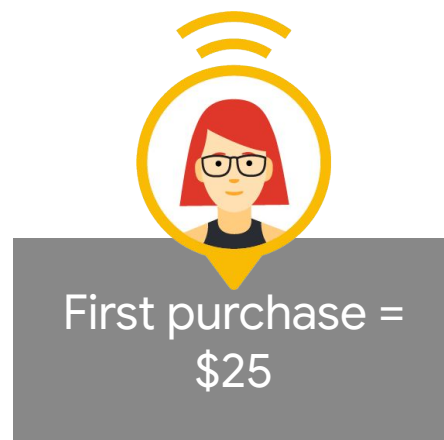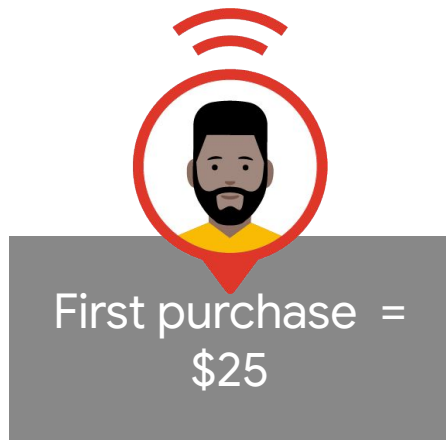
Most media optimisation is based on specific, data media teams traditionally have access to
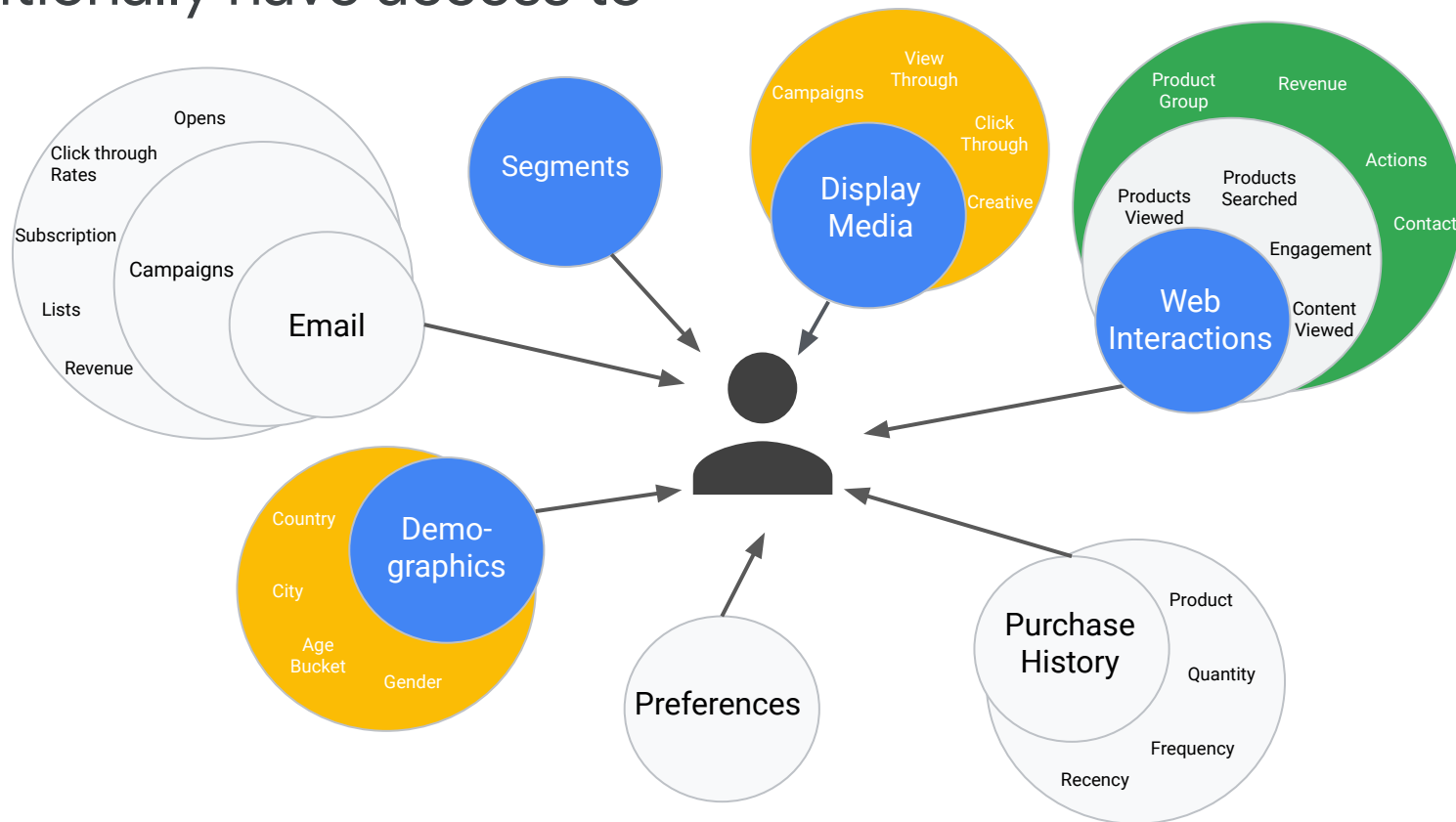
But what if we optimised our media campaigns with all data we have access to?

Today, 2 customers that make the same purchase are treated the same...

First purchase = $25

First purchase = $25

But are they?
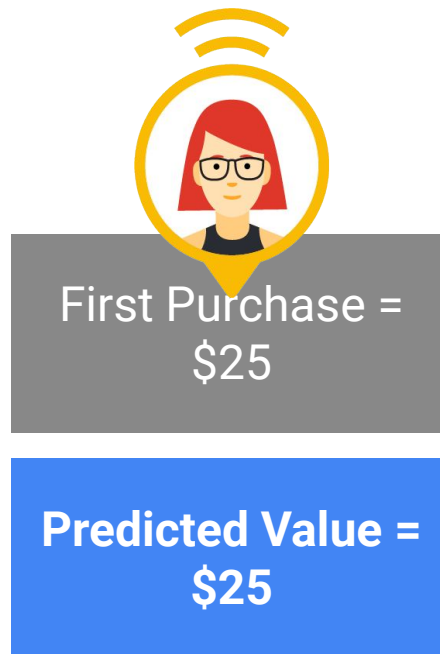

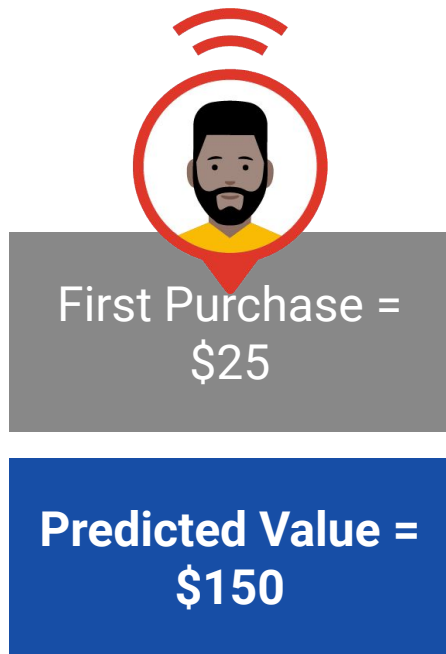Future Value = ?

Future Value = ?

Ultimately, we want to feed the value of every customer to our marketing tools for better, faster optimisation

First Purchase = $25

First Purchase = $25

Predicted Value = $150

Predicted Value = $25

"On average, customers acquired from Google have a 24% higher lifetime value than customers acquired from other channels. The difference is even larger (27.8%) for those whose engaged with Google advertising first and then purchased offline."
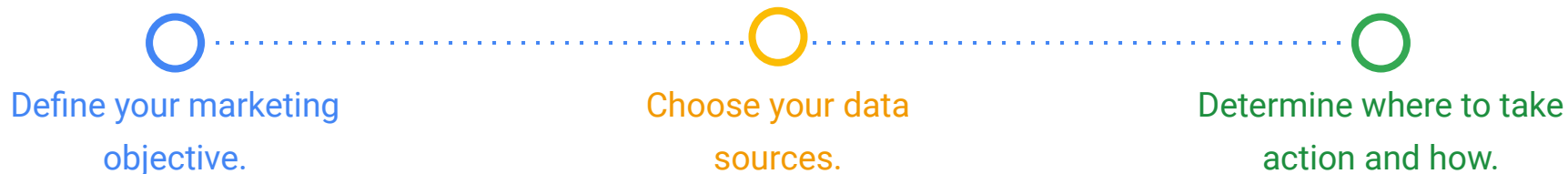
Measuring the Lifetime Value of Customers Acquired from Google Search Advertising
Tat Y Chan, Chunhua Wu, Ying Xie

95%

reduction in campaign optimization time by using machine learning to predict the value of new leads

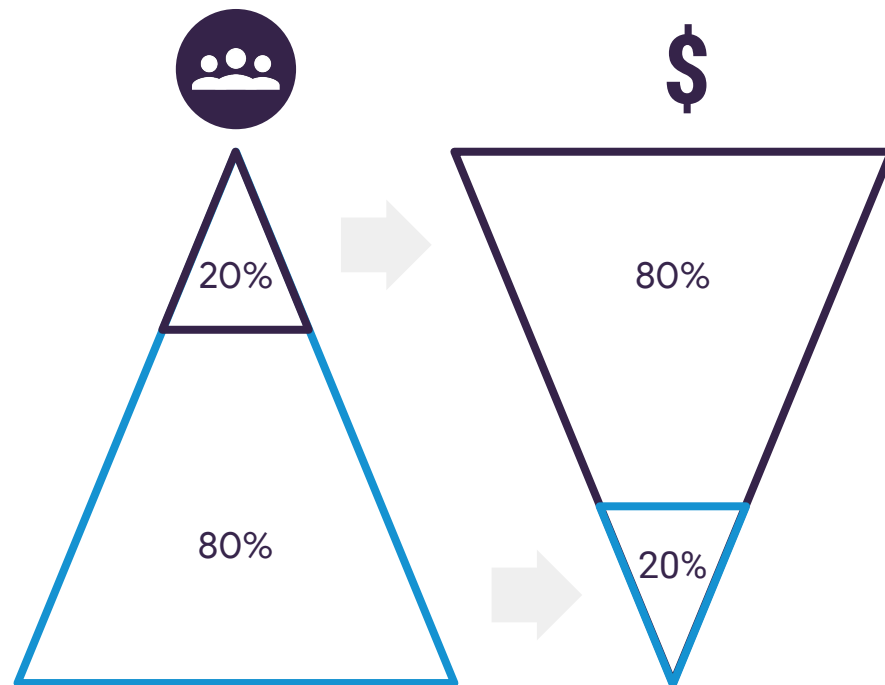# This approach is not the same for every client

Define your marketing objective.

Choose your data sources.

Determine where to take action and how.

How do we shift to Customer Centricity?

Google

Not all customers are equal.

Reallocation of marketing spend according to customer value prediction

Before LTV

Expected customer value

Overinvestment

Business value

Missed opportunity

A B C D E

Customer type

Marketing spend equally on all customers flat marketing spend ignored expected customer value

After LTV

Expected customer value

Marketing spend reallocation

A B C D E

Customer type

Marketing spend optimized by expected customer value
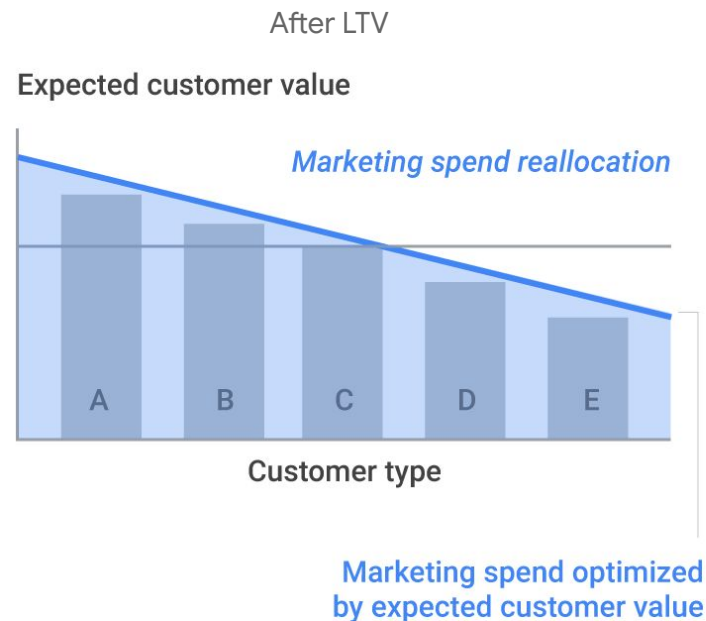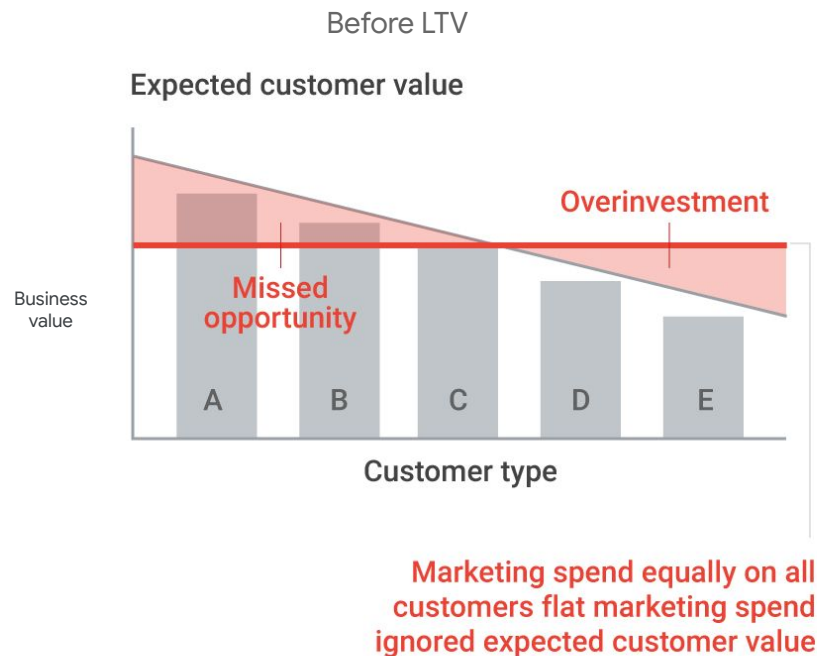
Why now?

Reach
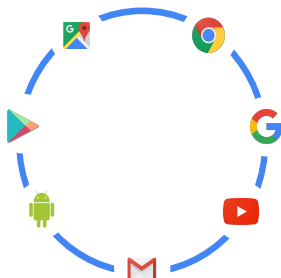
Scale

AI-First

As customer data evolves, we rely less on manual efforts and more on simple, accurate algorithms to help us...

Identify

the best customers based on value

Understand

what makes the best customers unique

Find

more of your best customers

Lifetime Value help you to selectively choose whom to advertise– those users who fit your customer segment(s), and are most likely to convert multiple times, and become loyal customers.
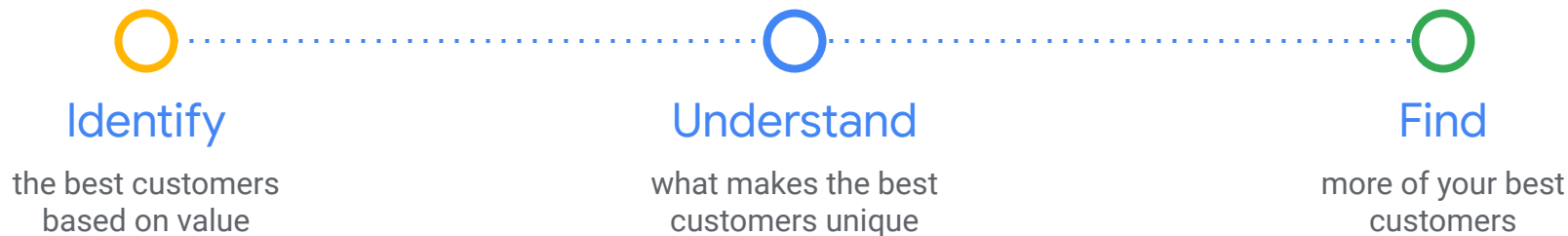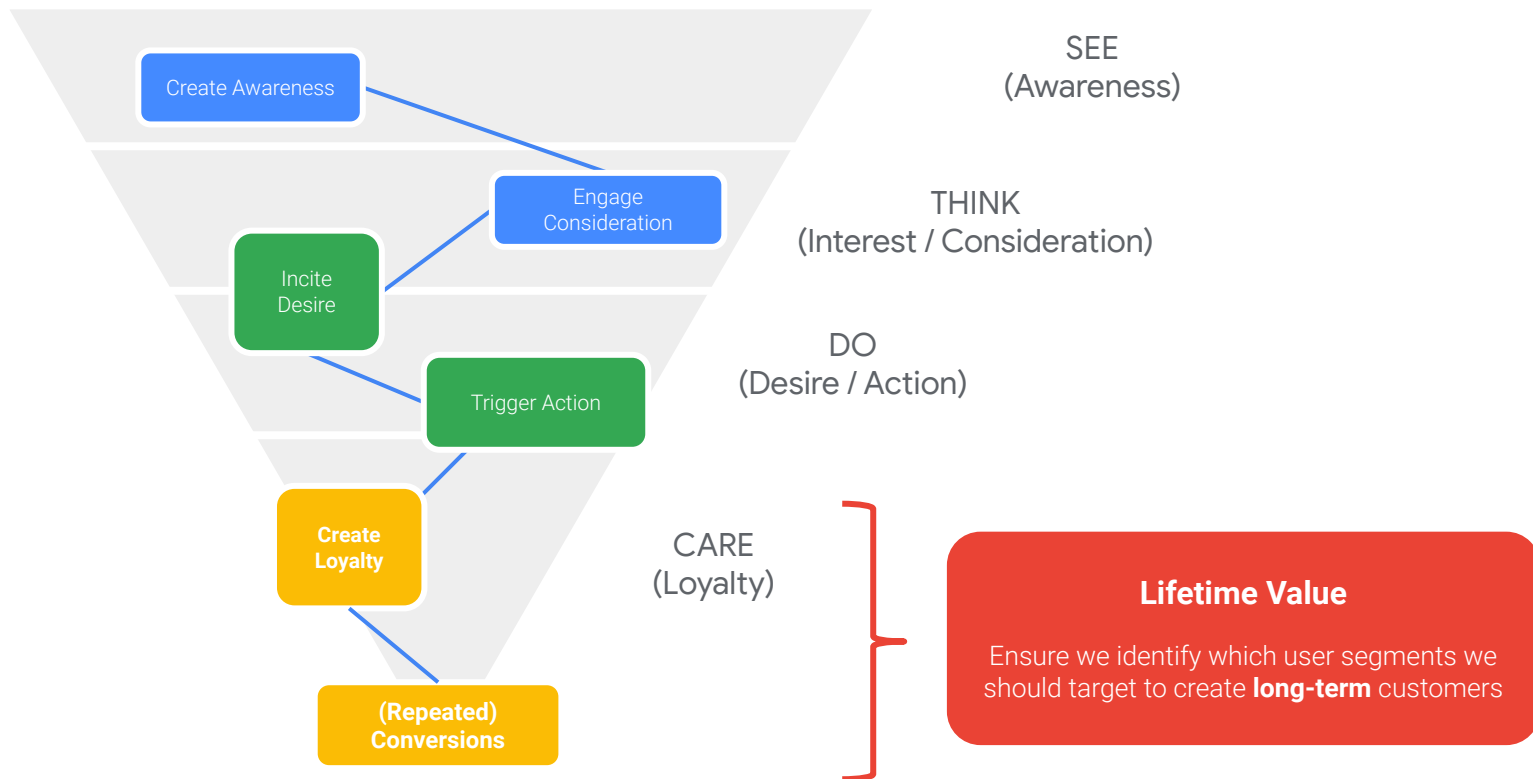
AUDIENCES

Upper Funnel **SEE**	Mid Funnel **THINK**	Lower Funnel **DO**	Loyalty **CARE**
Create Awareness and Build up Consideration	Connect with considering, but undecided customers	Be There when users take action and look for your product or brand.	Re-Engage your existing and loyal customers

Affinity

Rmkt

Customer Match

In-Market

In-Market

Custom Match

Rmkt

Custom Match

Rmkt

Custom Match

What is Customer Lifetime Value?

Why is it critical to leverage CLV?

Digital Marketing is more valuable when you have the ability to *bid accurately based on customer profitability*.
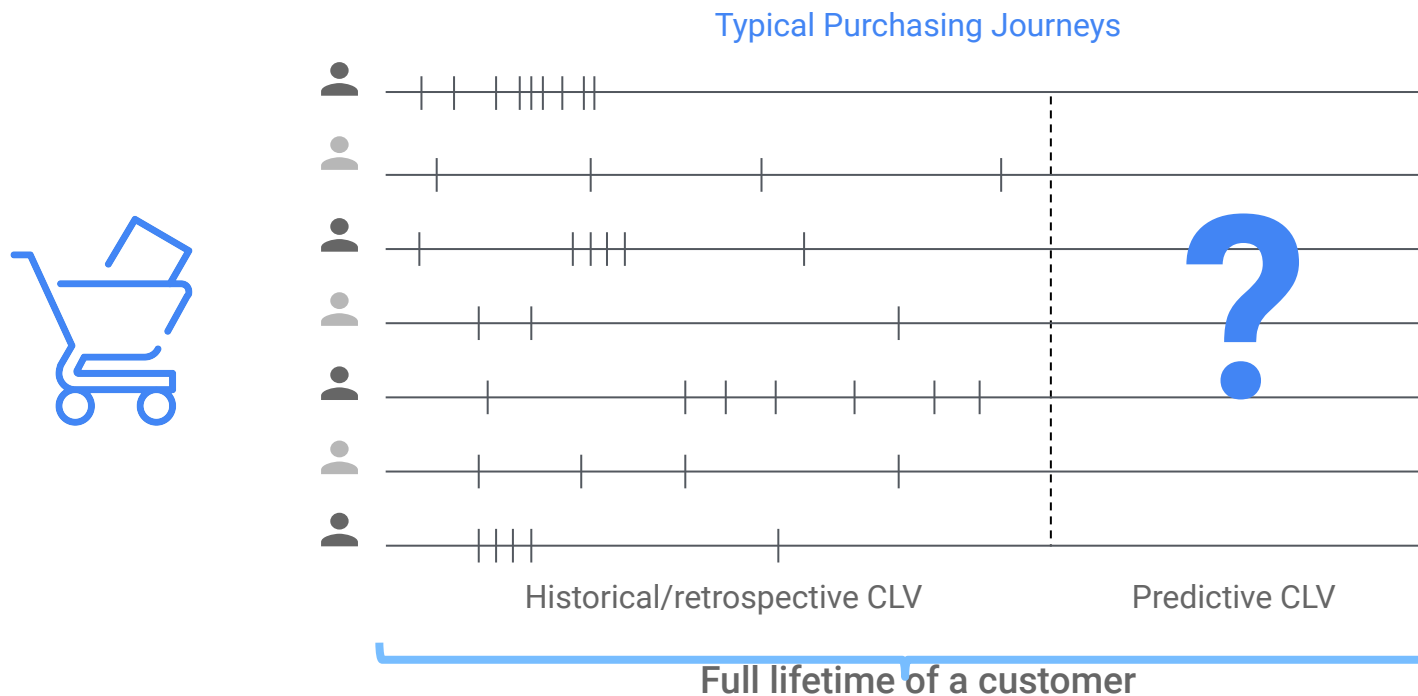
Using this metric to score customers helps determine:

Your MOST VALUABLE customers

in terms of *long term quality*.

Ultimately this can drive critical strategic decisions, such as:

❖ Who should we target? Who should we exclude from targeting?

❖ What offers/products/services should we provide?

❖ How should we drive customer loyalty?

What should we consider?

Typical Purchasing Journeys

Historical/retrospective CLV

Predictive CLV

Full lifetime of a customer

What should we consider?

Most revenue

Highest CLV

Least revenue

Lowest CLV

Customers who were valuable in the past
may not always be valuable in the future

5 Steps to shift to customer centricity and integrate into your marketing strategy

SPONSOR   ORGANIZE   SEGMENT   ACTIVATE   EXPERIMENT

Sponsor project and align key stakeholders

Google

Sponsor project and align key stakeholders

Who do you need to find the right sponsor?

#1 What is CLV?
Key Concepts: **Long term** focus on all of a customer's interactions with a firm. Value customer differences.

#2 Why should I care?
Key Concepts: Customer centricity, accurate valuation of customers and marketing activities, **invest in valuable customers** and divest from those that aren't.

#3 What should I consider when undertaking a CLV effort?
Key Concepts: Historical vs. Future (predicted) CLV, Organizational change management.

Customer Lifetime Value helps you distinguish your **best customers**

Segment	Expected Spend	Total Spend	% of Revenue
1	$1,842	$360 million	67%
2	$318	$65 million	13%
3	$156	$34 million	9%
4	$90	$21 million	6%
5	$65	$15 million	5%
Total	$219	$495 million	100%

Ultimate Stakeholder: Shareholders

"Our long-term investments in further developing our logistics networks, international business, and in scaling headcount to improve our product and service offerings are **resonating strongly with new and returning customers**. By focusing on **bringing customers the best possible experience** in shopping for the home, from the home, we are leading the way in our category. "
- Niraj Shah, CEO, co-founder and co-chairman, Wayfair

They highlight customer lifetime value in their earnings report (per Q2'18 earnings report):

- *Repeat customers* placed 4.3 million orders in the second quarter of 2018, an increase of 61.3% year over year

- *Average order value* was $254 for the second quarter of 2018, compared to $258 in the second quarter of 2017

Organize data for customer analysis

Google

Organize data for customer analysis

What to collect?

#1 What data do I need?
Key Concepts: Interaction data, often transaction-focused. Clean, vetted, trusted data.

#2 How do I need to arrange it?
Key Concepts: Based on customers instead of transactions. Summarize and discretize data. (RFM)

#3 What issues could I run into?
Key Concepts: Silos of data, Keys to link platforms, Offline data, 3P data

What data do I need?

❖   Customer interaction data, often revenue focused; people doing things over time

❖   Clean data over that time period;
        Remove any discrepancies or outliers that may have occurred

❖   Make sure the data is vetted and trusted by all stakeholders involved

Data in: What data do I need?

Required Data:

1. Unique Customer IDs (no PII)

2. Dates of transactions (date formats must be checked)

3. Transaction Value (no commas)

Recommended:

1. A csv file with at least 10k customer rows

2. At least 2 years of data with customers that have multiple purchases per year. If purchases are infrequent overall, we need 3+ years of data.

	cust	date	sales
1	50690	2012-06-30	40.0000
2	53829	2012-06-30	127.2625
3	56525	2012-06-30	365.0000
4	57680	2012-06-30	181.2218
5	57681	2012-06-30	272.8508
6	57682	2012-06-30	344.1178
7	57683	2012-06-30	130.3168
8	57687	2012-06-30	71.2670
9	57688	2012-06-30	100.0000
10	49842	2012-07-01	450.0000
11	57674	2012-07-01	66.1765
12	57675	2012-07-01	202.6019
13	57678	2012-07-01	39.7059
14	49594	2012-07-02	300.0000
15	57696	2012-07-02	161.8779

How do I prep my data appropriately?

The <u>most difficult</u> and <u>most important</u> part of the process

Arrange data by customers
- Examine transactions by customer, versus transactions alone
- Explore customer interactions in cohorts, e.g. acquisition date

Start with simple inputs
- A sample model will include Customer ID, Transaction Date, Transaction Value
- You could also think about looking at customers that churn across 2 or 3 relevant variables

Explore historical value
- Across time periods, e.g. months
- Across RFM (Recency, Frequency, Monetary Value)
- Across products, channels, etc.

Segment by customer value

Google

Segment by customer value

<table>
<tr><td rowspan="3">How to begin?</td><td>#1</td><td>What can I do with just historical data?
Key Concepts: Are people different? Do channels differ by CLV? Value segmentation</td></tr>
<tr><td>#2</td><td>Why do I need a model?
Key Concepts: Regression to the mean. Non-stationarity.</td></tr>
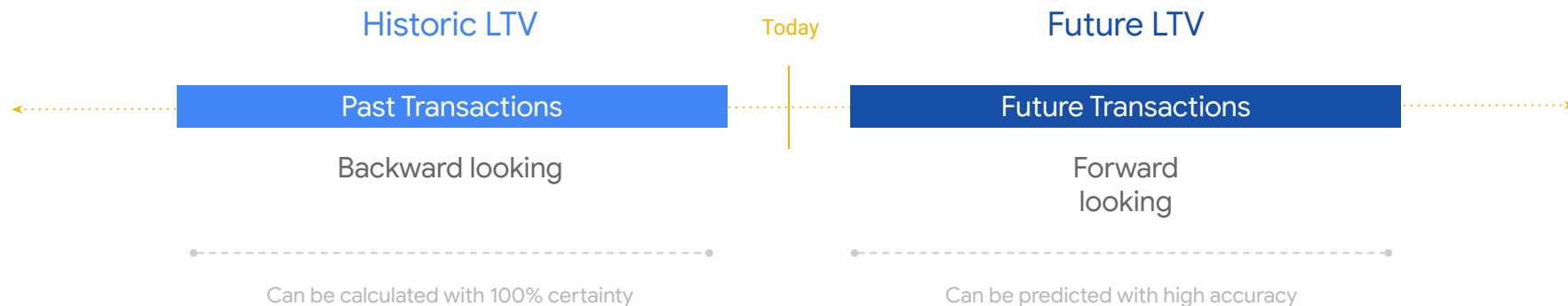<tr><td>#3</td><td>What does my model need to do?
Key Concepts: Modelling attrition, transaction frequency, transaction value.</td></tr>
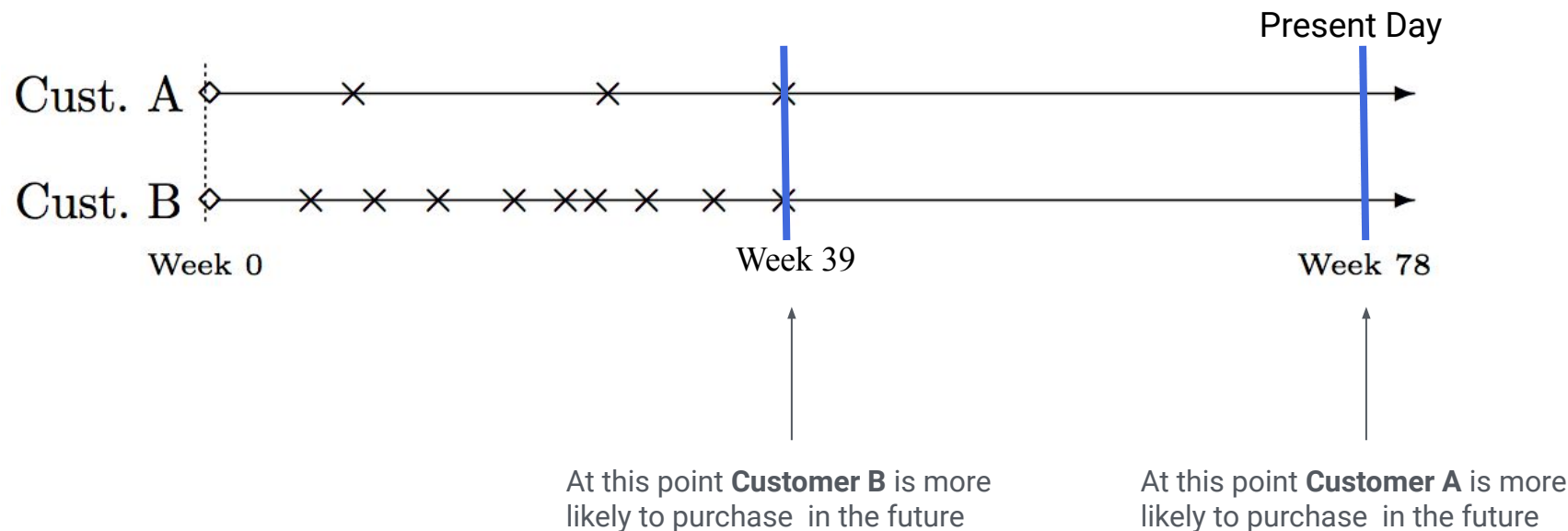</table>

Google

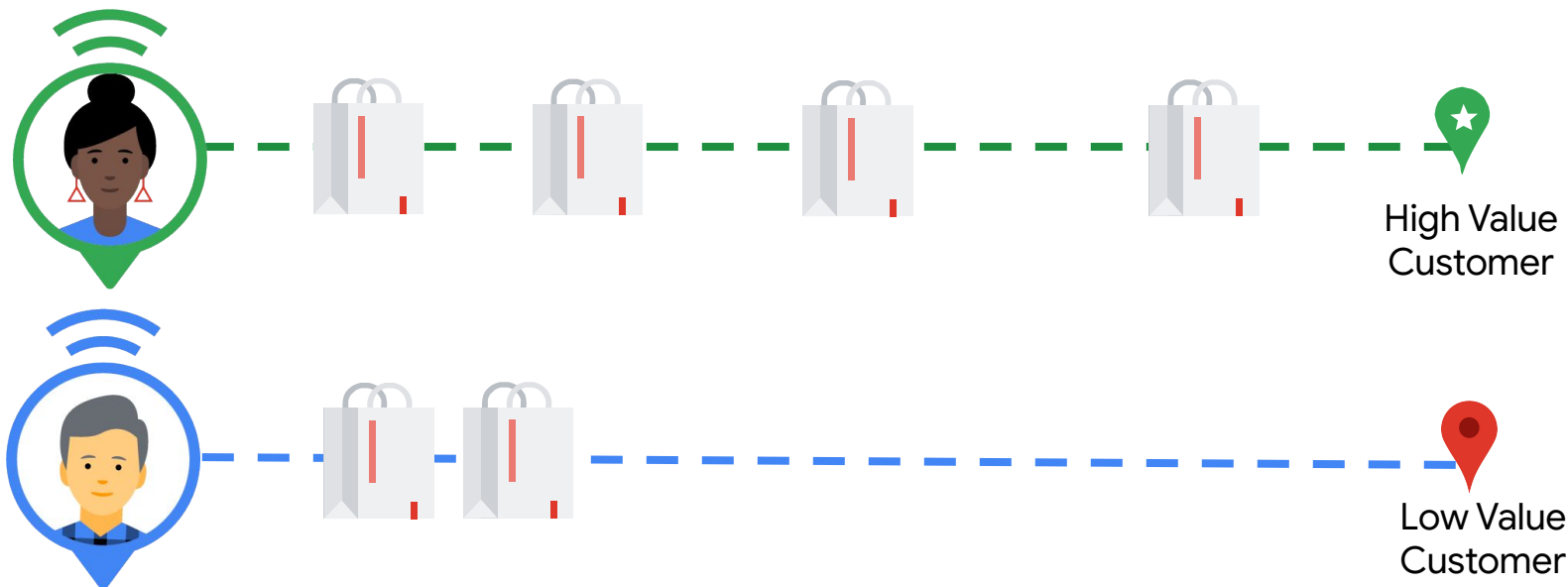# Marketers can assess customer value using Description or Prediction

= the total value a customer will bring to your business over the entire relationship.

Historic LTV	Today	Future LTV
Past Transactions		Future Transactions
Backward looking		Forward looking
Can be calculated with 100% certainty		Can be predicted with high accuracy

Why model? Past performance is not always indicative of future results *[Prediction]*

Present Day

Cust. A

Cust. B

Week 0

Week 39

Week 78

At this point **Customer B** is more likely to purchase in the future

At this point **Customer A** is more likely to purchase in the future

Predicting Value across the Customer Journey

High Value Customer

Low Value Customer

How can we Activate

Google

Activate models and marketing

How to activate?

#1 What types of marketing does a CLV model enable?
Key Concepts: Acquisition versus Re-engagement and Re-targeting. Upsell and retention management.

#2 How can I activate acquisition strategies?
Key Concepts: Prediction needed, Target Setting, Conversion Values and Smart Bidding

#3 How can I activate retention/growth strategies?
Key Concepts: Audience Strategies, Creative Testing

Three pillars of an effective LTV Strategy

Acquire
Find more customers like your
high value customers.

KPI: higher share of high value customers

Retain & Grow
How to generate more value from the
same user base?

KPI: revenue per customer

Experiment
How much additional value is driven by
your LTV strategy?

KPI: *incremental* revenue per customer

Acquire:

Explore customer-level dimensions to drive acquisition-level insights that relate back to campaigns such as Geo, Device, or even Keyword if it can be joined to Customer ID.

If you don't have those dimensions, you can upload your top segment via Customer Match, explore insights about your best customers using Audience Insights.
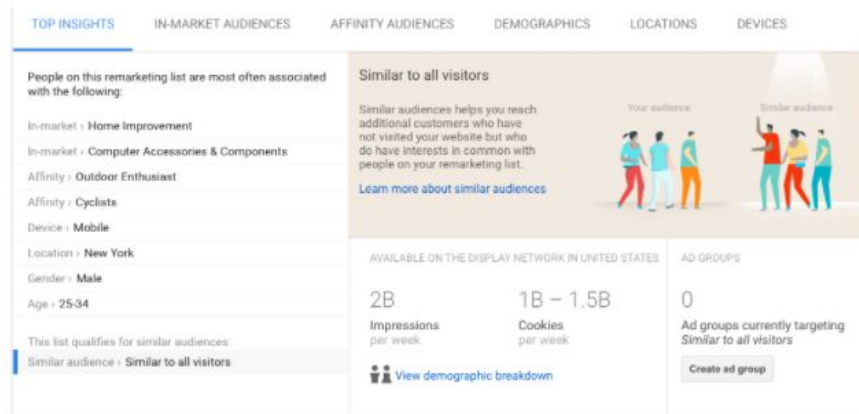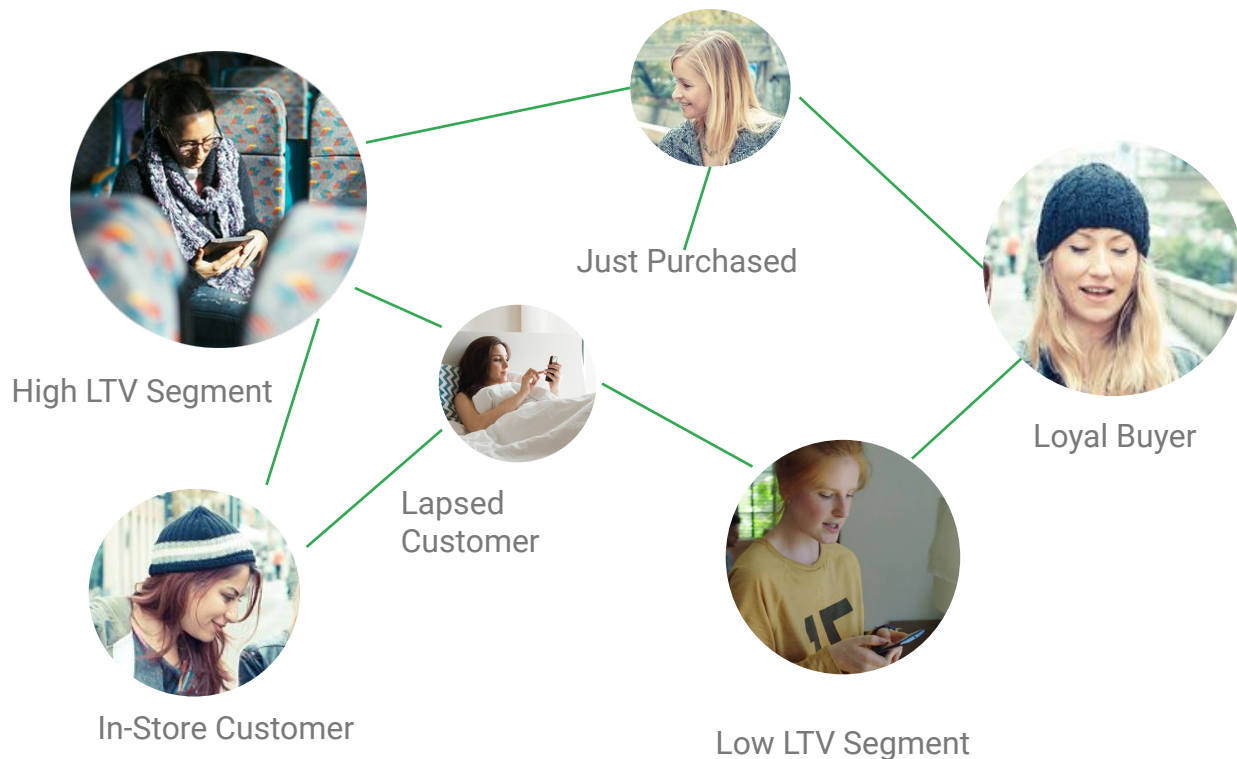

Set higher/lower Target CPA or ROAS goals based on the LTV of dimensions such as:
➔ Geography
➔ Product
➔ Age/Gender
➔ In-Market and Affinity Audiences

Customer Match
Use your identified LTV segments to target customers

Just Purchased

High LTV Segment

Lapsed
Customer

In-Store Customer

Low LTV Segment

Loyal Buyer

Reach customer segments across devices when they want to hear from you...

....and **deliver the right message** to build relationships and drive action.

Retain:

You now know your best customers. Re-engage them to drive greater revenue and keep them longer

Customers that have churned

Customers that are likely to churn

Use Customer Match (Search, Shopping, Gmail, or YouTube)

Improve the likelihood to stay with your business by targeting existing customers who are likely to churn, but haven't yet.

Exclude customers that likely have already churned from your campaigns, to avoid wasted spend.

Grow:

You now know your best customers. Re-engage them to drive greater revenue and keep them longer

Customers that are likely to upgrade

Customers that are loyal shoppers

Use Customer Match (Search, Shopping, Gmail, or YouTube)

Trigger additional purchases or upgrades from top customers by providing loyal customer incentives (special offer, sneak preview of new product line, or customized wording such as "as a loyal customer...")
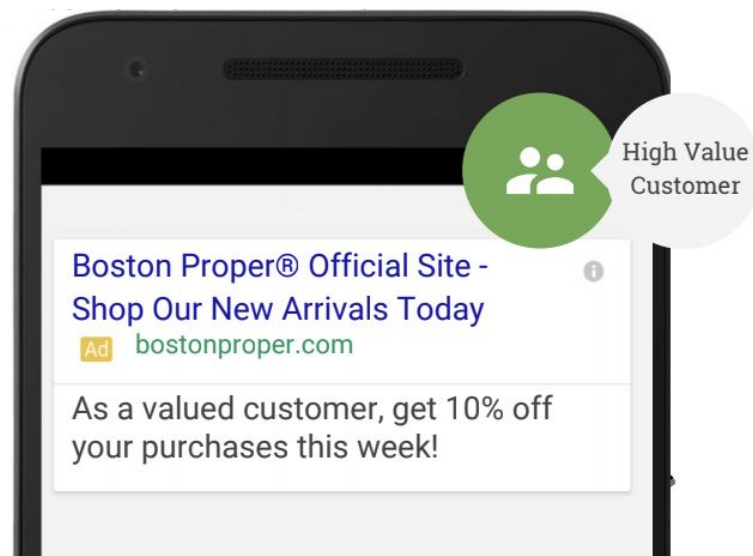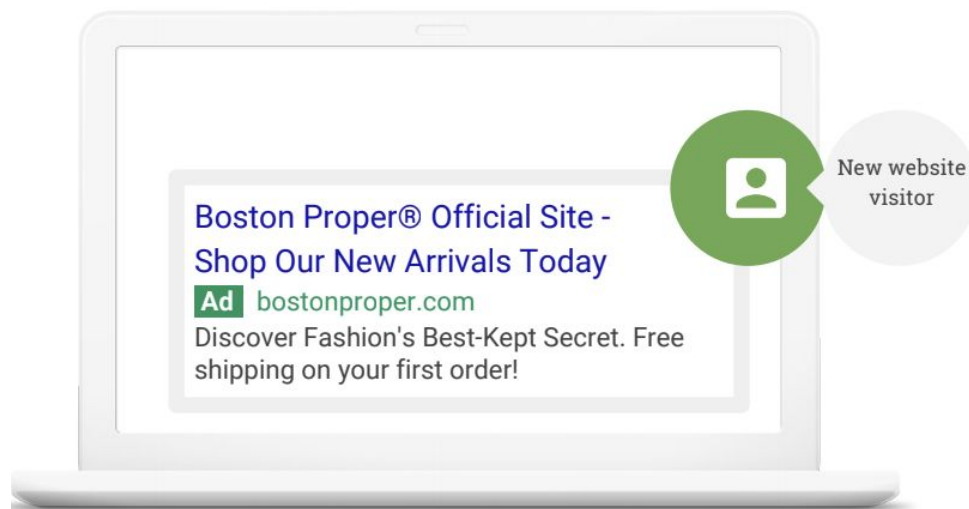
Treat your best customers as your best customers and be there for them when they need you

Be the #1 for users with

the highest LTV
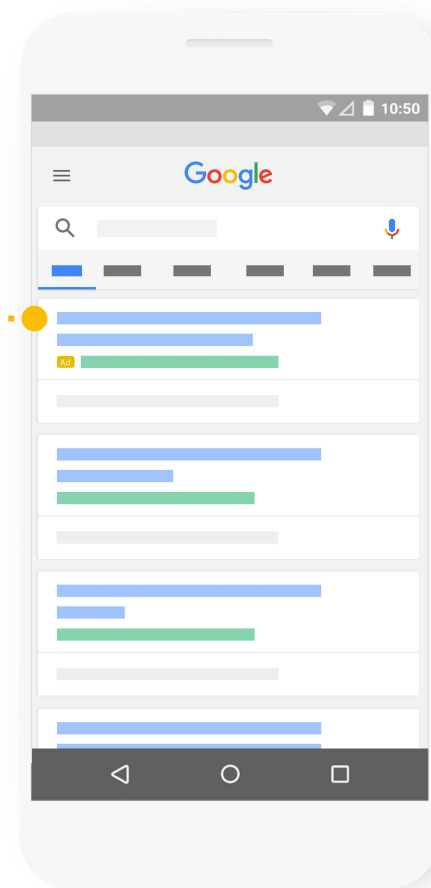
Treat your best customers as your best customers and be there for them when they need you

Tailor messages for a specific audience with IF functions and default values.

New website visitor

Boston Proper® Official Site - Shop Our New Arrivals Today
Ad bostonproper.com
Discover Fashion's Best-Kept Secret. Free shipping on your first order!

High Value Customer

Boston Proper® Official Site - Shop Our New Arrivals Today
Ad bostonproper.com
As a valued customer, get 10% off your purchases this week!

Google

Connect to advertising campaigns

Onboard LTV values

a.   Customer Match

b.   Data Import

Activate LTV values

a.   Value-based segments

b.   Similar Audiences

c.   Bid to value

Value-based segments

$20 $100 $700

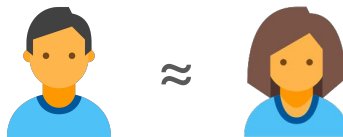Upload your LTV values to Google Analytics using Data Import
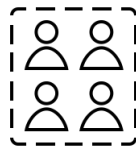
Build LTV-based segments

Analyze differences in behavior between segments

Similar audiences

Create an Ads
Audience from GA
or Customer Match
for your most
valuable customers

Identify similar people
and create an
Audience for them
using Similar
Audiences

Create advertising
campaigns for these
potential high-value
audiences

Bid to value

Top 10%

Create an Audience for each decile of your LTV values

Adjust your bids for each Audience, by bidding higher on your most valuable customers and lower on your less
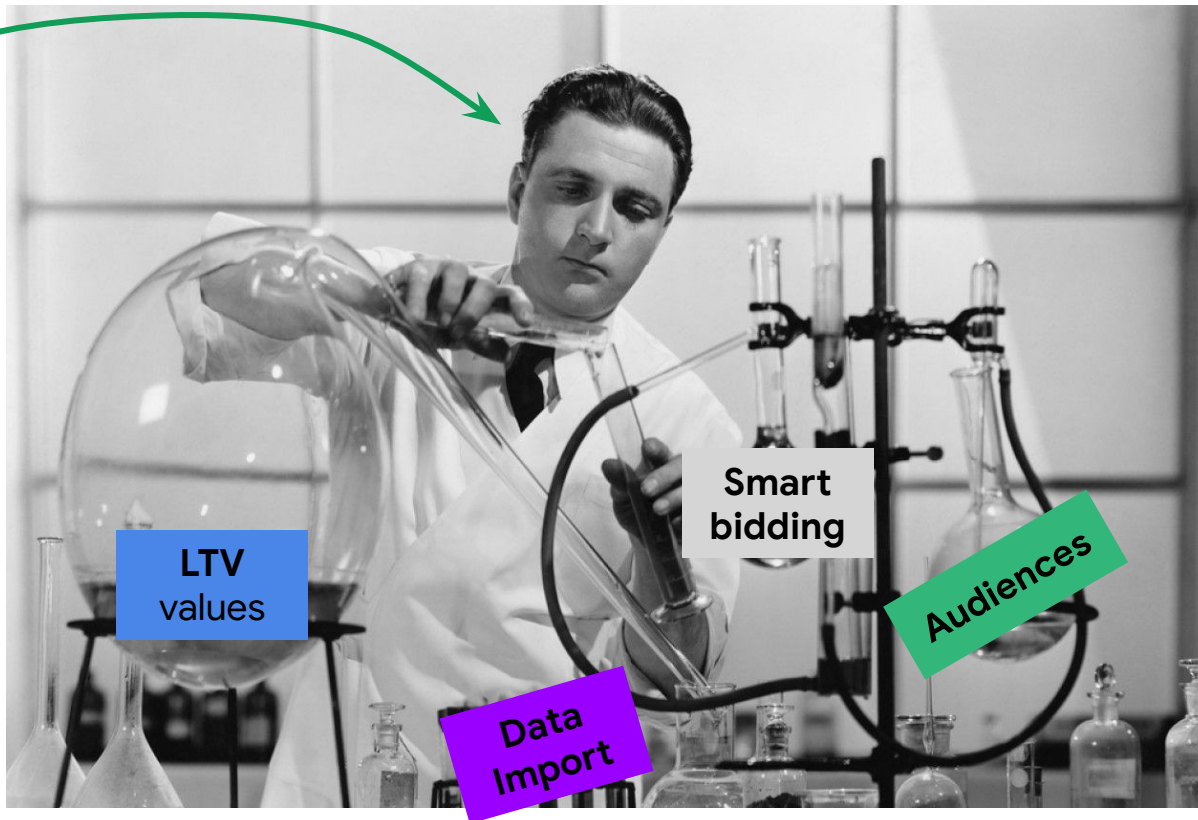
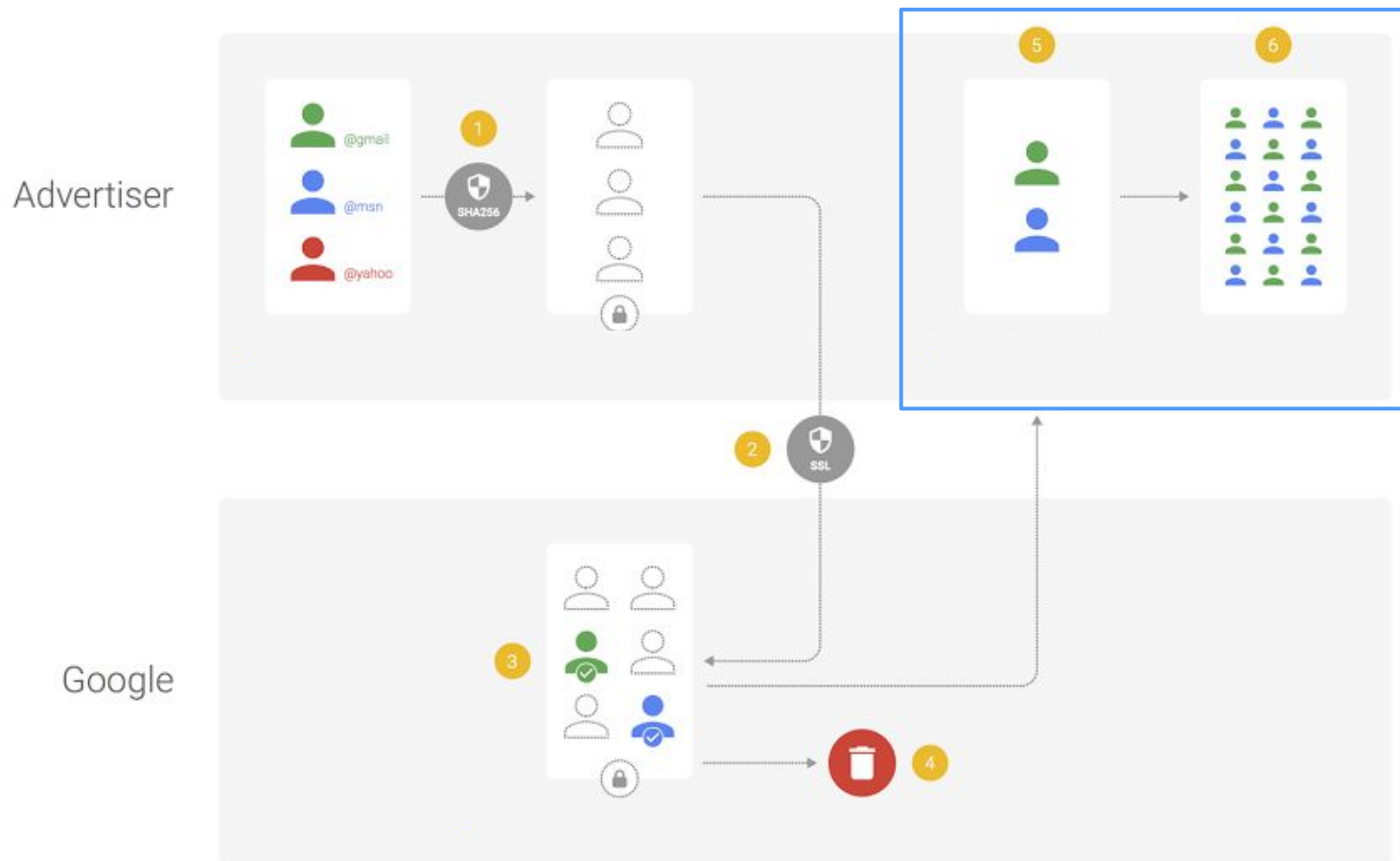Adjust your message for each of the deciles

Experiment

Test out different use cases and configurations of your LTV-based campaigns
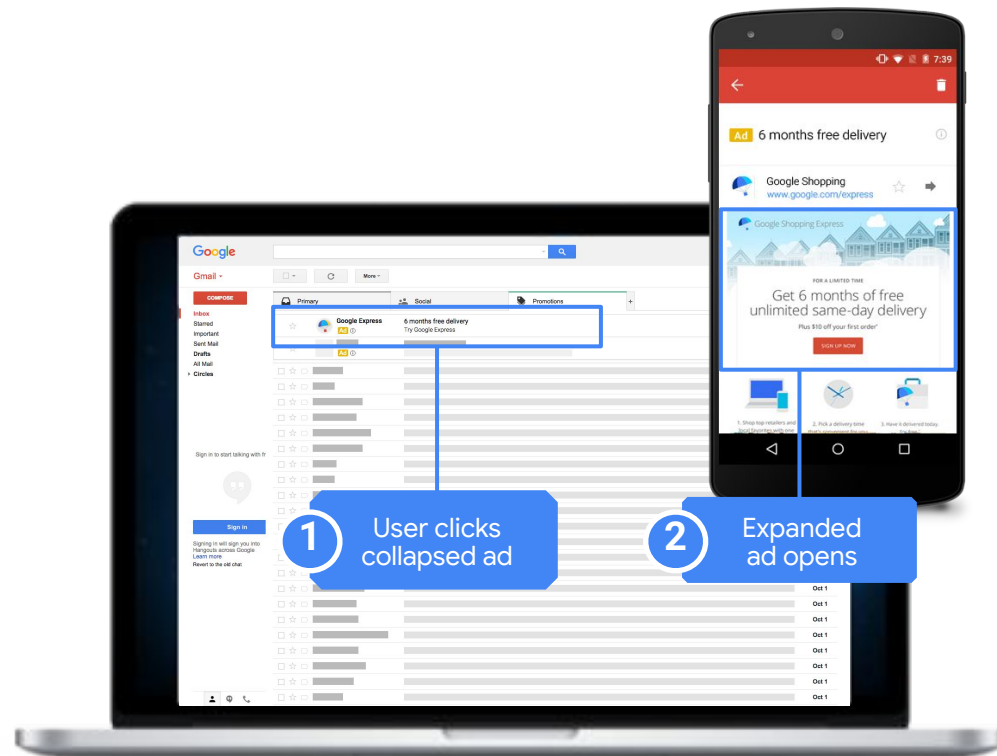
Step 5: Experiment, evaluate & repeat

This is **you**!
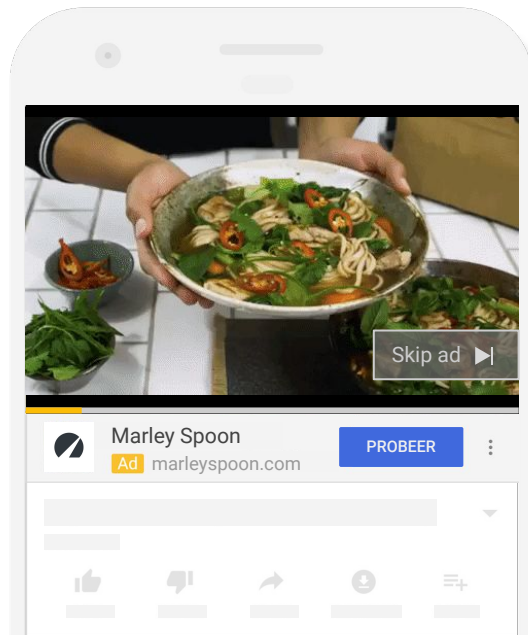
LTV values

Smart bidding

Audiences

Data Import

Let Google find lists with similar users automatically

...YouTube & Gmail

1 User clicks collapsed ad

2 Expanded ad opens

Key Takeaways

- Digital Marketing is more valuable when you have the ability to bid accurately based on customer profitability

- Segment by customer value - we now have ways to measure customers differently, create value segments, and target customers differently

- Three pillars of an effective LTV Strategy - Acquire, Attain & Grow, Experiment

Customer Lifetime Value

ELEVENSES