How much are my customers worth?

A marketing strategy should always begin with the identification of the most valuable customers.

But what does „valuable" actually mean and how do you determine the value of customers?

Customers who help the company to achieve their (economic) goals are valuable.

Most companies are sales and profit oriented, i.e. the most valuable customers help, more than others, to increase sales and/or maximize profit. However, this is not only directly dependent on the customer's contribution to revenue and profit, but also on other quantitative and qualitative KPIs. They help with a more holistic evaluation of customers.

The most important key performance indicators at a glance

Quantitativ	Qualitativ
Size of wallet	Cross-selling potential
Turnover	Up-selling potential
Contribution margin	Recommendation rate
Purchase frequency (frequency)	Loyalty
Time since last purchase (recency)	Engagement
Price elasticity/ willingness to pay	Contribution to product development
Time to conversion	Contribution to own know-how base
Discounts	Relevance as reference customer
Contract costs	Contribution to corporate image
Acquisition costs	

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Ideally, the key figures are not only used in their status quo, but also as assumptions about the future situation (e.g., expected future sales, future willingness to pay).

Different datasets for new/ existing/ contractual customers

In the evaluation method, it is also helpful to distinguish between new and existing customers, as well as between contractually bound and unbound customers. In this way, the different data depths can be considered.

Common valuation methods

Based on the business objectives and of course depending on the availability of customer data, each company can choose the appropriate evaluation system.

The simplest is the **ABC analysis**. Here the customers are valued by their turnover or contribution margin (retrospectively) into A, B and C-customers. This classi-fication is however very rough and considers only the present financial value of the customers. It also leaves open, for example, the customer costs or additional benefits of the customer relationship.

A more prospective view is the **RFM method**. Here, customers are categorized according to their recency, frequency (see KPIs) and monetary (revenue/ contribution margin). However, this method is primarily used to control marketing activities (direct marketing/ promotion), as it is aimed more at the next purchase and not the longer-term customer value. The same applies to models that primarily include customer engagement (e.g. CRV = Customer Referral Value, CIV = Customer Influence Value, CKV = Customer Knowledge Value).

In addition, there are **scoring models**. These offer maximum flexibility and individuality in calculating customer value. Here, any number of quantitative and qualitative KPIs can be included with an individually selected weighting, and thus the value of the customer can be determined. Strategic aspects as well as prospective KPIs can be taken into account. The disadvantage is the subjective selection, evaluation and weighting of the KPIs, which makes such models less reliable.

More objectively, the **customer lifetime value** (CLV) calculates the value of the customer over the business relationship duration. The current and expected revenue of the customer is calculated minus the current and expected investment in this customer as well as a discounting over the duration of the business relationship.
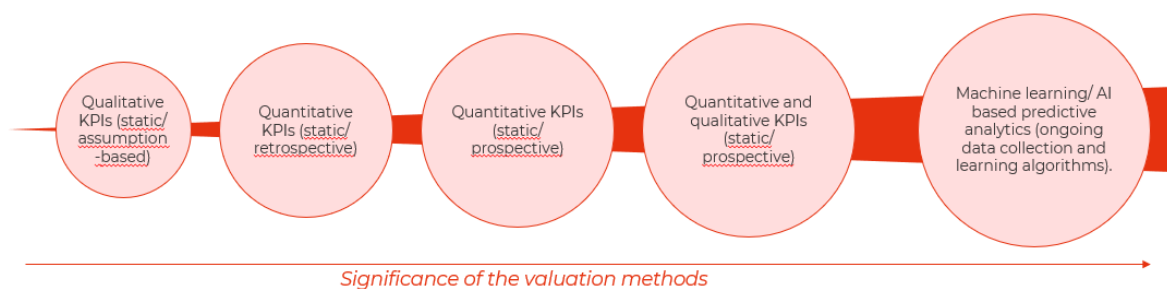
There are some extensions to the CLV that include additional KPIs and thus also softer factors such as recommendation, cross-selling potential, and commitment.

The role of machine learning, big data and AI

The determination of customer value becomes really exciting above all through ongoing data collection, big data and AI, or machine learning. Here, the (automatically) collected customer data becomes better and better at predicting future behavior by means of learning algorithms and thus determines the value of customers even more reliably.

The prerequisite for this, however, is a powerful data analytics system architecture that reliably delivers high-quality (i.e., complete, valid, consistent, accurate and up-to-date) data.

Many companies are probably still a long way from an effective, data-based customer value management. In such cases, it is advisable to start with simpler methods and create the data analytics system architecture in parallel in order to be able to make more intelligent and automatic assessments in the future.

| Qualitative KPIs (static/assumption-based) | Quantitative KPIs (static/retrospective) | Quantitative KPIs (static/prospective) | Quantitative and qualitative KPIs (static/prospective) | Machine learning/ AI based predictive analytics (ongoing data collection and learning algorithms). |

Significance of the valuation methods

The effort is worth it

And why go to all the trouble of evaluating and categorizing the customer? Quite simply, the better a company focuses on the customers who are really valuable, the lower the risk of bad investments in product development (fewer product flops) and marketing (less wastage!) and the more efficient sales are (more time with valuable customers, less time with non-valuable customers) amongst other benefits.

More benefits and advantages of customer-centric actions based on the most valuable customers and info on Customer Centricity:

https://www.youtube.com/watch?v=vSTUoaVS6jI

https://www.linkedin.com/company/13989080/admin/

https://centricity-consulting.de/

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