The eCommerce Lifetime Value (LTV) Playbook

A bite-sized guide packed with 3 proven strategies for maximizing LTV

What's Inside?

Part 1: What is LTV, anyway and why does it matter?

If you had only $100, and you wanted to buy a new outfit, where would you spend it?

If you answered: "At one of my favorite stores," you're in good company.

Most shoppers develop brand allegiances, and, in fact, this kind of loyalty is something that companies that want to succeed over the long haul develop strategies to cultivate.

One need only look to industry giants like Walmart, Amazon, Apple, Costco, and Nike—these very different retail and eCommerce brands all have two important things in common: They rank among the top brands with the most loyal shoppers[1] and, not surprisingly, they also rank among the world's top 100 most valuable brands[2].

That's because, as the key performance indicator **lifetime value (LTV)**—a measure of loyalty that's a make-or-break factor for business success—illustrates, nurturing brand fans is a strategy that can pay off in a big way. In fact, it's 50% easier to sell to existing clients than it is to try and win over new ones[3].

What is lifetime value, anyway?

Lifetime value—also called customer lifetime value (CLTV) or lifetime customer value (LCV)—tells us the monetary value of any single customer relationship, based on the individual shopper's future purchases.

Simply put, LTV is a measure of how much revenue a business can expect to generate from any given shopper throughout their "lifetime" as a customer.

In the worst-case scenario, when LTV is low and customer acquisition costs (CAC) are high, businesses fail. Any time companies invest resources to attract new customers, the hope is that the advertising expenditure will pay off and lead to long-term loyalty, not a series of "one-and-done," one-time customers only around for a good deal to be had before chasing after the next one from a competitor.

The importance of LTV to marketers, eCommerce managers, and business leaders cannot be understated. There's a reason Forbes declared customer lifetime value the "only metric that matters"[4] and Entrepreneur hailed it as the "most significant measure to benchmark" while also the "most overlooked and least understood metrics in business."[5] In fact, there are three key reasons to start paying attention to LTV—right away.

3 Reasons LTV Is the #1 Metric Every Marketer Needs to Track

1. It offers a way to quantify and evaluate the financial value of each individual customer.

2. It represents the maximum dollar amount companies should spend to acquire new customers or retain existing customers—that is, brands should never spend more money to advertise to new customers or retarget current ones than the potential value these shoppers will contribute (through their purchases) over their lifetime.

3. One of the main metrics that contributes to the net profit and long-term revenue of enterprises, tracking this KPI provides a more forward-thinking approach to gaging business success—shifting away from focusing on aggregate profits and revenue reported on a dated quarterly basis to looking at an ongoing real-time analysis of the individual health and success of 1:1 customer acquisition, engagement, and retention efforts.

A Tale of Two Types of eCommerce Companies... and the Same Critical Need to Track LTV

- Meet eCommerce company number one: It's an organic baby supply company with a short repurchase lifecycle, that is, a company that relies on smaller routine, frequently repeated orders—in this case, parents who regularly re-order organic diapers and wipes every couple of weeks throughout their little one's early years.

- Meet ecommerce company number two: It's a smartphone company with a long repurchase cycle, that is a company that relies on bigger, less frequently repeated orders—in this case, brand-loyal customers who upgrade their phones and accessories every one to two years.

On the surface, it may seem like LTV is a metric that only the first type of company with lower profit margins needs to track in order to boost revenue over time. But, ensuring there's a healthy ratio of low CAC and high LTV is something all companies need to watch, especially companies with higher acquisition costs like the long repurchase cycle company here.

Part 2: Keeping track of your brand's LTV

If you haven't been tracking LTV and aren't sure how, you're not alone. More than half of businesses—58%, according to one survey conducted by Econsultancy[6]—say they're unable to measure customer lifetime value. If you'd like to change things and start tracking this key metric, we'll walk you through the specifics of how to calculate LTV for your own eCommerce company ahead.

How to calculate LTV

First, it's important to keep in mind that customer behavior is complex, variable, and highly specific to each individual—as a result, how to best calculate it will vary from company to company and will also require reliable data analytics as well as strong forecasting capabilities. To illustrate the process at a high level, we've simplified the calculation for businesses operating within the eCommerce context.

Key points:

- Customer lifetime value is generally calculated using a standard formula involving average revenue, gross margin, and retention (churn) rate.
- For the eCommerce industry, the formula for LTV can be simplified as below.
- Once you complete the calculation, your LTV will serve as an estimate of the amount of revenue your company can expect the average shopper to bring into the business over the course of their relationship as a customer

LIFETIME VALUE FORMULA

LTV = (customer value★) ✖ (average customer lifespan)

★Customer value = (average order value) ✖ (purchase frequency)

CALCULATING LIFETIME VALUE, STEP BY STEP

Step 1: Calculate average order value (AOV)

AOV = total annual★ revenue / # of annual orders

Step 2: Calculate average purchase frequency

Purchase frequency = # of annual★ orders / # of unique customers who complete an order during the year

Step 3: Calculate customer value

Customer value = (AOV) ✖ (purchase frequency)

Step 4: Calculate average customer lifespan

Average customer lifespan = Sum of the duration of time all customers are loyal for / # of unique customers

Step 5: Calculate LTV

LTV = (customer value★) ✖ (average customer lifespan)

**Can be for any desired time period; usually tracked on an annual basis.*

Insider Insight:

As demonstrated by popular brands like Starbucks[7], as a general rule LTV often follows the 80/20 principle. That is, companies that build an engaged loyal segment within their overall customer base can expect about 80% of sales to come from 20% of customers—that is that select 20% of your most loyal shoppers, those with the highest lifetime value.

Part 3: Increasing LTV

Now that we've reviewed how to calculate LTV, let's explore the factors that drive LTV and dig into the main drivers of growth for each metric.

LTV = AOV x Purchase Frequency x Customer Lifespan

LTV =	AOV	x Purchase Frequency	x Customer Lifespan
Tactics for increasing these KPIs	Deliver personalized products that delight	Deliver post-purchase recommendations	Track likely-to-churn segment and follow-up with re-engagement campaigns over email, push, and via remarketing campaigns
	Incentivize minimum orders, such as with offers like "Free shipping on purchases $50+"	Leverage AI to send timely "Time to re-stock" messages	
	Cross-sell, upsell, and suggest purchase add-ons and bundles	Send tailored campaigns based on lifecycle segment	For your most engaged segment, offer loyalty/rewards programs

As you can see with the chart above, improving LTV starts with tackling the three main components of LTV:

AOV — main drivers:

Here the goal is to get customers to place larger orders.
By leveraging personalization, incentivizing minimum purchase order values, and improving the art of selling to customers in the moment via cross-selling, upselling, and offering bundling recommendations, you should expect to see the average order value for individual purchases increase.

Insider Insight

Nearly all customers (80%) are more likely to do business with companies that offer personalized experiences.[8]

Insider Solution Spotlight: Meet Insider's Personalization Powerhouses

Insider's Maven[9]: Power savvy recommendations right from the start with smart user onboarding that captures interests from the get-go

Smart Recommender[10]: Offer product suggestions based on behavioral data from similar customers.

Web Versus[11]: Power product recommendations based on customer browsing history

InStory[12]: Deliver immersive, personalized mobile web experiences with personalized experiences for returning customers.

Purchase Frequency — main drivers:

Here the goal is to get customers to purchase more often. With post-purchase recommendations, re-stock reminders, and sending tailored campaigns by customer lifecycle, you should expect to see purchase frequency increase.

Customer Lifespan — main drivers:

Here the goal is to retain customers—keeping them engaged across their stage of the customer lifecycle journey—for as long as possible. By leveraging the above tactics, you should expect customer lifespans to increase.

Part 4: 3 proven strategies for maximizing LTV

Insider has partnered with top eCommerce companies like IKEA and New Balance, as well as hundreds of other enterprise brands, to create, implement, and iterate on innovative strategies to maximize LTV, improve revenue and, importantly, ensure the long-term sustainability of these businesses. Based on these learnings, we have three ready-to-use proven strategies for eCommerce brands to try out today.

1. Incentivize minimum orders, with offers like free shipping or a gift with minimum purchase

Being upfront about your shipping policy can pay off. Not only will it set expectations for customers, once your policy is established, you can incentivize shoppers to convert by offering free shipping or gifts with purchase once the minimum order amount is met, as is illustrated in this example with Glimmer beauty product shopper Alex. An informed high-value customer who is deeply motivated by free shipping, Alex would rather spend $100 to get free shipping than spend $50 and pay a $5 to $10 shipping fee.

Insider Insights:

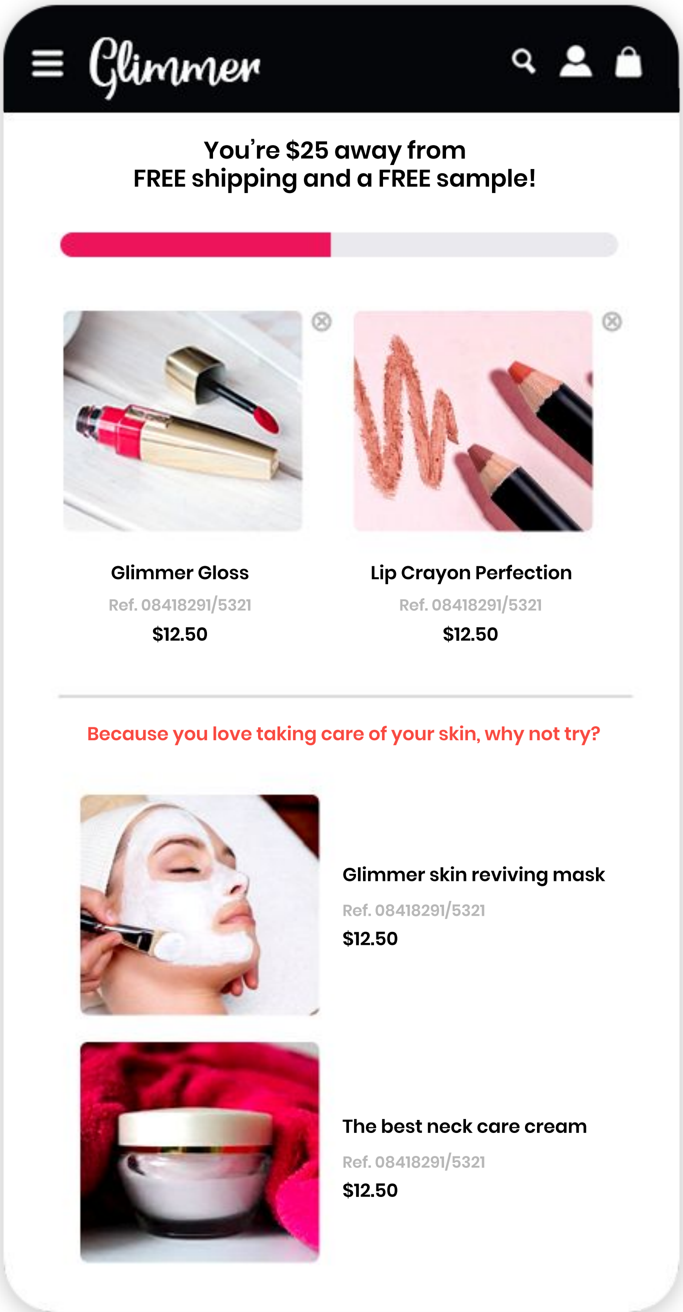
It's rarely possible to optimize experiences for both conversion rates and AOV at the same time. Generally, there's usually a trade-off between the two.

How to balance that tradeoff:

- If you're looking to improve AOV, focus on only the segment with a high likelihood to purchase. These are the ones who will be spending money and, therefore, are more likely to increase their spend. It's much harder to convert someone to spend more when they haven't even committed to completing a purchase in the first place.

- For that reason, marketers should avoid trying to increase the AOV of those with a low likelihood to purchase. The goal here is to get them to convert. Period.

Fictitious beauty brand Glimmer offers shoppers free shipping and a free gift with purchase once a minimum purchase order has been met. The incentive is gamified with this visual progress bar.



With Glimmer's visual progress bar pictured here, shoppers like Alex can easily see at a glance how close they are to achieving free shipping and handling.

2. Deliver post-purchase email recommendations that drive repeat engagement, time and again

Remember that statistic we shared early on—that it's 50% easier to sell to existing clients than it is to try and win over new ones[13]? That's because customers who are familiar with your brand and have positive experiences are more likely to shop with you again. That's where having a post-purchase follow-up is key, to encourage that repeat shopping activity.

In the following example, fashion website Posh.com has recently launched a line of new top and pants combinations, and loyal customer Debby is among the early buyers. Within a day of her order, she receives an email with opportunities to engage (share her rating and review) and to snag a special offer to spend on personalized products recommendations that pair well with her recent order. Not only that, the email is sent at just the right time—when she's most likely to engage while bored at work.

Encouraging this kind of repeat purchase via personalized recommendations and using AI-backed send-time are two powerful ways to boost customer LTV.

Take it to the next level:

- With AI-powered interest clusters and affinity attributes—such as preferences for sizes, colors, types of products, and desired price range—you can further tailor the recommendations.
- For instance, within pricing, you could only reveal highly discounted products (of 25% or higher) to discount-seeking shoppers.

POSH

Hello Debby,

Thanks for your recent order,

Your Cart:

Items		Quantity	Price
	Posh Top & Pants combo	1	$899.99

Share your feedback with the community:

Product rating: *****

Product review: [Share your feedback...]

To complete your look, use our offer code FreeShip for all orders above $20 as a thank you for your business.

Shop accessories

Night out clutch

Leather belt

Sleek black boots

Use code 2ndPurchase for up to 30% off the second item

Crop top

Yoga pant

High-waist boot-cut pants

3. Re-engage the most likely to churn, before it's too late

Whether we like to admit it or not, every company has a "likely-to-churn" segment. That is, a group of people who are, for one reason or another, no longer engaging. Who are going, going, gone. Silent. While it's not easy to re-engage all of these customers, many brands do manage to win some of these individuals back, and in the process, improve LTV.

Take Keith, who at one time was an almost-daily online shopper, who has now been silent for over a month. At this point, it might be natural for companies to assume they're losing one of their high LTV customers.

But there's no need to assume. With customer lifecycle-driven campaigns, brands can set up automated workflows to follow up with customers with the most effective campaigns for each stage of the journey. These can be used to detect anomalies, such as this one with Keith, and trigger campaigns to re-engage Keith and users like him. With testing, brands can test the best channels, the right time to engage, and winning combinations of customized offers.

Insider Insight:

- Leverage predictive segments like customer lifecycle status to proactively identify loyal customers turning into silent shoppers and target them.
- Incentivize these VIP shoppers to return by showcasing exclusivity rather than discounts or offers

Select segment LTV = VIP

Select customer lifecycle status = Likely to churn

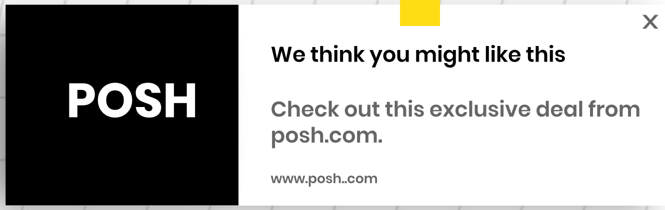
Select channels to test =

#1 test: Web push

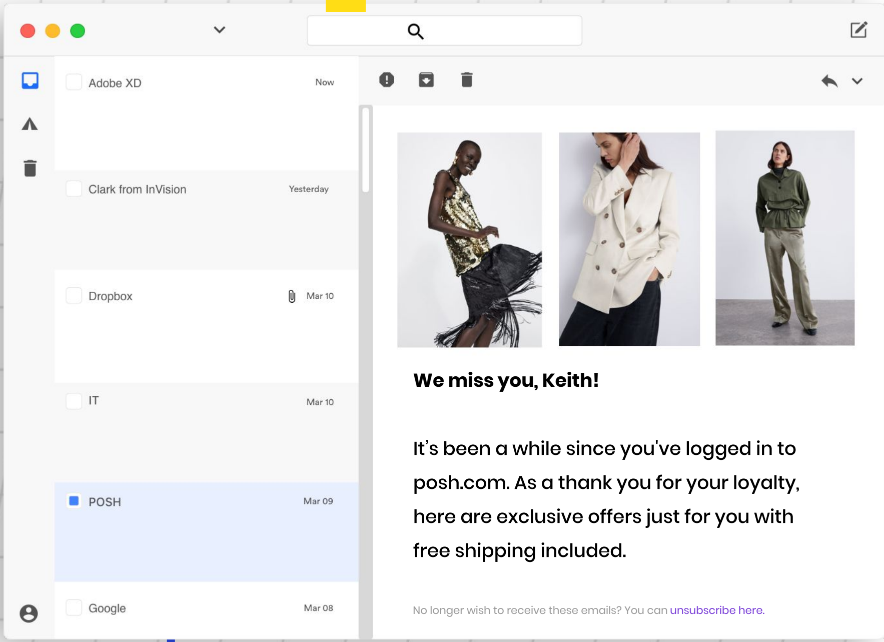
#2 test: Email

#3 test: Ads

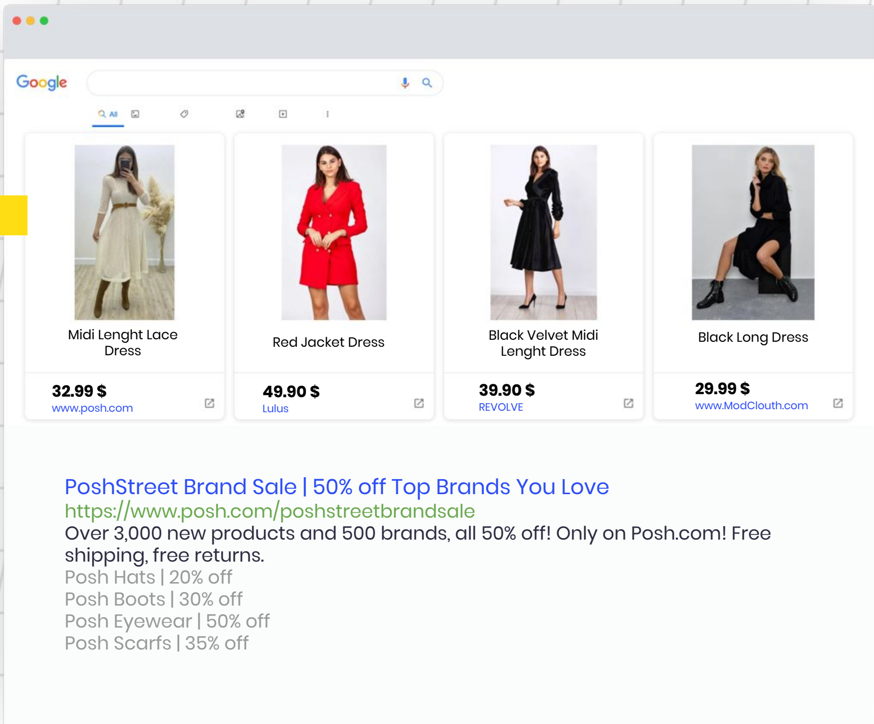
If the shopper doesn't complete the checkout, send a cart abandonment web push notification after 1 hour.



Wait 24 hours. If the customer hasn't completed the purchase, try following up via a different channel, like email.



Show an ad showing the latest launched product with a personalized offer.



Bonus: The marketer's guide to optimizing *beyond* LTV

Throughout this eBook, you've learned the importance of LTV, how to track it, and how to maximize earnings generated from that most loyal segment, the 20% of customers with the highest lifetime value. Now let's talk about increasing the whole pie.

The following two-step strategy can help improve LTV among all of your customers.

Step 1: Get segmentation right

Set up powerful segments by the characteristics that matter the most, such as identifying and grouping customers into segments by:

- *Value* (high-value shoppers, discount seekers, frequent shoppers, etc.)
- *Demographics* (age, gender, location, etc.)
- *Lifecycle status* (awareness, consideration, conversion, loyalty, advocacy, retention, abandoned shopping cart, etc.)

Step 2: Leverage personalization to create tailored shopping experiences customized to each segment

Customer lifetime value is a powerful metric, however, the same principles used to segment, target, engage, convert, and retain your top 20% most valuable users can—and should—also be applied to the remaining 80% of your audience. Doing so, which is possible when you track other key metrics like AOV[14], conversion rate optimization[15], and more, offers a strategic way to increase your most loyal segment beyond the 20%.

Next steps

Insider has partnered with Avon[16], IKEA[17], Samsung[18], Carrefour[19], New Balance[20], and more to improve these global brands' metrics across the growth funnel. Let's see how we can work together to improve your LTV and other essential marketing KPIs.

For more on the topic, check out Insider's eBooks on:

- Optimizing Ecommerce AOV[21]
- The Conversion Rate Optimization (CRO) Guide for Marketers[22]

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