



The True Worth Of A Customer

Don't Overlook Long Term Value

“Because of the nature of business it has two functions, and only two. Marketing and Innovation. Marketing and Innovation make money; everything else is a cost.”
Peter Drucker

Many businesses understand that the purpose of marketing is to make money—pure and simple. They have learned, too, that image building and cutesy ads may bring them some “awareness” but don’t always bring a return on their investment.

In measuring the success of their marketing and advertising, too many marketing directors and business owners and managers fail to consider the long term effects of their marketing.

It has been well documented over the years, for instance, that it costs 6 to 8 times as much to get a new customer as it does to keep a current one. Yet so many of the businesses I talk to seem hell bent on customer acquisition alone.

If you focus your marketing message on a “wham-bam” type of sale, it is quite probable that you will never realize the true worth of the customer you just won.

Marketing, in my view, is far more effective when it is geared to acquiring *and retaining* customers.

Measuring Marketing’s Success

There are a number of methods used by business

persons to measure the success of their marketing and advertising campaigns. One, of course, is “ROI” (or Return On Investment). Another is “The Ratio” (or How many dollars were generated by this campaign vs how much the campaign cost). As a rule of thumb, leading marketers such as Jon Spoelstra (Mandalay Sports Marketing) suggest a benchmark ratio of 4 to 1 - minimum.

However sound this reasoning, it can leave one with the impression that current dollars is the only valid test of a marketing campaign. It is not.

Focus on both acquisition and retention.

You will find that the worth of a customer goes far beyond the dollars he spends with you as a result of that initial campaign.

You should take into account that by being committed to retention, you will have a long-term happy customer. And long-term happy customers go out of their way to enthusiastically recommend your business to their friends and relatives. So the True Worth of a new customer can be many times their initial purchase.

What Are They Really Worth?

Avg Sales/Customer/Yr	\$1200
X Avg Years You Keep A Customer	4
Primary Value of Customer	\$4800
X # of New Customers Referred by Satisfied Ones Over 4 Year Span	4
True Worth Of Each New Customer	\$19,200

Look at the easy Sample Formula [Insert]. Plug in your own numbers and calculate just what a new customer is really worth to you. Armed with this knowledge, concentrating on retention can be one of the most productive ways to invest your marketing dollars.

By Alan L Tarr

