

Mather Economics  
Customer Lifetime Value (CLV)  
For Newspapers

2012

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# Introduction – Customer Lifetime Value (CLV)

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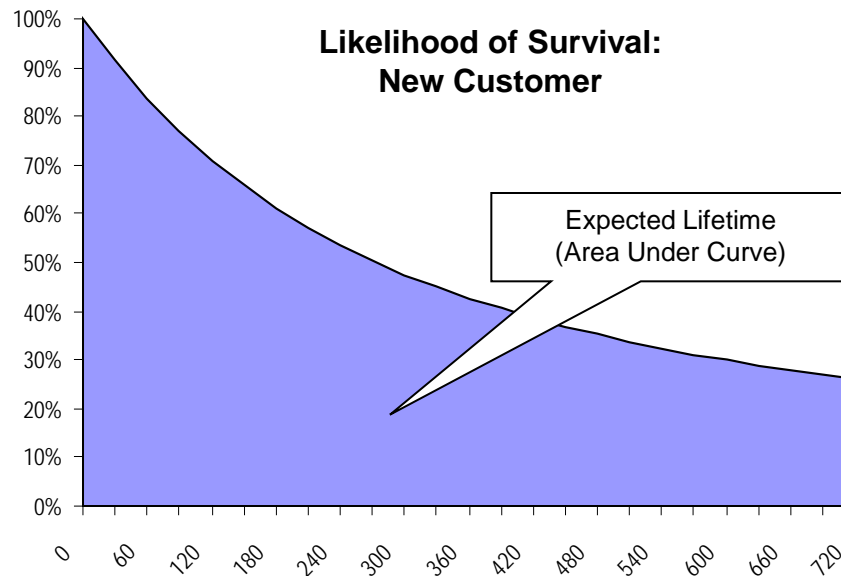
**The power of CLV (the present value of a customer's total contribution to cash flow) is that it clarifies key strategic considerations**

- **What is the likelihood a specific customer will leave?**
- **How is a customer's value affected by various attributes or targeted incentives? What will happen to my bottom line if those attributes change by 10%?**
- **What customers should we acquire? What incentives should we use?**
- **What specific conditions optimize profitability for a given level of risk?**
- **How do we operationalize CLV to impact retention and drive increased customer satisfaction through targeted customer experiences?**

***CLV allows you to conduct certain Marketing analyses with increased rigor and develop a scoring system to drive optimal action based on individual customer value***

**CLV is the risk-adjusted operating margin for an individual customer within 24 months of acquisition**

$$\text{CLV} = [(\text{Circ Rev} + \text{PP rev} - \text{Del Cost} - \text{Prod Cost}) * (\text{Expected Lifetime})] \text{PV} - \text{Acquisition Cost}$$



***The CLV metric allows you to allocate acquisition and retention resources to their most profitable use through rigorous fact-based analysis***

# Introduction – Building the CLV Model

Once the source data is identified and available in a central location, the CLV model can be implemented in a scientific way

- **Construct a customer service history**
  - **Start date**
  - **Usage statistics (e.g., Prices, Payments, Complaints, Classified usage)**
  - **Service changes**
  - **End date**
- **Attach indicators to the service history**
  - **Demographics (e.g., income, age, gender, children, education)**
  - **Marketing-specific metrics (e.g., preprint revenue, ROP adv. value)**
  - **Organization-specific metrics (e.g., payment methods, costs, credits)**
- **Develop a retention (survival) model**
- **Calculate a “best fit” (regression) model correlating the customer variables to retention rates.**
- **Calculate the CLV using the retention rates, revenue and cost metrics**

*How the model is built – and implemented – is crucial to making CLV scores actionable and statistically significant*

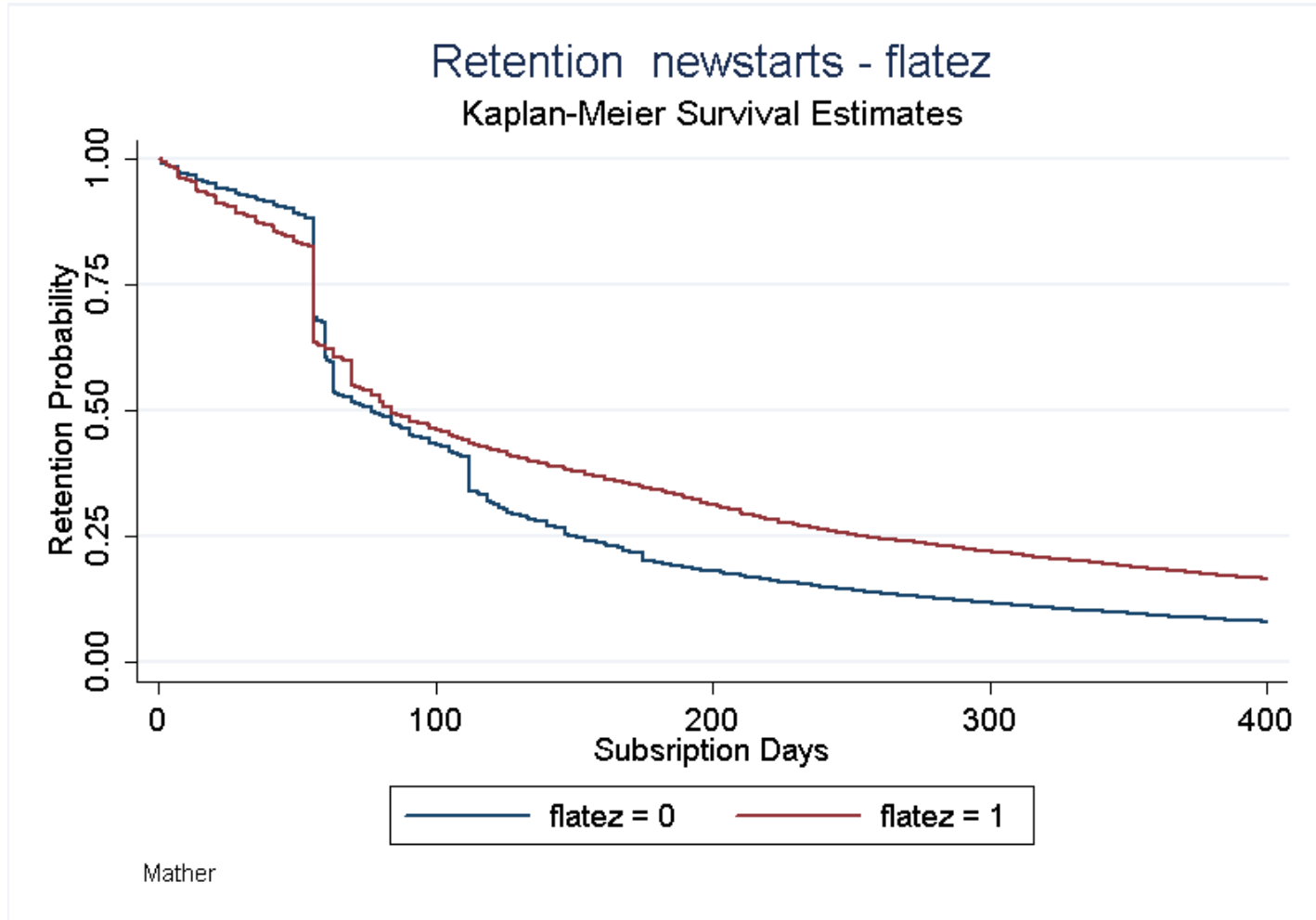
## Analysis – Accomplishments To Date

**Our strategic pricing analysis and actions provide many of the components of CLV:**

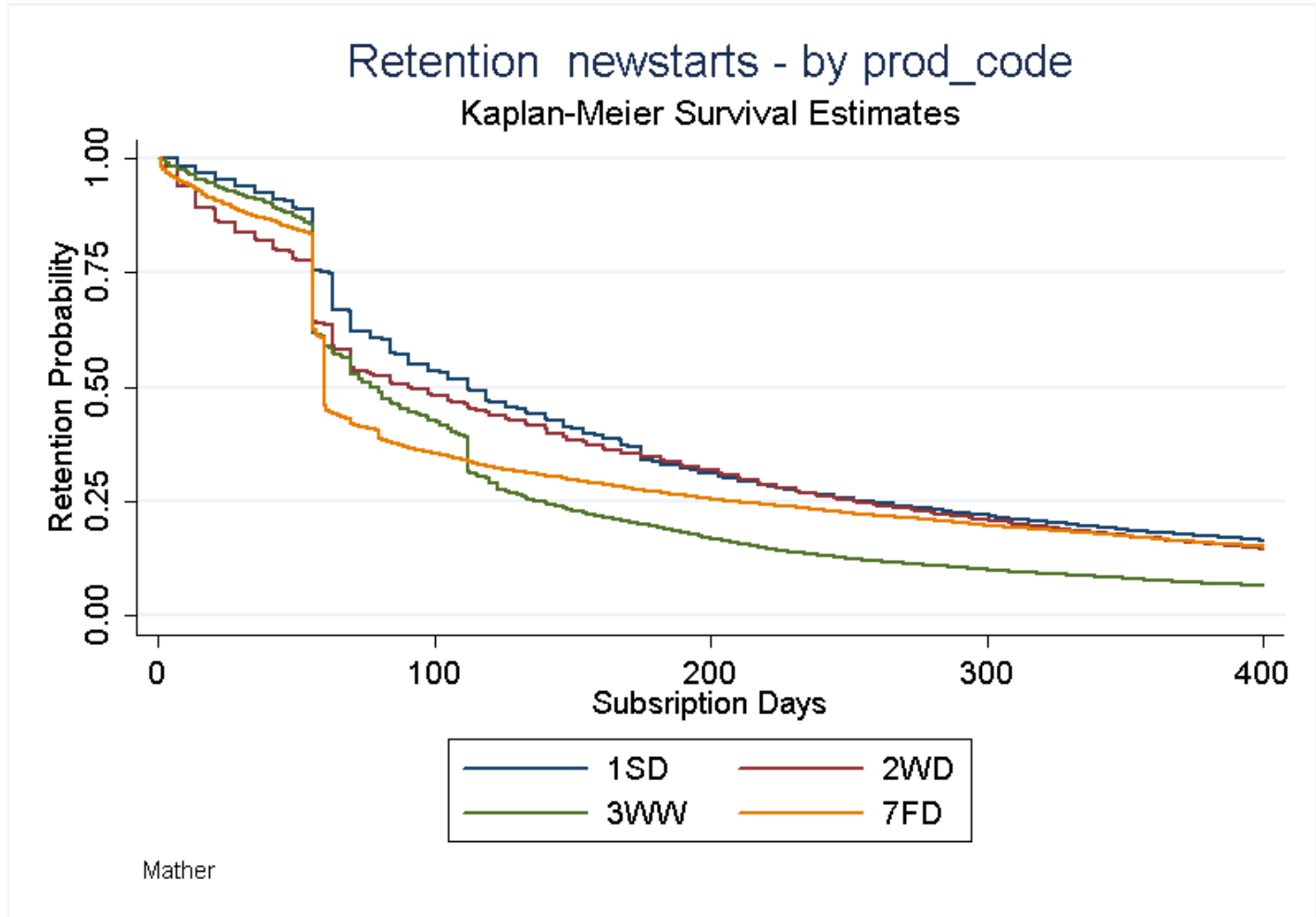
- **Retention has been modeled using survival analysis**
- **A/B testing has validated price elasticity for customer segments**
  - **Quantified variances in price elasticity by income, age, service**
- **Direct costs and preprint revenues by customer are integrated with retention analysis**
- **Targeted upgrades are utilizing analytics to increase circulation and revenue by account, which will improve CLV for those customers**

*CLV can be developed using consistent data and metrics employed in Market Based Pricing*

# Retention breakdown



# Retention breakdown



## CLV – Next Steps

- **Refresh historical retention model**
- **Update preprint revenue data by ad zone**
- **Update delivery costs by route**
- **Develop prototype CLV analysis in Excel**
- **Review findings**
- **Develop application case studies**
- **Integrate with MAAX**



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