**Lifetime Value**

### Case Study: Starbucks

**Step 1: Average Your Variables**

<table>
<thead>
<tr>
<th>Customer</th>
<th>Revenues</th>
<th>Gross Margin Per Customer Lifespan</th>
<th>Number of Visits Per Week (P)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customer 1</td>
<td>$25,272</td>
<td>$700</td>
<td>15</td>
</tr>
<tr>
<td>Customer 2</td>
<td>$21,348</td>
<td>$600</td>
<td>20</td>
</tr>
<tr>
<td>Customer 3</td>
<td>$20,720</td>
<td>$538.29</td>
<td>25</td>
</tr>
<tr>
<td>Customer 4</td>
<td>$18,520</td>
<td>$538.29</td>
<td>30</td>
</tr>
<tr>
<td>Customer 5</td>
<td>$17,520</td>
<td>$538.29</td>
<td>35</td>
</tr>
</tbody>
</table>

Average of all customers = $21,348

Average number of visits per week = 25

Average gross margin per customer lifespan = $538.29

**Step 2: Calculate Lifetime Value (LTV)**

\[
\text{LTV} = \text{Average Revenues} \times \frac{\text{P} \times \text{GMPC}}{\text{r}}
\]

where:
- \(\text{LTV}\) = Lifetime Value
- \(\text{Average Revenues}\) = $21,348
- \(\text{P}\) = 25
- \(\text{GMPC}\) = $538.29
- \(\text{r}\) = 0.75

\[
\text{LTV} = 21,348 \times \frac{25 \times 538.29}{0.75} = 25,272 \times 0.333 = 8,350.67
\]

**Annual LTV =** $8,350.67

**Breaking Down LTV Further**

**Customer Retention Rate**

- Average retention rate = 75%

**Avg. Gross Margin per Customer Lifespan**

- $538.29

**Rate of Discount**

- 10%

**Customer Satisfaction Boosts LTV**

Survey software, such as KISSmetrics, is a powerful web analytics solution that helps you make data-driven decisions. Based on a recent study, 91% of satisfied customers are likely to do business with Starbucks again, while only 38% of dissatisfied customers are likely to do so. This shows the importance of customer satisfaction in boosting LTV.

**Customer Retention Rate**

- The percentage of customers who repurchase, when compared to an equal and preceding period of time, is 75%.

**Customer Retention**

- The average customer lifespan (20 years) for Starbucks is 75%.

**Customer Satisfaction**

- 27% of Starbucks customers are very satisfied, while 11% are satisfied.

**Revenue**

- Average lifetime value of a Starbucks customer is $21,348.

**Average LTV**

- $8,350.67

**Annual LTV**

- $8,350.67

**Average Revenues**

- $21,348

**Rate of Discount**

- 10%

**GMPC**

- $538.29

**P**

- 25

**Satisfied**

- 27%

**Very Satisfied**

- 11%

**This is just the beginning**

- Starbucks must spend less than $14,099 to acquire new customers.