Lifetime Customer Value Worksheet

This worksheet takes you step by step through the process of calculating the lifetime value of a new customer in your agency. The information you will need to complete the worksheet is available on most agency management systems by printing a production report. If your platform does not have this capability then look at your individual insurance company production reports. The production report should be for the last full 12 months of information available. For most this will be the most recent full calendar year.

	Personal Lines	**Commercial Lines**
A. Total Number of Customers *The total number of customers you have for each line.*		
B. Gross Premium Generated *Total gross premium generated by the customer in A.*		
C. Average Premium Per Customer *Simple average obtained by dividing Gross Premium (B) by Number of Customers (A)*		
D. Average Commission *Your overall average agency commission for each line.*		
E. Average Gross Income per Customer *How much you make on an average customer. Average Commission (D) times Average Premium (C)*		
F. Cost of Overhead *The amount of additional overhead costs you incur for each new customer. Generally this figure should not be over IO% (see note on overhead costs on the back)*		
G. Average Profit per Customer *Average Income (E) minus your Overhead Costs (F)*		
H. Endurance *How long an average customer stays with you. This may be a more difficult figure to obtain. Many company profit sharing agreements have a persistency figure as part of the final calculation. Look at your production reports for the last several years to get an idea of how long an average customer will stay with you. For example, if you determine that a customer stays with you for three and a half years use 3.5 for this calculation.*		
Total Lifetime Customer Value *Endurance (H) time Average Profit (G)*		

Now that I have it, what do I do with it?

Now that you have calculated the Lifetime Value of your customers, how can you use this information?

With the Lifetime Customer Value calculated for your agency, you now have some very important information. Every time you convert a prospect into a customer, you know how much that new customer will add to your long-term profit. If the average marketing cost for a new customer is $50 and the premium for a policy is $500 and you make $50 in profit, on the surface it seems that you only break even.

This is where most agents stop and make the costly assumption that their marketing efforts are not working. Because the client is likely to stay with the agency longer than one year, breaking even on the first year sale allow you to still make money in the long run. This allows the agency to take advantage of the full potential of their marketing dollars. Because you have calculated the Lifetime Customer Value, you now know that a new customer will be worth $150 in additional profit to you over the next 3 years.

Your Lifetime Customer Value figure gives you specific data with which you can measure the effectiveness of your marketing efforts. It gives you the information you must know to determine whether you should continue any of your marketing efforts. It is not guesswork anymore.

Actually, you can even afford to give up the front end to acquire a new customer. Why? Because you know the initial cost of $25-$50 for the lead nets you $150 over their buying lifetime. You make up the initial loss in the second year, with a $25 net profit to boot.

Knowing the Lifetime Customer Value can help you start multiplying your marketing leverage as well.

For example, let's say you are currently spending $50 to get someone to buy their first policy. This person will ultimately become worth $150 more in their buying lifetime. But, if you can come up with a less expensive marketing approach that generates equal or superior quality prospects for only $40 each, you can see what leverage you have. You have increased your future business (those $150 lifetime sales) by 20% with no added costs to you. By increasing the number of prospects each marketing dollar produces, you increase every $150 lifetime customer value by 20%.

You can further increase lifetime customer value by creating a consistent communication process to existing customers to encourage them to upgrade their existing policy coverage (higher limits, additional coverage) and to allow you to review other policies they don’t currently have with the agency.

When you increase the average number of policies per customer and the average premium per policy, you've leveraged your profits again and again.

The Lifetime Customer Value calculation provides the agency manager with specific information in making marketing decisions. This figure is not static. It needs to be looked at and updated regularly.

A Note on Overhead Costs

The Lifetime Customer Value calculation takes into consideration the cost of maintaining and servicing the customer. For an established agency, the existing customer base provides the cash flow necessary for the Lifetime Customer Value to be used most effectively. The overhead is being paid out of the income produced by the current customer base. For the purposes of this worksheet, we are only concerned with the **additional** overhead costs that each new customer will generate. This produces a much more accurate figure with which to work.