



GROWTH THAT COMPOUNDS

Customer lifetime value is a forecast, not a fact

Customer lifetime value is a discounted forecast of margin, survival and expansion. Make the assumptions visible before comparing customers or channels.

Sinan Isoglu, MBA (Quantic)

Commercial growth leader, lecturer and doctoral researcher

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MANAGEMENT SUMMARY

Customer lifetime value is often presented as if every customer carries a discoverable number inside the CRM. In practice, the number is a forecast built from survival, contribution margin, expansion, discounting and acquisition cost assumptions. Change the cohort, the pricing plan or the definition of retention and the value changes. This article sets out the calculation as a chain of assumptions rather than a single ratio. It shows why a high retention rate can coexist with low contribution value, why a low acquisition cost can hide poor customer fit, and how to build a value review that keeps the evidence, the forecast and the decision in separate columns.

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Customer lifetime value is a forecast, not a fact. It is the present value of expected contribution from a defined customer or cohort, after the costs and risks that the calculation is meant to include. It changes when survival, margin, expansion, discounting or the cohort definition changes.

That sounds obvious until a customer base is compared in a board deck. Then one clean LTV number is treated as an attribute of the customer. The calculation disappears, the assumptions become invisible, and the number starts deciding which customers deserve acquisition spend.

Why is customer lifetime value a compounding forecast chain rather than a metric?

A useful version begins with the contribution margin a customer is expected to generate in each period, multiplies it by the probability of still being active, discounts the result to the present, and subtracts acquisition and service costs only when those costs sit outside the contribution-margin boundary used in the forecast.

In simplified form:

$LTV = \sum (\text{expected contribution margin in period } t \times \text{survival in period } t) / (1 + \text{required rate})^t - \text{acquisition and service costs outside that margin boundary.}$

There is no single correct horizon. A finite horizon can make the assumptions visible. An infinite horizon can make the output look precise while quietly assuming the model will remain valid forever. The correct choice depends on the decision and on how quickly the forecast becomes unreliable.

Table 1 The assumptions inside customer lifetime value

Component	What it means	What can move it	Evidence to bring
Contribution margin	Revenue left after the costs assigned to serving the customer	Usage, support, hosting, delivery and payment mix	Cohort margin by product and service pattern
Survival	Probability the customer remains in the defined base	Churn, contraction, renewal terms and definition changes	Cohort history with a fixed starting population
Expansion	Additional contribution from an existing customer	Seats, usage, modules, price and relationship ownership	Expansion by starting cohort, not only survivors
Discount rate	How future contribution is valued today	Capital cost, risk and forecast horizon	Stated rate and sensitivity range
Acquisition and service cost	Costs the decision is meant to recover	Channel, onboarding, implementation and success effort	Cost boundary matched to the decision

Author's decomposition of the customer lifetime value calculation. The columns are a decision aid, not a universal formula.

Why does high account retention fail to guarantee positive lifetime value?

Retention matters because survival is one of the terms in the forecast. It does not settle the forecast. Two cohorts can have the same retention and different contribution margins. A cohort can retain revenue by consuming expensive service resources. Another can contract slightly while becoming cheaper to serve and more profitable per account.

The retention number is measured from your side of the table for another reason. Aggregate retention does not tell you whether the relationship belongs to the firm, the salesperson or the value delivered. If the growth in a cohort depends on a personal relationship that is not transferable, the survival term is not the whole risk.

The calculation also needs a starting population. New-customer LTV, retained-customer LTV and expansion LTV are not interchangeable. Combining them can make a channel look good because its best customers are still present, while the acquisition cohort that produced them has become unprofitable.

How do pricing structure shifts invalidate historical lifetime value calculations?

Pricing is not a label attached after the LTV calculation. It changes the contribution stream and the behaviour that produces it. In the study of tariff choice used in the flat rate that buys the worst month, customers' pricing preferences were related to past usage, price premium and relational ties. The lesson is not that one plan is universally better. It is that the plan changes which customers select themselves into it.

That creates a selection problem. A usage-heavy customer may choose a flat rate because it feels safe, producing a large contribution cost for the seller. A light user may choose the same plan and look attractive. Average LTV by plan can therefore mix the economics of the plan with the economics of the customers who select it.

Table 2 Same retention, different customer value

Illustrative cohort	Annual contribution	Annual survival	Expansion	What the first LTV read misses
A	100	85%	Low	High survival can be attached to a low-margin service burden
B	160	85%	Low	Same retention does not mean same contribution
C	100	75%	High	Lower survival can coexist with valuable expansion among survivors
D	160	75%	High	The forecast depends on whether expansion is observed before or after churn

Author's illustrative worksheet. The values are examples to show sensitivity, not market benchmarks.

Why does true customer value vary systematically across acquisition channels?

Research on referral programmes and customer equity shows why acquisition channel belongs inside the forecast. Referred customers can differ from other customers in matching, social connection and subsequent value. That does not make referral acquisition free or universally superior. It means that a channel comparison that uses one blended LTV silently assumes the channels create the same customer mix.

The same warning applies to paid acquisition. The acquisition cost may be easy to read from the channel report. The future contribution is not. If the channel selects customers with a higher support burden, a lower margin or a shorter relationship, the CAC line is not the only channel difference.

This is where pricing a customer base exactly once helps as a question. What is being priced: the historical revenue stream, the expected contribution, or the ability of the organisation to keep producing the relationship? Those are related assets, not one asset.

How can commercial leadership make LTV calculations auditable and actionable?

Do not ask for one LTV. Ask for the forecast packet:

- 1 The starting cohort and its inclusion rule.
- 2 The contribution margin boundary.
- 3 The survival and expansion curves.

- 4 The horizon and discount rate.
- 5 The acquisition and service costs included.
- 6 A sensitivity range showing which assumption changes the decision.

Then compare the forecast with what happened to the cohort that produced it. A forecast that is always revised upward when weak accounts leave is not evidence of high LTV. It is a survivor selection mechanism.

The best operational question is simple: which assumption would make this customer unattractive, and have we measured it? If the answer is “none,” the calculation is a presentation number. If the answer is “support cost after expansion,” measure that before reallocating acquisition spend.

Customer lifetime value is useful precisely because it is a model. Models can be challenged, re-estimated and bounded. A fact cannot. Keep the assumptions beside the output and the number can guide a decision without pretending to describe a customer forever.

Evidence base. The analytical frame also draws on these additional sources: Schmitt et al. 2011; Kienzler et al. 2021; Lambrecht and Skiera 2006; Palmatier et al. 2007. The links identify the exact works; they support the mechanisms and boundary conditions discussed here, not every claim in isolation.

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END OF ESSAY

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