Foresight Associates

Message From Vittorio

Hello,

Welcome to our first newsletter for 2019! In this issue we discuss the topic of *customer lifetime value*, a concept that is often used qualitatively to justify larger investment decisions. The case study below shows how we partnered with one of our clients to just do that, despite the lack of perfect data.

The *In the news* section uses Apple's recent headlines to demonstrate another interesting perspective on lifetime value.

Hope you enjoy reading, and as always feel free to get in touch with any feedback or questions!

Vittorio Raimondi
Managing Director, Foresight Associates LLC

Case Study:

Estimating Lifetime Value

Most companies think of recruiting consumers as a long-term investment. There is an initial cost to drive trial of a new product or service, which can lead to continued and even habitual purchases over time. This longer-term value of a consumer is broadly defined as *lifetime value*, and its quantification allows us to prioritize recruitment iniatives and understand the potential return on investment.

Without truly longitudinal consumer data (tracking the same consumer's choices over time), this seemingly simple concept can be difficult to quantify. Longitudinal studies can be costly and challenging to organize. However, lacking the perfect data does not make the question go away.

yet did not have the longitudinal data required to quantify this value. Without these metrics they were unsure which initiatives to prioritize, and how much they could afford to invest.

In order to estimate lifetime value for our client, we applied an approach used in the pharmaceutical industry, known as a “persistency curve.” Persistency curves measure the % of patients still using a given drug at regular intervals after their first use; for instance, they might tell you that 60% of patients are still using the same drug after 3 years, and the number drops to 20% after 6 years.

In our case, we were interested in how brand consumption evolves as a consumer ages. We created an artificial persistency curve based on brand penetration across age groups, using data that was readily available from existing brand tracker studies. We were then able to model the percent of recruits likely to still consume our client’s brand at each stage of their life, and, critically, see how this varied across different types of consumers and initiatives.

The analysis revealed the long-term revenue opportunity for each initiative and also uncovered that some brands in the portfolio drove greater lifetime value than others. The client was then able to bring these new insights into their decision-making process without the costs associated with running a new longitudinal study.

In the News:
Apple's Evolving Strategy

Apple’s recent headlines demonstrate another interesting perspective on lifetime value. Despite reporting overall losses in January and declining core device sales, CEO Tim Cook emphasized the growth of Services, pointing out that active installed devices are at an all-time high worldwide.

In fact, last year Apple announced it would no longer break out unit sales in quarterly reports but would focus on the performance of their total portfolio of products and services. This pivot points to the importance of lifetime value for a services company. While selling new iPhones is certainly important to brand growth, long-term growth also requires maximizing the value of each individual

Have questions you are trying to answer?
Let us know how we can help you by replying to this email!