

Step 1: Gather 3 Numbers

1. **Average Order Value (AOV):** Total revenue ÷ # of orders

◦ *Example:* \$10,000 ÷ 200 orders = **\$50 AOV**

2. **Purchase Frequency (PF):** # of orders ÷ # of unique customers

◦ *Example:* 200 orders ÷ 80 customers = **2.5 PF/year**

3. **Average Customer Lifespan (ACL):** How long they stay active

◦ *Estimate:* 1-3 years for most small businesses

Step 2: Plug Into the Formula

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$$\text{LTV} = \text{AOV} \times \text{PF} \times \text{ACL}$$

Example: \$50 × 2.5 × 2 years = **\$250 LTV**

Step 3: Refine with Gross Margin

Multiply by your **profit margin** (e.g., 30%):

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$$\text{Adjusted LTV} = \$250 \times 0.30 = \text{**\$75 profit per customer**}$$

3 Real-World Examples

Business Type	AOV	PF	ACL	LTV
eCommerce	\$80	1.8	1.5 yrs	\$216
SaaS	\$25/mo	12	2.4 yrs	\$720
Service	\$300	1.2	3 yrs	\$1,080

Why This Matters

1. **Budget Smarter:** Spend <30% of LTV to acquire customers (e.g., max **\$22.50** for the \$75 LTV example).
2. **Spot Weaknesses:** Low PF? Boost retention. Low ACL? Improve onboarding.

Next Step: Calculate your LTV now—it takes **literally 60 seconds**.



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