

Step 1: Gather 3 Numbers

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

◦ *Example:* $\$10,000 \div 200 \text{ orders} = \50 AOV

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

◦ *Example:* $200 \text{ orders} \div 80 \text{ customers} = 2.5 \text{ PF/year}$

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 \times 2.5 \times 2 \text{ years} = \250 LTV

Step 3: Refine with Gross Margin

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

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

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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