

The Compound Effect

So, you've worked out your Lifetime Customer Value (see LCV worksheet), but the true value of a new client could be much higher.

Imagine your customer is so impressed by the work you do for them, they recommend you to their contacts. Those contacts need your services and become your new customers. The value of the initial customer is now increased as you have not had to spend out (Acquisition Cost) in order to generate this new business. Each time a referral is made, your costs decrease and profit increases!

The Compound Effect	Combined LCV	Acquisition	Profit	Percentage
Client	20,000	2,500	17,500	13%
Client + 2 referrals	60,000	2,500	57,500	4%
Client + 2 referrals + 2nd level referrals (2x2) 4	140,000	2,500	137,500	2%

The Compound Effect in my business:

My Customer Acquisition Cost:

My Lifetime Customer Value:

My profit per customer:

The Compound Effect	Combined LCV	Acquisition	Profit	Percentage
Client				
Client + 2 referrals				
Client + 2 referrals + 2nd level referrals (2x2) 4				

Number of new customers in the last 12 months:

If 50% of those customers made one referral that led to a new customer, consider the impact it would have on your figures. So, what can you do to ensure you start receiving more referrals?

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