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Article Title: Why Knowing Your Numbers Will Deliver Killer ROI Results in 2018

If you're like most businesses there are three months left until the end of the fiscal year which means now is the time to get your house in order for 2018. I'm not talking about cleaning out closets or shampooing the carpet, I'm saying know your numbers. Depending on your experience the "know your numbers" mantra is prevalent in the sales, marketing, and operations world, but is essential for any business looking to make a profit and be around in five years.

Let's not glaze over into that numbers are so boring place just yet, we'll keep this simple, straightforward, and ideal for making you look like a genius without working too hard. For this conversation, I'll use the terms customer and donor interchangeably, if you're in the non-profit space, the know your numbers model works for you too.

Before jumping in, let's quickly review the basic goals of any marketing program:

- Increase sales
- Improve campaign and conversion results
- Reduce expenses without negatively impacting sales or campaign results
- Increase the profit margin of the company
- Increase brand awareness and customer loyalty

For sure, marketing plans have tons of room for fun ideas and creativity, which is great and may capture your audience's attention but won't necessarily achieve the goals above. Staying focused on the company's bottom line requires everyone to inspect what you expect. The inspection should include campaign expenses and results, customer acquisition and retention rates, lifetime customer value, and buyer satisfaction (or customer purchase frequency). Knowing results to expect, before you start, makes it easy to plan and quickly assess performance before it's too late to change course.

Step one, whittle out time to host a Crunch My Numbers-A-Palooza Day. Grab your teammates, a big whiteboard, lots of Red Bull, and as much data you have on marketing campaigns and customer acquisition and churn. Roll up your sleeves, keep reading to learn six critical numbers to know for a powerful ROI.

Six Critical Numbers to Know for a Powerful ROI and How to Calculate them

1. **Customer Acquisition Cost (CAC)**: How much it cost your company to acquire a new

customer. Review acquisition marketing efforts over past 12 months, divide into efforts resulting in a direct sale separate from those that resulted in a lead which was then converted into a sale. I'm not suggesting campaigns that generate lots of leads aren't worthwhile, but for CAC the only customers who count are those who resulted in a sale. Officially marketing salaries are an acquisition cost if decide to include staff cost split the expense between new and existing customer analysis or the CAC will be over-inflated. The average CAC spans a wide range based on industry, view Entrepreneur Magazine examples from retail, travel, telecom, and financial marketplaces.

Customer Acquisition Cost Calculation:
Total cost of acquisition campaigns / Total # new customers

2. **Customer Retention Cost (CRC):** How much it cost your company to retain and market to existing customers. Same as CAC, but collect expenses and results only for efforts targeted to existing customers. Remember we're measuring total customers who responded not the total number of transactions. That way you can see how many people responded not orders. From a stats perspective, once a new customer buys for the second time they move into the retention pool.

Customer Retention Cost Calculation:
Total cost of retention campaigns / Total # retention customer responses

3. **Customer Purchase Frequency Rate:** The average number of times customer purchases over a certain time frame. Two simple ways to increase response and sales, offer more products or get customers to buy more often, told you this would be straightforward stuff. Knowing the current frequency rate is the first step toward moving the needle higher. Generally, depending on the nature of your product type, this statistic is stated as a monthly or annual spend.

Purchase Frequency Rate Calculation:
Total # of purchases over date range / total # of active customers over same date range

4. **Customer Average Sales per Purchase:** The average spend per purchase over a certain time frame. If you use an auto-billing model this number will be super easy to project. Knowing your average sales per purchase number is especially helpful when comparing new and existing customer results. Existing customers almost always have higher average sales and purchase more frequently, if you find this not to be the case in your business it's worth serious evaluation to figure out why.

Average Sales per Purchase Calculation:
Total sales over date range / total purchases made over same date range

5. **Customer Churn Rate:** Defined as the percentage of customers lost over a date range. If your company is acquiring 100 customers per year and annually churning through 95% of them it's not good. There are exceptions where a company makes so much money on each customer that it pays for the acquisition cost ten times over making retention nice, but not necessary to stay afloat. Lawyers, bail bonds firms, and plumbers can fall into this category, but generally, a lower churn rate is better.

Customer Churn Rate Calculation:

Total customers who have not purchased over date range / Total new and existing active customers over same date range

6. **Customer Lifetime Value (CLV):** The total value of purchases over customer's lifetime (or average length of time they actively buy from the company). This is the honker of them all, when you identify the Customer Lifetime Value it's like finding buried treasure. Once you know how much customers buy and for how long, it puts the acquisition cost into a whole new perspective. Spending $100 for new customers makes sense if the CLV is $2,000, but if the CLV is $125, eventually it's not going to work out well. For more step-by-step instructions read "How to prevent your CAC from destroying your business" by Neil Patel.

   Customer Lifetime Value Calculation
   Average Sales Amount and Purchase Frequency x Average Customer Lifetime in years
   ($20 spent per month x 2-year lifetime = $480 Lifetime Customer Value)

   Use the chart to find the lifetime or number of years a customer stays active by converting customer churn rate to Customer Lifetime in years. Divide 100% by churn rate = Lifetime in years.

Converting Retention Rate to Average Customer Lifetime Period		
Customer Retention Rate (% pa)	Customer Churn Rate (% pa)	Average Customer Lifetime (in Years)
5%	95%	1.05
10%	90%	1.11
15%	85%	1.18
20%	80%	1.25
25%	75%	1.33
30%	70%	1.43
35%	65%	1.54
40%	60%	1.67
45%	55%	1.82
50%	50%	2.00
55%	45%	2.22
60%	40%	2.50
65%	35%	2.86
70%	30%	3.33
75%	25%	4.00
80%	20%	5.00
85%	15%	6.67
90%	10%	10.00
95%	5%	20.00
100%	0%	Ongoing

Knowledge is power. Take the time to understand how much your customers are worth and the cost to acquire/retain them will keep your business on a clear trajectory toward a healthy bottom line based on knowing your numbers.

Now that you know your numbers are you ready to grow your bottom line? At Three Dog Logistics, our consultants will help develop a plan that delivers client solutions at the lowest cost and fastest delivery speed possible. Remember, we take the bite out of postage and freight. Visit www.threedoglogistics.com or call 410-284-5494 extension 220 to schedule a complimentary consultation today.