GRADIENT

## Product Guide

# Finally. An accurate picture of your customer's value.

Learn who your most valuable customers **actually are** and how much they're worth to your business **over the long-run.**

☑ **Improve Targeting Precision**

☑ **Lifetime Value Forecasts**

☑ **Transactions Forecasts**

☑ **Churn Predictions**

## What We Know:
## Repeat customers are invaluable.

In 2012, Adobe ran a study across 33 billion visits from 180 online stores. What the report found is that **repeat customers are a business's most valuable and efficient sources of revenue:**

**40%** of revenue comes from returning or repeat purchases, who represent only **8%** of all visitors.

Marketers in the United States and Europe must bring in **5 to 7 new shoppers to equal the revenue of 1 repeat purchaser**.

Repeat purchases account for **more revenue** during holiday seasons and times of slow economic growth.

# The Challenge

**Micro-target the potential big-spenders hiding in your database. Give the right customers the right message at the right time**

But almost a decade later, companies of all types lack clarity into **how to efficiently allocate marketing and sales resources**.



Current measurement methods aren't giving businesses **the fuel that they need to grow**.



**Excel-based formulas ignore what makes customers unique**, which means that they are inaccurate and ineffective for decision-making.



Historical data, while important, isn't the only predictor for future performance—few businesses lack the statistical information, in-house, to **monitor business outcomes with precision**.

# The Solution:
## Gradient's lifetime value (LTV) modeling capabilities

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**We hybridize advanced analytics and traditional market research practices to create an accurate forecast for every person in your database.**

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We've built an algorithm that outputs human-friendly, easy-to-read, and straightforward to act upon data. You can even append this information to your customer databases, making it as easy to segment customers by LTV as it is by ZIP code. **Imagine how much this simple, smart reporting could change your business:**

☑ Bring confidence to your forecasting and financial planning processes

☑ Improve your Facebook and Google lookalike targeting parameters

☑ Create value-based segments to better prioritize your marketing spend

☑ Create more effective, intelligent targeting capabilities

☑ Improve customer success operations by understanding who's powering your business

☑ Surface even more high-value customers that you didn't know existed

# The Product:
## Customer-Level Lifetime Value Forecast

**IMAGINE IF** FOR EVERY CUSTOMER, YOU KNEW

— How many purchases they were likely to make in the next year, or 10

— How likely there were to be a "churned" customer

— How much they were expected to spend on any given order

— What features made a specific customer likely to be high- or low-value

☑ Build segments      ☑ High predictive validity

☑ Easy to interpret      ☑ Works for non-contractual models

☑ Simple to set up      ☑ Uses the data you already have

☑ Single source of truth      ☑ Works in real time

# See The Math, Behind The Scenes

When you know who your most valuable customers are, your entire business becomes more efficient, healthier, and higher performing.

**1** We study your historic customer data to build an advanced statistical, propensity to purchase model.

**2** We look at factors including the likelihood of churn and purchase frequency.

**3** We look at subtle variables, including whether someone might be in between purchases.

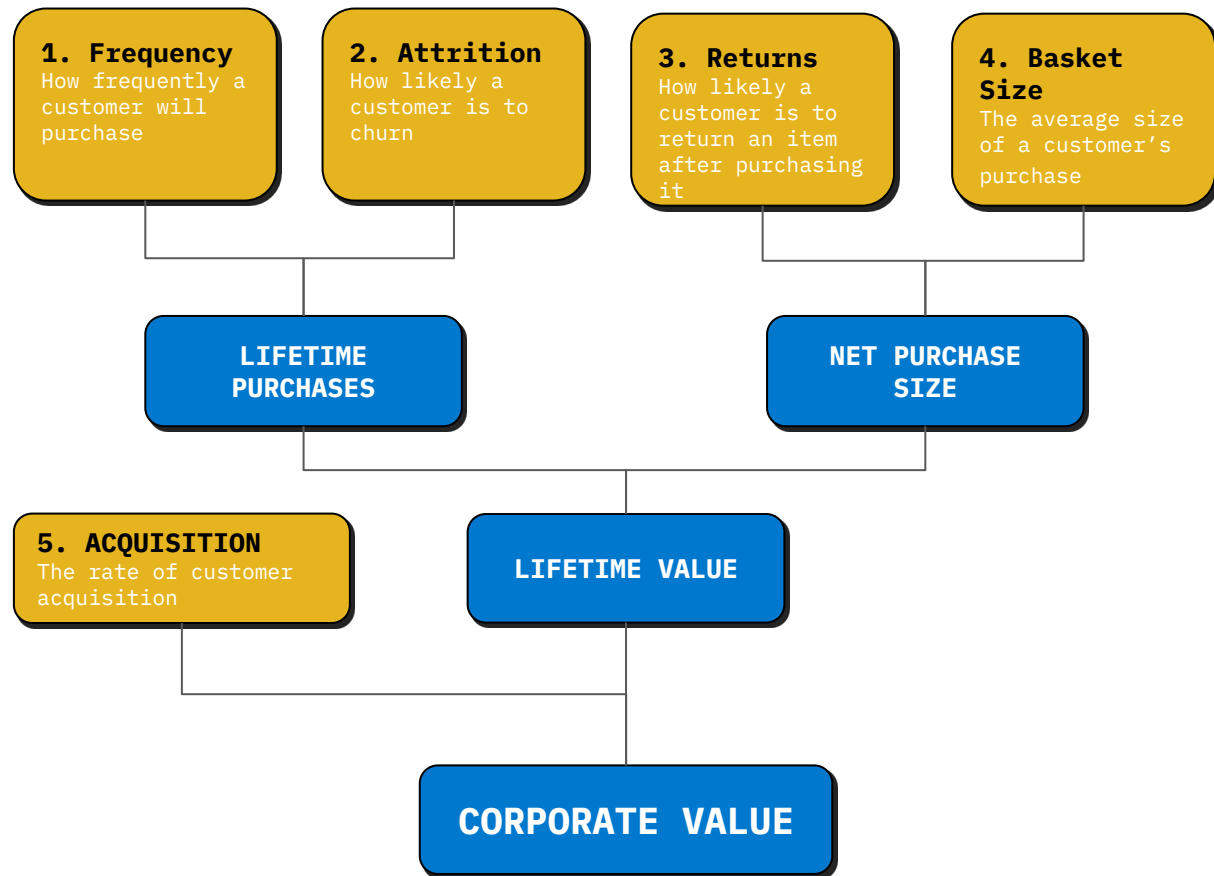**4** We look at seasonal, cyclical, and other factors that are unique to your business.

Lastly, we'll continue to build upon our predictions by appending new customers, testing new hypotheses, and conducting future research.

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# Five models, working together

Gradient CLV blends together outputs from five models, each capturing a component of customer and corporate value

**1. Frequency**
How frequently a customer will purchase

**2. Attrition**
How likely a customer is to churn

**3. Returns**
How likely a customer is to return an item after purchasing it

**4. Basket Size**
The average size of a customer's purchase

**LIFETIME PURCHASES**

**NET PURCHASE SIZE**

**5. ACQUISITION**
The rate of customer acquisition

**LIFETIME VALUE**

**CORPORATE VALUE**

| CUSTOMER | QUALITY | FORECASTED SPEND | | CUSTOMER STATISTICS | | IDENTIFIED SIGNALS | |
| | | Next quarter | Next 52 | P(Active) | E(Basket) | Channel | ... |
| --- | --- | --- | --- | --- | --- | --- | --- |
| Abegail Macie | + High | $57.25 | $85.92 | 🟢 74% | 🟢 $50 | 🔴 Search | |
| Ella Melany | + High | $90.06 | $150.13 | 🟢 85% | 🟢 $80 | 🟢 Social | |
| Paul Charles | Medium | $43.18 | $60.30 | 🟡 51% | 🟡 $35 | 🟢 Affiliate | |
| Roslyn Hervey | Medium | $19.32 | $34.39 | 🟡 40% | 🔴 $17 | N/A | |
| Jefferson Maynard | Medium | $17.97 | $29.82 | 🔴 23% | 🟡 $45 | 🔴 Search | |
| Doria Melville | Medium | $17.25 | $27.22 | 🟢 73% | 🔴 $10 | 🟢 Affiliate | |
| Kaitlyn Farquhar | — Low | $2.05 | $5.03 | 🟡 32% | 🔴 $12 | 🔴 Search | |
| Everette Jarod | — Low | $1.36 | $2.02 | 🔴 26% | 🔴 $9 | N/A | |

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## Picture At The Customer Level

## INTERPRETATION

Abegail has a 74% chance of being "active" (not churned) as a customer, and on every purchase we expect her to spend $50. She came in through Search, which is the worst channel for CLV. We expect her to spend $85.92 over the next year.

Everette has only a 26% chance of being an active customer, and only spends $9 per order. We expect him to spend only $2.02 over the next year

# Stories From The Field

**Gradient's Customer Lifetime Value Modeling In Action**

## GODIVA
### Chocolatier

**EXAMPLE I:** **Identifying drivers for high-value customers for direct-mail campaign**

**1**

Gradient created a statistical model to score each customer in Godiva Japan's customer base, taking seasonality and churn rate into account.

**2**

Gradient's model yielded accurate predictions, which allowed Godiva to append the data to their customer database.

**3**

Godiva learned which profiling variables predicted high-value customers and successfully targeted similar new customers.

## BARE NECESSITIES

**EXAMPLE II:** **Customer valuation | Identifying trends and drivers**

**1**

Gradient applied its CLV model to an apparel brand seeking an acquirer

**2**

Gradient's model identified the average customer LTV, trends over time, and CLV signals that outlined growth opportunities for an acquirer

**3**

The company was successfully acquired by Wal-Mart

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## To get started

At a minimum, we need access to your transactional database that contains one row per order with accompanying revenue / gross profit data.

If you have additional user-level information (marketing channel, geography, other demographics, etc.) those are helpful additions for better fitting the model.

## Pricing

hello@gradientmetrics.com

☑ One-time fee for the initial instrument design and analysis

☑ Nominal fee based on frequency of use for applying the model to a tracking study or customer database

☑ Additional hosting fees if applicable

☑ You can cancel ongoing studies at any time

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# The World's Most Forward-looking Organizations Trust Gradient