

OCTOBER 23, 2025

Just Know the Lifetime Worth of Your Customers

SME'S DON'T NEED A CFO TO VALUE BUSINESS

Concept & APPLICATION

CUSTOMER LIFETIME VALUE

Most small and medium business owners think valuation is something only big corporates or investors can figure out.

But Daniel McCarthy and Peter Fader's classic Harvard Business Review article — "How to Value a Company by Analyzing Its Customer" — shows that how a small business can estimate its worth just by understanding the value of its customers, not just assets or revenue.

It's called Customer-Based Corporate Valuation (CBCV) — and one can do it with a few simple numbers 🙌

First, let's see the formulas:

Concept	Formula	Derived from
<ul style="list-style-type: none">Customer Lifetime Value (CLV)	<ul style="list-style-type: none">$CLV = (M \times r) / (1 + d - r)$	Infinite discounted stream of expected margins
<ul style="list-style-type: none">PV of Future Customers	<ul style="list-style-type: none">$PV = N \times CLV \times (1 - (1+d)^{-T}) / d$	Discounted sum of equal annual additions

Step 1: Gather Simple Inputs

$M \rightarrow$ Average profit per customer per year (Revenue – Variable Costs)

$r \rightarrow$ Retention rate (% of customers retained next year)

$d \rightarrow$ Discount rate (expected return, e.g., 10%)

Step 2: Calculate Customer Lifetime Value (CLV)

$$CLV = (M \times r) / (1 + d - r)$$

Example:

$$M = ₹20,000, r = 80\%, d = 10\%$$

$$CLV = (20,000 \times 0.8) / (1.1 - 0.8) = ₹53,333$$

Each customer relationship is worth ₹53,333 today.

Step 3: Value Your Existing Customers

If you serve 2,000 customers:

$$2,000 \times 53,333 = ₹10.6 \text{ crore}$$

This is roughly the value of your current customer base.

Step 4: Add Future Customers

Add 200 new customers/year for 5 years:

$$PV = N \times CLV \times (1 - (1+d)^{-T})/d$$

$$PV = 200 \times 53,333 \times (1 - 1.1^{-5})/0.1 \approx ₹4.2 \text{ crore}$$

$$\text{Total business value} \approx ₹10.6 + 4.2 = ₹14.8 \text{ crore}$$

What This Simple Formula Leaves Out

To keep it quick and usable, this method doesn't include:

1. Customer acquisition cost (CAC) — spend on marketing or sales to win a customer.
2. Service or reinvestment costs — after-sales effort, credit, or working capital needed to serve customers.
3. Fixed overheads and capital costs — office, staff, and other assets needed to support operations.

Because these are not deducted, this simple valuation could look 15–20% higher than the true economic value — but that's fine! It's still one of the most practical and reality-linked tools a small business can use.

Key Takeaways for SME Owners

✨ You don't need complex analytics — just honest customer data.

🤝 The real worth of your business lies in how long customers stay, not just how many you add.

💰 Improving loyalty and repeat sales boosts your valuation faster than cutting costs.

⚖️ Some SMEs unintentionally overvalue themselves because they ignore acquisition and service costs — this method keeps you grounded.



If you know your average customer profit and how long they stay, you already hold the key to valuing your business .