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EXHIBITOR LIFETIME VALUE

By

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OVERVIEW:

The trade show industry is much like many other businesses in that the most important measure of success is long term loyal customers. In fact, in Fredrick Reichheld's ground breaking book *The Loyalty Effect* he quantitatively demonstrates that those companies who have the highest percentage of loyal customers will continually meet or exceed not only their own revenue and margin goals, but also beat the competition in the market. **A combination that can't be beat!**

Exhibitors represent the paying customer for the trade show industry. The oddity in the trade show business is that less marketing and sales are directed at the exhibitors than attendees even though that's where the revenue resides – an imbalance that seemingly needs correcting. We all know that if the quantity and quality of attendees do not attend then exhibitors will not be satisfied, but this does not fully justify the imbalance.

One way to highlight the importance of exhibitors is to calculate the Lifetime Value (LTV) that they represent to organizers. While not a new concept in the world of marketing, it hasn't been applied to the trade show industry.

So what is LTV? Quite simply it's the calculation of "value" each exhibitor represents over their expected "lifetime" that they remain an exhibitor. **It's not sales revenue, but rather a margin or gross profit calculation**, as no organizer can survive on revenue if not profitable.

The calculation of lifetime value might first appear to be a logical straight-forward mathematical formula. In reality it is not quite so simple, as there are several elements needed to be customized. The following white paper lays out the generally accepted formula, and points out the customizations required to make it realistic and a saleable measurement to management.

Once the LTV has been calculated and internally accepted, then it provides a margin or profit dollar to use as the payoff of all the marketing and sales effort to acquire and retain customers. In real life terms, it allows the marketing and sales department to properly allocate resources and budgets for customer acquisition and relationship building instead of only viewing customer in terms of the yearly revenue dollars. In most cases, this will justify a budget increase as well.

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THE LTV CALCULATION:
The following data elements are part of the basic calculation of lifetime value.

- **Average customer revenue (ACR):**
  The simple number to calculate is the yearly revenue of the average customer? But, as pointed out in many articles on statistics, averages don't tell the whole story and this is certainly true in the trade show industry.

  In most shows, there are a large number of booths that are 10x10 in size. Therefore, an average lifetime value of a 10x10 booth customer should be separated from larger booths to reflect an appropriate LTV for the entire show by segment. From my experience, a company that exhibits in a 10x10 booth is likely to remain so. Therefore, if a 10x10 exhibitor pays $30/sq. ft. this calculates to yearly revenue of $3,000.

  By separating these smaller customers from the rest of the exhibitors provides the organizer a more insightful view to use for the LTV calculation. For out example, let's use a 20x20 booth or 400 square feet at $30/ft., as the larger booth average. That calculates to an ACR is $12,000/year.

  Each show needs to arrive at the large booth average square footage to properly calculate the LTV for larger exhibitors.

- **Number of years to measure LTV (YRS)**
  Many trade shows have been in existence for years, if not decades, and likely a number of exhibitors have participated for many of those years. In fact, in some cases a company might well have been exhibiting for 20-30 or more years. The question to answer then is what's the average life span of an exhibitor? The answer may also vary for the smaller 10x10 exhibitor vs. the large ones, as in my experience the smaller exhibitors will have a shorter average life span. But, that should be determined by actual customer data.

  Once the actual number of years an average exhibitor has been a customer is determined, a practical decision needs to be faced. How many years to use in the calculation vs. the number of years determined by actual data? **This may sound illogical as shouldn't the lifetime value be that actual LTV? In my experience – no! Here's why:**

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In most companies the number of years a customer remains a customer can easily reach 10-20 or more years. While that's a good sign, if we take 10 or 20 years times the average yearly customer revenue we get a very large LTV. Two problems occur:

1. **Nobody will buy into the number**, as it's just too big and besides who expects to be with the company or in the same job 10 or 20 years from now?

2. As a result, it **won't be used** to justify additional marketing and sales budgets, which is the primary reason we are calculating it!

Therefore, my **pragmatic advice is to use 3 years as the multiplier** since most executives will buy into a 3-year time horizon. If the culture of the firm is such, stretching it to 5 years might work, but that's the longest I would go. In fact, when presenting LTV it supports your case if you can say, the actual number of years we retain the average customer is 15, but we are only using 3 to be conservative. You'll then be able to sell LTV. This pragmatic advice also impacts the next calculation – customer decay rate.

- **Customer decay rate (CDR)**
  There is an obvious interplay between customer decay rate and the average number of years a customer remains a customer. Many organizations do not have the history to calculate the actual number of years each customer has been a customer. Therefore an alternate and possibly more accurate approach is as follows.

  Each organizer can easily determine how many exhibitors failed to exhibit from last year and even the year before that. **Reported decay rates for the trade show industry are 10%,** and if yours is different use that number. To make the calculation straight forward, assume that you start with 100 exhibitors. If the decay rate is 10% then the following decay in the number of exhibitors is calculated.

Start	100 exhibitors
Year 1	90 exhibitors (10% decay)
Year 2	81 exhibitors (10% decay)
Year 3	73 exhibitors (10% decay)

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In other words, by using the decay rate and three years as the time frame, for every 100 exhibitors in the first year, only 73 remain in year 3. By applying it to the LTV of a customer the use 0.73 number multiplied by the 3 year revenue, to account for the decay rate. This replaces the actual exhibitor lifespan that may or may not be obtainable.

- **Lifetime Customer Revenue Formula (LCR)**
  Here's the formula for determining the lifetime customer revenue – which is not lifetime value since it is revenue not margin.

  ACR x YRS x CDR = LCR

  For a 10x10 booth at $30/sq. ft. over 3 years with a 0.73 decay factor the LCR is:
  $3,000 x 3 years x 0.73 = $6,570

  For a 20x20 booth at $30/sq. ft. over 3 years with a 0.73 decay factor the LCR is:
  $12,000 x 3 years x 0.73 = $26,280

- **Gross margin of revenue dollar (GMR)**
  The LTV calculation is not just revenue, but margin or profit of the exhibitor. Different industries and companies have various gross margins – sales revenue minus cost of goods. Overhead and taxes are not applied for a gross margin calculation for a number of reasons. In the trade show industry the direct cost of putting on the show as expressed as a percentage is the GMR. This would include all the attendee marketing costs. For the purposes of this example, we will assume a 30% gross margin.

  Following the example above this translates to net customer margin (**NCM)** as follows:

  10x10 $6,570 x 30% = $1,971

  20x20 $26,280 x 30% = $7,884

  If the show margin is either lower or higher, use that percentage. If LTV is to be used, the CFO needs to be convinced. They have heard far too many presentations where revenue is the only measure of success. They know better and will respond more positively if costs are taken into consideration!

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- **Cost of the sale and retention (COS)**
  Finally, to arrive at a true LTV the cost of marketing and selling to exhibitors should be deducted. All monies directly devoted to this activity expressed as a percentage of the total shows revenue is the final deduction to arrive at a LTV. In the trade show industry this is primarily sales staff costs plus any lead generation campaigns and retention activities. For this example, I will use 3% of the average revenue for the COS.

  10x10 of $1,971 NCR - $197 ($6,570 x 3%) = $1,774 LTV

  20x20 of $7,884 NCR - $788 ($26,280 x 3%) = $7,096 LTV

  The 3% may, in fact, be high as the revenue for the entire trade show may be in millions and the actual marketing and sales efforts focused on exhibitors is less than 3%

To Sum Up

The determination of the lifetime value of exhibitors can be a powerful recognition of the importance of retaining and growing current exhibitors. In fact, Reichheld's book documents that the cost of growing and retaining loyal customers is lower than selling new ones. Yes, that is where this axiom comes from. But, there needs to be a dedicated effort to create this loyalty beyond just providing quality attendance and a well-run show.

Calculating the LTV of exhibitors will lead to justifying additional marketing and sales efforts to drive loyalty. If successful, not only will the average size of the booth likely increase, but the decay rate will decline as well. Put those new numbers into the LTV calculation and see the return on any new expense skyrocket. Loyalty is both a business assessment and a human emotion, and those organizers who dedicate efforts to increase loyalty will not only keep exhibitors longer, but grow margins as well. Another can't beat combination!