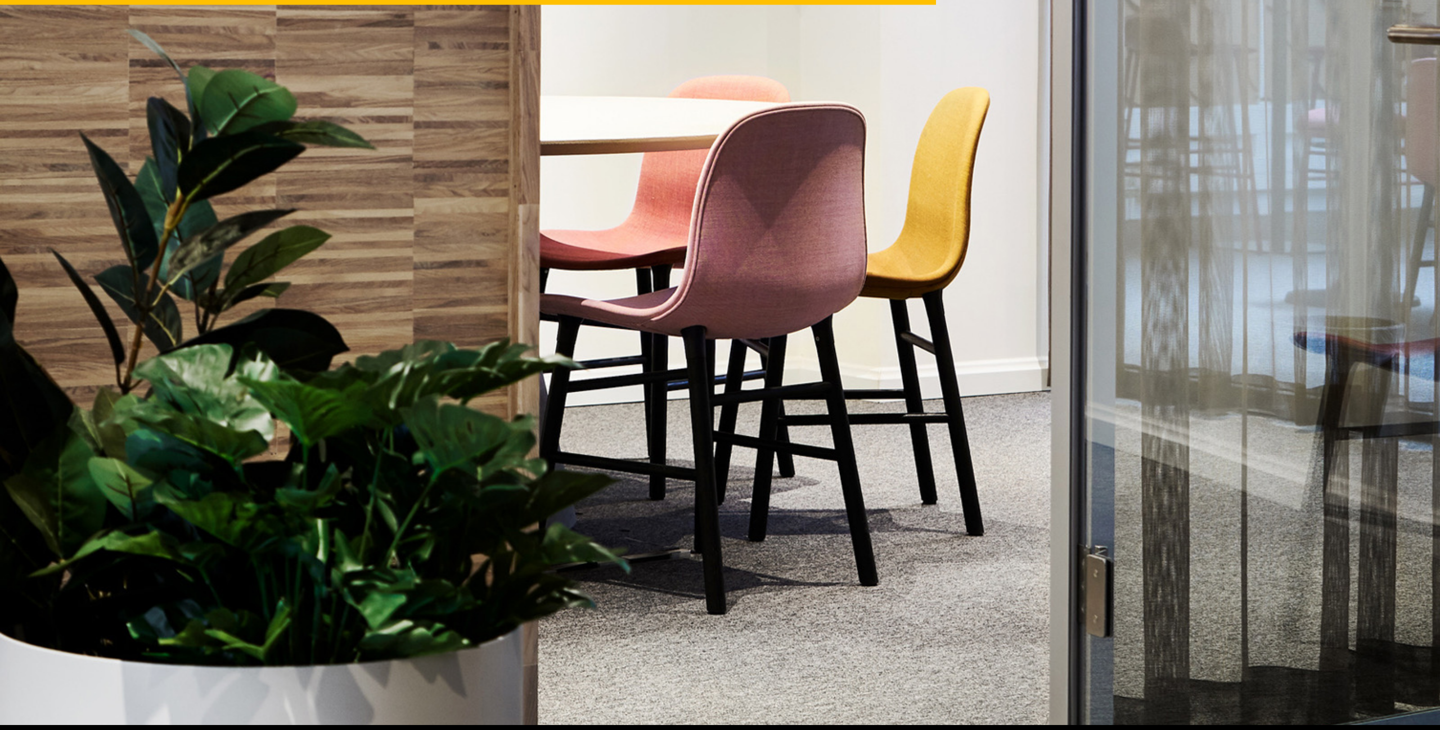
Readly
Roundtable

Lifetime Value: Time for a Rethink?



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1. Introduction

1.1 About the Readly Roundtable

The Readly Roundtable is an informal forum for Readly's client publishers to discuss the latest trends and developments in the marketplace. It's an opportunity for some of the leading publishers in Europe to share their experiences and challenges in making content deliver more revenue. At Readly, we see connecting clients with each other as a key part of our role.

This paper is an anonymised summary of the key discussion points from our publisher event, ***Readly Roundtable: Lifetime Value – Time for a Rethink?***

It featured a key-note interview with **Julian Thorne, Chief Customer Officer** at **Dennis**. This led into a wide-ranging discussion with representatives from **Future, Hearst, Hello!, Archant, Kelsey, TIME** and **OK-Förlaget Aktiebolag**.

1.2 Do we really know what our readers want?

As content providers we talk a lot about being customer-centric, but with audiences that are fragmenting across multiple platforms and channels, what does this look like in practice? How can we be sure we're delivering what they want? And what do we need to do to capture the audience of tomorrow without alienating the one we're retaining today?

More importantly, how should we be using Lifetime Value (LVT) models to make rational decisions when managing our brand portfolios? This paper examines how LTV should work in an agile publishing organisation, by challenging some widely accepted statements in our industry today, some of which are pure myths....

"We have a wide-ranging portfolio of magazines that we used to milk until they died. Now we're investing and using LTV to direct our marketing.

Part of the investment is getting closer to our readers though regular surveys among consumer panels, which is also building more of a community feel to our business."

The only way to truly understand your audience is by talking to them.

1.3 Debunking the myths

1. **Subscription and membership mean the same thing.**
   They're very different and result in different outcomes for your business.

2. **All publishers use LTV models to run their businesses.**
   Some still do not use LTV at all. Many use it in a very restricted way. And whilst there are core metrics in any model, LTV can be used in different ways from brand to brand.

3. **Companies have a true understanding of what their readers want.**
   Many organisations are still far from truly understanding their readers; what they want, what their value is - and then giving them what they want.

4. **The publisher endgame is 121 interaction with the consumer.**
   The business is still a very long way from deep personalisation, which also has its downsides if poorly executed.

2. Calculating Lifetime Value

2.1 Defining LTV

$$\frac{\text{Lifetime customer value (LTV)}}{\text{Customer acquisition cost (CAC)}} = \frac{\dfrac{\text{Average revenue per user (ARPU) in first year} \times \text{Gross margin} \times (1+\text{Expansion rate})^{N} \quad 2}{1 - \text{Retention rate} \quad 1}}{\dfrac{\text{Acquisition marketing cost} \quad 3}{\text{Number of customers acquired}}}$$

- **LTV is based on net value not simply gross revenue.** The top line revenue (what the user pays) must have all the associated costs (acquisition, cost-to-serve, etc) taken into account in order to assess the value of the customer to the publisher.

- **A useful ratio often used by private equity firms when assessing a company is 3 to 1**, where the cost to acquire a customer (CAC) is one third of the total customer revenue (LTV). That is a challenging ratio which many companies get nowhere near. Yet tracking it, and making conscious decisions to live with a much lower ratio where appropriate, should be part of the strategic thinking behind any brand.

- The obvious metrics when calculating LTV are Average Revenue per User (ARPU), Acquisition Costs (CAC) and Retention Rates. **Yet one metric often overlooked is the Expansion Rate** – the degree that revenue can be increased each year, both through price rises and through selling other goods and services.

- **Defining the length of a lifetime (or "tenure") is another major factor; LTV can be spread across several years.** Certain cohorts of users will stay with a brand for several years. Yet the key metric is actually: when do you want to hit profitability and make a return on the investment from the user? This can range from one year to several years.

Data will give you a good insight, but it's not enough to take it at face value. **It's important to ask your customers: "Why? What's the motivation?"**

> *"LTV and understanding the financial value of a consumer is critical. Yet managing a subscription business in a strategic way goes way beyond simple financials and cold data. It's still very much an art rather than a science."*

First you need to work out the **ratio** and then the **time scale**. The time scale is whatever the business is prepared to accept as a return on investment timescale.

3:1 is a useful LTV ratio

> *"We have always used LTV but we used to aim for subscriber profitability at five years. Now it's just one year. As a marketer, that is the biggest challenge of them all."*

The important question is: **when do you want to make your money back?** You need to understand what your time frame is, and then put the lifetime value metric against that.

3. Understanding Lifetime Value

3.1 Understanding "membership"

> *" A subscription is a transaction – a repeat payment for a service. Membership means belonging to and having a stake in a community. The two often overlap, but they are inherently different. And many publishers think they have a membership community, when actually they are still locked into a transaction-based subscription. "*

Membership means **building back from the end-consumer and delivering what they want, not what we want to serve them**. Few publishers actually do this in reality.

Defining characteristics of a membership model:

THE COMPANY

TESCO

There are several examples of successful membership organisations which **do not have a subscription payment mechanism at all**, the Tesco Clubcard for example. Yet through exemplary customer service and payment mechanisms that users want, a real sense of belonging has been created.

NETFLIX

Most successful operations, including Netflix, have **distinct cohorts within their audience pool.** They range from those who feel they are members of a service that responds to their needs, through to those who have made a cold, financial assessment of the service.

Low friction at every decision point, single-click transactions, world-beating customer service, deep but sensitive personalisation, machine learning: these are all capabilities that companies like Apple have, and which most publishers do not have, but must aspire to.

True membership organisations think over a much **longer timescale** than contract-driven subscription operators.

THE CUSTOMER

One thing members do, and which makes them feel part of the community**, is to share peer-to-peer. Enabling that is a key element of any membership offer**.

"Members" and "subscribers" can sit side-by-side within the same audience pool but need to be treated differently and with distinct pricing strategies and service packages. Yet driving high frequency usage is key to embedding any service into users' daily lives.

LinkedIn works because there are millions of people using the service for free, and a small percentage of people willing to pay a subscription. The free part is creating a **network effect**, which you can leverage for a small number. The idea being, if millions of people download this for free, it **builds value in the ecosystem**, which means I can start to charge a small number of those people.

3.2 Understanding and measuring engagement

There is a strong correlation between engagement and retention, but it's not causal. Sometimes – and particularly with freemium tiers – **high engagement does not translate into strong conversion or retention**.

- It's important to look at where the correlations are against the retention rate, and then do the research to understand why that might be.

High levels of engagement do not automatically translate into an increased retention rate. **When that happens, do the research to find out WHY.**

"*We've got a big portfolio of brands across a wide range of market verticals, demographics, frequencies (from weeklies to one-shots) and lifetimes. Our current project is to see how each cohort uses the different platforms available to them. And from there, work out how to engage with them better and build our brands into our customers' lives and habits. For one brand, that might mean a daily push notification. For another, it could be a monthly newsletter.*"

It is essential to know what your customers' habits are and then build your products around those habits.

3.3 Understanding what your audience wants

It is critical to know what the wants and needs of your audience really are.

In theory, we are moving into a world of 121 personalisation, driven by the tech giants; in reality there are some caveats….

- 121 personalisation is easier to achieve with marketing communications than with content delivery. Yet this can feel a little "spooky" to users if handled clumsily and can actually end up feeling less personal.
- Publisher tech capability means that 121 service, in both marcomms and content delivery, is very limited, with most publishers still working with cohorts rather than individuals.

"*In social media acquisition activity we are getting close to 121 comms. Yet by the time we get to the content creation, we're back into cohorts.*"

For 121 marketing to work, you need to enter the world of **machine learning**, where your systems can communicate with customers on a 121 basis**.**

Good membership organisations create services that throw off a huge amount of data. That data will give you a good insight into what's going on, but it's important to back that up. **You have to understand the motivation**. It's not enough to take the data at face value, because you risk imbuing it with your own prejudices.

The Athletic

The Athletic is a successful case study in building a digital content service, which is driven by the passion of the local sports journalists writing at length about what matters to them. It's based on low-friction payment – subscribing with your thumb print on your phone being an example.

> *On one of our biggest brands, we have two extreme cohorts. There are the real enthusiasts, who want to go long-term with the magazine. At the other extreme are those who are in the market for four or five issues at most. Rather than try to adapt the core content, we've created very different subscription offers that now make both groups profitable for us.*

> *I have a magazine where we have a lot of customers who just want certain information at a certain time. They want 1-3 issues at most. What we now offer is a service where this customer, who doesn't want any kind of subscription, is offered a one-off purchase at a high price. It still ties into LTV - it's still a customer's value over a certain period, even though it might be shorter.*

It's not about trying to change the customer behaviour, but understanding what the need is and adapting your products to be able to make the most money out of that behaviour.

3.4 Capturing tomorrow's reader

There is a fine balance between delivering what your current audience wants – and finding more of them – and bringing fresher and younger blood into the audience pool.

Problems occur when trying to make current products stretch too far. One way around this is to launch distinct products under an overarching brand (e.g. *The Week* and *The Week Junior*). Another route is to create separate brands that can deliver content that is appropriate to different age segments within a vertical interest group.

Avoid stretching the brand, because you'll be in danger of alienating the core customers who love it anyway. Instead, look at your customers and ask yourself, **what's the best way to service those customers**?

> *I really don't understand the obsession with youth and Gen Z. Yes, they are the future. Yes, they have different attitudes and patterns of media consumption that we have to be ready for. But they don't have the money. Four fifths of the UK's disposable income sits with the over-50s. In the blind pursuit of youth, we forget the people who can pay for the services we currently have on offer.*

SAGA

Over 70s have consistently bought into Saga, but 50-year-olds didn't like to be associated with the brand; they needed distinct products and brand positioning to bring them on board. Another dimension is that today's 50 year-old has a different lifestyle and spending patterns from that of a few years ago. Saga didn't stretch its current offering but created new products to suit the 50-year-old of today.

3.5 Print vs. Digital

Each cohort within an audience pool potentially wants very different things. For many cohorts, print is still seen as the 'real deal.' **Providing a range of platforms and content delivery channels is essential**.

Remember, **your print and digital subscribers may sit under the same brand**, but their preferred products are fundamentally different, so it's difficult to compare the LTV:CAC ratios with each other.

- The key unifier is the **community interest**, which works as the starting point for any membership business model.
- In order to establish a membership model, you need the print audience and the digital audience to **learn from each other**, interact with each other, and enjoy being part of the community. The really powerful membership organisations have a diversity of people, unified by particular interests.
- A publisher may have different groups of people consuming its content in different ways - it's important to leverage that by **bringing those groups of people together** in order to build a strong community.

> *"Our portfolio is made up of a massive print brand and a massive website - with very little audience overlap between the two. Our challenge is to get the millions of digital users to buy into the print magazine, which is where we still make our money."*

> *"We have a single brand which is much more digitally focused now. Print is still important – it still brings in good money – but it is lower frequency and higher priced. As an organisation, we are progressively becoming more digital."*

You may have different groups of people consuming content in different ways - it's important to leverage that by bringing those groups of people together in order to build a strong community.

4. Lifetime Value in Practice

4.1 The two ways of using LTV

LTV can be used from the **top down** to value a brand and compare performance from brand to brand. **This is often used to assess the performance and value of the total business**.

- **What is the LTV:CAC ratio?** That will tell you where to focus your marketing spend.

Or, LTV can be used from the **bottom up** to run the day-to-day business, by tracking the **efficiency of marketing spend**, by channel and – increasingly - by campaign. This is much more forward-looking and predictive, often with a range of scenarios rather than a single forecast.

> *"If you look at LTV purely by channel, you're in danger of only picking up people at the point of transaction, because you're focusing on the lowest acquisition cost. To look at LTV by campaign means that you get a much more rounded view of the different mix of marketing activities."*

- Looking at campaign LTV means that one can approach the complex process of **attribution**, which can absorb a great deal of resource and headspace.

- Rather than create complex attribution models, there can be a pragmatic, but still structured and methodical assessment after a campaign, which can produce important learnings for the future.

- Also, any campaign will always be based on a mix of brand and profile-building activity as well as hard, measurable response channels.

"A channel could be exceptionally high achieving, but it may be something we can only use in small volumes – pay-per-click is a great example of this. The most effective PPC terms for us are the ones that have the brand name in them. But we're limited by the number of people who type the brand term into their search bar. You can't dial it up, no matter how much you might want to, if people aren't typing that in."

If you look at it purely by channel, you're in danger of picking up people solely at the point of transaction, because that's got the lowest CAC – you'll end up with response channels only.

- By analysing at campaign level eg: a mix of social media activity, radio, TV, you can work out your campaign level LTV:CAC ratio. This way you get a far more rounded marketing approach.

- Begin at a channel level, and push that back to the marketing team so that they' understand it, and then you can take it to campaign level.

"We have a big portfolio of magazine brands, plus digital-only websites. There isn't a one-size-fits-all model. Yet we can't have too many ways of doing things. We have to simplify things a bit and have different rules in place for groups of titles – lifestyle titles (high volume and lower loyalty) as opposed to specialist titles (lower volume, higher loyalty and longer lifetimes, but higher costs)."

There isn't a one-size-fits all model. It can work well to have different rules in place for different brands.

4.2 Different metrics for different audiences

Real LTV-thinking must permeate the whole organisation and must be driven from the top down. Also, there must be alignment between departments – notably Finance and Marketing – as to what the financial ROI targets actually are.

There are distinct audiences for LTV metrics:

- **Internal senior management**
- **Internal operational management**
- **External stakeholders**

"We have a CEO who has totally bought into whole subscription piece. So have the editors. But we need to get better – and faster – at explaining internally what we're doing."

If membership as a product proposition is coming from the CEO, it's got a good chance. **The entire organisation has to focus on the needs of the members.**

There are dangers for any organisation which chooses an over-riding "hero" metric (e.g. retention rates), as this can distort the whole operation to deliver on that metric to the exclusion of everything else. The reality is that **the importance of the key metrics differ from brand to brand** and also through time, depending on external market conditions and where in its product lifecycle a brand is.

Doing subs well, is doing a million things well. It's not one simple answer.

"We use LTV as a departmental tool for managing marketing activity, but we're careful who we share that information with - the broader business may evaluate us on a limited understanding of what that data means. People - and especially senior management - are often looking for simple answers to complicated questions. As subs people we know it's a complex, multifaceted way of working."

4.3 Incorporating multiple revenue streams

"Ecommerce is a big revenue stream for us, but these audiences, though large and lucrative, are anonymous to us as they go through affiliate partners. So, it's really hard to apply our normal LTV measures to them and to understand their behaviours. We've still got a long way to go in joining up the dots."

Any assessment of ARPU means incorporating revenues from different streams of activity, notably events and ecommerce. Yet there is some debate about whether advertising revenue associated with a user should be incorporated – it can get extremely complicated.

By including ad revenue, you're in danger of distorting what you're trying to do - who is the core customer here? Is it the end user? Or is it the advertiser?

- Traditional LTV models, and especially those for free distribution magazines, have always taken this into account. Yet companies like Dennis now **deliberately exclude ad revenue**, as they feel it distracts the business from the core task of delivering paid-for content to users.
- A clear vision and **understanding of what the core transaction actually is** (e.g. a paid subscription to an issue-based magazine) as opposed to add-on supplementary streams (e.g. events, ecommerce) is key.
- These add-ons bolster ARPU and may become core revenue streams in time, but they are often lower margin, resource hungry and can take years to build.
- LTV models can be used to work out the short-term impacts, **but there is a bigger picture** - how many subs do you actually want in three years time? How many do you want in print? And if you lose too much volume, how will that impact on our ad revenues?
- Don't let ad revenue distract from the core task of delivering the products most relevant for your audience.

Advertising is a bonus; it comes back to being completely user-focused.

4.4 Pricing Strategy

Historically, without any engagement data - or very much data at all - the only way subscription marketers could appeal to different audiences was with free products. Prices would rotate constantly, from one audience to the next. A lot of our subscription marketers haven't come away from that yet.

- The general feeling is that quality content should command premiums prices and that the publishing business had long undervalued the power of its content in the pursuit of volume and audience growth.
- This has become even more obvious during the pandemic, when many publishers panicked and responded with shorter terms and deeper discounts – often needlessly and to the detriment of the perceived value of the brand.

"We need a consistent pricing policy for a brand, with tailored comms for each audience about the benefits of our products."

It's about nurturing the customer rather than simply rotating prices.

Newsletters are a brilliant way of nurturing the potential subscriber, so that by the time they get to a point of purchase, they're not so interested in the price. The customer likes and trusts the brand, so the brand's price elasticity has hardened up.

4.5 The role of free content

There are two approaches to free content:

- One approach is "freemium": a permanent level of free content which gives the consumer a taste of the "full fat" premium package. Yet this level may be good enough for many users' needs if too much is given away.
- Another approach is to give away the full content package for a limited time period. The downside to this is that it can devalue the product in the user's eyes and requires a concerted effort to engage the consumer during the trial period.

"Whichever approach you take, free has dangers in devaluing the content. It also works best if the potential audience pool is large. LinkedIn and Amazon are both good examples. It works for them because they can live on relatively low conversion rates. For publishers, I'm not sure that this 'network effect' actually works."

Amazon uses multiple products to enact an interesting pricing strategy. It uses traditional trial periods on products like Audible or Amazon Music, but their approach on Amazon Prime is very different. Here, you're actually paying for a "free" service – free delivery – where you're driven to use the service more in order to get the best value out of the subscription.

Consequently, Prime subscribers spend four time more than non-Prime users of Amazon. Understanding the behaviours behind each purchasing decision – and how that is packaged for the consumer - changes the whole LTV assessment.

In the latest figures, 85% of people took out Amazon Prime for the free postage - bearing in mind, they're paying £80. That's not free postage, unless you spend the equivalent of £80 on postage. It's a sunk cost, which you as a consumer are determined to make up the value of, and a clever example of how they position free - as a customer, you're psychologically inclined to use the service in order to get your benefit.

What's more, they also offer exceptional customer service. The customer service level is so good that as a customer, you value that as a large part of what you're paying for.

It comes down to trust again. You trust that if something goes wrong, you're going to be dealt with in a predictable way.

5. Key Takeaways

Understanding the consumer and building everything back from this point underpins the entire LTV process, which highlights a number of recurring themes when it comes to: .

The Audience

The only way to truly understand your audience is by talking to them. Data will give you a good insight, but it's not enough to take it at face value. It's important to ask your customers: "Why? What's the motivation?"

Membership means building back from the end-consumer and delivering what they want, not what we want to serve them. Few publishers actually do this in reality. True membership organisations think over a much longer timescale than contract-driven subscription operators.

You may have different groups of people consuming content in different ways - it's important to leverage that by bringing those groups of people together in order to build a strong community.

It is essential to know what your customers' habits are and then build your products around those habits.

Avoid stretching the brand, because you'll be in danger of alienating the core customers who love it anyway. Instead, look at your customers and ask yourself, what's the best way to service those customers?

Calculating Lifetime Value

The important question is: **when do you want to make your money back?** You need to understand what your time frame is, and then put the lifetime value metric against that. First, work out the ratio and then the time scale. The time scale is whatever the business is prepared to accept as a return on investment timescale. **3:1 is a useful LTV ratio**

By including ad revenue, you're in danger of distorting what you're trying to do - who is the core customer here? Is it the end user or is it the advertiser?

There isn't a one-size-fits all model. It can work well to have different rules in place for different brands. It's about nurturing the customer rather than simply rotating prices or altering the product.

The Organisation

If membership as a product proposition comes from the top down, it's going to survive. The model has to mean something to the business, and the entire organisation has to focus on the needs of the members.

When looking at LTV, it's easy to mistake a subscription relationship with customers for a membership relationship because most organisations don't think of their customers first - the relationship is purely transactional. A membership organisation will be driven by the mission of serving its members. It's important to determine whether or not your organisation is capable of being a membership organisation. **Because to do that, it has to think of its customers first.**

For more information about this roundtable, or for details of future Readly events, please contact:

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