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Firm Valuation from Customer Equity: When Does It Work and When Does It Fail?

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Abstract

Is customer equity a good proxy for a firm's market value? Using data from Netflix over 10 years, I provide evidence that a CLV-based customer equity model tracks market capitalization remarkably well under versatile conditions of stable growth, profit volatility, and even a broad market crash. However, if a firm shifts business model through radical innovation, the customer equity model requires recalibration to continue tracking market capitalization.

Keywords: customer lifetime value; customer equity; innovation.

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