ONE PAGE SUMMARY

Entrepreneurship & Startup › Startup Finance & Accounting › Unit Economics

CAC

Mastering CAC: The Key to Startup Profitability

DEFINITION

> Customer Acquisition Cost (CAC) is the total cost of acquiring a new customer. It includes all marketing and sales expenses divided by the number of new customers gained.

KEY CONCEPTS

Calculation Method

CAC is calculated by dividing total marketing and sales expenses by the number of new customers acquired in a specific period.

Importance of CAC

Understanding CAC helps startups evaluate the efficiency of their marketing strategies and overall business sustainability.

CAC vs. LTV

Comparing CAC to Customer Lifetime Value (LTV) helps determine the profitability of acquiring new customers.

Reducing CAC

Startups can lower CAC by optimizing marketing channels, improving sales processes, and enhancing customer targeting.

Industry Benchmarks

Different industries have varying acceptable CAC benchmarks; knowing these helps set realistic targets.

EXAMPLES

→ A startup spends $10,000 on marketing and gains 100 new customers, resulting in a CAC of $100.

→ If a company reduces its CAC from $150 to $100, it can increase profitability significantly.

→ A SaaS company with a CAC of $200 and an LTV of $600 is in a healthy position.

MEMORY TIPS

★ Think 'CAC' as 'Cost to Acquire Customers' to remember its purpose.

★ Use the phrase 'Lower CAC, Higher Profit' to connect CAC with business success.

★ Visualize a funnel where costs go in and customers come out to grasp the concept.

COMMON MISTAKES

✗ Neglecting to include all relevant marketing and sales costs in the CAC calculation.

✗ Confusing CAC with LTV, which measures customer value over time, not acquisition cost.

✗ Failing to regularly update CAC as marketing strategies and costs change.

QUICK RECAP

Customer Acquisition Cost (CAC) is crucial for understanding how much it costs to gain new customers. Keeping CAC low while maximizing Customer Lifetime Value (LTV) is essential for startup profitability.