

How to

LOWER CUSTOMER ACQUISITION COST

Native Digital

You're adding new customers.
Nice.

What's each new customer cost?

Could it be less?

Every business wants both lower customer acquisition cost and an increased customer lifetime value. Because for businesses to grow, customer bases must grow. The challenge is you also have a budget to manage. Look at it the right way, and it's a budget to invest.

You could manage a shotgun marketing approach, the classic spray and pray, or you can invest in highly targeted campaigns. At Native, we prefer to track consumers as they progress from interested leads to loyal customers. In doing so, **CAC emerges as a top metric** for marketers, C-Suite and even investors.

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01

UNDERSTANDING CAC & HOW TO CALCULATE IT

How much do you spend, on average, for a new customer?

Take the total amount spent acquiring customers in a given time period including media spend, tools, staff salaries and partner fees. Divide by the number of customers acquired in the period the money was spent. That's your CAC.

$$CAC = \frac{(\text{Cost of Sales}) + (\text{Cost of Mktg})}{(\text{New Customers Acquired})}$$

The name of the game is to find the most efficient CAC possible – valuable, qualified customers for the least amount of spend and effort.

+ For Example

If you spend \$25,000 in a month to acquire 25 customers, your CAC is \$1,000.

$$\text{\$1,000 CAC} = \frac{(\$25,000 \text{ spent})}{(25 \text{ new customers acquired})}$$

Now, let's say your average customer value is \$3k each. In other words, you've managed to build a machine that converts \$1 bills into \$3 bills. But you're dissatisfied with that ratio. Over the next few months, you experiment. You optimize. You consistently acquire 50 customers of the same caliber. Your Money Printing Machine™ is now cranking out 6 dollars for every dollar inserted.

Now you have more than a solid marketing plan — you have a formula. Time for more inputs, more investment and probably a raise with results like these. 😎

Let's not get carried away just yet. Caveats abound. The attributing factors to total cost can be complex (e.g. offline sales activities, long-standing SEO tactics, people's time). First, establish a baseline. Next, develop a living model to continually refine. We've found it helpful to craft multiple variations accounting for various strategies and situations.

02

HOW TO DETERMINE THE IDEAL BUDGET.

We start by working backwards — where every marketer should always start — with the customer.

Customer Lifetime Value

First, determine the Customer Lifetime Value (LTV) to establish a target of what the brand is willing to pay to acquire each new customer. The higher your LTV, the higher your CAC can be. There are many advanced methods for calculating LTV but in its simplest form, it's the revenue they generate minus acquisition and retention costs.

$$\text{LTV} = \begin{array}{c} \text{Total revenue} \\ \text{customer} \\ \text{generates for} \\ \text{your company} \end{array} (-) \begin{array}{c} \text{Customer} \\ \text{Acquisition} \\ \text{Cost} \end{array} (-) \begin{array}{c} \text{Customer} \\ \text{Retention} \\ \text{Costs} \end{array}$$

If your business has yet to perfect this metric, you're not alone. Only **42% of businesses** report having measured LTV with only 11% of them being sure of their calculations.

Conversion Rate

Next, calculate the **Conversion Rate (CR)**, the number of people marketing reaches divided by the number that become paying customers. Several subset metrics can help determine if there are areas or channels clogging up your funnel.

$$\text{CR} = \frac{\text{\# of people marketing reaches}}{\text{\# that become paying customers}}$$

Here's an Example:

LTV

We'll stick with a value of \$3000 per customer.

CR

For every 100 leads entering your funnel, 1 becomes a customer.

SALES GOAL

You're tasked with 25 customers per month which is worth \$75,000.

Your organization's appetite for growth or optimization will set the expected return. We'll say the expectation that every dollar invested in marketing should generate three dollars. So at a **3:1 ratio** you're budget is simple. It's one-third the overall value, so the budget is \$25,000.

We now have a couple metrics to watch closely:

+ **CAC**
This assumes your team can repeatedly acquire a new customer for \$1000.

+ **CPL**
Knowing leads convert at 1% our Cost Per Lead needs to be \$1.

There's a few strategies marketing can now take:

DRIVE DOWN CPL

Find leads for less than \$10

DRIVE UP CR

Find higher quality that convert better than 1%

ACQUIRE HIGHER VALUE

Find customers that have a higher lifetime value

This is the hard part. The good news is you're reading this white paper & the rest of it includes more than a handful of proven successful thought starters.

Budgeting Considerations

1

CAC tends to increase as customers do

Once you've identified your most affordable lead, your cost per customer typically increases from there, especially if paid search is your core channel. As your customer volume grows and you push the upper limits, things get more costly. Don't be surprised. It's a great problem to have.

3

Every channel is unique

Every avenue you take will have its nuances. Some channels are better than others at maximizing LTV to CAC ratios. Allocate as much to high profitability channels while understanding that the goal is to have a marketing mix that evens out to 3:1.

2

Set your threshold

Many industries aim for a LTV to CAC ratio of 3:1. A ratio of 1:1 breaks even. A 5:1 ratio limits growth. That said, every industry and organization is different. Typically, what works is determined by whether you're in growth mode (to raise the topline and market share) or optimization mode (to improve the bottom line).

4



The payback period

The sooner you recoup investment the better. The standard goal across most industries is to recover the investment within 12 months but again, everyone is different.

Real World Examples

If you want to know why investors are smitten for Slack it's because of these unit economics. They're an extreme outlier. Almost no one can claim +1000% return on marketing at this scale.

And if you'd like to know why investors have fallen out of love with Blue Apron it's because of theirs. They claimed a CAC of \$94 dollars when it was actually pushing \$460 and showed lifetime values they were unable to achieve because of quick customer churn. Their appetite for growth became unsustainable.

	 slack	 Blue Apron
Customer Lifetime Value	\$99,000	\$184
Year-1 Customer Churn	10%	82%
Customer Acquisition Cost	\$7,700	\$460*
Market Cap Value (April 2020)	\$15.2 billion	\$150 million

Source: Thetate Equity Partners and Saasquatch.com

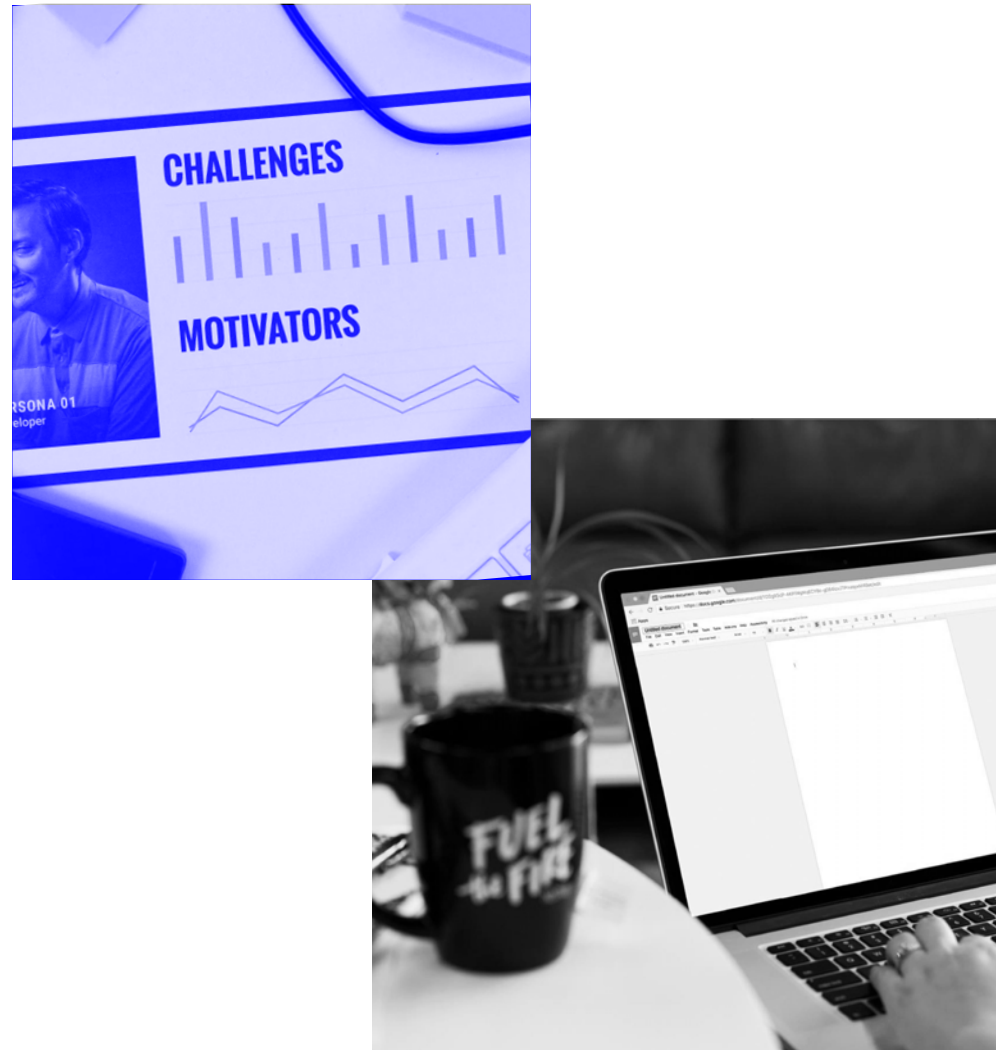
Now let's get back to your situation.





03

THE PREREQUISITES



Niche Down on Your Audiences.

All this work is pointless unless you have a clear target. Know your ideal audience. Know what they want. Know what stresses them out and what motivates them to action. Know what they're trying to accomplish and how you fit in. Know how they perceive your competitors. Know the alternatives they might also consider. Eliminate the mainstream. Get specific. Niche down.

Sharpen Your Message.

With your ideal audience in mind, figure out your value proposition for them. Offer something of real value that's clearly better than their alternative. Make a compelling case. Make it logical. Now give it some emotion to paint a vivid picture of what it could be.

04

CHANNEL PLANNING

Not one, not all. Pick a handful.



Some brands over-rely on one channel that works. They have great CAC, but they're limiting growth and risking a single point of failure. They're leaving money on the table by not finding another avenue.

Other brands try any idea that sounds good and they have time and money to try. They're chasing 20 different methods.

Which works? Who the heck knows. Most of us have been guilty of both. Look for ideas providing the maximum value. **To start, identify 3-4 dependable evergreen channels and 1-2 more experimental channels.** Then, quickly cut the losers, and promote the winners.

Mix it Up: Owned, Paid, Earned

Don't over-rely on one particular media type either. Each has pros and cons.

Owned Media

Owned Media builds value over time but it tends to take a lot of just that: time.

Paid Media

Paid Media gets you there in a hurry in very targeted ways but you're renting, not buying.

Earned Media

Earned Media is often a homerun but could also go on a hitting drought when a hit is really needed.

→ The route you take isn't what truly matters. The most important thing is owning that strategy once it clicks in place. When it works, understand how and why in detail so you can make it happen again.

Model your Hypothesis: Set Pass/Fail Criteria

Marketing is both art and science. Specifically, art and data science. The data available is overwhelming, enough to model your marketing funnel from initial investment all the way through resulting profit.



HOT TAKE

A list of KPIs after an experiment isn't enough.

Be proactive and think big picture. Modeling out your expectations in advance helps you understand if the experiment is worth running. You can draw a line in the sand of what performance should look like. Otherwise, you're flying blind.

Tracking Offline. Upping Digital.

Digital methods have a huge leg-up on the offline world when it comes to granular analytics. And like they say “what gets measured gets improved.” At the same time, traditional methods are not extinct. They can often fill top-of-funnel awareness that benefits your online tactics.



HOT TAKE

Don't leave sales, out-of-home, print or other non-digital methods out of the equation.

It's easy to leave 'em out since it's difficult to be exact with numbers. Don't. Use approximations. Billboard companies will provide monthly driveby traffic. Factor in those impressions. The initial model you create may have a high margin of error in the beginning — over time it will become more and more reliable.

Now let's get into more specific techniques.



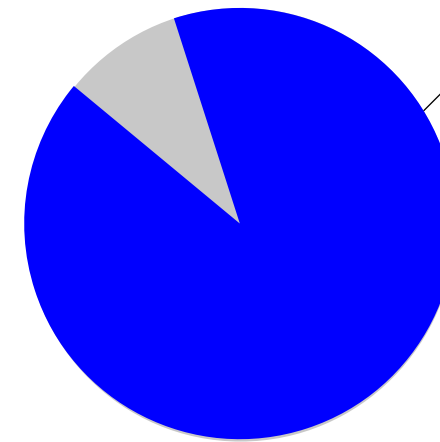


05

CHANNEL EXECUTION

Retarget. Guess Who's Back?!

Familiar site visitors are less expensive than new ones. They've already signaled interest. Now let's work on making our case. It may take 5-8 interactions.



eCommerce sites find that 92% of first-time visitors are not ready to make a purchase.

Be sure you're set up to take full advantage of that first visit for retargeting whether it's paid search, social, display, video or another method. You may quickly earn back thousands of potential customers at a far lower cost than you thought possible.

**HOT TAKE**

**Retargeting is the most
Big Brother thing on this list.**

We've all been a bit freaked out by ads that hit us on Instagram on our phones only 3 seconds after looking at a purchase on our laptop. As a marketer, use that power responsibly.

A/B Experiment to Find Evergreen Winners



Which works better?

- a) Get \$50 off the first purchase.
- b) Get an additional \$50 off.



The answer:

Testing can tell you. Split testing (A/B) is an evolution. You can test emails, online ads, landing pages, web copy, offers, site navigation, forms, calls to action and more. Testing relentlessly with rigor and structure is all but guaranteed to lower your CAC.

Determine the Right Amount of Automation

Everybody has a threshold, a number of prospective customers pursuing that you may not be able to nurture manually. Not well anyway. Marketing automation has exploded in recent years for the promise of taking the labor out of these tasks. With it, one can do the work of many through technology. If scalability is your ambition, automation will be a part of the plan.



AS BILL GATES SAID

“The first rule of any technology used in a business is that automation applied to an efficient operation will magnify the efficiency...”

**HOT TAKE**

This might be the era of marketing where we over-relied and over-invested in martech.

To finish Bill's quote "The second [rule] is that automation applied to an inefficient operation will magnify the inefficiency."

Of all the recommendations in this list, which one has the best sales people behind it? Automation platforms. Of all the investments marketers make, where do they commonly over-invest? Usually where the best salespeople are.



20% See Returns

It's not unrealistic to believe only 20% of brands see significant returns that only automation allows. And for them, it's truly magical. The gains they'll realize can be phenomenal. The issue is there's another 80% still trying to figure out their pricey toolstack. Find what's powerful yet profitable for where you are today and the near-term future.

Invest

If you have yet to invest in Salesforce, Hubspot, Marketo, etc. then run that cost into your marketing model. It helps you figure out when it's the proper next step or when it's a sledgehammer you're not quite ready to implement.

Message and Workflow

If you're already down that road, your biggest opportunities are message and workflow. It's pretty frequent to see million dollar tools with five cent messages. What they've gained in automation, they've lost in a human appeal. Be sure you're not losing touch with your audience through all the technical horsepower.

Publish Often. Publish Longtail.

Decide what cluster of keywords are most valuable for your brand to rank. Okay, now make it more longtail. Alright, with a bit more niche focus, determine the competitiveness of these terms and the level of effort to rank. You're probably still underestimating what it'll take. Don't get discouraged. The seemingly Herculean effort in front of you doesn't happen overnight.

Once you know the targeted keyword clusters you want to own, start chipping away. If you're publishing 3x monthly, how can you make it 10x? Hit that, then think about 30x.

~~3x~~ → ~~10x~~ → 30x

We always benchmark our clients against their competitors at the beginning of the engagement. It's fun to see growth over time. It's even more fun to see when our clients are dunking on everyone else.



HOT TAKE

Making a bunch of stuff based on intuition rarely works.

SEO-rich content is like compounding interest. It pays to get started earlier rather than later. But unlike compounding interest there are no can't-go-wrong index funds. Before you turn the creators loose, a data-driven strategy and continued consultation really helps point all the effort in a meaningful direction.



Answer questions. Head off objections.

What are your customers trying to solve before they need you? Get in the door first by answering these leading questions. Do it in writing. Do it on video. Heck, make an infographic with those tentacle-looking decision trees. The point is to be helpful. While you're at it, think of reasons why they might object to going your direction. Put their hesitations at ease. If you're not sure what those are, talk to non-customers. They'll tell you.



HOT TAKE

You know things your customers do not.

Be a resource. And yes, that means your competitors may imitate you, but better to take the lead visibility than remain quiet.



Do the Homework for Your Audience

How do you compare to competitors? Most customers ask that during the consideration phase. Don't make them do the work. Help them evaluate. Sure, you'll be mentioning your competitors, but if you're fair and balanced, it'll favor you most of the time. Make a comparison table to help them skip through this step with the confidence as if they did it themselves.

Grow Your Following.

Permission-based marketing on social media and email keeps an open dialogue with customers. Be ready to commit to this growth over time. Stay consistent. Talk like a human — with them, not at them.



HOT TAKE

Your customers will change channels.

One year it's email, the next it's a social channel where all their old high school friends post. Next, it's the place that doesn't have all those old high school friends. Be in-tune with their preferences. Practice principles that supersede channels. When they shift, you shift.

Get People Talking

Reward your biggest fans. Give back without expectation. Earn a referral. Partner with another brand. Create ambassador programs. Assemble an advisory committee. Incentivize reviews. Pull off an outlandish stunt. Be surprisingly human. Generating word-of-mouth is more art than science, but you can still make a hypothesis about the outcomes and track progress.

Move it Along

Shortening the sales cycle can increase your ROI. One way is to attract the right people. The wrong ones will poke around while you burn marketing dollars on them. Figure out patterns for browsers and buyers. Cut the former, and focus on what you can do to bring the future buyers along.

Fine-tune Your Conversion Engine.

You're spending a lot of time and money to get people to a website or signup form. Make sure the right action takes place. Improve landing pages, site speed, mobile optimization, content, visual presentation and calls-to-action to boost performance. Ensure content matches expectations. Keep things simple and focused. Move people along swiftly.



HOT TAKE

Involve designers in the nitty gritty of conversion

What communicates quality faster than just about anything else? Design. Who's rarely involved in the A/B testing of your website? Designers.

Creating a feedback loop for creative minds helps utilize all strengths. Conversion shouldn't be 100% creative intuition, but 100% science without some art doesn't work either. The promised land is a good feedback loop and a mutual respect for each other's crafts.

Validate the almost-decision.



Right before making a commitment, your customer will have a rush run through their head.

“Is this a good idea?”

Clear that final hurdle. Offer a guarantee, an easy-out, a positive customer review, something that says “excellent choice.” Place it by the cart or on the line where they’re signing their name. If they stop here, you may have to spend more marketing dollars to get them back to decision mode, increasing your CAC in the process.

Retain those hard-earned customers.



Hold on to what you've got.

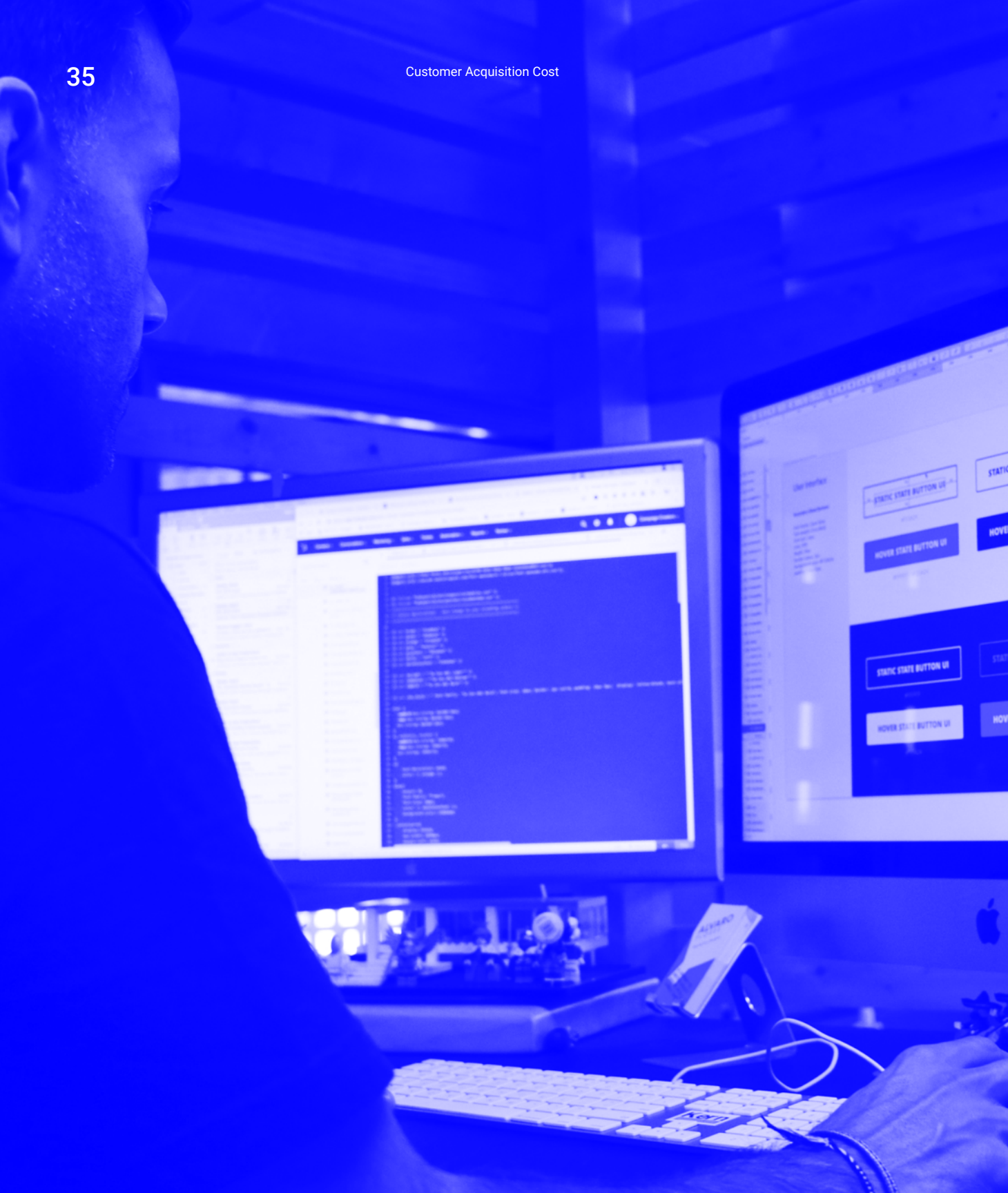
Churning through customers reduces lifetime value and increases acquisition cost. Plus, bad customer experiences lead to damaging reviews and word-of-badmouth.

Invest in customer retention through satisfaction surveys, ongoing dialog, special offers and recognition. Be sure current customers feel as valued as prospective ones. Then incentivize a referral. Those may be your easiest wins.



06

WHEN CAC MATTERS



Want to increase your marketing budget?

Most marketers wish they had more budget. Most CEOs, CFOs and investors are allergic to more expenses. What the powers that be will support is a clear path to repeatable growth. Too often marketing is viewed as a necessary expense. When it's elevated to a proven growth model, the tables turn. CAC could get you there.

Forced to cut your budget?

Sometimes a business has to do more with less. If you can spend less and still acquire customers of value, then those cuts don't have to cut so deep. Without knowing CAC, it's a guessing game that isn't much fun. And when budgets return, it's difficult to make the case why marketing spend needs to rise, too.

Challenged to hit a big goal?

Always, right? CAC could be the key in determining if we step on the gas or re-evaluate. Our best case studies at Native occurred when we significantly dropped CAC and re-invested those savings in going after even more customers.

Let's Go.

The tactics to reduce the cost of gaining new customers may be endless, but it all starts somewhere.



Get Started Now

Big gains take time. It's rare to find overnight success. Start your model. Make a hypothesis of what you can achieve. Place your bets on what will get you there. Not too many at first. And draw a line in the sand on the difference between success and failure. The scientific approach can optimize CAC and make success almost inevitable.



Models Don't Lie

This process will illuminate winners and losers. Don't worry if things look less than desirable at first. Better to know and start fixing things than to be blissfully unaware.



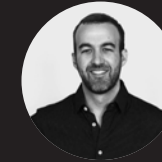
Strike a Balance

CAC should be balanced with volume and value. It's possible to take CAC too far and get fewer low value customers. Find the balance between efficient spends and a good number of desirable customers.

Ready to do more with less?

Your next move may be to reach out to Native Digital.

Native Digital



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