E-BOOK

All you need to know about LTV, CAC & Payback

The defenitive CMO guide to
healthy marketing KPI's
(and a good night's sleep)

Klingit.

CONTENTS

01/ PART ONE

UNDERSTANDING THE BASICS

What CAC actually measures
Why CAC, LTV and margins belong together
The different ways to calculate CAC
How to calculate customer lifetime value

02/ PART TWO

INTERPRETING YOUR LTV:CAC RATIO

What your LTV:CAC ratio tells you
What a healthy ratio looks like
How benchmarks vary by industry

03/ PART THREE

SCALING SUSTAINABLY

Why your ratio may drop while scaling
When a lower ratio is worth accepting
Why a very high ratio is not always good news

04/ PART FOUR

PUTTING IT INTO PRACTICE

How to use CAC in daily decision-making
The key principles to take away

05/ FINAL NOTE

PART ONE

Understanding the Basics

What is Customer Acquisition Cost?

Customer Acquisition Cost (CAC) is a key performance indicator that captures how much a business spends, on average, to acquire one new customer.

In simple terms, it answers the question:
'What does it cost us to turn a prospect into a paying customer?'

Ads, campaigns and paid acquisition investments.

Paid Media

Commissions, salaries and operational effort.

Sales & Marketing

Customers acquired during the period.

New Customers

Cost to acquire one customer.

CAC

CAC is typically calculated over a defined period by dividing total acquisition-related spend by the number of new customers gained in that same period.

What CAC includes

CAC measures the efficiency of your growth engine across marketing and sales.

The “cost” side can include items such as:
01/ Paid media
02/ Agency fees
03/ Marketing tools
04/ Content production
05/ Sales commissions
06/ Salaries (fully or partially allocated)
07/ Other direct expenses tied to demand generation and closing deals.

The “acquisition” side focuses on new customers (not renewals), though the exact definition should match your business model and be applied consistently. Because CAC reflects both spend levels and conversion effectiveness, it serves as a practical indicator of whether your go-to-market motion is scaling sustainably.

Why CAC matters

The purpose of CAC as a KPI is to support better decisions about growth, budgeting & profitability. On its own, CAC is useful, but it becomes most powerful when paired with measures of customer value, especially: Customer Lifetime Value, Gross Margin (GM), Payback Time.

A Higher CAC may be acceptable if:	/ customers stay longer / generate strong margins / expand over time
A Low CAC may still be problematic if:	/ customers churn quickly / revenue per customer is small / if you are simply underinvesting in marketing (in which case your competitors will happily scope up your demand over time).

Ultimately, CAC is designed to keep growth accountable. It helps teams spot rising acquisition costs early, compare channel performance, validate pricing and positioning, and align marketing and sales around efficient customer growth rather than volume alone.

Why should all CMO's care about CAC and its relation to Lifetime Value (LTV) and gross margin (GM)?

All CMOs (CFOs and CEOs) should care about CAC because it's the clearest financial translation of marketing and sales efficiency: how much the company must invest to create a new customer. But CAC only becomes a business metric, rather than just a marketing metric, when it's viewed through the lens of gross margin.

Gross margin determines how much "real" money you keep from revenue to pay back acquisition costs and fund operating expenses and growth.

Two companies can have the same CAC and the same revenue per customer, yet wildly different economics if their gross margins differ.

For example, a software company with 80% gross margin has far more contribution available to recover CAC than a product-led e-commerce brand with 35% gross margin. That means the acceptable CAC, the speed of scaling, and the risk tolerance are fundamentally different.

This relationship matters because it drives payback period and cash flow. CAC is usually paid upfront (ads, salaries, commissions), while gross margin is earned over time.

If your CAC is high relative to the gross margin generated in the first months, growth can look great on top-line revenue but quietly strain cash, especially in subscription models where revenue is recognized over time.

A CMO who understands CAC-to-gross-margin dynamics can scale what's profitable, slow down what isn't, and avoid "vanity growth" that the CFO will eventually shut down.

It also sharpens go-to-market decisions: channel mix, pricing, promotional intensity, onboarding and activation, and even which segments to pursue. When CAC rises, CMOs can respond not only by lowering spend but by improving the margin side of the equation, optimizing discounting, pushing higher-margin products, reducing churn (so margin accumulates longer), or improving retention and expansion.

In short: CAC tells you the cost to win; gross margin tells you the capacity to pay for winning. CMOs who manage both create growth that is scalable, fundable, and resilient.

Is CAC just one metric?

The short answer to this is no - but let's take a closer look at its variations and how they are calculated. Common CAC "variations" are really different scopes (what costs you include) and different denominators (what you count as an acquisition). Here are the ones CMOs most often use:

Fully Loaded CAC

Includes all acquisition-related costs: salaries, commissions, tools, agencies, overhead allocation, events, etc. More "true cost," great for planning and unit economics.

Blended CAC (Company-wide CAC)

Includes all acquisition-related costs: salaries, commissions, tools, agencies, overhead allocation, events, etc. More "true cost," great for planning and unit economics.

Direct/Variable CAC

Includes mostly variable costs (e.g., paid media, commissions) and excludes fixed costs like salaries. Helpful for marginal scaling decisions ("If we spend $1 more, what happens?").

CAC by Channel

(Paid Search CAC, Paid Social CAC, Partner CAC, Events CAC, Outbound CAC, etc.) Channel spend ÷ customers acquired. Useful for budget allocation, but requires clean tracking.

Marketing CAC (mCAC)

Marketing spend only ÷ new customers attributed to marketing. Useful for channel and marketing team efficiency, but attribution rules matter a lot.

÷ =

mCAC

Marketing Spend
Total spend on marketing activities in the period.

Marketing-Attributed Customers
New customers attributed to marketing in the period.

Marketing CAC
Cost to acquire one customer through marketing.

CAC by Segment

CAC for SMB vs Mid-market vs Enterprise, or by industry/region. Critical because conversion rates and deal cycles differ.

Sales CAC (sCAC)

Sales spend only ÷ new customers closed by sales. Common in sales-led orgs; helps evaluate sales productivity.

CAC by Product / Plan

Acquisition cost for each offering. Useful when margin and sales complexity vary across products.

New CAC vs Expansion CAC

Cost to acquire new logos vs cost to drive upsell/cross-sell. Particularly relevant in SaaS and account-based motions.

PART TWO

Interpreting your LTV:CAC Ratio

What is Customer Lifetime Value and how do I calculate it?

Customer Lifetime Value (LTV) is a KPI that estimates the total economic value a customer generates for a business over the full duration of the relationship. Put simply, it answers: "How much is one customer worth to us, over time?" LTV helps teams move beyond short-term revenue and evaluate whether acquisition and retention efforts create sustainable profitability.

A common subscription (SAAS) framing is:

average revenue per account per period X **gross margin** X **expected customer lifespan**

What LTV measures is the strength of your customer economics: pricing power, product-market fit, retention, engagement, cross-sell/upsell potential, and the cost structure behind delivery. When LTV rises, it usually signals customers are staying longer, buying more, expanding into higher plans, or using higher-margin products. When it falls, it can indicate higher churn, discounting, declining usage, weaker onboarding, or increasing cost to serve.

What is important to know about the ratio between CAC and LTV?

What matters about the LTV: CAC relationship is that it tells us whether our growth is economically sustainable and how much room we have to scale. It's a unit-economics "sanity check," not a vanity metric. CAC is the upfront cost to win a customer; LTV (ideally gross-margin LTV, not revenue LTV) is the long-term value we keep from that customer. If LTV doesn't comfortably exceed CAC, growth can increase revenue while destroying profit and cash. One important thing to consider while you calculate your LTV:CAC ratio is to use contribution, and not (only) revenue.

The most decision-useful ratio is:

LTV (gross margin based)	÷	**CAC** (fully-loaded basis)

This helps determine whether your growth is economically sustainable.

As tempting as it may be to use revenue as the basis for calculating the ratio, using revenue-based LTV or a "paid media only" CAC can artificially inflate the metric. Some of the revenue being factored into the ratio must cover costs directly associated with delivering the service, meaning it is not available to fund activities such as marketing.

That said, there can be a case for including only direct costs in the CAC calculation when you specifically want to measure how additional spend, such as media investment, translates into new customers. When doing this, it is important to consider diminishing returns: as spend increases, acquiring new customers will likely become more expensive because your existing investment is already capturing the low-hanging fruit.

Is there a rule of thumb for a healthy relationship in-between CAC and LTV?

Yes there is - but context such as industry, competitive landscape, general outlook and investor ambitions matter. That being said; many teams aim for LTV:CAC around ~3:1 as a healthy benchmark.

Below you will find some very basic clarifications around different outcomes:

Ratio	Status	Signal
LTV : CAC < **1**	Danger	You're losing money per customer (before overhead).
LTV : CAC 1-2	Caution	Your business is fragile and small churn or CAC increases can break the model quickly
LTV : CAC > **3**	Healthy	Generally attractive; suggests scalable growth. Remember that this holds true only if payback is acceptable.
LTV : CAC > **3**	Exceptional	Very high. May indicate underinvestment in customer acquisition or an inflated LTV estimate.
	Rule of thumb: many teams aim for around 3:1 as a healthy benchmark.	

Remember that payback period is just as important as the ratio. A great LTV:CAC can still be a problem if it takes too long to recover CAC (cash flow risk), especially in subscription businesses. It is important to consider segment-level ratios rather than just looking at the segment blended ratios. Blended numbers can hide that one channel/segment is profitable while another is value-destructive, which is generally why we as marketers want CAC:LTV by channel, cohort, segment, and product.

Also - in most businesses both KPI:s are estimations that are based on average numbers, meaning that LTV depends heavily on churn/retention assumptions and expansion; CAC depends on what costs are included and attribution logic. Consistency over time matters and changes in patterns and trends will matter way more than any attempt to calculate the numbers with perfect precision.

What is a healthy metric for my industry?

Healthy LTV:CAC ratios vary with the competitive landscape, payback time, gross margin levels and is this unique to any business. However it is also significantly different based on the industry you are in - below we have compiled some benchmark data we found to be useful.

Industry	LTV:CAC
Commercial Insurance	5:1
Higher Education & College	5:1
Pharmaceutical	5:1
Aerospace & Defense	**4,5:1**
Legal Services	4,5:1
PCB Design & Manufacturing	4,5:1
Biotech	4:1
Business Consulting	4:1
Construction	4:1
Cybersecurity	4:1
Financial Services	4:1
Industrial IoT	4:1
Medical Device	4:1
Real Estate	4:1
SaaS (B2B)	4:1
Software Development	4:1
Aviation	3,5:1
Engineering	3,5:1
IT & Managed Services	3,5:1
Automotive	3:1
eCommerce (B2B)	3:1
Environmental Services	3:1
HVAC Services	3:1
Manufacturing	3:1
Oil & Gas	3:1
Transportation & Logistics	3:1
Entertainment	2,5:1
SaaS (B2C)	2,5:1
Solar Energy	2,5:1

Source: First page sage/Evan Bailyn 2025

PART THREE

Scaling Sustainably

Is a lower LTV ratio acceptable during expansion?

First of all, yes, it can be reasonable to accept a lower LTV:CAC ratio during an expansion phase, as long as we're doing it deliberately and we can show that the drop is temporary and fundable.

The key here is not for the marketing team to "keep the ratio up" but whether you as a business can afford the payback and risk profile as your company attempts to scale (please remember that all expansion efforts are expensive and that there is no such thing as free growth).

So when can a lower ratio be acceptable?

The obvious scenario would be when entering new markets or segments (e.g. new geography, new ICP or new product launch): CAC rises first because learning and inefficiency are part of the ramp (and should be accounted for). Also Front-loaded spend on channels that take time to mature (brand, content/SEO, partnerships, new sales team capacity etc etc).

A third example would be Land-and-expand models where LTV is realized later (expansion revenue lags acquisition by months). In these cases, a temporarily lower ratio can make sense if the payback period stays within a set limit (cash discipline matters more than the ratio in the short run). If cohorts show improving unit economics (newer cohorts are stabilizing or improving vs the first cohorts in the expansion).

Finally it is important that you have a clear path to either reduce CAC (efficiency) or increase LTV (retention, expansion, pricing, margin). Be aware if the ratio drops because we're scaling a channel that is structurally unprofitable (discount-driven growth, low retention, weak margin) or if payback start to stretch beyond what cash flow can support (forcing future budget cuts)

My LTV:CAC level is really high, am I doing a great job?

Most likely you are not. High LTV:CAC levels (>5:1) indicates that your company is underinvesting in marketing and that over time your competitors will eat up the demand that could have been yours. Chances are you will learn about this the hard way (and commonly too late) if you don't act proactively.

PART FOUR

Putting it into Practice

How do I work with CAC in my daily marketing operation?

The first thing you should do is agree with the CEO and CFO around LTV:CAC guardrails, e.g. a minimum LTV:CAC (or contribution:CAC) and maximum payback time for new clients acquired. The second thing you should ensure is to track not only fully-loaded or blended LTV:CAC but rather break it down by cohort and channel. Remember that blended numbers are like cosmetics - they tend to hide all your problems under a glossy surface.

The third thing you should do is to define a timeline to recover: e.g. that you get buy-in for 2:1–2.5:1 LTV:CAC for 2 quarters in a new market but require improving cohorts and return to 3:1+ during the following months in order for the marketing operation to be deemed successful (you should also strive to anchor that the company can afford this investment in a healthy way).

01

Agree on Guardrails

02

Track Cohorts & Channels

03

Define a Recovery Timeline

Ultimately LTV:CAC ratio and its interpretation is a balancing act where artistic intuition is as important as the hard facts - and planning ahead is as important as the measurements in itself. The quality of your management can often be determined by the amount of short-term actions you need to take to manage its deviations. Skilled, experienced CMO:s tend to stay on plan way longer (and argue for it with the rest of the management team when needed).

What are my key takeaways from reading this paper?

01

That if you are already measuring CAC and LTV as a part of your marketing operation and planning you are doing the right thing. However the devil is in the detail and there are many ways in which LTV:CAC ratios can be mis-interpreted or inflated. It is important to align with your CFO (and board) on what you as a company want this metric to measure - and most importantly - to keep the calculation consistent over time.

02

If you are not yet measuring LTV and CAC you should consider starting with this ASAP. Even if you “know” the metric by gut feeling and it is very healthy and aligned with your business objectives, alternatively is not requested by the rest of the management team as per today - things tend to change over time and. In most cases sooner than you know.

03

Your CFO will start asking for the number at some point. And when they do - it is most likely because they have started to question your marketing operation already. In most cases then it will be too late to start having a meaningful discussion about priorities and spending.

I need help with this, who can help me?

Klingit offers CMO advice and can act as a helpful partner in determining a sustainable LTV:CAC proof marketing strategy as well as running a tight marketing operation where investments are prioritized based on a fair balance between analytical metrics and creative bets. Reach out to us if you would like to discuss these matters further.

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