Expansion CAC Ratio

Metric Standards Document

(Version 1.0 - June 5, 2023)

Metric Name: Expansion CAC Ratio

Alternative Metric Name(s): N/A

Expansion CAC Ratio Overview

Definition: Expansion CAC Ratio

Expansion CAC Ratio measures the amount of fully burdened Sales and Marketing expenses, including Customer Success expenses that is required to generate one dollar ($1) of Contracted Annual Recurring Revenue (CARR) from existing customers, examples include Up-Sells, Cross-Sells or Expansion

Expansion CAC Ratio does include Expansion CARR from up-sells and cross-sells, but does not include the impact of churn on CARR. Expansion CARR is not the same as “Net New ARR”.

Business Value and Insights: Expansion CAC Ratio

Expansion CAC Ratio provides insight into the efficiency of CARR growth from Existing Customers.

Understanding the the Expansion CAC Ratio enables enhance decision making when evaluating increasing investment to accelerate Expansion CARR growth from existing customers.

Expansion ARR includes new CARR from up-sells, cross-sells and contractual expansion of the number of billable units within a subscription agreement.

Capturing the efficiency of expanding existing customer CARR, as measured by Sales and Marketing expenses versus Contracted ARR (CARR) becomes a higher priority as SaaS companies reach $5M ARR and greater, and/or have an up-sells or cross-sell motion in place.

Though the calculation formula below is important, calculating Existing Customer Expansion ARR Growth efficiency for existing customers on a consistent basis is as important as the formula itself.

Expansion CAC Ratio Formula

Calculation Formula: Expansion CAC Ratio

$$\frac{\text{Fully Loaded Sales and Marketing Expenses allocated to Expansion (CQ* - 1)}}{\text{Expansion CARR (CQ*)}}$$

* CQ = Current Quarter

Expense Timing Guidance Points[1]:

The Marketing and Sales Expenses should be measured for the time period preceding the new ARR by the length of the sales cycle.

Example: If the sales cycle is ~90 days for expansion, then Expansion CAC Ratio for Q2 should be calculated based on Q1 Sales & Marketing expense divided by Q2 Expansion CARR.

Another example: For a company with a sales cycle of ~30 days, then Expansion CAC Ratio would be calculated using Sales & Marketing for the previous month divided by Expansion ARR for the current month.

Data Inputs Required: Expansion CAC Ratio

Data Input #1: Fully Loaded Sales and Marketing Expenses (Allocated CS is applicable)

This data is typically available from the Income Statement.

Data Input #2: Percentage of Sales, Marketing and Customer Success expenses allocated to existing customer expansion

Data Input #3: Existing Customer Expansion ARR

This information is typically available from the Customer Relationship Management Software, Contract Management Platform or Financial Management Platform.

Recommended Calculation Timing: Blended CAC Ratio

Blended CAC Ratio should be calculated monthly on a rolling basis of 1/3/6/12 months.

Expansion CAC Ratio - Considerations and Nuances

#1: Fully loaded Sales and Marketing Expenses

Sales and Marketing expenses should be fully loaded including variable compensation, bonuses, benefits and any other shared expenses that are allocated to the departments. Sales commissions should be fully burdened up-front.

#2: Timing of Sales Commissions

If sales commissions represent a meaningful percentage of CAC, a more accurate calculation can be achieved by NOT lagging commission expenses and including them in the same period the new CARR is booked. This is different than current ASC 606 guidance for how Sales Commissions are represented on the Income Statement.

#3: Customer Success Expense

Customer Success expenses should be factored into Expansion CAC Ratio if Customer Success time is allocated to supporting up-sells and cross-sells in existing customers. The amount factored into Expanded CAC Ratio should be based on an allocation basis equal to the time spent on expanding CARR with existing customers

If questions arise, refer to how Customer Success is allocated to Operating Expenses versus Cost of Goods Sold in your company

#4: Time period of Expenses versus ARR

The Marketing and Sales Expenses should be measured for the time period preceding the expansion ARR by the length of the sales cycle.

Example #1: If the sales cycle is ~90 days, the Expansion CAC Ratio for Q2 should be calculated based on Q1 Sales & Marketing expense divided by Q2 Expansion CARR.

Example #2: For a company with a sales cycle of ~30 days, then Expansion CAC Ratio would be calculated using Sales & Marketing for the previous month divided by Expansion CARR for the current month.

Blended CAC Ratio Examples

Calculation Example #1: Expansion CAC Ratio - 90 Day Sales Cycle

List of Input Values:

Sales and Marketing Expenses allocated to Expansion CARR (91-180 Days ago) = $200,000
Customer Success Expenses allocated to Expansion CARR (91 - 180 days ago) = $100,000
Expansion CARR - Last 90 Days = $500,000

Formula

$$\frac{\$200{,}000 + \$100{,}000}{\$500{,}000} = \$.60 \text{ Expansion CAC Ratio}$$

Calculation Example #2: New CAC Ratio - 30 Day Sales Cycle

Sales and Marketing Expenses allocated to Expansion CARR (Last 30 Days) = $100,000
Customer Success Expenses allocated to Expansion CARR (Last 30 Days) = $50,000
Expansion CARR - Last 30 Days = $300,000

Formula:

$$\frac{\$100{,}000 + \$50{,}000}{\$300{,}000} = \$.50 \text{ Expansion CAC Ratio}$$

Expansion CAC Ratio - Links to related Standards

Customer Acquistion Cost (CAC): Standards Document

Contracted Annual Recurring Revenue: Standards Document

New CAC Ratio: Standards Document (DRAFT)

Blended CAC Ratio: Standards Document (DRAFT)