New CAC Ratio

Metric Standards Document

(Version 1.0 - June 5, 2023)

Metric Name: New CAC Ratio

New CAC Ratio Overview

Definition: New CAC Ratio

New Customer Acquisition Cost Ratio (New CAC Ratio) measures the amount of fully burdened Sales and Marketing expenses that is required to generate one dollar ($1) of New Customer Contracted Annual Recurring Revenue (CARR)

New CARR does not include any CARR from existing customers including up-sells, cross-sells, down-sells or churn. New CARR is not the same as “Net New ARR”.

Business Value and Insights: New Customer CAC Ratio

New CAC Ratio provides insight into the efficiency of acquiring new name customers ARR.

Understanding the New CAC Ratio enables enhance decision making when evaluating increasing investment to accelerate the acquisition of new customers

Unlike the SaaS Magic Number, the New CAC Ratio is easier to understand as it specifically measures how much investment in Dollars is required to generate one dollar new CARR from New Customers. Churn does not factor into the New CAC Ratio.

Capturing the efficiency of acquiring new customers, as measured by Sales and Marketing expenses versus Contracted ARR (CARR) becomes a higher priority as SaaS companies reach $5M ARR and greater. Though the calculation formula below is important, calculating CAC efficiency for new customers on a consistent basis is as important as the formula itself.

New CAC Ratio Formula

Calculation Formula: New Customer CAC Ratio

$$\frac{\text{Fully Loaded Sales and Marketing Expenses allocated to Customer Acquisition}}{\text{New Name ARR}}$$

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, then New CAC Ratio for Q2 should be calculated based on Q1 Sales & Marketing expense divided by Q2 New ARR.

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

Data Inputs Required: New CAC Ratio

Data Input #1: Fully Loaded Sales and Marketing Expenses

This data is typically available from the Income Statement

Data Input #2: New Customer Contracted ARR

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

Recommended Calculation Timing: New CAC Ratio

New CAC Ratio can be calculated based upon data from the trailing 1, 3, 6 or 12 month period.

New 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 New CAC Ratio if Customer Success time is allocated to supporting new customer acquisition. The amount factored into CAC Ratio should be based on an allocation basis equal to the time spent on acquiring new 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 CARR

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

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

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

#5: **PLG Business**

Freemium or Free Trial expenses, including delivery costs such as hosting, product costs, etc. may be considered part of Customer Acquisition Cost.

#6: Paid Pilots or Trial

To the extent you use paid pilots or trials it is recommended to consider whether to include or exclude the expense and associated revenue in the CAC calculation

New CAC Ratio Examples

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

List of Input Values:

Sales and Marketing Expenses (91-180 Days ago) = $1,000,0000
New CARR - Last 90 Days = $600,000

Formula

$$\frac{\$1{,}000{,}000}{\$600{,}000} = \$1.67 \text{ New CAC Ratio}$$

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

List of Input Values:

Sales and Marketing Expenses (Last 30 Days) = $500,000
New CARR - Last 30 Days = $600,000

Formula:

$$\frac{\$500{,}000}{\$600{,}000} = \$.83 \text{ New CAC Ratio}$$

New CAC Ratio - Links to related Standards

Customer Acquisition Cost : Standards Document

Blended CAC Ratio: Standards Document (Draft)

Expansion CAC Ratio: Standards Document (Draft)

Contracted Annual Recurring Revenue: Standards Document