Blended CAC Ratio

Metric Standards Document

(Version 1.0 - June 5, 2023)

Metric Name: Blended CAC Ratio

Blended CAC Ratio Overview

Definition: Blended CAC Ratio

Blended Customer Acquisition Cost Ratio (Blended CAC Ratio) measures the amount of fully loaded Sales and Marketing expenses required to generate one dollar of new Contracted Annual Recurring Revenue (CARR), regardless of whether the new CARR comes from New Customers or Existing Customers.

New CARR and Expansion CARR do not include churn, down-sells and is not the same as "Net New ARR".

In addition to the Blended CAC Ratio, there are also specific metrics to measure the efficiency of New Customer Acquisition and Existing Customer Expansion. Those metrics are respectively called New CAC Ratio and Expansion CAC Ratio and are defined in the associated metrics standards.

Business Value and Insights: Blended CAC Ratio

Blended CAC Ratio provides insight into the efficiency of CARR growth for both Customer Acquisition plus Customer Expansion.

A benefit of using the Blended CAC Ratio is that it specifically provides information on the relative contribution and efficiency of each of the two forms of CARR acquisition in a single metric.

In addition, the Blended CAC Ratio is not using Net New ARR (Net New ARR = Current Period CARR - Previous Period CARR), as this metric is focused purely on the cost to acquire one dollar of New Customer CARR and Existing Customer CARR, not including churn or down-sell ARR of existing customers.

Capturing the efficiency of acquiring and expanding customer relationships, as measured by 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 on a consistent basis is as important as the formula itself.

Blended CAC Ratio Formula

Calculation Formula: Blended CAC Ratio

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

* 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, 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: Blended CAC Ratio

Data Input #1: Fully Loaded Sales and Marketing Expenses

This data is typically available from the Income Statement.

Best practice is to fully burden sales expenses upfront with sales commissions without capitalizing commissions over the term of the agreement.

Data Input #2: New Customer Contracted ARR

This information is typically available in the Customer Relationship Management Software or billing system.

Data Input #3:Existing Customer Expansion ARR

This information is typically available in the Customer Relationship Management Software or billing system.

Recommended Calculation Timing: Blended CAC Ratio

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

Nuances to Consider:

#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 from 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 Blended CAC Ratio if Customer Success time is allocated to up-selling and cross-selling. The amount factored into the Blended CAC Ratio should be based on an allocation basis equal to the time spent on Up-Sell and Cross-Sell activities.

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, then Blended 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 Blended 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 and thus Blended CAC Ratio calculation

Blended CAC Ratio Examples

Calculation Example #1: Blended 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
Expansion CARR - Last 90 Days = $200,000

Formula:

$$\frac{\$1{,}000{,}000}{\$600{,}000 + \$200{,}000} = \$1.25 \text{ Blended CAC Ratio}$$

Sample Calculation #2: Blended CAC Ratio - 30 Day Sales Cycle

List of Input Values:

Sales and Marketing Expenses (Last 30 Days) = $500,000
New CARR - Last 30 Days = 380,000
Expansion CARR - Last 30 Days = $100,000

Formula:

$$\frac{\$500{,}000}{\$380{,}000 + \$100{,}000} = \$1.04 \text{ Blended CAC Ratio}$$

Blended CAC Ratio - Links to related Standards

Customer Acquisition Cost : Standards Document

New CAC Ratio: Standards Document (DRAFT)

Expansion CAC Ratio: Standards Document (DRAFT)

Contracted Annual Recurring Revenue: Standards Document