

5 Steps to calculate your customer acquisition cost

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There are a couple of really good reasons to calculate your customer acquisition costs (CAC), the best one is because of how important customer acquisition is to the overall sustainability and success of an organisation.

In fact, about **63%** of marketers feel that new customer acquisition is their most important advertising goal.

Another great reason is opportunity cost.

You cannot pursue every campaign, channel, or audience in order to acquire new customers so you need to be able to evaluate and compare different strategies and CAC holds the key to make an informed decision.

READ: [Customer Acquisition Cost: Why it's so important for you](#)

So what exactly is CAC?

CAC is calculated by dividing the total cost of marketing and sales by the number of customers acquired over a specific period of time. For example, if a company spent R100 on marketing and sales in a year and acquired 100 customers in the same year, their CAC is R1.00.

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Sounds simple enough and on the surface, the calculation does look simple:



$$\text{CAC} = \frac{\text{Total Cost of Marketing and Sales}}{\text{\# of Customers Acquired}}$$

There are however a couple of nuances to take into account to make sure your calculation is correct. In this blog post, I'm going to outline the 5 steps to calculate your customer acquisition costs and provide industry-specific benchmarks for you to compare yourself against.

1. Select your time frame

The first step is to select the period of time you want to measure your CAC for. The time period defines the timeline for which to calculate the cost of your sales and marketing as well as the number of new customers.

The time frame should take into account, is the length of your sales cycle and the type of campaign you are running.

READ: 7 Ways HubSpot CRM can improve your customer acquisition

Seasonal campaigns like Black Friday or Cyber Monday will be measured over a short time frame while a content marketing campaign, aimed at generating organic customers, will take longer to show results and should, therefore, be measured over a longer period.

Typically time frames are:

- 1 Year
- 1 Quarter
- 1 Month
- 1 Week
- 1 Day

The time frame should also take into consideration the answers you are looking for

Perhaps you want to understand how your CAC for a single campaign over a year based on seasonality or competitive pressure.

Perhaps you want to compare different campaigns to prioritise your budget.

Whatever the intended use, make sure you select an appropriate time frame.

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2. Calculate total cost of marketing

The total cost of marketing refers to all the marketing costs associated with the specific campaign you are measuring for the specified time frame.

These costs will vary depending on the type of campaign you are measuring. Here is a list of costs you might include:

- Marketing staff salaries
- Advertising spend
- Outsourced costs
- Marketing software
- Marketing overheads

When it comes to costs like salaries and overheads, make sure you apportion the costs to the campaign.

You can do this by calculating how much time it took to create the campaign and divide it by the total amount of time available to your team. This will give you a percentage that indicates the amount of resources the campaign used during the month.

3. Calculate total cost of sales

The total cost of sales refers to all the sales costs associated with the specific campaign you are measuring for the specified time frame.

How you measure these costs will depend on the type of campaign and the sales process you are running. For example, in a retail environment generating wholesale orders might require more sales staff while generating online orders would need less.

Similar to the marketing costs, your sales costs should include:

- Sales staff salaries
- Outsourced costs
- Sales software
- Sales overheads

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4. Calculate total number of new customers



When calculating your CAC, it is important to differentiate between new customers and new deals. A customer might have a number of deals but closing another deal or making another sale doesn't necessarily mean you have acquired a new customer.

To correctly calculate your CAC you need to count the number of new customers you acquired over a specific period.

5. Calculate CAC

The final step is relatively simple: Add your total marketing and sales costs together and divide it by the number of new customers you acquired over the period.

$$\text{CAC} = \frac{\text{Total Cost of Marketing and Sales}}{\text{\# of Customers Acquired}}$$

Benchmark your customer acquisition costs

Calculating your CAC is a great way to compare your different customer acquisition efforts against each other but how do you know how those efforts compare to those of your competitors?

Below is a list of **benchmark** customer acquisition costs by industry:

- Travel: R 101.50 (\$7)
- Retail: R145 (\$10)
- Consumer Goods: R319 (\$22)
- Manufacturing: R1203.50 (\$83)
- Transportation: R1421 (\$98)
- Marketing Agency: R2044.50 (\$141)
- Financial: R2537.50 (\$175)
- Technology (Hardware): R2639 (\$182)
- Real Estate: R3088.50 (\$213)
- Banking/Insurance: R4393.50 (\$303)
- Telecom: R4567.50 (\$315)
- Technology (Software): R5727.50 (\$395)

READ: [How bountiXP increased their leads 4x with Inbound Ma](#)

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Ways to reduce your customer acquisition costs

Every business needs new customers to grow so reducing CAC by even a small margin can have a significant impact.

Conversion rates play an important part in your overall CAC so finding ways to improve it will only benefit your CAC. Here are a couple of ways you can do that:

1. Ask your customers for referrals. According to HubSpot, **81%** of customers trust the advice of family and friends over businesses.

READ: Do you know what your NPS is? You should

2. Make sure your website is fast. According to CrazyEgg, a 1-second delay in website loading time, reduces the conversion rate by **7%**.

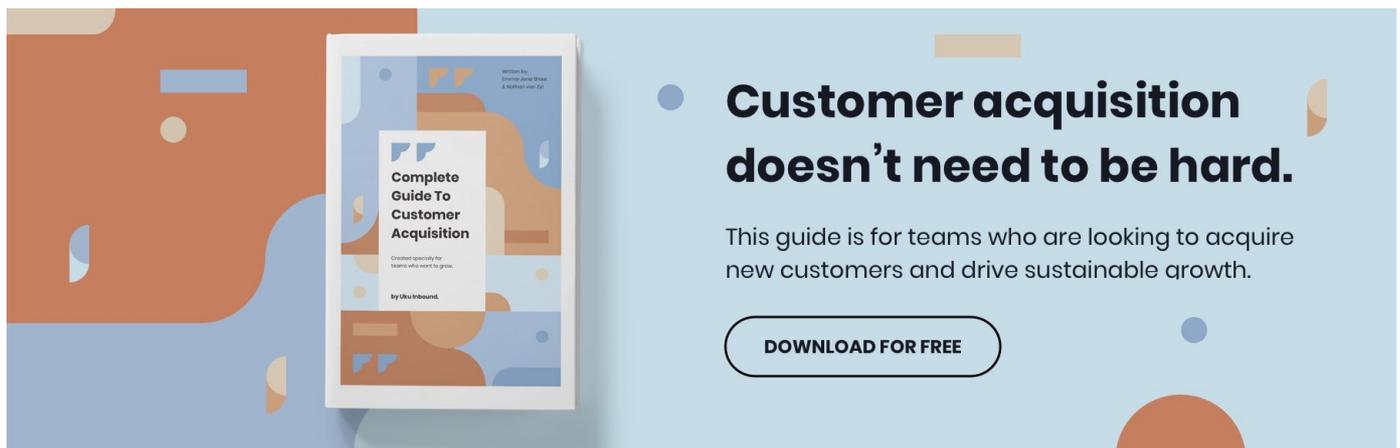
3. Create content. Research has shown that combining paid and organic SEO efforts result in over **25%** more clicks and a 27% increase in profits over isolated efforts.

READ: 5 Ways to increase conversions with your content

Calculating your customer acquisition costs correctly is essential for the long term viability of your business. It also ensures that you continue to pursue effective customer acquisition strategies.

While the calculation is relatively simple it is important to make sure you include all the relevant marketing and sales expenses to get a clear and accurate picture of campaign performance.

Once you have your customer acquisition costs, benchmark yourself with your industry's performance and find ways to improve your conversion rates and reduce your CAC.



Customer acquisition doesn't need to be hard.

This guide is for teams who are looking to acquire new customers and drive sustainable growth.

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