3radical

THE LTV:CAC RATIO

Are Your Customer Acquisition Efforts Worthwhile?

Customer acquisition costs a lot more than customer retention. Whether it's **5-fold or 25-fold**, that's one of the most commonly cited facts in marketing. And more often than not, it's completely true. But that doesn't mean you should ditch customer acquisition altogether. After all, businesses need new customers to grow.

What it does mean, however, is that companies should be looking to get the most out of the money they spend on customer acquisition – also known as their **Customer Acquisition Cost** (CAC) – and understand how they can maximize their **customers' lifetime value** (LTV).

Read on as we dig a little deeper into the LTV:CAC ratio, what sort of figure you should be aiming for, and how to improve it.

ABOUT THE LTV:CAC RATIO

LTV and CAC are both important standalone metrics for businesses. Naturally, all companies will want to reduce what they spend on customer acquisition and increase the lifetime value of customers. But put them together, and it's a powerful indicator of whether a company's customer acquisition efforts are worthwhile in the long run.

Going one further, that's also an indicator of how successfully and sustainably a business is operating.

A low LTV:CAC ratio shows organizations are not operating sustainably. They require extra funds to grow and there's no guarantee the growth will be long-term. In contrast, a high LTV:CAC ratio shows a company can attract new customers and retain them without huge costs, suggesting continued growth.

WHAT'S A GOOD RATIO?

A simple way to sum up the LTV:CAC ratio is as follows:

If the ratio is	If it's
BELOW 1:1	**HIGHER THAN 1:1**
a company is **losing** value	the company is **creating** value

Unfortunately, there's no magic number that all businesses should be targeting. The vast majority of experts put forward 3:1 as a general benchmark. However, it depends on the industry and what stage of growth a company is at.

As an example, some start-ups have to spend a lot of money attracting their first customers. As a result, they'll often have a ratio that's below 1:1 – but that definitely doesn't mean they should shut up shop.

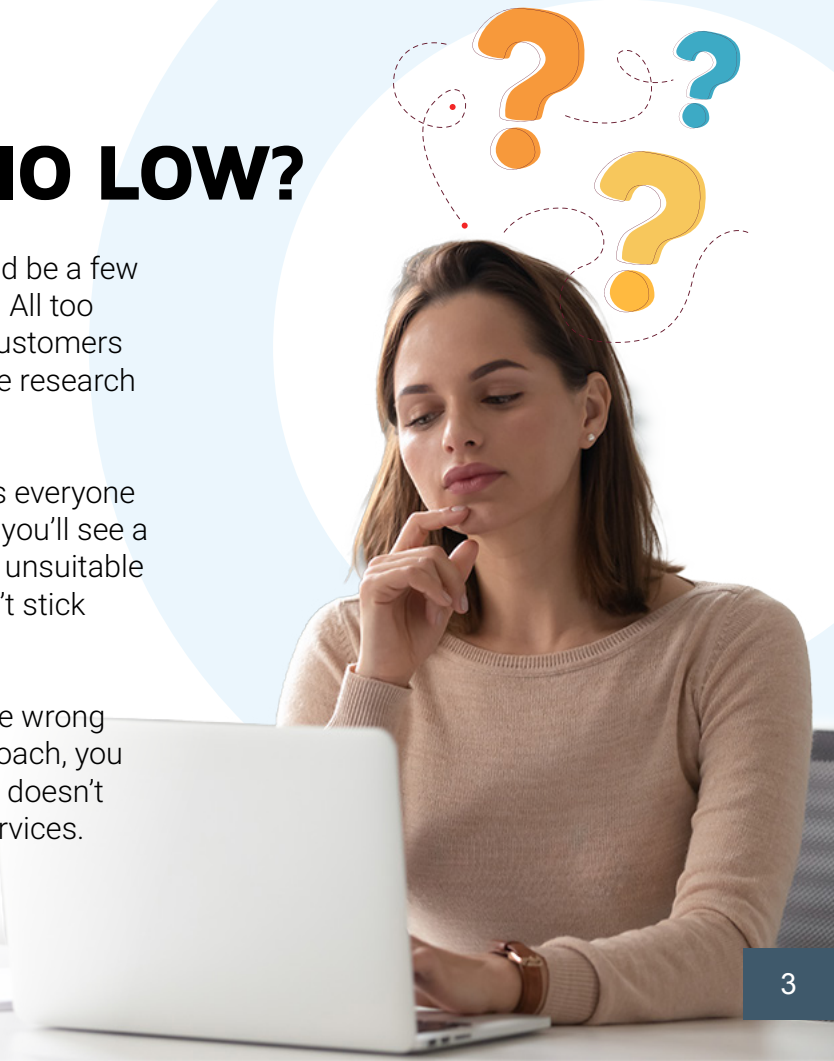
Interestingly, it's not just a case of aiming as high as possible either. An LTV:CAC ratio that's too high could indicate that a company is not investing enough in customer acquisition. The result is missing out on new business and not growing as much as it should – again, this is especially true for brands in the early stages of development.

WHY IS MY RATIO LOW?

If you're not happy with your ratio, there could be a few things to blame. Firstly, there's your strategy. All too often, businesses are eager to attract new customers and get their ratio up, so they rush or skip the research and dive head-first into marketing.

The result is a broad approach which targets everyone with a pulse. In terms of your LTV:CAC ratio, you'll see a negative impact. Your LTV will go down with unsuitable customers driven to your business, who don't stick around as long as you'd like.

Another possibility is that you're targeting the wrong market altogether. Rather than a broad approach, you might have an ideal user in mind that simply doesn't exist, or has no need for your products or services.



Alternatively, your budget could be getting eaten up by all the fruitless marketing efforts. If 90% of your marketing is targeted at the wrong people, that means 90% of your budget is being wasted – resulting in a disproportionately high CAC.

Of course, it's not always your acquisition strategy that's to blame. A poor LTV:CAC ratio could also be down to poor customer retention. Brands could well be attracting the right customers, but not doing enough to keep them loyal and engaged.

HOW TO IMPROVE YOUR LTV:CAC RATIO

Broadly speaking, there are two main ways to improve your LTV:CAC ratio – increase LTV or reduce CAC.

Reducing CAC

Reducing the cost of customer acquisition can be successful if it's approached in the right way. Rather than simply slashing your budget, you want to tackle some of the issues above, putting more time and effort into identifying and targeting the right market.

Increasing LTV

After fine-tuning your acquisition strategy, you might find that your ratio is still a bit subpar. That's where LTV comes into play. One method of increasing LTV is by increasing customers' average order size. You can do that by cross-selling, suggesting relevant products, or offering free delivery or discounts for orders of certain size.

Improving retention

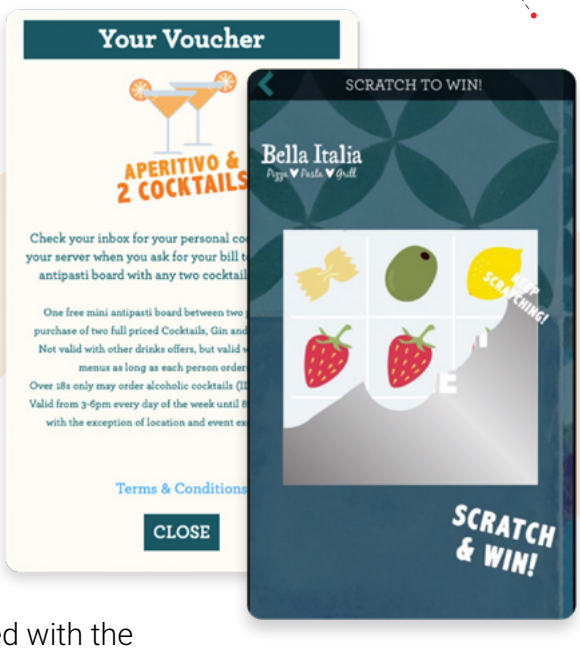
However, even with customers buying more, there's still the issue of whether they'll stick around. To improve customer retention, you need to create long-lasting brand loyalty. There are a few general fixes that can contribute to this, like improving customer service and user experience. But above all else, it's about engaging with your customers...

THE KEY TO CUSTOMER ENGAGEMENT

Engaging customers on an ongoing basis is critical to retaining them. There are two key facets to this task:

- Delivering immersive, enjoyable experiences that keep customers interested
- Creating a two-way, mutually-beneficial relationship facilitates the ability to better get to know your customers

Here's an example of our **collaboration with the Casual Dining Group (CDG)** which demonstrates how to achieve both. With some of the most popular dining brands in the UK, CDG have no trouble acquiring new customers. However, with such high competition in the casual dining sector, retention and loyalty are more of a challenge.



3radical worked with CDG to develop a bespoke Scratch and Win game specifically for their Bella Italia restaurants. The game itself offered a limited number of tries on a scratch card game with customers motivated by rewards to increase their engagement. Additional scratches could be unlocked by a customer who provided self-reported data, including their food preferences, favorite locations, and other details that were previously not accessible through traditional consumer experiences.

By awarding **over 9,500 prizes** that could only be redeemed in store, CDG encouraged repeat visits to Bella Italia resulting in improved customer retention. That's paired with the engagement of the game itself, which got customers interacting with the brand rather than simply eating at the restaurant. Finally, the self-reported data allowed CDG to better understand customers, personalize marketing messages, and even customize their offerings to better suit their customer base.

LET'S TALK ABOUT CUSTOMER ENGAGEMENT

Improving customer engagement is a sure-fire way to boost LTV. If you're looking to improve your LTV:CAC ratio and make customer acquisition more worthwhile, the team at 3radical is ready to help. We offer **bespoke customer engagement solutions** for brands of all shapes and sizes.

With our help, you can move beyond clicks and conversions to learn what engages and motivates your customers, build loyalty, and drive advocacy. **Contact us today** to find out more.

ABOUT 3radical

3radical is a consumer data acquisition and audience engagement solutions provider. We help organizations listen to their consumers and adapt experiences accordingly by giving them the ability to earn consented data directly from their audience. Critically, this fosters humanized interactions through choice-driven journeys provided by 3radical's gamification software.

We use game science and comprehensive strategic services to shape and support the customer experience by creating a fair value exchange delivered directly to each recipient and optimized by data and real-time decisioning. Every progressive exchange results in consented, Earned Data provided by the consumer in a transparent, motivating, and mutually beneficial environment, enticing consumers to share and engage more. 3radical operates globally through North America, the U.K., and Asia Pac and services major brands across various industries.

Contact us to learn more, or book an informal chat about supporting your engagement strategy with targeted experiences to identified your best audience segments

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