

LTV to CAC: The Marketing Spend Ratio

The same \$350 spent to acquire a customer is a strong bet or a weak one depending entirely on what that customer is worth over time. One ratio settles it, and it moves fast.

Marketing spend is easy to track and hard to judge. A \$350 cost to acquire one customer is not meaningfully good or bad on its own, it only means something next to what that customer is actually worth once acquired. The ratio between the two numbers is the whole verdict.

A worked example: the same spend, two different customer values

A \$350 customer acquisition cost against a \$3,040 lifetime value is an 8.69 to 1 ratio, comfortably inside the "strong" band. The exact same \$350 spend, against a customer worth only \$700 over time (say, a one-off job with no repeat business or referrals), falls to a 2 to 1 ratio, "weak." Nothing about the marketing spend changed between these two cases. Only what the acquired customer turned out to be worth did, and that alone moved the verdict from strong to weak.

Why the ratio matters more than either number alone

A low CAC looks efficient in isolation, but a low CAC acquiring low-value, one-off customers can still be a bad trade if the ratio comes out weak or unprofitable. A high CAC acquiring customers who become long-term recurring relationships can still be a strong trade at a much higher acquisition spend. The ratio is what actually answers "is this marketing spend working," not the acquisition cost by itself.

Where lifetime value actually comes from

Lifetime value is rarely just one job's revenue. Repeat Customer/Referral Value builds it up from the realistic pattern: does this customer type tend to become a recurring maintenance contract, refer others, or come back for the next project. A business that never models this and instead uses one job's margin as "lifetime value" will systematically understate it for any customer type with real repeat or referral behavior, making otherwise-strong marketing spend look weak.

The threshold that turns spend into a real decision

Below a 1 to 1 ratio, marketing spend is losing money outright on that customer segment before any other cost is considered, an unprofitable band that calls for stopping or fundamentally reworking the channel, not just tightening the number slightly. Between 1 and 3 to 1, the spend is marginal, working but with thin room for error if costs rise or conversion softens. Above 3 to 1 is

the strong band this worked example lands in, where the spend has real room to be scaled up rather than just maintained.

Key takeaway. CAC alone does not say whether marketing spend is working. The ratio against a realistically modeled lifetime value does, and a customer segment with weak repeat or referral behavior can turn an efficient-looking CAC into a losing trade.

Assumptions

- Lifetime value in the worked example is a modeled figure (repeat business and referral value included), not a single job's revenue. See Repeat Customer/Referral Value for how it is built up.

Frequently asked questions

What counts as a good LTV:CAC ratio for a contracting business?

A 3:1 or higher ratio is the common strong benchmark (adapted from SaaS and services norms), below 1:1 is losing money on that channel, and the 1 to 3 band is workable but thin. These are guideline bands, not hard rules, a business with very low fixed marketing overhead can sometimes tolerate a thinner ratio than one with a large dedicated marketing spend.

Does this ratio account for how long it takes to recoup the acquisition cost?

Not directly, the ratio itself is a magnitude comparison, not a timing one. A customer worth 3x the acquisition cost over 5 years is a different cash-flow reality than the same ratio realized in the first 6 months, worth checking separately if cash timing (not just total value) is the concern.

How does Sales Conversion & Required Lead Volume connect to this?

CAC itself depends on how many leads it takes to close one customer and what each lead costs to generate, which is exactly what Sales Conversion & Required Lead Volume solves for. A weak LTV:CAC ratio can sometimes be fixed on the CAC side, by improving conversion rate, rather than needing to change what customers are worth.

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