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Make more profit using our services

Dear :

In Marketing Metrics part 2, we cover some of the most important metrics (measurements) in your business that you should know. Let's jump right in.



Cost to Acquire Customer

How much do you spend to bring a person from being a lead, to prospect, until they actually buy a service or product from you? Let's say you spend \$2,000 to place an ad.

That ad offers \$25 off a premium service. The ad runs for a month, and brings in four people who take advantage of your offer. We would figure the cost to acquire each customer (often abbreviated as **CAC**) this way:

$$\$2,000 \text{ (the ad)} + \$100 \text{ (4 discounts of \$25 each)} / 4 \text{ (number of new customers)} = \$525 \text{ each}$$

I had a client who tried to insist that since they never ran ads, it didn't cost anything to bring in new customers. I asked what they spent in the average month on having and maintaining their building. We divided that number by the average number of new clients, and found out that it cost almost \$700 to bring in a "free" customer! I showed them that it would actually cost less to bring in new customers by running strategic ads.

Payback Period

This is the amount of time it takes to earn back (or pay back) your investment to bring in a new client.

Let's say we use our first example, and it costs \$525 to bring in a new customer. Let's say they come in once a month and spend \$50. Our formula would look like this -

$\$525 \text{ (CAC)} / \$50 \text{ (average spend per month)} = 11 \text{ months before we earn back that investment}$

Now, if we could somehow get that person to spend more money faster, we'd pay back our investment faster and start earning profit

Lifetime Value

Let's say that the person from our examples is a customer for 12 years, coming in an average of 10 times per year, and spending an average of \$65 per visit (they occasionally buy higher ticket items). We can calculate their lifetime value like this -



$\$65 \text{ per visit} \times 10 \text{ visits per year} \times 12 \text{ years} = \$7,800$

Gross profit

This is the most basic calculation that lets you know how much your business is making. The formula concerns itself only with how much it costs your business to provide a service or product.

Let's say you sell a large product (maybe a dishwasher or concrete mixer) that needs to be delivered. You charge the end user \$1,000 to deliver and install it. They pay you using their credit card. You pay your two technicians \$125 each to deliver and install the unit. Gas for the truck costs \$25. The unit cost you \$500. Your calculation would be -

$\$1,000 \text{ (final price)} - [(2 \text{ techs} \times \$125) + \$500 \text{ (your cost for the item)}] = \250

Notice we didn't take off for the credit cards fees, the gas, or the tax we passed along to the consumer.

Now, this does not mean that our final profit was actually \$250! For that, we need to figure our net profit.

Net Profit

Net profit is total revenue minus total expenses, which include cost of goods sold (COGS), operating expenses, interest, taxes, and any other costs. This formula might look like this -

$\$1,000 - [\$250 \text{ (techs)} + \$500 \text{ (item)} + \$25 \text{ (gas)} + \$40 \text{ (fee for taking payment via credit card)} + \$12 \text{ (warehousing)} + \$30 \text{ (taxes)}] = \$143$

Part 3 is coming next week!

Thanks for subscribing. I think these calculations are extremely important for your business.

Until next time, be well and stay healthy & happy.

Very best,

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