UNIT ECONOMICS: WHAT EACH CUSTOMER IS WORTH

What it costs to win a customer, what that customer is worth over time, and why the second number has to be bigger.

TYPE: GUIDE REVIEWED: NOVEMBER 2026 TIME: 10 MINUTES LEVEL: INTERMEDIATE

AT A GLANCE

- **Unit economics** means the money made or lost on each single customer or sale.
- Two numbers matter most: **customer acquisition cost (CAC)**, what you spend to win one new customer, and **lifetime value (LTV)**, the profit one customer brings over the whole time they buy from you.
- A healthy business earns much more from a customer than it spends to get them. Many investors look for **LTV at least 3 times CAC**.

Why it matters

Growing sales can hide a problem. If each new customer costs more to win than they ever bring in, growing faster just loses money faster. Unit economics tell you whether growth is worth paying for, how much you can spend on marketing, and how quickly that spending pays back. Investors, especially tech investors, ask about these numbers early.

How it works

CAC = Marketing and sales spending ÷ New customers won

LTV = Margin per purchase × Purchases per year × Years as a customer

For subscription businesses, you can estimate how long customers stay from **churn**, the share who cancel each month:

Average months as a customer ≈ 1 ÷ Monthly churn

Payback period is how long it takes a customer's margin to repay what you spent to win them:

Payback (months) = CAC ÷ Margin per customer per month

Example 1: Malik's car detailing (main street)

EXAMPLE

Malik spends **$600** on flyers and online ads in one month and wins **10** new customers. Each detail leaves him a **$120.50** margin (see **M-08 Costs, Margins and Break-Even**). His regular customers book about **4 times a year** and stay about **2 years**.

Number	Calculation	Result
CAC	$600 ÷ 10	**$60**
LTV	$120.50 × 4 × 2	**$964**
LTV to CAC	$964 ÷ $60	**About 16 to 1**

Malik's marketing is paying off well. He could likely spend more to win customers and still come out far ahead.

Example 2: Priya's scheduling app (tech)

EXAMPLE

Priya's app costs **$15 a month**, and her margin per customer is **$12.25** a month. About **4%** of customers cancel each month. Last quarter she spent **$9,000** on ads and sales and won **100** customers.

Number	Calculation	Result
CAC	$9,000 ÷ 100	**$90**
Average months as a customer	1 ÷ 0.04	**25 months**
LTV	$12.25 × 25	**$306.25**
LTV to CAC	$306.25 ÷ $90	**About 3.4 to 1**
Payback	$90 ÷ $12.25	**About 7 months**

Priya's numbers are healthy but tighter. If churn rose to 8% a month, average life would drop to 12.5 months, LTV would fall to about $153, and the ratio would sink below 2 to 1.

KEY POINT

For subscription businesses, **reducing churn** often raises LTV faster than anything else. Keeping a customer is usually cheaper than finding a new one.

Step by step

1. **Add up marketing and sales costs** for a month or quarter, including ads, promotions, and sales staff or commissions.
2. **Count new customers** in the same period.
3. **Calculate CAC.**
4. **Find your margin per purchase or per month** (see **M-08 Costs, Margins and Break-Even**).
5. **Estimate how often customers buy and how long they stay.** Use your records. If you're new, make a careful guess and update it later.
6. **Calculate LTV, the LTV to CAC ratio, and payback.**
7. **Compare by channel.** Customers from referrals and from paid ads often have very different numbers.

Rules of thumb

Measure	Healthy sign
LTV to CAC	3 to 1 or higher
Payback	Under 12 months, and shorter is better for small businesses
Monthly churn (subscriptions)	Lower is better. Many small business software companies aim for under 3% to 5%.

These are general guides, not rules. Your industry and stage matter.

Common mistakes

- **Using revenue instead of margin** in LTV. That makes customers look more valuable than they are.
- **Leaving costs out of CAC**, like free trials, discounts or your own sales time.
- **Guessing customer lifetime too high.** Be conservative until you have real data.
- **Averaging all channels together.** One great channel can hide a money-losing one.

Your checklist

- ☐ Total last quarter's marketing and sales costs
- ☐ Count new customers in the same quarter
- ☐ Calculate CAC
- ☐ Calculate LTV using your margin, not revenue
- ☐ Calculate LTV to CAC and payback
- ☐ Repeat for your top two marketing channels

Key words, explained

Word	What it means
Unit economics	Money made or lost on each customer or sale.
CAC	Customer acquisition cost: spending to win one customer.
LTV	Lifetime value: profit from one customer over time.
Churn	The share of customers who stop buying each month.
Payback period	Months for a customer's margin to repay their CAC.

Where to go next

- **G-03 Growth Numbers Investors Watch**
- **L-05 Marketing Basics: Reaching Your First 100 Customers**
- **M-07 Pricing Your Product or Service**

IMPORTANT
This guide is general education from the Project Underdogs Founder Library. It is not legal, tax, accounting, immigration or investment advice, and it is not an offer of investment or a promise of funding. Figures are general examples and ranges, not quotes. Rules change and every business is different, so check your situation with a qualified professional. Full terms: LIB-03 Disclaimer and Terms of Use.