Gartner

How Does My Customer Acquisition Cost Compare to Gartner High Tech CEO Benchmarks?

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Initiatives: Business Performance Management for Tech CEOs

Customer acquisition is a fundamental ingredient for organizational growth. Growth-minded tech CEOs can leverage Gartner High Tech CEO Benchmarks to evaluate their customer acquisition costs (CACs) relative to those of their peers as they manage their overall growth journey.

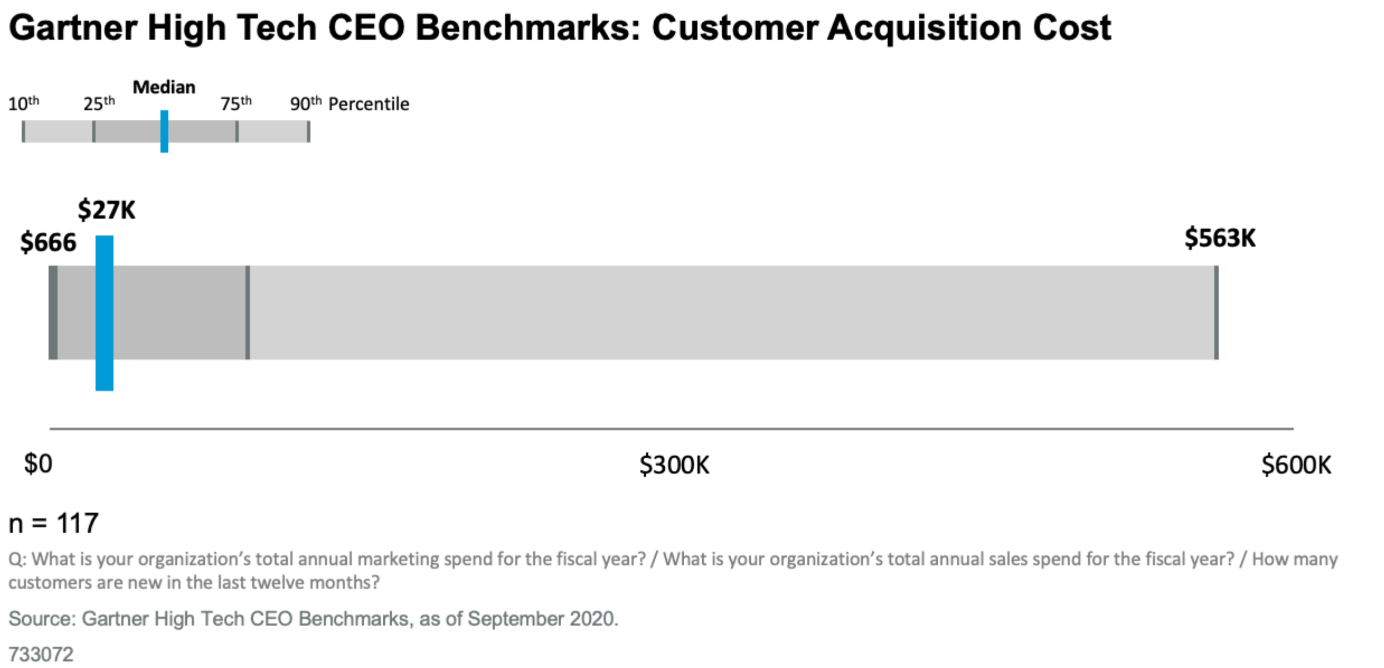
Quick Answer

How does my customer acquisition cost (CAC) compare to Gartner High Tech CEO Benchmarks?

- According to Gartner High Tech CEO Benchmarks, the median CAC among technology companies with less than $250 million in annual revenue is $27,000 (see Figure 1).
- Use Gartner's High Tech CEO Benchmarks tool to see how your CAC compares to this finding.

More Detail

Figure 1. Gartner High Tech CEO Benchmarks: Customer Acquisition Cost



Gartner High Tech CEO Benchmarks shows that technology companies with less than $250 million in annual revenue have a median CAC of $27,000. The upper quartile has a CAC greater than $95,800, and the uppermost 10% have a CAC greater than $563,000. The lower quartile has a CAC less than $3,000, and the lowermost 10% have a CAC less than $666.

What Is Gartner's Definition of CAC?

- CAC is the average expenditure necessary to achieve a first sale with customers (not to be confused with the cost of the first customer sale). It represents the relative ease or difficulty a business has with conversion.

- CAC provides insight for tech CEOs and investors alike. It provides operational and strategic diagnoses of go-to-market effectiveness and efficiency. Understanding CAC is essential when planning improvements in a go-to-market strategy and using methods of demand generation.

What Is Gartner's Calculation for CAC?

Marketing spend includes all marketing costs (including salary, programs, technology/data and outsourced functions) attributed to the product or solution. Sales spend includes all sales expenses (including technology/data) that can be attributed to the product or solution provided to the customer.CAC can be approximated by taking two-thirds of total sales and marketing spend divided by total new customers.

CAC = (Marketing Spend + Sales Spend)/New Customers

CAC is the fully loaded cost of acquisition only, and it does not include the cost to retain or upsell existing customers. We assume one-third of sales and marketing expenditure is allocated to retention, advocacy and upselling.

How Do I Improve My CAC?

Reducing CAC heavily relies on increasing the efficiency of customer acquisition initiatives. Revisiting and focusing segmentation strategies, aligning demand generation and messaging initiatives to the appropriate phases of the buyer life cycle and refining the criteria for nurturing and transitioning leads are vital first steps. Additional opportunities to improve efficiency can be realized through three actions.

1. **Align with buyers**: Ensure your product and sales strategies align with how your prospective buyers prefer to make and execute buying decisions. Pricing and packaging, contract terms and channel mixes that do not align with typical buyer preferences for your market can make customer acquisition pursuits significantly higher in terms of overall costs relative to what they could be.

2. **Use competitive intelligence**: The second scenario involves observing market competition for potential opportunities and advances across marketing and sales endeavors.

3. **Use best practices outside of the core market**: Finally, tech CEOs should look toward innovative and disruptive markets outside of their core for prospective thought leadership across both marketing and sales efforts. They do this not to change their market focus, but to adopt transferable best practices.

Clear differentiated messaging is essential for aligning the selling and buying cycles and, consequently, CAC. Tech CEOs must ensure that messaging is focused on business outcome and that it demonstrates relevance and values aligned to a prospect's business issues. Messaging that has a business outcome focus translates more readily across the levels of a buying team, reducing decision-making time and therefore reducing the buying cycle. For more details see Executive Summary Video: The Big Book of Technology Buyer Behavior.

Marketing and sales departments often lack a common framework for consistent collaboration. leading to a disconnect in messaging. Tech CEOs must prioritize marketing and sales collaboration as CAC management becomes an increasingly significant priority for growth. Sales teams must follow up on the narratives used by marketing as a part of overall sales effectiveness priorities. Sales effectiveness requires strong sales enablement investments to ensure best practices are aligned across account teams. Early growth organizations must purposefully invest in sales engineering as a discipline to further maximize the relevance of sales messaging to buyers and improve overall sales effectiveness (see Tech CEO Guide for Leveraging Sales Engineers to Drive Sales Effectiveness).

Reducing acquisition cost also requires ensuring the actions taken by marketing and sales are efficiently producing the desired outcomes. Key performance indicators (KPIs) should be incorporated into a dashboard that displays results of the team's actions against established targets. Tech CEOs place a high importance on KPI measurement, but only a small percentage drive the use of dashboards with real-time data updates. Outdated and inaccurate KPI metrics ultimately place tech CEOs in a position of not being able to trust the numbers, eroding the end-to-end accountability critical for the management of CAC.

Customer acquisition is a broad subject impacted by many factors. For further information and more in depth discussion, tech CEOs should reference Gartner's Customer Acquisition for Tech CEOs Initiative.

Next Step: Compare Your CAC to Your Peers'

Compare and visualize your financial performance and key performance metrics against those of similar companies.

Launch Gartner High Tech CEO Benchmarks

Gartner's High Tech CEO Benchmarks is an interactive tool designed for emerging technology providers to benchmark their financial performance and related key metrics against their peers.

The benchmark data is generated through Gartner primary research and the responses to this tool are from technology companies with less than $250 million in annual revenue. Qualifying organizations operate in the high-tech industry (applications/software, cloud, business and technology services, communications services, hardware, IT services and semiconductors).

Recommended by the Authors

High Tech CEO ScoreThis tool allows tech CEOs to evaluate their effectiveness using objective peer-based performance standards, determine where improvements will add value and then establish a plan to advance functions.

The B2B Customer Life Cycle for Technology Products and ServicesWith easier access to information, more alternatives and competing priorities, today's B2B technology buyers don't follow traditional paths to purchase, expansion and renewal decisions. Technology and service providers must adapt go-to-market strategies to support these new customer behaviors.

Tech CEOs: Establish Real-Time KPI Performance Dashboards for Your Business

Tech CEOs must establish actionable KPIs to drive company success. KPIs enable the executive team to manage progress and overcome the challenges of building a successful company. Incorporating KPIs into a dashboard displays the real-time results of the team's actions and increases accountability.

Toolkit: Tech CEOs Should Assess Customer Acquisition Cost, Churn and Lifetime Value to Improve Business Performance

Tech CEOs must lead their teams in customer acquisition and retention initiatives. Customer acquisition cost, churn and lifetime value are key performance indicators that help track the business impact of these initiatives. Use this Toolkit and drive improvements to these important metrics.