**Disciplined Entrepreneurship Workbook**

# Step 19: Estimate the Cost of Customer Acquisition (COCA) Worksheets

## Worksheets

### Assumptions for COCA Estimation

* 1. What was the time interval you defined for the following phases in Step #18, Worksheets Section, Item II?

1. Short Term: First 12 Months (Year 1)

2. Medium Term: Months 13-24 (Year 2)

3. Long Term: Months 25+ (Year 3 and beyond)

Total Sales and Marketing Expenses ListList the expected sales and marketing expenses, and their costs. This input will be used when estimating the cost of customer acquisition.

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| **Sales Expenses** | **Short Term** | **Medium Term** | **Long Term** |
| Inside Sales Salaries/Commissions | €160,000 | €80,000 | €40,000 |
| CRM & Sales Tools | €5,000 | €5,000 | €5,000 |
| **Total Sales Expenses (Estimate)** | **€165,000** | **€85,000** | **€45,000** |

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| **Marketing Expenses** | **Short Term** | **Medium Term** | **Long Term** |
| Content Marketing & SEO | €15,000 | €35,000 | €30,000 |
| Conferences & Events | €15,000 | €5,000 | €0 |
| Marketing Tools (Analytics, SEO etc.) | €5,000 | €10,000 | €10,000 |
| Online Ads / Webinars | €0 | €20,000 | €5,000 |
| Referral Programs / Automation | €0 | €0 | €10,000 |
| **Total Marketing Expenses (Estimate)** | **€35,000** | **€70,000** | **€55,000** |

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| Estimate the Cost of Customer Acquisition (COCA) | | | | | |
|  | **Time Period (default is year but can change)** | | | | |
|  | **Year 1** | **Year 2** | **Year 3** | **Year 4** | **Year 5** |
| **New Customers forecasted** | 50 | 500 | 2,000 | 5,000 | 10,000 |
| **All Sales expenses for period** | €165,000 | €85,000 | €45,000 | €45,000 | €45,000 |
| **All Marketing expenses for period** | €35,000 | €70,000 | €55,000 | €55,000 | €55,000 |
| **Total Marketing & Sales expenses for period** | €200,000 | €155,000 | €100,000 | €100,000 | €100,000 |
| **COCA for the period** | **€4,000** | **€310** | **€50** | **€20** | **€10** |

### Convert Estimation into Short, Medium and Long Term

Understanding these numbers are not precise, create a range you are comfortable with for the short, medium and long term (as defined in I(c) above) from the worksheet above.

1. Short Term COCA Range: **€3,500 - €5,000**
2. Medium Term COCA Range: **€250 - €400**
3. Long Term (steady state) COCA Range: **€10 - €75**

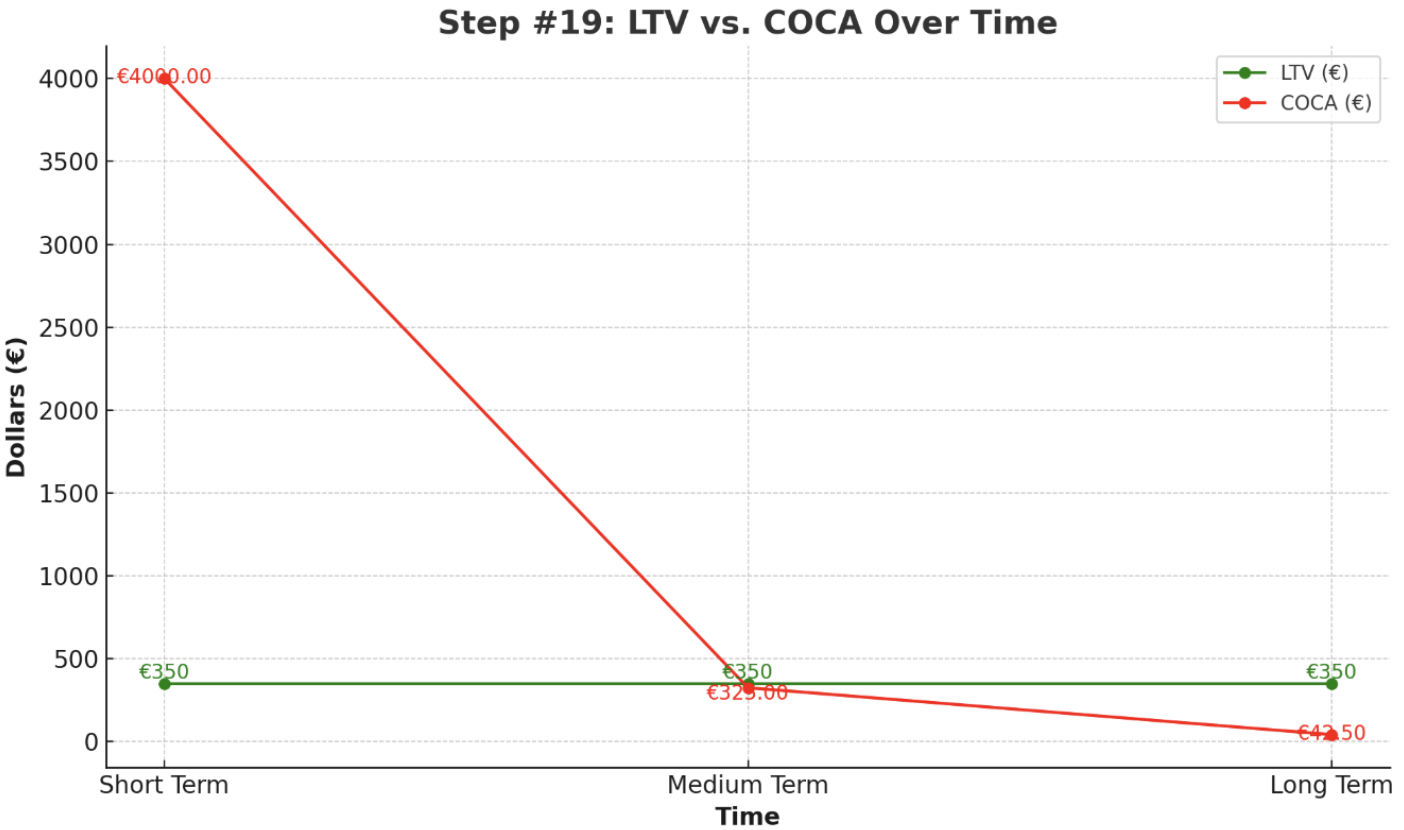
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| **Key Drivers of COCA and Ways to Decrease It** | | | |  |
| **#** | **Item** | **Effect** | **Action Possible to Decrease** | **Risk** |
| 1 | Inside Sales Staffing | High (Initial) | Transition efficiently to Internet Sales, optimize processes with CRM. | Lower conversion rates if Internet Sales underperform early; loss of direct customer feedback insight. |
| 2 | Content Marketing & SEO Investment | Medium | Focus on high-ROI content themes, leverage user contributions, enhance SEO techniques. | Slow organic growth if content misses mark or SEO is ineffective; dependency on search algorithms. |
| 3 | Conference & Event Spending | Medium (Short) | Prioritize virtual events, select few high-impact physical events with clear ROI goals. | Reduced initial visibility and networking effects; potentially missing key early influencers. |
| 4 | Marketing & Sales Tool Subscriptions | Low-Medium | Utilize cost-effective tools initially, negotiate vendor pricing, maximize tool usage. | Reduced operational efficiency if tools are inadequate; time lost migrating tools later. |
| 5 | Customer Onboarding & Support Efforts | Medium | Develop robust self-service resources (docs, tutorials, community), use AI support aids. | Poor initial user experience if self-service fails; higher churn if support feels insufficient. |

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| **Example: Key Drivers of COCA and Ways to Decrease It** | | | |  |
| **#** | **Item** | **Effect** | **Action Possible to Decrease** | **Risk** |
| 1 | Field Sales | High | Decrease number and increase Inside sales | High in short term – need to see how market adopts product; lack of direct sales people will definitely slow adoption |
| 2 | Field Sales internationally | High | Use third-party resellers | Low in short term/High in long term because we don’t have direct connection with customers |
| 3 | Advertising Budget | Medium | Build up in-house social media and other capability | Medium but probably worth it in long term |
| 4 | Field and Inside Sales | Medium | Supplement and reduce numbers with stronger Internet sales investment | Medium in short term and if works, low in long term |
| 5 | Tradeshows | Medium | Eliminate and find a guerilla market approach at 10% of expense | Medium in that our customers expect us to be at these shows and it gives our company credibility; Still something can probably be done here |

### Comparison of LTV and COCA Over Time

Label the axes with the appropriate numbers and units, and then plot the LTV and COCA on the graph based on your calculations from this step and from Step 17, Calculate the Lifetime Value (LTV) of an Acquired Customer. Draw a line to connect the three LTV points, and another line to connect the three COCA points.

**(Editable version of the graphic below is available in additional Powerpoint document)**

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### Overall Interpretation of Unit Economics – Bringing it All Together

Now you have done all the hard work, let’s pull it together and consolidate what we know and what we should do now.

1. **Basic 3X Test:** Is your LTV more than 3 times your COCA for your long-term time period? This is essential because COCA only deal with marketing and sales. The LTV must produce enough excess profit to also pay for research and development (R&D) as well as general and administrative (G&A) costs. The R&D costs can be significant. The 3X rule of thumb was created for software as a service companies, so the specifics of your industry may require a higher ratio in order to be successful. Does your LTV to COCA ratio clear the basic 3X threshold by a little, a reasonable amount, or a lot?

Yes, our long-term LTV (€350) is substantially more than 3 times our estimated long-term COCA (around €42.50 midpoint).  
The LTV to COCA ratio is approximately 8.2X (€350 / €42.50).  
This clears the basic 3X threshold by a significant amount, providing a strong initial signal for potential long-term profitability.

1. **R&D Factor:** Is your R&D expense going to be above or below that of an average software as a service company? For instance, a biotech company’s R&D expenses will be much higher. If so, then your ratio needs to be higher to compensate for this. For biotech companies it can be over 100x and for consumer goods, it can be less. What is your situation and do you feel comfortable there will be enough profit to cover R&D expenses? (G&A expenses fluctuate as well if there is a regulatory component but they do not fluctuate as much as R&D so we will focus on R&D as the proxy for G&A as well):

Our R&D expense is expected to be significantly above average for a typical SaaS company due to the complexity of developing and maintaining a self-improving, multi-agent AI system requiring ongoing research.  
The approximate 8X LTV to COCA ratio provides a better buffer than the standard 3X.  
However, comfort level is moderate; sustained high R&D investment will require careful financial management and potentially exceeding this 8X ratio.  
Profitability hinges on managing these R&D costs effectively alongside achieving the projected LTV and COCA figures.

**Adjustments May Be Necessary But You Are Ready:** There is a good chance that your initial unit economics don’t work. Don’t overreact and don’t underreact. You are prepared now to go back and iterate. Go back and make adjustments like you started to list in the Key Drivers of COCA worksheet. Make adjustments until the numbers work. It is great to be passionate and that is essential, but well thought-out numbers have a stubborn way of telling the truth in business. Don’t ignore them. If in the end, you can’t make the unit economics work, you won’t have a sustainable business no matter how hard you try. But most of the time you can fix it now that you are equipped with this knowledge.

Once you have iterated and the plan works, like in Step 18, list the top 3 risk factors for the unit economics and how you plan to deal with them below:

1. **COCA Risk Factor #1 and Mitigation Plan:** Long-term COCA remains high if Internet Sales fail to scale cost-effectively. Mitigation involves rigorous testing/optimization of online channels and building a strong referral program.

**Metrics to Watch:** Cost Per Lead (CPL), Lead Conversion Rate by channel, Referral Rate.

**Potential Intervention Strategy:** Reallocate marketing spend based on channel ROI, hire SEO/content specialists, or retain targeted Inside Sales longer for key segments if necessary.

1. **COCA Risk Factor #2 and Mitigation Plan:** LTV is lower than projected due to poor customer retention/churn. Mitigation includes enhancing onboarding, proving value quickly, proactive support, and iterative product improvements based on feedback.

**Metrics to Watch:** Churn Rate, Net Promoter Score (NPS), Product Engagement Score.  
**Potential Intervention Strategy:** Implement loyalty/retention programs, dedicate customer success resources, analyze and address specific churn drivers, potentially adjust pricing tier value.

1. **COCA Risk Factor #3 and Mitigation Plan:** High R&D costs erode profitability despite a healthy LTV/COCA ratio. Mitigation requires strict R&D budget discipline, prioritizing features with clear ROI, and exploring R&D grants or partnerships.

**Metrics to Watch:** R&D Spend as % of Revenue, New Feature Adoption Rates.  
**Potential Intervention Strategy:** Re-prioritize the R&D roadmap, explore leaner technical solutions, or seek external funding specifically earmarked for significant R&D initiatives.

If you are an engineer like me, you are now getting to the fun part. Now we can build the product with confidence that it can be the basis of a great company. That being said, it all makes sense but we are not sure until it really happens. Now we move to the design and build stage in Step 20, Identify Key Assumptions.