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

Worksheets

Assumptions for COCA Estimation

a. What was the time interval you defined for the following phases in Step #18, Worksheets Section, Item II?
   1. Short Term: Year 1
   2. Medium Term: Year 2-3
   3. Long Term: Year 4-5

Total Sales and Marketing Expenses List

List the expected sales and marketing expenses, and their costs. This input will be used when estimating the cost of customer acquisition.

Sales Expenses	Short Term	Medium Term	Long Term
Inside Sales (salaries & CRM tools)	**€40,000**	**€60,000**	**€70,000**
Sales Enablement Materials	**€5,000**	**€7,500**	**€10,000**

Marketing Expenses	Short Term	Medium Term	Long Term
SEO & Content Marketing	**€10,000**	**€15,000**	**€20,000**
Social Media & Paid Ads	**€15,000**	**€25,000**	**€30,000**
Events/Webinars	**€5,000**	**€7,500**	€10,000

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	100	200	300	350	400
All Sales Expenses (€)	45,000	60,000	60,000	70,000	70,000
All Marketing Expenses (€)	30,000	47,500	47,500	50,000	50,000
Total Sales & Marketing Expenses	75,000	107,500	107,500	120,000	120,000
COCA (€ / customer)	€750	€538	€358	€343	€300

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: €750
2. Medium Term COCA Range: €358–€538
3. Long Term (steady state) COCA Range: ~€300

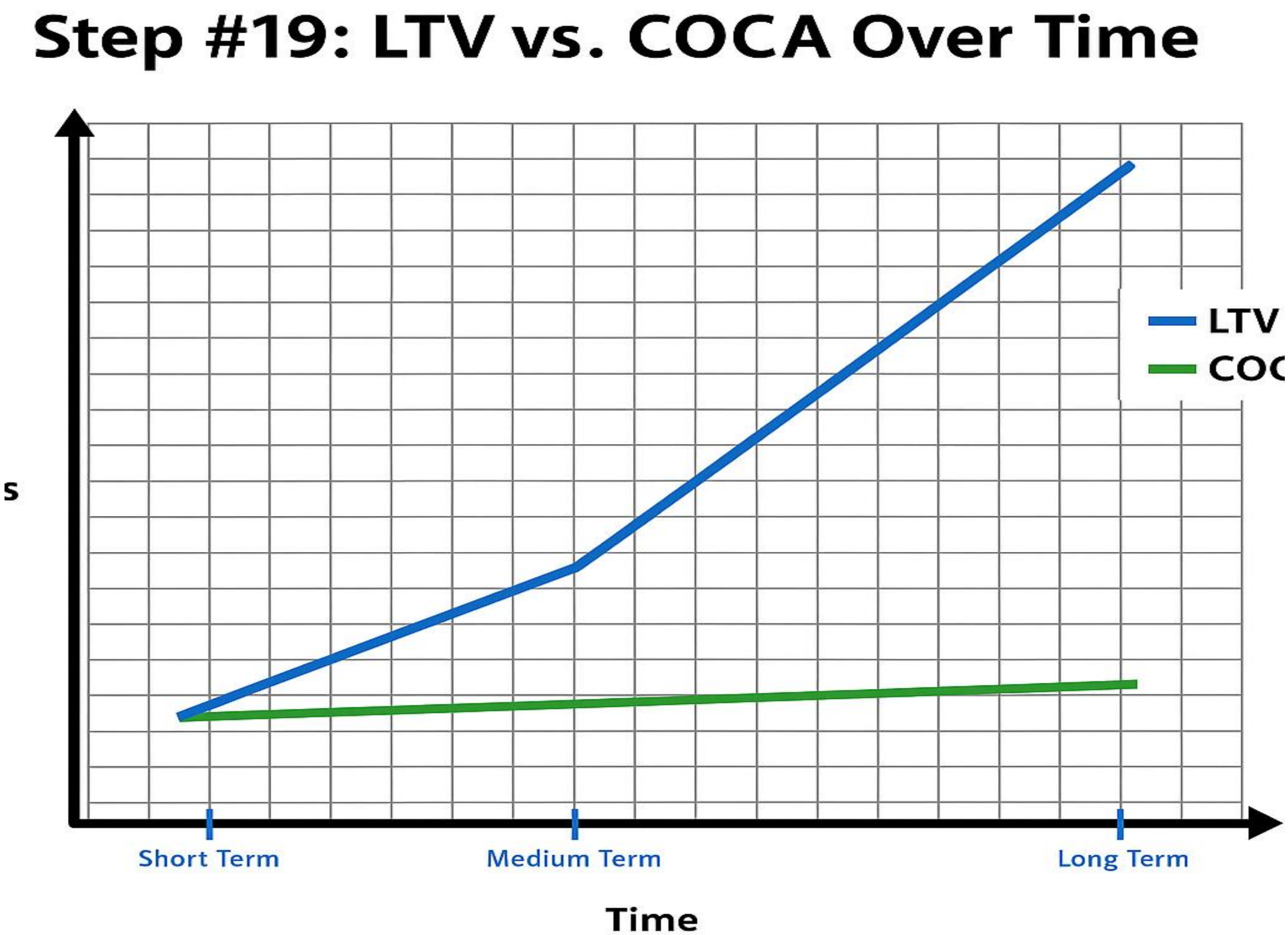
Key Drivers of COCA and Ways to Decrease It				
#	Item	Effect	Action Possible to Decrease	Risk
1	Inside Sales Team	High	Invest in automation/AI sales tools	Medium – May affect customer rapport
2	Paid Advertising	Medium	Increase organic marketing & referrals	Low – Gradual traction gain
3	Webinars & Events	Medium	Use social platforms instead of in-person	Low – Less cost, lower personal touch
4	CRM Tool Licenses	Low	Move to open-source or discounted startup plans	Low
5	Content Creation	Medium	Outsource or use AI-driven tools	Medium – Quality consistency

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)



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.

A. **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, the **LTV to COCA ratio for the long-term is approximately 5.3x**, which comfortably exceeds the 3X rule-of-thumb. This indicates that not only does our customer value justify our sales and marketing investment, but we also have enough margin left to fund essential R&D and G&A expenses. Clearing the threshold "by a lot" gives us breathing room and strategic flexibility as we grow.

B. **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 product is based on AI and legal research automation, which requires moderate to high R&D investment (e.g., model fine-tuning, data security, NLP accuracy, GDPR compliance). This places us **above a basic SaaS company** but **well below biotech**. With our LTV/COCA ratio >5, we are confident we can cover ongoing R&D needs, particularly if we manage hiring carefully and continue to validate features based on customer feedback. However, we will monitor profitability margins to ensure long-term sustainability.

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:
   High customer acquisition cost due to reliance on paid ads

   Metrics to Watch:
   CAC by channel, conversion rate from ads, LTV by customer segment.

   Potential Intervention Strategy:
   Shift budget from paid ads to organic growth through SEO, AI-generated legal briefs, partnerships with bar associations, and referral programs. Test channel efficiency quarterly and reallocate accordingly.

2. COCA Risk Factor #2 and Mitigation Plan:
   Sales cycle length and procurement hurdles in law firms.

   Metrics to Watch:

Average deal close time, demo-to-signup ratio, feedback from legal finance teams

Potential Intervention Strategy:
Streamline onboarding, pre-approve GDPR documentation, offer trial periods, and develop trust through case studies and pilot testimonials. Assign a legal sales liaison for enterprise clients.

3. COCA Risk Factor #3 and Mitigation Plan:
   Churn after Year 1 affecting LTV.

   Metrics to Watch:
   Year-over-year retention, NPS, product usage frequency.

   Potential Intervention Strategy:
   Improve AI accuracy, launch customer success programs, run quarterly legal updates as value-add content, and offer tiered support to increase stickiness and perceived value.

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.