IT MANAGEMENT 101 · FREE GLOSSARY

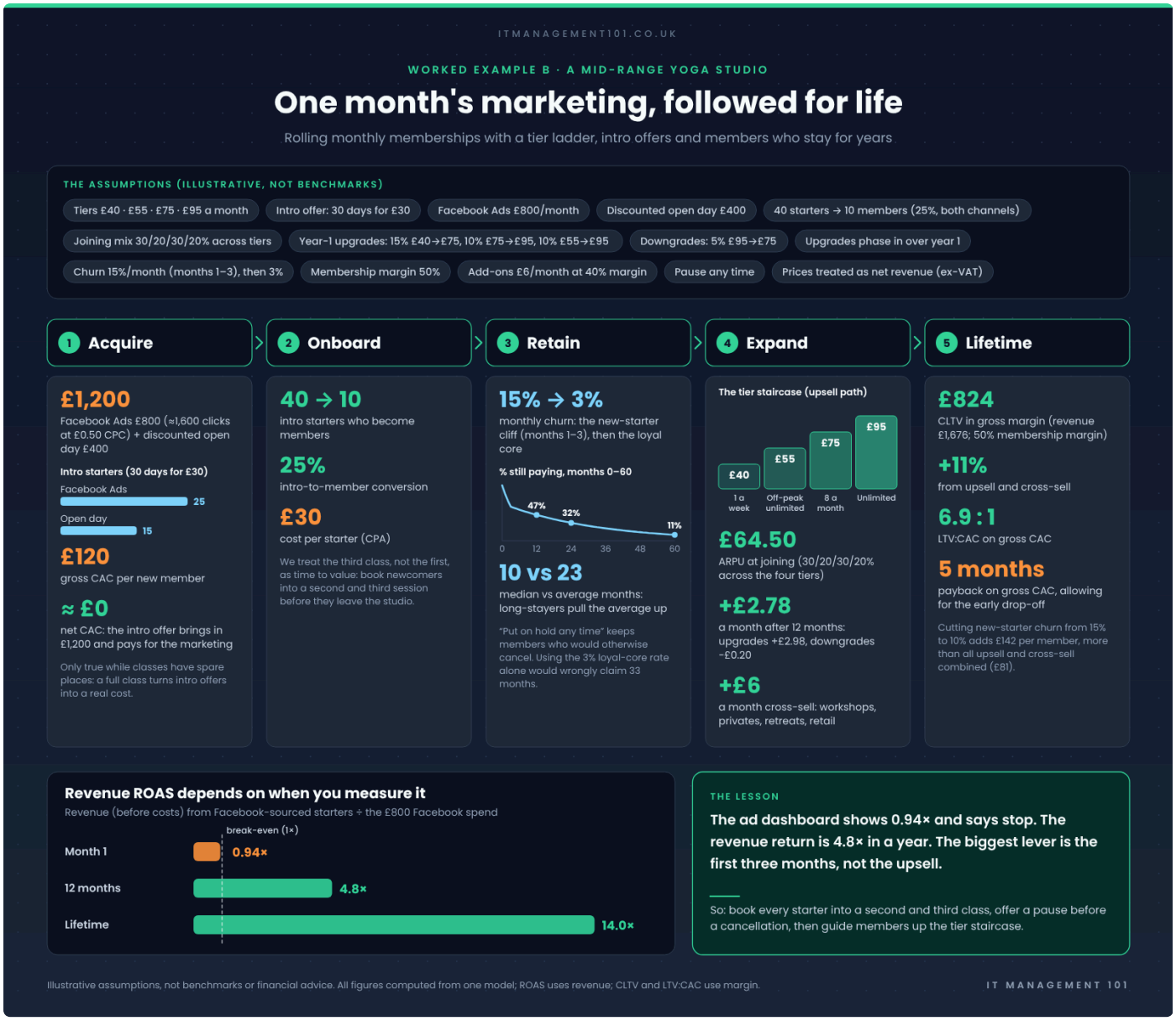
Unit economics glossary: from first click to lifetime value

Every SaaS, subscription and membership metric explained, with worked examples. Full article: itmanagement101.co.uk/unit-economics-cac-ltv-churn-roas

Worked example 1: an accounting app for small plumbing firms

£25 a month core app (ex-VAT), +£15 Service Plans, +£10 Stock Management, +£8 per extra engineer. £2,500 a month on trade press and £500 on plumbing forums brings 70 trials and 24 paying customers. 2.5% monthly churn, 80% gross margin. Illustrative assumptions, not benchmarks.

Worked example 2: a mid-range yoga studio



Tiers £40 / £55 / £75 / £95 a month (treated as net revenue). £800 Facebook Ads and a £400 discounted open day bring 40 starters on a 30-days-for-£30 offer; 10 become members. Churn 15% a month for three months, then 3%. 50% membership margin. Illustrative assumptions, not benchmarks.

Every term, with the calculation from each case study

Term	Stands for	What it tells you	Plumbing app	Yoga studio
ACQUIRE				
CPC	Cost per click	What each ad click costs	Not used: trade-press ads are bought per issue (£2,500 a month)	£800 ÷ 1,600 clicks = £0.50
CPM	Cost per thousand impressions (views)	How most social ads are priced	Not used	If the £800 bought 160,000 views: £800 ÷ 160 = £5.00
CTR	Click-through rate	How well an advert pulls	Not used	On those figures: 1,600 ÷ 160,000 = 1.0%
CPA	Cost per acquisition (or action)	Cost of a trial, sign-up or starter, before anyone has paid	£3,000 ÷ 70 trials = £42.86	£1,200 ÷ 40 starters = £30
CAC	Customer acquisition cost	All sales and marketing cost per new paying customer	(£3,000 + 24 × £15) ÷ 24 = £140	£1,200 ÷ 10 = £120; net of £1,200 intro income ≈ £0
Attribution	Which channel gets the credit	Shows which marketing actually works	Press £2,500 ÷ 12 = £208; forums £500 ÷ 12 = £42	Facebook £800 ÷ 25 = £32 a starter; open day £400 ÷ 15 = £26.67
ROAS	Return on ad spend	Revenue from ads ÷ ad spend	Month 1: £600 ÷ £3,000 = 0.20×; 12 months 2.4×; lifetime 10.1×	Month 1: £750 ÷ £800 = 0.94×; 12 months 4.8×; lifetime 14.0×
ONBOARD				
TTV	Time to value	How quickly a newcomer gets a first real win	First invoice sent within 7 days	Not modelled; we treat a third class booked as the first real win
Activation rate	Share who reach that first win	An early sign of who will stay	42 ÷ 70 = 60%	Not modelled
Trial-to-paid	Share of trials or intro offers that convert	Turns sign-ups into revenue	24 ÷ 70 = 34%	10 ÷ 40 = 25%
RETAIN				
Churn	Customers (or revenue) lost per month	The biggest driver of lifetime value	2.5% a month	15% a month for 3 months, then 3%
Average lifetime	How long the average customer pays	Turns monthly value into lifetime value	1 ÷ 2.5% = 40 months	23 months on average; median 10
GRR	Gross revenue retention	Revenue kept after cancellations and downgrades, ignoring upgrades	17.7 × £25 ÷ £600 = 74% after 12 months	4.67 × (£64.50 - £0.20) ÷ £645 = 47% after 12 months
DAU / MAU	Daily ÷ monthly active users	Engagement: who is drifting away	Not modelled; track logins	Not modelled; track class attendance
EXPAND				
Upsell	More of the same, or a higher tier	Raises revenue per customer	Extra engineer +£8 a month (15% take it)	£40 → £75 tier: +£35 a month (15% of one-a-week members)
Cross-sell	A different product to the same customer	Existing customers are the cheapest to sell to	Service Plans +£15 (30%); Stock +£10 (20%)	Workshops, privates, retreats, retail: about £6 a month

Term	Stands for	What it tells you	Plumbing app	Yoga studio
Attach rate	Share of customers who buy an add-on	Measures cross-sell success	30% Service Plans; 20% Stock Management	Not modelled (average spend used instead)
ARPU	Average revenue per user (ARPA: per account)	What customers really pay after plan mix	£25.00 → £32.70 after 12 months	£64.50 → £67.28 after 12 months, plus £6 extras
MRR	Monthly recurring revenue	Predictable monthly subscription income	24 × £25 = £600	10 × £64.50 = £645
ARR	Annual recurring revenue	MRR × 12; the headline figure for boards and buyers	£600 × 12 = £7,200	£645 × 12 = £7,740
ACV	Annual contract value	What one annual contract is worth	Annual plan: 10 × £25 = £250	Not used: memberships roll monthly
NRR	Net revenue retention	Revenue kept including upgrades; over 100% means growth with no new sales	96.5% after 12 months	48.7% after 12 months (membership only)
Referral	Customers bringing customers	New customers at almost no acquisition cost	Not modelled; forum word of mouth	Not modelled; bring-a-friend offers
LIFETIME				
GM / COGS	Gross margin / cost of goods sold	Revenue minus the direct cost to serve. Subtract other variable costs too, such as sales commissions, and you have contribution margin, the strictest version	80% (hosting, support, payment fees are the 20%)	50% on membership (teacher pay, room costs); 40% on extras
LTV	Customer lifetime value (also CLTV, CLV)	Margin a customer earns over the whole relationship	£800 without add-ons (£25 × 80% ÷ 2.5%); £1,010 with them	£824 margin (£1,676 revenue)
LTV:CAC	Lifetime value ÷ acquisition cost	Value earned per £1 spent winning a customer; about 3:1 is a common rule of thumb	£1,010 ÷ £140 = 7.2:1	£824 ÷ £120 = 6.9:1
Payback	Months to earn back CAC	Drives cash flow	About 8 months (about £20 margin a month, less cancellations)	About 5 months, allowing for the early drop-off
VAT	Value added tax	If you are VAT-registered, work ex-VAT, or ROAS looks up to 20% better than it is, and LTV better still	Prices quoted ex-VAT	Prices treated as net revenue

The two businesses side by side

Measure	Plumbing app	Yoga studio
Marketing in the month	£3,000	£1,200
New paying customers	24	10
Trial or intro-offer conversion	34%	25%
CAC (gross)	£140 (incl. £15 onboarding)	£120 (≈ £0 net of intro income)
Monthly churn	2.5%	15% for 3 months, then 3%
Still paying after 12 months	74%	47%
Average revenue per customer at start	£25.00	£64.50
Expansion after 12 months	+£7.70 (add-on modules)	+£2.78 (tier upgrades) + £6 extras
LTV (margin)	£1,010	£824
Lift in LTV from upsell and cross-sell	+26%	+11%
LTV:CAC	7.2:1	6.9:1
Payback (allowing for cancellations)	8 months	5 months
Revenue ROAS: month 1 / 12 months / lifetime	0.20× / 2.4× / 10.1×	0.94× / 4.8× / 14.0×
Biggest lever	Cheaper channels and add-on modules	Keeping starters through months 1–3

Rules of thumb: LTV:CAC of about 3:1 and payback within 12 months. Work ex-VAT if you are VAT-registered. General information, not financial or tax advice. © Garrould Ltd, ITManagement101.co.uk. Free to share with credit and a link to https://www.itmanagement101.co.uk/unit-economics-cac-ltv-churn-roas/.