How to calculate unit economics for platform businesses

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Analysing unit economics is a powerful way to assess the viability and the long-term profitability of a business model. A major KPI is the relation between Customer Lifetime Value (CLV) and Customer Acquisition Costs (CAC).

$$\frac{CLV}{CAC}$$

For a platform business model, it is important to consider the costs associated with acquiring the non-paying side of the platform in the customer lifetime value calculation for the paying customer. The costs should be reflected in the contribution margin.

CLV = **First Month Average Customer Value** + **Terminal Average Customer Value**

First Month Average Customer Value = First Month Average Booking Value × Take Rate × Contribution Margin

Terminal Average Customer Value = First Month Average Booking Value × Take rate × Contribution Margin × Average Booking Value Retention × Retention Period

Fully-loaded CAC include all marketing and sales costs (including brand marketing but excluding costs for acquiring the non-paying side of the platform).

CAC = (**Sales Costs** + **Marketing Costs**) ÷ **Number of new paying customers**

Sales Costs = Direct Sales + Indirect Sales

Marketing Costs = Inbound Marketing + Outbound Marketing

Platform performance can be improved by

- Increasing the First Month Average Customer Booking Value
- Increasing the Take Rate
- Improving the Contribution Margin by reducing CoGS and/or other direct costs (often by reducing touchpoints per transaction) and costs incurred for acquiring the non-paying side of the platform
- Improving Average Booking Value Retention Rate
- Extending the Retention Period
- Reducing Customer Acquisition Costs