Optimizing Customer Acquisition Strategies for LTV:CAC vs CPAs

Ritual demonstrated cost savings with value-based bidding campaigns.

The Problem

Ritual was looking to **acquire higher value customers** and **lower their customer acquisition costs**. The leading vitamin subscription brand lacked transparency in the health of its current marketing campaigns.

The Solution

Retina partnered with Ritual to conduct an **A/B split test** of two acquisition campaigns:

- Ritual's "Business as Usual" (BAU) campaign
- Retina Value-Based Lookalike Audience (VBLAL) campaign

To create the BAU audience, Ritual provided Facebook with customers they typically view as high value. Retina created the VBLAL audience by providing Facebook with the LTV scores of current customers. Facebook could then seek out users similar to high-value customers and exclude users similar to low-value customers.

An A/B test allowed Retina to test the effectiveness of both audiences over the same time period.

The BAU audience resulted in a $114.26 customer acquisition cost (CAC), while the VBLAL audience had a CAC of $88.82, **a reduction of 29.5%.** The BAU audience LTV:CAC ratio was 3.03, while the ratio for the VBLAL audience was 4.16, **1.37 times higher** than BAU.

By bid capping the next VBLAL campaigns, Ritual can ensure that the LTV:CAC ratio remains high as they scale their budget and scope of successive campaigns.

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The Results

After demonstrating the success of value-based lookalike audiences, Retina ran a test with **value-based bidding** by following these steps:

- Determine the CLV of each customer
- Break the audience into 5 groups by CLV
- Assign a bid cap to each group, keeping in mind that high-value customers are worth more in the long run
- Create lookalike audiences for each group

Value-based bidding is based on the idea that even lower-value customers are worth acquiring, as long as you don't spend too much on acquisition. With this strategy, Ritual **ensured profitability** by setting **bid caps** based on LTV:CAC ratios. The campaign resulted in an average CAC of $88.43.

Group	Bid-Cap	Purchases	CAC	LTV:CAC Ratio
80% +	$605	15	$133.37	**4.41 - 14.24**
60-80%	$413	28	$71.53	**5.57 - 8.23**
40-60%	$188	23	$85.12	**2.02 - 4.66**
20-40%	$79	3	$46.77	**1.34 - 3.67**
0-20%	$13	0	$0	N/A

The value-based bidding strategy allowed Ritual **more flexibility** to modify campaign parameters to fit business goals. Retina **dynamically modified bid caps** for each LTV quantile to ensure a specific LTV:CAC ratio. For each quantile, CAC was less than 60% of the bid cap across the board.

In the future, Ritual can set more aggressive budgets to increase acquisition of a particular quantile.