

Understanding Unit Economics

Audience: founders and finance leaders who need clear, actionable unit economics to guide pricing, channel allocation, and capital efficiency.

1) Why Unit Economics Matter

- Anchor pricing and packaging decisions in profitability.
- Prioritize channels and cohorts with the best payback.
- Signal capital efficiency to investors and guide hiring pace.

2) Core Definitions

- Variable vs fixed costs: what scales with each unit vs overhead.
- Contribution margin: CM1 (revenue – direct variable costs), CM2 (CM1 – direct support/CS), CM3 (CM2 – allocated overhead).
- CAC: fully-loaded acquisition cost by channel, including comp, tools, creative, and allocated overhead.
- Payback period: $\text{CAC} \div \text{monthly contribution margin (or gross margin) from the acquired cohort}$.
- LTV: contribution-based LTV using cohort churn; avoid overusing gross margin-only LTV.
- Breakeven: units or months until cumulative CM covers CAC and allocated overhead.

See our [SaaS Financial Metrics guide](#) for related metric definitions.

3) Cohort & Retention Analysis

- Build cohorts by acquisition month/quarter and by channel/segment.
- Track logo vs revenue retention, expansion, and contraction over time.

- Plot contribution margin per cohort over life; flag cohorts that never reach breakeven.

4) Channel Economics

- CAC by channel and campaign; include discounting impacts.
- Marginal vs blended CAC: monitor both; use marginal for go/no-go and budget shifts.
- Diminishing returns: watch conversion and CAC drift as spend scales; set guardrails.
- Attribution: agree on model (e.g., primary touch) and keep consistent for decision-making.

5) Pricing & Packaging Levers

- Map price to value driver (seats, usage, outcomes); ensure margin improves with scale.
- Discount policy: floor/ceiling, approval matrix, and impact on payback.
- Packaging tests: good/better/best, add-ons, bundles; measure ARPU and retention effects.

6) Scenario Modeling

- Sensitivities: churn, ASP, win rates, discounting, activation/usage, sales productivity.
- Use downside cases to set spend gates; show impact on runway and hiring.
- For transactional/marketplace: take rate, order frequency, refund/chargeback rates, variable fulfillment.

7) Monitoring Cadence

- Monthly unit economics pack: CAC, payback, CM1/CM2/CM3, LTV/CAC, cohort curves, channel scorecard.
- Alerts: thresholds for payback, discount rate, churn spikes, or CAC drift; trigger budget reallocation.

- Reviews: monthly with GTM/Product; quarterly refresh of allocation and pricing tests.

Our [FP&A Services](#) can help you build and track unit economics.

8) Case Examples

- SaaS subscription: seats + feature add-ons; track expansion vs contraction by cohort; payback target <12–15 months post-A.
- Transactional marketplace: take rate, order frequency, fulfillment cost; monitor cancellation/chargebacks; focus on CM per order.
- Services: project margin by client, utilization, realization; payback via repeat or expansion services.

9) Templates

- Unit economics model (CAC, payback, CM stack, cohort curves).
- Cohort table layout with expansion/contraction detail.
- Channel scorecard with guardrails and actions.
- Pricing test plan with hypotheses, metrics, and decision rules.

10) Call to Action

Want a review of your unit economics model? [Schedule a consultation](#) or [request a proposal](#) to get started.

About 1CFO

1CFO provides AI-powered fractional CFO services for growing businesses. We combine strategic financial leadership with modern technology to deliver enterprise-grade finance capabilities at a fraction of the cost of a full-time hire.

Our Services:

- [Fractional CFO](#) – Strategic finance leadership

- [FP&A Services](#) – Financial planning and analysis
- [Cash Flow Management](#) – Liquidity and runway optimization

Resources:

- [Free Assessment](#) – Evaluate your finance function
- [ROI Calculator](#) – Estimate your potential savings
- [All Guides](#) – More CFO resources

Contact:

- Web: <https://1cfo.ai>
- Email: info@1cfo.ai
- Phone: (602) 529-8753

© 2026 1CFO. All rights reserved.