Navigating the Complexities of Net Revenue Retention

Navigating the Complexities of Net Revenue Retention:

Challenges, Strategies, and the Need for Cross-Functional Leadership

Insights from Interviews with 50 SaaS Industry Leaders in 2024

This whitepaper presents valuable learnings from interviews with 50 CEOs, COOs, CROs, and Co-Founders of SaaS businesses, conducted in 2024, as they share their experiences and perspectives on the importance of Net Revenue Retention (NRR) and the challenges they face in driving sustainable growth.

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Introduction

Net Revenue Retention (NRR) is crucial for businesses seeking sustainable growth in a competitive market. NRR assesses a company's ability to keep and grow its customer base, emphasizing the need for strong customer relationships and long-term value. Yet, enhancing NRR is challenging as it involves multiple factors affecting customer satisfaction, retention, and expansion.

This whitepaper explores two main obstacles to improving NRR: the lack of a clear upsell strategy and the absence of a dedicated leader for NRR initiatives. It also suggests potential strategies to address these issues.

$$\text{Net Revenue Retention (NRR)} = \frac{\text{Starting MRR} + \text{Expansion MRR} - \text{Churned MRR}}{\text{Starting MRR}}$$

"Net Revenue Retention is the single most important metric for SaaS companies. Why: if your customers are delighted, they will stay, continue to expand usage and therefore gain value. Net Revenue Retention measures that."

Yamini Rangan, CEO at HubSpot

"Net dollar retention (NDR) becomes the top SaaS metric, driving companies towards consumption-based pricing and ex ansion-oriented contracts."

Dave Kellogg in his 10 Predictions for 2021

"Ultimately the metric we care about most — more than growth, more than gross profit, more than anything else in the business — is retention."

Mackey Craven, Partner at OpenView Ventures

"Lately the economics of B2B companies are more driven by expansion than upfront ACV (annual contract value). This is the best indicator of that motion."

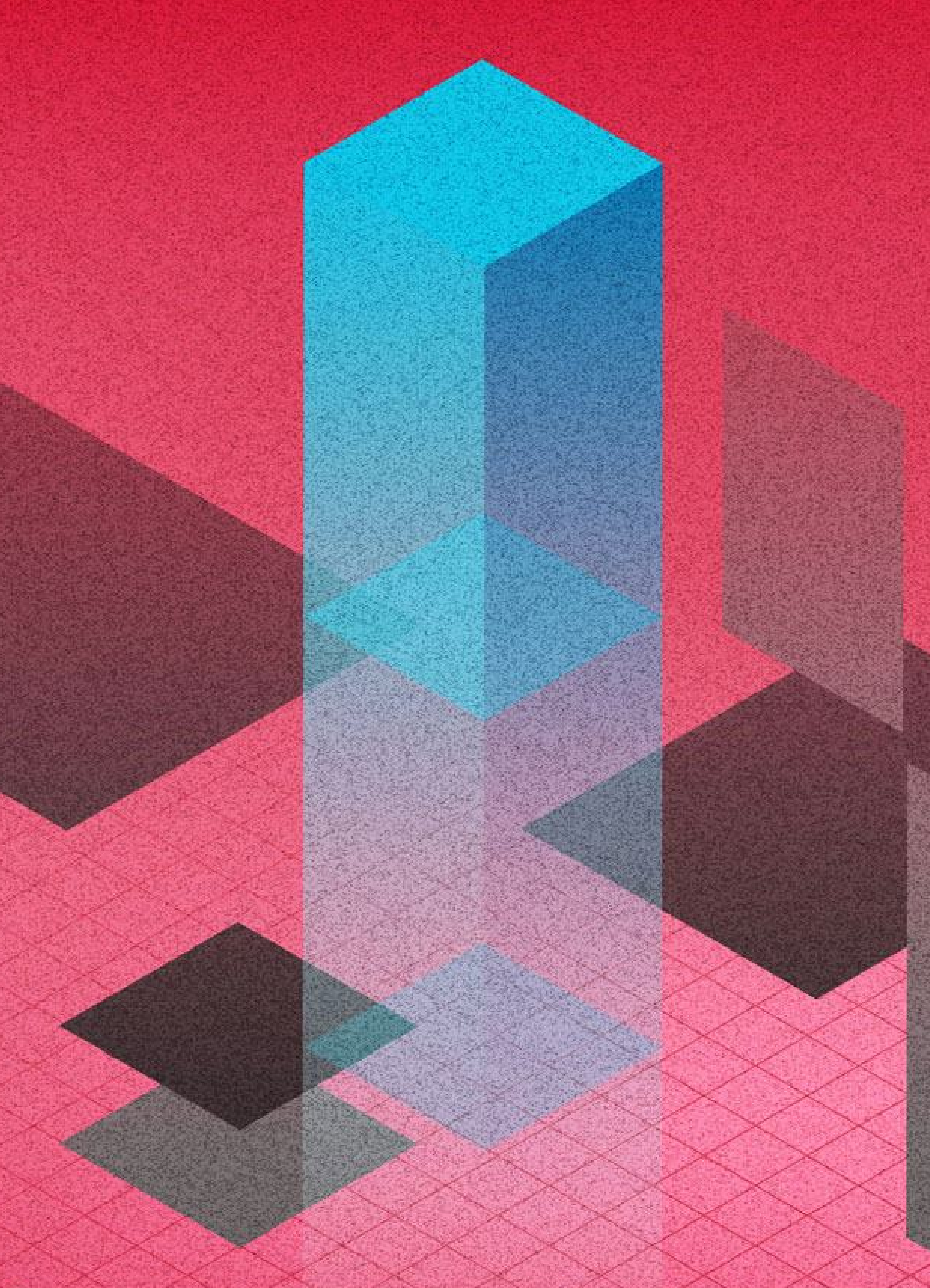
Martin Casado in 11 Metrics for B2B Startups

"Retention matters. No other metric s as singularly telling of whether our business will thrive or die."

Lenny Rachitsky in What is Good Retention?

"Net Revenue Retention is one of my favorite metrics to evaluate in private SaaS companies. Here's why this metric is I so significant: It shows how fast you can grow your business annually without adding any new customers."

Jamin Bell, Partner at Altimeter Capital



Learning 1: The Growing Importance of NRR Post Covid

Since the pandemic, the focus has shifted from 'grow at all costs' to 'grow efficiently.' Due to inflation, higher capital costs, and low unemployment rates, ac quiring new revenue has become more costly. For example, what once cost $1.2 to gain $1 in new revenue in 2012 now costs $1.8 on average, with HubSpot spending $2.2 for the same. This shift is due to two main reasons. First, retaining existing customers is cheaper than acquiring new ones. Second, generating more revenue from existing customers through upselling or cross-selling is less resource-intensive than finding new ones. As a result, SaaS companies are now prioritizing Net Revenue Retention (NRR). This strategy not only boosts their financial health but also keeps them competitive in a market that values efficiency. Ultimately, NRR is more than a metric; it's a central strategy that drives sustainable growth and operational excellence in today's challenging economic landscape.

Learning 2: Rethinking Net Revenue Retention Beyond Churn Prevention

Traditionally, revenue retention strategies in SaaS have focused primarily on preventing churn. However, while reducing churn is crucial, this narrow focus misses the broader opportunity to grow revenue through existing customers. Recognizing Net Revenue Retention (NRR) as a comprehensive metric that includes both churn prevention and customer growth is critical for lasting success.

A key study by the Technology Services Industry Association (TSIA) highlights why we should broaden our view of NRR. It found that even minimal upselling significantly strengthens the customer-company bond, with upsold customers being 47% less likely to churn. This shows that upselling not only boosts revenue but is also an effective strategy for churn prevention.

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A lack of a clear upsell strategy is a major hurdle to increasing revenue from existing customers. Effective upselling enhances the customer experience by providing additional value through new products, services, or features. Developing a successful upsell strategy requires a deep understanding of customer needs and the ability to identify and mitigate churn risks.

Learning 3: Product Usage and NPS Aren’t Enough

SaaS companies have long depended on product usage data and Net Promoter Scores (NPS) as key indicators of customer satisfaction. However, these metrics often fail to capture the full customer experience, especially from decision-makers who control budgets but don't use the product daily.

Product usage data, while useful, doesn't always reveal the full story. High usage might mask dissatisfaction if customers feel they have no other options, while low usage might indicate a misunderstanding of the product's capabilities rather than genuine disinterest.

NPS, meanwhile, captures sentiment from a narrow group of actively engaged users, typically overlooking less frequent users who may hold crucial insights, especially those in decision-making roles essential for renewals.

This focus misses critical feedback from strategic decision-makers who evaluate the product's broader value and ROI, considering factors like customer service and strategic alignment.

To better understand customer health and satisfaction, SaaS companies must broaden their metrics to include diverse feedback methods such as customer interviews, quarterly business reviews with decision-makers, and support ticket analysis. This expanded approach helps capture a more complete view of customer needs and experiences, crucial for effective customer retention and growth.

Learning 4: Actionable Customer Insights Are Key

Advanced customer feedback tools are essential for understanding customer needs, identifying pain points, and spotting upsell opportunities. These tools must effectively gather and analyze feedback, segmenting audiences for targeted questions and improved response rates. This approach gives a comprehensive view of customer health.

These tools should also analyze data in real-time and integrate with CRM systems, enabling quick strategy adjustments based on customer insights. This makes the data actionable and measurable, aiding in predicting customer behavior and churn risks.

By incorporating these insights into upsell and retention strategies, businesses can better tailor their offerings, improving Net Revenue Retention (NRR) and strengthening customer relationships. Viewing upselling as a strategic opportunity encourages deeper customer investment.

Automating the collection of insights fosters ongoing, dynamic customer interaction, shifting from static to adaptive strategies.

This continuous engagement keeps companies in sync with customers' evolving needs, promoting sustained growth and loyalty.

Learning 5: The Need for a Cross-Functional Leader

A key barrier to improving Net Revenue Retention (NRR) is the absence of a single leader overseeing the entire customer journey, leading to misaligned goals and inefficiencies that negatively impact customer retention and growth.

Appointing a cross-functional leader such as a Chief Customer Officer (CCO) or Chief Revenue Officer (CRO) is crucial. This leader would unify departmental strategies into a cohesive, customer-centric NRR approach.

Customer Success (CS) teams often lack the aggressive mindset needed to identify upsell and cross-sell opportunities due to being overstretched. A CCO or CRO with a broad range of experience can guide CS teams to actively pursue growth opportunities.

Additionally, poor coordination between departments can result in critical oversights like missed upsell opportunities or support gaps, which are costly in today's competitive economy. A centralized NRR leader is essential for implementing scalable solutions that maintain operational efficiency without compromising customer interaction quality.

By centralizing NRR under a single, effective leader, companies can enhance inter-departmental cooperation, improve customer retention and growth, and better align with the evolving economic landscape, ensuring ongoing success and customer satisfaction.

Conclusion

In today's competitive SaaS industry, a strategic approach to Net Revenue Retention (NRR) is crucial. Traditional metrics like product usage data and Net Promoter Scores, while useful, are insufficient for significant growth.

A broader strategy involving actionable customer insights, a focus on upselling, and strong leadership is essential to maximize NRR.

Improving NRR means moving from a narrow focus on customer engagement to a holistic strategy that values every interaction, aimed at both preventing churn and fostering growth. Tools like advanced customer feedback and automated insights are key, helping businesses understand and meet customer needs for lasting relationships.

A cross-functional leader, such as a Chief Customer Officer (CCO) or Chief Revenue Officer (CRO), is critical. They ensure that strategies are effectively implemented across all touchpoints, break down silos, and align departmental goals with broader company objectives. This role is crucial for spotting upsell and cross-sell opportunities.

In summary, mastering NRR in the SaaS sector goes beyond traditional tactics and requires a comprehensive, strategic effort across the organization. Focusing on actionable insights, upselling strategies, and robust leadership can drive sustainable growth. Insights from industry leaders offer valuable guidance for SaaS companies striving to thrive.

$$\text{Net Revenue Retention (NRR)} = \frac{\text{Starting MRR} + \text{Expansion MRR} - \text{Churned MRR}}{\text{Starting MRR}}$$

Break down of questions

1. Question: What is the biggest challenge facing your company right now?

1. **Customer churn and diminished demand:** Businesses are contending with increasing customer turnover, driven by budget reductions and shifts in the market, which in turn leads to a lower demand for their products or services.
2. **Budget limitations:** In response to economic pressures, customers are reducing their expenditure on software solutions and services.
3. **Challenges in building a sales pipeline:** The drop in market demand is making it difficult for companies to populate their sales pipelines with qualified leads.
4. **Striking a balance between retention and acquisition:** Amidst a tough market environment, companies find themselves needing to carefully weigh their strategies for holding onto existing customers while also seeking new ones to sustain growth.

Summary of Insights: All companies reported decreasing demand and the challenges of driving revenue growth in the face of this decreasing demand to be an enormous challenge today. Despite the challenges B2B SaaS companies encounter, including customer churn, budget reductions, and difficulties in building sales pipelines, certain firms show greater resilience. Notably, companies featuring diverse product portfolios experience less impact from budget constraints. This is because customers tend to favor consolidating their software tools, opting for comprehensive, multi-product solutions rather than standalone offerings.

Question 2

What metrics do you care the most about?

Summary of Insights: The interviews revealed that 83% of those surveyed rank Total Revenue / New Revenue and Net Revenue Retention / Customer Logo Retention as their most crucial metrics, indicating a primary focus on increasing revenue and retaining customers. Furthermore, 15% consider EBITA to be a vital metric, with the remaining 2% pointing to active users and Net Promoter Score (NPS) as significant indicators. These findings underscore the emphasis on financial health and customer satisfaction, mirroring the challenges within today's market environment.

Note, since some interviewees are not CEOs, the number represents the metrics the leaders care about in their role, and not necessarily reflective of the company's primary metrics of concern.

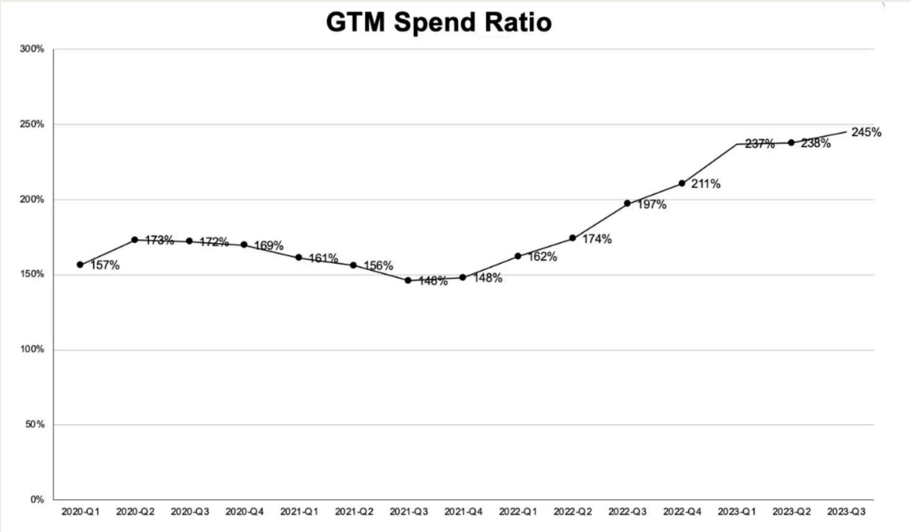
> **"A 20% difference in accuracy makes a 100% difference in adoption. Both our customer retention and expansion works off this philosophy. We double down on features that provide true value and make them world class."**
>
> **Mehak Aggarwal**, Co-Founder & CPO, Sybill

Question 3

What percentage of revenue do you expect to come from new logos vs. existing business?

Summary of Insights: The vast majority of companies (86%) reported that a significant portion of their revenue (70% or more) is generated from existing business, with only 30% stemming from new customers. A minority of smaller companies aim for an equal revenue distribution between existing and new business, while a mere 1% depend on new customers for 80% or more of their revenue.

This shift towards prioritizing existing customers is in response to the rising costs associated with acquiring new business. The CEO of Maxio highlighted this trend, noting that as the expense of attracting new customers escalates, companies are increasingly focusing on efficient growth and profitability. This has led to a greater emphasis on improving EBITA as a crucial performance metric and a strategic pivot towards expanding business with existing customers.



Question 4

What are the primary reasons your customers leave?

Summary of Insights: The factors contributing to customer churn were categorized into two main groups: 'god's will' (factors beyond control) and 'savable' (factors within control).

God's Will:

- The closing or merging of companies, a scenario more common among businesses focused on serving small and medium-sized businesses (SMBs).
- Engaging with customers that do not fit the ideal customer profile (ICP). This is churn with customers who purchased but never deployed/used or ended up needing a solution the product was never suitable to address. This is most frequently found in product-led business models.

Savable:

- The departure of key contacts within customer organizations. While some view this as beyond control, proactive strategies like early identification and having a robust plan for when a 'champion' leaves can mitigate risks and open new opportunities.
- Lack of product features or lack of knowledge about capabilities. This is churn related to customers not understanding how to use the product to achieve the results they need.
- Armed with these insights, companies can better allocate their efforts towards addressing the 'savable' reasons for customer departure, while also acknowledging the challenges posed by uncontrollable factors.

> **"The best early indicator that we have to step into action is turnover of our key contacts and system admin. That's when things can get stale. We have built an entire machine around mitigating this risk."**
>
> **Katie Schuele**, CCO&Co-Founder, Boostr

> **"Turnover is a clear risk to customer retention, yet it's one that can be effectively mitigated with the right approach. Consider this: if there aren't at least ten people within the company you can call for insights and expect a quick answer, then the account's stability is compromised. Cultivating broad, deep, and consistent relationships is essential, focusing on adding significant value and bringing innovative ideas to the table."**
>
> **Brandi Starr**, COO at Tegrita

Question 5

What are the top reasons your customers buy more from you?

Summary of Insights: Question: Why do your customers increase their purchases from you? Summary of Insights: The primary reasons customers decide to purchase more from a company are closely tied to their own growth and changing needs:

1. **Seat Expansion:** As the business of a customer expands, there's often a need for more licenses or access for additional team members.
2. **Discovering New Use Cases:** Customers might find new ways to utilize a product or service, leading to an increase in their usage and investment.
3. **API Integrations:** A product or service's ability to integrate effortlessly with customers' existing systems or tools can make it more attractive for further investment.
4. **Upgrades for Enhanced Functionality:** Customers may opt to upgrade their plans or acquire additional features to more effectively meet their evolving requirements.

Question 6

How does your team know if customers are about to leave?

This one is interesting!

Summary of Insights: A significant majority (80%) of companies rely on data related to customer and user behaviors to pinpoint those who might be on the verge of leaving. This approach encompasses:

1. **Product Usage Data:**Indicators such as how often users log in, their use of specific features, and general engagement levels are vital for spotting trends that may suggest a risk of departure.
2. **Non-User NPS:** Gathering Net Promoter Scores from individuals like buyers, system implementers, or executive sponsors—who are not daily users but are crucial to the buying process—provides additional perspectives that product usage data might miss. However, since NPS surveys are typically conducted only once or twice a year, there's a push to uncover more frequent insights into these critical areas.
3. **Customer Representative Assessments:** Insights from frontline representatives, who directly interact with customers, are invaluable. Their personal experiences and observations often shed light on customer sentiments and potential dissatisfaction.

> **"Connecting customer data with company data continues to be nearly impossible based on the state of integrated technologies and data silos. It is critical to address this black hole with systemic approach across data, tech, people and process."**
>
> **Randy Wootton**, CEO, Maxio.com

Through these methods, teams can more accurately gauge which customers might be considering leaving, allowing for targeted interventions to mitigate churn.

Here are my personal reflections on the significant drawbacks of overly depending on product usage data for predicting churn:

1. **Timeliness:** Often, product usage data fails to offer the early warning signals necessary to proactively address concerns. By the time a clear pattern emerges, customers may have already decided to leave, leaving companies with little time to react and retain them.
2. **Relevance:** For certain product types, such as on-premise solutions or those naturally characterized by sporadic usage, product usage metrics may not serve as accurate indicators of customer satisfaction or intent to churn.
3. **Stakeholder Coverage:** Relying solely on product usage data means overlooking the insights and sentiments of non-users who play critical roles in decision-making processes, like buyers and executive sponsors. Their influence on renewals and purchases can be substantial, yet traditional usage data does not capture their perspectives.

> **"At Sendoso, we recognize the significance of customer retention and its impact on long-term growth. Our personalized gifting approach contributes to building strong relationships with customers, which in turn can lead to reduced churn and increased upsell and cross-sell opportunities. Ultimately, we aim to help businesses enhance their Net Revenue Retention by fostering meaningful connections with their customers."**
>
> **Braydan Young**, Co-Founder & Chief of Alliances, Sendoso

To navigate around these limitations, it's advisable for companies to broaden their analytical framework beyond product usage data.

Incorporating additional metrics and sources of insight can yield a more holistic view of customer health, encompassing needs, preferences, and overall satisfaction. This enriched understanding can significantly enhance predictive accuracy and the effectiveness of retention strategies.

Question 7

How does your team discern when customers are poised to make additional purchases?

Interestingly, all the companies I spoke with unanimously reported that direct conversations with customers are the primary way they gauge readiness for further purchases. These interactions take several forms:

1. Quarterly business reviews,
2. Follow-up meetings,
3. Routine check-in meetings,
4. Meetings initiated by customers.

A minor segment (less than 5%) also utilizes product usage data to complement these discussions, yet direct engagement remains the cornerstone for understanding customer needs and pinpointing opportunities for revenue growth.

However, the effectiveness of relying solely on direct communication tends to diminish as the Customer Support and/or Account Manager to client ratio increases. This method becomes less scalable for companies without an automated system to collect, analyze, and act on these insights in a consistent, measurable, and repeatable way.

> **"At the core of customer retention and growth lies the ability to listen and understand your customers. By implementing a continuous listening journey throughout the customer experience, businesses can gain insights that drive not only customer satisfaction but also upselling and cross-selling opportunities"**
>
> **Lihong Hicken**, Co-Founder & CEO, Theysaid

Additional Observations:

- To predict churn, approximately 80% of companies focus primarily on observing user actions.
- For identifying upsell and cross-sell opportunities, the key is to actively listen to customers during direct conversations, enabling the identification of unmet needs and optimal timing.
- While many leaders are confident in their churn prevention strategies, there's a recognition that approaches to upselling and cross-selling need enhancement. This suggests a potential overemphasis on maintaining existing revenue streams at the expense of exploring growth avenues within the current customer base.

Expanding revenue strategies is challenging as it's hard to maintain frequent, meaningful interactions with every customer, especially as companies grow and representatives manage more accounts. This can limit representatives' ability to proactively find and act on upselling and cross-selling opportunities.

However, some companies are improving their upselling and cross-selling strategies:

For example, revenue.io introduced the Net Contract Value Increase (NCVI) model, developed by their Chief Revenue and Strategy Officer, Alastair Woolcock. This model boosts team motivation and company growth by rewarding efforts that enhance customer satisfaction and account value, encouraging growth through existing customers.

ZoomInfo also boosts customer engagement by providing a dashboard that shows customers the benefits of their services. This transparency builds trust and highlights further upselling or cross-selling opportunities by demonstrating the value of additional features or services.

Question 8

Who owns renewal, upsell, and cross-sell efforts?

1. Initially, the Customer Success (CS) team oversees the entire post-sale experience.
2. With growth, Account Executives (AEs) are introduced to manage cross-sells.
3. Further expansion leads to Account Managers (AMs) and Customer Success Managers (CSMs) jointly handling renewals and upsells. While some companies offer incentives to both roles, others may not, potentially leading to misalignment or overlooked opportunities.
4. At a more mature stage, companies managing a segment of SMB customers may shift away from dedicated CSMs towards a pooled CSM model or a combined approach of support and customer marketing/sales—often led by a Chief Growth Officer or Head of SMB Growth.

In 2023, there has been a trend where Customer Success (CS) teams are moving away from direct revenue roles, with many CS leaders now reporting to Chief Revenue Officers (CROs) or becoming CROs themselves. This shift raises questions about its long-term sustainability in the industry.

From my view, this change seems to be a temporary response to the specific challenges SaaS companies face during 2023-24, particularly when revenue growth is hard to achieve. The strategy involves relying more on sales teams for customer retention and upselling. However, this approach has limitations. It depends heavily on sales teams to spot opportunities they are directly informed about. Without a systematic way to identify churn risks and upsell opportunities, this model might not be sustainable.

Last question, question 9

Which executive in your company is in charge of improving Net Revenue Retention?

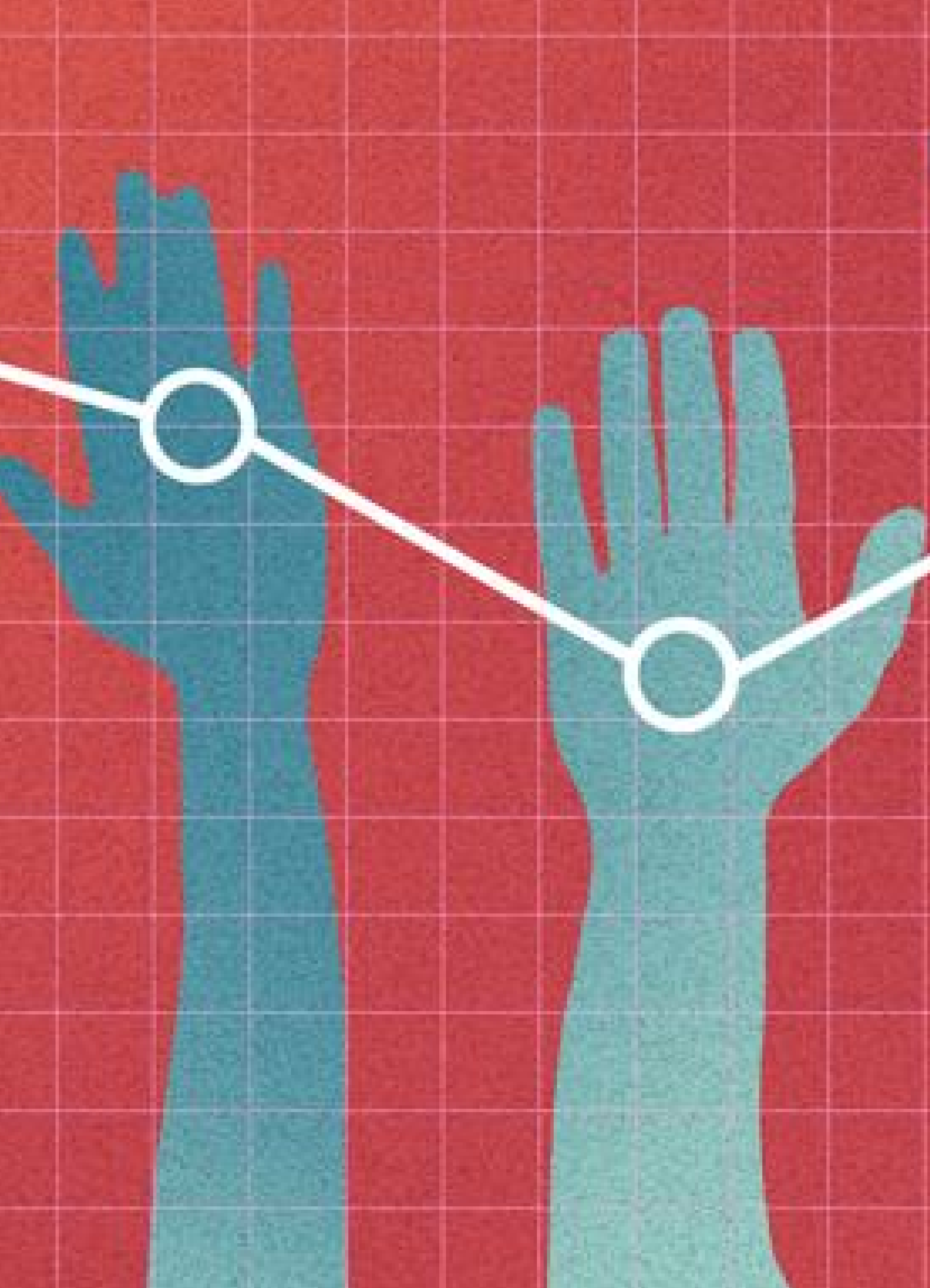
MRR means Monthly recurring revenue.

$$\text{Net Revenue Retention (NRR)} = \frac{\text{Starting MRR} + \text{Expansion MRR} - \text{Churned MRR}}{\text{Starting MRR}}$$

Understanding Monthly Recurring Revenue (MRR) is straightforward, but Net Revenue Retention (NRR) is more complex. Lessons from 2022-2023 show that the absence of a dedicated executive overseeing NRR has significantly impacted it. While roles like the Head of Sales or CRO clearly oversee New or Total Revenue, NRR oversight is often spread across various roles.

1. Smaller companies under $10M in revenue typically focus on acquiring new business to grow their customer base.
2. For larger companies where existing business makes up 70% or more of total revenue, NRR is critically important, closely watched by VCs and market analysts. Yet, NRR duties are divided among multiple departments:

    a. Customer Success Managers (CSMs) mostly manage customer relationships and sometimes handle renewals.
    b. Account Managers (AMs) oversee the commercial sides of renewals and upsells.
    c. Sales teams are crucial for managing significant, large accounts.
    d. Marketing teams focus on engaging the broader base of customers without direct CSM support.



So, who really owns the improvement of NRR?

It seems like everyone has a hand in it, but no one specifically owns it. This lack of clear ownership can blur focus and slow down the very initiatives needed to enhance NRR. It's crucial to designate a clear leader, such as a Chief Customer Officer (CCO) or Chief Revenue Officer (CRO), to take charge and drive NRR efforts.

Customer retention impacts various areas of the business, from product development and marketing to pricing and sales. Typically, CCOs manage onboarding, customer success, and support services. However, their effectiveness can be limited without solid cooperation across sales, marketing, and product teams. Alternatively, a CRO, whose role naturally aligns with both new and existing business revenue, can be a strong candidate for leading NRR efforts. A CRO who understands the complex dynamics of customer growth and retention can use this insight to encourage collaboration across all departments that affect the customer lifecycle.

Ultimately, the responsibility for NRR must fall on someone who can unify different departmental strategies and foster a culture focused on customer success. This executive should not only monitor NRR but also grasp the underlying factors that drive it. Designating a CRO or another capable leader as the dedicated steward of NRR ensures that it receives the necessary attention and management it requires to support the company's long-term growth and stability

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