SaaS Retention Report

Benchmarks and Insights on Retention
From Studying Over 2,100 SaaS Businesses

2023

www.chartmogul.com

Executive Summary

Welcome to the inaugural ChartMogul SaaS Retention Report.

To complete this report, we analyzed anonymized and aggregated data from over 2,100 SaaS businesses. Four insights stood out in our research:

- **Companies with best-in-class retention grow at least 1.5-3x faster than their peers.**

  On average, SaaS businesses with a net retention rate of over 100% grow 43.6% per annum. In comparison, businesses with a net retention rate of less than 60% grow at just 13.1% per annum. See chapter 6 for more on how retention impacts growth.

- **B2B SaaS businesses enjoy higher net retention than B2C SaaS.**

  Only 2.7% of SaaS businesses with an ARPA less than $10/month have net retention rates over 100%. In contrast, 41.1% of SaaS businesses with an ARPA over $500/month have net retention of over 100%. See chapter 2 to learn more about net retention benchmarks.

- **Retention becomes more important as SaaS businesses enter the post-PMF growth phase.**

  Businesses with ARR in the range of $1-3m have a top quartile net retention rate of 94%. Those in the $3-15m ARR segment, have a top quartile net retention rate of 99%, and those at scale with ARR in the range of $15-30m have the highest top quartile net retention rate of over 105%. Learn more in chapter 2.

- **Retention in 2022 was harder than ever.**

  More than half of SaaS businesses had lower retention rates in 2022 when compared to 2021. This is in sharp contrast to 2021 during which we saw almost 70% of businesses having a higher retention rate vs. 2020. Learn more in chapter 6.

These insights only scratch the surface – there's a lot more for you to explore! If you want to discuss these insights in detail, or stumble upon something that's unclear, please reach out.

The 2023 SaaS Retention Report would not have been possible without the support of my colleagues. A special thanks to Bianca, George, Rachel, Thomas, and Toni for making this report happen.

Sincerely,

Sid Jain

Senior Research Analyst,

ChartMogul

Sid is a Senior Research Analyst at ChartMogul. He is passionate about SaaS and data and authors The SaaS Roundup which has over 20,000 subscribers. Before joining ChartMogul, Sid spent seven years at J.P.Morgan as a Product Manager and Small/Mid-cap Equity Research Analyst. Sid is based in London, UK

Compare your metrics to the market:

Retention Benchmarks By ARR Range

	<$300k	$300k-1m	$1-3m	$3-8m	$8-15m	$15-30m
Good (75th Percentile)						
Net Revenue Retention (NRR)	79%	87%	94%	99%	99%	105%
Gross Revenue Retention (GRR)	73%	77%	79%	81%	81%	84%
Customer Retention	72%	78%	78%	80%	80%	84%
Great (90th Percentile)						
Net Revenue Retention (NRR)	98%	101%	106%	109%	110%	119%
Gross Revenue Retention (GRR)	87%	86%	87%	86%	88%	88%
Customer Retention	87%	87%	86%	86%	85%	88%

ChartMogul

Retention Benchmarks By ARPA Per Month Range

	<$10	$10-50	$50-100	$100-250	$250-500	>$500
Good (75th Percentile)						
Net Revenue Retention (NRR)	65%	80%	92%	97%	101%	109%
Gross Revenue Retention (GRR)	62%	70%	80%	81%	83%	88%
Customer Retention	63%	71%	79%	81%	82%	86%
Great (90th Percentile)						
Net Revenue Retention (NRR)	80%	96%	105%	104%	115%	126%
Gross Revenue Retention (GRR)	75%	80%	85%	86%	91%	94%
Customer Retention	75%	83%	86%	87%	90%	93%

ChartMogul

How to get the most from reading this report:

- **Benchmark yourself in your specific ARPA band, in addition to your ARR band.**

  How your business operates depends on who you sell to. Companies are a lot more similar at a particular ARPA band than you'd expect, especially in terms of retention. Generally speaking, B2C companies have a lower ARPA compared to B2B companies.

- **Focus on the 75th and 90th percentiles, in addition to the median.**

  75th percentile values represent good and the 90th percentile values represent great. That's where you should be aspiring to be.

Contents

ChartMogul

CHAPTER 1

Retention Overview

- What is retention and why does it matter?
- How do you calculate retention metrics (with examples)?
- Who owns the retention metric in a SaaS business?
- How is net, gross, and customer retention different?
- What are some strengths and weaknesses of net revenue retention?

What is retention?

Retention is a measure of how well you are able to retain and expand revenue from your existing customer base. For any SaaS business, you can measure it in three ways:

Customer Retention

Also known as logo retention, measures the percentage of customers retained over a period of time. For example; if you have 10 customers on day one, what percentage of those customers do you still have 12 months later.

Net Revenue Retention (NRR)

Also known as net dollar retention, measures the percentage of revenue retained over a period of time. For example; if you have a total monthly recurring revenue (MRR) of $100k on day one, what percentage of that revenue do you still have 12 months later.

Gross Revenue Retention (GRR)

Also known as gross dollar retention, measures the percentage of revenue retained, excluding expansions, over a period of time. For example; if you have a total monthly recurring revenue (MRR) of $100k on day one, excluding any contribution from expansions, what percentage of that revenue do you still have 12 months later.

Retention can be measured over any time period, but it is common to measure it over 12 months. Analyzing retention over 12 months works well for both annual and monthly subscriptions. It allows for the full customer lifecycle, including adoption and expansion. And it also nullifies any impact from seasonality which can cause short-term fluctuations.

"As our SaaS company has grown, I've started to think more in terms of annual. Annual run rate (ARR), annualized growth rates, and what does net dollar retention over a year look like? The lifespan of the company is bigger, and to chart a path forward, you should start to think in terms of years and not months.

Nick Franklin, Founder & CEO, ChartMogul

Why should you care about retention?

Retention is not a silver bullet, but for SaaS, it's the closest thing to it.

- **Better Retention = Better growth**

  Companies with a net retention rate over 100% or gross retention over 85%, grow 1.5-3x faster. See more in chapter 6.

- **High Retention is a strong indication of product-market fit.**

  Retaining customers is proof that you are solving a real problem and are adding value to your customers. In SaaS, we call this having product-market fit. It shows that you are able to acquire customers and retain them, meaning you're more ready to scale.

- **Higher Retention = Higher margin + more capital-efficient business.**

  In SaaS, acquiring customers is the most costly part of running your business. According to Bessmer VP, even at scale, sales and marketing expenses make up for the majority of your expenditure. If you are unable to retain these expensive-to-get customers, your business is going to be less efficient and cost more to scale.

- **Higher Retention = Higher Valuation.**

  Investors like businesses that are high-growth and capital efficient. High net revenue retention indicates both. Hence companies with higher net revenue retention often command higher valuations.

> "Net revenue retention (NRR) is the heartbeat of the most successful SaaS companies. See the NRR for companies like Snowflake, Cloudflare, ZoomInfo, Slack, and Datadog. You can't succeed today with a lax or static retention strategy.
>
> **Jamie Davidson, CEO, Vitally**

How do you calculate retention?

Retention should always be calculated on a cohort basis i.e. over a specific group of customers. Here is how you calculate yearly retention numbers:

Customer Retention = **# of paying customers left from paying customers one year ago** / **# of paying customers one year ago**

Net Revenue Retention (NRR) = **MRR today from paying customers one year ago** / **MRR from the same group of customers a year ago**

Gross Revenue Retention (GRR) = **MRR today from paying customers one year ago (excluding any expansion)** / **MRR from the same group of customers a year ago**

For example, let's take a fictitious company called SaaS Inc. Below is a sneak peek into its MRR history.

	Monthly Recurring Revenue (1 year ago)	Monthly Recurring Revenue (Today)	Net Movement	
Customer A	$200	$180	Contraction	-20
Customer B	$150	$200	Expansion	+50
Customer C	$120	-	Churn	-120
Customer D	$300	$420	Expansion	+120
Customer E	-	$180	New Biz	+180
Customer F	-	$150	Reactivation from 2 years ago	+150
Total MRR	**$770**	**$1,130**		

ChartMogul

First, let's calculate SaaS Inc's customer retention rate:

- SaaS Inc had 4 paying customers (A, B, C, D) one year ago. Today, of that only 3 are active (as customer C churned). **So its customer retention is 3/4 = 75%.**

Next, let's calculate SaaS Inc's net revenue retention (NRR) rate:

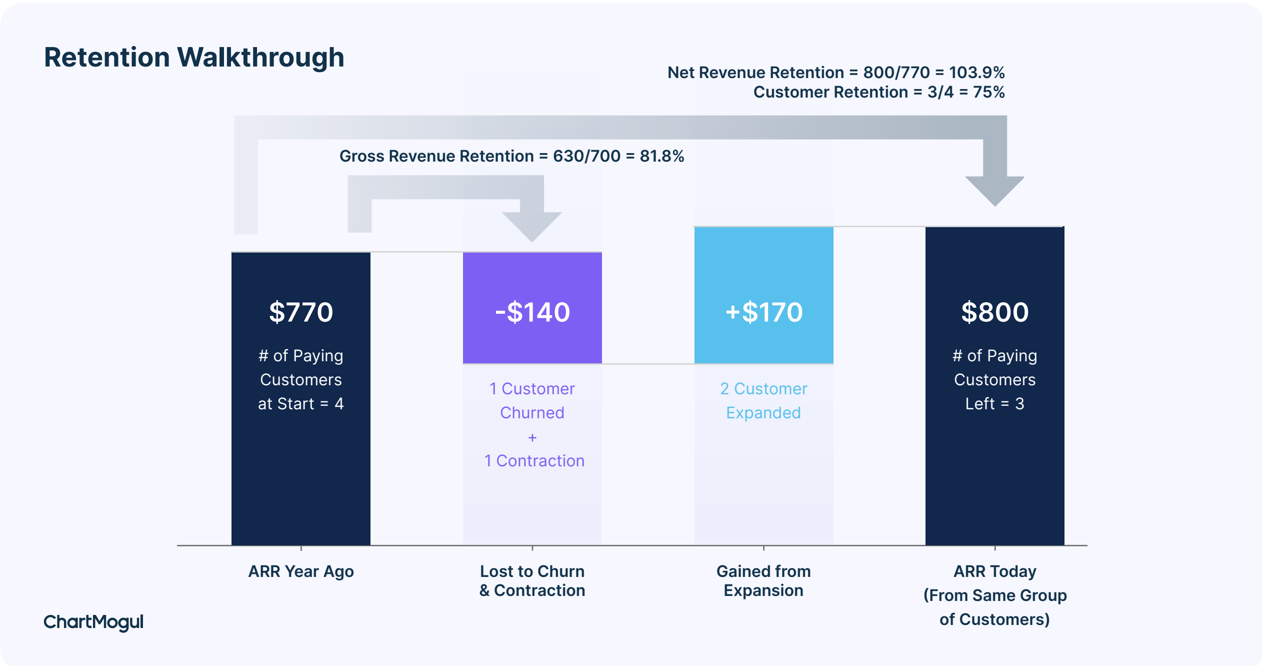
- One year ago, SaaS Inc had 4 paying customers with a total MRR of 770. Fast forward to today, some of its customers churned, some contracted while others expanded. The total MRR today from the same group of customers who existed a year ago is 800. **So its net revenue retention rate is 800/770 which is 103.9%.**

> Note how SaaS Inc's net retention rate (NRR) is over 100%. This is completely normal and happens when revenue gained from expansion exceeds revenue lost from contraction and churn.

Last, let's calculate SaaS Inc's gross revenue retention (GRR) rate:

- Excluding any expansion, SaaS Inc's MRR today from the same group of customers who existed one year ago is 630. **So the gross revenue retention rate is 630/770 = 81.8%.**

> Note how customers E (new biz) and F (reactivation from 2 years ago) didn't have any impact on retention.



How are net, gross, and customer retention different? And what about new business retention?

- **Net revenue retention (NRR) is always higher than gross revenue retention (GRR).**

  This is because net revenue retention takes expansion into account, while gross doesn't. Given the positive contribution of expansion, NRR > GRR.

- **Gross and customer retention can't be over 100% while net revenue retention can.**

  At times, expansion can offset any revenue lost from contraction and churn. In these cases, net revenue retention will be over 100%. This is not possible for both gross and customer retention.

- **Gross retention can be materially different from customer retention.**

  This happens when you have a high revenue concentration across a few customers. Imagine you had 100 customers a year ago, and 20 churned. Your customer retention rate in that case is 80%. But if those 20 customers made the bulk of your revenue, say 50%. Your gross revenue retention is just 50%. Materially different.

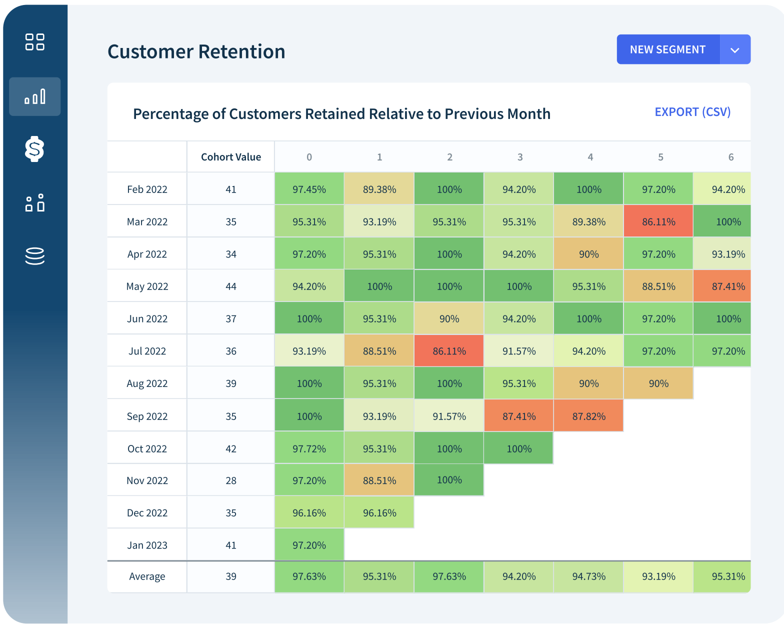
- **New business or New Biz retention relates to the retention of new customers only.**

  It's usually calculated on a cohort basis for all customers who joined in a particular month. In comparison, retention in general measures the retention of your overall customer base including both existing and new subscribers.

Identify retention trends using cohorts

In SaaS, a cohort is a group of customers that start their first subscription in the same month and year. Using cohort analysis helps you identify retention trends of a particular group of customers. For example, you can determine the health of your customers in their first few months of paying for a subscription and identify when customers are dropping off.

Learn more at **ChartMogul.com**


Customer Retention

NEW SEGMENT

Percentage of Customers Retained Relative to Previous Month

EXPORT (CSV)

	Cohort Value	0	1	2	3	4	5	6
Feb 2022	41	97.45%	89.38%	100%	94.20%	100%	97.20%	94.20%
Mar 2022	35	95.31%	93.19%	95.31%	95.31%	89.38%	86.11%	100%
Apr 2022	34	97.20%	95.31%	100%	94.20%	90%	97.20%	93.19%
May 2022	44	94.20%	100%	100%	100%	95.31%	88.51%	87.41%
Jun 2022	37	100%	95.31%	90%	94.20%	100%	97.20%	100%
Jul 2022	36	93.19%	88.51%	86.11%	91.57%	94.20%	97.20%	97.20%
Aug 2022	39	100%	95.31%	100%	95.31%	90%	90%	
Sep 2022	35	100%	93.19%	91.57%	87.41%	87.82%		
Oct 2022	42	97.72%	95.31%	100%	100%			
Nov 2022	28	97.20%	88.51%	100%				
Dec 2022	35	96.16%	96.16%					
Jan 2023	41	97.20%						
Average	39	97.63%	95.31%	97.63%	94.20%	94.73%	93.19%	95.31%

Who owns the retention metric in a SaaS business?

Traditionally, the customer success leader owns retention metrics. They are responsible for activities that increase retention such as onboarding, education, account management, upselling, expansions, and renewals.

However, some SaaS businesses have their sales team manage renewals, expansions, and upsells, or may have a specific expansions team separate from both sales and customer success. In this case, they too can be accountable for retention.

Like revenue growth, retention is touched by every part of the business. Product and engineering drive product adoption, user satisfaction, and customer value creation. Finance teams drive payment terms and timely invoicing. And the entire back office supports customer success across the company. **While one department may own goals around retention metrics, a high retention rate should be a top priority for the business.**

What are some strengths and weaknesses of the net revenue retention (NRR) metric?

As a metric, net revenue retention is easy to calculate and hard to game. You can't hide behind a poor retention metric. In addition, net retention is a compound metric, which means one metric can tell you a lot about the state of your SaaS business.

"

We really like this metric because it encapsulates both the business's ability to retain — so minimizing churn — and also their ability to upsell. That's super important, not just winning new logos in B2B software, but adding additional products, expanding your platform, cross-selling, and increasing usage.

Jess Bartos, Investor, Salesforce Ventures

But net retention also has its weaknesses. Compared to other SaaS metrics, net retention is a lagging indicator. It's not as high frequency and it often takes a while to move. Also, as net retention is a compound metric you need to dig deep into its underlying components to get the full picture.

ChartMogul

CHAPTER 2

Net Revenue Retention (NRR) Benchmarks

- What is a good net retention rate?
- Is net retention higher at higher ARRs?
- What percentage of businesses have net retention over 100%?
- How does net retention differ for B2B vs B2C companies?
- Why do companies with a higher ARPA have a higher net retention rate?
- When is a low net retention rate acceptable?

Net Revenue Retention Benchmarks by ARR Range

Net Revenue Retention (NRR), also known as net dollar retention, measures the percentage of revenue retained over a period of time (typically over 12 months). For example; if you have a total monthly recurring revenue (MRR) of $100k on day one, what percentage of that revenue do you still have 12 months later?

A high net revenue retention rate can help you achieve better growth, build a more capital-efficient business, and even get higher valuations from investors.

> Our focus is on investing in mission-critical businesses with high net revenue retention. To be honest, it's hard to find such businesses in the $5-10m ARR range where our focus is.
>
> **Dirk Sahlmer, Investor, SaaS.Group**

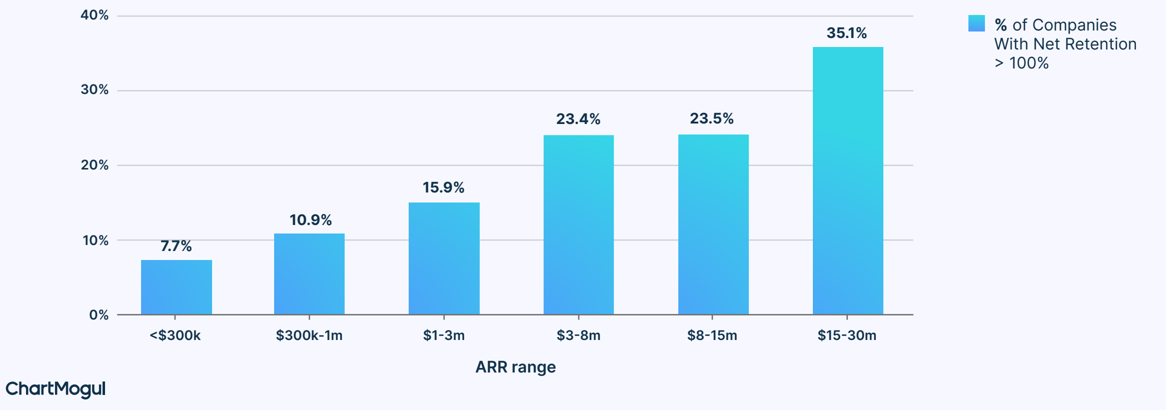
Key Takeaway: What's a good net retention rate, differs by the stage of business you are in. In the pre-product market fit stage of the business, net retention is usually poor. As startups grow and find product-market fit, net retention improves. Finally, as companies reach scale, and become category leaders, net retention often goes over 100%. When benchmarking, always keep the stage of your business in mind. Businesses with ARR in the range of $1-3m have a top quartile net retention rate of 94%. Those in the $3-15m ARR segment, have a top quartile net retention rate of 99%. Businesses at scale with ARR in the range of $15-30m have a top quartile net retention rate of over 105%.

Net Revenue Retention Rate (%) by ARR Range

A net retention rate of less than 100% means that your ARR decays. This means that you have less ARR today than a year ago from the same set of customers. Whereas, a net retention rate of over 100% indicates strong product market fit and showcases your ability to compound your revenue from your existing customer base.

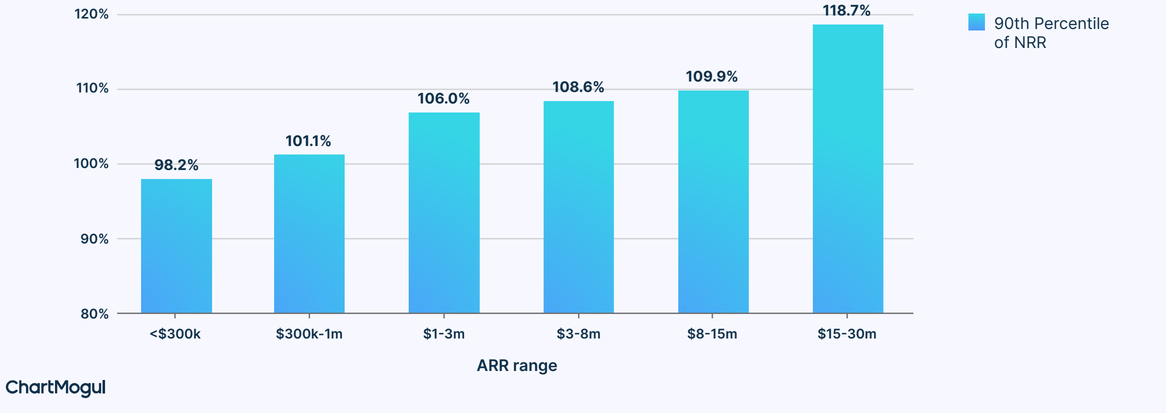
Key Takeaway: Amongst higher ARR ranges, more businesses have a net retention rate over 100%. 35.1% of SaaS businesses in the $15-30m ARR range have a net retention rate of over 100%.

Net Revenue Retention Leaders by ARR Range



Key Takeaway: Best-in-class net revenue retention is in the ~110/120% range. Businesses with that high net retention usually have a combination of a high gross retention + strong expansion loop.

Best-in-Class Net Revenue Retention (%) by ARR Range

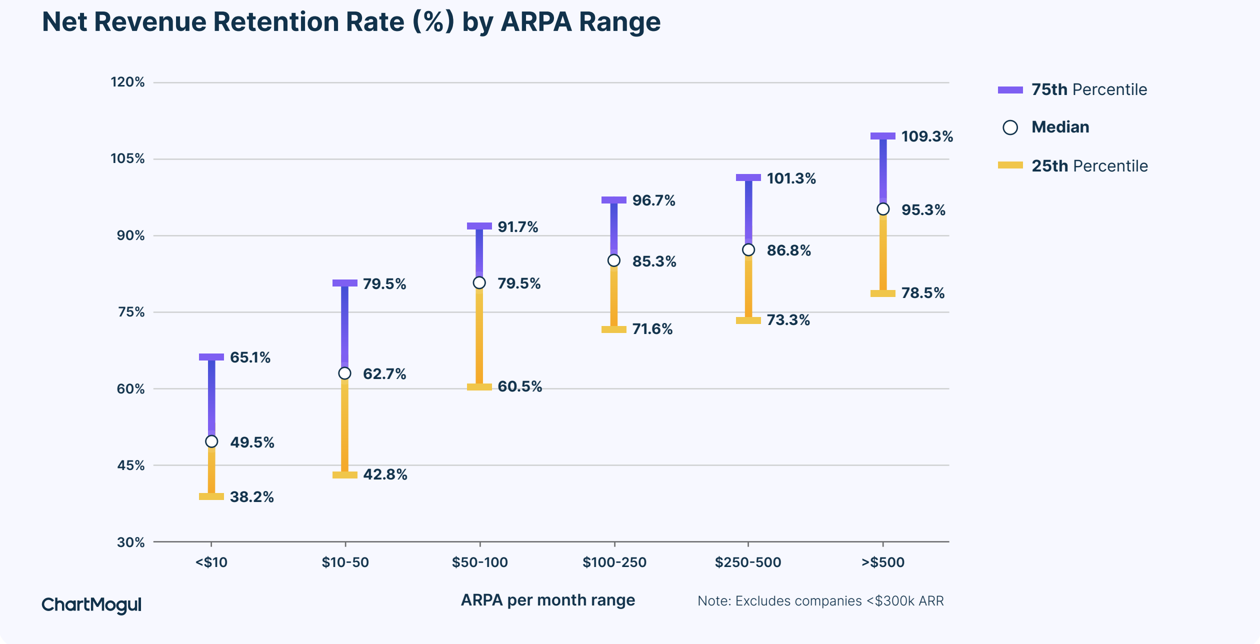


Net Revenue Retention Benchmarks by ARPA Range

What's a good net retention rate depends on your ARPA.

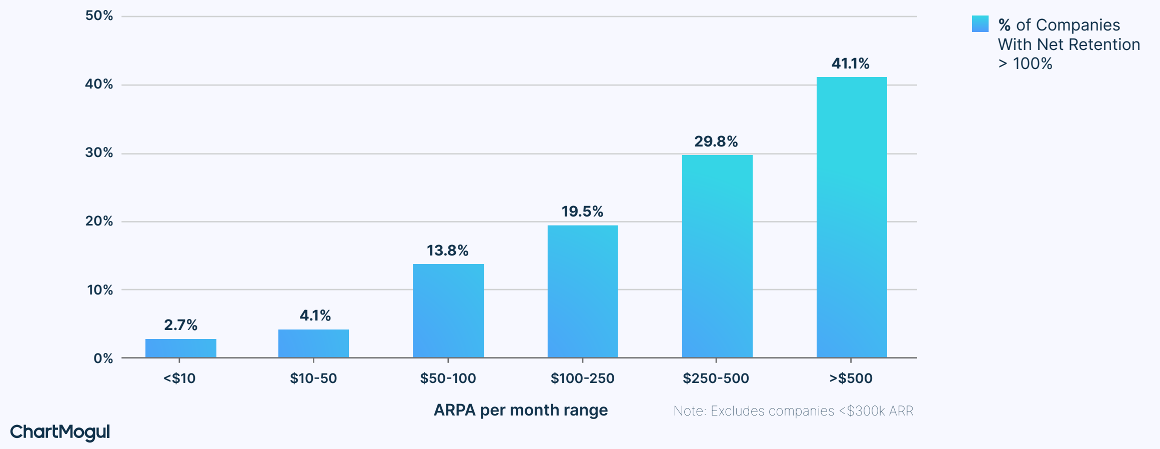
ARPA is the average revenue per account i.e. average monthly recurring revenue across all your customers. Companies are a lot more similar at a particular ARPA band than you'd expect. The length of the sales cycle, the tenure of your contract, discounting, onboarding, the type of customer support, and even retention strategies all depend on your ARPA.

Key Takeaway: The higher the ARPA, the higher the net retention rate. Companies with an ARPA of less than $10 per month, have a top-quartile net retention rate of 65.1%. As you go upmarket in the B2B space, retention keeps on improving. Companies with an ARPA greater than $500/month or with an ACV (annual contract value) of more than $6k have a top quartile retention rate of 109.3%.



Key Takeaway: It's hard for B2C businesses to have high net retention rates. That's because, in B2C, churn is higher and expansion is lower. Churn is higher because of a lot of knee-jerk buying by the individual customers and expansion is lower because there are fewer upselling and cross-selling opportunities. Only 2.7% of SaaS businesses with an ARPA less than $10/month have net retention rates over 100%. In contrast, in B2B SaaS, it's table stakes for you to have net retention near or over 100%. 41.1% of SaaS businesses with an ARPA over $500/month have net retention over 100%.

B2B Companies Tend To Enjoy Better Net Retention



Key Takeaway: Best-in-class net revenue retention varies by the ARPA band you are in. For B2B SaaS selling to mid-market and enterprise, it should be in the range of 115-125%.

Best-in-Class Net Revenue Retention (%) by ARPA Range

Why do companies with a higher ARPA have a higher net retention rate?

1. **Lower gross churn.**

   A longer sales cycle and a higher ACV means that B2B sees more informed buying (compared to a lot of knee-jerk buying in B2C). This means less churn down the line.

2. **More expansion revenue.**

   At higher ARPAs companies are able to upsell and cross-sell their products much more. Based on our analysis, 39.2% of the new revenue for SaaS businesses with ARPA more than $500/month comes from expansion. This expansion revenue drives up net retention.

When is a low net retention rate acceptable?

1. **You are an early-stage SaaS startup in the pre-product-market fit phase.**

   You are just getting started and trying to find customers for your product. In this phase, it is expected that you'll not have a strong retention rate across all your customer segments.

2. **You have low or near zero customer acquisition costs.**

   If you have a viral product and you benefit from network effects, you might want to cast as wide a net as possible. In this case, it's acceptable to have low retention temporarily.

3. **You operate in the B2C space.**

   Retention rates are generally lower in B2C. It's unlikely that your B2C startup will have as high retention rates as those that operate in the B2B market.

"Net Revenue Retention is a big metric we're always looking at. I just love the NRR metric and picking it apart to try and figure out where we have market fit and where we don't, and how our pricing and packaging are coming together.

Dave Fitzgerald, FP&A Lead, Teamwork

ChartMogul

CHAPTER 3

Gross Revenue Retention (GRR) Benchmarks

- What is a good gross retention rate?
- Is gross retention higher at higher ARRs?
- What percentage of companies have gross retention over 85%?
- How does the gross retention rate differ for B2B vs B2C companies?

Gross Revenue Retention Benchmarks by ARR Range

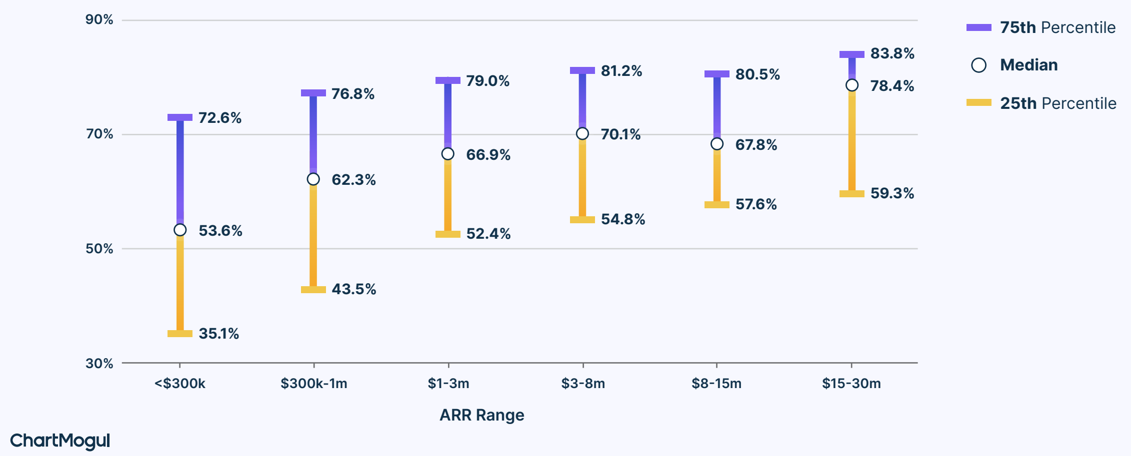
Gross Revenue Retention (GRR), also known as gross dollar retention, measures the percentage of revenue retained, excluding expansions, over a period of time (typically over 12 months). For example; if have a total monthly recurring revenue (MRR) of $100k on day one, excluding any contribution from expansions, what percentage of that revenue do you still have 12 months later?

People sometimes overlook the gross revenue retention (GRR) metric. Don't! Along with net retention, gross retention can help you provide a more complete picture of retention.

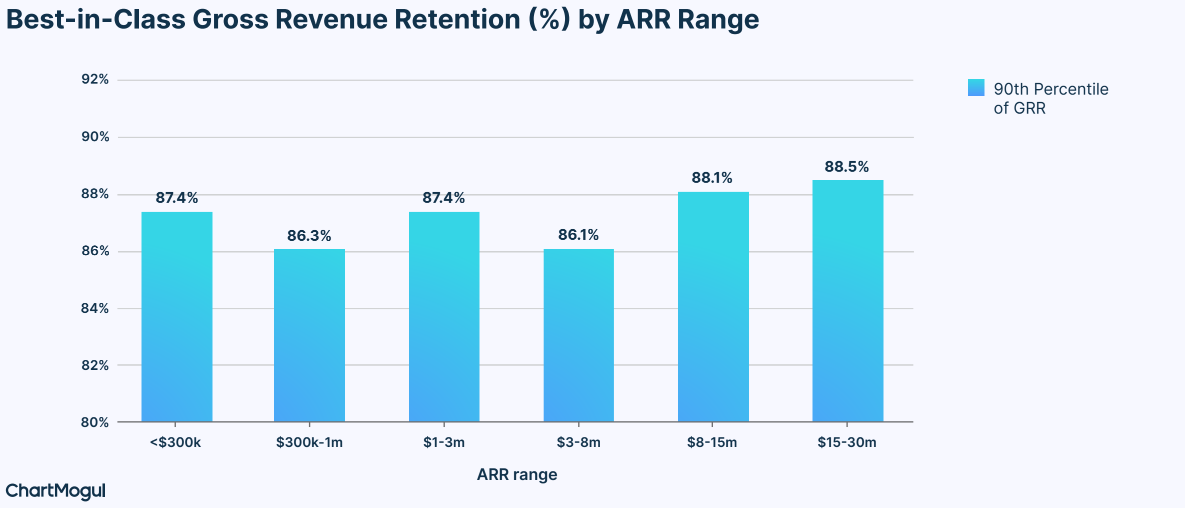
> If you chart gross revenue retention, net revenue retention, and growth rate on a single page you have all you need for a board meeting. It gets people thinking about the whole customer journey. How are we driving new business? How are we retaining it? How are we upselling it?
>
> **Keith Wallington, Investor and Chairperson**

Key Takeaway: As gross retention excludes expansions, the top quartile values are more harmonized across ARR ranges. Businesses with ARR in the range of $3-8m have a top quartile gross retention rate of 81.2%, while those in the range of $15-30m have it at 83.8%. Also, note as companies become larger, the bottom quartile of gross retention improves. This is due to an increasing proportion of SaaS businesses achieving product-market fit.

Gross Revenue Retention Rate (%) by ARR Range

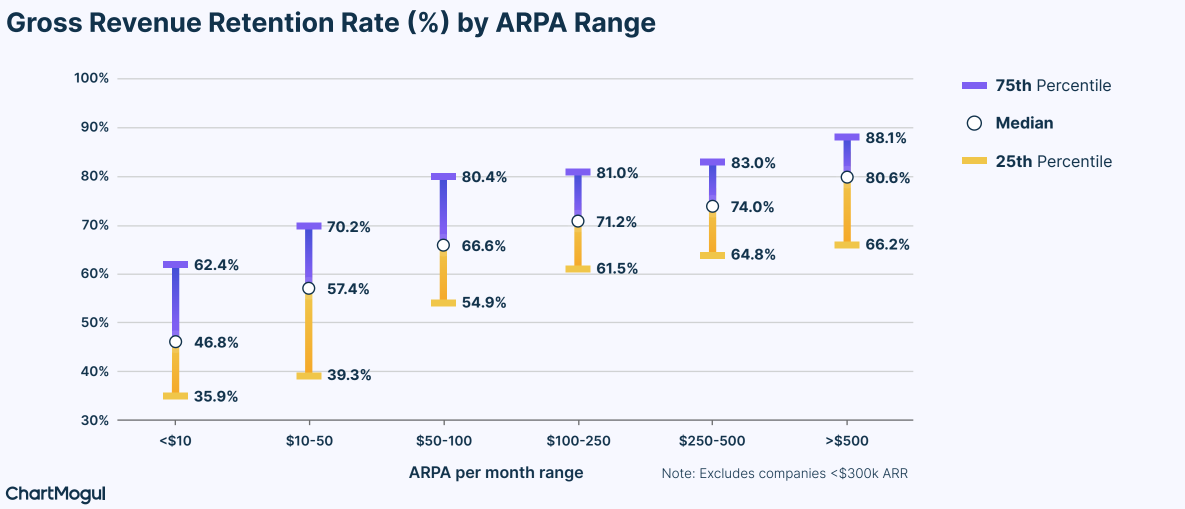


Key Takeaway: Best-in-class gross retention at any stage of the business is over 86%. You can only afford to lose 14% of your gross revenue in a year.



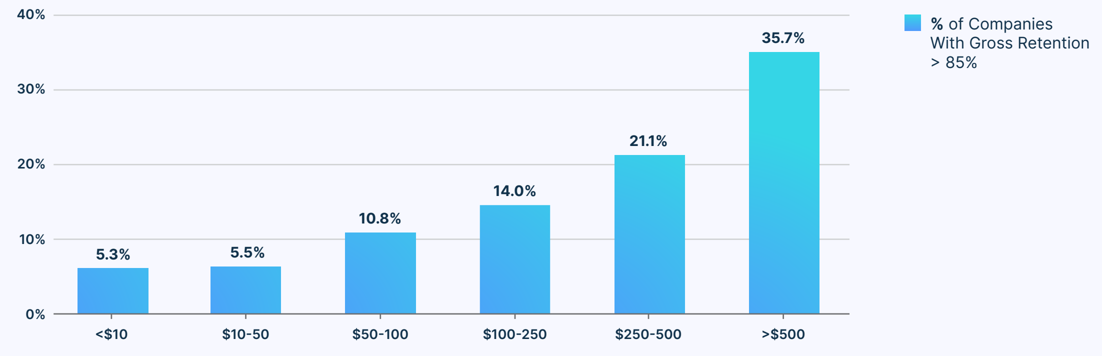
Gross Revenue Retention Benchmarks by ARPA Range

Key Takeaway: The definition of "good" gross retention is dramatically different between B2B and B2C SaaS. The top quartile of companies with an ARPA over $500/month hit 90%+ gross retention, while the top quartile of companies with an ARPA less than $50/month only hit 60 to 70%. When judging whether a SaaS company has good gross retention, make sure you're not comparing apples with oranges.



Key Takeaway: It's hard for B2C businesses to have gross retention rates over 85%. Only 5.3% of businesses with an ARPA less than $10/month have it. In contrast, in B2B SaaS, 35.7% of businesses with an ARPA over $500/month have gross retention over 85%.

B2B Companies Tend to Enjoy Better Gross Retention

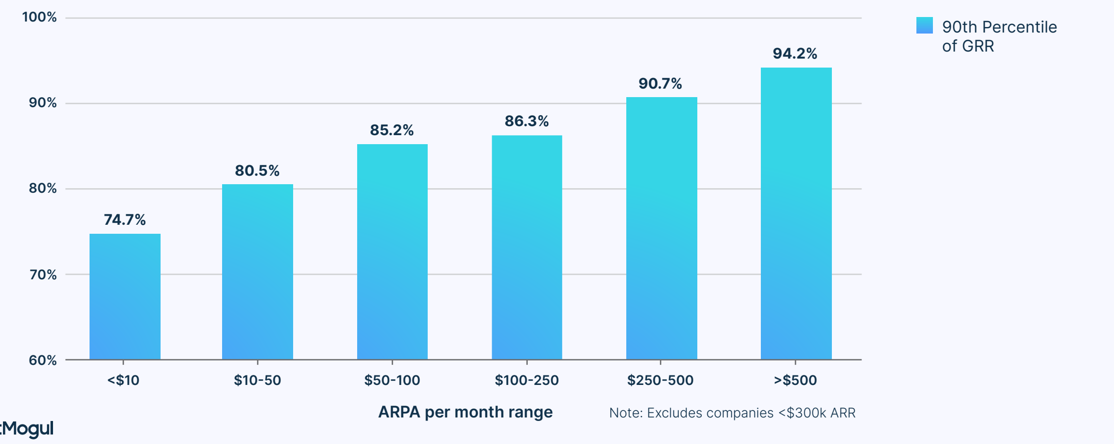


Note: Excludes companies <$300k ARR

ChartMogul

Key Takeaway: Higher the ARPA, the higher should be your gross retention rate. The best-in-class gross retention rate is ~95% for businesses selling to mid-market/enterprise customers. In the B2C world, it tops out at ~75-80%.

Best-in-Class Gross Revenue Retention (%) by ARPA Range



Note: Excludes companies <$300k ARR

ChartMogul

ChartMogul

CHAPTER 4

Customer Retention Benchmarks

- What is a good customer retention rate?
- Is customer retention higher at higher ARRs?
- What percentage of companies have customer retention over 85%?
- How does customer retention rate differ for B2B vs B2C companies?

Customer Retention Benchmarks by ARR Range

Customer Retention, also known as logo retention, measures the percentage of customers retained over a period of time (typically over 12 months). For example; if you have 100 customers on day one, what percentage of those customers do you still have 12 months later?

It's good to look at both customer and gross retention. Sometimes they can be quite different. This happens when you have a high revenue concentration across a few customers or a very high contraction rate.

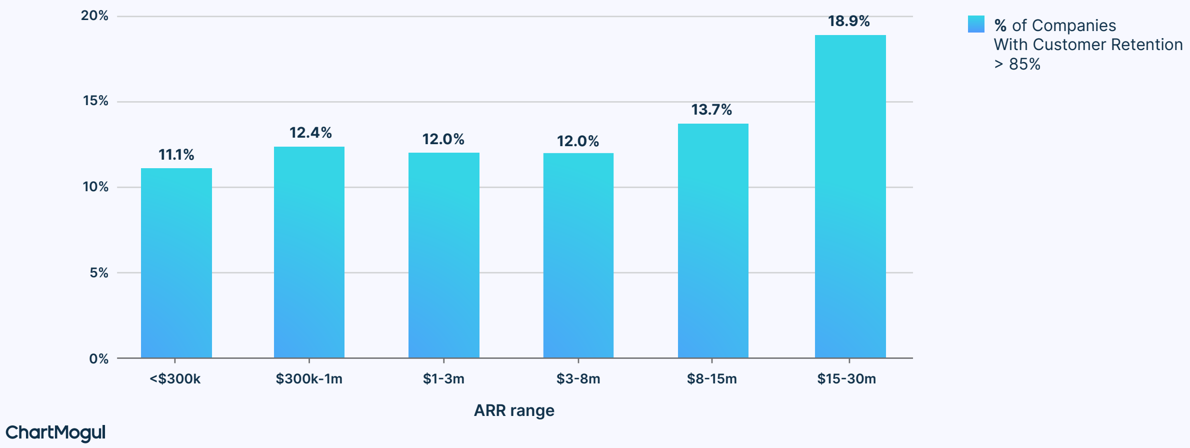
Key Takeaway: Customer retention is low in the starting stages of a business. As businesses grow and find product-market fit, retention improves. Companies in the $3-8m ARR range have a top quartile customer retention rate of 80.4%. As businesses reach scale ($15-30m ARR), the top quartile customer retention rate further improves to 84.2%.

Also, note how the dispersion in customer retention is high for startups with less than $1m in ARR. See the large delta between the 25th and 75th percentile values. This is because only a few startups in the early stages experience strong product-market fit. Others don't and hence have lower retention rates. Notice how the delta narrows as you go into the higher ARR ranges.

Customer Retention Rate (%) by ARR Range

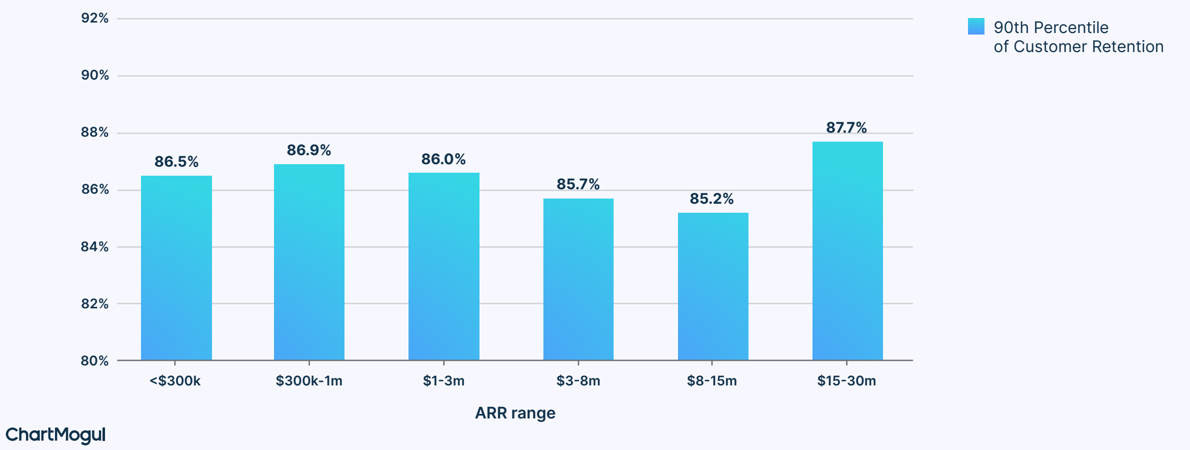
Key Takeaway: Depending on the ARR range, 11-19% of SaaS businesses have customer retention over 85%.

Customer Retention Leaders By ARR Range



Key Takeaway: Best-in-class customer retention rate at any stage of business stands at ~85-87%.

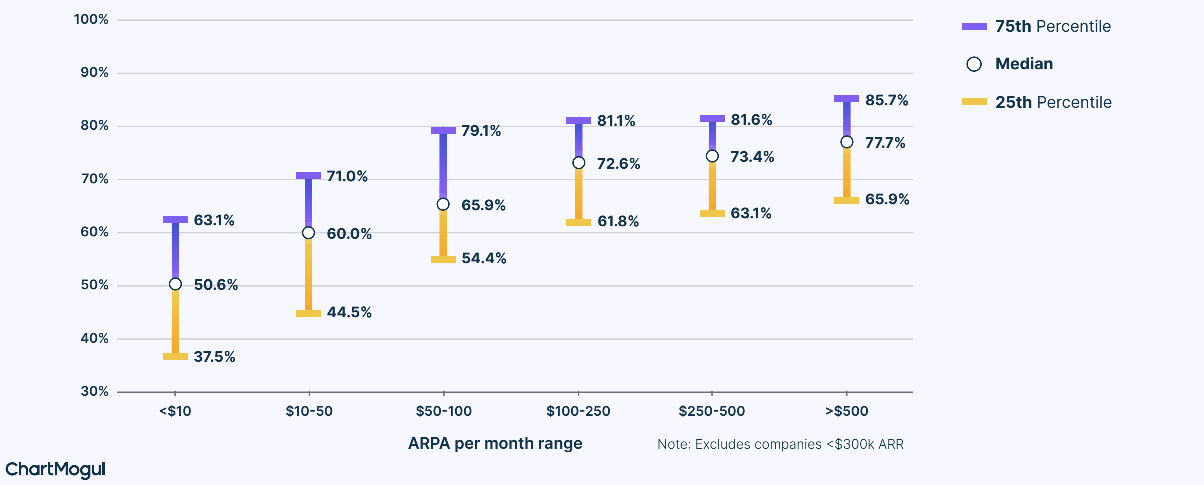
Best-in-Class Customer Retention (%) by ARR Range



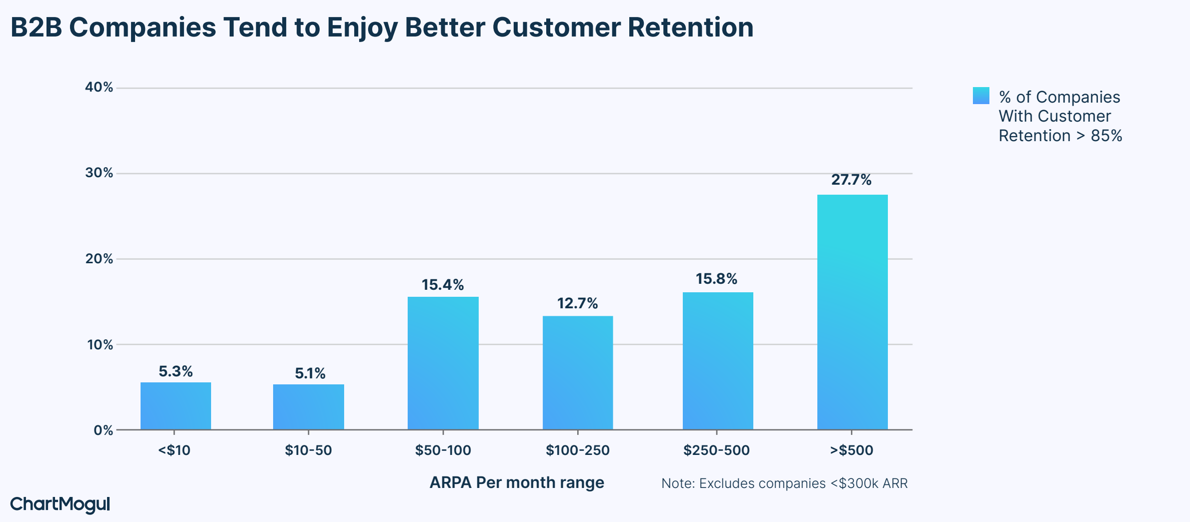
Customer Retention Benchmarks by ARPA Range

The definition of "good" customer retention depends a lot on who you sell to (consumers, SMB, or enterprise).

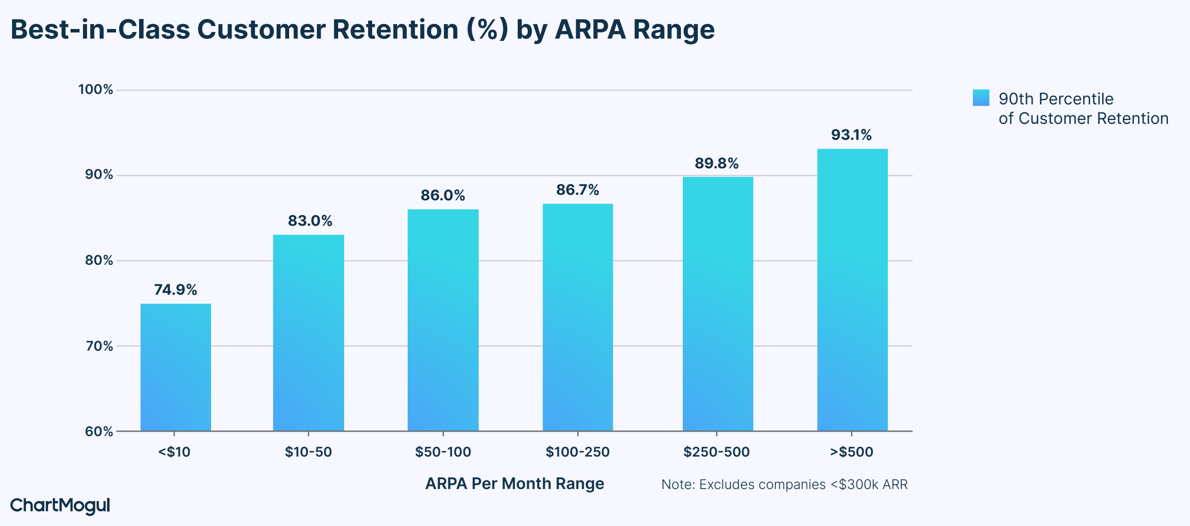
Key Takeaway: B2B businesses often have a higher customer retention rate compared to B2C businesses. Companies with ARPA over $500/month have a top quartile customer retention rate of 85.7%. In contrast, companies with an ARPA of less than $10/month have a top-quartile customer retention rate of just 63.1%. This is expected. As B2B companies have larger deal sizes, longer sales cycles, and generally more informed decision-making, customer retention is higher.



Key Takeaway: 27.7% of SaaS businesses with an ARPA over $500/month have a customer retention rate of over 85%. On the B2C side, only 5% of SaaS businesses selling to consumers have a customer retention rate of over 85%.



Key Takeaway: Best-in-class customer retention rate depends on your ARPA. For businesses with an ARPA of less than $10/month, it is over 74.9%. As you move upmarket, best–in–class customer retention increases. For businesses with an ARPA of over $500/month, it is over 93.1%.



> Not every dollar is created equal, especially in the venture world. A retained dollar is worth a lot more than a newly acquired dollar that has yet to renew.

Daria Danilina, Co-founder, Salesroom

ChartMogul

CHAPTER 5

New Business Retention Benchmarks

- What is a good 3 and 12-month customer retention rate for new customers?
- What is a good 3 and 12-month net revenue retention rate for new customers?
- What does the new business retention curve look like?

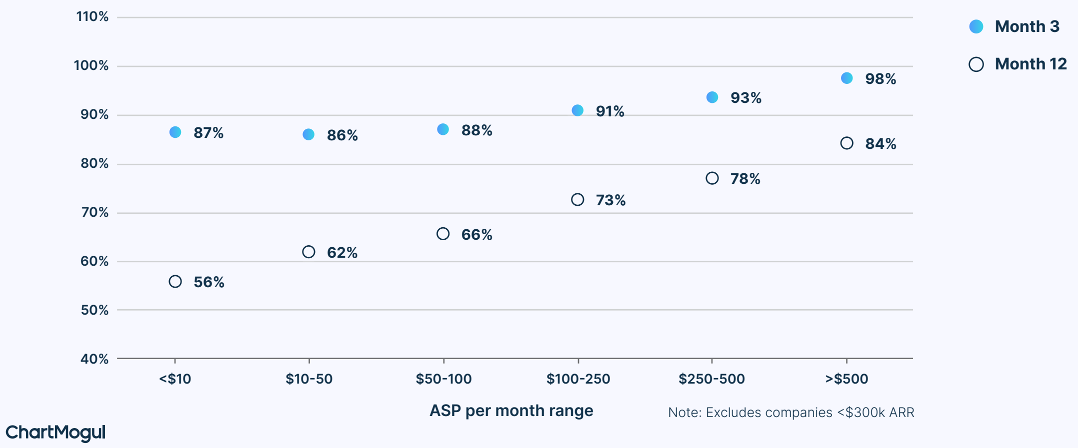
What is a good 3 and 12-month customer retention rate for new customers?

New business or New Biz retention relates to the retention of new customers only. It's usually calculated on a cohort basis for all customers who joined in a particular month of the year.

Here, we benchmark new business retention by the average sale price (ASP), instead of ARPA. This is because ASP is more closely related to new customer acquisition than ARPA.

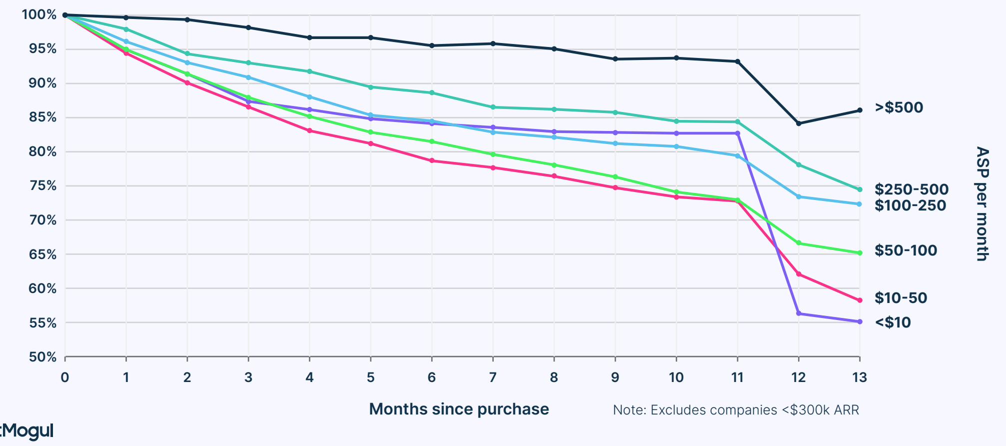
Key Takeaway: Higher the ASP, the higher the new customer retention. In the first 3 months, the top quartile of companies with ASP over $500/month are able to retain 98% of their customers. This is 87% for SaaS businesses with ASP less than $10/month. A low retention rate in the first 3 months signals issues with onboarding or acquisition (i.e. acquisition of bad-fit customers).

New Biz Customer Retention by ASP Range - Top Quartile (75th Percentile)



Key Takeaway: The retention curve is exponential decay up to month 11. This means subscribers are more likely to churn in the initial months of subscription, with the likelihood of churn decreasing longer they are subscribed. In months, 11 and 12, we see a big drop in customer retention. This is because of churn on annual plans.

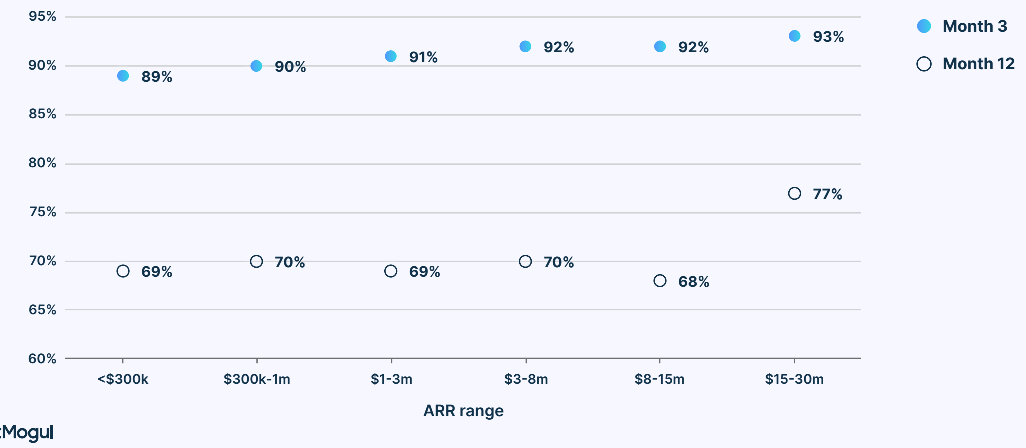
New Biz Customer Retention by ASP Range - Top Quartile (75th Percentile)



Note: Please take the benchmarks in this section with a grain of salt. All companies have unique selling motions and the aggregates here might miss capturing some of the nuances of your individual business.

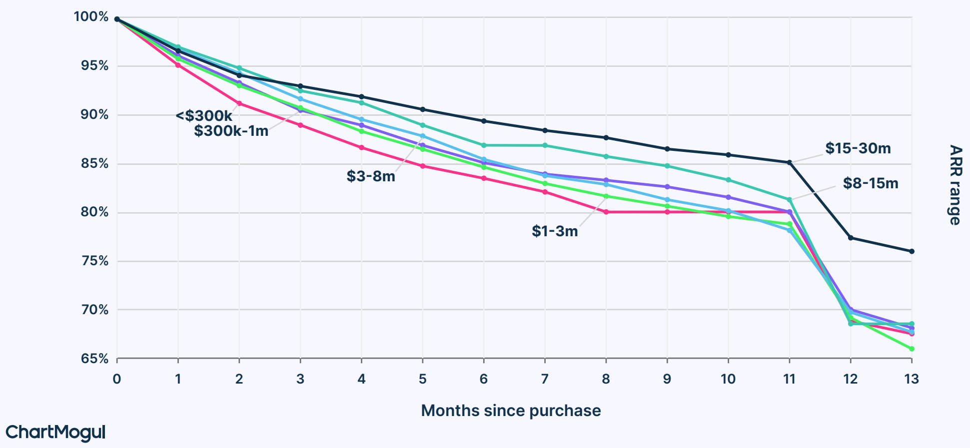
Key Takeaway: The top quartile of businesses at any ARR range are able to retain 90% of their customers in the first 3 months, and 70% in the first 12 months. At scale ($15-30m ARR), it's higher at 93% and 77% respectively.

New Biz Customer Retention by ARR Range - Top Quartile (75th Percentile)



Key Takeaway: No matter the size of your business, it's always hard to retain your customers.

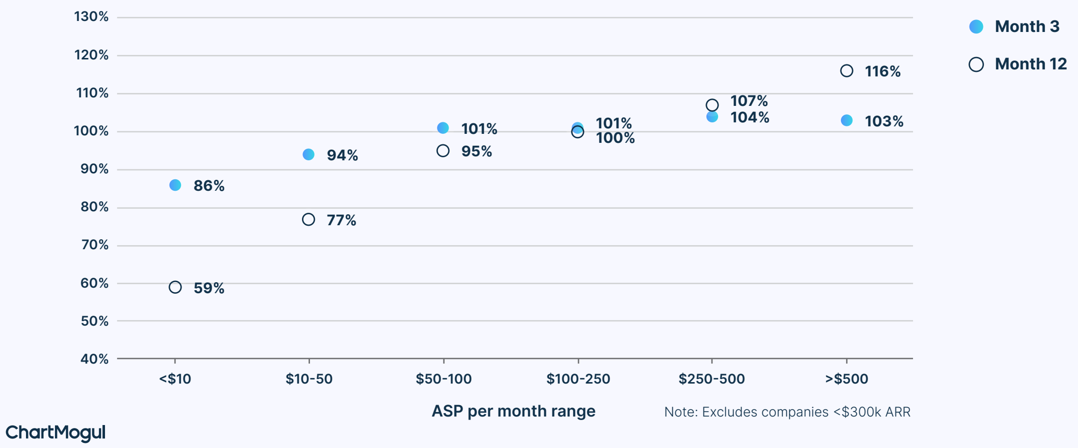
New Biz Customer Retention by ARR Range - Top Quartile (75th Percentile)



What is a good 3 and 12-month net revenue retention rate for new customers?

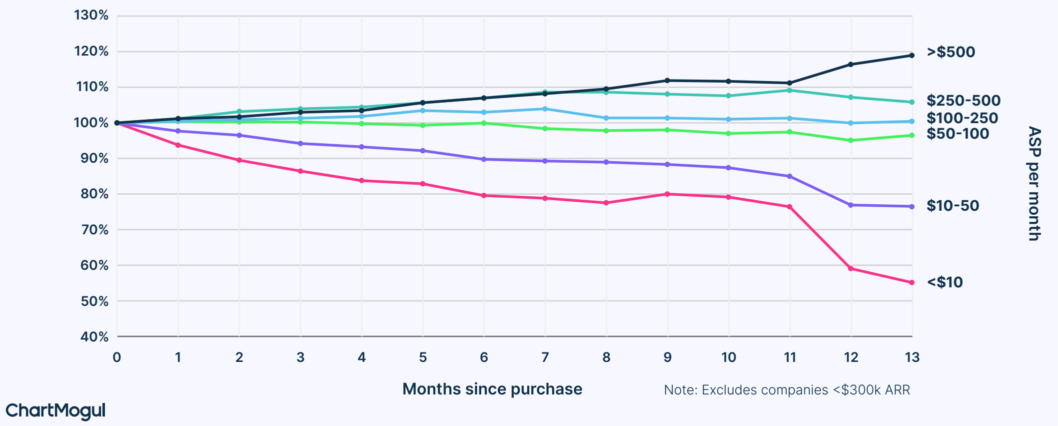
Key Takeaway: The best SaaS businesses out there are able to retain and expand revenue from new customers from day 1. Notice how the top quartile of SaaS businesses with an ARPA over $100 per month have a 3 and 12 months new business net revenue retention of over 100%.

New Biz Net Revenue Retention by ASP Range - Top Quartile (75th Percentile)



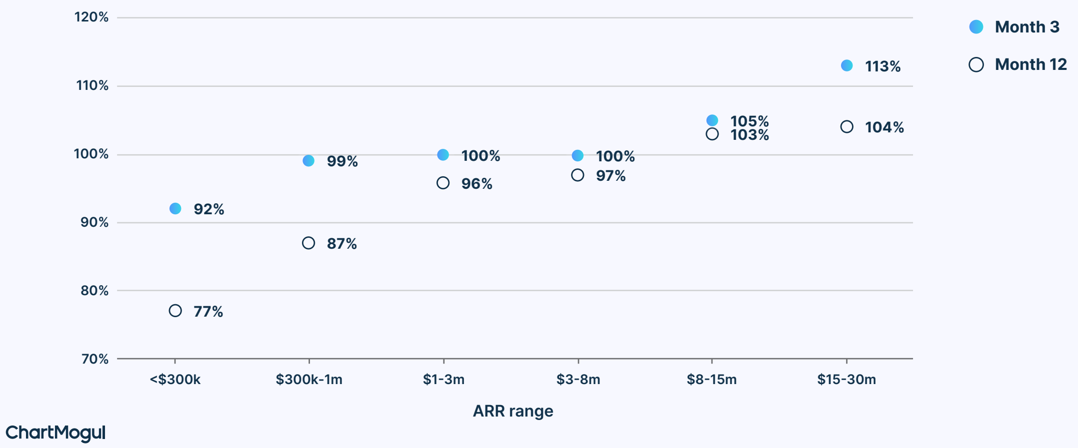
Key Takeaway: Best-in-class B2B SaaS businesses are not only able to retain new business revenue but also able to grow it. For B2C businesses, it's harder. See how their new business revenue decays over time.

New Biz Net Revenue Retention by ASP Range - Top Quartile (75th Percentile)

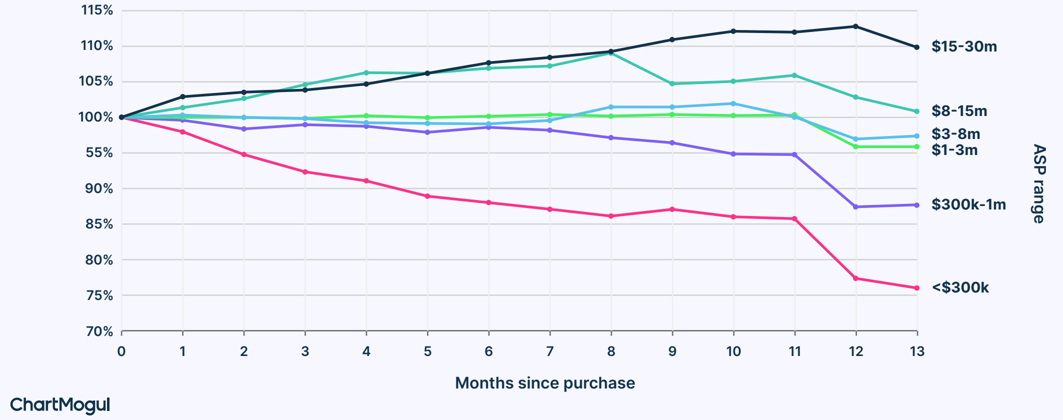


Key Takeaway: The best SaaS businesses at scale ($15-30m ARR) are able to grow their customers from day 1. Notice how the 12-month retention is higher than 3-month retention. This is the classic land and expand motion in action.

New Biz Net Revenue Retention by ARR Range - Top Quartile (75th Percentile)



New Biz Net Revenue Retention by ARR Range - Top Quartile (75th Percentile)



ChartMogul

CHAPTER 6

Retention Trends and Patterns

- Does a higher retention rate mean a higher growth rate?
- Can you grow organically forever?
- How has net retention trended over the years?
- How different is the top quartile of net, gross, and customer retention?
- What percentage of revenue added comes from expansion?

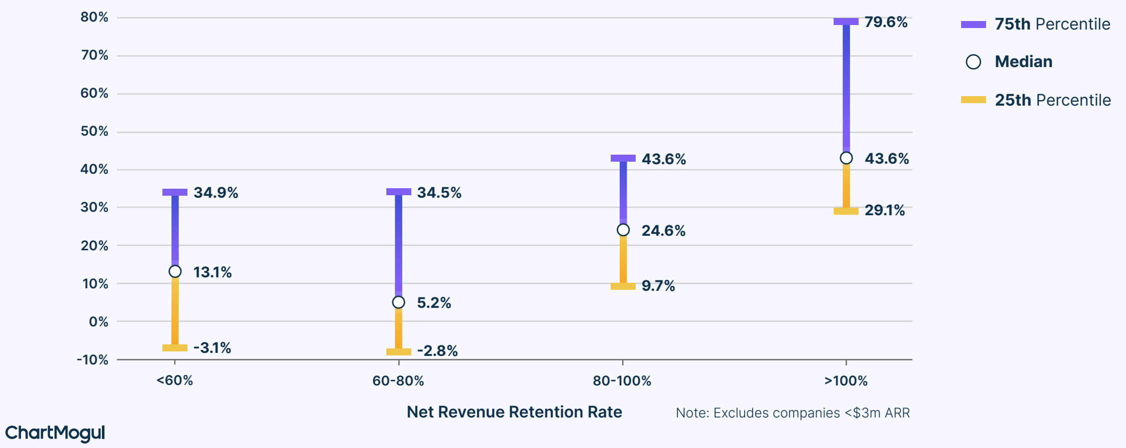
Does a higher retention rate mean a higher growth rate?

Yes, it does. We analyzed the data and found that better retention means better growth.

Key Takeaway: Companies with a net retention rate over 100% grow at least 1.5-3x faster than their peers. On average, SaaS businesses with a net retention rate of over 100% grow 43.6% per annum. In comparison, businesses with net retention of less than 60% grow at just 13.1% per annum.

You might wonder, why companies with retention in the less than 60% range grow faster than those in the 60-80% range. Good question. This is because many companies in the less than 60% range bracket are fast-growing B2C startups while those in the 60-80% range are slower-growing B2B SaaS startups.

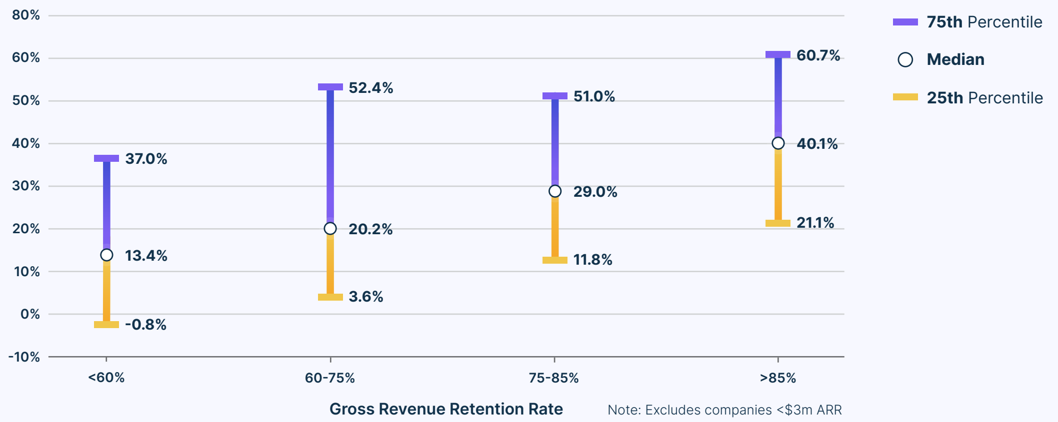
Annual Growth Rate (%) by Net Revenue Retention Rate



The relationship between a higher growth rate and higher retention holds for the gross retention rate too.

Key Takeaway: Companies with a gross retention rate over 85% grow at least 1.5-2.5x faster. On average, SaaS businesses with a gross retention rate of over 100% grow 40.1% per annum. In comparison, businesses with gross retention in the range of 60-75% or less than 60% grow at 20.2% and 13.4% per annum respectively.

Annual Growth Rate (%) by Gross Revenue Retention Rate



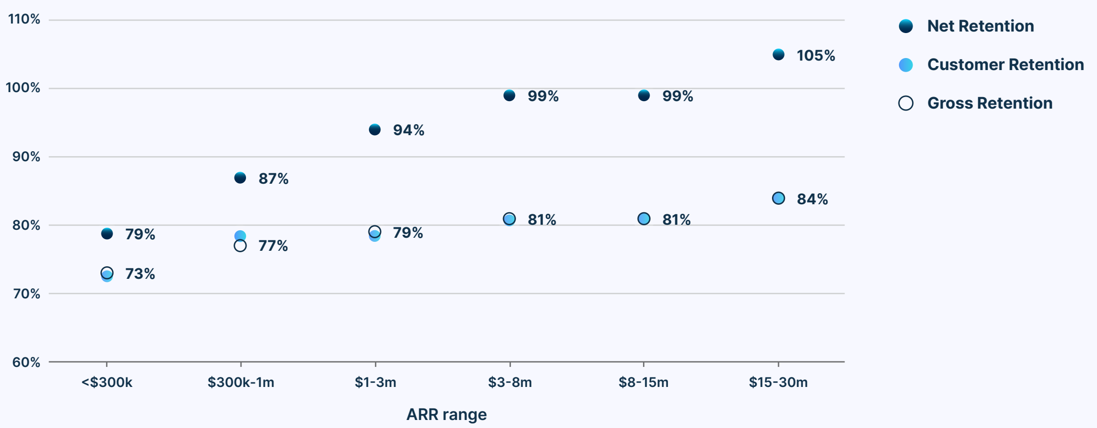
ChartMogul

Note: We excluded any companies less than $3m ARR from this analysis. This is to make sure we only include companies with product-market fit and stable growth/retention rates.

How different is the top quartile of net, gross and customer retention?

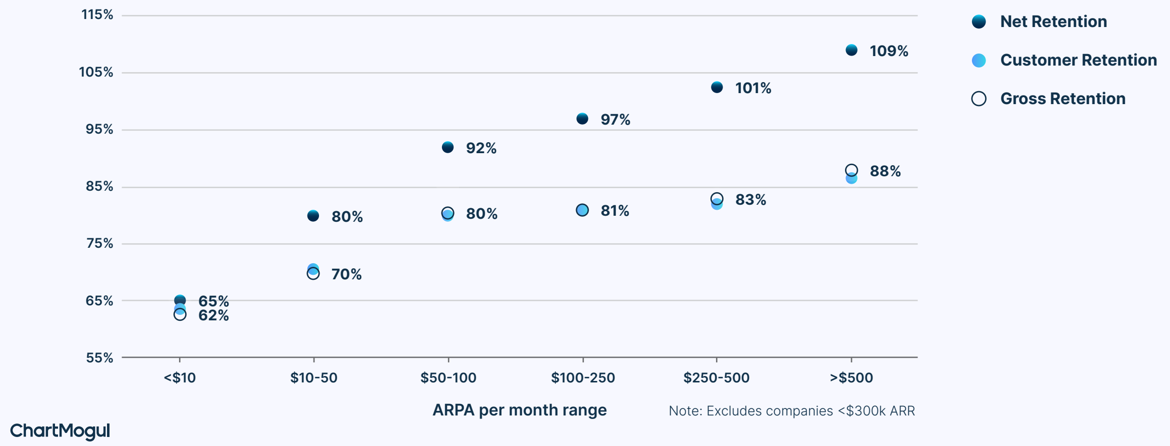
Key Takeaway: Customer and gross revenue retention are usually within a few percentage points of each other. Net retention is higher, with the delta between net and gross retention increasing as companies get larger or as they go upmarket. This is because of a higher expansion rate at higher ARRs/ARPAs.

Retention Rates (%) by ARR Range - Top Quartile (75th Percentile)



ChartMogul

Retention Rates (%) by ARPA Range - Top Quartile (75th Percentile)

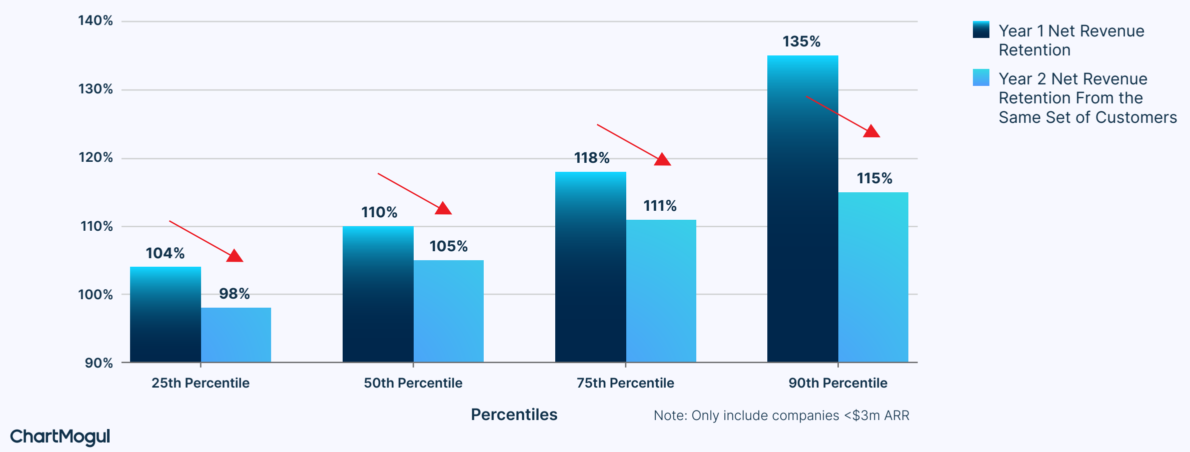


Does a net retention rate over 100% mean that you can grow organically forever?

Sadly, no. Retention starts to decay. See the chart below. It shows you the net retention rate in year 1 and year 2 for all paying customers in year 0.

As you'll notice, net retention rates start to drop in year two. This is because of higher churn and lower expansion revenue in year two when compared to year one. In our analysis, we found that new biz customers expand the most in year one of their tenure (as they ramp up their usage and get fully onboarded). Given that there was no new business in year one, hence the lower support from expansion.

1st & 2nd Year Net Revenue Retention for Companies Having NRR >100%

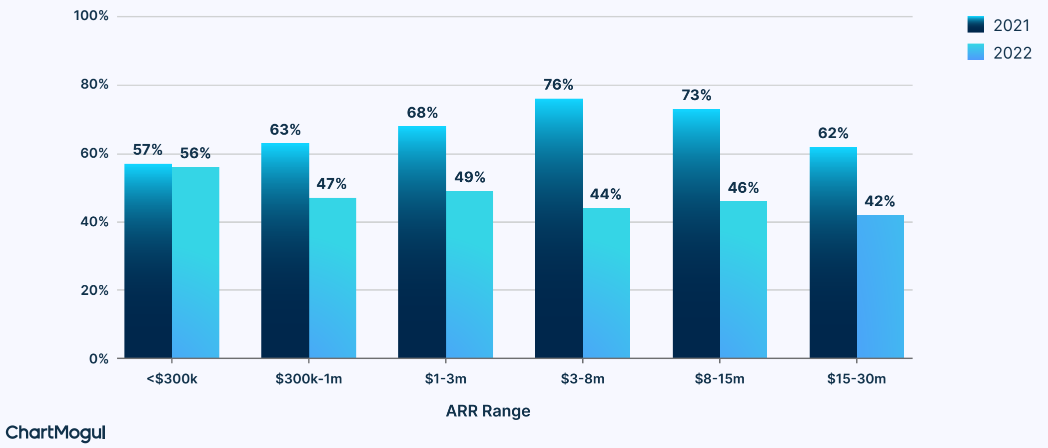


How has net retention trended over the years?

If 2022 was a challenging year for you in terms of retention, you are not alone.

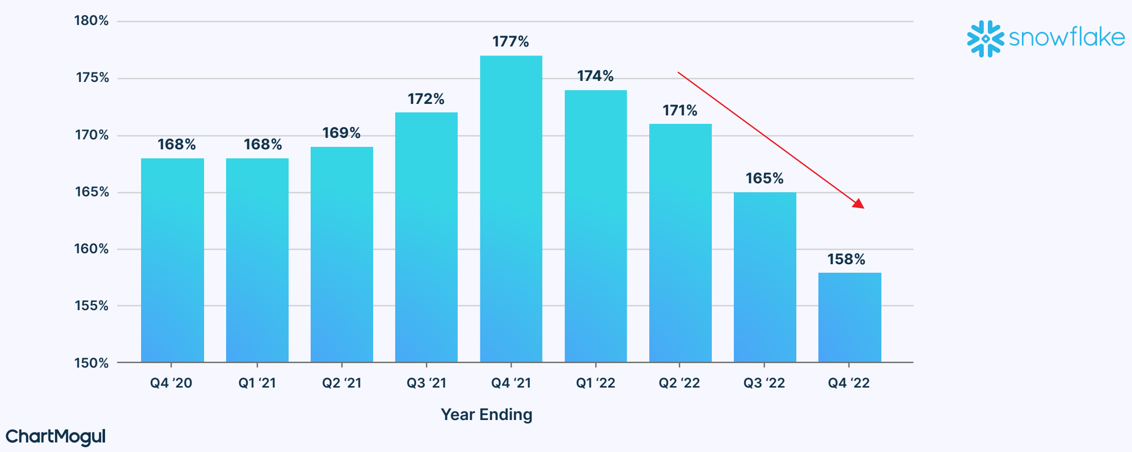
Key Takeaway: More than half of SaaS businesses had lower retention in 2022 when compared to 2021. A challenging macroeconomic environment meant subscribers reassessed and cut their SaaS spend. This is in sharp contrast to 2021 which saw almost 70% of businesses having a higher retention rate in 2021 when compared to 2020.

% of Companies That Had a Higher Net Revenue Retention vs Previous Year



This trend of retention being lower in 2022 vs. 2021 is not unique to SaaS startups. SaaS behemoths like Snowflake also saw their retention come down from the highs of 2021.

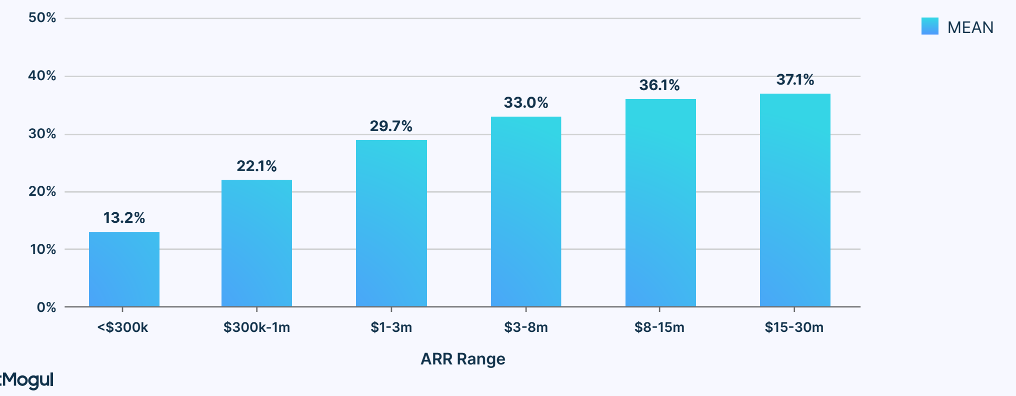
Snowflake Yearly Net Revenue Retention — Q4 '20 to Current



What percentage of revenue added comes from expansion?

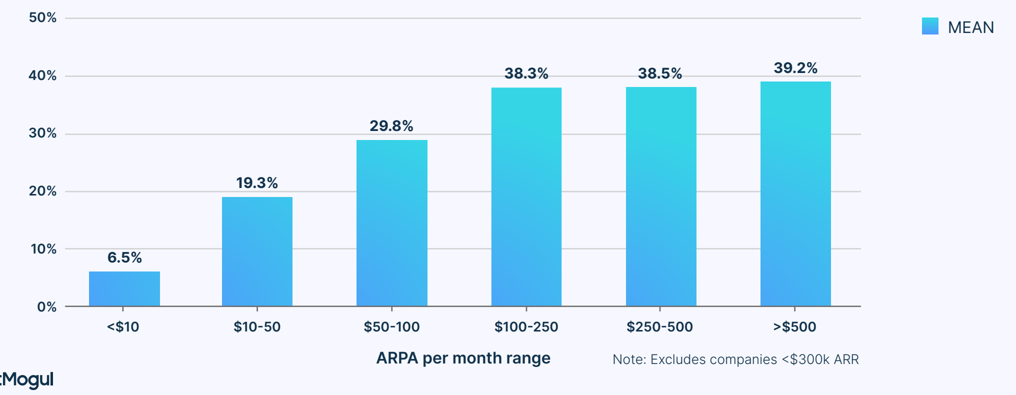
Key Takeaway: Higher the ARR, the higher the percentage of revenue that comes from expansion. 37.1% of revenue added for SaaS business with ARR in the range of $15-30m comes from expansion. At scale, if you are not upselling or cross-selling to your existing customers you are missing out on key growth opportunities.

Expansion as a % of ARR Added by ARR Range



Key Takeaway: For businesses with ARPA over $500/month, 39.2% of revenue added comes from expansion. At higher ARPAs, companies are able to upsell and cross-sell much more. This means higher expansion revenue. As you'd expect, this drives up the net retention rates at higher ARPAs.

Expansion as a % of ARR Added by ARPA Range



CHAPTER 7

Increasing Retention

How can you increase retention?

A higher retention rate can help you achieve better growth, build a more capital-efficient business and even get higher valuations from investors. But increasing retention is hard. Here are our top tips on how to increase your long-term retention.

- **Know your business.**

  Do you know what percentage of customers do you lose to churn every year? How many of them drop off at the onboarding stage? How does the MRR flow in and out of your business? Not knowing these hard metrics is like driving in the dark without your headlights on.

- **Target the right customers.**

  Before you assume you have a retention problem, consider whether you have an acquisition problem instead. Maybe you are targeting bad-fit customers. Do you know your ideal customer profile (ICP)? Only market to customers who get the most value from your product.

- **Conduct health checks.**

  Track and analyze customer usage data to identify areas for improvement. Conduct regular customer health checks and proactively address any issues. This includes things like NPS and customer feedback. Actively incorporate feedback into the product.

- **Correlate pricing to value.**

  The primary reason customers leave is because they don't see value in your product. This is because of your pricing. Ask, what are the key value metrics of your product, and how can you align your pricing to it?

- **Contain contraction.**

  Contraction can be as high as 40% of all MRR lost. Do you have a strategy in place to contain contraction? Or increase usage? Remember, MRR Saved = MRR Gained.

- **Have exit interviews.**

  Post cancellation, reach out to customers. Ask them why they churned. Was it because of the pricing or was it because your product was missing a key feature? You'll definitely learn something new.

- **Build an expansion loop.**

  Without a high expansion rate, it's hard for any business to have a best-in-class net retention rate. Does your pricing structure have an expansion loop in it? Is there a way you could upsell and cross-sell your product to customers who already love you? Can you target features in adjacent markets?

- **Reduce Involuntary Churn.**

  Involuntary churn is churn due to declined payments because of card expiry, insufficient funds, and for many other reasons. Do you have a strategy to deal with it?

- **Have robust onboarding.**

  Can customers see the magic of your product? Are they able to get the ‘aha’ moment? Or do you lose them before that? Are the support docs clear and easy to understand? Do you have a proper sales-to-customer success handoff? All this might sound trivial but goes a long way in improving retention in the first 3 months.

> “
> Guided onboarding that starts during the sales cycle helps us to convert and retain accounts with complex requirements. First, our solutions engineer analyzes the prospects’ setup and prepares a detailed implementation plan. Then, after the sale, our customer onboarding specialist guides the customer every step of the way.
>
> **Ingmar Zahorsky, VP Customer Success, ChartMogul**

6 Tactical Tips To Increase Retention From Vitally

- Forecast and notify your customer of their renewal early on.
- Develop formal processes for red flags, roadblocks, and product requests. These processes help Customer Success Managers (CSM) stay ahead of risk, either solving a workaround or helping them convert it into an opportunity.
- Build relationships with multiple executives in case one leaves. This makes the account more sticky. Being in touch with key decision-makers will also help with renewals.
- Engage with new stakeholders and send them company swag from day one! This engagement leaves a good impression on someone new from the get-go and makes them less inclined to view you as a budget cut.
- Create product champions at the user level to ensure that your product is seen as an integral part of the team's processes. If then there is ever a budget cut, the champions will make a lot of noise when removing your product.
- Form a strong CS and Product alignment! Give customers an insight into the roadmap. This will make them feel like they have a real stake in the tool's direction.

Methodology

We analyzed anonymized and aggregated data from ChartMogul to calculate all aggregates. We only considered companies active for the full 12 months when calculating the aggregates.

Unless stated otherwise, we calculated aggregates over the year 2022. Where we needed a 2-year history, we also took the year 2021 into account. Specifically, for new business retention, we calculated metrics on a cohort basis, accounting for each month of new business starting from Jan 2021 and ending Dec 2022.

Glossary

ACV: Annual Contract Value

ARPA: Average Revenue per Account = (Total Revenue / Total # of customers)

ASP: Average Sale Price = (Total New Biz MRR / Total # of customers acquired)

ARR: Annual Run Rate (MRR x 12)

B2B: Business to Business (usually higher ARPA)

B2C: Business to Consumer (usually lower ARPA)

GRR: Gross Retention Rate, also known as Gross Dollar Retention or just Gross Retention

MRR: Monthly Recurring Revenue

NRR: Net Retention Rate, also known as Net Dollar Retention or just Net Retention

New Biz: New Business

PMF: Product-Market Fit

SMB: Small and Medium Business

About ChartMogul

ChartMogul is a subscription analytics platform that exists to help B2B SaaS companies succeed. Founded in 2014 by Nick Franklin, ex-Zendesk, and backed by Point Nine, thousands of SaaS companies use ChartMogul today to identify their growth levers and deeply understand the dynamics of their subscription business.

When it comes to retention; ChartMogul gives you live reporting on your net, gross, and customer retention rates, with in-built tools for cohort analysis and segmentation.

The platform is built to fit seamlessly into your data stack; combining and normalizing subscription data from multiple sources to give you and your team an accurate view of your B2B Business.

On top of this, ChartMogul is committed to providing in-depth and insightful research into trends, benchmarks and key topics affecting the B2B SaaS industry. To keep on top of our latest releases as well as industry news, join 20,000 others by subscribing to the SaaS Roundup.

Learn More

Loved by

2500+

SaaS Businesses Around the World

teamwork. Whereby buffer Pitch hotjar ghost

ChartMogul.com