SaaS Retention Report: The New Normal for SaaS

Net Revenue Retention trends and benchmarks from studying over 2,500 SaaS businesses. Released September 2024.

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Executive Summary

Welcome to the second edition of the ChartMogul SaaS Retention Report: The New Normal For SaaS.

Business leaders are looking at Net Revenue Retention (NRR) as the most vital metric for sustaining growth in 2024 and beyond. This report dives into the latest NRR trends from over 2,500 SaaS businesses, guiding you in setting achievable expectations about growth in this new era of SaaS. Six insights stood out in our research:

1. **New business slowing down sharply has been a key factor in the slowdown of the SaaS market.** Companies now face a new reality in a competitive landscape where acquiring new business is challenging. The focus must shift toward existing customers.

2. **Retention is now critical for long-term, sustainable growth.** In 2024, companies with $15M-30M+ ARR are seeing 40% of their growth driven by expansion, compared to 30% in early 2021, when growth peaked.

3. **Achieving a 100%+ NRR is becoming more difficult across all ARR segments.** NRR of 100% is slightly declining for both the top quartile and decile of companies. The slowdown in new business impacts NRR, making it essential to balance both while striving for 100% NRR.

Executive Summary

4. **The median company with ≥100% NRR grows at 48% year-over-year, double the speed of SaaS companies in lower NRR ranges.** Top quartile companies with low NRR (<60%) can still grow rapidly.

5. **NRR depends not only on ARR and ARPA but also on subscriber count.** As subscriber count grows, reaching 100% NRR becomes more challenging. In H1 2024, top quartile companies with up to 1.5K subscribers achieved 100% NRR. In contrast, companies with over 12K subscribers typically have an NRR of 78%.

6. **Despite this, SaaS companies tend to reach similar growth rates regardless of their subscriber base size.** Fewer companies can achieve 100%+ NRR as they scale, but pursuing this ideal rate remains key to driving growth. This highlights the importance of focusing on retention strategies as your company scales.

This report would not have been possible without the contribution of my colleagues. A special thanks to Bianca, Koen, Ingmar, Rachel and Thomas for making this report happen.

Sincerely,
Sofia Faustino

Sofia is the Senior Manager of Insights at ChartMogul. She is passionate about research, data and SaaS, and shares insights based on ChartMogul's data. Before joining ChartMogul, Sofia spent 5+ years at Dow Jones where she was a research manager in the venture capital division. Sofia is based in Lisbon.

Chapter 1

How SaaS has changed since 2019

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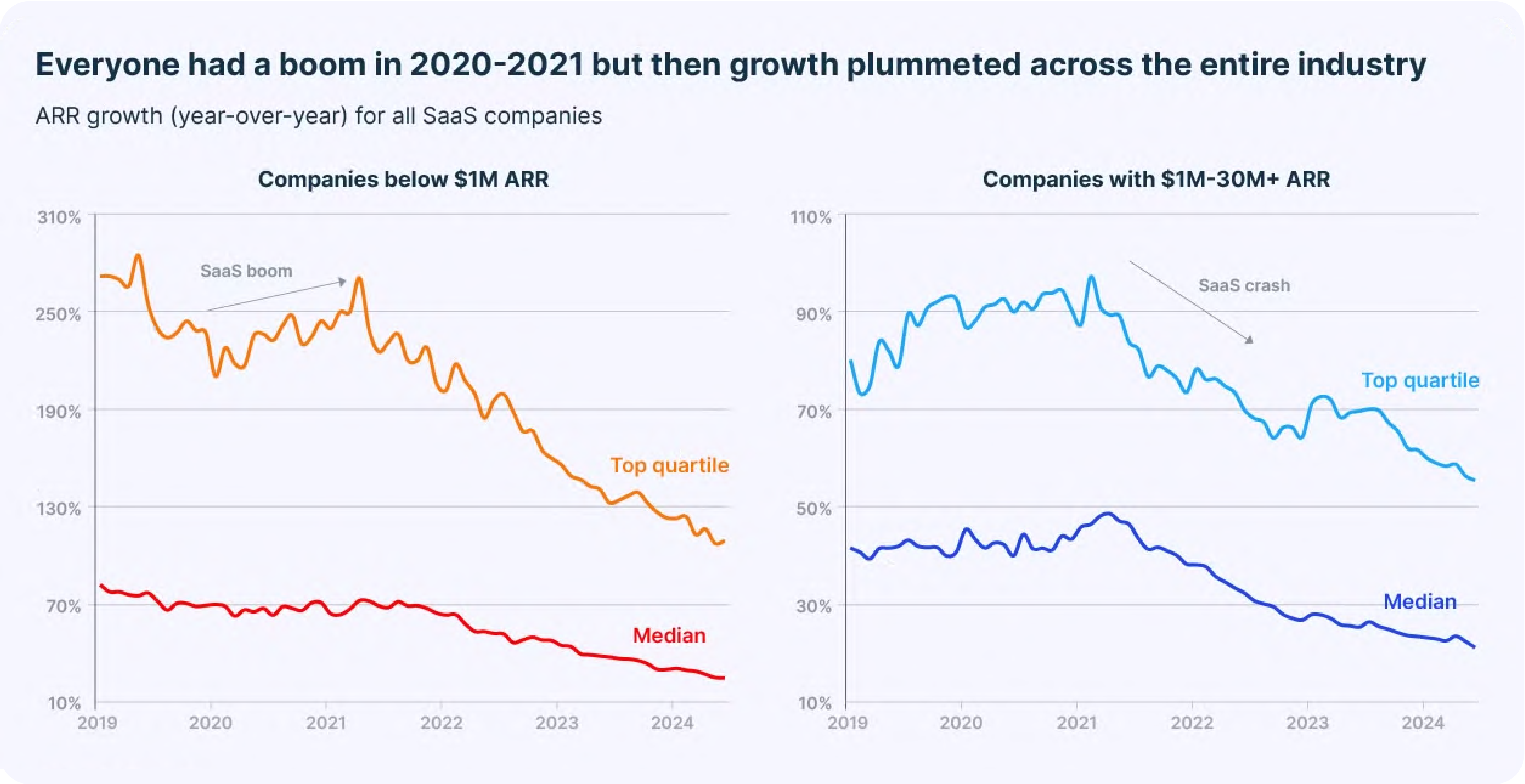
Declining ARR growth rates

SaaS companies experienced a boom in growth starting mid-2020 and into 2021. The 2020-2021 SaaS boom was driven by a sudden surge in new business acquisition, in part due to the pandemic forcing people around the world to adopt all sorts of digital technologies very quickly. During the pandemic, the US, UK, and the EU cut interest rates, fearing a recession. Cash was cheap and purchasing power got a boost.

This created a perfect scenario for SaaS companies, who capitalized by investing in customer acquisition and grew their recurring revenue like never before. SaaS valuations matched that growth, perhaps to excessive levels.

But the growth bubble popped in late 2021 when new business began to slow. Eventually all SaaS companies, regardless of ARR range, would be affected as growth plummeted across the entire industry.

The slowdown starting in 2021 is particularly evident in the highest performing SaaS companies, but was experienced across the board. In 2024, we are starting to see some evidence of stabilization, especially for companies with $1M-30M+ ARR.



Declining ARR growth rates

Growth has stabilized in 2024, but it's far away from the growth pace SaaS was used to. Perhaps this slow down isn't temporary, but instead a *new normal* for the SaaS industry.

Over the past four years, SaaS companies have shown they grow rapidly in favorable economic conditions but suffer during downturns. Our data raises questions about when (and whether) we will see growth rates like those in 2020-2021 or the late 2010s again.

The models of how SaaS companies should grow predictable revenue, figured out in the 2010s, no longer work for 2024.

Now, the industry is adapting to the new normal of SaaS.

"2024 has seen the industry stabilize, with a return to reliable yet modest growth. The legacy of 2022-2023 is an industry that is now leaner and more efficient. Truly great SaaS companies continue to do very well, while companies who were dependent on cheap capital have had to make dramatic adjustments.

In some ways I prefer this new normal in SaaS, product innovation is king, hard work and making customers happy is rewarded, and there are just less distortions in the market, I do however miss the growth rates of the ZIRP era."

Nick Franklin, CEO and Founder, ChartMogul

Declining ARR growth rates

Best-in-class companies still achieve remarkable growth rates which set them on the path towards long-term, sustainable growth. Even best-in-class companies felt the economic downturn, particularly startups. Growth dropped by 800 percentage points from its peak in 2021 until now. The spread of growth rates amongst the top quartile and the top 10% has reduced and is a lot closer.

For companies with over $1M ARR, the top decile saw record-low growth rates in late 2022 but has since improved and stabilized, showcasing the resilience of more mature businesses.

The hyper growth trends are in the past and have shifted to more sustainable rates that define the new normal. The top 10% of SaaS companies continue to grow remarkably, but the market is increasingly competitive, especially for those seeking capital. VCs still prioritize rapid growth but are now also focused on efficiency and unit economics. SaaS companies that strike a balance between growth and efficiency are more likely to succeed.

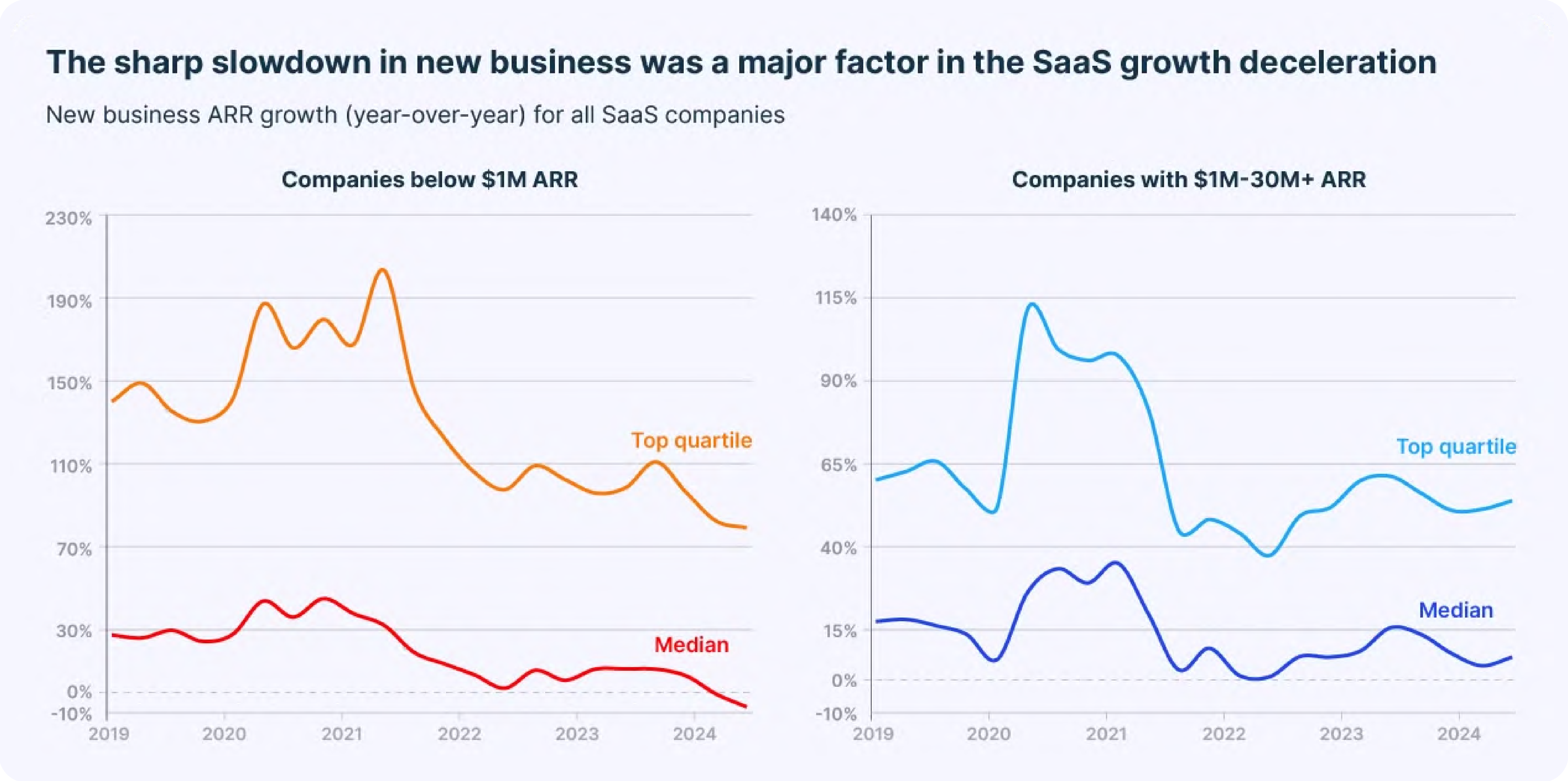
The new business bubble

New biz slowing down sharply was one of the main culprits for the SaaS deceleration. There's been a lot written about what caused the new business bubble to pop.

Rising interest rates and inflation sharply affected possible buyers. Budgets were stretched due to accelerated spending in 2020-2021 and fears of recession slowed new business down.

The SaaS market had become more competitive and the challenging economy made raising capital more challenging.

New business slowed sharply for a year starting mid-2021. By 2024, companies under $1M ARR hit rock bottom. While more mature companies have stabilized new business growth, they have yet to fully recover.



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The new business bubble

The recession exposed flaws in the SaaS business model.

During the 2020-2021 new business rush, many SaaS companies grew at-all-costs, often settling for poor-fit customers who were difficult to onboard and even harder to retain. Once budgets began to contract, buyers began demanding flexible pricing and better software. Consequently, customer acquisition became more expensive.

Many of these headwinds remain to some extent in 2024, so to succeed today SaaS companies must focus on capital efficient growth. Best-in-class SaaS companies now focus on retention and expansion, and mature companies are shifting their growth strategies to prioritize existing customers.

Net revenue retention (NRR) is the key metric for 2024.

"The slowdown in new business growth forces us to rethink our balance between acquisition and retention.

While we need to keep the pipeline full, the real focus has shifted to maximizing the lifetime value of every customer. It's about ensuring that our customers see continuous value, so they stay and grow with us."

Stefan Bader, CEO and Co-founder, Cello

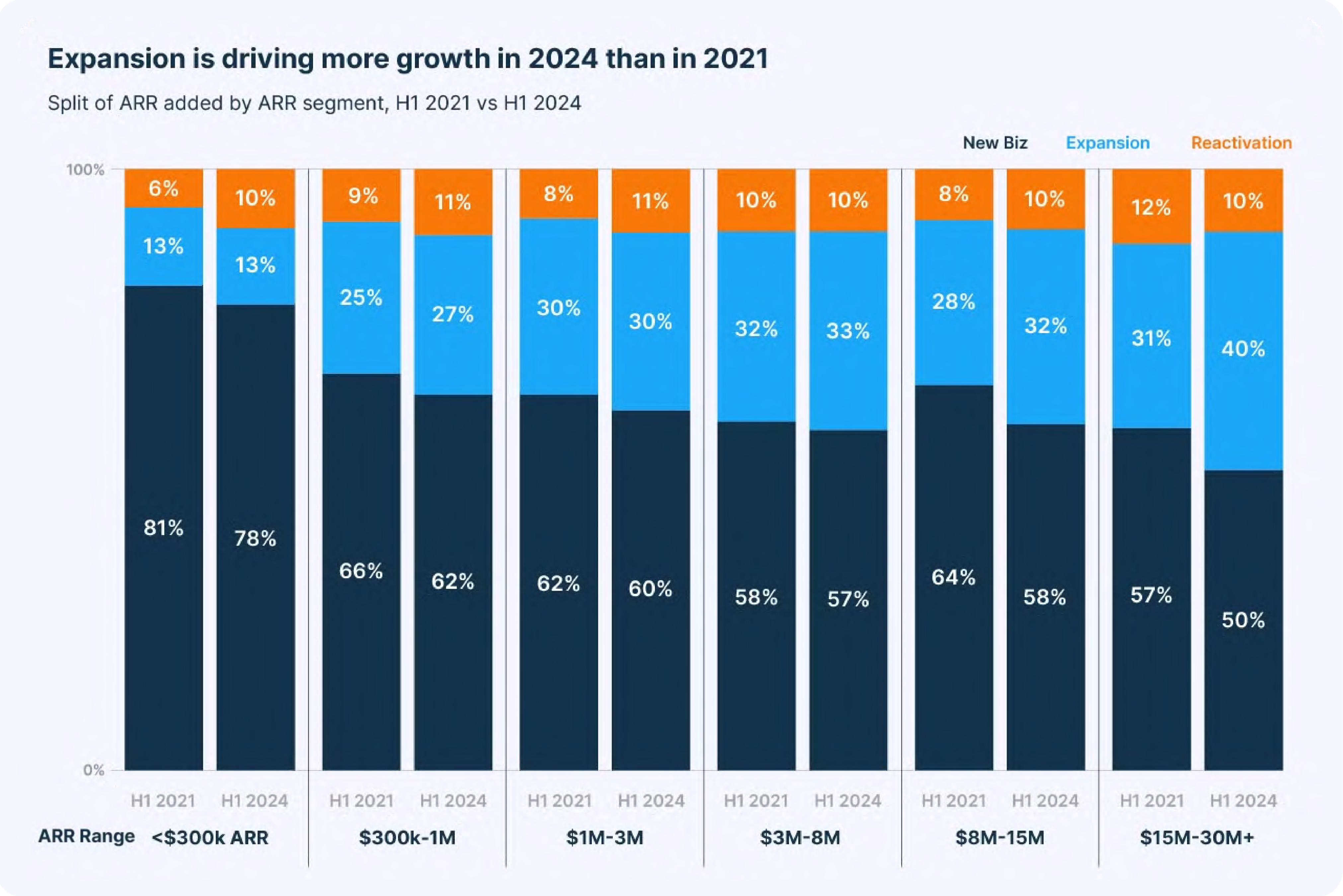
Retention as a growth driver

Retention is now crucial for sustaining long-term, efficient growth.

During the first half of 2021, companies across all ARR segments reached their highest growth peak. They did this by acquiring new customers. But over the past three years, the way companies grew has relied much more on expansion.

Bigger companies with larger workforces and customer bases naturally tend to focus more on retention. But today, not only is retention a focus, it's a growth driver. Expansion now contributes up to 40% of growth for companies with $15M-30M+ ARR. Prioritizing retention is essential, since much of your ARR depends on it.

Note that for companies with less than $1M ARR new business is still the primary focus to find product-market fit. As companies grow, they rely more and more on expansion to drive revenue growth.



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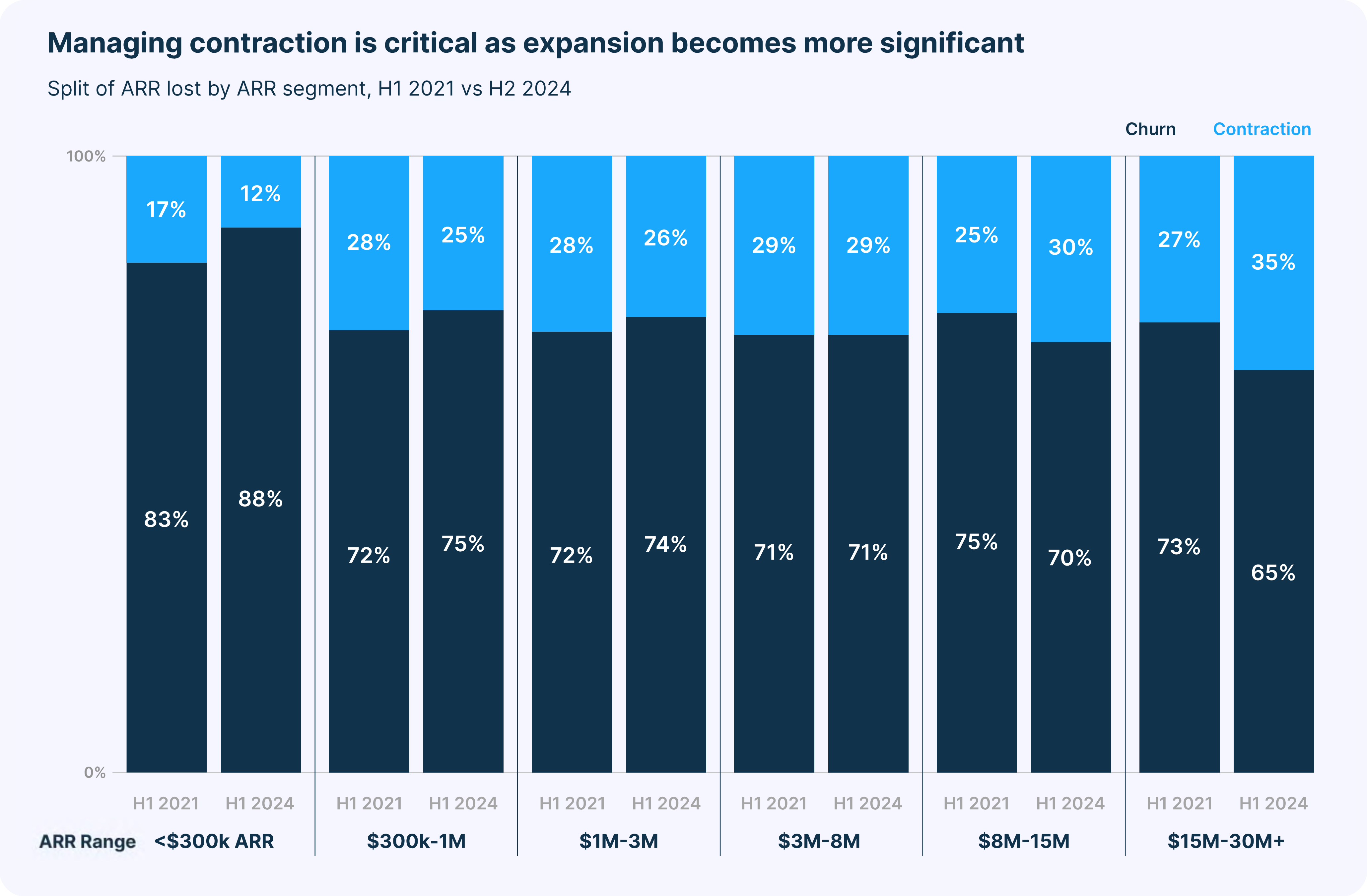
"In the world of Growth at Any Cost (GAAC), the #1 KPI everybody obsessed over was new business growth.

But in 2024, the KPI that's going to enable your long-term growth is retention. It's not your ability to attract a new customer that matters most, but keeping them over a sustained period of time."

Sam Jacobs, Founder and CEO, Pavilion

Contraction matters even more



As expansion gains importance, managing contraction becomes critical.

Examining ARR losses, churn and contraction, we observe a shift from 2021 to 2024. When companies rely more on expansion, downgrades become a significant factor in lost ARR.

The contribution of churn to ARR lost has also increased for companies below $3M ARR as a result of growth of 2020-2021 combined with a less favorable economic environment since then.

Chapter 2

Retention powers today's SaaS

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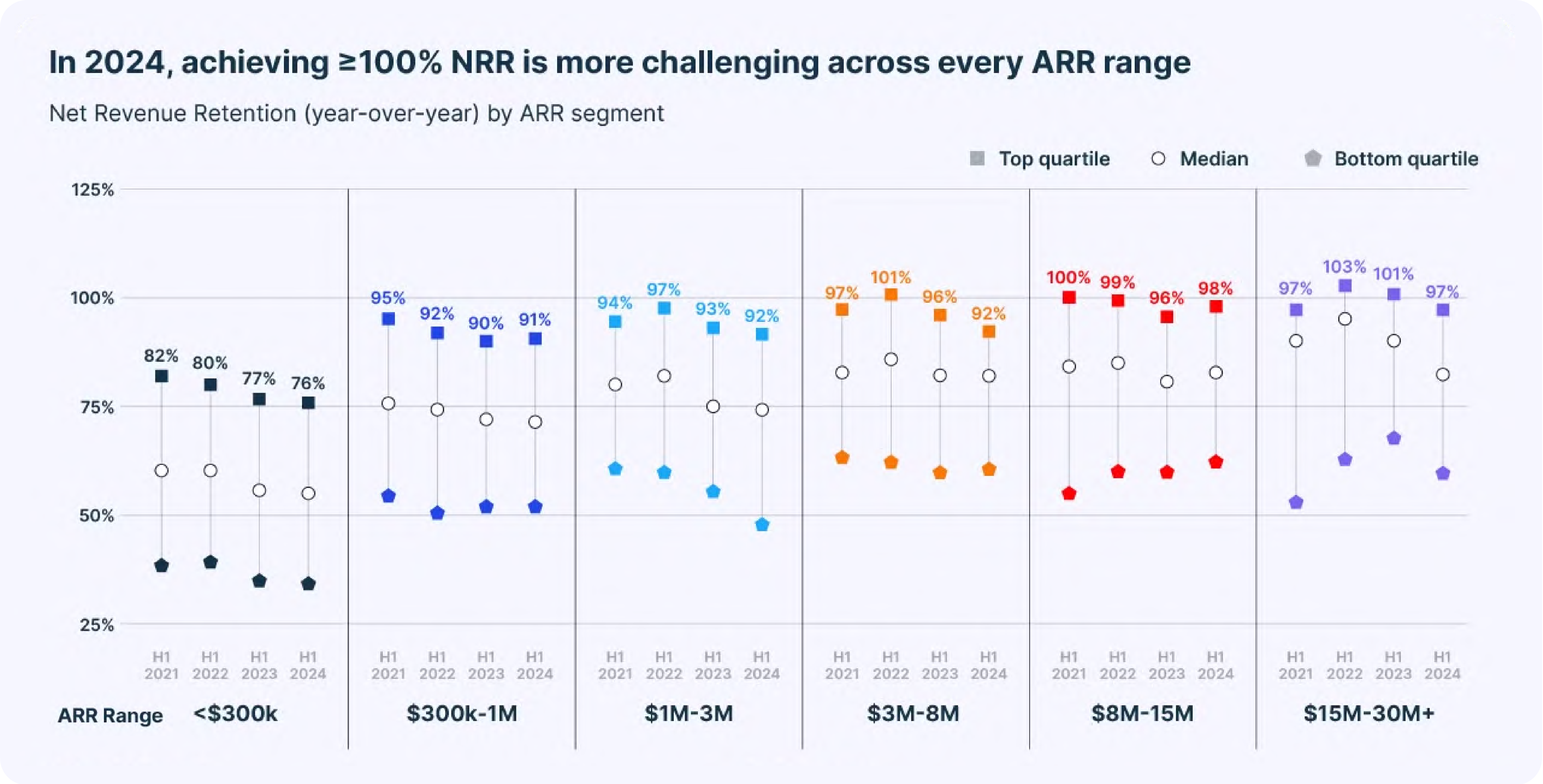
NRR benchmarks by ARR

Crossing ≥100% NRR is considered SaaS nirvana and will ensure growth, particularly after crossing the $1M ARR mark.

Typically, as a company grows their revenue, NRR tends to improve as well. But surpassing the 100% mark is typically reserved for best-in-class SaaS companies and can be difficult to sustain.

If you reached ≥100% NRR in 2021, but have since fallen below 100%, you are not alone. Even the top quartile of companies with $15M-30M+ ARR did not reach this milestone in 2024.



NRR benchmarks by ARR

This doesn't mean NRR is no longer a focus; it remains a key growth driver in 2024, especially with new business lagging.

But in order to have a strong lasting NRR, you do need some balance between both customer retention and new business.

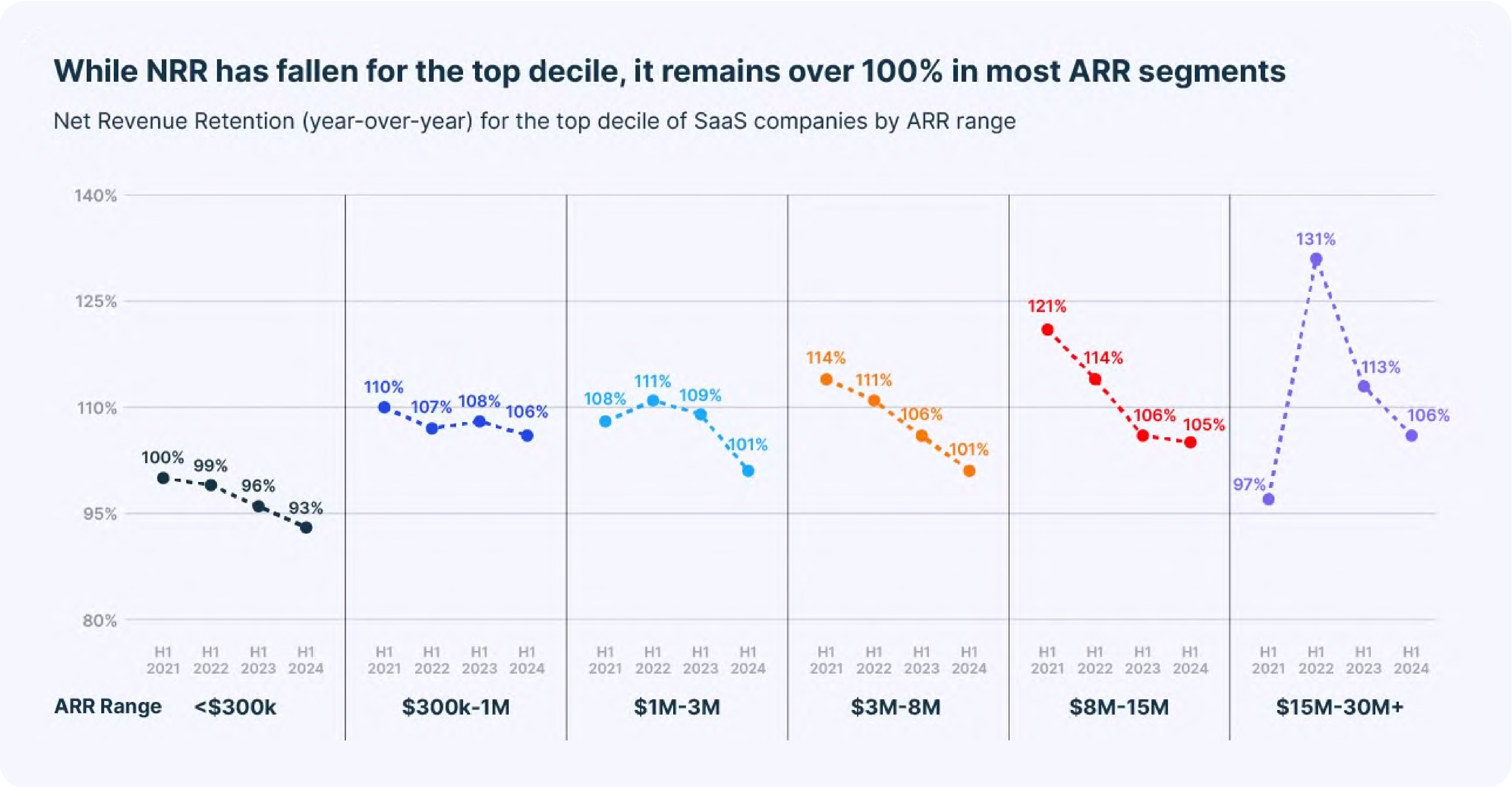
Having ≥100% NRR doesn't promise eternal growth. New customers tend to expand the most during year one of their tenure, as they ramp up their usage and get fully onboarded. Conversely, churn tends to increase in year two. When new business slows down significantly, expansion lags and retention naturally decays. In these conditions, even companies that previously had ≥100% NRR see their NRR deteriorating.

"To work towards achieving NRR over 100% in 2024, a SaaS business must excel in finding good-fit customers, ensuring seamless onboarding, and deeply understanding what makes its product indispensable. It's crucial to closely monitor KPIs that reflect the value customers derive from the product and continually work to close any gaps that emerge.

SaaS leaders should have always prioritized these steps, but in the current market, failing to do so will hurt retention more than before.

Ingmar Zahorsky, VP Customer Success, ChartMogul

NRR benchmarks by ARR



NRR has declined for the top decile, but remains above 100% in most ARR segments.

Best-in-class SaaS companies with over $300K ARR continue to reach and even surpass the 100% NRR target. However, their numbers have been declining since 2022, highlighting that even the top 10% of SaaS businesses are experiencing retention challenges too.

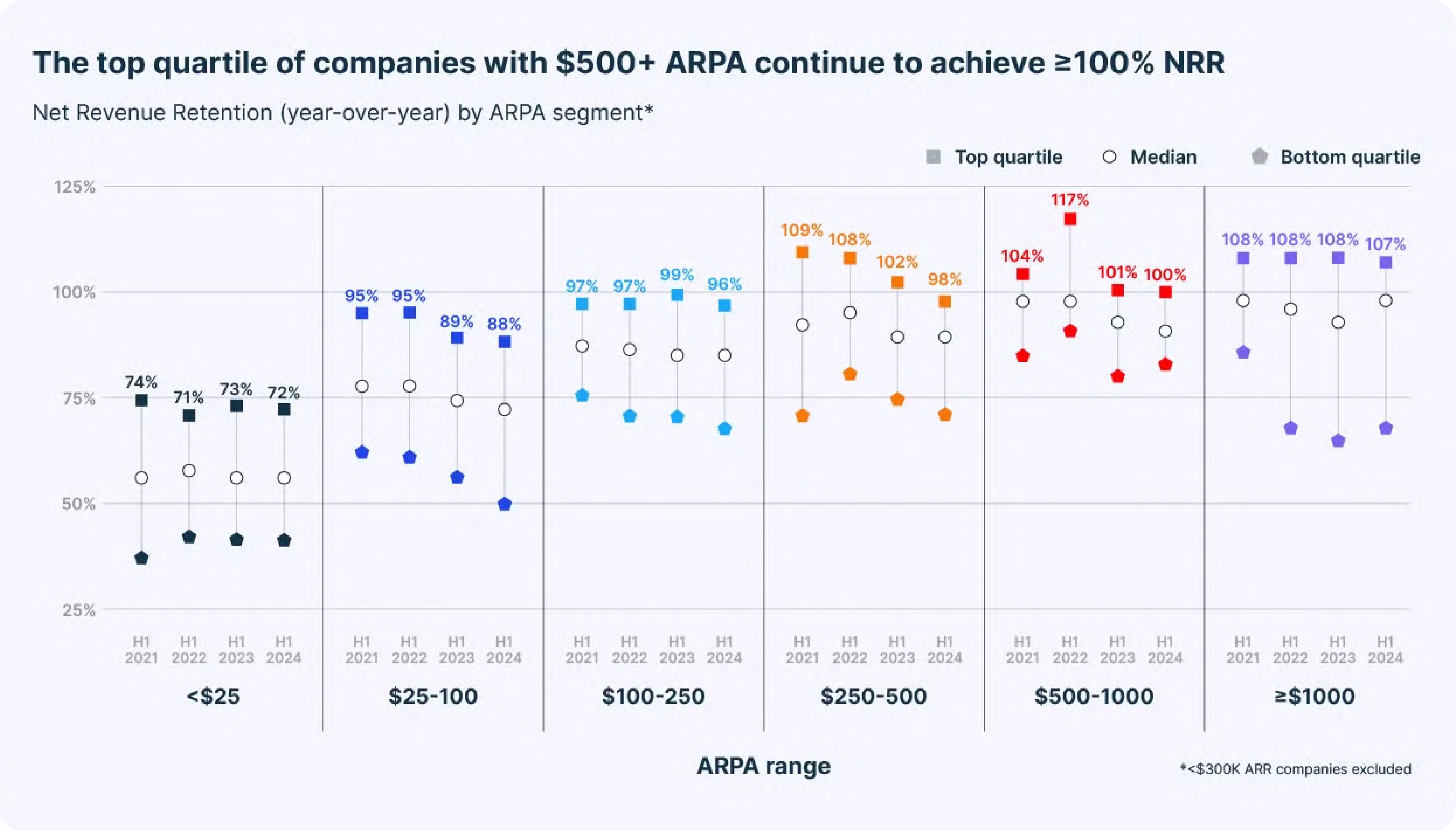
NRR benchmarks by ARPA

Looking at NRR across ARPA ranges shows that only the top quartile in higher ARPA segments are able to achieve ≥100% NRR in 2024. In contrast, for companies with ARPA between $25 and $500, it has become more challenging to reach ≥100% NRR.

ARPA growth is often driven by upselling higher plans and additional services to existing customers. If customers are upgrading, they are finding more value in the product which correlates to higher NRR.

Segmenting by ARR can help you set realistic goals according to the stage of development of your SaaS business. As your company matures, ARPA also tends to improve due to expansion and retention efforts, and consequently, so does your NRR.

But this is not always the case. Some companies are able to grow fast even with a low NRR.



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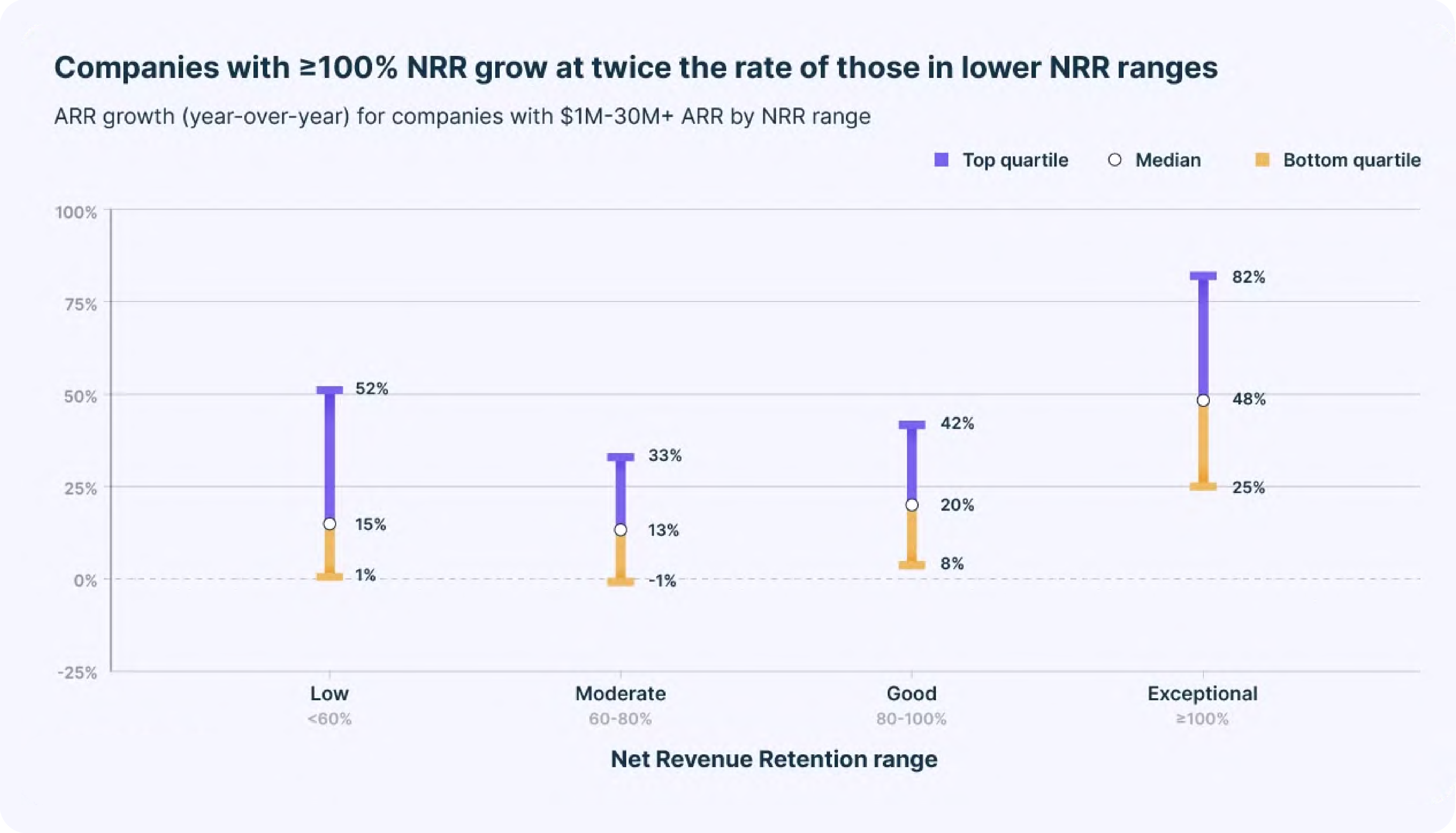
How NRR impacts growth



To understand why having NRR over 100% is the ideal, we need to understand how it impacts growth.

In the first half of 2024, the median company with ≥100% NRR grew at 48% year-over-year. That's more than two times faster than SaaS companies with less than 100% NRR. Having ≥100% NRR combined with high growth could be a symptom of a great product that has found true product market fit.

How is the top quartile of companies with NRR less than 60% able to hit 50% YoY growth? In the past we assumed that this segment likely contained B2C companies that tend to have huge total addressable markets and fast adoption, which drive explosive growth, despite low retention. This is partially true, but we also found some B2B companies in the low NRR bucket.

"Our market is constrained in size and we can't afford to burn money chasing growth at all costs. We very carefully service the customers in our niche (we deliver email for web hosting providers) and the best measure of how well we are succeeding at that goal is NRR.

Prior to 2022, growth at all costs was the mantra in SaaS. Today, NRR is nearly as significant as growth in determining a company's valuation."

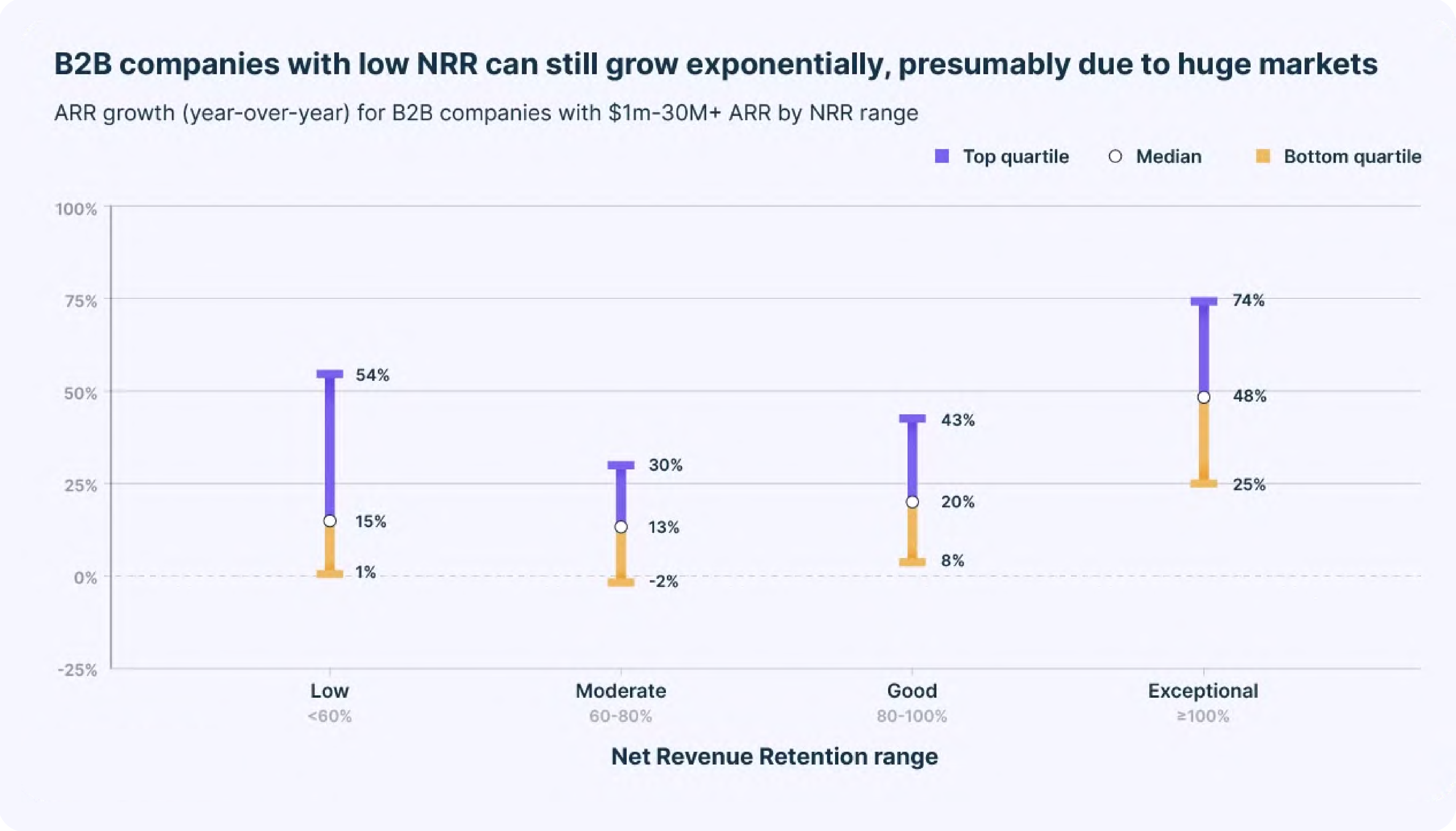
Ken Simpson, CEO and Co-founder, MailChannels

NRR amongst B2B

The top quartile of B2B companies with NRR below 60% share traits similar to B2C companies.

When filtering for B2B (see more on methodology) the data resembles a very similar pattern as the previous graph. Some B2B companies can also target big markets while offering budget basic plans, having similar characteristics to B2C.

For these types of companies, is reaching an NRR of 100% realistic? The data suggests that a certain NRR metric depends on ARPA, ARR but also other company characteristics, like subscriber count and its growth.



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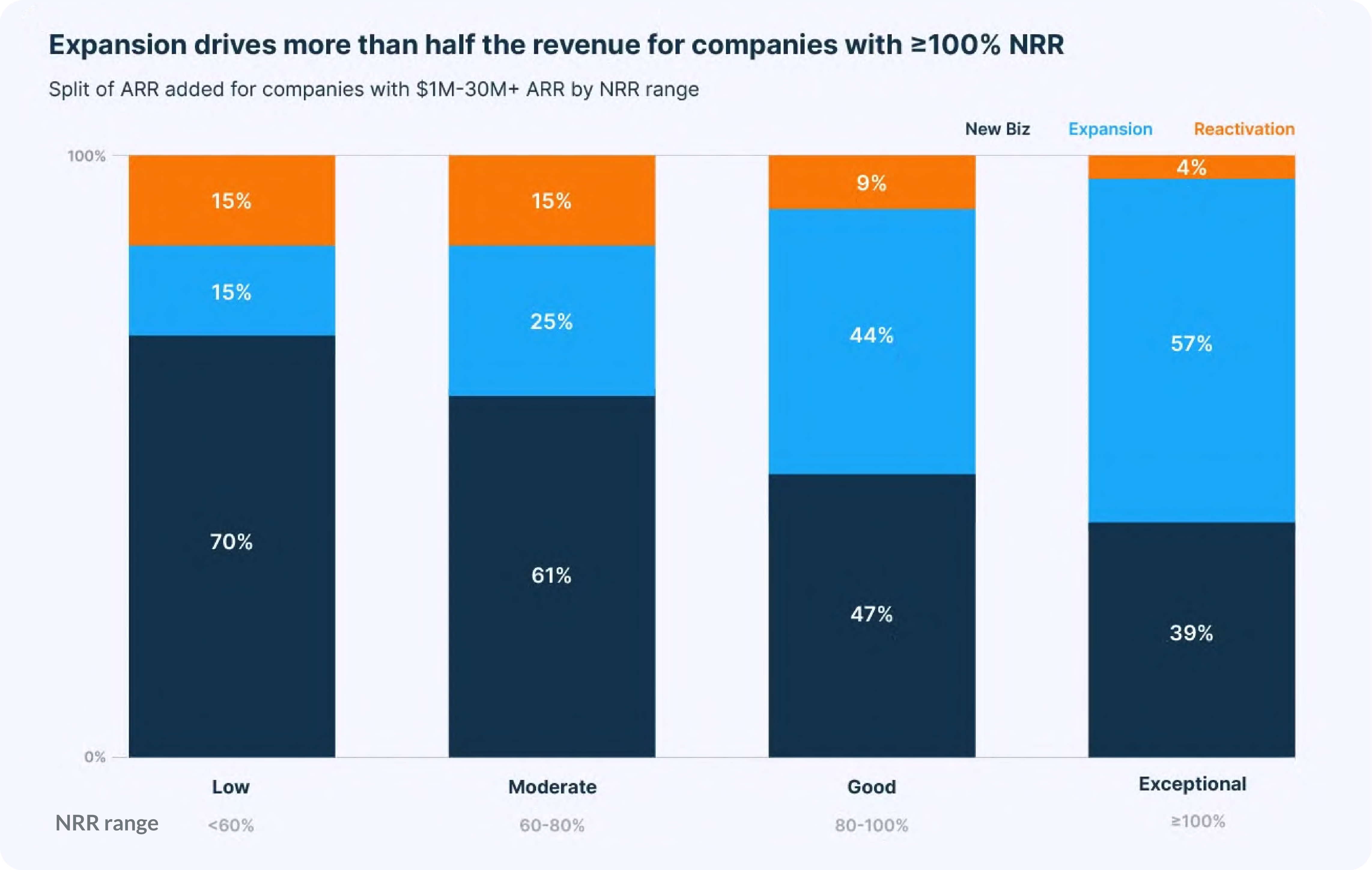
MRR movements by NRR range



Companies with ≥100% NRR depend on expansion for growth as it accounts for over half of their revenue.

In contrast, companies in the low NRR range rely on 70% of new business but only 15% on expansion for growth. It's customer acquisition that plays a key role in their growth.

The split of reactivation also decreases as NRR improves. If your company resembles more the figures of the low NRR bucket, focusing on reactivation could boost growth.

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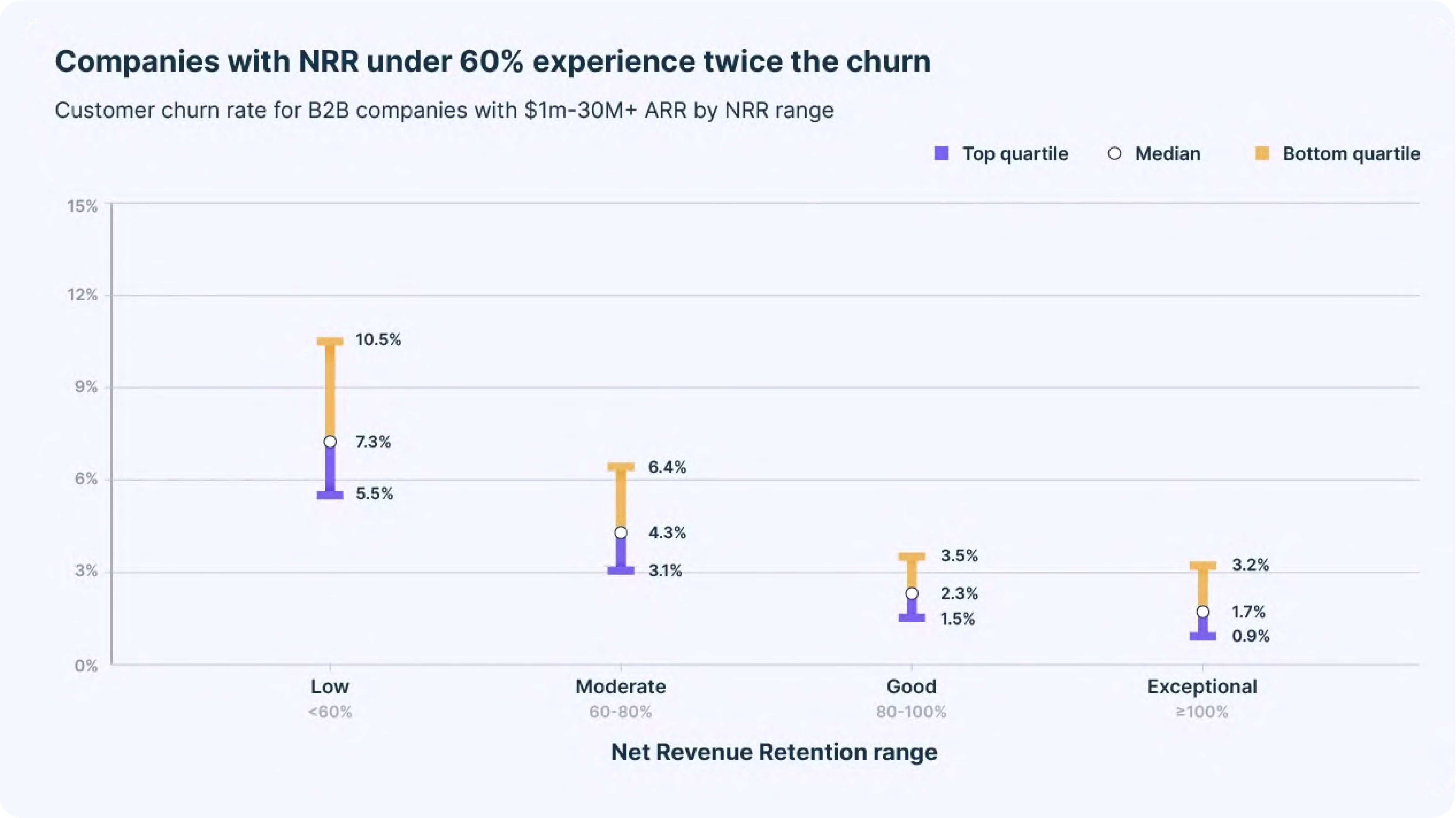
Customer churn rate by NRR range

Companies in the low NRR range have a median 7% churn, double the rate of those with ≥100% NRR.

But the top quartile of companies in the same NRR bucket grow faster.

These companies rely a lot on new business, and when new business is high, in general, so is churn.



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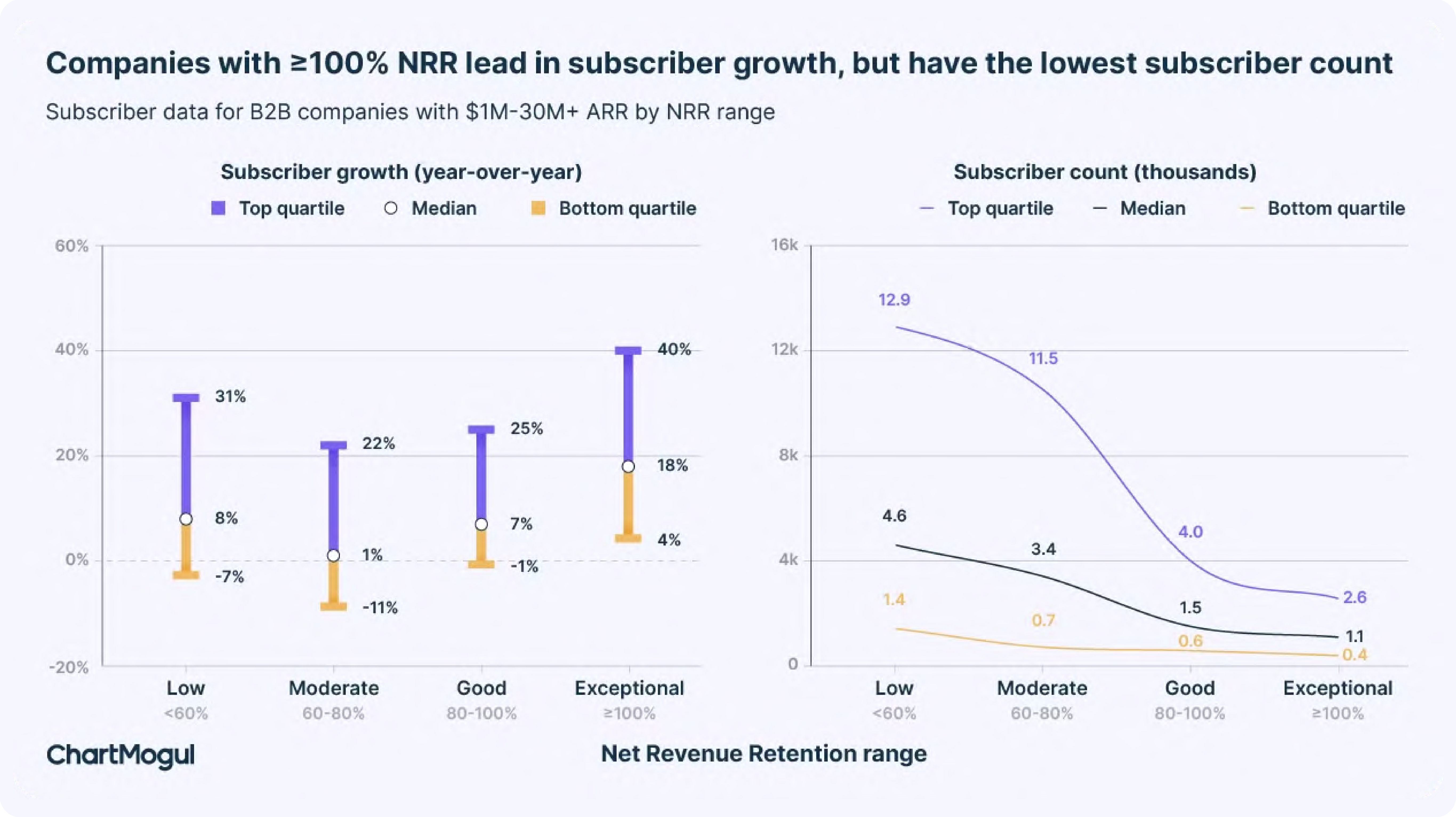
Subscriber count and growth by NRR range



Subscriber count and growth by NRR range

High subscriber growth paired with ≥100% NRR indicates true product-market fit.

The top quartile of companies with ≥100% NRR has around 2.6k subscribers and grow them at 40% year-over-year, faster than other companies across all NRR ranges. If your company has a very high subscriber growth rate and ≥100% NRR it is indicative that you have a great product and understand exactly who your ideal customer personas (ICPs) are.

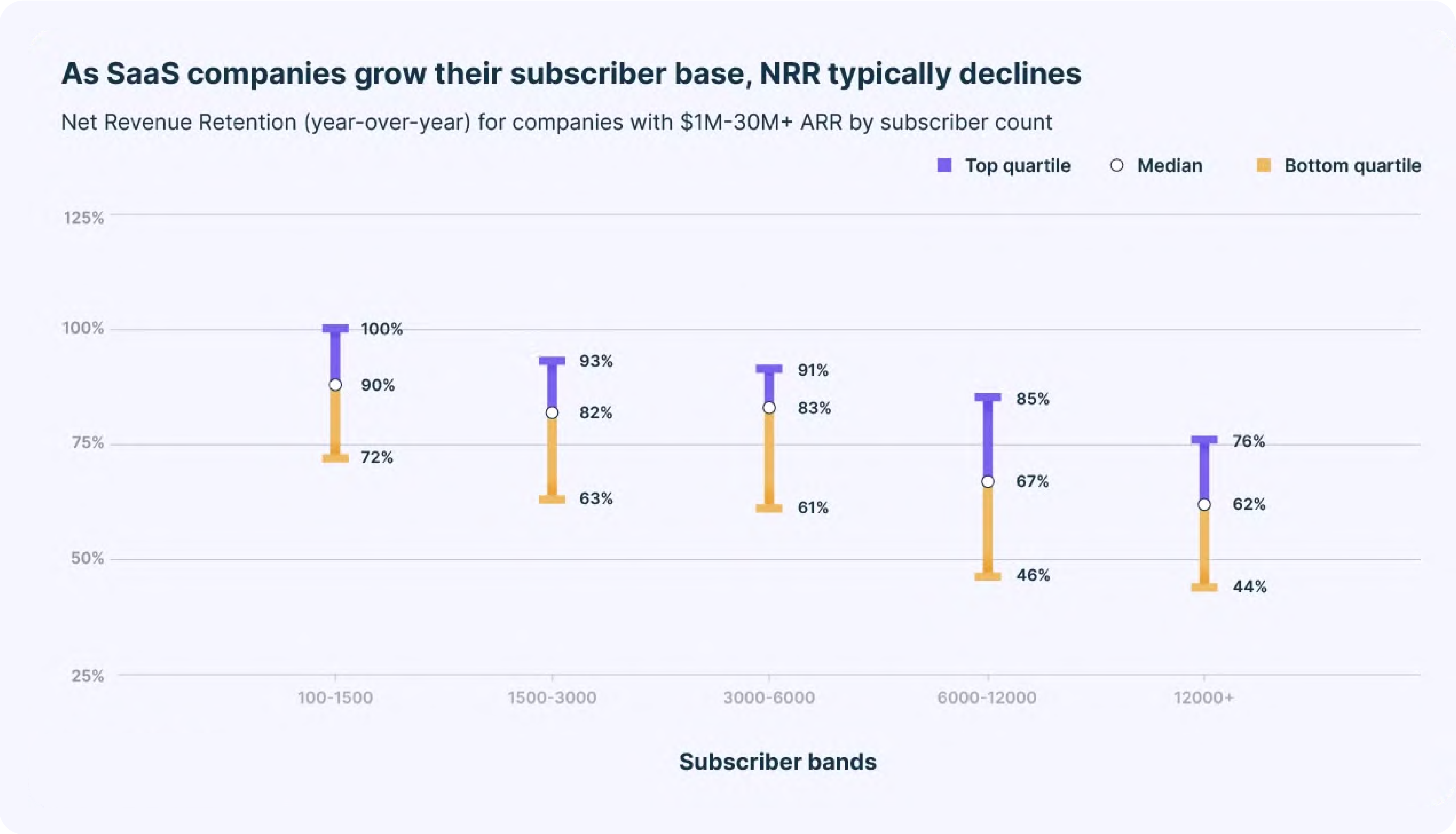
In contrast, the top quartile of companies in the low NRR range grows its subscribers by 30% but has almost 13K subscribers. This is a very high subscriber growth rate considering the size of their customer base. If your company falls into this category, and additionally has very high ARR growth, you most likely have a good grasp of who your ICPs are. Because in the end, the data suggests that there is a relation between NRR and subscriber count.

"At Custify, we've seen that companies with high NRR tend to have fewer clients overall, but they achieve a high rate of subscriber growth. For example, one of our customers boosted their NRR by 15% last year.

Even without adding many new customers, they managed to grow their base revenue by 30% through expansion within their existing accounts. Companies with a high NRR have found a way to be indispensable to their customers, and that is where the magic happens."

Philipp Wolf, Founder & CEO, Custify

NRR and subscriber count



While an NRR of ≥100% will lead to higher growth, reaching this metric seems more challenging as companies increase their subscriber count.

As subscriber count grows, your customer base becomes diversified and it is more difficult to meet the needs of all your customers. It requires a shift in retention strategies and pricing models to be able to continue retaining a very high customer base.

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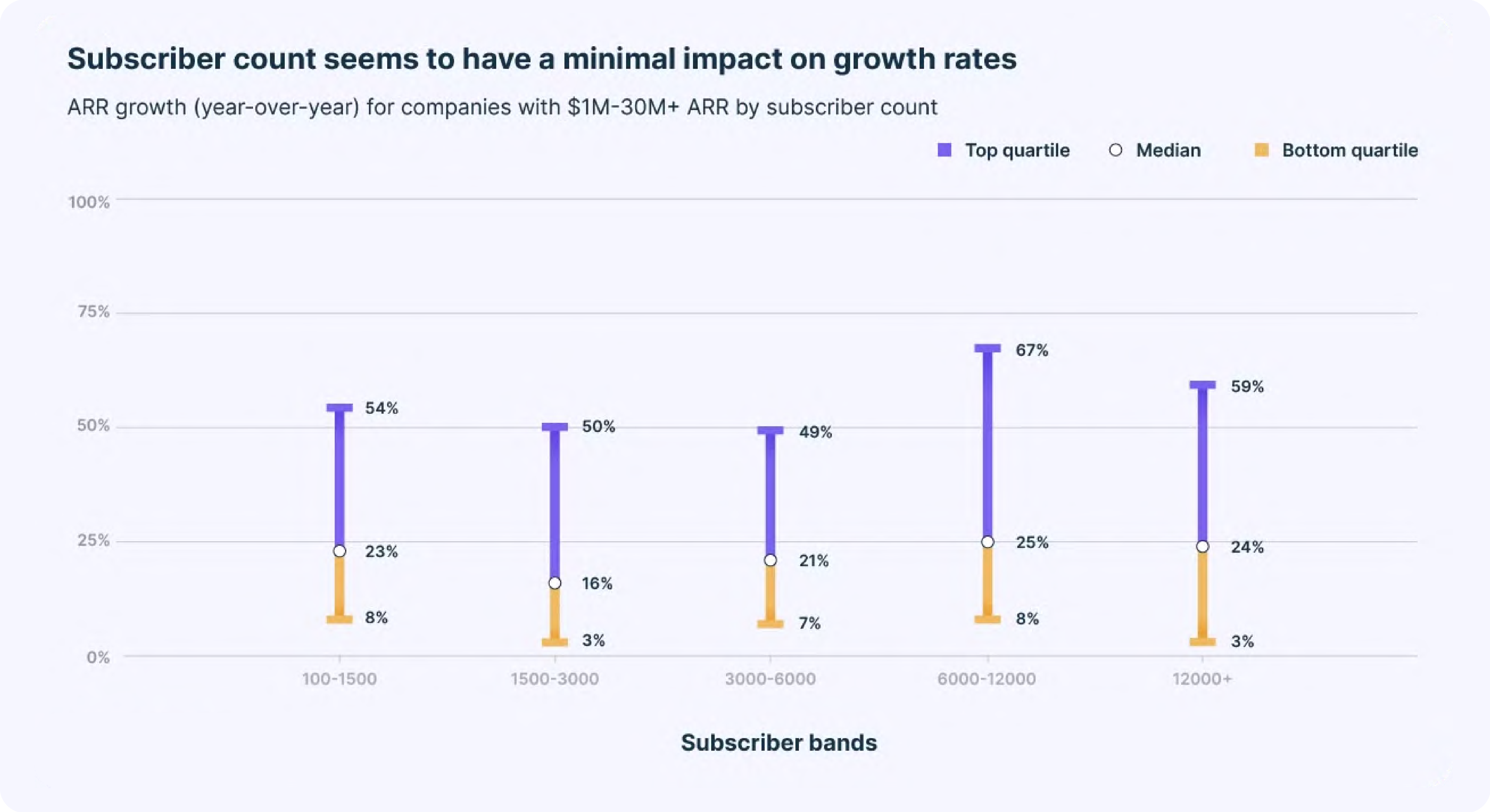
Growth rates and subscriber count



A high subscriber count and likely lower NRR, does not correspond to a low growth rate.

Companies of all sizes can grow at relatively similar rates. The top quartile shows more variability but remains relatively close across all segments.

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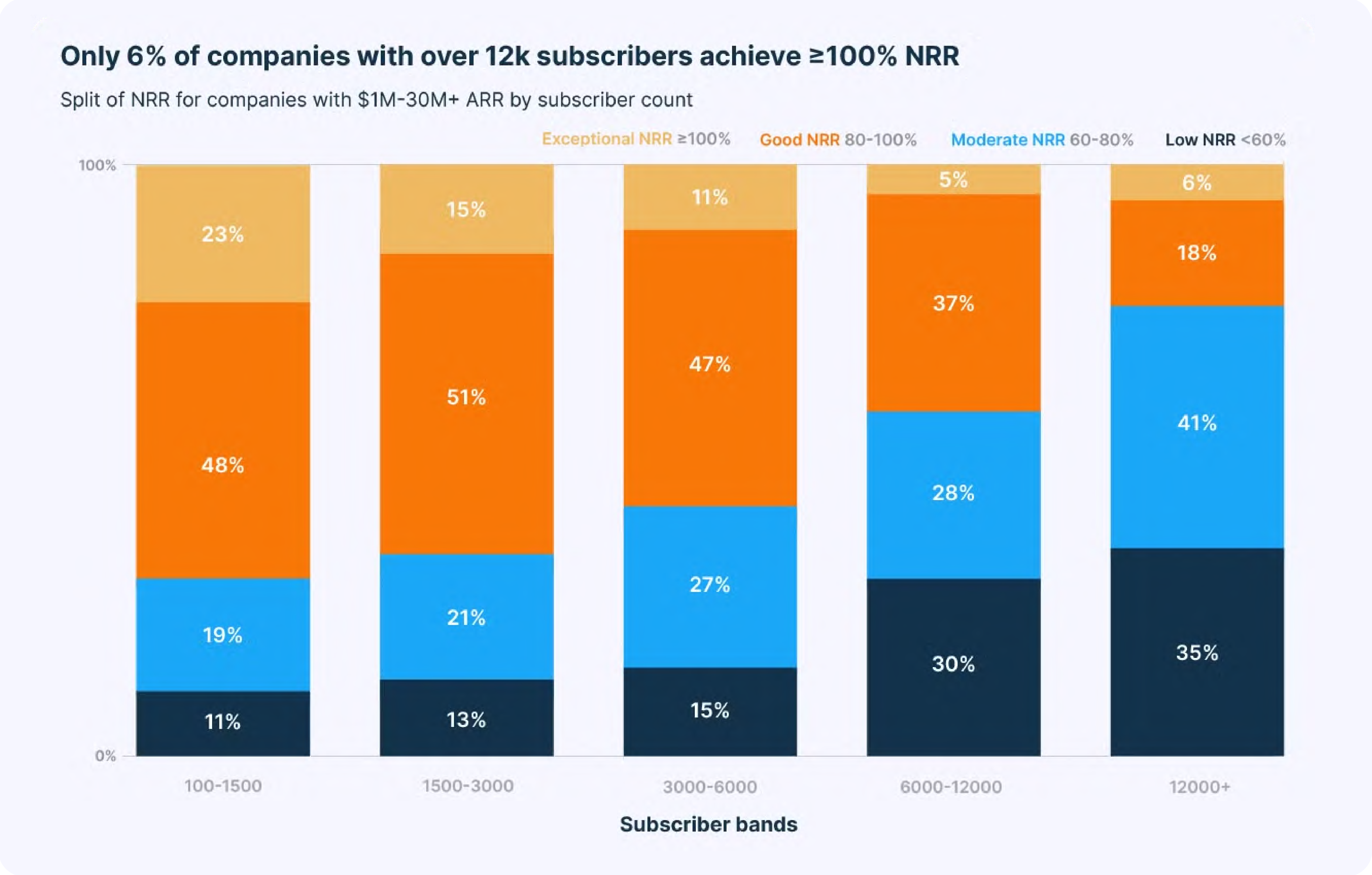
Growth rates and subscriber count

As companies grow their ARR, their NRR typically improves.

A ≥100% NRR drives higher retention and growth. However, as your subscriber base grows significantly, NRR may start to decline.

While you might still achieve strong growth, history shows that companies relying too heavily on new business are more vulnerable to economic downturns.

For these companies, reaching ≥100% NRR is challenging but crucial for sustainable growth and resilience during tough economic times.



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Methodology and Glossary

The analysis in this report was completed over July and August 2024. We analyzed anonymized and aggregated data from ChartMogul to calculate all aggregates.

For our benchmark analysis, we used H1 data from 2021 to 2024. We did this to compare H1 2024 with similar periods. Also, H1 2021 marked the SaaS growth peak, so we wanted to see how the current period stacks up against that high-growth phase.

All aggregates by ARPA per month range exclude companies less than $300K in ARR. These early stage companies tend to have low ARPA and low NRR, skewing the results especially in the first ARPA segments.

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

ARR: Annual Run Rate (MRR x 12)

ARR added: Sum of New Business ARR, Expansion ARR and Reactivation ARR

MRR: Monthly Recurring Revenue

New Biz: New Business

Subscriber count: number of subscribers at the end of the month

YoY: Year-over-Year

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