SaaS Capital Insights

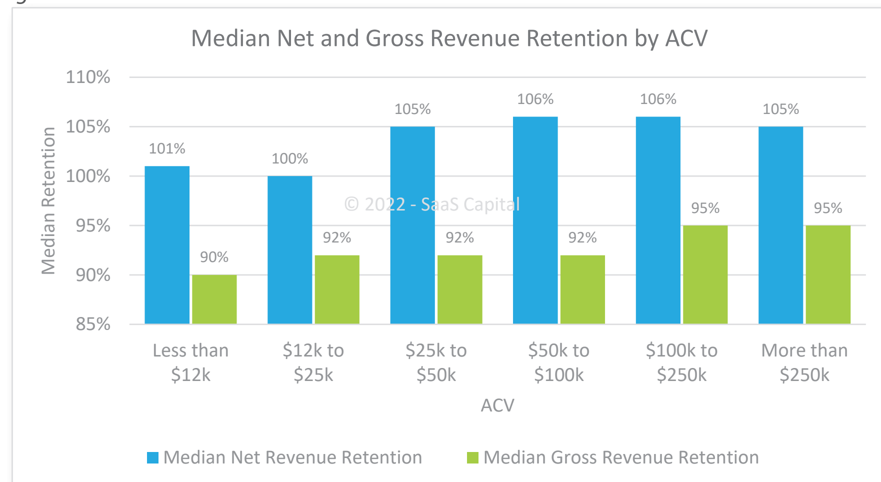
In Q1 of each year, SaaS Capital conducts a survey of B2B SaaS company metrics. This year's study marked our 11th annual survey, with more than 1,500 private B2B SaaS companies responding, making it the largest survey of its kind. Below are our findings on retention.

2022 B2B SAAS RETENTION BENCHMARKS

As we have noted for several years, revenue retention is one of the most important metrics for ensuring medium- to long-term business health due to its compounding effect on growth.

The relationship of new sale bookings to revenue retention is the SaaS version of "offense wins games, defense wins championships." Below is our most recent survey data cross-referenced against other important figures like growth rate, funding, and scale. Definitions and formulas for key terms are at the end of the report.

Figure 1



Excludes Companies with less than $1M ARR

Retention by Annual Contract Value

Figure 1 shows median net revenue retention (NRR) and median gross revenue retention (GRR) across a range of annual contract values (ACVs). For retention, benchmarking by ACV is the best starting point. More than by company age, revenue level, or industry, companies that share a similar selling price have the most in common. They will be organized similarly, go to market similarly, and support customers similarly. The opposite is true of two companies selling a $19.99/month product versus a $250,000/year product.

Companies with ACVs above $25,000 show median net revenue retention of ~105%, while companies below $25,000 show ~100% median net revenue retention.

> ***"For retention, benchmarking by ACV is the best starting point. More than by company age, revenue level, or industry, companies that share a similar selling price have the most in common."***

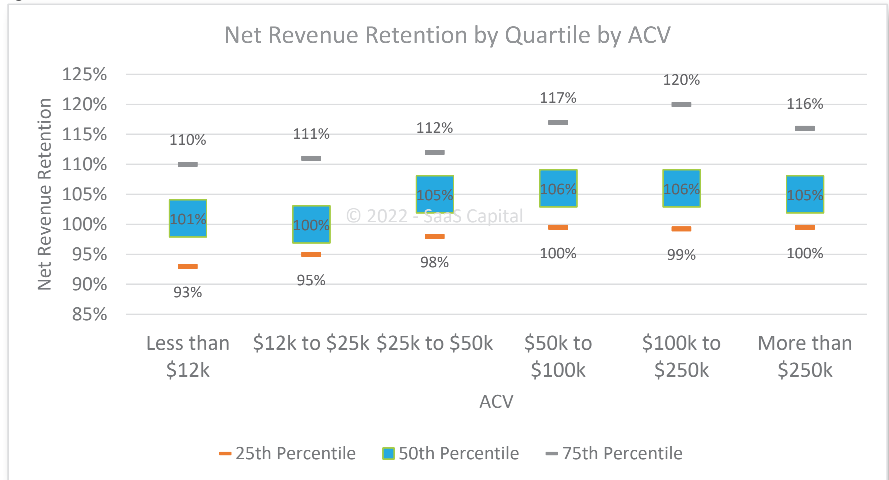
Historically, annual surveys have shown that higher gross retention levels were directly correlated with higher ACVs and that relationship holds true again this year. This relationship makes intuitive sense.

Higher-priced solutions more often involve a longer sales cycle, in-depth scoping and implementation, and dedicated support and account management, all of which yields a stickier product.

Net Revenue Quartiles

Digging deeper into the net revenue benchmarks, Figure 2 shows NRR broken into quartiles for the same ACV categories. As noted above, companies with ACVs above $25,000 show median net revenue retention of approximately 105%. However, as the chart shows, even the 25th percentile for these companies report NRR of 98% to 100%. Top-quartile companies with ACVs north of $50,000 report NRR greater than 115%.

Figure 2



Excludes Companies with less than $1M ARR

Retention and Growth Rate

Generally speaking, higher growth is associated with higher retention and vice versa. This is the "leaky bucket" metaphor. The higher your retention, the easier it is to grow that much faster because you don't have to first refill the bucket before adding to it. The impact of retention is also cumulative as it repeats and expands on itself year after year. The opposite is also true.

There is a strong and exponential correlation between net revenue retention and growth. The correlation between growth and NRR is intuitive, as net retention includes what are essentially new "sales" in the form of price increases, upgrades, upsells, and cross-sells, all of which help grow revenue year-over-year. The cumulative compounding nature of NRR is clearly evident in the chart.

Across the entire survey sample of companies with more than $1 million in annual recurring revenue (ARR)[1], the median growth rate was 40%. The growth rates for groups of companies with NRR of at least 110% was higher than the population median, and the growth rate for companies with NRR below 110% was lower than the population median.

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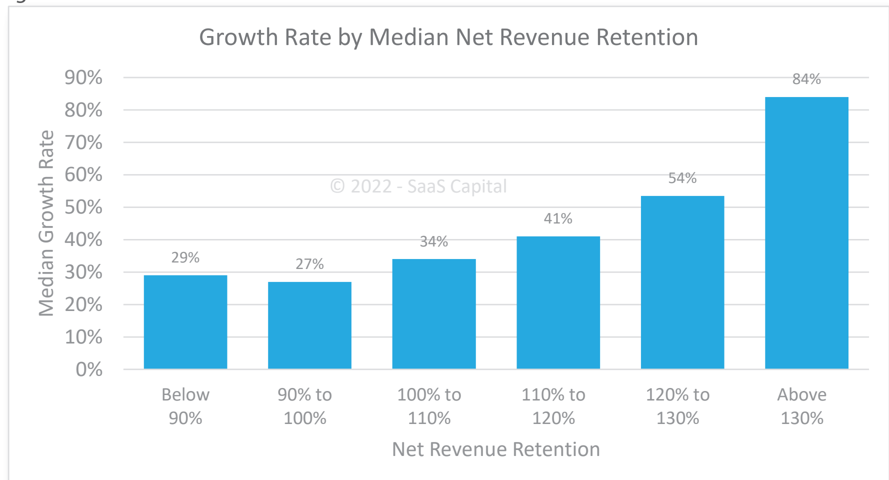
Figure 3 shows that increasing NRR from 90 or 100% to 110% improves growth rate by 5%, increasing NRR from 110% to 120% improves growth by 7%, increasing NRR another 10% improves growth by 13% and another 10+% improves growth by another 30%! This is a rare example of increasing returns from investment in upsells and cross-sells.

Figure 3



Excludes Companies with less than $1M ARR

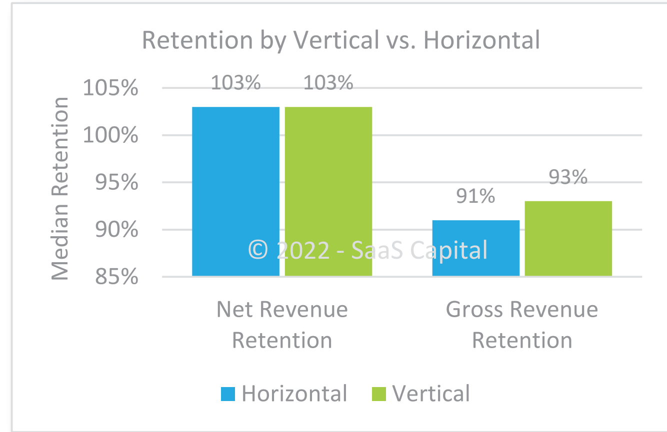
The relationship between gross revenue retention and growth is not as direct and is more binary. There is no correlation between GRR and growth rate for companies with gross retention of at least 80%. Said another way, companies with 80% to 100% GRR all report median growth of around 40%, the same as the total sample of companies. But companies with gross retention below 80% reported growth below the population median of 40%.

[1] *We frequently exclude data from companies with less than $1 mill in ARR because of the small revenue denominator in growth rate calculations.*

Retention for Horizontal vs. Vertical Solutions

Looking at whether a company sells a vertically focused product (e.g., dental office management software) versus a horizontal product (e.g., new hire applicant tracking) reveals a new development. In our previous year's survey, during the pandemic, we saw that vertically focused companies reported better retention than horizontally focused companies. The difference there has flattened out. *Figure 4* shows median net revenue retention is the same for both groups while vertically focused companies show slightly higher median gross retention.

Figure 4



Excludes Companies with less than $1M ARR

Retention in VC-Backed vs. Bootstrapped Companies

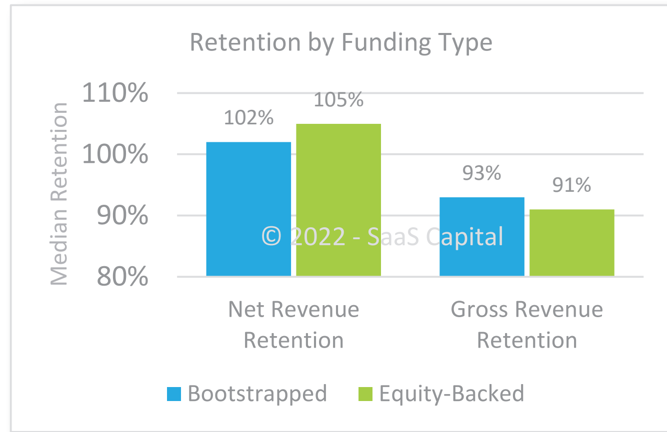
The dynamic between bootstrapped companies and equity-backed companies continues to evolve. Historically we had seen that equity-backed companies showed markedly higher net and gross retention.

Last year's survey showed bootstrapped companies had erased the disparity in median net revenue retention and reported higher median gross retention than equity-backed companies for the first time.

Figure 5 shows equity-backed companies are again reporting slightly higher NRR while bootstrapped companies continue to show slightly higher GRR.

The erosion of the previous pattern of equity-backed companies reporting notably higher NRR and GRR suggests that best practices in "customer success" are now fully disseminated throughout the SaaS industry, whereas previously it was a niche concept advocated by experienced executives-turned-venture capitalists advising their portfolio companies or only seen as a nice-to-have employed by externally funded companies and not worth bootstrapped companies allocating money towards. Whatever the reason, CS is now clearly a SaaS best practice.

Figure 5



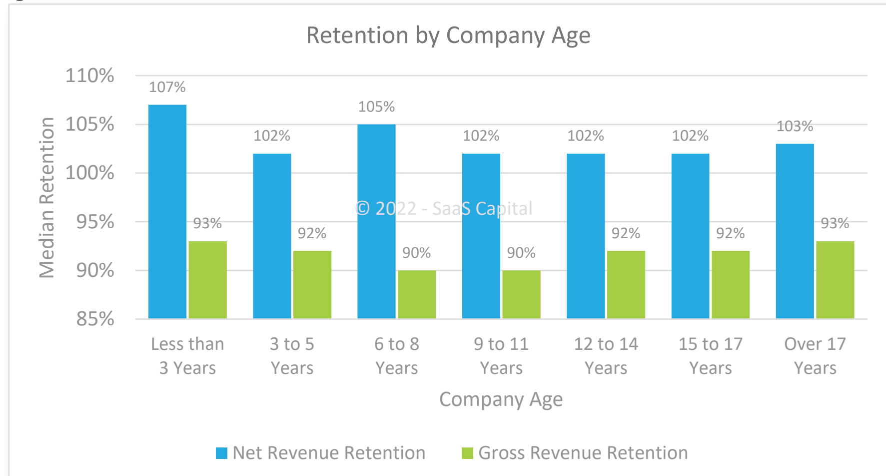
Excludes Companies with less than $1M ARR

Retention by Company Age

For the most part, company age isn't a factor in retention, especially net retention. However, there is an important exception related to gross retention. A point we have made in the past is that younger SaaS companies tend to show inflated gross retention numbers because their customers haven't yet had a chance to churn.

Figure 6 illustrates this point. Companies less than 3 years old report median gross retention of 93%. After 3 years, when companies enter their "scale-up" and growth phases, retention slips and eventually stabilizes around 90%. Then in years 11 and on, GRR increases again, as the product and customer base solidifies. It is important for management teams and boards to understand this retention "lifecycle" as SaaS companies scale.

Figure 6

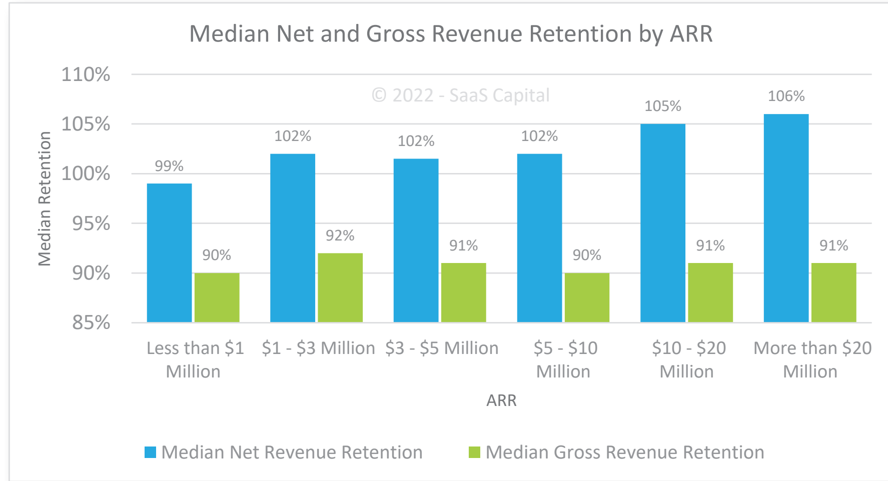


Excludes Companies with less than $1M ARR

Retention by ARR

Following the point about company age, another way to measure maturity is by the size of a company. *Figure 7* shows both median net revenue retention and median gross retention by ARR.

Figure 7



Gross revenue retention by ARR echoes the data in *Figure 6*. We know from other analysis that it typically takes a company on average six years to reach $1 million in ARR, so the curve here is consistent with companies having slightly overstated GRR until year five or six and ARR of $3 to $5 million, before entering their scale phase in years five through ten, and ARR levels of $5 million to $10 million, before retention again improves.

Note that in both *Figure 6* and *Figure 7* the differences between each cohort are slight, but we have seen a similar shape to the data for numerous years.

The positively correlated relationship between median net revenue retention and ARR is one we have previously not seen in our annual surveys. Historically, net revenue retention was largely the same across all company sizes. We now see an emerging pattern of NRR increasing as companies scale.

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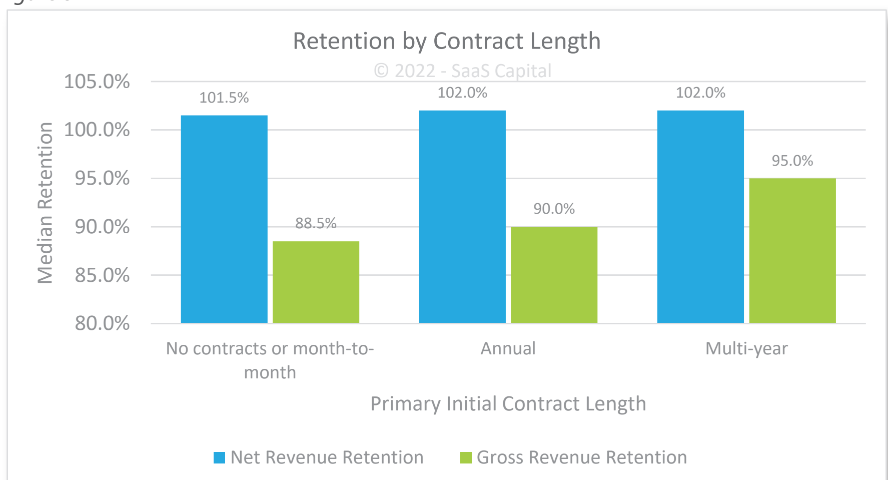
A possible explanation of this could be the convergence of two points noted above. First, net retention has a strong, cumulative, and compounding impact on growth year-on-year-on-year. Second, data elsewhere in this analysis indicates companies are now fully embracing customer success as a table stakes SaaS strategy, with positive results.

Retention by Contracting Length

A frequently asked question is whether contract length (annual and multi-year versus monthly) impacts retention. It makes intuitive sense that longer-term contracts would reduce churn, but the data is mixed.

Figure 8 shows companies that primarily use annual and multi-year contracts show net revenue retention that is essentially the same (~102%) as those offering month-to-month terms. The data on gross retention does seem to support the idea that long-term contracts are conducive to reducing gross churn.

Figure 8



There may be some COVID impact (more customers breaking and canceling contracts) to these numbers as this point had been more conclusive in prior-year surveys.

Conclusions and Takeaways

> ***"Growth rate is positively and exponentially correlated with net revenue retention, while gross revenue retention is a "table stakes" benchmark – to have a shot at performance parity with your peers, GRR must be at least 80%."***

- Across all SaaS companies, median net retention is 102%, which is up from the prior year's reading of 99%. Meanwhile, median gross retention is 91% compared to the previous year's survey reading of 92%.
- Higher-ACV products show higher net and gross retention. For companies with ACVs below $100k, 92% gross retention is the norm. Higher ACV companies should benchmark to 95%.
- Companies with ACVs of $25k or higher report median net retention of ~105%.
- Gross retention during the first 3 to 5 years of a company's life may be artificially elevated until customers have had enough time to churn. GRR by ARR corroborates this point, and, while the changes are slight, GRR declines as companies reach $3 million of ARR, then increases as the companies scale.
- Growth rate is positively and exponentially correlated with net revenue retention, while gross revenue retention is a "table stakes" benchmark – to have a shot at performance parity with your peers, GRR must be at least 80%. Above 80% there is no correlation, but GRR and growth are correlated for gross retention below 80% (the upshot there is that if your GRR is below 80%, the data suggest that growth rate will increase ratable with any increase in GRR up to 80%).
- While the median NRR is 102% across the entire survey, the benchmark to target for median growth rate of 40% is NRR of at least 110%.
- Bootstrapped companies report slightly higher gross retention than equity-backed companies while equity-backed companies report higher net revenue retention. Historically VC-backed companies have had higher retention across both metrics.
- Vertically focused companies reported slightly better median gross retention than horizontally focused companies. Net revenue retention was the same for both groups.
- Contracting length does not appear to impact net revenue retention but does show a relationship with gross retention.

Retention Definitions and Formulas

We asked companies to report their net and gross annual revenue retention data. Customer account retention may be a useful metric for you to track, but our focus in the survey, and generally the retention metric we think the most important, is based on dollars of revenue. We define net retention as:

(Monthly Recurring Revenue in December of 2021 only from customers who were customers in December 2020)

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(Total MRR in December 2020)

This number can be anything from 0% to well above 100%, as it includes upsells, new product cross-sells, and price increases. Annual gross retention is the same formula, excluding the upsells, cross-sells, and price increases. (For easy calculation, set each customer's 2020 MRR to be less than or equal to their 2020 MRR.) For this reason, gross retention cannot exceed 100%.

About SaaS Capital

SaaS Capital is the leading provider of growth debt designed explicitly for B2B SaaS companies. SaaS Capital's growth debt is structured to provide a significant source of committed funding, deployment flexibility, and lower overall cost of capital, all while avoiding the loss of control and dilution associated with selling equity. SaaS Capital was the first to offer lending alternatives to SaaS businesses based on their future recurring revenue. Since 2007, SaaS Capital has deployed $234 million in growth debt to deliver better outcomes for 70+ clients, resulting in $983 million in total enterprise value created.

Benefits of SaaS Capital's unique, SaaS-focused approach:

- **Higher advance rates** - Capital availability is based on a multiple of your monthly recurring revenue (MRR) – typically 4x to 7x MRR
- **Capital availability that grows with your business** - The amount of capital that you can draw increases automatically as your revenue grows
- **Long-term source of capital** - The capital is drawn down over 2 years under the committed line of credit, and then either renewed, or repaid over the following 3 to 4 years
- **Efficient use of capital** - Capital is drawn down only as your business needs it, thereby reducing your interest expense
- **Flexibility -** No balance sheet covenants or cash reserve requirements

SaaS Capital is best able to assist companies with the following attributes:

- Sell a SaaS-based solution
- Seeking $2M to $20M in growth capital
- $250,000, or above, in MRR
- Have a minimum of 85% retention
- Registered and principally banked in the U.S., Canada, or UK
- Revenue growth above 15% per year

Your business does *NOT* need to be:

- Venture Backed
- Profitable
- Billing your customers monthly

Visit www.saas-capital.com to learn more.

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