SaaS Capital Insights

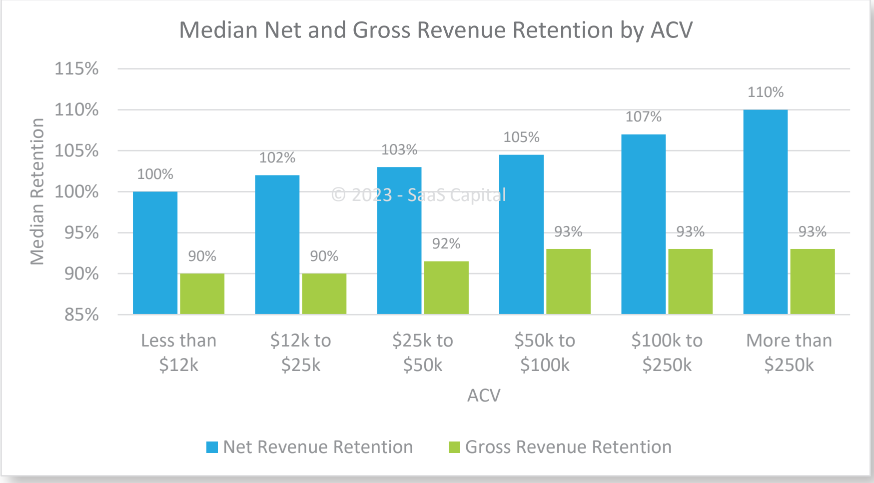
In Q1 of each year, SaaS Capital conducts a survey of B2B SaaS company metrics. This year's study marked our 12th annual survey, with more than 1,500 private B2B SaaS companies responding, making it the largest survey of its kind. Below are our findings on retention.

2023 B2B SAAS RETENTION BENCHMARKS

As we have noted for many 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.

While ACV is the best starting point for benchmarking retention, it's worth noting that the relationship has evolved over time. Prior to our 2020 survey, higher gross retention was directly correlated with higher ACVs while net retention was fairly consistent across all ACVs. Beginning with the 2020 survey, the data showed that while the companies with the very highest ACVs still had the highest gross retention, higher net retention was starting to correlate with higher ACVs. This year's survey clearly illustrates the relationship with median net revenue retention rising as ACVs increase.

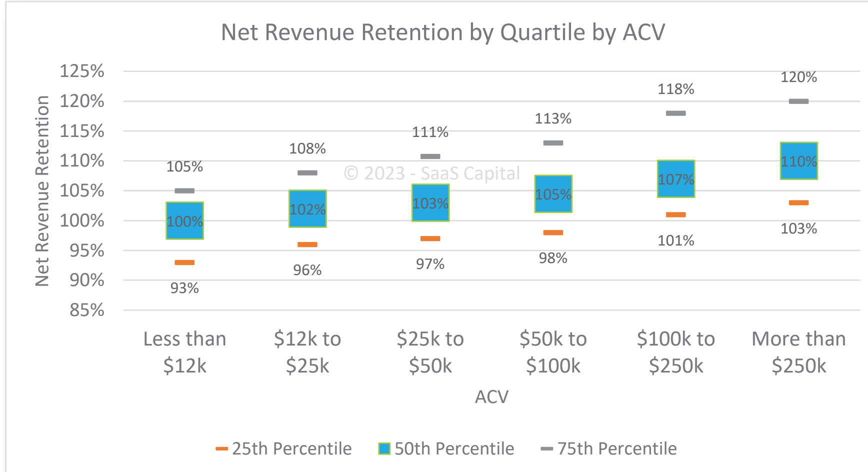
Companies with ACVs above $25,000 show median gross revenue retention of ~93%, while companies below $25,000 show 90% median gross revenue retention. This relationship makes intuitive sense. Higher-priced solutions often involve a longer sales cycle, in-depth scoping and implementation, and dedicated support and account management, all of which yield a stickier product.

"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."

Net Revenue Quartiles

Digging deeper into the net revenue benchmarks, Figure 2 shows NRR broken into quartiles for the same ACV categories. Companies with ACVs above $25,000 show median net revenue retention of at least 103%. However, as the chart shows, even the 25th percentile for these companies report NRR of 97% to 103%. Top-quartile companies with ACVs north of $100,000 report NRR of 118% to 120%.

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 34%.

The growth rates for groups of companies with NRR of at least 110% were higher than the population median, and the growth rate for companies with NRR below 100% was lower than the population median.

Figure 3 shows that increasing NRR from the 90% to 100% range to the 100% to 110% range improves growth rate by 9 percentage points.

Companies with the highest NRR report median growth that is double the population median. This is a rare example of increasing returns from investment in upsells and cross-sells.

The relationship between gross revenue retention and growth is not as direct and is more binary. Companies with gross retention below 90% reported growth below the population median of 34%.

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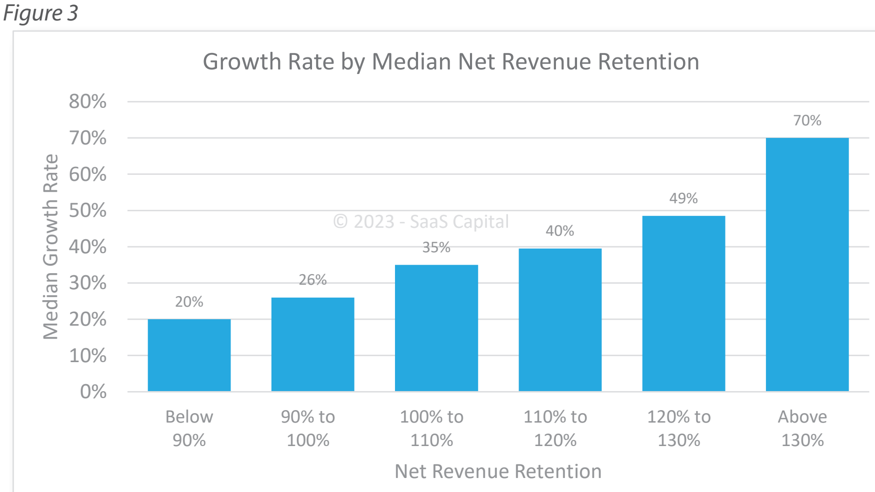
Figure 3



Excludes Companies with less than $1M ARR

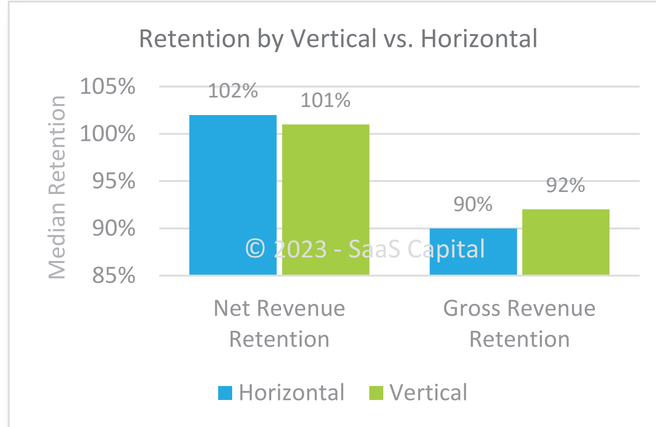
[1] *We frequently exclude data from companies with less than $1 mill in ARR because of the small revenue denominator in growth rate calculations.*

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 only minor, and mixed, differences. During the pandemic, we saw that vertically focused companies reported better retention than horizontally focused companies but that relationship has faded.

Figure 4 shows median net revenue retention is slightly higher for horizontally focused companies 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

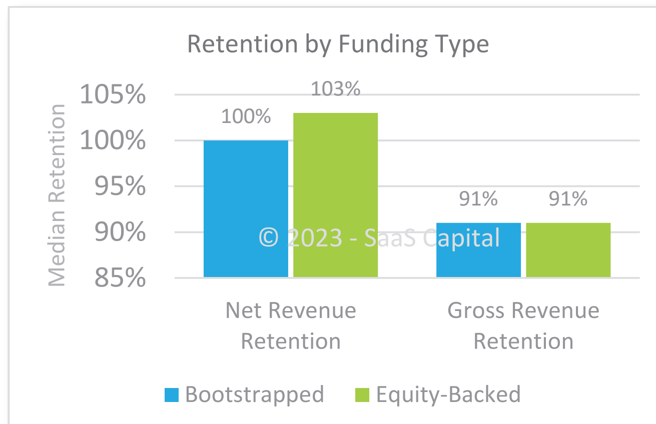
The dynamic between bootstrapped companies and equity-backed companies has also evolved over time. Historically we had seen that equity-backed companies showed markedly higher net and gross retention.

Figure 5 shows equity-backed companies are reporting slightly higher NRR while there is no difference in 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, customer success 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 toward. Whatever the reason, CS is now clearly a SaaS best practice in 2023.

Figure 5



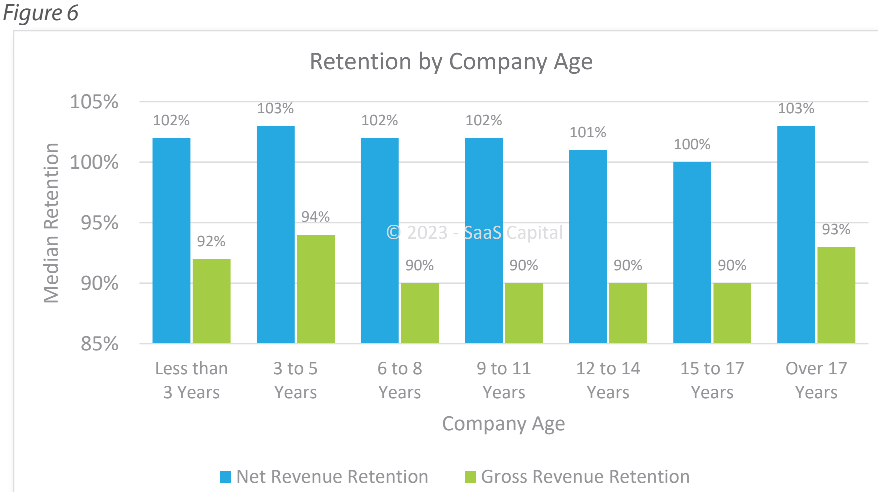
Excludes Companies with less than $1M ARR

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 5 years old report median gross retention of 92% to 94%. As they enter their "scale-up" and growth phases, retention slips and eventually stabilizes around 90%. It is important for management teams and boards to understand this retention "lifecycle" as SaaS companies scale.

Figure 6



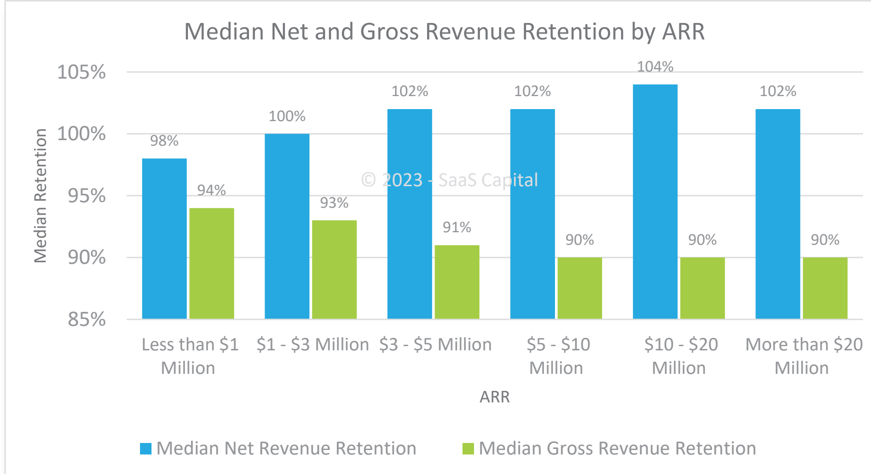
Excludes Companies with less than $1M ARR

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.

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.

Figure 7



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 that emerged in our 2022 survey. Historically, net revenue retention was largely the same across all company sizes. We now see an emerging pattern of NRR increasing as companies scale.

A possible explanation for 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.

> ***"Historically, net revenue retention was largely the same across all company sizes. We now see an emerging pattern of NRR increasing as companies scale."***

Retention by Contracting Length

A frequently asked question is whether contract length impacts retention. It makes intuitive sense that longer-term contracts would reduce churn.

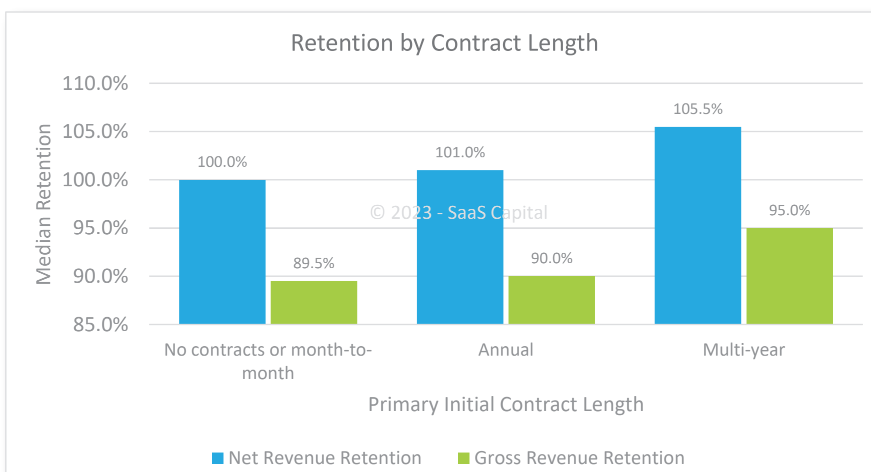
Figure 8 shows companies that primarily use month-to-month terms and annual contracts show median net revenue retention and median gross revenue retention that is essentially the same at 100% and ~90%, respectively.

Companies primarily utilizing multi-year contracts show higher median net revenue retention and median gross revenue retention, which seems to support the idea that long-term contracts are conducive to reducing churn.

However, it should be noted that this is not a relationship that has been consistent in previous survey results. Historically, net revenue retention showed little correlation with contract length while the 2022 survey was the first year to show higher gross revenue retention with multi-year contracts.

Given the economic slowdown in 2022, this might be a situation where multi-year contracts haven't yet come up for renewal and therefore had a chance to churn.

Figure 8



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 90%."***

- Across all SaaS companies, the 2023 median net retention is 102%, which is unchanged from 2022. Median gross retention is 91%, also unchanged from the previous year's survey.
- One of the biggest takeaways this year is the evolving relationship between median net revenue retention and ACVs. Historically, the data showed little correlation. Over the last few years, we have seen signs that the highest ACVs showed higher median net revenue retention. This year's data showed a direct, positive relationship with median net revenue retention rising as ACVs increase.
- Higher-ACV products show higher net and gross retention. For companies with ACVs below $25k, 90% gross retention is the norm. Higher ACV companies should benchmark to 93%.
- Growth rate continues to be 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 90%.
- While the median NRR is 102% across the entire survey, the benchmark to target for median growth rate of 34% is NRR of at least 100%.
- Gross retention during the first 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 stablizes.
- Equity-backed companies report slightly higher net revenue retention than bootstrapped companies while there was no reported difference in gross retention. Historically, VC-backed companies have had higher retention across both metrics and the erosion of that relationship suggests that best practices in customer success are now fully disseminated.
- Whether a company sells a vertically focused product or a horizontal product shows only minor, and mixed, differences.
- Contracting length shows a potentially developing relationship where multi-year contracts show higher median net revenue retention and median gross revenue 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 is the most important, is based on dollars of revenue. We define net retention as:

(Monthly Recurring Revenue in December of 2022 only from customers who were customers in December 2021)

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(Total MRR in December 2021)

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 2021 MRR to be less than or equal to their 2021 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 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 committed more than $375 million in growth debt facilities to deliver better outcomes for our 110+ clients, resulting in more than $2 billion 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 5x to 8x 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
- **Cost is simple and transparent** - Interest rate of 12% to 14%, a 1.0% to 1.5% commitment fee, and a nominal penny warrant
- **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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