

HOW TO CALCULATE

Net Revenue Retention

Net Revenue Retention is a metric that assesses the changes in recurring revenue by accounting for fluctuations in the existing revenue base. It's a powerful metric because it eliminates new customer revenue as a variable.

This metric can help you identify if your company is losing revenue from contractions in the existing customer base or if you have engaged customers spending more money on the platform over time.

Typically, you'll calculate your Net Revenue Retention on a monthly or quarterly basis.

Here's What You Need to Know to Calculate Net Revenue Retention:



Monthly Recurring Revenue (MRR)

New Customers + Increase Use and Upgrades from Existing Customers



Expansions

Increase Use + Upgrades from Existing Customers

(example: an existing customer upgrades from a \$4.99 subscription to a \$9.99 monthly subscription, then the expansion equals \$5.)



Downgrades

Decreased Use from Existing Customers

(example: an existing customer downgrades from a \$9.99 subscription to a \$4.99 monthly subscription, then the downgrade equals \$5.)



Churn

Customers Who Leave the Platform

(example: an existing customer cancels a \$9.99 subscription plan; churn equals \$9.99.)

Net Revenue Retention Formula

$$\frac{(\text{MRR} + \text{Expansion} - \text{Downgrades} - \text{Churn})}{\text{Monthly Recurring Revenue}} \times 100 = \text{NRR\%}$$

If net revenue retention is more than 100%, existing customers contribute to recurring revenue growth. If it is less than 100%, existing customers contribute to recurring revenue contractions.

Example

Here is how a streaming service might calculate net revenue retention:

MRR = \$10,000, Expansions = \$3,000, Downgrades = \$1,000, Churn = \$500

$$\frac{(10,000 + 3,000 - 1,000 - 500)}{10,000} \times 100 = 115\%$$

Using this formula, you could discover that while you have net revenue growth, you're losing income from current customers who are downgrading or canceling.

This means your product teams can examine the user experience closely to increase net revenue retention, which would result in even greater net revenue gains.

