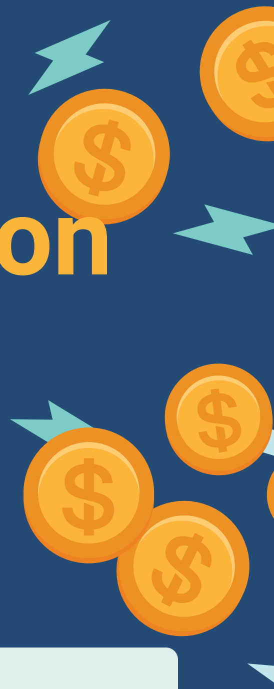
HOW TO CALCULATE

Net Dollar Retention



Net Dollar Retention (NDR) 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 who are spending more money on the platform over time.

Here's What You Need to Know to Calculate NDR:

Monthly Recurring Revenue (MRR)

New Customers + Increase Use and Upgrades from Existing Customers

Expansions

Increase Use + Upgrades from Existing Customer

(example: an existing customer upgrades from a $4.99 subscription to a $9.99 a month 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 a month 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).

$$\frac{(\text{MRR} + \text{Expansion} - \text{Downgrades} - \text{Churn})}{\text{MRR}} \times 100 = \text{NDR}\%$$

If NDR is more than 100%, it means that existing customers are contributing to recurring revenue growth. If it is less than 100%, it means existing customers are contributing to recurring revenue contractions.

Example
Here is how a streaming service might calculate Net Dollar Retention:

MRR = $10,000, Expansions = $3000, Downgrades = $1,000, Chun = $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 dollar retention, which would result in even greater net revenue gains.

Learn more ways to connect your go-to-market plans to the metrics that matter to your company in our *Market* course. **pragmaticinstitute.com**

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