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Driving sustainable and repeatable growth in Enterprise SaaS

PART OF A SERIES ON SAAS & SUBSCRIPTION MODELS

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Driving sustainable and repeatable growth in enterprise SaaS

Part one of Deloitte's series on enterprise SaaS explores the growing prominence of Net Dollar Retention (NDR) as a growth and valuation metric and steps that organizations must take to scale NDR.

Over the past decade, SaaS companies—and those trying to showcase growing recurring revenue—have considered Annual Recurring Revenue (ARR) the primary metric to measure growth and health. In general, three levers drive ARR: customer acquisition, retention of existing customers, and expansion of existing customers (via cross-sell or upsell). For a long time, companies prioritized acquisition as the main driver of growth, but increasingly, they have begun to focus on retention and expansion to sustain top-line growth and bolster the bottom line.

As soon as Enterprise SaaS companies gain product-market fit and build a repeatable, scalable sales motion, retention and expansion become almost as critical (if not more critical) as acquisition to sustain growth. As companies examine the sources of their ARR, the captive customer base often represents untapped growth potential. Today, companies can enable 67% greater spending (expansion) from existing customers over revenue from new customer contracts. In addition, companies can often see profit growth of 25% or more with only a 5% increase in retention rate. This is attributed to the lower cost of sales when selling to customers over prospects. Indeed, due to reductions in barriers to entry, even the barrier to disruption, for new providers—including from cloud, open-sourcing, and lower switching costs—companies are focusing on retaining and expanding the customer base while continuing to drive logo acquisition.

Today, companies are distributing sales and marketing spend across customer acquisition, retention, and expansion by creating an automated, low-friction buying process that does not require direct sellers for small deals, which, in turn, allows them to dedicate high-performing go-to-market teams to expansion deals. The other dynamic at play is that year-long acquisition sales cycles with large deal sizes have given way to rapid deal cycles with lower average ticket value. New Relic, for example, dedicates sellers to accounts with an ARR of more than $25,000 while using a self-service model for smaller customers. This is called "bottom-up sales" or "product-led growth," which we will explore in an upcoming article. In addition, Customer Success (CS) is a maturing function within most SaaS organizations and employs repeatable practices to drive customer value through user adoption. Finally, retention and expansion ensure that companies create a larger pool of advocates who can serve as references for new customers, which helps reign in Customer Acquisition Cost (CAC).

As the focus on retention and expansion strategies grows, companies are expanding their metrics toolkit to include a new metric favored among investors and operators alike: NDR. This article discusses what NDR—also referred to as Net Expansion Rate or Dollar-based Net Revenue Retention—indicates about a company's health, why it is being used as an important metric by companies and investors to measure growth, and what steps organizations can take to scale NDR.

The rise of net dollar retention (NDR) as an indicator of growth

Traditionally, SaaS companies tracked metrics, such as CAC, Customer Lifetime Value, Churn, and Net Promoter Score (NPS) to monitor company growth and health. While these metrics are still relevant today, the shift toward retention and expansion-driven growth has pushed companies to adopt NDR as an additional—if not primary—metric.

[1]

Figure 1. NDR and its relation to ARR

NDR measures growth across a company's captive revenue base or ARR, accounting for changes in customer upgrades, downgrades, and churn (figure 1). An NDR greater than 100% indicates that growth from the existing customer base offsets any losses—downgrades or churn. For B2B SaaS companies, NDR typically ranges from 90% to more than 150%, with most companies operating in the 100% to 115% range. For example, Snowflake is well known for its high NDR, which often exceeds 170%, indicating an ability to grow customer value rapidly and consistently (figure 2).

Figure 2. NDR for Enterprise vs. SMB customers

Customer type	Enterprise	SMB
Below Average	<100%	<80%
Average	106%	95%
Above Average	>125%	>105%

If acquisition remains equal, a slight uptick in NDR implies a significantly higher revenue growth (see figure 3). For example, with an NDR of 120%, Company C will see 1.7x revenue growth in three years, compared to Company B, which will see only 1.3x revenue growth over the same period—a 30% increase.

Figure 3. NDR impact on company's revenue growth company

		Revenue from captive customers			
	NDR	Year 0	Year 1	Year 2	Year 3
Company A	100%	$100	$100	$100	$100
Company B	110%	$100	$110	$121	$133
Company C	120%	$100	$120	$144	$173

Additionally, the revenue growth that a company can see over the years can vary significantly based on NDR. For example, **a company with an NDR of 160% can expect to see 2.4x revenue in three years relative to an NDR of 120%.** Finally, NDR indicates whether a company is taking share from competitors. If NDR growth is higher than growth in total spend, it implies increasing share of wallet (see figure 4).

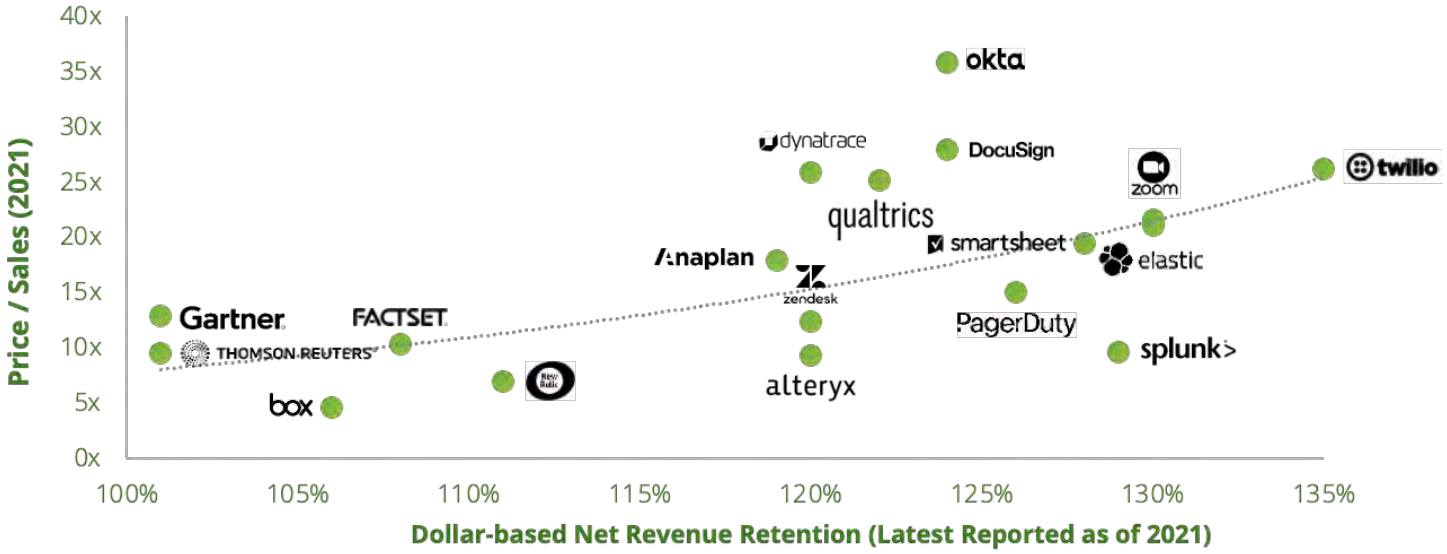
Figure 4. NDR correlation with share of wallet

		Company A			Company B		
Year	**IT budget**	Spend	Share of Wallet	NDR	Spend	Share of Wallet	NDR
Year 1	**$100M**	$50M	50%	—	$50M	50%	—
Year 2	**$120M**	$60M	50%	120%	$60M	50%	120%
Year 3	**$120M**	$70M	58%	140%	$50M	42%	100%

NDR is a leading indicator of, and positively correlated with, valuation. **High NDR reveals that customers are continuously deriving value from a product, indicating a strong potential to cross-sell new products, expand share of wallet through upsell (e.g., users, data ingested, licenses, service tiers), and generate additional references.**

Investors, too, have begun to recognize NDR as an essential indicator of business health and are now using it in their valuation toolkit (see figure 5). The companies include those that both are the largest B2B software companies by market cap and report NDR regularly. **Today, a 10% increase in retention can increase valuation by up to 30%.** In fact, Twilio, which has consistently reported NDR ranging from 130%–150% since 2016, saw a 5% decline in its stock price when NDR came in lower than expected, even though it beat expectations on revenue growth.

Figure 5. Company NDR rates (latest reported)



However, not all companies report NDR. In addition to some media companies with long-standing subscription businesses, we have noticed that NDR is a metric typically reported by newer SaaS companies —those that are reported close to IPO or have gone public in the 2018–2021 time frame—or those that use consumption-based pricing. However, companies with established customer bases are those most likely to grow through retention and expansion and should consider adding NDR to the list of management and reporting metrics. Indeed, many software companies are considering consumption-based pricing, something we will explore in an upcoming paper, which also lends itself to NDR.

Several factors contribute to NDR growth—a sticky product, a portfolio of offerings to drive expansion, a comprehensive support and services portfolio, a proactive CS organization, a data foundation with data science capabilities to predict expansion opportunities and churn risk, and loyal customers advocating for a company's product in the market, among others. Together, these reflect product value, customer health, and the growth potential of customers acquired in the future. **The positive correlation between NDR and numerous business health indicators (customer adoption, product value realization, customer satisfaction, and customer advocacy) makes it a solid complement to traditional metrics, such as ARR, CAC, and NPS.** However, driving NDR growth will require companies to bolster capabilities across product, go-to-market, and CS.

Securing NDR with end-to-end customer outcomes

Over the past few years, SaaS companies—both those "born in the cloud" and those transitioning to SaaS and recurring revenue models—have made significant investments in helping customers realize value across their usage journey. However, these touchpoints are often infrequent and predefined, such as the initial purchase (e.g., quantifying a business case), the point of renewal (e.g., developing a "lookback"), or when onboarding a new user (e.g., training recommendations). **Today, companies are starting to infuse customer value seamlessly throughout the journey and often even before the customer purchases—during the product ideation and development cycles.** This shift is driven by a need to avoid churn, re-earn a customer's share of wallet by meeting their business and technical goals, and most importantly, "delighting" the customer.

Indeed, as customers are offered more choices at every stage and for every use case, the onus increasingly shifts to providers to deliver experiences that mitigate adoption complexity, drive value realization, and support NDR. Slack is one such company that embraced this mindset from inception, enabling it to retain customers, compete against larger, more established competitors, and achieve a $7 billion valuation at IPO in 2019. Slack's CS strategy includes investing heavily in incentive-based programs for CS managers and intensive training for technical support specialists to ensure customers who purchased Slack adopt and realize value.

This focus—or obsession—with customer satisfaction and achieving customer outcomes has, in turn, created greater demand for CS. Several companies—some even outside traditional SaaS—have followed Salesforce's lead and set up broad-ranging CS capabilities that span advisory, onboarding, implementation, training, certification, and support to drive customer outcomes and, as a result, NDR. However, it is only the first step in the process. For example, a 2021 Deloitte Survey of B2B SaaS buyers (figure 6) revealed that most customers see value in adoption and optimization services, and approximately 50% are willing to pay a premium for support services that can enable successful business outcomes.

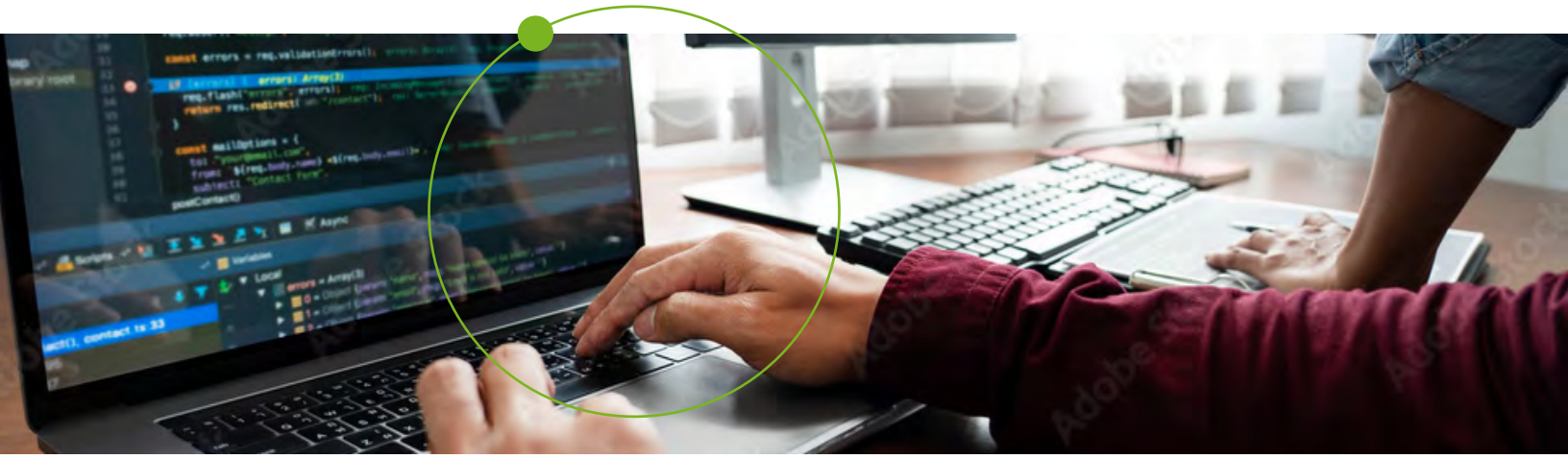
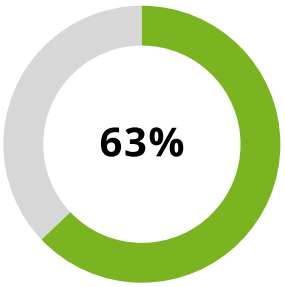
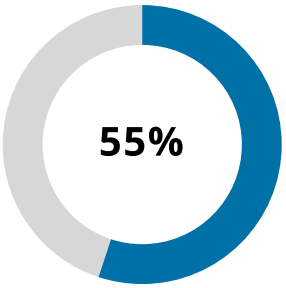


Figure 6. 2021 Deloitte B2B SaaS Buyers Survey – Customer willingness to pay

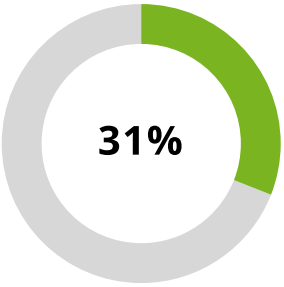
- Monitoring solution usage and periodic sharing of best-practices and process reviews to drive faster solution adoption, higher usage and increased ROI
- Providing guidance on best practices, recommending advanced features sets and managing stability and performance

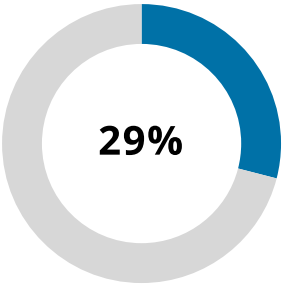




Respondents indicated that **adoption and optimization services impact business outcomes**

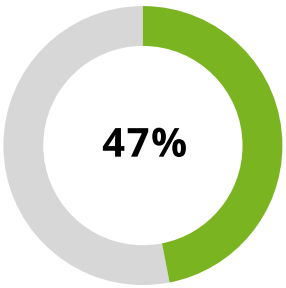
% of respondents who believe CS services has an **impact on business outcomes**

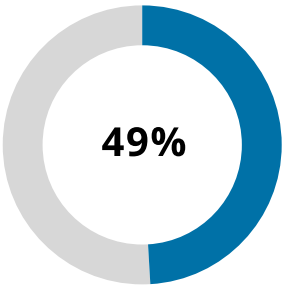




While a **majority are unsatisfied with the efficacy of existing services** in helping them achieve their objectives...

% of respondents **satisfied with services**





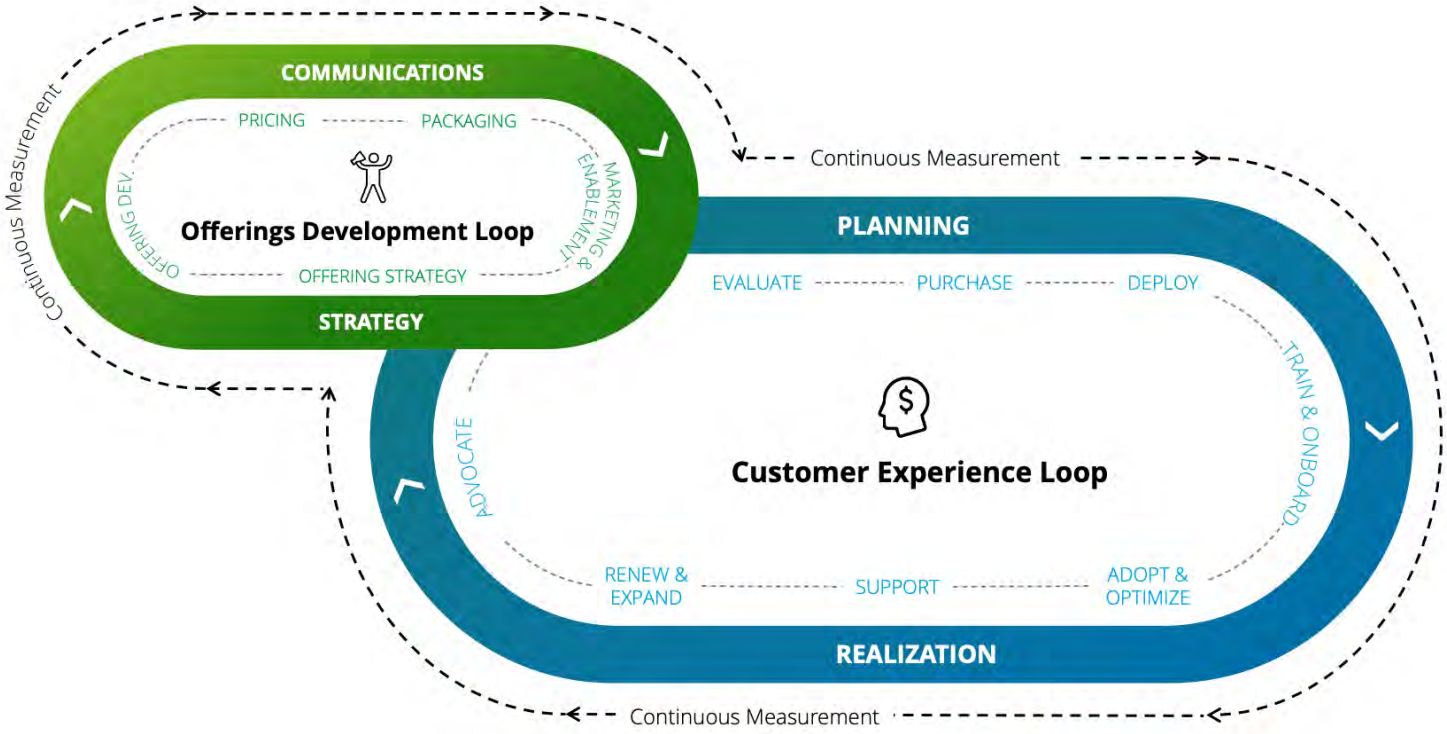
...50% indicated that **they are willing to pay for better quality services** that can enable successful outcomes

% of respondents **willing to pay for CS**

So, how can providers adopt a customer value mindset across the business in a way that is scalable, repeatable, and optimizes cost-to-serve? To begin, organizations must determine the appropriate levels, channels and assets to drive engagement across value planning (pre-sales), deployment, adoption, support, and periodic value check-ins. When done right, these both create value for customers and uncover valuable information about products, services, and experiences that can be used to improve and scale offerings. We call this the Customer Value Loop (figure 7).

At each stage, every function that engages the customer—typically product, sales, marketing, partners, and CS—must work collaboratively to proactively orchestrate customer outcomes and deliver incremental value. The integrated loop consists of four stages: **Value Strategy**, which includes product strategy and design; **Value Communications** to price, package, position, and market; **Value Planning** to architect and adopt the right solution for their needs; and **Value Realization** to maximize value, including through use case expansion.

Figure 7. Integrated Value Loop



Proven tactics to sustain NDR improvements

Maximizing customer value—and by extension, creating opportunities to drive NDR—requires a coordinated effort across functions and teams, built on a solid foundation of data governance, process scalability, and role clarity. However, achieving NDR truly takes a village with active participation not only across customer-facing functions, but also product, services, technology, and operations teams. This "village" requires a leader (different from a singular owner) to develop a unified customer vision and orchestrate across the various functions. Across the industry, CS has emerged as this central function and steward of the post-sale journey working across functions, teams, and roles to elevate customer outcomes, orchestrate capabilities, and deliver NDR at scale.

In the following paragraphs, we discuss the eight elements of Customer Value. Within each are a set of capabilities required; while not exhaustive, these represent a broad range of outcomes that—if implemented—will drive meaningful and sustainable NDR growth (figure 8).

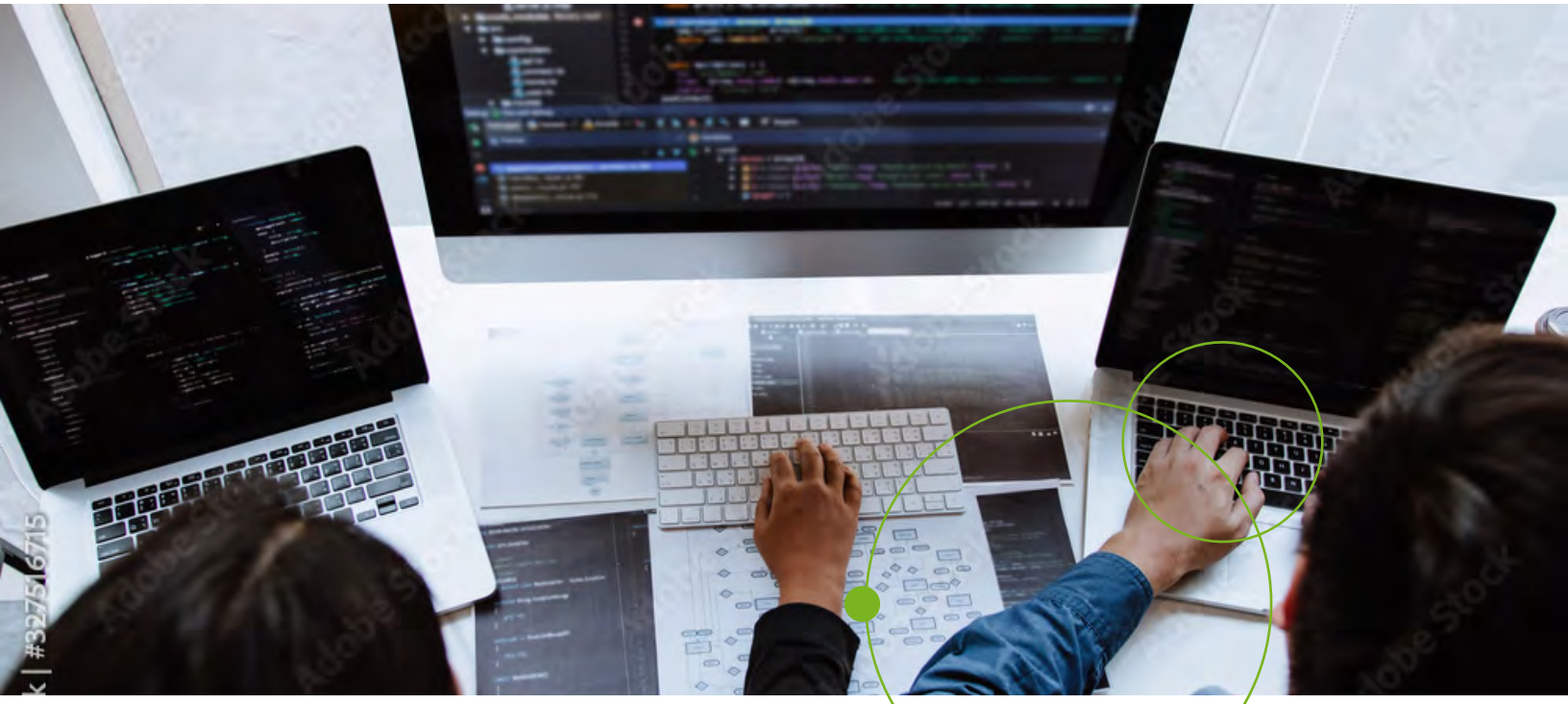
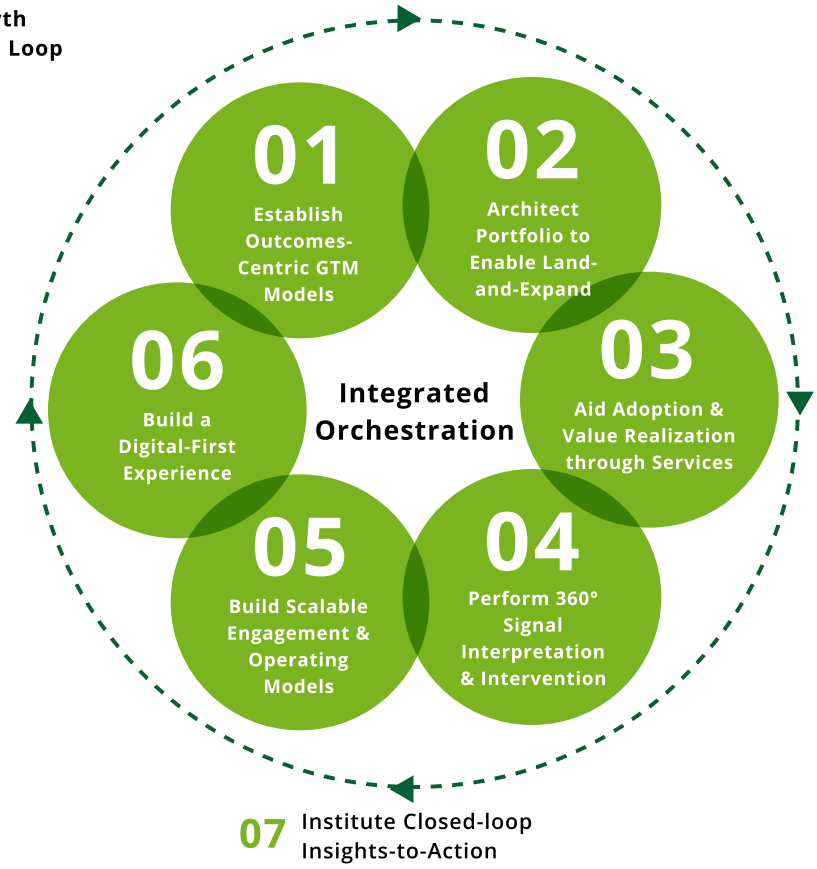


Figure 8. Driving NDR growth across the Customer Value Loop



01 **Establish outcomes-centric GTM models** – Companies typically engage customers through various channels—physical and digital, direct, and indirect, low touch and high touch—to position on a path to value. For most enterprise customers, this takes the form of a reference architecture, typically delivered by a sales engineer, and an adoption plan, typically crafted by a CS manager. Cutting-edge SaaS companies build bottom-up motions, including "see-try-buy" and DIY CS offerings, such as videos, guides, and communities, to help customers experience value before ever committing to a purchase. Here, companies continuously partner with customers to help meet—and exceed—their planned/desired outcomes through services, training, and support. In addition, leaders focus on ensuring that customers fully experience—and ideally embrace and advocate for—products and services.

02 **Architect portfolio to enable land-and-expand** – Most companies add offerings over time, including ways to monetize (e.g., user, consumption, time-based), delivery models (e.g., on-prem, bring-your-own-license, cloud), and product lines. While these can create customer value if positioned and targeted well, they also create selling complexity and can dilute the experience. Organizations can adopt a customer value mindset by uncovering personas, understanding each persona's journey and unmet needs, and designing offerings to meet these needs. This is an iterative process, and providers with a 360-degree view of their customers can mine data (feature usage, license utilization, customer preferences, pain points, feedback) to inform road maps. As such, leaders have begun build portfolio development and management teams, which play a crucial orchestration role across product management, marketing, pricing, and customer success, to ensure that packages are constructed in ways that are easy to understand, simple to transact, and provide a pathway to value expansion (e.g., good-better-best product lines).

03 **Aid adoption and value realization through services –** This principle focuses on positioning, packaging, pricing, and communicating products and services to generate awareness, interest, and engagement. Similarly, Marketing can measure reactions to in-product messaging and email outreach to launch more targeted campaigns. Some companies have invested heavily in tiering (e.g., free, basic, enterprise, and professional tiers) and guided selling, success plans, and automated attach motions. In addition, companies are pushing the boundaries of traditional marketing with differentiated content (e.g., guides and e-books), new channels (e.g., developers and forums), and new outcomes (e.g., free trials using a see-try-buy motion). We will discuss these topics in a forthcoming paper.

04 **Perform 360° signal interpretation and intervention –** The ability to drive real-time (or near real-time) reporting across the life cycle, from opportunities to bookings, consumption, and value realization is necessary to understand and define critical engagement points required for journey orchestration. These initiatives can collectively unlock additional value for end users and drive NDR as more customers are retained, creating additional expansion opportunities. As such, companies are investing in developing listening posts across the customer journey—from machine-generated content like website visits to human-generated content like quarterly business reviews with CS managers—to identify signals and leading indicators that, combined with data science and machine-learning capabilities, can serve as early warning systems (of churn risk) or high-potential revenue pathways (cross-sell and upsell).

05 **Build scalable engagement and operating models –** The alignment of cross-functional teams and stakeholders involved in orchestrating outcomes across the customer life cycle is often overlooked. For example, if the goal is to empower customers to independently purchase and realize value from products—as Atlassian, Slack, Zoom, and Datadog have long done—organizations will need to optimize operating models including roles, governance, and incentives to reduce friction between teams. Some organizations have taken the extra step to bring multiple functions—CS, support, professional services, etc.—under a single team to streamline customer experience and shift complexity away from customers.

06 **Build a digital-first experience –** A critical element of driving NDR cost-effectively is creating seamless digital experiences for stakeholders, including customer, partners, and sellers. Companies are beginning to shift investment dollars towards portals that integrate everything from onboarding and training, support and communities, and increasingly recommended actions based on persona and objective. In fact, these portals are now expanding to include upsells (e.g., credit purchases, course sign-ups) and renewals, which unburdens the sales force and allows capacity reallocation. The next iteration of these portals is for partners and sales teams to provide a control tower view of users, personas, and accounts, with a "customer health" lens.

07 **Institute closed-loop insights to action –** As all leaders know, ideas are only as good as the ability to execute (i.e., ensuring repeatability, scalability, and cost-effectiveness). The primary lever here is a unified customer data platform that brings together digital tools, data, metrics, and insights to create an environment of trust, collaboration, and action. In our experience, several SaaS companies, particularly those that have grown through acquisition, underinvest in creating a data and insights foundation to enable continuous measurement. In our experience, orchestrating cross-functional teams to deliver customer outcomes and drive NDR at scale without a single source of truth and actionable insights is manual, expensive, and not scalable.

In an upcoming series of articles, we will detail some of the tactics discussed above that organizations can employ to drive NDR.

Looking ahead

As companies increasingly use every growth lever—acquire, retain, and expand—a focus on measuring and growing NDR will consume executive mindshare, given its critical role in defining the business's health. Companies that balance their investments—those that reduce CAC as well as drive NDR—can expect to see financial benefits (ARR growth, profitability, ROI), as well as nonfinancial benefits (delighted, engaged, and loyal customers who are willing to be product and brand advocates[1]). Delivering on an NDR-first vision is a journey that spans several functions, processes, roles, and enabling technologies—and organizations must be willing to make the investment and commitment.

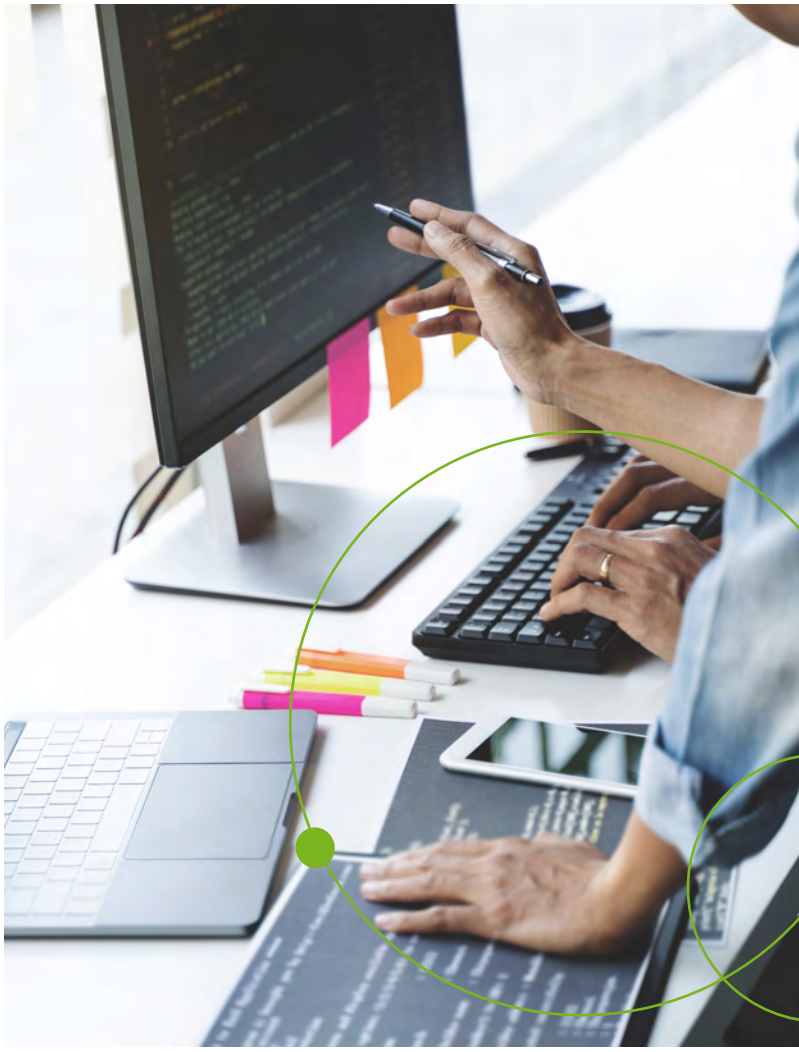
We have seen that companies that do three things have outsized success along the journey:

1. Establishing a clear north star for the organization, ideally one that is CEO-sponsored and led by a member of the executive team.

2. Setting ambitious and measurable goals that ensure demonstrable progress to employees, partners, and investors alike.

3. Building out a team of people, both internal champions and external visionaries and advisers, who can push the organization to think differently and take calculated risks.

However, organizations should equally expect to encounter a few roadblocks along this journey, which often include incentive misalignment, data silos and mistrust, and process complexity stemming from legacy systems and applications. By proactively addressing these challenges, organizations can expect to see an uptick in NDR, reduced cost-of-sale and cost-to-serve, and higher customer advocacy, which together provide a sustainable competitive position.



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Endnotes

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