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How Market Leaders Reverse Declining NRR

Key Findings

1. **Over half (58%) of companies saw NRR declines over the last two years.** Average NRR slipped from 110.8% in Q1 2023 to 107.2% in Q1 2025. The breadth of the decline suggests industry-wide challenges.

2. **Fewer companies are posting excellent NRR results.** Companies posting 'excellent' NRR above 115% fell from a high of 34% in Q3 2023 down to 16% in Q1 2025. This is part of a broader 'move to mediocrity', as NRR consolidates above replacement rate but below healthy expansion levels.

3. **A small group, 30% of companies in the sample, consistently posted market-leading performance.** These companies' efforts feature a combination of the following.

    1. Platforms optimized for customer workflow, whose absence would create immediate disruption to the customer's business.

    2. Two-stage commercial engines that combine a low-friction acquisition process with an enterprise-centric sales team to drive engagement, upgrades, and high-value feature adoption.

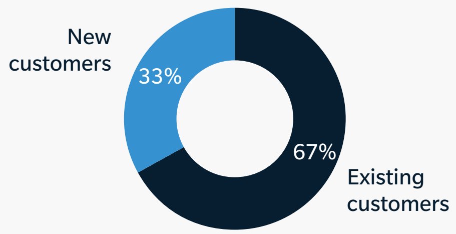
    3. Value-aligned pricing strategies that combine platform and usage fees to link revenue growth and customer value.

    4. Strategic AI integration into their products in ways that enhance customer workflows, target known pain points, and create new expansion opportunities.

Understanding the Current State of NRR

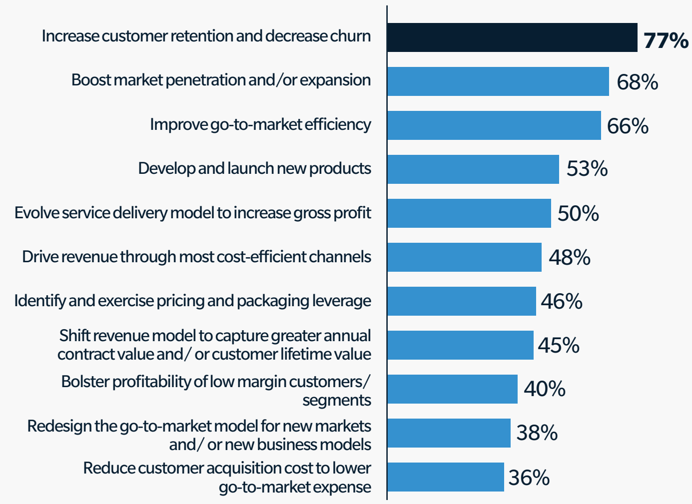
CEOs expect existing customers to drive most new bookings in 2025, accounting for 67% through retention and account expansion deals. This aligns with their stated execution priorities, with 77% of CEOs identifying customer retention as highly critical to their value creation strategies.

Percentage of net new bookings expected by customer type



Source: SBI 2025 Q2 CEO Survey
N= 120

Percentage of CEOs rating growth levers somewhat high or very high criticality



Despite the importance of customer renewal and expansion, Net Revenue Retention (NRR) has stagnated. This plateau persists even as organizations deploy new technologies specifically designed to enhance customer success and increase investments in teams dedicated to Customer Success Management (CSM) and Account Management (AM).

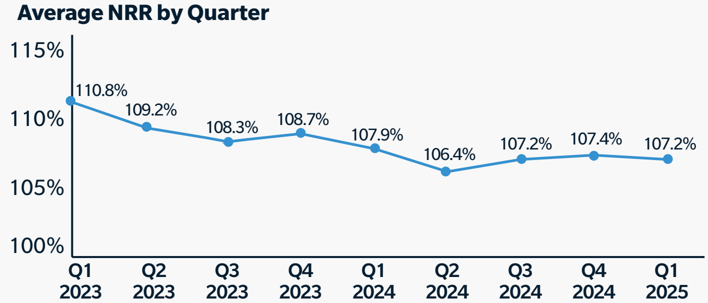
To understand the NRR landscape, we analyzed data from just over 300 public subscription-based companies. Using artificial intelligence, we scanned over 40,000 financial reports, investor presentations, call transcripts, and CEO statements to identify companies that consistently report NRR[1]. We found approximately 80 companies reporting NRR for Q1 2025 and just over 60 reporting NRR in at least three of the past nine quarters.

We then looked for companies that consistently outperformed the market, posting leading NRR numbers quarter after quarter, and took a deeper look at what these market leaders did differently.

Most companies' NRR is worse than two years ago

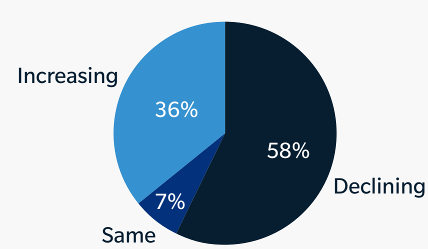
Over the last two years, average NRR fell just over 3% from 110.8% to 107.2%. This decline wasn't a steady drop; instead, NRR fell throughout 2023 and early 2024, hitting a low of 106.4% in Q2 2024. It then recovered slightly before becoming stuck around 107%. This decline's impact becomes clear when comparing performance over this two-year period, with 58% of companies experiencing NRR declines.

Average NRR by Quarter



Q1 2023 N = 45; Q2 2023 N = 42; Q3 2023 N = 48; Q4 2023 N = 53; Q1 2024 N = 59; Q2 2024 N = 53; Q3 2024 N = 63; Q4 2024 N = 68; Q1 2025 N = 80
Source: SBI NRR Dataset
Note: May not equal 100% due to rounding

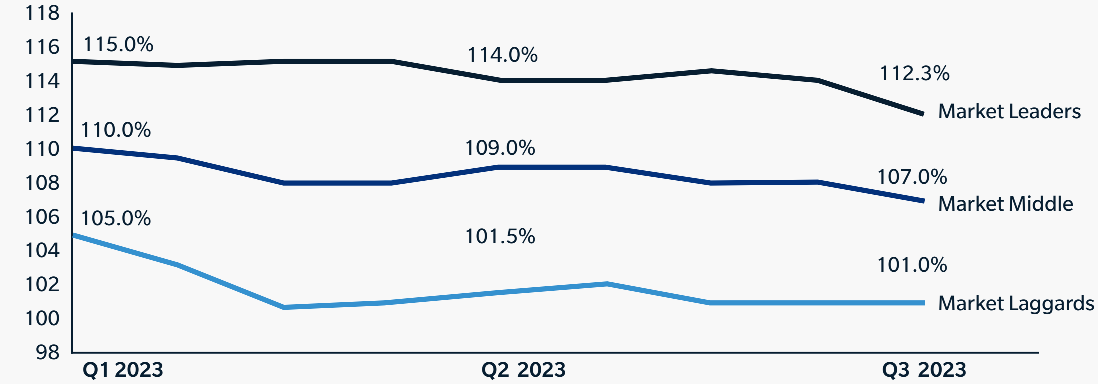
Share of companies showing declining NRR YoY Q1 2023 to Q1 2025



[1] Searches also included similar terms like Net Dollar Retention (NDR), Dollar-based Net Retention (DBNR) and similar terms. The term NRR is used to encompass these variations throughout this report.

Despite revenue leaders' best efforts, NRR challenges are widespread across performance levels. Market leaders, companies with NRR in the top 25th percentile, fell from 115% to 112.3%, showing even top performers saw retention and expansion challenges. Laggards, those in the bottom 25th percentile, saw similar declines, falling from 105% to 101%.

NRR by Performance Quartile



Note: Market Leaders are defined as 75th percentile, Middle 50th percentile laggards 25th percentile
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Source: SBI NRR Dataset

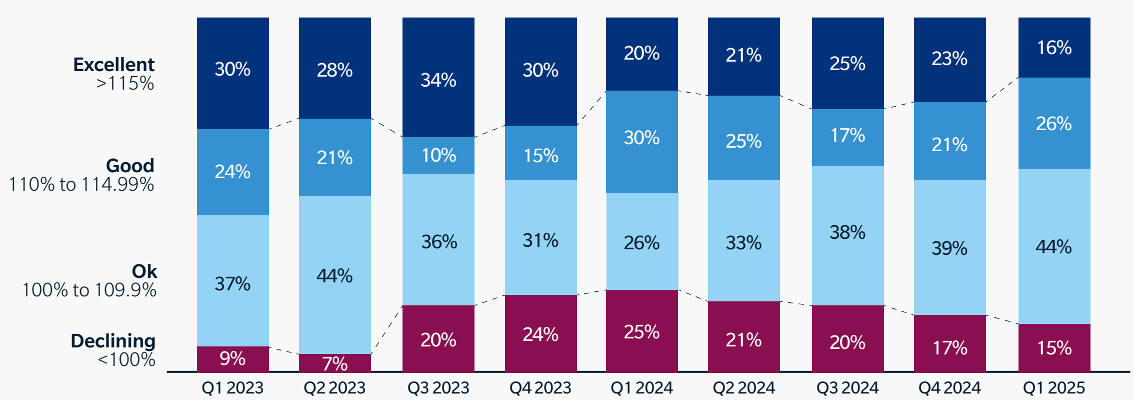
With today's average NRR barely edging above 107%, many teams are at a tipping point where NRR is above replacement rates but below healthy expansion levels. The only comfort is that NRR problems are a market-wide issue, showing the challenges extend beyond individual circumstances.

NRR's 'move to mediocrity'

Fewer companies are posting 'excellent' NRR results. Companies with NRR above 115% dropped dramatically, from 34% in Q3 2023 to 16% in Q1 2025. In a promising sign that the worst is over, the percentage of companies with NRR below 100% is seeing steady declines from its high of 25% in Q1 2024 down to 14% in Q1 2025.

Looking at the various performance ranges, NRR is consolidating toward the middle. The percentage of companies with 'Ok' performance (100-109%) grew from 37% to 44%, while 'Good' (110-114%) remained relatively stable. Together, this leaves 70% of companies in the mediocre middle, an increase from 61% two years prior. While it is good that declines have steadied, stability without growth is a competitive dead end and should be driving most leadership teams to look for new ways to improve performance from existing customers.

Distribution by Performance Classification



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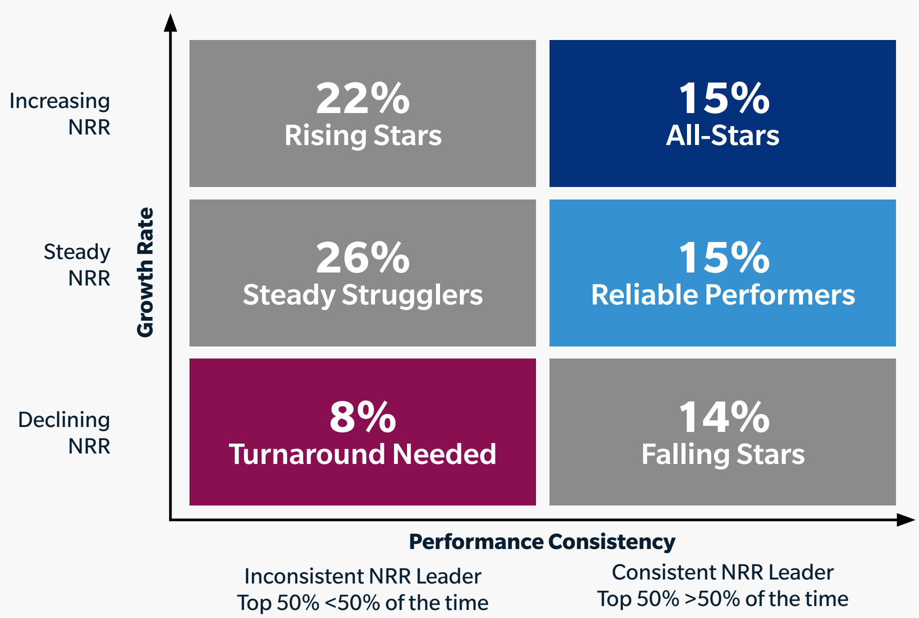
Source: SBI NRR Dataset

Identifying Companies with Sustained, Predictable High Performance

The NRR landscape is challenging, but some companies still succeed. Who are these high performers, and what sets them apart? To find out, we limited our sample to companies reporting NRR in at least three of the last nine quarters and looked at two criteria:

1. **NRR Improvements:** The companies that saw steady or improving NRR. Over the last nine quarters, these companies reported NRR that resulted in a nearly flat or positive slope, indicating stable or increasing NRR.
2. **NRR Performance Consistency:** The companies whose NRR was in the top half of quarterly NRR numbers at least half of the time. This identifies the leaders who consistently outperform their peers.

Too often, NRR benchmarks miss the consistency factor that defines high performance. Looking at NRR improvement and performance consistency allows us to identify market-leading companies. This approach reveals six distinct company categories, from all-stars to those needing turnarounds.



Q1 2023 N = 45; Q2 2023 N = 42; Q3 2023 N = 48; Q4 2023 N = 53; Q1 2024 N = 59; Q2 2024 N = 53; Q3 2024 N = 63; Q4 2024 N = 68; Q1 2025 N = 80
Source: SBI NRR Dataset

Ultimately, 15% of companies achieve consistent leadership and increasing NRR. These All-Stars are the clear leaders in our sample. Close behind are the 'reliable performers': companies that consistently outperform peers while maintaining steady NRR over a period when most companies experienced declines. **Combined, 30% of companies in our sample are 'market leaders', demonstrating clear success over a challenging NRR period.**

The Four Parts to Market Leaders' NRR Success

Market leaders' performance isn't the result of a single difference from their peers. Succeeding in today's market requires these leaders to align their product strategy, commercial execution, and financial discipline to drive NRR success.

Over the last two years, market leaders' NRR efforts have featured a combination of the following:

1. **Platforms optimized to customer workflow**, built around the essential parts of their customers' business, and where the platform's absence would create immediate disruption.
2. **Two-stage commercial engines** that start with a low-friction acquisition process based on product-led growth (PLG) principles and layer on an enterprise-centric sales team to drive engagement, upgrades, and high-value feature adoption.
3. **Value-aligned pricing strategies** that combine platform and usage fees to create an approach to growth that links customer and company value.
4. **Strategic AI integration** into their products in ways that enhance customer workflows, target known pain points, and create new expansion opportunities.

Platforms optimized to customer workflow

Platforms are ubiquitous in SaaS organizations. In our recent survey of SaaS pricing leaders, 70% describe their offerings as a platform rather than a point solution.[2]

What makes market leaders unique isn't the presence of a platform; it is how it is integrated into the customer's essential workflows. Many companies' platforms struggle for two reasons.

1. They feel like a disjointed collection of point solutions without a unifying purpose
2. They grew out of legacy offerings and were never designed with deep workflow integration in mind.

Laggard Approach to Platforms		Leader Approach to Platforms
Build platforms organically from legacy solutions with limited workflow integration	**Development**	Build platforms deliberately around customers' essential workflows
Offer fragmented components in multiple configurations	**Packaging**	Offer streamlined solutions with targeted premium upgrade paths
Release component updates independently across different teams	**Updates**	Release platform updates through unified development process

[2] 2025 State of SaaS Pricing Report: Part 2, SBI Growth, 2025.

Market leaders' platforms generally share three characteristics that contribute to their NRR success:

Targeted to support customers' essential operations

Market leaders have created platforms whose absence directly causes financial losses, security vulnerabilities, compliance failures, or an inability to generate downstream value in their customers' businesses. This makes their solutions harder to cancel compared to the majority of platforms, which may create a positive ROI but are not essential to the business.

Built around a nuanced understanding of the customer's business and workflow

Essential platforms require a deliberate and continuous process to understand how customers' business and workflows change. Too often, however, 'customer understanding' is relegated to a few surveys and customer journey maps that quickly become outdated due to market changes or evolving business practices.

Market leaders go beyond these surface-level approaches to build systematic feedback loops that refine their understanding of customers' operating models. They create self-reinforcing systems that integrate internal feedback from multiple teams (e.g., sales, marketing, customer success, product) with external intelligence on industry and market trends, forcing regular updates to their customer intelligence and ensuring their platform remains indispensable.

Constant evolution to remain 'indispensable'

Just as 'no decision' sinks many new purchases, 'no longer needed' proves to be a true retention killer. Often, a customer's renewal decision isn't based on satisfaction with current ROI, but on whether the solution remains relevant to their future business goals. Customers don't renew when their company's needs and strategy evolve beyond the original purchase's scope.

Market leaders leverage their customer understanding to evolve alongside customers' changing business needs. This means avoiding 'product drift' and introducing new features that fail to address core customer needs. Instead, they deepen the platform's value as challenges emerge and technologies advance, ensuring continued relevance and indispensability.

Market leaders in action

Axon Enterprise embeds its platform into the essential, high-stakes workflows of public safety agencies by integrating hardware, such as body cameras and TASER devices, with a cloud-based software ecosystem that manages the entire lifecycle of digital evidence, helping meet compliance requirements. To keep pace with the evolving needs of their customers, the company has formalized a multi-layered feedback system that combines qualitative and quantitative feedback. To collect qualitative feedback, PCSMs design and lead engagement programs like "Virtual Roundtables" and "Digital User Forums" to gather structured input across the customer base. Axon then combines this qualitative feedback with analysis of customer usage data and directly channels it into development. CSMs aren't seen as just another input but "participate in roadmap discussions and provide frontline insights to guide product enhancements". This creates a direct feedback loop that enables Axon to evolve its platform to solve emerging operational challenges. A recent example is the introduction of Draft One, an AI tool that automates the time-consuming process of writing incident reports, which has become one of the company's fastest-adopted software products.[3]

Balanced two-stage commercial engine

Market leaders' commercial success is built on a sophisticated, two-stage "land and expand" engine, a well-known approach designed to win a customer with minimal friction and then systematically grow that relationship over time.

[3] Axon Enterprise, Inc. Q1 2025 Earnings Conference Call Transcript. Seeking Alpha, May 7, 2025, "Axon reports Q1 2025 revenue of $604 million, up 31% year over year." Axon Investor Relations, May 7, 2025. "Product Customer Success Manager II." Axon Careers. , [Reposted on 3rd party site] . "Draft One." Axon Products. "How Axon benefits from using Productboard to forge closer ties between product, sales, and customer success." Productboard Customer Stories.

Market leaders execute this by leveraging product-led growth (PLG) principles to keep the cost of acquisition low and quickly identify expansion opportunities that can be captured through a more traditional sales-led growth (SLG) approach. The goal is to create a virtuous cycle where initial adoption naturally leads to deeper engagement and greater revenue, driving higher NRR.

Laggard Approach to Commercial Engine		Leader Approach to Commercial Engine
Over-index on either PLG or SLG approaches as separate motions	**Commercial Motion**	Balance PLG acquisition with SLG expansion as deliberate two-stage process
Distribute resources and attention evenly across all customer segments and sizes	**Targeting**	Focus sales teams on enterprise expansion while SMB relies on self-service models
Leadership turnover forces disruptive changes to talent strategy and coverage	**Talent Implications**	Leadership stability enables evolutionary talent strategy adjustments as needs change

Low-friction acquisition approach

Market leaders leverage PLG strategies to get products into users' hands as easily and inexpensively as possible. The obvious goal is to drive organic adoption, but they do this knowing that not every new customer will be a strategic fit. By building a large user base familiar with the product, Market Leaders turn their acquisition strategy into a natural funnel for expansion, boosting NRR. Success often includes:

1. Free tiers, trials, and open-source offerings to build a user base that serves as a funnel for paid products.
2. Self-service and consumption models to reduce uncertainty and let customers answer their ultimate question: 'will this work for us?' in a way where the risk of failure feels lower.

Enterprise-centric sales teams focused on expansion

Treating low-cost acquisitions as a pool of qualified expansion opportunities lets market leaders' sales teams pick customers most likely to grow their relationship. Since usage data already shows how the solution is used, the teams can bypass many 'initial product discovery' conversations. Instead, they focus on showing how this usage can expand into partnerships and greater value realization. The two parts of this motion are:

1. Outbound-focused growth: Instead of cold outreach, the outbound motion prioritizes engaging accounts where the product already has a proven use case and internal champions. The sales team's goal is to develop and leverage these internal champions to build a case for product expansion.
2. High-value feature adoption: The sales and customer success teams focus on feature expansion to gradually increase total contract value over the life of the partnership.

Market leaders in action

JFrog shows how an acquisition strategy with PLG principles can lead to NRR success. Their self-service and inbound sales model is mentioned as a source of success in their recent 10-Q, citing their use of free and open-source solutions such as Artifactory OSS as a low-cost acquisition strategy. This approach allows the JFrog sales team to build a qualified pipeline based on user data and tailor their messaging and offerings to promote conversions.[4]

Gitlab's commercial motion is designed around capitalizing on their Free tier and moving customers to the Premium or Ultimate tier. The sales team can look at customer usage and usage analytics to help them identify who would most benefit from advanced features like security, compliance, and value stream analytics. The company's freemium-to-paid conversion strategy includes specific triggers, with sales teams prioritizing metrics like "Active Trial namespaces" when identifying prospects for expansion.[5]

Value-aligned pricing strategies

Market leaders treat pricing as a strategic lever to build partnerships and grow revenue. Many companies struggling with NRR still rely on rigid pricing built around flat fee tiers designed to maximize revenue. However, customers are increasingly frustrated with these inflexible and often opaque pricing strategies.

Laggard Approach to Pricing		Leader Approach to Pricing
Focus on making pricing simple and easy for customers to understand	**Pricing Strategy**	Structure pricing to link company revenue growth with customer value realization
Rely on flat fees and feature-based tiers with rigid structures	**Pricing Model**	Default to usage-based pricing with flexible platform fees included

Market leaders combine platform fees with flexible, usage-based components that allow their revenue to grow alongside customer usage. The benefits of this strategy are clear: companies using a platform or usage-based pricing model are between 6% and 13% more likely to meet or exceed their growth targets than those using traditional base fee or flat-fee pricing.[6]

Create a linkage between customer and company value

Market leaders' core strategy is simple: build a pricing model to ensure the company makes more when customers derive more value. This linkage drives retention and expansion in two ways:

1. Usage-based models allow customers to start small and scale their spending as their needs grow, better aligning cost with value.
2. Value-ladders facilitate scaling by allowing customers to start with small, low-cost implementations. This removes significant budget hurdles that often stall enterprise software adoption. It also creates clear upsell pathways for expansion.

[4] JFrog Ltd. Quarterly Report on Form 10-Q for the Quarter Ended March 31, 2025. SEC Filing, May 9, 2025. JFrog Community Open Source Solutions.
[5] GitLab Inc. Investor Presentation: Fourth Quarter Fiscal Year 2025" GitLab Investor Relations, January 2025. GitLab Inc. "Freemium SaaS Usage Data." GitLab Handbook, updated June 27, 2024. GitLab Inc. "Sales Play: Upsell Premium to Ultimate." GitLab Handbook, updated October 30, 2024.
[6] 2025 State of SaaS Pricing Report: Part 2, SBI Growth, 2025.

Use pricing to build reluctance to end the partnership

Usage-based pricing is inherently elastic, which creates a strong disincentive to churn. With cost tied to usage, a customer's bill naturally decreases during periods of lower activity, creating less urgency to end the partnership. Market leaders view these usage drops as opportunities for well-timed interventions to identify the cause of the decrease and revitalize the partnership.

Market leaders in action

Datadog shows how pricing can act as a growth lever by linking revenue to customer value through its multi-vector consumption model. Rather than a single flat fee, pricing is disaggregated into multiple unique SKUs, each tied to a specific usage metric, such as per-host for infrastructure monitoring, per-gigabyte of ingested logs, etc. This granular approach creates a frictionless expansion path: A customer's bill scales automatically not only with their organic growth (e.g., deploying more servers) but also as they adopt additional products from Datadog's expanding ecosystem, contributing to NRR success.[7]

Backblaze uses a value-aligned pricing model centered on simplicity and transparency. Its B2 Cloud Storage is priced at a flat, predictable rate, intentionally avoiding the complex tiering and ancillary fees common in the market. This model is further differentiated by policies that lower adoption barriers, such as having no minimum storage duration fees and offering a generous free egress tier. This elasticity allows customers to start with minimal financial commitment and ensures costs scale directly with usage, which also reduces the incentive to churn during periods of lower activity.[8]

Strategic AI integration

Most CEOs (65%) say they have integrated AI into their offerings. Market leaders' approach to AI integration shares two common themes:

1. **Customer workflow-centric approach** – Market leaders start with a deep understanding of how customers work and ensure AI is embedded to complement existing workflows rather than disrupt them. This contrasts with the laggards' approach, where AI is treated as 'another feature', often lacking proper integration into the platform and customer workflow.
2. **Problem-solving focus** – Market leaders are more likely to ensure AI solves known customer pain points with a clear value proposition tied to customer success. Market laggards' AI integrations were more likely to be 'feature-focused', expanding solution capabilities.

Combined, this makes the market leader's AI investments feel integrated rather than additive. AI doesn't feel like part of the core platform experience, instead of a bolt-on feature.

Laggard Approach to AI Integration		Leader Approach to AI Integration
Follow conventional approaches that replicate other successful feature implementations	**Development**	Build unique solutions after deep analysis of customer telemetry data and workflows
Target capability expansion and new features that leverage existing AI technology	**Scope**	Target enhanced value realization from customers' already popular platform features

[7] Datadog Inc., "Pricing Documentation," Datadog Official Website, accessed 2025. Holori, "Guide to Datadog Pricing and Cost Optimization Strategies," March 11, 2025. Datadog Inc., Q1 2025 Earnings Call Transcript, May 6, 2025
[8] Backblaze B² Pricing, Backblaze Help Center, "The Fine Print: How Minimum Data Retention Fees Affect Cloud Costs," Backblaze Blog, October 10, 2024, "About Backblaze," Backblaze Company Page, Backblaze Q3 2024 Financial Results, Business Wire, November 7, 2024

Differentiating in a crowded AI landscape in a way that enhances stickiness

Market leaders leverage their knowledge about customer workflows to embed AI in their solutions in support of three common goals:

- Increase **efficiency** so task completion is faster at the same quality level
- Improve **efficacy** so task quality is better than without AI
- Unlock previously impossible tasks and **expand** customer possibilities.

Market leaders in action

Cellebrite's customers in digital forensics can be overwhelmed by massive volumes of data. Cellebrite targeted their AI-powered solutions to address this known pain point by automating the analysis of complex data sets like chats, images, and network logs required in digital forensics. The AI rapidly sifts through this data to identify relevant evidence and reconstruct digital timelines at speeds impossible through manual review. This dramatically accelerates the investigative process and improves customers' overall efficiency.[9]

Clearwater Analytics uses its generative AI platform, CWIC, to expand investment professionals' capabilities by democratizing complex data analysis, regardless of their quantitative background. The platform allows managers to interrogate vast datasets using natural language, translating intricate questions into answers without requiring specialized programming or data science skills. This improves efficacy by making deep, ad-hoc analysis accessible to a broader set of users. Furthermore, the platform expands customer possibilities with AI-powered "Digital Specialists" that can be configured to automate and execute complex workflows, such as multi-jurisdictional compliance tasks and risk assessments, effectively augmenting a team's operational capacity without the need for additional specialized hires.[10]

What about GRR?

Gross revenue retention (GRR) is a purer retention measure without expansion dollars included. In our analysis of 304 public companies, only 5.6% consistently reported GRR, with two opting to report a range (e.g., "high 80s") over a specific number. This is consistent with other research, where 7% of 135 SaaS companies reported a gross retention metric.[11]

There are a few reasons GRR data is so under-reported:

1. **No regulatory requirement** for public disclosure
2. **Marketing preference for NRR**, which can exceed 100% and shows better growth
3. **Competitive sensitivity** since GRR reveals pure churn without expansion revenue benefits.

These factors create likely reporting biases and demographic gaps that make GRR data analysis challenging

Among reporting companies, GRR held steady in the 93-94% range. However, the small sample and challenges noted above make it impossible to use GRR to identify winning company performance as effectively as the larger NRR dataset.

[9] "Cellebrite Spring 2025 Release," Forensic Focus, May 8, 2025, "AI for Digital Forensics Investigations," Cellebrite AI Center, November 26, 2024, "AI-Powered Investigations: How Cellebrite is Accelerating Justice," Cellebrite Blog, August 12, 2024, "Cellebrite Q4 2024 Financial Results," February 13, 2025
[10] "Generative AI for Investments," Clearwater Analytics, December 10, 2024, "How Clearwater Analytics is revolutionizing investment management with generative AI," AWS Machine Learning Blog, December 13, 2024, "Empowering Investment Operations with AI: A 2024 Outlook," Clearwater Analytics Blog, March 6, 2024
[11] Ordway, Half of Public Companies Adjust Net Revenue Retention Formulas, March 5, 2024

Conclusion

The NRR landscape is unlikely to get easier in the short term. Customer decision making won't become quicker, solution differentiation won't get easier, and customer budget concerns aren't going away. Despite these challenges, there are numerous things GTM leaders and teams can do to mitigate their impact and improve NRR. This starts with understanding how companies are succeeding in this difficult landscape and taking a critical look at how their practices overlap and differ from your current strategy.

Making improvements to drive NRR success isn't an all-or-nothing proposition. The wholesale adoption of all four practices (platform optimization, two-stage commercial engines, value-aligned pricing, and strategic AI integration) would likely overwhelm any team. Instead, it is important to evaluate each practice and identify whether it is the next best choice to make incremental improvements that drive commercial success.

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