Net revenue retention (NRR) is one of the clearest measures of whether a SaaS business can grow from its existing customers. It shows how recurring revenue changes over time after accounting for customer expansions, contractions, and churn. A company with NRR above 100% earns more from its starting customer base than it did at the beginning of the period—even without adding new customers.

So what does 38% NRR mean? In the simplest interpretation, a customer cohort that generated $100 in recurring revenue at the start of a period generates just $38 at the end, after churn and changes in account multiai.pro spend. That is a severe contraction. It does not automatically mean the company is failing, but it is a **38% NRR red flag** that demands careful investigation.

For many established SaaS businesses, 110%+ is a useful benchmark because it signals that expansion revenue more than offsets losses from downgrades and churn. But benchmarks depend on the company's stage, customer segment, pricing model, and measurement period. The number matters; the reasons behind it matter more.

What NRR Measures

NRR measures recurring revenue from a defined group of customers over a set period. It typically includes subscription expansion, such as additional seats, usage, or upgraded plans, and subtracts revenue lost through downgrades or cancellations. It excludes revenue from newly acquired customers during the period.

A common formula is:

NRR = (Starting recurring revenue + expansion − contraction − churn) ÷ starting recurring revenue × 100

Imagine a cohort starts the year at $1 million in recurring revenue. During the year, existing customers add $300,000, downgrade by $100,000, and cancel $100,000. Ending revenue from that original cohort is $1.1 million, so NRR is 110%.

NRR differs from gross revenue retention (GRR). GRR measures how much starting revenue remains after churn and contraction, excluding expansion. It cannot exceed 100%. NRR can exceed 100% because growing accounts can more than make up for lost revenue.

Metric What it includes What it tells you NRR Expansion, contraction, and churn Whether revenue from existing customers is growing or shrinking overall GRR Contraction and churn, but not expansion How well the business preserves its starting revenue Logo retention Customer count, not account revenue Whether customers are staying, regardless of how much they spend

What 38% NRR Means in Practice

At 38% NRR, a cohort's recurring revenue has declined by 62% over the measurement period. If a company began with $10 million in revenue from those customers, it would retain only $3.8 million from that same cohort by the end of the period.

That level of contraction may reflect several problems: customers are leaving, remaining customers are spending substantially less, or both. It can also be influenced by measurement choices—for example, whether the company calculates NRR monthly or annually, how it treats acquired customers, and whether one-time fees are excluded. Before drawing conclusions, confirm the definition and period.

Even with those caveats, a 38% NRR red flag is difficult to ignore. It suggests the company may have to replace a large share of its recurring revenue before it can grow. New sales can conceal that weakness in total revenue, but they do not fix the underlying retention problem.

Questions to ask when NRR is very low

- Is churn concentrated in a customer segment, product, geography, or vintage?
- Are customers canceling, downgrading, reducing usage, or failing to renew?
- Did pricing, packaging, or a product change trigger account contraction?
- Are renewals and expansion being reported consistently?
- Is the company growing through new logos while its installed base shrinks?
- Are a few large accounts distorting the aggregate figure?

These questions matter because the same headline number can describe different businesses. A low NRR driven by a discontinued product may have a clear explanation and a contained impact. A low NRR spread across the customer base may point to weak product value, poor onboarding, or a mismatch between what sales promises and what customers experience.

Why 110%+ Is a Common Benchmark

At 110% NRR, a company's original cohort grows its recurring revenue by 10% over the measurement period, even after churn and downgrades. That means the business can generate some growth from customers it already has, reducing its dependence on new customer acquisition.

For investors and operators, 110%+ is often treated as a healthy sign because it suggests customers are receiving ongoing value and have reasons to expand. Expansion can also improve the economics of growth: a company may grow revenue without spending the same amount to win an entirely new customer.

Still, 110% is not a universal pass/fail line. Enterprise software with broad deployment potential may have a higher expansion ceiling than a simple, low-priced tool. Early-stage companies may have small and volatile cohorts. A business selling to small companies may face more customer closures and limited opportunities to expand accounts. Compare NRR with companies that share a similar business model, customer profile, and stage.

Read the trend, not just the snapshot

One year of NRR can be noisy. A small number of large renewals, a product migration, or an unusual churn event can move the result sharply. Review several periods, cohort curves, and segment-level figures. Ask whether retention is improving because the product is becoming more valuable—or because the company has changed its customer mix or deferred the effects of churn.

Also pair NRR with GRR, logo retention, customer acquisition cost, gross margin, and payback period. A high NRR can coexist with poor gross retention if a small set of large customers expands dramatically. Likewise, healthy retention does not prove the company can acquire new customers efficiently.

Using NRR in SaaS Retention Diligence

In **SaaS retention diligence**, NRR is an entry point, not a verdict. The goal is to verify the calculation, understand the underlying customer behavior, and assess whether the trend is likely to continue. Request the starting and ending recurring revenue by cohort, plus a bridge showing expansion, contraction, and churn.

Then reconcile the analysis to billing and finance records. Check whether bookings, invoiced amounts, usage fees, discounts, and non-recurring services are treated consistently. Look for customers that were counted as retained despite a material reduction in spend, and identify any changes in the company's metric definition.

A useful diligence workflow also separates evidence gathering from interpretation. Analysts can review contracts, renewal data, customer interviews, support trends, and product usage—but those sources may not agree. That disagreement is not noise to eliminate automatically. It can be a signal that the company's retention story is incomplete.

A $42M Acquisition Example: Skybridge

Consider a $42M acquisition example involving Skybridge. Suppose a buyer is evaluating the business and sees 38% NRR in the data room. The purchase price alone does not tell us whether the deal is attractive: valuation depends on revenue, margins, growth, liabilities, strategic fit, and many other factors. But the NRR figure should change the diligence plan and the assumptions used in the deal model.

The buyer should ask how much of Skybridge's revenue is recurring, how quickly the existing customer base is contracting, and how much new revenue must be added just to offset those losses. If the decline is concentrated in a product the buyer plans to retire, the risk may be different from a broad-based collapse in customer value. The buyer should also test whether the retention problem is fixable and what investment—product, support, pricing, or customer success—would be required.

For a simplified illustration, imagine Skybridge has $10M of recurring revenue from an existing cohort and that cohort's NRR is 38%. That implies $3.8M of ending recurring revenue from the same starting customers under the stated measurement period and definition. It does *not* imply that Skybridge's total revenue or acquisition value falls to 38% of its prior level: new customers, different cohorts, non-recurring revenue, and deal terms all matter. It does mean a buyer should not assume the installed base is a stable foundation for future growth.

The practical takeaway: a $42M price should be tested against verified revenue quality and a credible retention recovery plan, not justified by a single headline metric. If the seller's explanation conflicts with customer records or usage data, treat the gap as a diligence finding—not as a rounding error.

How AI-Assisted Research Can Improve the Review

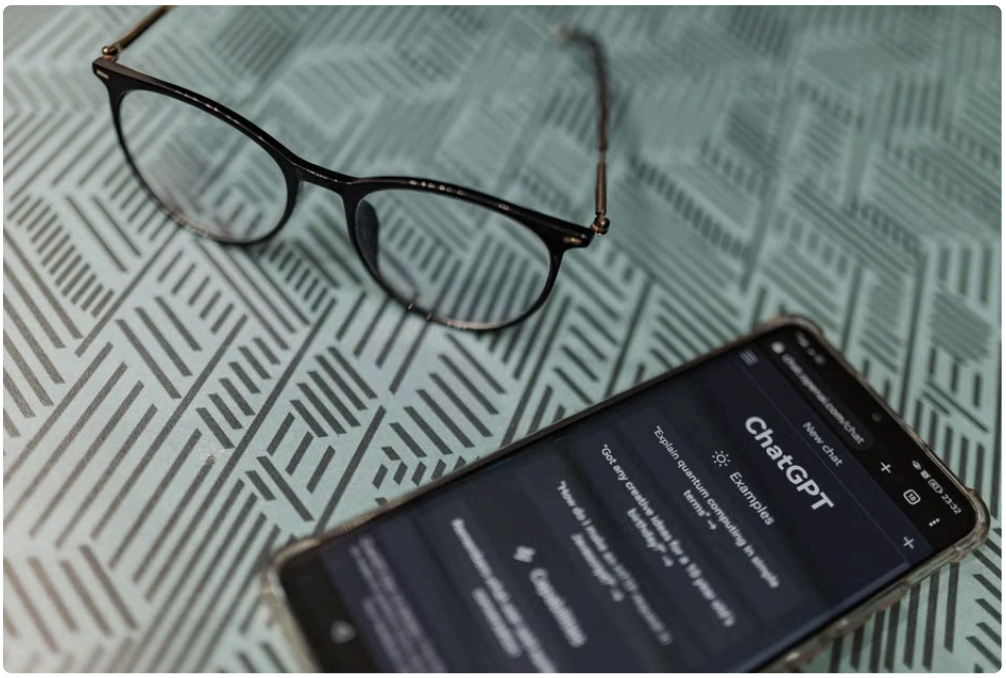
Retention diligence often involves fragmented evidence: spreadsheets, contracts, call notes, product analytics, and management presentations. Multi-model AI chat in one shared thread can help a team review that evidence without scattering assumptions across separate tools. The shared thread gives researchers, operators, and decision-makers a common place to examine sources, ask follow-up questions, and preserve the reasoning behind a conclusion.

Different AI models may be useful for different tasks: one can extract renewal terms, another can summarize customer interviews, and another can challenge the cohort analysis. The goal is not to treat model output as verified fact. Source-check the results, protect sensitive data, and keep a human accountable for the final judgment.

Choose parallel or sequential workflows deliberately

Parallel workflows are useful when you want independent reads of the same evidence. For example, ask multiple models to identify possible causes of falling NRR, then compare their conclusions. This can reveal blind spots quickly. Sequential workflows are better when each step depends on the previous one: extract contract dates, validate the renewal data, segment churn, and then draft a conclusion based on verified findings.

For structured work, orchestration modes can make the process more reliable. A workflow might require a model to return a table with cohort, starting revenue, expansion, contraction, churn, ending revenue, and source references. A separate review step can check whether the arithmetic reconciles and flag missing inputs before anyone writes a narrative.



Treat disagreement as a signal

If models—or people—disagree about what is driving retention, do not rush to average their answers. One may be emphasizing contract records while another is responding to customer interviews. The difference may expose inconsistent definitions, missing context, or competing explanations that need testing.

Use disagreement to generate specific follow-up questions: Which source supports this claim? What evidence would change the conclusion? Is the issue limited to one cohort? Does the contract say something different from the customer's reported experience? In a high-stakes decision, that friction can improve the quality of the work.

Bottom Line

38% NRR means a customer cohort retains only 38% of its starting recurring revenue over the measured period—a 62% decline and a serious warning sign. The 110%+ benchmark is widely used because it indicates that existing customers are expanding enough to outgrow churn and downgrades, though the right comparison depends on the business.

For operators and buyers, the best response is not to overreact to one number or explain it away. Verify the metric, inspect cohorts, trace the sources of contraction, and test whether improvement is plausible. In SaaS retention diligence, the headline NRR tells you where to look. The evidence behind it tells you what the business is worth—and what risks come with owning it.