ARR (Annual Recurring Revenue) Retention Model

Privileged Access Management Software Company

- Built Excel-based model to generate ARR Retention Report

- Provided insights on several retention metrics such as Net Retention, Renewal Rate, Gross Renewal, etc.

Access management software company needs to setup an ARR retention model

Picture this…

You're looking for a consolidated data model and to set up a semi-automated monthly report for ARR changes. Currently, you do not have visibility into customer retention metrics due to lack of structured timely reporting after recent merger of two large entities

You turn to Accordion.

We partner with your team to build an Excel-based model to generate ARR retention report and to provide insights on several retention metrics such as Net Retention, Renewal Rate, Gross Renewal, etc., including:

1) Integrating data from Salesforce extracts and flat Excel files for monthly ARR retention model

2) Categorizing the changes in month-end ARR into relevant ARR bridge components i.e., logo churn, new logo, pricing, expansion, down-sell and open ARR, that helped in providing insights into several retention metrics such as net retention, renewal rate, gross renewal, etc.

3) Developing an Excel-based model to generate the report for monthly changes in the ARR

Your value is enhanced.

You have visibility into month over month trend of ARR components to track against the target. You have identified deals that are available to renew, and it helped the finance and retention teams to follow-up for quick conversions. You also have visibility into the delay in the booking of renewal opportunities which resulted in reducing average delay in time to renew significantly. You have reduced the monthly reporting update turnaround time from 12 business days to 4 business days.

KEY RESULT

- ~33% reduction in time to update monthly report

VALUE LEVERS PULLED

- Net & gross retention reporting
- Renewal rate reporting

ARR retention model for a B2B software company

Situation

- Client lacked visibility into customer retention metrics due to lack of structured timely reporting after recent merger of two large entities
- Partnered with the client to build a consolidated data model, and set up semi-automated monthly reporting for ARR changes

Accordion Value Add

- Integrated data from Salesforce extracts and flat Excel files for monthly ARR retention model
- Categorized the changes in month-end ARR into relevant ARR bridge components i.e., Logo Churn, New Logo, Pricing, Expansion, Down-sell and Open ARR, that helped in providing insights into several retention metrics such as Net Retention, Renewal Rate, Gross Renewal, etc.
- Developed an Excel-based model to generate the report for monthly changes in the ARR

Impact

- Provided visibility to the Executive Team for month over month trend of ARR components to track against the target
- Helped identify deals that are available to renew, and it helped the Finance and Retention team to follow-up for quick conversion
- Provided visibility into the delay in the booking of renewal opportunities and reduced average delay in time to renew significantly
- Reduced the monthly reporting update turnaround time from 12 business days to 4 business days

Methodology/ approach

01 Input data

- **Extracted monthly data from Salesforce**
- **Flat Excel file utilized** to map License Type with Deployment Type and Business Type

02 Data transformation

- **ARR waterfall** created to view the split of ARR across the booking period
- **ARR changes report** developed to identify the monthly changes in the ARR and aggregate them into different ARR bridge components i.e., Logo Churn, New Logo, Pricing, Expansion, Down-sell and Open ARR
- **Data validation and clean-up** performed for accurate analysis

03 Output views

- **Summary view (Static)** designed to view the ARR bridge components based on month-end bookings
- **Summary view (Dynamic)** designed to view the dynamic ARR bridge after including the effect of late renewal bookings
- **License type view** designed to view the ARR bridge for all License Types (Subscription, Maintenance and Term License) individually for in-depth analysis

Monthly ARR bridge (With license type drill down)

Split of ARR across different **License Types (Subscription, Maintenance and Term License)**. The model provides similar drill down functionality for all the ARR bridge components.

	Jan	Feb	Mar	Apr	May
Beginning ARR	175,918	179,033	182,942	193,529	193,610
Subscription	68,599	70,397	72,936	79,401	80,967
Maintenance	91,508	91,361	91,853	92,383	90,112
Term License	15,811	17,274	18,153	21,745	22,531
(-) Logo Churn	(267)	(398)	(1,138)	(361)	(353)
Gross Retained ARR	175,651	178,635	181,804	193,168	193,257
(+) New Logo	1,882	2,073	4,763	1,440	1,551
(+) Expansion	2,154	2,137	8,731	2,586	3,552
(-) Down-sell	(883)	(232)	(1,763)	(3,335)	(946)
(+) Pricing	328	390	425	232	117
(-) Open	(215)	(43)	(364)	(354)	(204)
(+) Others	116	(18)	(67)	(127)	(72)
Ending ARR	179,033	182,942	193,529	193,610	197,255

* Unit: $ (in '000)

Retention KPIS

KPI	Jan	Feb	Mar	Apr	May
Available To Renew (ATR)	17,969	9,551	11,913	14,132	11,281
Renewed	14,041	7,100	7,246	11,808	8,952
Renewal Rate	78%	74%	61%	84%	79%
$ ARR growth	81	3,645	6,037	2,433	2,350
% ARR growth	0.0%	1.9%	3.1%	1.2%	1.1%
% Gross Retention ARR	95.4%	95.3%	94.5%	95.1%	95.3%
% Gross Retention (inc. Down-sell)	86.5%	86.2%	85.3%	85.9%	86.1%
Net Retention	114.3%	115.0%	115.0%	113.7%	111.8%
Gross Renewal Rate	98.0%	96.3%	83.4%	98.2%	97.6%
Gross Renewal Rate- LTM	93.8%	93.6%	92.9%	94.2%	94.7%
Gross Renewal Rate (inc. Down-sell)	79.4%	86.4%	78.3%	91.3%	92.4%
Net Renewal Rate	132.9%	133.8%	135.6%	132.6%	130.5%

* LTM: Last Twelve Months, Unit of ATR and Renewed: $(in '000)

Late renewal summary

	Month (Close Date)										
	Feb	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**
Jan	767	319	84	43	17	1	-	-	-	-	
Feb		1,725	190	17	11	-	-	-	-	-	3
Mar			503	53	34	8	72	18	-	23	13
Apr				532	146	60	180	11	-	6	12
May					607	15	75	31	25	-	9
Jun						390	157	21	5	62	40
Jul							380	310	51	1	9
Aug								428	45	23	11
Sep									171	128	269
Oct										1,957	375
Nov											799
Dec											
Grand Total	**767**	**2,044**	**777**	**646**	**815**	**473**	**863**	**820**	**296**	**2,201**	**1,542**

Month (Start Date)

ARR waterfall of late renewal bookings, where close date is greater than start date. It provides visibility into the quantum of late renewal bookings and the delay in renewal.