

Churn Was Not the Problem

Net revenue retention fell fourteen points in three quarters at a \$58M ARR vertical SaaS business. Leadership asked why churn was rising. Churn was rising — and it accounted for less than a quarter of the decline. This is the diagnostic that redirected a \$1.1M remediation plan.

CLIENT	“Veltrix” — vertical SaaS for freight brokerage and logistics operations. \$58M ARR, 640 customers, seat-based pricing. ACV mix: 38% above \$100K, 44% \$40–100K, 18% below \$40K.
QUESTION AS ASKED	“Why is churn increasing, and how many CSMs do we need to hire to stop it?” — CEO, in the kickoff call.
INPUTS	Warehouse read access (contracts, invoices, seat provisioning, product events), 24 months of renewal records, churn-reason coding, the CS coverage change log, and the pricing committee minutes for the February packaging change.
FORMAT	Project-based, 4 weeks. Two interim readouts, one final session with the exec team and the board’s operating partner.
ROLE	I structured the problem, specified every cut, reviewed the analyst team’s output, and own the interpretation and recommendations. Veltrix’s two analysts ran the queries.

The question I answered instead

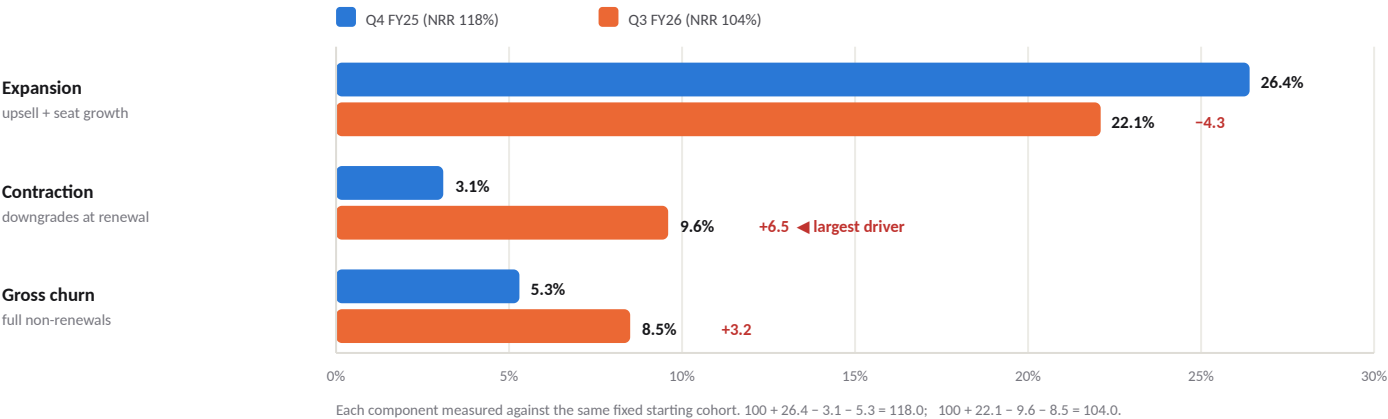
REFRAME
Asked: Why is churn increasing? Answered: What is causing net revenue retention to fall, and which part of it is ours to control?
The reframe was not pedantic. “Churn” at Veltrix meant customers leaving, and the proposed remedy — six additional CSMs — followed directly from that framing. Decomposing the fourteen-point decline before accepting the framing showed that the largest single driver was existing customers <i>shrinking</i> , that its cause was structural rather than relational, and that the proposed remedy addressed neither.

118% → 104% NRR, Q4 FY25 → Q3 FY26 Fourteen points across three quarters.	6.5 of 14.0 POINTS FROM CONTRACTION Versus 3.2 from churn and 4.3 from slower expansion.	60% OF THAT IS CONTROLLABLE Structural over-provisioning and a true-down term, not the market.	~\$2.2M ARR PROTECTABLE Over four quarters, without adding CS headcount.
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Step 1 — Decompose before diagnosing

Net revenue retention is an arithmetic identity: 100% + expansion – contraction – gross churn. Any explanation of a fourteen-point move has to allocate fourteen points. Veltrix’s reporting showed only the total and the churn line, which is why the churn line became the story.

NRR components as a share of the starting ARR base — Q4 FY25 vs. Q3 FY26 (trailing twelve months)



Contraction is the story. Churn did deteriorate, by 3.2 points — the CEO’s instinct was not wrong, it was incomplete. But contraction more than tripled and contributed 6.5 points, and it was invisible in Veltrix’s reporting because retention was tracked on a logo basis only. An account renewing at 55% of its prior value appeared in every report as retained.

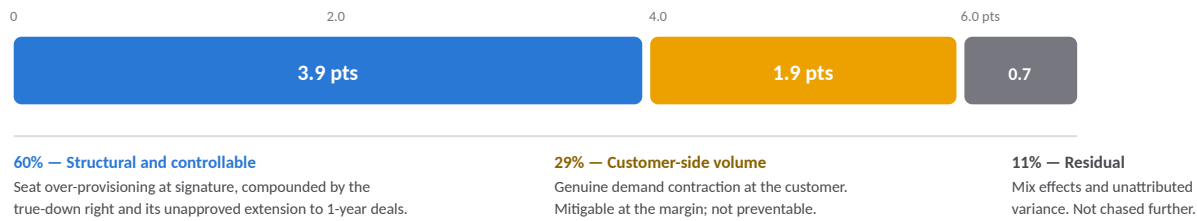
Step 2 — Five candidate explanations, four tests

Hypotheses were fixed in writing before any of the cuts below were run, and each was paired with the observation that would falsify it. This is the discipline that stops a diagnostic from becoming a search for confirmation of the first plausible story.

#	HYPOTHESIS	TEST AND RESULT	VERDICT
H1	Customers are shrinking because their own businesses shrank. Freight volumes fell through FY26.	Split the renewal base by in-product shipment volume, which Veltrix can observe directly. Customers whose volume fell more than 15% year-over-year contracted -16.2%; those flat or up contracted -7.4%. Real, and present in every segment.	PARTLY
H2	The February packaging change made shrinking frictionless. A quarterly seat true-down right was introduced in exchange for three-year commitments.	Compared accounts contracted before and after the change at matched twelve-month tenure: -12.3% post-change vs -6.9% pre-change. The true-down right was extended to one-year deals through a sales exception path in 41% of cases — it was never approved for those terms.	CONFIRMED
H3	Seats were over-bought at signature and were always going to be given back.	Share of contracted seats with zero core activity in the 90 days before renewal rose from 22% (Q4 FY25 renewals) to 39% (Q3 FY26). Concentrated in accounts where seats were bulk-provisioned by an administrator in the first 30 days.	CONFIRMED
H4	The move to pooled CS coverage below \$75K ACV damaged retention. This was the hypothesis behind the proposed hire.	Contraction under pooled coverage -9.9% vs named coverage -9.2% — a gap well inside the confidence interval at this sample size, and it reverses when controlled for ACV. No coverage effect is detectable.	REJECTED
H5	A competitor is taking share.	Competitive displacement accounts for 11% of churned ARR, against 12% in the prior year. Flat. It is not what changed.	REJECTED

Step 3 — Allocating the 6.5 points

Attribution of the increase in contraction (6.5 percentage points)



Method. Attribution is from a decomposition on matched cohorts, not a regression: accounts were paired on tenure, ACV band and shipment-volume trend, and the residual difference between pre- and post-packaging-change cohorts assigned to the structural cause. I have kept an explicit residual rather than distributing it — a diagnostic that explains 100% of a variance is usually over-fitted.

The mechanism, stated plainly

Veltrix sells seats. Administrators buy for the size of their department, not the number of people who will use the product, and Veltrix’s onboarding lets an administrator bulk-provision every seat on day one. Under annual terms this over-buying was invisible: unused seats simply renewed. The February packaging change gave customers a quarterly right to give seats back — and sales, needing the concession to close, applied it to one-year deals it was never approved for. The result is that Veltrix converted a stock of dormant, fully-paid seats into a scheduled series of reductions. The freight downturn determined *when* customers exercised the right. It did not create it.

Step 4 — What to do, in order

#	RECOMMENDATION	RATIONALE AND SIZING	ARR EFFECT
1	Close the true-down exception path immediately. Cap the right at 15% of contract value and restrict it to the three-year term it was priced for.	Reversible this week by policy, with no product or pricing work. The 41% of contracts carrying the right without the commitment are the single largest identified leak.	~\$1.3M
2	Move billing to activation-gated seat provisioning. Seats bill on first qualifying use within 60 days rather than at signature.	Removes the incentive to over-buy and converts a renewal-time reduction into a smaller, honest starting contract with room to expand. Lowers reported new ACV in the first two quarters — this trade-off should be taken to the board explicitly rather than discovered by it.	~\$0.9M
3	Introduce a consumption-linked floor alongside seats for the top two ACV bands at next renewal.	Ties a portion of contract value to shipment volume the customer is already generating, so the contract flexes with their business instead of being renegotiated against it. Pilot with twelve accounts before the pricing committee commits.	pilot
4	Build a renewal-risk leading indicator: 90-day seat utilisation plus multi-user breadth, reported as ARR at risk two quarters ahead.	Every driver above was visible in product data months before it hit a renewal. Veltrix had the data and no instrument pointed at it.	enabling
5	Reallocate two CS heads to activation for the sub-\$40K band — not six new hires to coverage.	68% of churned logos never reached three active users by month three. That is where the churn evidence points, and it is an onboarding problem, not a coverage problem.	churn

Sizing arithmetic. Contraction at 9.6% of a \$58M renewing base is approximately \$5.6M annually. The structural share (60%) is roughly \$3.3M. Recommendations 1 and 2 target the mechanisms behind it; recovering two thirds of that over four quarters gives the ~\$2.2M figure quoted on page one. This is an estimate with a stated basis, not a forecast — it assumes renewal mix holds and that recommendation 2 does not suppress new-seat volume by more than 8%, which is the assumption I would monitor first.

What I recommend against

DO NOT HIRE THE SIX CSMS

The proposal on the table was six additional customer success managers at approximately \$1.1M fully loaded per year, justified by the belief that pooled coverage below \$75K ACV had damaged retention. The data does not support it: contraction under pooled coverage is -9.9% against -9.2% under named coverage, a difference inside the noise at this sample size that reverses direction once ACV is controlled for.

This is the most valuable finding in the engagement and the least satisfying one. The hire would have been made, retention would have continued to fall for two more quarters as the true-down right propagated through the renewal book, and the conclusion drawn would have been that six was not enough.

Confidence, and what would change my conclusion

CLAIM	CONFIDENCE	WHAT WOULD OVERTURN IT
Contraction, not churn, is the primary driver of the NRR decline	HIGH	Nothing short of an error in the ARR movement model. This is arithmetic on the full book, not a sample.
The majority of the contraction increase is structural and controllable	MEDIUM-HIGH	If the Q3 FY26 renewal cohort is unrepresentative by customer industry mix. I checked mix on ACV band and tenure; I did not have clean industry coding below the top 200 accounts.
The 60 / 29 / 11 split between structural, macro and residual	MEDIUM	The macro control uses in-product shipment volume as a proxy for the customer's own headcount decisions. If customers cut staff ahead of volume rather than with it, the macro share is understated and the structural share correspondingly smaller.
CS coverage model has no detectable effect	HIGH	A larger sample could surface a small real effect. It would have to be an order of magnitude larger than anything visible here to justify the \$1.1M.

Illustrative work sample. "Veltrix" is a fictional composite. All figures, findings and quotations are constructed to demonstrate analytical approach and deliverable format; they are not the data or findings of any client, past or present. No confidential material is reproduced here. · Companion piece: *Work Sample 04 — Executive Analytical Narrative*, the one-page board version of this diagnostic.