

Net Revenue Retention: What Changed, and What We Need Approved

TO	Board of Directors, Veltrix	RE	NRR decline — diagnosis and two decisions
FROM	Office of the CEO	DATE	12 October, ahead of the Q3 review
PREPARED BY	Independent analytics advisor	LENGTH	One page. Full diagnostic on request.

Bottom line. NRR has fallen from 118% to 104% in three quarters. The cause is not churn, which we have been treating as the problem. It is **contraction** — existing customers renewing at lower value — which accounts for 6.5 of the 14 points, more than churn and slower expansion together. About **60% of that increase is structural and reversible by policy**, not by relationship management. We ask the board to approve two changes and to decline the customer success headcount request tabled in August.

What the fourteen points are made of

COMPONENT	Q4 FY25 → Q3 FY26 (0–30% scale)	CHANGE	READING
Contraction downgrades at renewal	3.1% → 9.6% 	+6.5	The largest driver, and the one we were not measuring. Retention was tracked on a logo basis, so an account renewing at 55% of its prior value appeared as retained.
Expansion upsell and seat growth	26.4% → 22.1% 	-4.3	Consistent with the freight market. Expansion is still above peer median and is not where the intervention belongs.
Gross churn full non-renewals	5.3% → 8.5% 	+3.2	Real, but concentrated below \$40K ACV and driven by failed activation: 68% of churned logos never reached three active users by month three.

Why it happened

- **We sell seats that customers over-buy.** Administrators purchase for department size and bulk-provision on day one. Contracted seats with no activity in the 90 days before renewal rose from 22% to 39%.
- **In February we made giving those seats back easy.** The quarterly true-down right was priced for three-year commitments; it reached one-year deals through a sales exception path in 41% of cases, where it was never approved. Matched on tenure, post-change accounts contract at -12.3% against -6.9% before.
- **The freight downturn set the timing, not the cause.** Customers whose shipment volume fell more than 15% contracted at -16.2% against -7.4% for the rest — worth roughly 29% of the increase. The other 60% is ours.

What we recommend

- **Close the true-down exception path this week.** Cap the right at 15% of contract value; restrict it to the three-year term. Policy only. Protects an estimated \$1.3M of ARR over four quarters.
- **Move to activation-gated seat billing** — seats bill on first use within 60 days, not at signature. Estimated \$0.9M protected. It will reduce reported new ACV for two quarters, and the board should hear that from us now rather than see it in Q1.
- **Redirect, do not add, customer success capacity.** Two existing heads move to activation for the sub-\$40K band, where the churn evidence actually points.

Decisions requested

1. **Approve** the true-down policy change and activation-gated billing, accepting two quarters of lower reported new ACV as the cost of a durable renewal book.
 2. **Decline** the request for six additional CSMs (\$1.1M annually). Contraction under pooled coverage is -9.9% against -9.2% under named coverage — inside the noise, and it reverses once ACV is controlled for. The hire would not have addressed the driver.
 3. **Note** that from Q4 we report contraction as a standing line alongside churn, and NRR on a fixed starting cohort. Prior periods are restated on that basis; the history above is the restated series.

What would change this view. The structural-versus-macro split rests on in-product shipment volume as a proxy for our customers' own staffing decisions; if they cut staff ahead of volume, the recoverable amount is smaller, though the direction of the recommendation does not change. The indicator to watch over the next two renewal quarters is contraction on one-year contracts specifically, not the blended rate.

Illustrative work sample. “Veltrix” is a fictional composite; all figures are constructed to demonstrate analytical approach and deliverable format, and are not the data of any client. • Compresses Work Sample 03 — Business Performance Diagnostic, which carries the full method, hypothesis tests and confidence assessment.