THE NET NEGATIVE

A RETENTION DIAGNOSTIC FOR FOUNDERS AND INVESTORS

THE 10-POINT NRR SCORECARD

This audit is designed to expose retention decay before it shows up in your board deck. Use the following criteria to assess whether the organisation's NRR is genuinely defensible, or dependent on effort that won't scale.

In most cases, financial diligence audits past ARR. It rarely audits what's underneath the retention number. Investors and boards routinely treat a healthy-looking NRR as settled fact, right up until it isn't.

A drop from 115% to 95% NRR doesn't just represent lost revenue. It changes what the business is worth. A company that relies on individual CSMs and manual saves to hold its number together is carrying a risk most diligence processes never find, because nobody asked what the number was actually made of.

This scorecard looks past the headline figure. It's designed to show whether an NRR is structurally sound or built on effort that depends on specific people staying in specific roles. A fail on three or more of these metrics is worth investigating properly before you rely on the number.

Methodology: Built on 19+ years scaling revenue and CS operations for B2B SaaS. Part of the broader 120% Rule framework for retention diligence and valuation defence.

METRIC 1

The CS Commercial Mandate

THE LITMUS TEST

Does Customer Success hold real accountability for expansion revenue, not just retention?

THE RED FLAG

CS is treated as a cost centre, focused only on adoption and support. Expansion sits entirely with Sales.

THE NET NEGATIVE STANDARD

CS shares real accountability for expansion, with the structure and incentives to act on it.

METRIC 2

Designed Expansion Mechanics

THE LITMUS TEST

Do customers naturally grow into more usage, or does every expansion require a fresh sales cycle?

THE RED FLAG

Growth depends on manual, high-friction upsell conversations, one at a time.

THE NET NEGATIVE STANDARD

Pricing and packaging are built so growth is a natural consequence of usage, not something pitched from scratch each time.

METRIC 3

Health Score Integrity

THE LITMUS TEST

Are account health scores checked against what actually happens, including the false positives?

THE RED FLAG

Health scores exist, but nobody reviews the accounts that were flagged red and stayed anyway. Every "save" is taken at face value.

THE NET NEGATIVE STANDARD

Health scores combine usage data with tracked intervention outcomes, and someone regularly checks how many flagged accounts were never actually at risk.

METRIC 4

Executive Outcome Tracking

THE LITMUS TEST

Does the business track the specific outcome the buyer used to justify the purchase?

THE RED FLAG

Success is measured by logins and feature activation, not by whether the buyer got what they paid for.

THE NET NEGATIVE STANDARD

Delivery is tied to the buyer's actual outcome. If the product isn't moving that number, the account is genuinely at risk, whatever the health score says.

METRIC 5

Time to First Value

THE LITMUS TEST

Is onboarding measured by technical completion or by how fast the customer sees a real result?

THE RED FLAG

Onboarding is "done" once the software is set up and users are trained.

THE NET NEGATIVE STANDARD

Onboarding is measured against time to a tangible result the customer can point to, not just implementation.

METRIC 6

Dependency on Individual Effort

THE LITMUS TEST

If your three strongest CSMs left tomorrow, would NRR meaningfully drop?

THE RED FLAG

Retention depends on a handful of people's relationships and judgement, and nobody's tested what happens without them.

THE NET NEGATIVE STANDARD

The retention motion is documented and repeatable. Good people still matter, but the number doesn't collapse if a few of them leave.

METRIC 7

Segment Concentration

THE LITMUS TEST

Is ARR concentrated in a segment that's structurally unable to expand?

THE RED FLAG

Strong logo retention, but the customer base is mostly accounts without the budget or need to grow.

THE NET NEGATIVE STANDARD

Acquisition and account management are both mapped to real expansion potential, not just logo count.

METRIC 8

Integration Depth

THE LITMUS TEST

How many of the customer's other systems and workflows depend on this product?

THE RED FLAG

An isolated tool that could be swapped out over a weekend with minimal disruption.

THE NET NEGATIVE STANDARD

The product is genuinely embedded in how the customer operates, which raises the real cost of leaving.

METRIC 9

Gross Versus Net Clarity

THE LITMUS TEST

Is gross churn reported separately from net expansion, or is one hiding inside the other?

THE RED FLAG

A healthy NRR that's actually catastrophic logo churn, propped up by a small number of large expansions.

THE NET NEGATIVE STANDARD

Gross churn is reported on its own. The business knows its real bleed rate before any expansion offset is applied.

METRIC 10

Discounting Discipline

THE LITMUS TEST

What share of the customer base sits on a permanently discounted legacy tier?

THE RED FLAG

Discounts get used freely to hit targets, quietly eroding the baseline every future expansion is measured against.

THE NET NEGATIVE STANDARD

Discounting is governed and rare. Concessions come with a trade-off, like a longer commitment, not given away for free.

SCORING MATRIX

9–10

Defensible

Retention is structurally sound. The number should hold under scrutiny.

7–8

At Risk

Retention leans on individual effort. Worth a closer look before you rely on this number.

Under 6

Fragile

The business is likely subsidising its own growth number. This needs investigation before any valuation decision.

If the Score Is Low

- Review the shortest contracts. If rolling monthly agreements make up a large share of revenue, understand why, and whether migrating to longer terms is realistic.
- Audit the quiet accounts. Find high-value customers with little to no usage and no recent contact. Find out if anyone's actually looked at them.
- Check what CS is actually incentivised to do. If compensation rewards caretaking rather than outcomes, that's usually where the gap starts.

THE RETENTION AUDIT

This scorecard identifies the symptoms. A full audit identifies what's actually causing them.

If your organisation failed more than three points here, the retention number is worth a closer look before you make decisions based on it.

ENGAGE FOR

Investor Diligence
Identifying retention risk before a deal closes.

Retention Operating Model Design
Building expansion into the system, not just the sales motion.

Board-Level Advisory
Helping CS move from a cost centre to a real driver of revenue.

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REFERENCES

1. The Net Negative — Complete Diligence Package
2. The 120% Rule (manuscript)