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The Pulse of Your Business: Mastering Net New ARR

A Deep Dive into Net New ARR

CJ GUSTAFSON

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Net New ARR measures changes in Total ARR from one period to the next.

Total ARR and NNARR by month

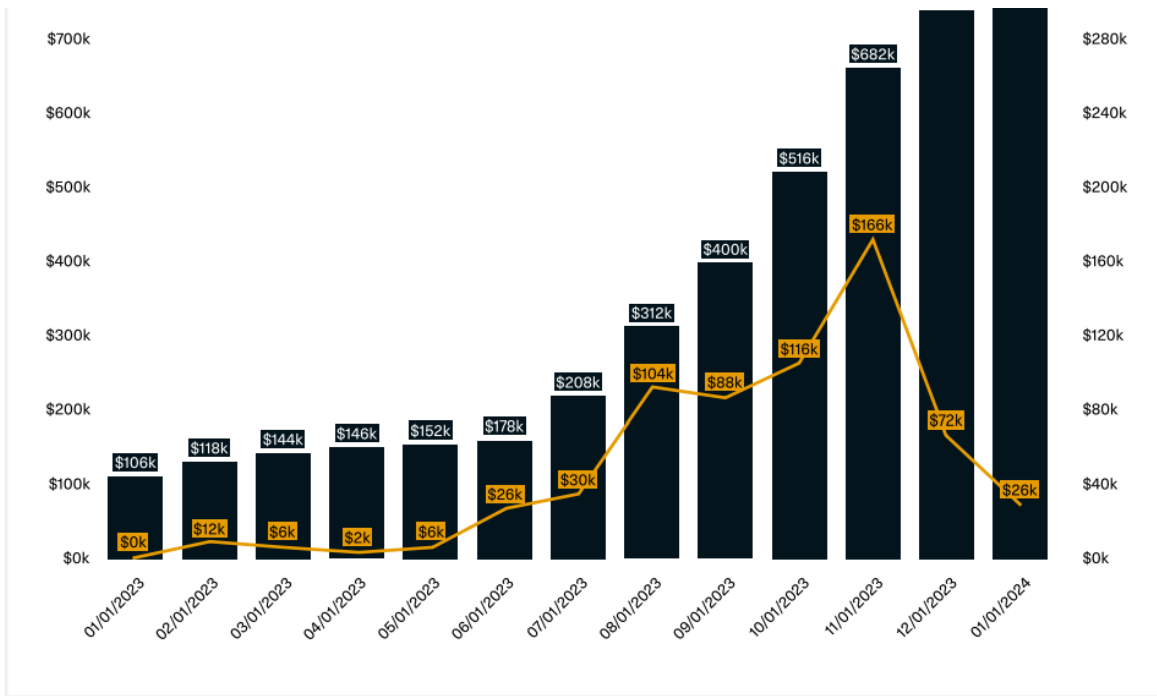
■ Total ARR ■ Net New ARR

\$800k

\$754k

\$780k

\$320k



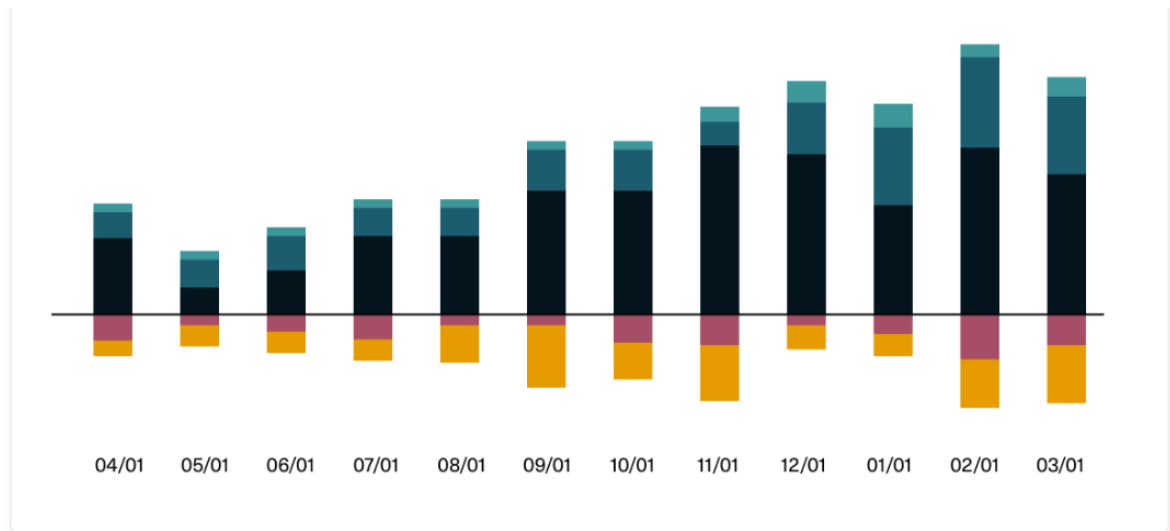
Total ARR = big blue bars. Net New ARR = orange lines showing the delta from period to period

If you've ever seen an ARR waterfall, this is what goes on *between the lines*.



Sounds simple in theory. But in practice, there are a thousand little feet kicking under the surface. It's not just a single number, but a combination of different revenue flows that provide insight into how well a company is growing.





To “double click” on the chart above (punches self in face), the orange line can be broken into sub components

That’s why I brought in an expert to help with today’s post - [Bobby Pinero](#) - founder and CEO of [Equals](#). After experiencing the pains of being the first finance and data hire at Intercom, wrestling messy transaction data from Stripe, ERPs, and Data warehouses, he started Equals to solve the ARR problem. ***Take it away, Bobby:***

Trended ARR Scorecard

Total ARR currently at **\$4,910,220** across **150** customers, representing **1.4%** and **1.3%** MoM growth respectively. Data as of 08/26/2024

Build	Nov-2023	Dec-2023	Jan-2024	Feb-2024	Mar-2024	Apr-2024	May-2024	Jun-2024	Jul-2024	Aug-2024
ARR										
Gross New	\$705,587	\$327,504	\$275,398	\$290,515	\$402,586	\$308,928	\$519,331	\$451,373	\$280,464	\$156,413
Expansion	\$1,099,464	\$459,744	\$95,491	\$149,952	\$74,784	\$52,992	\$20,376	\$86,726	\$143,424	\$159,819
Contraction	(\$980,544)	(\$152,736)	(\$365,472)	(\$43,392)	(\$16,512)	(\$24,192)	(\$5,184)	(\$53,622)	(\$27,360)	(\$66,432)
Churn	(\$409,344)	(\$294,144)	(\$223,680)	(\$187,680)	(\$211,743)	(\$98,208)	(\$278,112)	(\$153,728)	(\$285,312)	(\$221,472)
Restart	\$148,704	\$165,374	\$0	\$91,680	\$19,488	\$0	\$95,328	\$121,344	\$111,840	\$39,936
Net New	\$563,867	\$505,742	(\$218,262)	\$301,075	\$268,602	\$239,520	\$351,739	\$452,093	\$223,056	\$68,264

Source: [Equals](#)

Net New ARR is the pulse of your business. You can tell where you are gaining or losing ground by pinpointing the ways that ARR shifts from one period to the next.

Mechanically speaking, Net New ARR is made up of different categories of **added and lost revenue**:

Net New ARR = Gross New ARR + Expansion + Contraction + Churn + Restart

- **Added Revenue**
 - **Gross new:**
 - Started a new subscription
 - **Expansion:**
 - Upgraded to a higher plan
 - Increased seat count
 - Bought an additional product or feature
 - **Restart:**
 - Restarted a previously cancelled subscription
- **Lost Revenue**
 - **Contraction:**
 - Downgraded to a cheaper plan
 - Reduced seat count
 - Removed add-ons
 - **Churn:**
 - Cancelled subscription
 - Downgraded to free plan

Gross New

Gross New is crucial in the ARR Build for two reasons:

1. When a customer's subscription **starts** determines what **cohort** they

are a part of. (*Cohort is a fancy word for a “group” based on similar characteristics.*)

2. Gross New makes up the majority of Net New ARR for early stage companies. As the business grows, ***the balance shifts***, and a higher concentration of Net New ARR comes from Expansion ARR from existing customers. Knowing this mix goes a LONG way in determining ***the accuracy of your forecasts.***

Gross New is a measure of business from new customers walking in the door. The pace and size at which they walk through the door matters, as it dictates how hard the other levers within Net New ARR have to work to make the money printer go ***brrrr.***

Ways to change Gross New:

- Increase lead volume
- Improve funnel conversion
- Increase the starting price point

Expansion and Contraction

Everything outside of Gross New ARR is influenced by **existing customers...**

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