Guide to growing enterprise value using

Net Advertising Revenue Retention (NARR)

boostr

Introduction

Global media spend is forecast to grow by 14% (Magna) in 2021 with digital expected to grow 25% (eMarketer). Selling advertising has always worked on a transactional basis where publishers need to compete and win business on a deal by deal basis. Successful publishers have realized that revenue retention is a key to growth. In the May 2021 Media Ad Sales Trends report, boostr found that revenue retention and revenue growth are positively correlated. In fact, the digital publishers with the highest revenue growth rates from 2019-2020 had the best client and revenue retention rates.

Retention = Growth

Advertiser Account Retention

GROUP CATEGORY	Retention Rate
Top 25%	43%
Median	35%
Bottom Performormers	26%

Advertiser Revenue Retention

GROUP CATEGORY	Retention Rate
Top 25%	72%
Median	55%
Bottom Performormers	38%

Unfortunately a majority of publishers are not able to retain significant client spend year over year and need to find more new logos every year. While there are many reasons for this, oftentimes publishers don't have the visibility into the problem. "When I'm talking to CROs and ask them what their churn is, half of them aren't sure, the other half often know, but it's a point in time view because it was so difficult to get the data", says Patrick O'Leary, CEO & Founder at boostr.

Drawing inspiration from running a SAAS business and using the power of the Net Revenue Retention metric and working alongside publishers tackling the churn problem head on, boostr is excited to announce Net Advertising Revenue Retention or NARR. NARR provides a SAAS play metric for publishers to help them grow by retaining more revenue while improving their enterprise value. Publishers often trade on their ebitda multiple vs SAAS companies trading on their recurring revenue multiple, at higher valuations. Publishers who can look more SAAS like are more likely to fetch higher valuations thus growing enterprise value for their stakeholders.

What is NARR?

NARR is similar to the SAAS metric Net Revenue Retention (NRR) in that is measures how much revenue is retained from a cohort of customers.NARR provides a measure of renewability and reoccurrence of revenue.

NARR compares a cohort's current trailing revenue to that same cohort's trailing revenue from the previous period. By breaking out NARR by Advertiser, Publishers can get a forward projection enabling revenue leaders to take action with impact. NARR is most effective when comparing the cohort's revenue on a year over year basis to capture the seasonality of revenue retention in advertising. Quarterly or annual NARR calculations are recommended to smooth out small revenue changes often seen on a monthly basis.

Net Advertising Revenue Retention (NARR)

$$\left[\frac{\text{sum (cohort's current period revenue)}}{\text{sum(cohort's previous period revenue)}}\right] *100 = \text{NARR\%}$$

The beauty of NARR is when it's over 100%, the publisher's future growth has a firm base to build upon similar to how compound interest works. For example, if a publisher desires to grow revenue by 25% and has a NARR of 105% they only need to find an incremental 20% in new revenue as the existing clients are expected to provide 5% growth if that revenue is truly reoccurring.

NARR vs LTV

Customer Lifetime Value (LTV) is a valuable metric for measuring the value of a customer over their lifetime.

LTV IS MEASURED AS:

LTV = Ave Value of Sale x Number of Transactions x Retention Time Period

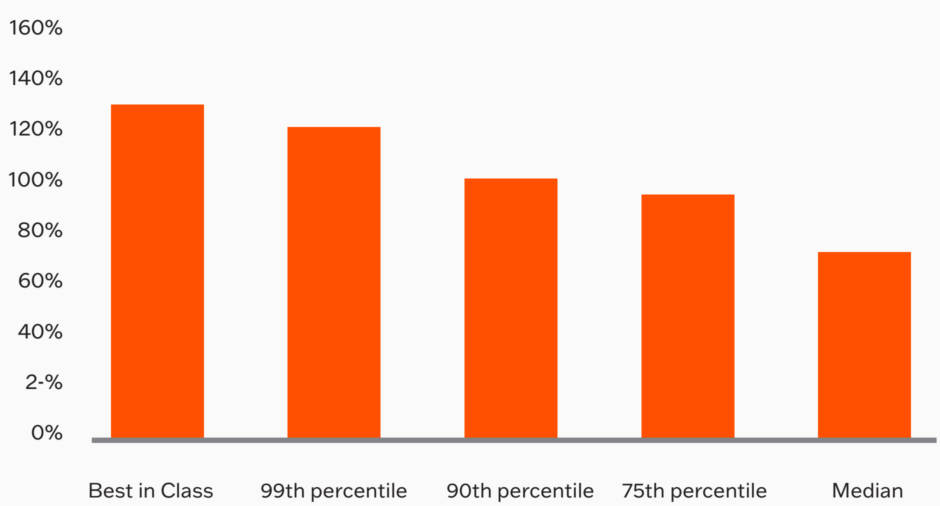
Often LTV is compared to Customer Acquisition Cost (CAC) to analyze the effectiveness of sales and marketing spend. While LTV can be useful in advertising based businesses for prioritizing customer's and comparing them, it doesn't provide insight into renewability and growth. LTV is generally more often a point in time view of the business at a macro level and calculated per account infrequently. It lacks visibility to how accounts are flexing up or down their spend compared to a prior period like last year. So much of the advertising business is seasonal, having a comparison to last year is a better indicator of business growth and trajectory. This is the justification for NARR as a monthly business performance metric - it shows year over year performance, clarity into which accounts grew or shrank and most importantly, what to expect for the future. NARR is a great indicator if you've built a sales machine with a flywheel for sustained growth.

Using both LTV and NARR is probably a good idea, just use the right metric for the appropriate analyses.

NARR Targets & Benchmarks

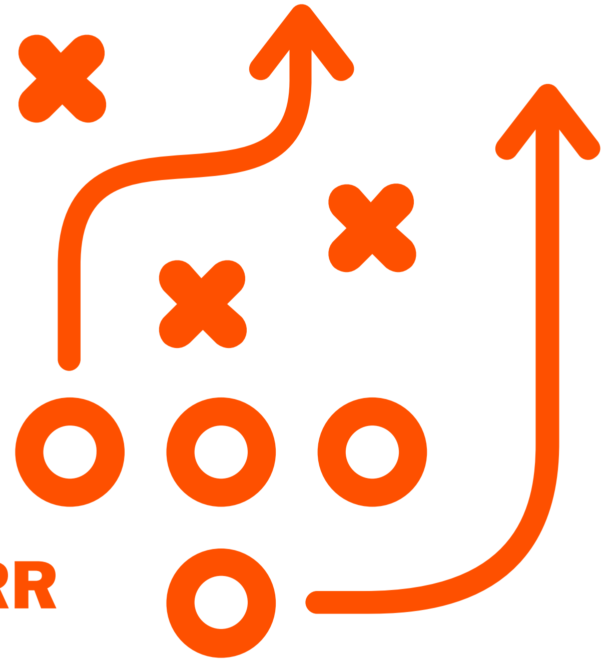
In SAAS an NRR > 115% is deemed world class. In media, without the contractual commitments for recurring spend, getting to those levels may take time to achieve on a sustained basis. Boostr observed the following NARR scores across 50 digital publishers comparing 2021 vs 2020.

Digital NARR (2020-2021)



	NAAR (2020-2021)
Best in Class	137%
99th percentile	125%
90th percentile	107%
75th percentile	100%
Median	78%

Can you get to NARR over 100%? Certainly, but it depends. If your advertisers are primarily SMB sized companies NARR over 100% will probably be difficult. They have smaller budgets and tend to be more fickle in reoccurring spend. If your advertisers index more in the enterprise tier, aiming for >100% should be a realistic goal. They have such large budgets and tend to stick with publishers over time so expansion and share of wallet growth are key strategies will drive up NARR. Most publishers likely have a mix of SMB and Enterprise accounts, often owned by separate sales teams, so using NARR to tease out insights at the macro level and at the team level should improve decision making on marketing, sales and product investments. Much of the NARR focus should be on direct sold business. Revenue streams from the programmatic open exchange should be excluded from direct sales due to the lack of control and influence on that spend. Applying NARR to open exchange could be insightful to find repeat buyers who may be candidates for upsell into higher CPM channels.



Playbook for Implementing NARR

Now that you've decided NARR is a key metric for growing your Ad Sales business, how do you get started? The answer depends on how easy it is to get your data ready. The following steps will set you up for success.

1. **Prep advertiser spend data** - this data set is the foundation. It's important to organize advertiser level spend data by month for a minimum of one year. Two is ideal to get recent trends. If possible, break it down by product or product family to extract additional insights to what's driving expansion and contraction.

2. **Baseline NARR calculations** - once the data is organized in an analyzable format, implement the NARR calculation at a macro, advertiser and product level. Ideally the solution has the ability to filter on many dimensions such as team, owner, segment, category, time period and so on. Sophisticated publishers will productize this into dashboards for always-on access.

3. **Account owner reviews** - once the NARR calculations are available, a best practice is to share the account level NARR with their owners to verify data accuracy. It's likely that due to inconsistencies and issues in advertiser data setup such as ones with multiple brands or when viewing hierarchical rollups, some account mapping updates will be required.

4. **Strategic account planning** - if you're not doing strategic account plans, NARR is a good driver to start or compliment if you are. Use NARR to drive book of business planning such as setting growth targets, determining up-sell/cross-sell opportunities, new big ideas, etc. Setting NARR targets for sales managers or even as a component of their compensation is a worthwhile discussion. Scheduling reviews with the ad product teams will help them understand usage trends of their products and drive investment alignment towards product roadmap decisions.

5. **MBRs & QBRs** - whether you do MBRs or QBRs, including insights and progress to targets for NARR should be an important KPI review. A discussion about drivers for expansion or contraction should include account management and ad product management. NARR can be effective at creating cross-functional alignment and incentives.

6. **Exec Staff Review** - the revenue or operations executive should be responsible for reviewing NARR with the executive team. The CEO and CFO will look for NARR improvements, strategies and trends to communicate enterprise value creation to their investors.

7. **Board of Directors Review** - a great practice for communicating with the board of directors is to have a KPI dashboard including NARR. This way the board has visibility and can help strategize with the executive team. Over time, we anticipate most boards will request NARR as part of their reporting package.

Conclusion

NARR is a powerful new KPI that will drive real actionable insight to grow advertising revenue and increase enterprise value. As the industry pivots to NARR, media companies with strong NARR should realize better valuations instead of relying on EBITDA alone. To learn more about NARR and see it in action contact us at www.boostr.com.

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