

A small monthly churn is much bigger than it looks

2% monthly revenue churn compounds to about 22% a year and caps customer lifetime value. At 5% it is about 46% a year, and it more than halves LTV. The monthly number hides both.

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A monthly churn rate looks harmless on a dashboard. Compounded over a year, and run through lifetime value, it is one of the most important numbers in the business.

Monthly churn compounds

Annual churn is not twelve times the monthly rate, it is one minus the monthly survival rate to the power of twelve. So:

- 2% monthly revenue churn: about 22% a year ($1 - 0.98^{12}$).
- 5% monthly revenue churn: about 46% a year ($1 - 0.95^{12}$).

Going from 2% to 5% a month does not add a few points to the annual figure, it doubles it.

Churn sets your LTV

Gross-margin lifetime value is the monthly gross margin per account divided by the monthly churn rate. With the default assumptions of 300 euro average revenue per account and an 80% gross margin, the margin is 240 euro a month, so:

- At 2% monthly churn: LTV is about 12,000 euro ($240 / 0.02$).
- At 5% monthly churn: LTV is about 4,800 euro ($240 / 0.05$).

The same product, the same price, and the churn rate alone more than halves what a customer is worth. That is the number that decides how much you can afford to spend to acquire one. Put your own MRR, churn, ARPU and margin in and see the annual churn, GRR, NRR and LTV together.

Which churn number? Four that get mixed up

The calculator shows more than one retention figure on purpose: "churn" is at least four different numbers, and the LTV above quietly picked one of them.

- Logo (customer) churn counts accounts lost. Revenue churn counts the money lost. They only match if every account pays the same. Lose your smallest accounts and revenue churn is lower than logo churn; lose one whale and it is higher.
- Gross revenue churn is the revenue lost to cancellations and downgrades alone. It can never drop below zero, so it is the honest worst case.

- Net revenue churn subtracts expansion (upgrades, added seats, more usage) from that loss. If existing customers expand faster than others leave, net churn goes negative and the same book of customers grows with no new signups. Net revenue retention above 100% is what that looks like on the dashboard.

This is why the LTV above is a careful answer, not the only one. Divide gross margin by gross revenue churn and you get the cautious lifetime value; divide by net revenue churn and, when expansion outruns losses, the denominator shrinks or vanishes and lifetime value stretches far higher. Same customers, very different number, so always be clear which churn rate you fed in.

Frequently asked questions

What does 2% monthly churn mean per year?

About 22% a year, not 24%, because it compounds: $1 - 0.98^{12}$. At 5% monthly it is about 46% a year. Going from 2% to 5% a month more than doubles annual churn.

How does churn affect customer lifetime value?

LTV is gross-margin contribution divided by the churn rate, so higher churn directly caps lifetime value. Moving from 2% to 5% monthly churn more than halves LTV, which is why the small monthly number matters so much.

What is the difference between gross and net revenue churn?

Gross revenue churn is revenue lost to cancellations and downgrades only, so it can never drop below zero. Net revenue churn subtracts expansion revenue (upgrades, added seats, more usage) from that loss, so if existing customers expand faster than others leave it can go negative. Negative net churn is the same thing as net revenue retention above 100%, where your existing customer base grows without a single new signup.

Is churn measured on customers or on revenue?

Both, and they are different numbers. Logo churn counts accounts lost; revenue churn counts the money lost. They only match when every account pays the same. If the customers who leave are smaller than average, revenue churn is lower than logo churn; if a large account leaves, revenue churn is higher. Lifetime value should be built from a revenue churn rate, not a customer count.

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