GROWTH THAT COMPOUNDS

What is growth accounting? Separate new, retained, expanded, and lost revenue

Growth accounting reconciles recurring revenue through new, expanded, contracted, and lost components. Keep revenue and customer counts separate.

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MANAGEMENT SUMMARY

Growth accounting is a bridge from beginning recurring revenue to ending recurring revenue through new revenue, expansion, contraction, and churn or other lost revenue. It is a reconciliation identity, not a valuation model, health score, or causal decomposition. This article defines the revenue boundary, period, customer and line grain, retained base, and treatment of new and lost units. A synthetic bridge shows how EUR 1,000 thousand at the beginning can become EUR 1,200 thousand after EUR 300 thousand of new revenue, EUR 120 thousand of expansion, EUR 80 thousand of contraction, and EUR 140 thousand of churn. Corrado et al. and Hulten and Hao provide bounded growth-accounting and capital-measurement context. The bridge, values, and formulas are author synthesis, not a health benchmark or causal explanation.

Keywords: Growth Accounting · New Revenue · Retained Revenue · Expanded Revenue · Lost Revenue · Growth Bridge · Recurring Revenue

A company can report 20% revenue growth and still leave the economic bridge opaque. New customers, existing-customer expansion, price changes, contraction, and churn may all be inside the same headline. The number reconciles only when the components are named.

Growth accounting reconciles a beginning recurring-revenue base to an ending base through declared new, retained, expanded, contracted, and lost revenue components. It is an identity for a stated boundary, not a valuation model or a causal explanation.

The growth-compounding article owns the logic of repeated growth. The gross-retention article owns retention as a loss boundary. This page owns the period bridge that makes the components add to the ending base.

What does growth accounting mean?

The bridge needs a declared base:

Table 1 What does growth accounting mean?

Component	Meaning	Boundary question
Beginning base	Recurring revenue eligible at the start	Which contracts, currency, and service period enter?
New revenue	Revenue from units not in the beginning base	Are new customers kept out of the retention base?
Expansion	More recurring revenue from beginning-base units	Is the change usage, price, seat, product, or another declared driver?
Contraction	Less recurring revenue from beginning-base units that remain	Is the line still active, and where is the reduction recorded?
Churn or lost revenue	Revenue removed when a beginning-base unit exits	What event makes the loss effective?
Ending base	Reconciled recurring revenue at the end	Does every component sum to the declared result?

Table from this essay. Sources and interpretation are given in the article.

Customer counts and revenue components are related but not interchangeable. One large expansion can offset several small lost accounts in revenue while logo retention falls. A revenue bridge should not be presented as a customer bridge unless the unit and arithmetic are rebuilt for customers.

What is the growth-accounting formula?

For a period with aligned currency, contract scope, and service boundary:

ending revenue = beginning revenue + new revenue + expansion - contraction - churn

The period growth rate is:

growth rate = (ending revenue - beginning revenue) / beginning revenue

The formula does not identify why a customer expanded or churned. It only makes the declared components reconcile. If price, foreign exchange, acquisition, or product changes matter, add them as separate components or state that they remain inside a named residual.

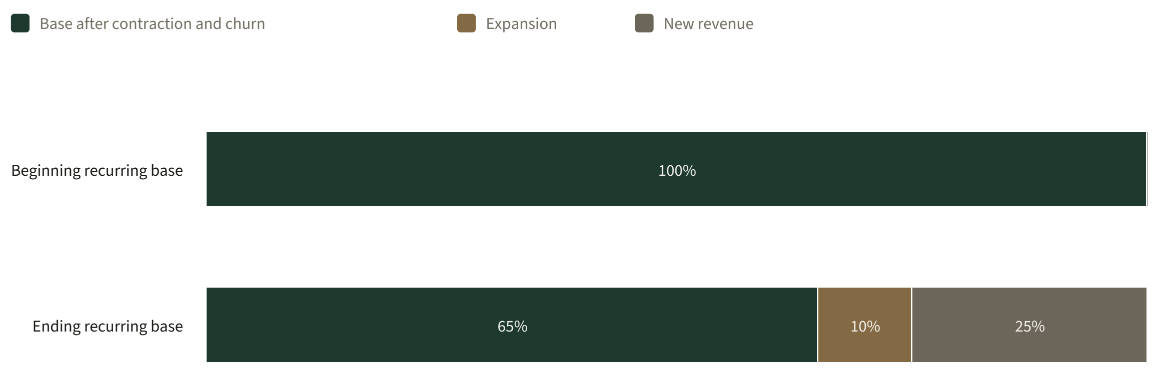
Corrado, Hulten, and Sichel use growth-accounting logic to connect measured output with investment categories and assumptions about intangible capital. Their work is macroeconomic and does not define a SaaS recurring-revenue bridge. It is useful here as a boundary reminder: the accounting result depends on the measured output, input categories, and assumptions.

Hulten and Hao examine how intangible capital changes the interpretation of company value and the market-to-book relationship. They do not provide a growth-accounting benchmark for a commercial business. Their relevance is the capital-boundary warning: a ratio changes when the capital or output object changes.

What does a growth bridge look like?

The chart compresses contraction and churn into the retained base after loss so the beginning and ending bars remain readable. The detailed table below keeps the negative components visible. All amounts are synthetic EUR thousands.

Figure 1 The synthetic recurring-revenue growth bridge



Author's synthetic growth-accounting bridge grounded in Corrado, Hulten and Sichel (2009) and Hulten and Hao (2008). The revenue components and values are illustrative, not company data, a valuation, or a growth benchmark.

Table 2 What does a growth bridge look like?

Component	Synthetic EUR 000	Reconciliation role
Beginning recurring base	1,000	Starting eligible base
New revenue	+300	Units outside beginning base
Expansion	+120	More recurring value from beginning-base units
Contraction	-80	Less recurring value from continuing units
Churn	-140	Lost recurring value from exiting units
Ending recurring base	1,200	1,000 + 300 + 120 - 80 - 140

Table from this essay. Sources and interpretation are given in the article.

The retained base after loss is 1,000 - 80 - 140 = 780. It is not a replacement for showing the loss components. The compressed chart is a reading aid; the bridge table is the audit object.

Which revenue belongs in the retention base?

New revenue should not enter a beginning-base retention denominator. Expansion should be associated with the beginning-base unit that produced it. Contraction and churn should be tied to the event and period that make the reduction effective. Price, foreign-exchange, credits, or acquisition changes need their own declared treatment.

The same logic applies to customer counts, but the arithmetic changes. A team can have flat recurring revenue with a falling customer count, or growing customer count with declining recurring revenue if the mix changes. The bridge must say which one it reconciles.

What does growth accounting not measure?

Growth accounting does not measure company value, quality of growth, customer satisfaction, profitability, or the causal effect of a pricing, sales, marketing, or product decision. It does not prove that expansion is healthy or that churn reflects a particular owner. A balanced bridge can hide concentration, margin burden, timing, or customer-count loss.

The defensible conclusion is narrower: under the declared revenue, period, currency, and component rules, the beginning base reconciles to the ending base. Interpretation requires separate evidence.

How should a team review a growth bridge?

1. Freeze beginning and ending dates, currency, service period, and recurring-revenue definition.
2. Define the customer or line grain and the entry event for the beginning base.
3. Separate new, expansion, contraction, churn, credits, price, and currency treatment.
4. Keep new units out of the beginning-base retention denominator.

5. Reconcile every component exactly to the ending base or record a residual.
6. Rebuild a customer-count bridge separately from a revenue bridge.
7. Review concentration, margin, timing, and causality outside the identity.

Growth accounting earns trust from reconciliation. It becomes interpretation only after the base, components, and outcome questions remain visible.

Corrado, C. A., Hulten, C. R., & Sichel, D. E. (2009). Intangible capital and U.S. economic growth. Review of Income and Wealth, 55(3), 661-685. https://doi.org/10.1111/j.1475-4991.2009.00343.x

Hulten, C. R., & Hao, X. (2008). What is a company really worth? Intangible capital and the “market to book value” puzzle (Working Paper No. 14548). National Bureau of Economic Research. https://doi.org/10.3386/w14548

END OF ESSAY

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