THE SUBSCRIPTION CROSSING

Unit Economics by Cohort + Rule of 40 + Net Revenue Retention (NRR)

1. The Three Frameworks Used:

UNIT ECONOMICS BY COHORT	RULE OF 40	NET REVENUE RETENTION (NRR)
Track each group of customers by when they joined — what they cost to win, what they pay, and whether they stay.	A health check for software firms: growth rate plus profit margin should add up to at least 40.	Do your existing customers spend more or less this year than last year? Above 100% means the base grows on its own.

How the Three Connect (Fusion Logic)

Cohorts show whether the new model works customer by customer. NRR shows whether the base compounds by itself. Rule of 40 tells you if you have arrived. Together they let a company navigate the scariest move in software — switching from one-time sales to subscriptions — without panicking when the old numbers fall.

2. Application: ADOBE (USA)

Background — What Happened and Why

- Until 2012, Adobe sold Creative Suite in a box for around $1,800 as a one-time purchase.
- That model was profitable, but growth was slowing and piracy was widespread — casual users would never pay $1,800.
- Adobe decided to kill the box and move everything to a subscription of roughly $50 a month.
- The maths was brutal: swapping a big upfront payment for small monthly drips means revenue and profit must fall first, before they can rise.

What They Did

- Moved the entire Creative Suite to Creative Cloud subscriptions.
- Accepted a temporary drop in reported revenue and profit — the 'J-curve'.
- Changed the scoreboard it showed investors: reporting subscriber cohorts and recurring revenue instead of box sales.
- Kept adding apps and seats to the subscription so existing customers naturally spent more.

Applying the Fusion — Step by Step

1 **Accept that revenue will dip first**

Swapping a big one-time price for a small monthly fee means money comes in slower at the start. Adobe knew its revenue would fall before it rose.

2 **Watch each new group of subscribers**

Adobe tracked each batch of new subscribers — did they stay, and did they spend more? These groups showed that casual users who never paid $1,800 were happily joining at $50 a month.

3 **Track if existing users spend more**

Adobe watched whether current subscribers added more apps and seats over time. They did — so revenue grew even without new customers.

4 **Tell investors to watch the new numbers**

During the dip, Adobe pointed investors to subscriber and recurring-revenue numbers instead of the old boxed-software sales.

5 **Come out the other side**

After a few years, subscription revenue passed the old peak — on stronger, steadier economics than the boxed model ever had.

The Result

Within a few years recurring revenue passed the old peak, the Rule of 40 score recovered on structurally better economics, and the business re-rated massively. The dip turned out to be an investment, exactly as the cohort data had predicted.

3. Key Takeaways

- A business-model transition needs transition metrics — old KPIs will scream 'failure' by design.
- Cohorts and NRR are the early evidence that a painful crossing is working.
- Rule of 40 is a destination gauge, not a during-the-storm instrument.

- Use for any move from one-time sales to recurring revenue — software, media, even industrial services.