



FLASH

NetSuite SuiteWorld 2016: Three Key Takeaways for Software Providers

Amy Konary

IN THIS FLASH

This IDC Flash reviews NetSuite's key value propositions for the software industry as discussed during the company's SuiteWorld conference held May 16-19 in San Jose, California. The highlights of this conference include software industry traction, the value proposition that NetSuite offers to SaaS providers, and the introduction of SuiteBilling – a new core billing technology from NetSuite designed to support hybrid business models.

SITUATION OVERVIEW

The software industry is made up of a large number of companies that address a diverse set of customer needs, yet they all share a similar set of challenges. Even a small software firm has a great deal of complexity associated with functions such as order management and revenue recognition, and stopgap solutions such as manually entering data into macro-enabled spreadsheets do not scale, create opportunity for errors, and prohibit business agility. In addition, software companies often lead the charge in business model innovation, such as the shift to subscription-based business models and usage-based pricing. Many software companies have continued to offer traditional licensing approaches even as they migrate toward recurring or usage fee models, making invoicing and revenue management particularly challenging.

It is ironic that traditional back-office software has historically done a very bad job of addressing the back-office needs of software companies. Traditional ERP is designed to support the sale and delivery of a product anywhere in the world based on a quantity and a SKU. This works well for a hardware logistics flow but not in the software industry where understanding and managing the life cycle of your customers with your offering, along with their usage patterns, are paramount.

NetSuite was founded as a cloud software company in 1998 to address the back-office needs of complex, fast-growing businesses and found early success in several key vertical industries including software companies.

For software companies, streamlining processes and providing increased visibility and agility can mean the difference between supporting 30% year-over-year growth and not growing at all. Three of the top messages for software providers that this analyst took away from SuiteWorld, NetSuite's annual customer conference, are discussed in the sections that follow.

NetSuite Is Big in Software

According to NetSuite, the company has 1,500 software industry customers, 300+ industry-built dashboards, and 15 predefined roles in NetSuite that are specific to software.

Current software industry customers include Jive, Domo, GitHub, CallidusCloud, Splunk, Birst, Commvault, Genesys, and DocuSign. This list may include companies that aren't considered pure-play software companies but for which software is a strategic component of future growth, such as Cisco.

This year, day two of SuiteWorld featured five industry keynotes. The software keynote was anchored by NetSuite founder and CTO Evan Goldberg and featured several customers to help demonstrate the ways in which NetSuite can help a range of software companies – from start-ups looking to future proof their businesses to enterprise-level firms looking to sustain agility.

The keynote touched on NetSuite's understanding of the key financial system requirements of software companies, including:

- Support for and enablement of rapid growth and scalability
- Advanced planning and modeling capabilities
- Dashboard visibility into key metrics, accounts, and business indicators
- Transparent invoicing and billing whether the company is selling product, professional services, or subscription and especially if it offers all three
- Support for multielement arrangements (as mentioned previously)
- Support for hybrid, flexible business models, including recurring subscription, advanced subscription such as consumption/usage, one-time fees, and services engagement models
- Flexibility enabled by the SuiteCloud platform, which allows customers to extend and develop their secret sauce in apps and dashboards, or add-on certified partner SuiteApps for services that complement NetSuite
- GRC support for current and impending revenue recognition standards

GRC support for current and impending revenue recognition is a key point. NetSuite has built a unified order to the revenue framework and offers Multi-Book to manage new and existing revenue reporting requirements. On stage, two NetSuite customers at various stages of software business maturity – DocuSign and Genesys – provided high-level validation that these requirements are being met by NetSuite.

NetSuite Knows SaaS

As a SaaS pioneer that runs its business on its own software, NetSuite has the ERP underpinnings that SaaS companies need. Dashboards that provide real-time data to track key metrics and performance indicators are more important to SaaS companies than traditional software companies for a variety of reasons. For one, predictability is everything to a SaaS company. The importance of retention and upsells/cross-sells means that the company has to manage a customer's life cycle very closely, measuring and understanding customer engagement on a frequent basis. Not only that, the entire SaaS business has to be customer centric. There are many individuals across the company that need role-based, command-centric views of the customer.

At the software keynote, NetSuite demonstrated the customizable SaaS dashboard, which included "tiles" to drill down into monthly recurring revenue (MRR) and upsell and downsell annual recurring revenue (ARR). Metrics and indicators tracked in the view that NetSuite demonstrated included total customers, churn rate, net churn rate, and total contract value. There was also a view into KPIs that included new customers, revenue, profit, and operating expense.

The dashboard is customizable by role, although NetSuite has prescriptive defaults based on the way most SaaS companies would want to look at their businesses.

NetSuite Announced SuiteBilling

Maybe it's just the people that I hang out with, but billing is a hot topic these days. In particular, cloud-based billing systems that support subscription business models and dynamic pricing and packaging scenarios have been replacing hardwired, heavily customized, rigid legacy systems. These new solutions have been a key table stake in business model innovation strategies for fast-growing digital businesses, such as software, and manufacturers in the Internet of Things (IoT).

NetSuite's mantra for SuiteBilling is, "If you can sell it, we can bill it and recognize the revenue." Rather than focusing on subscription only, NetSuite's focus is on companies with hybrid business models – product, subscription, and professional services – that want a single billing system and revenue recognition flow. Some of the key goals that NetSuite set out to achieve with this system are:

- Unified rating and revenue
- Event-based rating
- Activity agnostic (will cover product, subscription, and services including time)
- Flexible billing schedules with control
- Rich bill presentment for fewer context-driven customer invoices
- Real-time reporting

There are four modules as part of SuiteBilling:

- **SuiteBilling Core:** Provides a framework designed to help integrate transactional, usage, and subscription billing information with a unified flow to financials for revenue recognition (SuiteBilling includes control over billing and invoicing workflow and unified invoicing.)
- **Subscription Management:** Provides support for one-time fees, fixed recurring fees, change orders, multiple tiers, and volume programs
- **Advanced Subscription Management:** Supports more complex recurring models such as usage (To use Advanced Subscription Management, the customer must also have Subscription Management and SuiteBilling Core.)
- **Advanced Rating:** Supports extremely complex, high-volume, value-based recurring models such as attribute-based pricing, commit plus overage, and real-time rating

SuiteBilling and NetSuite Advanced Revenue Management have been designed to allow invoicing and revenue recognition processes to work seamlessly together while meeting the specific independent needs of each process.

NetSuite is still working through the packaging and pricing framework, but NetSuite has indicated that most customers' billing needs will be satisfied with the first two modules mentioned previously.

NetSuite is currently running an early adopter program available to existing customers. Individual use cases are being vetted by product management to determine whether they are a good fit for current capabilities. Participation in this program requires active feedback to the product group on usability, functionality, and performance. NetSuite has indicated that SuiteBilling is currently in the early adopter phase, with expanding availability in late 2016 and through 2017.

NetSuite has already made a few forays into the billing space. NetSuite's platform Recurring Billing came out a few years ago, and the company has partnered with pure-play billing providers over the years including Aria, Zuora, and Recurly. The difference this time is that the previous technology was built as a platform application, not a core module. NetSuite acquired Monexa in August 2015, and the company says that SuiteBilling is the single-biggest initiative that NetSuite has ever undertaken in terms of development hours spent. The fundamental architecture of SuiteBilling Core is made up of a technology that has been rewritten from the ground up to support hybrid business models, complex billing requirements, and new revenue recognition requirements.

FUTURE OUTLOOK

Software is everywhere! From vending machines to cars to devices of all kinds, software is bringing the "Internet of Things" to life and forever changing consumer and business experiences.

As a "mature" SaaS business, NetSuite understands the complex needs of its software industry customers intimately – from start-ups through mature enterprises. NetSuite wants to support its customers as they look to preserve a culture of innovation and act like a start-up. However, there are some elements of start-up culture that shouldn't be carried forward past a certain point. In the "Wild West" of a start-up's early days, processes and frameworks are often built around rock star product and sales organizations and are designed to bring customers in but not always to keep them. These can buckle under the pressure of boomtown growth.

NetSuite is hoping to offer software companies "the first and last business system that they will ever need." However, while it is relatively easy to put in new technology, people and process changes are harder. Putting in a modern billing solution may be something that everyone can get on board with, but people don't always understand what kind of changes to their day-to-day jobs that can really mean. Oftentimes, people resist new structures and frameworks despite the fact that these are the only things that will set them free.

About IDC

International Data Corporation (IDC) is the premier global provider of market intelligence, advisory services, and events for the information technology, telecommunications and consumer technology markets. IDC helps IT professionals, business executives, and the investment community make fact-based decisions on technology purchases and business strategy. More than 1,100 IDC analysts provide global, regional, and local expertise on technology and industry opportunities and trends in over 110 countries worldwide. For 50 years, IDC has provided strategic insights to help our clients achieve their key business objectives. IDC is a subsidiary of IDG, the world's leading technology media, research, and events company.

Global Headquarters

5 Speen Street
Framingham, MA 01701
USA
508.872.8200
Twitter: @IDC
idc-community.com
www.idc.com

Copyright Notice

This IDC research document was published as part of an IDC continuous intelligence service, providing written research, analyst interactions, telebriefings, and conferences. Visit www.idc.com to learn more about IDC subscription and consulting services. To view a list of IDC offices worldwide, visit www.idc.com/offices. Please contact the IDC Hotline at 800.343.4952, ext. 7988 (or +1.508.988.7988) or sales@idc.com for information on applying the price of this document toward the purchase of an IDC service or for information on additional copies or Web rights.

Copyright 2016 IDC. Reproduction is forbidden unless authorized. All rights reserved.

