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RESEARCH NOTE **NETSUITE'S RESILIENT SUBSCRIBER BASE**

THE BOTTOM LINE

Nucleus has found NetSuite customers are both satisfied and loyal, as NetSuite enables them to rapidly deploy ERP functionality that is integrated with other components without the cost and timeline of traditional on-premise systems.

With the success of software-as-a-service (saas) based vendors such as Salesforce.com and NetSuite, more and more applications are being accessed over the Web. In fact, Nucleus is finding that applications once thought to be too proprietary or mission critical for saas, such as ERP, are increasingly being delivered as a service. Given increasing rates of saas adoption, as well as current pressures to accomplish high-ROI deployments, Nucleus decided to examine the user base of saas vendor NetSuite. NetSuite provides an on-demand platform that includes ERP, financials, e-commerce, and analytics. The suite is designed to both provide applications that are interoperable out of the box and to enable better sharing of data among departments and applications.

Nucleus independently interviewed NetSuite customers. Following Nucleus's standard methodology for this type of research, the study was completed using Nucleus's database of NetSuite users and without the knowledge of NetSuite. Topics in the interviews included levels of satisfaction, why users liked or disliked the suite, and whether customers anticipated migrating away from the suite.

FINDINGS

Nucleus has found that NetSuite subscribers are typically highly satisfied. On a scale of one to five, with one being unsatisfied and five being very satisfied:

- 90 percent gave NetSuite a rating of four or higher.
- 10 percent gave NetSuite a rating of three.
- No customers gave NetSuite a rating of below three.

These numbers depict a customer base that is extremely satisfied and unlikely to reduce their purchases or defect to another vendor. The driver of this high level of customer satisfaction is typically the ability to cut costs, a critical success factor for both vendors and buyers of software. Some of the qualities that these cost-reducing deployments had included:

- Scalability. One customer said NetSuite gave them the flexibility to host new Web sites without additional costs and resources.

TOPICS

Enterprise Applications
 Software as a service
 Customer Relationship
 Management
 E-Commerce

- IT independence. Another user who integrated NetSuite with UPS and credit card companies said that costs were lower because their deployment was virtually IT independent.
- Breadth. The vast majority of customers Nucleus analyzed used more than one application in the suite, and one user said that it used it to replace five other applications.

WHAT IT MEANS FOR NETSUITE

The high levels of loyalty and customer satisfaction indicate that NetSuite's revenues are unlikely to decline as a result of customer defections. In fact, because the application has been validated by users as an effective tool in cost reduction, deployment footprints at existing customers are more likely to increase rather than decrease. The net benefit for NetSuite is a stable subscriber base, which is a critical factor for earnings stability.

WHAT IT MEANS FOR CUSTOMERS

With so many customers using a variety of NetSuite tools to achieve cost reductions, NetSuite appears to be a low-risk way for small and mid-sized companies to invest in applications they might not otherwise deploy. The advantage of NetSuite is that it is both a suite and saas-based. Because it is a suite, NetSuite enables companies to purchase from one vendor multiple applications which they can deploy and integrate faster because they are designed for interoperability. Since NetSuite is deployed as a service, companies can avoid the risk and bulk of an on-premise deployment and instead scale the cost of their deployments with the size of their end-user populations.

A leading supplier of industrial instruments utilizes NetSuite for accounting, CRM, pipeline management, and ERP. The deployment has enabled the 35-person company to reduce invoicing costs by 75 percent, avoid retaining a part-time IT person, and avoid the purchase, maintenance, and support of two new servers.

Like all saas-based applications, NetSuite has low up-front costs, which sometimes enables proposed deployments to avoid the budgeting process altogether. When a NetSuite deployment does compete with on-premise deployments, this cost advantage means that a proposed NetSuite project is more likely to win.

WHAT IT MEANS FOR THE MARKET

The findings are good news for vendors offering saas-based tools that are properly priced and deliver value, ideally in the form of enabling customers to reduce costs. Other saas vendors should take note that NetSuite's customers are satisfied with the suite and unlikely to switch away despite the current recession and the resulting emphasis on cost reduction in virtually all organizations. Saas vendors that are suffering defections or revenue declines can't just chalk it up to the current economic conditions. The viability, performance, and security of saas has long been proven by the success and breadth of the Salesforce.com business model. That NetSuite's customer base is so resilient proves that the model isn't just resilient in a recession, but is capable of strength in a recession. Saas vendors that are suffering defections may be in trouble and should look at their offering to ensure that it delivers value as well as their pricing.

The findings are bad news for traditional on-premise suites such as SAP. The vast majority of NetSuite customers who were satisfied and unlikely to defect used two or more components within the platform, and many used ERP, indicating that they are able to achieve the breadth and depth of functionality of an ERP system without the risk and scale of an on-premise deployment. It is one thing for SAP or Oracle to have saas-based rivals. But a saas-based rival that also provides integration-friendly enterprise applications such as CRM or financials is an even bigger threat.

A medium-sized retailer uses the majority of the NetSuite offering to both manage day-to-day operations and support long term growth. NetSuite has been a source of standardization and integration across the company, enabling it to avoid headcount additions and making it unlikely to switch vendors.

The fact that so many of these users deployed NetSuite as a suite means that one-stop-shopping is a benefit that users want. It also means that for the average customer, NetSuite's sales representatives have highly satisfied and loyal customers in several departments, making it hard for a rival to unseat them. Breadth of deployment and success within existing customers also means that those sales representatives have the opportunity to expand those relationships because they can point to successful internal deployments as references.

CONCLUSION

It is not surprising that Nucleus has seen more and more customers adopt and retain NetSuite to support their ERP needs. In light of recent defections from SAP to NetSuite, Nucleus expects more and more traditional on-premise ERP customers will reconsider their upgrade and maintenance strategies for ERP — particularly if ERP functionality is needed beyond the corporate headquarters where the IT footprint may not have the ability or capacity to support a costly ongoing venture like SAP.

Unlike traditional ERP where customers typically buy many components and then deploy over time, NetSuite also has the opportunity to further penetrate its customer base by turning on additional integrated components – such as OneWorld – that can deliver incremental value, further cementing the NetSuite relationship. Although NetSuite will lose its position as the only game in town for on-demand ERP in the short term (as Workday and others become viable alternatives), it has a significant head start.

NetSuite's firm foundation in the midmarket also highlights the benefits of on-demand ERP for smaller and midsized organizations with limited IT resources. Companies can take advantage of the benefits of ERP for workflows such as accounting and order entry at a far lower price point than traditional ERP and, even with limited IT resources, leverage the transactional data for better decision making.