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NetSuite: Zach Nelson's "Laundry List"

While the economic recovery might still be somewhat fragile, NetSuite CEO Zach Nelson reckons he has a "laundry list" of reasons to be upbeat.

The firm last week saw second-quarter results top expectations even though losses grew to \$7.2 million from \$5 million. But stripping out one-time items, the company made a profit of \$1.9 million, while revenues climbed 17% to \$47.1 million, beating the average forecast of \$45.3 million.

"We have a laundry list of best, biggest and fastest," said Nelson. "The results easily surpass the results we reported from our first quarter. Our recurring revenues growth rate showed continuing acceleration year on year of 19%."

"Even when the economy turned down, we were pretty darned positive, even as the world seemingly came to an end" he added. "As spending slowed and the IT pie shrank, we felt that this would be positive for us as more spending would move to the Cloud. And that's what we saw happening. We grew our revenues by 9% as our rivals saw their new business licenses shrink by 30%."

"Companies shifted their budgets from old expensive solutions to new lower cost ones. Now we're seeing an acceleration of that. But as customers are seeing productivity gains, so they're spending more of their budgets on Cloud solutions. So our belief has come to fruition on the macro-economic trends."

Stating that the firm added 280 customers in the second quarter, Nelson also cites success in NetSuite's strategy of moving "upmarket" in pursuit of larger scale deals. As an example, he points to CA Technologies which has implemented NetSuite's OneWorld to create an ecommerce software platform for its recovery management and data modeling offerings.

"All of our customers tend to use the whole suite, regardless of what their starting point is. They may come in with CRM pain or ERP pain or whatever, but they buy the whole suite," he added. "They'll typically implement a major aspect of ERP, then move on to some form of the CRM component or whatever. So we see 100% of customers using ERP, then something like 70% using something beyond ERP, be it CRM or ecommerce."

As for the competition, Nelson was dismissive of arch rivals Microsoft and SAP. "Our total commitment to the Cloud is an important factor in our gains," said Nelson. "We will be only ERP Cloud of scale for some time to come. Microsoft continues to believe in pre-Internet ERP. They remain Cloud-free in ERP, stranding customers on ancient Great Plains and Navision islands of technology that were designed before the internet."

As for SAP, Nelson mocked its continuing roll out of Business ByDesign (BBD). “They had perhaps the most stealth launch in their history,” he said. “They've made some weak announcements around Business ByDesign in so far as how to position a Cloud-based offering against the pre-Web offering that makes up the lion's share of the firm's business.

“They have been very vocal in scaling back expectations around BBD. One of their co-CEOs said that it will be some time before BBD will contribute significantly to revenues which is very different to what was said before. They're also cutting back on investment. Industry reports suggest a halving of development staff on the project, which is hardly the actions of a company that's supposed to be all into the Cloud.

“You know, if you're serious about a product launch, you don't do it in the dead of summer, in August. This is really BBD version 0.75. Even if they eventually do release a product that they think is sellable, it will still be a version one product in a market that we have been addressing for more than a decade. Beyond the product features, there's the question of the business model features. Maybe one day they'll figure out the product feature details, but then the bigger issue is the business model which is very different.”