

CEO Wire

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NetSuite CEO Zach Nelson Interviewed on Bloomberg TV

SPEAKERS: ZACH NELSON, CEO, NETSUITE

PIMM FOX, BLOOMBERG NEWS

PIMM FOX: Yes, I do have an expert in the world of software as a service, Zach Nelson, he is the CEO of the company NetSuite. Zach, good to have you with us. Thanks for coming in. Explain exactly what is software as a service. What's the promise?

ZACH NELSON, CEO, NETSUITE: Well, software as a service is one of those overnight sensations that took ten years in the making. Historically, companies have purchased business applications and then run them on their site. They manage them, they upgrade them, they update them, things like SAP, Microsoft, those types of things. It turns out that managing those applications costs ten times as much as buying them originally.

So there's an incredible amount of cost and waste in managing the applications. What software as a service does is it effectively puts the onus back on the software. We now manage the software we create for our customers. They just log in over the internet, they open their browser, they run their business, in the case of NetSuite they run their accounting and their CRM on top of our systems. And then they walk away. We manage the software and they manage their business.

FOX: So you're like these companies' IT systems to a certain extent.

NELSON: Exactly. And so if you think about what you do with Amazon, you go there and you purchase things. Now, we are applying the sort of concept to business applications where you open your browser, you generate your invoices, you generate your orders and you go away.

FOX: All right. And what kind of companies are doing this? What kind of customers do you have?

NELSON: Well, you know, in the early days, it started being smaller businesses that would take advantage of this. Now you're seeing some of the world's largest companies start to embrace this. You know, viewers will probably be familiar with three recent IPOs, OpenTable, SolarWinds, and LogMeIn. Probably the three most recent high tech IPOs. All three of those

companies use NetSuite. SolarWinds and LogMeIn use it to run their entire accounting and ERP function.

So you are seeing very sophisticated companies now begin to run their business in the cloud, as we now say. The whole trend around cloud computing where you don't know exactly where the resource is on the network, but it's there, it's stable, it's secure and it decreases your cost to use those services rather than manage those applications yourself.

FOX: I like that, you use the word cost. Give us some examples in terms of is there a way to sort of figure out how much the cost savings would be if you did it in a traditional way versus using this software as a service strategy?

NELSON: Well, the cost reductions are just phenomenal. There was a company called Asahi Kasai which is a \$10 billion conglomerate in Japan. They have a division in the U.S., Spandex USA, the company that makes Spandex. They were running SAP at the division in the U.S. sending 3 percent of revenue running SAP. They switched to NetSuite and they went from 3 percent of revenue to .01 percent of revenue on NetSuite. So you see just gigantic cost savings. And people will say nobody spends 3 percent of revenue running SAP. Believe me, almost everybody spends 3 percent of revenue running SAP, they just won't tell you that.

FOX: And what about things like updates and security? I mean, are they different for every industry group? I mean, some people might not want to let their sales information out on the Internet, or are there ways to go around dealing with that?

NELSON: Yes, some industries might, but more and more industries are seeing this as a way to really increase efficiency. Particularly as the world of business changes and people want to do business on the Internet. They want to have offices all over the world. Suddenly, a web-based application that's accessible anywhere from the globe becomes a business advantage not a business disadvantage. So, the worries about security and about hugging your server every morning have gone away. And now it's being I want to live - I want my business to operate on the Internet and this is another way to make that happen efficiently.

FOX: What about hugging the economy right now? It seems as though the economy has given everyone a cold shoulder for a while. Are you seeing customers come in and spend more money on IT systems whether it be software as a service or even just checking out and seeing whether this is something that's applicable to them?

NELSON: Well the amazing thing is we continue to grow which is pretty amazing in this economy. So it shows you the shift where traditional software vendors are shrinking. So you are seeing a shift from on-premise to on-demand just in terms of growth rates of companies like

NetSuite. The other thing that you're seeing is 270 companies signed up to purchase NetSuite. And NetSuite's applications are the heart of these businesses. They're the accounting system, they're the ERP system, they're the CRM system. So imagine 270 companies deciding in this economy to switch how they run their businesses to something like NetSuite. It shows the power both of the cloud computing paradigm and the value of the solution that we're delivering to the marketplace.

FOX: All right, now we're at the Canaccord Adams Global Growth Conference in Boston. It's all about growth, it's all about investors. Are you finding that the investors are much more receptive to the idea of investing in a technology company now than they were six months ago?

NELSON: I think investors always are looking for growth and companies like NetSuite are one of the few growth opportunities in the market. And you're also seeing this conference is oversubscribed by about 20 percent or something. So the turnout has been pretty amazing. So I think people are looking for good ideas as always. And I think the investor community and our customers are starting to see at least a turn in the economy. It's not like it's ticking up, but it's definitely stopped going down.

FOX: All right. What about the economy outside the United States? You spend time in Asia as well as Europe. Where are you seeing growth?

NELSON: I think, you know, in Asia, we are seeing growth throughout Asia. But Australia seems reasonably strong for us. Europe has been steady. I think Europe was hit perhaps a little harder than the U.S. by some of these economic issues. But it's still an evolving situation. Q2 I thought was a telltale quarter. Q1 was a very bad quarter across the industries. I think everybody just dove back into the bunker and hugged their dollars, not just hugged their servers and didn't really buy much. Q2, in my mind, was if it was like Q1 again it was going to be a very bad year. But Q2 was not at all like Q1 so I think people emerged from the trenches and began to think about how to make their businesses better.

FOX: All right. I want to thank you very much, Zach Nelson, for coming in and sharing your thoughts.