



Tue, 09/06/2009

By Stuart Lauchlan

SIIA On Demand Europe: Lessons from NetSuite, The Cloud and bad Dutch dining

It's been a great trip," said Zach Nelson, CEO of NetSuite as he kicked off the opening keynote at the SIIA On Demand Europe conference in Amsterdam. Nelson chose to take the theme of a look back at how NetSuite had grown as a business in The Cloud, highlighting some of the lessons learned en route - and the ones to be learned from bad meals in Dutch restaurants.

"SaaS and The Cloud are the future of software," he said. "That wasn't clear when we started NetSuite ten years. The opportunity is global. These applications are built on the internet so you can go global easily. We went global very early. The Cloud platform discussion has been getting a bit focused on one area. There will be many Cloud platforms out there. There will be Cloud platforms that are single company and Cloud platforms that are multi-company. SaaS continues to reshape the software industry in very violent ways if you're one of the firms that hasn't made the change. The same thing will happen in the services business."

He commented that while there are big changes underway, there are some familiar concepts underpinning them. "The first big lesson is that The Cloud is an old idea revisited" he said. "The whole idea behind The Cloud was what AT&T thought of back in the 1950s – wouldn't it be great to pick up the phone and talk to someone anywhere. Now it's about being able to access business services in The Cloud. We have entirely new types of application in The Cloud, things like eBay. And we have new ways to communicate and interact, like Twitter."

Challenges ahead

While there are more and more SaaS firms springing up, many will find it challenging to succeed, he reckoned. "It's much harder to build a SaaS business than a traditional one," he said. "Setting up a SaaS firm is a big investment. NetSuite took \$125 million to start up. In the early days of SaaS, the venture capitalists didn't realise that you had to spend \$50 million up front. That's why the early SaaS vendors failed. You have to start from zero with the new product. Those who try to retrofit a product to the internet don't work.

"The customer vendor relationship has changed with the customer having much more power. You have to maintain a relationship over ten years, you only make money on renewals, not on day one. You make money over time. In the old model, you made a fortune on day one and the

customer had yet to install the software. The only way you renew the customer is to keep them happy. You renew the relationship with the customer every year."

It's like having a bad meal in a restaurant and deciding never to go there again - something close to Nelson's heart after a poor experience in one of Amsterdam's supposed top restaurants. "I had dinner there last night and it was the worst meal of my life, not because of the food, but because of the service. I won't be renewing my relationship with that restaurant," he said.

Benefits ahead

There is the cost reduction and productivity gains argument to be addressed as well. Nelson cited an example of one customer to illustrate this point. "Asahi Kasei is a \$10 billion SAP shop which was spending 3% of revenue being spent on SAP. They moved to NetSuite and now spend 0.1% of revenue," he said. "There was also a big productivity gain. The CIO had bought a 190 user licence but was only using 75. He said they had needed 190 people to make SAP work, now they only needed 75. Imagine the productivity gains of no longer having those people tethered to the system."

That also means pain points for many traditional software firms, but also for the consulting and services industry. Nelson sees problems ahead for many VARs. If you look at our market which is the mid market, that market has been serviced by value added resellers," he said. "VARs are going to have to change their business model or go out of business. They have a math problem they need to solve. Great Plains has licence up front of \$529k. Then the VAR gets one to three times as much to implement, so that's up to \$1.59 million. NetSuite you pay \$176k subscription per year. If I charge you that, can I charge you \$1.59 million for services? No way. So the challenge for VARs becomes how I reduce the cost by 10x

"We think you turn it on its head and create Service as Software. If you wanted warranty management under old model, you'd send in army of VARs into one customer, then into another. The cost is all in the people. What Service as Software means is you build it once and then resell it in to lots of others. It's the Holy Grail of services. We want to get the customer up and running and have them managing the application. Most services firms don't want the engagement to end."