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NetSuite's Nelson Predicts the Year of the Channel and the Cloud



Like any other vendor it's been a tough old year for NetSuite, but for CEO Zach Nelson it seems that what doesn't kill you makes you stronger. "In many ways, the challenges the industry faced in 2009 made NetSuite a much stronger company as we head into 2010 and beyond," he declares. In a year that saw most of our ERP competitor sales decline, NetSuite took market share."

Nelson's comments came as NetSuite reported a wider fourth quarter loss of \$6.5 million, compared to a loss of \$4.5 million for the same period last year on revenue of \$43 million, up from the year-ago quarter's \$41.4 million. Total revenue for the year was \$166.5 million, a year-over-year increase of 9%.

The firm's Cloud pureplay status benefits NetSuite, suggests Nelson. "While 2009 was a very painful year for traditional providers of on premise software, their struggles allowed us to put a great deal of distance between us and them," he says. "Against the traditional mid market on premise ERP providers, NetSuite took share in 2009 and we think our market share will continue to grow as more and more customers turn to Cloud for their next generation business solutions. As we look to the future competitive environment, we think the battle for ERP-based suites in the mid market will ultimately come down to three providers; NetSuite, SAP and Microsoft."

Sapping the competition

For the moment, NetSuite's sights are firmly on SAP's push into the Cloud with Business ByDesign which has to date only enjoyed a highly limited release but which will go on a global ramp up during 2010. Nelson is scathing about the prospects for the new offering from SAP, arguing that it's too little, too late.

“SAP struggles to create a product that competes with NetSuite have been well chronicled. It is now 2010 and by SAP’s own estimates, they should have been doing \$1 billion in business from their Business by Design product by now,” he says. “However, they are still mired in a seemingly endless alpha release, unable to deliver the product beyond a hand full of users. In Q4 of 2009, the first shoot out comparing NetSuite and SAP Business by Design was held at the Sapience conference in Boston and NetSuite won the battle handily in a comparison of several cross departmental business processes.”

Nelson was quick to highlight a recent customer win away from SAP. “RedBuilt LLC, a leading innovator and supplier of engineered wood products migrated to a full NetSuite roll out in only 90 days and saved hundreds of thousands of dollars,” he says. “This is another great example of how much time and money NetSuite saves our customers not to mention the enormous productivity benefits that NetSuite’s modern, Cloud based integrative suite of applications brings to these organisations.”

The RedBuilt win is also seen as affirmation of NetSuite's play into a larger customer space. “Interesting enough they are manufacturing and distribution company, a manufacturer of wood products,” notes Nelson. “We have traditionally not been that strong in the manufacturing sector. Over the last year we extended our SuiteCloud environment. We have a variety of third parties now building manufacturing extensions right on our data model. So now suddenly [we] can address the needs of a complex manufacturer like RedBuilt very efficiently. In the past manufacturing would have been a market where we would have played it at the lower end of the market. With those third party add ones we can begin to move up in the marketplace.”

Back to the competition and there's not much more enthusiasm for Microsoft's Cloud efforts on show. “They don’t appear to have a strategy to bring Windows centered products such as their Great Plains product line into the era of Cloud computing,” claims Nelson.

“Lately, sensing the growing impatience of such a strategy in their customer base and their reseller base, they have begun talking about how customers can buy hosted versions of Great Plains. This hosted model appears to be the same archaic ASP model that failed so miserably during the dot com bubble.

“We don’t believe that a product like Great Plains that was literally released before Microsoft even released the first version of their internet browser will work well over the internet. Given Microsoft’s apparent lack of even a strategy to deliver core web native business application suites over the Cloud, we expect that it won’t be long before customers and portions of their sales channel leave Microsoft for solutions like NetSuite. Microsoft’s strategy or more accurately, lack of a strategy, will be as big of a story in 2010 as was SAP’s struggles with Business by Design between 2007 and now.”

Channelling enthusiasm

Earlier in the week NetSuite announced a channel partnership with Hein Partners, one of the top 60 accounting firms in the US, a deal which Nelson reckons is “a harbinger of how software delivery models are changing driven by the shift to Cloud computing from the client server paradigm favoured by Microsoft.” The partnership is intended to result in a range of customised accounting and regulatory compliance solutions with Hein’s professional consultants delivering vertically focused solutions built on NetSuite and its Suite Cloud environment.

“This partnership is a great example of how new approaches to delivering applications are emerging with new forms of Cloud based business applications like NetSuite,” argues Nelson. “I have often said that the third party delivery model for NetSuite will ultimately be different from the third party delivery model that developed around an application like Microsoft Great Plains that was extremely hard to customise and required massive amounts of on-premise support. Our integrated suite approach to Cloud computing is a disruptive technology that has been hard for our on-premise and Cloud based competition to match.”

To that end, NetSuite is likely to be making more aggressive moves into winning new channel partners in 2010, ideally taking them away from the likes of Microsoft and Sage. “I believe the channel has resisted moving to Cloud computing quite frankly because they built their businesses around things like Great Plains and around Sage,” says Nelson.

“I believe there are going to be new distribution models and new distribution partnerships to deliver Cloud based solutions to the marketplace. I’d love to literally be able to predict which channel is going to take off and which time frame, but this is really uncharted territory for most everyone,” he adds. “The channel is doing - and channel partners are doing - very little revenue around Cloud-based computer solutions other than delivering some services against them.

“But what’s happening is Cloud Computing demand has grown and these guys have to extend their business model. It’s as big a transition for them to extend their business model to Cloud Computing as it is for a traditional software company selling license to change their model to Cloud Computing. It’s a complete sea change. That quite frankly is what’s going to drive the channel to start to embrace NetSuite more than it has to date.”