



January 2011

Document K51

## RESEARCH NOTE NETSUITE'S IMPACT ON SOFTWARE COMPANY PERFORMANCE

### THE BOTTOM LINE

**Many software companies invest in NetSuite to help them grow their business while managing IT and administrative costs. In its analysis of NetSuite software customers, Nucleus found NetSuite drives increased visibility and productivity while improving financial management.**

NetSuite provides an integrated software-as-a-service (saas) business management application for accounting and financials, enterprise planning, manufacturing, e-commerce, customer relationship management, and reporting. The core application provides functionality for order and billing management, global subsidiary and business unit management, and partner relationship management.

NetSuite differentiates itself on its foundation on a single customer record, so sales, support, billing, accounting, shipping, and business intelligence all access the same data. Other components of NetSuite to support software companies include:

- Revenue accounting. Support for revenue recognition standards, automated revenue calculation, and pre-built revenue recognition reports help companies to manage and support revenue recognition requirements.
- Renewal and maintenance revenue management. Data configuration and workflows to support both subscription-based and maintenance-based ongoing revenue streams enable companies to target renewals and contract end dates, manage billing, and identify cross-selling and upselling opportunities.
- Industry-specific dashboards and metrics. Role-based dashboards and pre-built reports provide real-time visibility into licenses, maintenance, and deferred revenue projections.
- Support for software-related financial management requirements. Support for SOP and EITF standards help software companies to manage business growth while institutionalizing support for key audit requirements.

Nucleus found many software companies deploying NetSuite either moved from an on-premise application such as QuickBooks, Microsoft Dynamics GP, or ACCPAC, or had been using custom in-house applications to support their business. To understand the impact of adopting NetSuite on software businesses, Nucleus conducted in-depth interviews with 23 NetSuite customers in the software industry.

### BENEFIT AREAS

Nucleus identified a number of direct benefits customers experienced from NetSuite as well as areas where using NetSuite can impact productivity. Areas impacted

**TOPICS**

Enterprise Applications  
 Software-as-a-Service  
 Customer Relationship  
 Management

include IT and reporting, sales, customer satisfaction and customer service, quote to cash and billing, revenue recognition, financial closing and auditing, and visibility into data for decision making.

**IT savings**

Most software companies moving to NetSuite fell into two categories. Some companies were using homegrown or basic applications such as QuickBooks that could not support their needs for growth or reporting. Others were using multiple on-premise applications and sought an application with lower support costs and a more integrated view of their business. Those in the former category were able to save on general employee productivity because of fewer system crashes and less time spent in spreadsheets. Most of those replacing on-premise systems saved both software license maintenance costs and IT staff.

Nucleus found software companies moving from on-premise applications to NetSuite eliminated an average of \$23,000 in software license maintenance costs per year, with a high of \$50,000. IT staff savings for those companies ranged from 50 percent to 65 percent of total IT time.

These savings reflect the change companies experienced in moving from other applications to NetSuite. Many also recognized that moving to an integrated enterprise application environment in the cloud enabled them to support growth that would have required significant additional investments in software, hardware, infrastructure, and personnel to support. Nucleus analysts estimate that an on-premise application providing similar functionality would cost at least \$50,000 in initial software fees, \$20,000 in hardware, and \$50,000 a year in license maintenance and support costs for a low-end on-premise ERP project.

The amount companies can expect to save on IT with NetSuite will depend on the number and support cost of applications that will be replaced and the amount of IT time spent on building custom reports. In many cases, customers can justify their NetSuite investment based on IT savings alone.

**Improved reporting**

All customers found that the centralized data store, pre-built reports and dashboards, and ability to build their own reports improved visibility while reducing the time needed to gather and analyze information for decision making. For many customers, NetSuite reporting and dashboards enabled them to analyze their business in a way that was impossible with their previous systems:

- *"We've been able to take the majority of things done manually in QuickBooks and now it's just in NetSuite and exported to Excel. Basic financial reporting takes just six to 9 hours a month. It probably took about 2 days before."*
- *"Reporting allowed us to grow the business and track customers. Across the board we can invest in analytics and grow the business."*
- *"Reporting takes seconds — we've created a lot of standard reports that everyone's happy with. It's cut our time dramatically and it's a no-brainer — you don't have to go through invoices by hand."*
- *"I spend less time digging into reports — a lot I couldn't even get before. Now it's available so I'm not spending less time but we're getting the information we need — and a lot more than we've ever had."*

Although some customers reported more significant time savings, such as going from days to minutes to perform reporting tasks, most indicated they avoided at least one full-time equivalent because of NetSuite's reporting capabilities.

Nucleus found software companies moving to NetSuite can expect to reduce or avoid at least one FTE's time devoted to reporting; most will experience more significant savings.

### Increased sales productivity

Quote management, commissions management, up-selling and cross-selling support, and support for automated renewals in NetSuite can reduce the time sales people spend in spreadsheets and increase the time spent on sales. Customers using the CRM functionality were able to automate many processes and increase sales and sales support staff productivity:

- *"We're automating the lead process. We're able to route leads geographically. The lead then goes to sales rep in 30 seconds so they have immediate access and can close the deal much faster."*
- *"[Sales] likes it because it gives them all their data in one place and allows others to contact that customer. Before we had a lot of confusion with multiple people calling customers about the same thing."*
- *"Each salesperson can produce a quote themselves. They used to have to go through accounting to generate a quote. We've probably saved 3 days in the sales cycle."*

Nucleus found that the CRM functionality in NetSuite can enable sales people to increase productivity by five to 15 percent; those with few automated processes today may see more significant savings.

### Improved customer service and customer satisfaction

Many customers found that improved access to accurate information and the ability to more rapidly address customer questions and requests enabled them to improve customer service. Because NetSuite CRM is completely integrated with order management, fulfillment, financials, and other back office workflows, everyone in the business is working from the same data, reducing manual data entry and the risk of errors. Many companies are able to support a growing customer base with fewer employees; others have directly measured an increase in customer satisfaction through survey efforts:

- *"Salespeople now have the single and accurate view of the customer instantly and get it over the web. So if they are on a sales call, they can easily get at issues or questions related to finance and billing type data that was previously stranded in [Microsoft Dynamics] GP."*
- *"We've automated the CRM component to track trouble tickets and tasks, so one person can do the work of two people."*
- *"We can solve problems quicker and if there's a professional services need we can provide it on a timely basis. Our customer satisfaction is up by 30 to 40 percent."*
- *"We definitely can help customers faster because we're not searching in multiple systems. On average customer service calls we've cut the search time in half."*

- *"We use surveys so customers can rate how effective our support is. When a case gets closed with a customer, a survey goes out and we see how we do. Any time there's a response that says support was unsatisfactory, a message goes immediately to a manager and instantly we call them. There's better customer satisfaction because we know that day, that minute."*
- *"We don't have the back and forth with collection issues; that increases customer satisfaction. Correct and complete information also enhances our reputation and standing with our customers."*

Based on the experience of customers analyzed, Nucleus estimates that companies moving to NetSuite can expect a 30 to 60 percent reduction in customer service call resolution times.

Other NetSuite customers Nucleus analyzed were able to directly attribute increases in renewal, referral, and other revenue to improved customer interactions supported by NetSuite:

- *"We've grown significantly, in the 10 to 20 percent range, because we are able to satisfy customer's needs quicker."*
- *"With NetSuite, customers can do renewal online and recurring revenue has jumped from low 30s to high 50s. Online access has allowed customers to do a lot of the work, increasing overall growth and sales."*
- *"We measure return business in customers; it's now about 30 percent repeat business, up from 10 percent."*
- *"We used NetSuite to create more customer self-service functionality and we've built an online store, so they are buying more ancillary stuff."*

Another way some NetSuite customers use the application is to extend it to partners so they can both better support indirect customers and track partner activity. A few NetSuite customers, in fact, cited 24-hour partner access to information as a key motivation for moving to NetSuite.

### **Accelerated quote to cash**

Automating processes associated with converting quotes to cash, including quote entry, billing, and past-due alerts, enabled NetSuite customers to reduce the overall staff time needed to convert quotes to cash and accelerate the quote-to-cash process:

- *"Before we had more people in the department and many older invoices. We worked hard to reduce outstanding invoices and the ability to report frequently and having information [in NetSuite] was handy. We were able to reduce staff requirements generally using NetSuite by allowing people to focus on collecting invoices. The process in NetSuite of collecting proper information upfront allows us to provide proper invoices to customers, so we get paid sooner."*
- *"The controller has been able to train people in accounting to use the tools so they can look at AR balances and set alerts so we go after it faster. It used to be that the controller would look at everything on a quarterly basis but now it's an ongoing process."*
- *"We've reduced quote to cash by at least 15 days if not 30. Our standard terms are 60 days. Some people used to go 90 or more because we weren't on top of it. Now the information gets pushed."*

Customers using NetSuite's automated quote-to-cash functionality were typically able to reduce quote to cash time by 50 percent.

The most significant area of impact is billing, with many customers able to reduce the time to generate an invoice from more than a week to a few days. Although some customers had experienced a clear reduction in days sales outstanding, most simply spent less employee time on collections.

### Revenue recognition

Proper revenue recognition is a big challenge for software companies, and any company that plans to go public has to follow a number of changing regulations while being flexible enough to support changing licensing models and multi-element contracts. NetSuite's revenue recognition templates allow controllers to define revenue recognition models and have them automatically applied to line items in customer invoices. Dashboards and reports enable them to monitor the revenue recognition process and reduce the risk of errors or non-compliance associated with multiple spreadsheets and manual processes. Customers found that the benefits from improved revenue recognition include increased productivity and reduced risk:

- *"The revenue recognition component is great. We have the ability to put revenue dates on the different line items of our invoices and you don't have to add anything else. It's all integrated as a natural function within billing and order management."*
- *We've cut down monthly review from 10 days to three."*
- *"NetSuite is excellent for [revenue recognition]. Input properly, reconciliations don't have to happen manually. We're down to two in accounting — we had four before."*
- *"We used to have a large spreadsheet that would calculate a three to 5-year period. Now we just automate the journal entry detail and the report shows us."*
- *"We used to struggle with things like partial orders because you couldn't tell what to recognize. NetSuite tells you the exact amount. We used to spend a lot of time second guessing — NetSuite works."*

Beyond revenue recognition, analytics in NetSuite can support complex modeling of deferred revenue reports by product line, region, or other characteristics to support strategic planning.

### Accelerated financial close

An integrated view of information, support for revenue recognition standards and processes, and reports and dashboards that let managers view financial data on an ongoing basis — rather than only after the end of the quarter — reduces the time and staff needed to reconcile accounts and close the books. Customers noted the benefits of NetSuite for the financial close process:

- *"Closing requires less brute force. It still takes five days but it's less frenzied and chaotic and people aren't working late or on the weekends to accomplish it."*
- *"Before, a week or two after month's end we would get the spreadsheet. Sales reps would compare it against what they actually earned and argue for a week. Now it's instantaneous. With the commission module, we can pay people on*

*gross profit, certain products, and graduated percentage based on new, existing, and maintenance business. We can really guide their performance and direct them based on schedules. To do that manually would be impossible."*

NetSuite software customers were able to accelerate their time to close the books by an average of 60 percent.

Not all NetSuite customers Nucleus analyzed had a formal close process before moving to NetSuite. For many, the implementation of NetSuite was an impetus for institutionalizing a more disciplined and predictable financial closing process.

Many customers were also able to significantly reduce the time required to prepare for audits. The time saved obviously depended on the complexity of their business. Most of those who had standardized auditing processes were able to reduce the time to prepare for an audit by at least half; others were able to completely automate the process by setting up reports in NetSuite for auditors to directly access.

Nucleus found NetSuite software customers could reduce the time to prepare for an audit by at least 50 percent.

### **Increased visibility for decision making**

The greatest common benefit Nucleus found that NetSuite customers achieved from the application is visibility into information for decision making. Dashboards and reports, as well as alert capabilities, enable users across the business to monitor the data that's important to them and act on it. One customer said:

- *"The biggest benefit is really having a common data center and everyone focused on that common vendor master. The data is tied together, there's one set of numbers and everyone buys into those numbers. It gives us a common perspective for growth. It is a foundation to grow."*
- *"You can't measure what you can't manage. NetSuite allows you to manage. It's a fully integrated system; the more you put in the more you get out."*
- *"I can look at real versus actual. I look at it on weekly basis and can make decisions quickly. In retail we'll have an opportunity to do a promotion and they'll call for this afternoon. In the past if I couldn't scramble and get the info I'd have to say no."*

### **CONCLUSION**

To survive and grow, software companies must be able to flexibly respond to market demands, make strategic and tactical decisions to take advantage of new business opportunities, and support multiple licensing models. Public companies (or those that have IPO aspirations) must also establish and support revenue recognition and accounting practices that are transparent and auditable. In its analysis of NetSuite software companies, Nucleus found NetSuite enables both small and large software companies to grow their businesses by driving greater productivity and visibility while managing costs.