The Net Impact of NetSuite

Zack Nelson, President and CEO of NetSuite, sat by the fire in his Bay Area home, enjoying the merriest Christmas of his life. On December 20, 2007, NetSuite’s Initial Public Offering (IPO) had netted $185.4 million, almost twice as much as he’d expected. Waiting until almost Christmas to IPO, and doing an online share auction, following in Google’s footsteps, had obviously paid off. The money would allow him to retire some of the company’s debt and perhaps add a second data-storage facility. Specifically, NetSuite planned to use the proceeds to pay off an $8 million balance on a line of credit with Tako Ventures, an entity controlled by Oracle CEO Larry Ellison, a major investor in NetSuite. Interestingly, Oracle is a direct competitor to NetSuite, while Ellison controls about 60 percent of NetSuite’s outstanding stock. The filing document states that, after the IPO, Ellison will move those shares into a “lockbox” limited-liability company, in order to “effectively eliminate” his voting control and to avoid potential conflicts of interest.

With the help of the funds raised in this IPO, NetSuite seems poised to become a bigger player in the enterprise software part of the SaaS or “Software As A Service” industry. SaaS is business software delivered by subscription over the Internet, rather than installed on-site on company servers. The International Data Corporation (IDC), a research firm, estimates the growth in the SaaS industry to far exceed growth for Business-to-Business (B2B) software overall, and for SaaS to account for 25% of all B2B software sales within a decade. SaaS is particularly appealing to Small and Medium Businesses (SMBs), which are generally defined as companies with fewer than 1,000 employees. Many SMBs don’t have the resources to support a sophisticated Information Technology (IT) department who can undertake a complex Customer Relationship Manager (CRM) or Enterprise Resource Planning (ERP) implementation, and many don’t have the financial wherewithal to undergo lengthy integration projects. According to Gartner, Inc., companies in North America spent approximately $12.7 billion on ERP, CRM, and supply chain management software applications in 2006, of which SMBs accounted for $4.7 billion, or 31%. Gartner projects that SMB spending on these applications will grow 11.3% annually from 2005 to 2010, compared to 5.8% for large enterprises.

Toward the end of 2007, NetSuite is the only firm in the SaaS market that provides a fully-integrated software package, including not only CRM, but also ERP, and e-commerce functions. But the holiday cheer has been many years in coming for NetSuite, and the future is not entirely rosy. In 2006, NetSuite generated $67.2 million in revenue, at a net loss of $35.7 million. As of September 2007, NetSuite showed $76.8 million in revenue, but still lost $20.6 million. “There’s a reason why very few large software companies sell to small businesses: they have to work just as hard to make a sale that is a magnitude smaller,” Nelson said to Business Week. Nelson observed that it often took three to five sales calls to make a sale to a small firm.