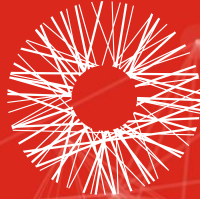




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**NUCLEUS  
RESEARCH**

# GUIDEBOOK **ORACLE NETSUITE PARTNER PROGRAM**

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## THE BOTTOM LINE

The Oracle NetSuite partner program provides the incentives and returns on investment to partner organizations to justify scaling their NetSuite practice, thereby enabling them to win more deals and deliver continuous value to their end customers. As the enterprise resource planning (ERP) solution industry shifts to a software-as-a-service (SaaS) model, partners are under pressure to maintain profitability with annual maintenance fees on legacy software shrinking. NetSuite offers a stable and extendable platform on which partners can build a vertical expertise and add value to their customer's software, thus improving customer retention and growth potential. In examining the experience of existing NetSuite partners, Nucleus found that the partner organizations were expanding rapidly, increasing revenue by an average of 30 percent annually. Additionally, partners were able to reduce their support burden by up to 15 percent, improving overall profit margins.

## THE SITUATION

As the ERP market shifts from a perpetual license model to an annual subscription-based model, vendors and partners alike are shifting how they engage with customers. Partners, who traditionally relied on billable hours associated with long implementations and ongoing maintenance, are at a crossroads:

- Continue supporting legacy on-premises technologies, building customizations and generating revenue from perpetual license fees. However, the market is shrinking as customers move to modern cloud solutions.
- Shift to supporting a solution offered by a legacy vendor who has rewritten its solution for the cloud. In this case, partners run a fair amount of risk given the propensity for large legacy vendors to err with the delivery of their cloud solutions.
- Start partnering with a born-in-the-cloud vendor who has built its platform to be extendable to answer the needs of customers and is systematically adding vertical expertise with every product update.

For partners that have selected the third option, the shift to a shared subscription revenue model and continuous value delivery can be both an opportunity and a challenge. The transition to "service provider" has changed the calculus organizations are using to determine with which technology they should partner. Stability and extensibility are becoming the metrics with which partners are evaluating solutions, translating to less costly support and value-add engagements to enhance the product.

When NetSuite was acquired by Oracle late in 2016, there were many questions about the future of the NetSuite Partner Program and potential impacts to partners (both old and

new). Nucleus engaged with several partners to calculate the benefits that the organizations have experienced and their view of the trajectory of NetSuite's partner program.

## WHY NETSUITE

The NetSuite partners Nucleus interviewed were heterogeneous in their size, market coverage, and experience, but fell into two main categories:

- Newer organizations that were built solely on their NetSuite partnership.
- Organizations that are partnered with multiple vendors, providing support to legacy solutions as well as implementing new cloud-based solutions.

Nucleus found that partners joined and remained part of the NetSuite ecosystem for several reasons with the most common being platform stability, revenue sharing terms and incentives, NetSuite's treatment of its partners, and the growth potential of their NetSuite practice.

### STABILITY

One of the primary value drivers for NetSuite partners is the stability of the vendor's platform. The effects of this feature of NetSuite manifest in several ways for the partners. First, the stability allows partners to focus on providing solutions to customer needs rather than answering questions about the technology. As a result, partners that work as change management consultants spend time helping their customers instead of addressing issues within the platform. This is especially valuable to partner organizations who are accustomed to servicing legacy solutions which required extensive maintenance and support.

Second, the partners have more confidence in supporting the platform, knowing that it will support their customers as they grow and change. Partners are able to position the technology as a strategic enabler and a worthwhile investment. Lastly, the stability of the platform means that partners can engage with their customers in more value-add capacities. The portion of partner revenue that came from professional services ranged from 40 to 90 percent with an average of 57 percent.

Nucleus found that end-customer organizations frequently don't have large internal teams devoted to supporting and improving their NetSuite implementations. As a result, partners are relied upon to continually enhance the product and address customer requests. Partners said:

- *"If the system was less stable we couldn't keep the implementation model we have. We can shift our attention to change management. Our focus isn't on technology but rather on people problems that we can help solve."*

- *"We never end up with questions about the technology, which is nice as a service provider."*
- *"We do a lot of aftermarket optimization services. Because the platform is so robust, there is a longtail to the implementations and additional opportunities for us to engage with our clients as a value-add."*
- *"Ninety percent of dealing with customers is value-add. We can stand up in front of any customer and say with confidence that the technology will be with them for years to come."*
- *"The product is very solid. I've dealt with seven or eight ERP packages in the last 20 years. In comparison, NetSuite is easy to deliver and support."*

## INCENTIVES

Due to revenue shifting from annual maintenance fees to annual software-as-a-service (SaaS) subscriptions, the rates of revenue-sharing are a significant driver of a partner's bottom line. NetSuite has established tiers based on the amount of selling a partner does: the higher the tier a partner achieves, the greater share of revenue they win. For example, a five-star tiered partner gets 50 percent of the initial contract value.

Partners that support several different vendors are highly motivated to sell NetSuite instead of a competing solution due to the extra revenue they can gain. Additionally, partners are incentivized to keep customers happy and renewing their subscriptions, with partners eligible to capture 30 percent of subscription revenue on an ongoing basis if they achieve a certain partner status tier.

Because of the different incentives that partners are provided, a new model emerges for finding new customers and maintaining those customers on the platform long term. Nucleus found that partners are more likely to find their own prospects and manage the sales cycle from beginning to end, establishing themselves as the trusted go-to for customers. Additionally, partners are motivated to engage with customers in a value-add capacity to better ensure that customers gain value from the NetSuite software and renew their subscriptions when the time comes. Partners said:

- *"The NetSuite Partner Program is pretty phenomenal. It has great benefits. We looked at partnering with Salesforce as well as NetSuite, but the financial incentives were not as good."*
- *"The incentives to achieve a tier promotion help motivate our sales team to close deals."*

## NETSUITE AS A PARTNER

Partners appreciate the independence afforded to them by NetSuite and the responsibility with which they are entrusted. Instead of finding themselves in competition with NetSuite's

direct sales or other NetSuite partners, there are rules of engagement that help maintain fairness. Partners will even work collaboratively with each other and swap deals between them without NetSuite interfering.

Unsurprisingly, there was some initial trepidation within the partner ecosystem when NetSuite was acquired by Oracle. However, partners have not seen many changes that are cause for alarm. The continuity of the partner channel management and the NetSuite organization overall has helped maintain the ethos to which partners are accustomed. Nucleus found that any of the changes that have been instituted are offset by how NetSuite is better enabling its partners to be successful and expanding into new geographies. Partners said:

- *"With the SuiteSuccess release, the partner enablement was good. There are literally hundreds of files and decks and assets for each industry that are available to us."*
- *"We've seen a big push to get partners enabled the same as direct sales."*
- *"NetSuite doesn't pit partners against each other to drop the price. They want to ensure that the deal is good business for the partner."*
- *"The Oracle acquisition has been business as usual. There were a few minor changes but nothing major. The partner and channel leadership at NetSuite is still there which has brought continuity."*
- *"NetSuite allows partners to take on a lot of responsibility. We discover our own leads. We do all our own deals. We have to be able to sell the customer through the demo, do a solid implementation, and have the dedicated resources to support them. The benefits of the program and the upside to us justify that level of responsibility."*

## GROWTH POTENTIAL

For long-standing NetSuite partners and organizations newer to the ecosystem, a major motivating factor that is driving their businesses is the potential growth of the NetSuite market. In terms of revenue and organizational size, NetSuite partners are capitalizing on two facets of NetSuite's business model. First, customers are typically larger than those targeted by other vendors, meaning the average deal generates more revenue for the partner. When serving larger midmarket or upper-midmarket organizations, the potential for those projects to scale as those organizations grow results in a bigger upside for partners. The second facet is the industry-specific vertical solutions that NetSuite is deploying. By developing intellectual property around a certain industry or capability, partners can generate value-add extensions to the NetSuite platform that allow them to deepen their relationship with their customers and increase their profitability. As the ecosystem of partner-built additions grows, partners are positioning themselves to be the go-to provider to customers based on industry or geography. Partners said:



- *"The sky is the limit right now in terms of how much we can grow."*
- *"We are looking to grow out products that are on the NetSuite platform, so we can continue to grow without necessarily needing to increase head count."*
- *"NetSuite is just getting started. There is huge growth in the market right now. We've doubled our head count this year and we're looking to double it again."*
- *"We definitely see our NetSuite practice continuing to grow. We are planning to grow about 120 percent annually for the next four to five years."*
- *"Our NetSuite practice is going to continue to scale. As we have more customers we'll continue to grow. The only thing that could stop that is a sharp economic slowdown."*

***"We definitely see our NetSuite practice continuing to grow. We are planning to grow about 120 percent annually for the next four to five years."***

## KEY BENEFITS

### REDUCED SUPPORT STAFF

Partners function as the first line of support for their customers, which requires them to staff support technicians. However, Nucleus found that the stability of the NetSuite product enables the partners to carry fewer support staff than they would otherwise need. Organizations averaged between 10 and 15 percent fewer support personnel relative to other products. The consultants can focus on value-add, billable work rather than the day-to-day maintenance of the platform. With more consultants doing work for customers that is billable, the revenue generated per employee increases. The changes in staffing needs relative to other solutions influence the overall profitability of the partner organizations and improve their bottom line. Partners said:

- *"If the platform wasn't as stable, we would be looking to diversify our offerings. We don't have to fight the technology, which is huge for our support staff."*
- *"We have 35 to 40 percent of our people in our support group. Based on the project we have going on, we know what we are going to need resource-wise. If we were on a different platform, we would need to add additional support staff."*

- *"When the system is down we can't charge our customers. Because it is stable, we are continually enhancing the product for our customers rather than focusing on support."*
- *"We definitely see the stability of the platform as a way that we need fewer support staff. It is a big difference from when we had a Microsoft practice that required a lot of support."*
- *"We have a few people that really just support our existing customers, but they frequently get pulled into project work."*

**"Since day one we've grown between 20 and 30 percent year-over-year. And we're on that trajectory for the next three years."**

## INCREASED REVENUE

Both the revenue-sharing incentives for securing new business and the recurring subscription revenue contribute to partners' bottom lines. While some vendors incentivize partners to rely on billable hours and annual maintenance fees, NetSuite's SaaS delivery is changing the model by which partners operate. Partners are motivated to demonstrate continual value to ensure that their customers resubscribe to the software when contracts come up for renewal. A partner's share of the recurring subscription revenue can be up to 30 percent of the value of the annual contract. While NetSuite has incentivized partners to shift to a service-based model, winning new deals also adds to revenue, with partners able to capture up to 50 percent commission on the initial contract's value. Partners said:

- *"The recurring revenue sharing model was a big driver for us in the beginning. We could hit a critical mass where we can run the business on just the recurring revenue. However, the commissions we make on new deals drive the ROI [return on investment] on going out and finding deals."*
- *"Support is about 40 percent of our revenue. Our recurring revenue and commissions on new business is 60 percent and growing with each new customer we on-board."*
- *"Since day one we've grown between 20 and 30 percent year-over-year. And we're on that trajectory for the next three years."*

## CUSTOMER RETENTION

For partners who have an industry expertise, NetSuite produces a solution that has more of the capabilities their customers would look for out-of-the-box. Additionally, partners are able to develop their own add-ons and intellectual property (IP). With extensions that fit a specific business with greater precision, partners become indispensable to their customers, ensuring retention of those customers when their subscription comes up for renewal. The industry expertise delivered by the core product and the extensibility of the platform enables partners to answer their customers' needs today and in the future. Partners said:

- *"We do more business consulting than software. When we do an implementation only 20 percent of our time is spent on NetSuite, while 80 percent is business management consulting and process review."*
- *"NetSuite is as close to our market as any product we've looked at."*
- *"The application is amazing. What we can do and what the client can do with the technology and platform is amazing. We really enjoy working with it."*

## CUSTOMER GROWTH

With a focus on the midmarket but with a solution that can fit startups and enterprises, NetSuite is positioning itself to help organizations scale. Due to the range of industries and sizes of customer that NetSuite can service, partners can expect growth within their install bases. As more customers see technology as a strategic enabler and a worthwhile investment, the potential for growth within the market will strengthen. The expansion of customers' business is a key revenue driver for many partners. The solution can be implemented quickly, especially with the SuiteSuccess model; but as customers' businesses grow, the additional work available to the partner can mean significant change orders and billable hours. Partners said:

- *"One upside of being a NetSuite partner is that the clients are bigger and can grow on the system. We can close a deal that is small initially but then becomes hundreds of hours of work for our consultants as the customer grows."*

## CHALLENGES

### TALENT

As with many other industries, the competition for consultants with NetSuite expertise is significant. However, Nucleus found that partners trust in the program enough to take on developing their own talent internally, confident that they'll be able to capture a return on their human capital investment.



Along with the shortage of external expertise among consulting organizations, end customer organizations also often lack internal IT personnel with experience in NetSuite applications. Nucleus found that this frequently results in the ability of partners to form ongoing consulting arrangements with the customers. The partners will be brought in for any additional projects that the customers require, resulting in a larger upside for the partner compared to the subscription revenue sharing. Nucleus found that partners are often looking for customers who have a growth trajectory from the start of the engagement, which allows them to be more selective about what customers they take on. Partners said:

- *“The limiting factor for us right now is people: there’s a limit to the people out there with the skills we need. We are finding people with complementary skills and investing in them.”*
- *“Our problem hasn’t been getting new customers but rather getting people to deliver the projects we have.”*

## CONCLUSION

For many ERP vendors, the transition to cloud-native software and subscription-based contract models presents a significant departure from how they’ve operated and what was driving their success. In the same way that some vendors have struggled, software partners are facing a new market landscape where providing support is part of the standard service model and demonstrating continual value is a necessity to ensure recurring subscription revenue. As a result, there are inherent risks related to partnering with a vendor that is unable to adjust to the new paradigms. Selecting a vendor that provides both the technology and market opportunity on which a partner can build a successful business helps to reduce those risks.

Nucleus found that NetSuite has built a product on top of a technology platform that helps partners focus on growing their businesses rather than addressing support issues. By requiring fewer support resources than other ERPs and aggressively expanding its global footprint, NetSuite as a technology vendor represents a market opportunity to its partners that is resulting in strong annual revenue and organizational growth. Additionally, NetSuite has created incentives in its partner program which increase the ROI of winning and maintaining new customers for its partners. By attracting customers on a growth trajectory who see technology as a strategic enabler, NetSuite further improves the upside that partners can realize moving forward. Although finding talent currently represents a hurdle, as the NetSuite product and solution ecosystem matures, the ability of partners to find the personnel they need to continue their growth plans is sure to improve to meet the opportunity.



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