BUSINESS GUIDE

High-Growth SaaS and Subscription Companies Reach New Heights With Cloud ERP

ORACLE NETSUITE | appwrap

Grab a seat and enjoy.
Read Time: 5 minutes

High-Growth SaaS and Subscription Companies Reach New Heights With Cloud ERP

With an ERP system built for their industry, SaaS and other subscription-based companies can minimize risk, enhance operational efficiencies, operate more profitably and keep investors happy.

Software-as-a-Service (SaaS), Platform-as-a-Service (PaaS) and Infrastructure-as-a-Service (IaaS) have become core software delivery methods for organizations of all sizes that want to expand their computing capabilities without having to install, run and maintain their own servers and data centers. Served up on a subscription basis, SaaS helps companies reduce their upfront investments and makes investment an operational expense (OPEX) versus a capital expense (CAPEX).

These and other factors have pushed the SaaS market to new heights in recent years. With a compound annual growth rate of 11.5%, the industry is expected to nearly double in size over the next five years from $158.2 billion in 2020 to $307.3 billion. This impressive market growth has created an environment where both existing and emerging organizations are continually developing new SaaS solutions. The investment community has taken an interest in the sector thanks to the predictable, recurring revenues of the subscription-based model.

However, there are challenges in managing these sorts of businesses, particularly finance. Properly managing recurring revenues requires some finesse and can't be handled properly using the basic financial software applications and Excel spreadsheets that many SaaS companies rely on. That can extend to other areas as well and, while some companies have built their own databases or use Salesforce.com to compute and report on key metrics, these organizations still rely heavily on spreadsheets for reporting.

SaaS and other subscription-based organizations that can't readily produce accurate key performance indicators can quickly fall out of favor with investors clamoring for metrics, analytics and reports.

This business guide highlights the key enterprise software challenges that subscription-based companies are facing, details their typical technology approaches and explains how a cloud Enterprise Resource Planning (ERP) platform supported by an expert implementation partner helps companies better manage their recurring revenue and other financial complexities.

Pressured to Scale and Deliver Value

In the subscription industry, investors want metrics to review for more informed decisions and companies must be able to produce timely, accurate reports. There are also nuances among these metrics, which aren't always clear-cut because not all subscriptions are the same. For example, one company may annualize a nine-month-long subscription while another will report only the nine-month value.

"The investment community is continually changing the metrics for SaaS and other subscription-based companies," said Jay Swaminathan, Founder, CEO and Principal Consultant at AppWrap LLC, a NetSuite Alliance Partner. "Every few months, there's a new metric that everyone has to start using in their reports. If a company has received money from a private equity firm or venture capitalist, it has to be able to produce those metrics."

When a new metric like contracted annual recurring revenues (CARR) is introduced, organizations must begin measuring the subscription revenue of a given period calculated as an annual run rate for all contracts, including those that were signed in the same period. But if a customer signs up for a deal with a start date in two months, should that revenue be included on the ARR for the current month, or not? And, if another customer indicated their intention to cancel, should that anticipated revenue be removed from the annualized report?

These are the types of questions that can't be addressed using the spreadsheets and homegrown databases that many SaaS companies rely on. Generally left up to the sales department to handle, tracking recurring revenue and managing the other financial complexities of a SaaS company require a unified enterprise solution built to withstand the rigors of the subscription business.

Minding All the Details

Working with SaaS companies that have $5 million or more in annual revenues, AppWrap helps B2C and B2B subscription-based companies implement NetSuite in a way that meets their specific needs and addresses the complexities of their operational models. It also introduced the Recurring Revenue Reporting Systems (R3S) SuiteApp, a customizable SaaS metrics solution that has been built on the NetSuite platform.

The solution's key components include tracking of annual and monthly recurring revenue from NetSuite core transactions (i.e. sales order, invoice, credit memo, return material authorization, etc.). This allows companies to create reports around cohort, ARR roll forward, delayed renewals and current entitlements.

AppWrap's R3S solution produces metrics based on the ARR data generated plus other NetSuite data to show details such as customer acquisition cost, lifetime customer value and the Rule of 40.

The Rule of 40 is the idea that a "healthy" SaaS firm's combined growth rate and profit margin should exceed 40%. It is computed by adding the earnings before interest, taxes, depreciation and amortization (EBITDA) margin percentage and revenue growth percentage.

R3S enhances NetSuite by taking the system's standard transactions as the source and provides the flexibility to use spot or fixed rates for transactions in other currencies.

It can then carve out the foreign exchange currency's impact on ARR and automatically split a single line into multiple ARR categories based on comparisons to previous periods and then allocate against those. The solution also features:

- A cache mechanism to deliver reports almost instantaneously
- A complete selection of industry standards and metrics
- A feature that splits ARR by category (new, renewal, upsell, downsell) and differentiates between price change vs. increased seats
- A flexible tiles methodology that includes different icons and displays
- A month-based cohort analysis

"The solution includes more than 20 different formula-driven metrics, with users able to add as many as they want," said Swaminathan, whose team supports over 50 SaaS companies and fully understands the need for nuances in the calculations of metrics. "As seasoned finance professionals, CPAs and developers working for other SaaS companies, we've experienced these pains firsthand."

A System That Can Stand Up to the Scrutiny

With a typical implementation time of about two to three weeks for R3S, AppWrap helps SaaS and subscription-based companies embed all of their ARR data inside of NetSuite. Staff members in the financial department no longer have to manage Excel files, shuttle data across disconnected systems, or worry that their reports won't stand up to investor, private equity or venture capital scrutiny.

Swaminathan said the number of hours saved once R3S and NetSuite are implemented can be substantial for a SaaS company that was manually managing its financial reporting. In fact, he estimates that the solutions save the typical organization anywhere from 30-40 hours per month. "Those are very expensive resources sitting and doing Excel work," he said.

The system also greatly accelerates the speed of financial period reporting, taking just a few days (at most) versus weeks to finish. And, companies can reduce the risk associated with Excel spreadsheets, where methodologies and approaches can easily deviate from the norm and produce incorrect results.

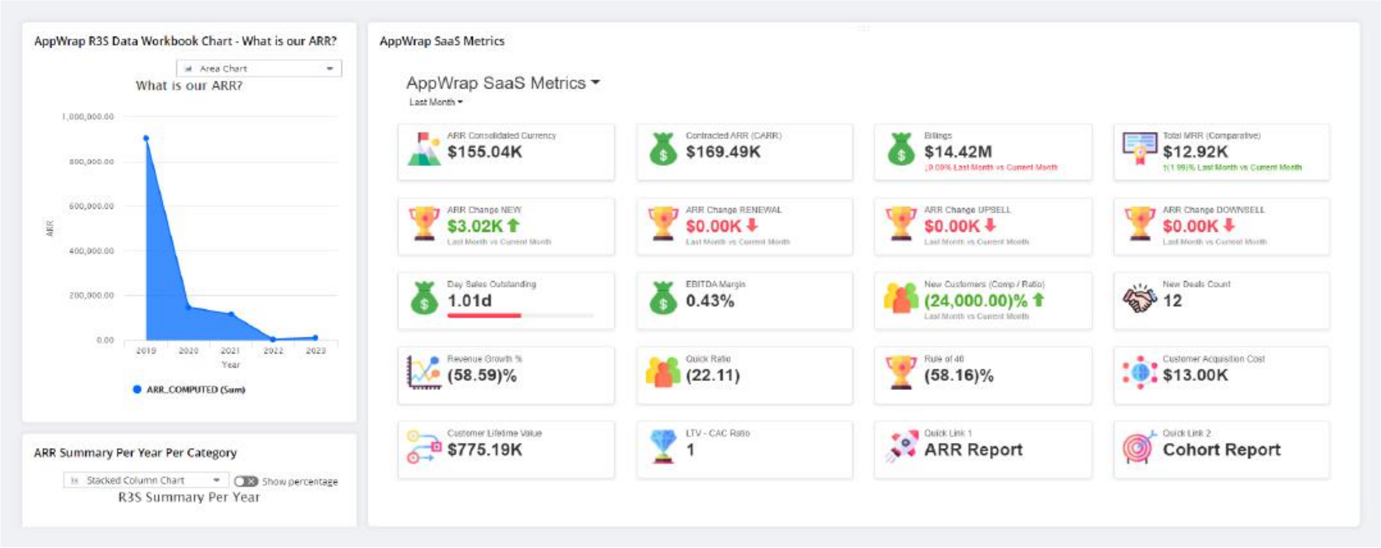
For example, one AppWrap customer in the SaaS space was manually adding a 3% increase to its ARR based on the assumption that there would be a 3% increase in customer pricing every year. The finance team was doing this in Excel spreadsheets, even if those customers didn't officially approve and accept those regular price uplifts. "People were manually manipulating the reports," said Swaminathan, "and—perhaps unknowingly—creating incorrect data for sharing with investors and other stakeholders."

Better Efficiencies and Profitability

Excelling at designing and selling SaaS-based software or other products, subscription-based companies don't always have the resources required to assess their key metrics and make good business decisions based on that data. For example, they may have a grasp on their current ARR, but they may not be able to produce a list of active customers, make future ARR projections, assess roll forwards (two arbitrary dates and a picture of how ARR changed during that period), track churned customers or accurately factor delayed renewals (customers that just haven't renewed yet, but aren't churned) into their revenue counts.

According to Swaminathan, R3S helps SaaS companies manage these and other key metrics using a consolidated dashboard similar to this one:

> Using NetSuite and R3S, companies now have a more disciplined approach to managing its reports versus relying on spreadsheet data to be accurate and reliable. And because R3S is built on NetSuite, organizations can also leverage the ERP system's native functionality (e.g. saved searches) and extend its capabilities well beyond managing recurring revenue data.



Once a SaaS company sees this dashboard, the gaps in its current financial reporting processes become clear. “We don’t have that level of maturity within our organization to look at items in that manner,” is a phrase that the AppWrap team hears a lot after doing its demonstrations, according to Swaminathan. Even among companies that do have some type of up-to-date reporting capabilities in place, most still complain about the inaccuracy and unreliability of that data.

“We’ve seen SaaS companies working with overseas customers and selling in different currencies but running reports in U.S. dollars without converting the foreign currency,” said Swaminathan. “They don’t even have the tools or resources to make those conversions; this can significantly impact their revenue reporting.”

To SaaS and subscription-focused organizations that want to improve, Swaminathan said now is a good time to assess your current business systems and upgrade to a cloud ERP that includes all the capabilities needed to run a successful enterprise that investors will gravitate towards. And when they no longer have to pull data from disparate applications—and then aggregate that information and calculate it on spreadsheets—SaaS companies can also reduce risk, enhance their operational efficiencies and operate more profitably.

ORACLE
NETSUITE

www.netsuite.com

infonetsuite_ww@oracle.com

1-877-638-7848