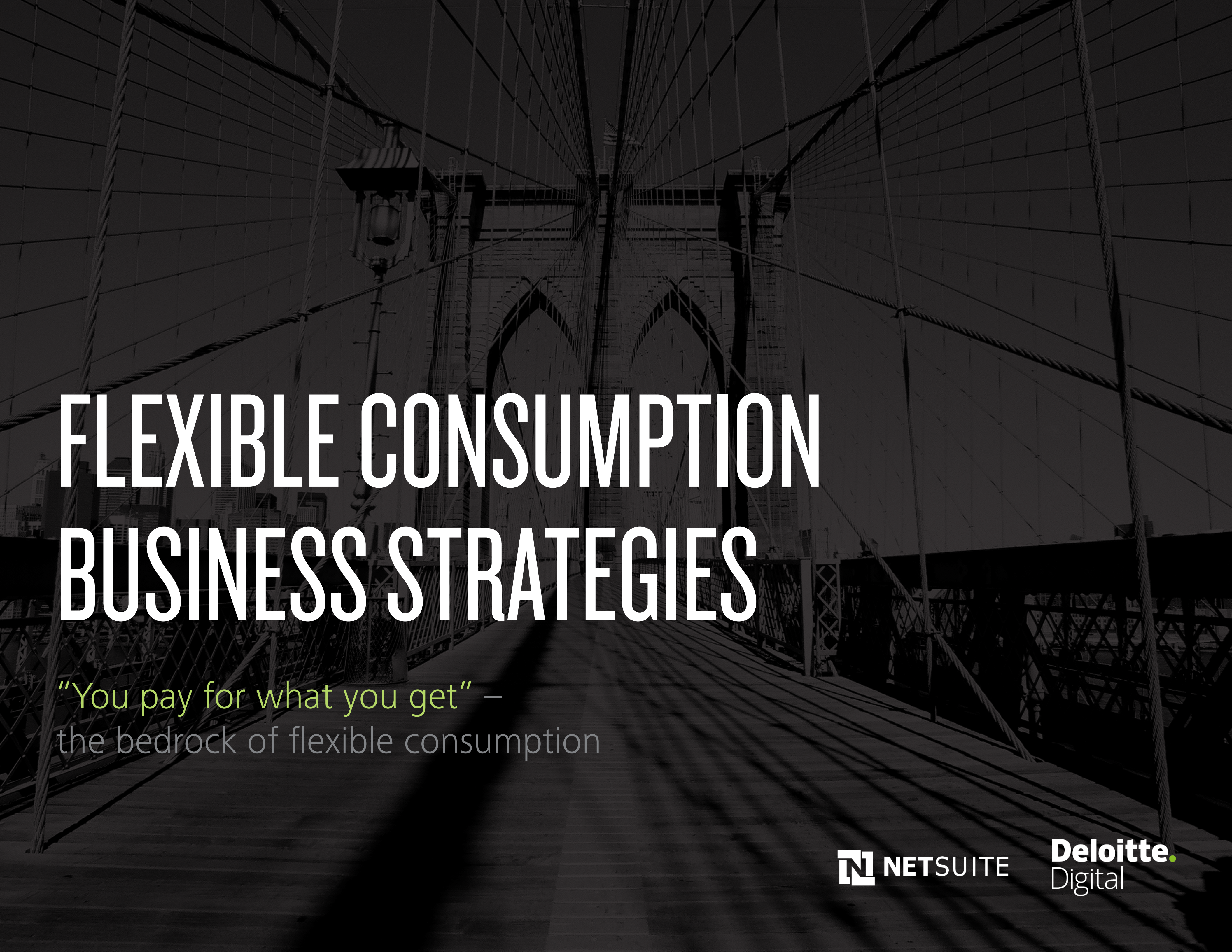

FLEXIBLE CONSUMPTION BUSINESS STRATEGIES

"You pay for what you get" – the bedrock of flexible consumption

NETSUITE

Deloitte. Digital

IS PAY AS YOU GO THE WAY TO GO?

In an era of business model disruption, perhaps one of the most profound disruptions in the technology, media, and telecommunications (TMT) world is the shift away from a model based on outright purchases or licensing to one based on consumption. Flexible consumption is not new. It has long been employed by utility companies, for example, but it is now expanding to other industries, sometimes taking on new meanings. Flexible consumption-based models are having a particularly strong impact on the TMT industry.

In transitioning to a flexible consumption model, the fundamental shift is in the ownership model – from perpetual to use as needed. Additionally, flexible consumption introduces the notion of recurring revenue streams and the pains that businesses face today in shifting to that model. These changes demand an enabling systems for that vision to be realized.

A number of trends, including the rise in cloud, mobile, social networking, "Big Data", and the Internet of Things (IoT), are driving demand for flexible consumption arrangements. For instance, advances in cloud-based computing have increased both the feasibility and the attractiveness of hosted solutions ranging from software-as-a-service (SaaS), security-as-a-service (SecaaS) and infrastructure-as-a-service (IaaS), to "anything" as a service (XaaS); for all of these, payment is based on actual service or solution usage.

Yet perhaps the biggest reason for some companies to consider transitioning to a flexible consumption model is that they can't afford not to. As more and more customers demand more flexible payment models, the continued viability of many companies, and even entire industries, is being threatened. Those that fail to at least explore consumption-based offerings may end up on the path to obsolescence, especially when a company's competitors are exploring.

A TRANSITION WITH BIG REWARDS.

NetSuite offers a cloud unified ERP solution delivering future-proof billing functionality for any business model - product, time, service, subscription, and usage or combination that may arise - synchronizing complex processes from order to billing to revenue recognition, readying business for change, business model innovation, and digital transformation.

Flexible consumption offers substantial benefits. These range from predictable, recurring revenue streams to higher customer retention driven by long-term relationships with customers and improved margins. Ultimately, investors may reward companies transitioning to flexible consumption models with higher valuations if communication is clear and execution is flawless.

FLEXIBLE CONSUMPTION MODELS BRING BIG CHANGES TO BUSINESS STRATEGY.

The following questions are top of mind for businesses and their executives as they develop new business models.

- Can you price your products in new and innovative ways to maximize revenue?
- Can you bill your customers the way they want to buy from you without an army of accountants with spreadsheets?
- Can you provide customers with a transparent billing experience to reduce disputes, days sales outstanding, and customer attrition?

As companies are innovating their business models, billing plays a key role.

NetSuite SuiteBilling seamlessly synchronizes both the billing and revenue recognition processes regardless of business model with complete control and auditability, helping businesses comply and minimize risks.

NetSuite provides a single system to manage orders from multiple sales channels, and to manage billing and revenue recognition that supports compliance with revenue recognition rules such as revenue arrangements with multiple elements (ASC 605-25) and percentage-of-completion accounting (ASC 605-35), while providing a foundation to prepare for adopting ASC 606 as well as IFRS 15 in the future.

Additionally, NetSuite's cloud-based architecture, with the flexible and powerful SuiteCloud development platform, enables customization that carries forward automatically with every upgrade and provides a robust ecosystem of complementary solutions. NetSuite gives companies control over their billing and revenue recognition processes.

SuiteBilling provides:

- **A core framework**, allowing for internal NetSuite subscription management, project and fulfillment modules to directly leverage core billing, revenue recognition and financial elements and processes via billing accounts and charge records.
- **Enhanced order to revenue**, supporting highly scalable order management functionality for processing orders coming from multiple channels and centralizing them within one single system, while advanced revenue management capabilities support multi-element arrangements.
- **Role-tailored user experiences**, designed specifically for billing specialists and revenue accountants, streamlines key workflows and helps users complete their critical business activities more quickly and easily.
- **Subscription management**, supporting subscription – and usage-based pricing models and rating (simple and advanced).
- **Unified but independent approach**, allowing invoicing and revenue recognition processes to work seamlessly together while meeting the specific independent needs of each process.
- **Rich**, customizable customer billing portals, enabling companies to deepen and expand customer relationships, leveraging NetSuite's industry-leading ecommerce platform.

FLEXIBLE CONSUMPTION MODELS BRING BIG CHANGES TO BUSINESS STRATEGY.

Sales models and revenue recognition will be affected.

Moving to a flexible consumption model is not for the faint of heart. It calls for a fundamentally different way of doing business. For established companies that are used to the traditional sales model, the task is much harder because their organizational capabilities may not support a consumption-based business model.

There are also financial implications. Because there is a conversion from upfront to recurring revenue, companies transitioning to consumption-based models generally experience a short-term revenue dip. In addition, the timing of cash flow and revenue recognition can often be out of alignment with incurred costs.

With non-flexible models, companies will generally expense the costs to acquire customers as incurred. However, flexible models sometimes differ from their non-flexible counterparts in that companies can elect to either expense the costs to acquire customers as incurred, or defer and amortize the costs over the period during which the service is delivered. As a result, in instances where the costs are expensed as incurred, profitability tends to be reached later, once the organization has had an opportunity to scale its offerings.

SO HOW DOES A COMPANY KNOW IF A FLEXIBLE CONSUMPTION BUSINESS MODEL IS RIGHT FOR THEM? HERE ARE THE KEY CONSIDERATIONS EVERY COMPANY SHOULD KEEP IN MIND...

KEY CONSIDERATIONS

Identify the new model

Companies need to decide where along the flexibility continuum their model sits with respect to three separate consumption levers: packaging delivery, and monetization

Burn the boats

Strategy of companies that commit to a flexible consumption model, understanding it will be a painful process that is strategic to the company's future

Straddle

Strategy of companies that want to transition with caution, giving customers a choice between flexible and non-flexible offerings

Protect and grow

Strategy of companies that want to offer flexible consumption, but in a way that protect and propels current business

Wait and see

Strategy of companies that decide not to offer flexible consumption for the time being

Choose a path

No matter what path chosen, keep in mind a number of considerations as they articulate their approach to adopting or expanding flexible consumption

DECIDING ON THE NEW MODEL

In order to determine which model is most appropriate, companies need to know how much flexibility is required to win new customers and retain existing ones. There is no one-size-fits-all answer to this question, and there is a significant amount of variability in what these models look like. Companies need to decide where along the flexibility continuum their model sits with respect to three separate consumption levers; packaging, delivery, and monetization.

CONSUMPTION LEVERS

	Low Flexibility	*High Flexibility*
Monetization Under what model is product monetized? (e.g. transaction subscription, pay-per-use)	**Transaction-based** E.g. Buying a software license as a one-time transaction allows least flexibility	**Out-come based** E.g. Buying software and paying once business outcome is achieved provides most flexibility
Packaging How are product/service features offered together? (e.g. standalone, bundle)	**Predefined** E.g. Cable TV provides fixed/predefined packaging for content that can be viewed	**Configurable** E.g. On Demand TV allows customer to choose/configure the content to view
Delivery How is the product/service delivered? (e.g. online, on-premise, print)	**Fixed** E.g. Content available in print only offers least amount of flexibility	**Unconstrained** E.g. Content for which customers can select/alter delivery are most flexible

DECIDING ON THE NEW MODEL

To successfully transition or expand to flexible consumption, companies need to consider packaging, delivery, and monetization in addressing a few key business strategy questions:

Should we offer flexible consumption?

- Is flexible consumption essential to win in our market?
- How much flexibility is required to win?

Where do we play?

- How much of our portfolio should we transition?
- How much of our legacy portfolio should we retain?

When do we transition?

- How quickly should we move?
- What should we transition first?

These questions are difficult and often spark heated discussions within companies. The issues they raise are so new that there is not always a clear path forward. Yet finding the right path may be essential to a company's very survival. Based on their answers to the key strategy questions, companies have typically taken four paths to transitioning or expanding to consumption-based models.

DECIDING ON THE NEW MODEL

To successfully transition or expand to flexible consumption, companies need to consider packaging, delivery, and monetization in addressing a few key business strategy questions:

Burn the boats

This path is chosen by companies operating in markets where there are clear signals that the existing model is running out of steam and pressure to provide customers with maximum flexibility is mounting. This strategy poses the highest risk, requiring full-blown transformation of the organization and a willingness to sacrifice short-term gains.

Straddle

Companies that choose this path are under slightly less pressure to make an immediate transition. They see value in giving customers the option to choose between flexibility and non-flexible consumption versions of same products and services, and may use this strategy as a competitive differentiator. This strategy is a lower-risk approach, but requires maintaining two approaches, which can be costly and result in cannibalization if there isn't a clear articulation of the value-price equation between the two options.

Protect and grow

This path is for companies that look to refresh and strengthen their core portfolio with the help of entirely new flexible consumption offerings. While the main objective is to protect legacy products, these companies don't want to be completely left out when it comes to flexible consumption.

Wait and see

This approach is better for companies that are well positioned to capitalize on their existing strengths and flexible consumption is not required to win. This gives them sufficient time to search for the right window of opportunity to expand to consumption-based offerings and articulate their own flexible consumption strategy.

CHOOSING A PATH

There are a few criteria that companies should keep in mind as they articulate their approach to adopting or expanding to flexible consumption:

Market growth and maturity: It is important to assess the outlook of the markets the company plays in, as well as whether they are sufficiently mature for flexible consumption offerings.

Risk: Companies will need to determine their individual risk appetite and evaluate overall risk implications (e.g., financial risk, cyber security risk, operational risk) across each of the four transition paths. This will help determine the approach that best aligns with the company's individual business, legal, regulatory and strategic objectives.

Competitive landscape: Companies need to consider a range of factors, including the level of threat posed by their competitors' adoption of flexible consumption; their desired short-and long-term positioning with respect to competitors; the extent to which external factors prompt a transition to flexible consumption; and whether they have the ability to sustain competitive advantage or further differentiation in their flexible consumption offerings post roll-out.

Customer demand and relationships: Important questions to address include: To what extent do customers demand the transition? To what extent will the company's customer relationships impact, or work in favor of, a transition to flexible consumption?

Overall company narrative: Since the transition to flexible consumption may have a short-term impact on the business, companies should evaluate the extent to which they can defend their adoption of a flexible consumption model, including what strengths will help them successfully navigate the transition.

TAKING THE NEXT STEPS

Finding the right answer for your company requires careful analysis of market and internal conditions. It also calls for a clear vision of how the industry is evolving and where your organization can compete most successfully.

Deloitte and NetSuite are giving customers a next-generation solution to win in the marketplace today and future-proof their business for change tomorrow. We've guided numerous companies through business model transformations and we understand the complexities of the challenge and associated risk implications. Let's talk about what the change will mean to you.

LEARN MORE

To learn more about how the Deloitte Digital and NetSuite alliance can help you determine the flexible consumption model that's right for your company, please visit *www.deloittedigital.com*, *www.netsuite.com*, or contact one of the following:

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Reimagine, deliver, and run the future of your business

Deloitte Digital is creating a new model for a new age. We're an agency, a consultancy, and a technology development group.

Deloitte Digital has helped some of the world's largest companies redefine their business strategy and implement organizational change. As we work with you to create a well-defined and innovative customer experience strategy, we can draw on our experience in human capital management and business transformation to help you implement the business changes that may be needed to become more customer-centric.

Our strategic process is also backed by the broad range of Deloitte Consulting LLP's experience and skills that we can tap into through our global network of member firms. From change management to UX design and technology implementation, our teams bring the right skills needed to make your project a success.

ABOUT NETSUITE

NetSuite Inc. is the industry’s leading provider of cloud-based financials / Enterprise Resource Planning (ERP) and omnichannel commerce software suites. In addition to financials/ERP and omnichannel commerce software suites, NetSuite offers a broad suite of applications, including financial management, ecommerce and retail management, commerce marketing automation and Professional Services Automation (PSA) that enable companies to manage most of their core business operations in its single integrated suite. NetSuite software allows businesses to automate operations, streamline processes and access real-time business information anytime, anywhere.

For more information about NetSuite please visit www.netsuite.com.