

## Adaptive Planning illuminates growth in performance management business, latest wares

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The recession continues to bite – but not reportedly for **Adaptive Planning**. We're told the performance management player saw record bookings in 2008, while closing the largest number of customer wins in the first quarter, and the most six-figure deals in its six-year history in the second quarter of this year. However, management is being judicious. Although confident that it will see meaningful revenue growth in 2009, it is adopting a more conservative growth position by focusing on cash conservation at the expense of growth, partly to operate in a cash-flow breakeven or cash-flow-positive position.

Adaptive Planning 6.0 is the latest release of its multitenant budgeting, forecasting and reporting wares for hosted or on-premises deployment. Integration with **NetSuite** in 6.0 means the latest release is now the reported default financial planning module for NetSuite, a longstanding customer now turned reseller. V6.0 also sports enhanced multidimensional reporting courtesy of new cube sheet functionality. A client benchmarking service and an industry trends module are new initiatives to engender further growth.

### The 451 Take

Although the latest Adaptive Planning 6.0 adds another string to the company's bow for financial reporting, we think the integration with NetSuite and attendant reseller deal with the purveyor of hosted CRM, ERP and e-commerce applications is more significant. It gives Adaptive a window into a large new group of end users, and, we believe, another exit strategy in the opportunity to be acquired by NetSuite. That said, management clearly has its eyes down keeping the firm on a growth curve, while balancing growth with its cash position in mind. It's a sensible financial strategy and, we think, could ultimately yield a profit and thereby prove its business model has legs.

### Context

Management tells us growth is still the order of the day, since June was the firm's biggest month of bookings to date. Adaptive reportedly now has 520 paying customers, up from 445 in February. Software, manufacturing and nonprofit organizations still predominate within its installed base. But we're told insurance and retail are emerging vertical markets and healthcare is consistently strong. Average deals now involve 20 seats, as opposed to 15 early last year, and average deal sizes remain about the same as last year at \$15,000 for the first year of subscription/service, according to executives.

That said, it is reportedly signing more six-figure deals as deployments continue to get more strategic and are extended beyond divisions where it used to play. Management says 21% of its bookings came from enterprises, i.e., companies with sales north of \$500m in 2008. But the midmarket (firms with \$10-500m in sales) remains a core focus. Revenue from non-US markets is also reportedly on the rise – about 15% of its installed base is international clients.

So far, all of Adaptive's growth has been achieved through a direct sales model. But that's changing as a result of a recent deal with NetSuite, which is now a reseller. We're told NetSuite had been using Adaptive for several years as a planning component for its midmarket suite of hosted ERP, CRM and e-commerce applications. The reseller deal has resulted in deeper integration between the two players' respective offerings (see below) and the promise of getting Adaptive rolled out to a new audience of thousands of NetSuite users, according to executives. NetSuite and Adaptive have 15 joint customers right now.

More measured growth is the focus for 2009 as management turns its gaze toward operating the business on a cash-flow-breakeven/cash-flow-positive basis. We're told it has also shifted toward capital efficiency and cash conservation in the wake of ongoing uncertainty in the economy. Management plans to raise one more round of funding – mostly to aggressively scale out operations – possibly in late 2009 or more likely in 2010. We're told it has enough cash for the rest of the year. Adaptive's last round, a \$14m series D in January 2008 that was disbursed in two tranches, was led by new investor **RBC Venture Partners**, with participation from existing VCs **Cardinal Venture Capital**, **Monitor Ventures** and **Onset Ventures**. It has raised \$33m in total.

## Products

NetSuite customers looking for financial-planning capabilities are one audience for Adaptive Planning 6.0, courtesy of the debut of one-way integration between the two offerings. Two-way integration between NetSuite and Adaptive is slated for the fall, when a new version of the latter's performance management wares will ship with this functionality and other features – such as single sign-on – included.

The other key addition in 6.0 is cube sheet – an extension to existing multidimensional reporting facilities first introduced in 5.0 last year via a so-called modeled sheet feature. Cube sheet joins the other two planning sheet types supported – Standard and Modeled – as its high-end counterpart, and is aimed at solving the problem of performing sophisticated multidimensional reporting without involving cubes or OLAP. Intended for the simple creation of multidimensional sheets through features such as a drag-and-drop facility to switch dimensions, cube sheet is designed to support three standard dimensions and up to seven custom dimensions, the re-configuration of a sheet on the fly, and the addition of dimensions and formulas without IT intervention.

A client benchmarking service is a new initiative under way being targeted at software companies within its installed base. The service is designed to compare a customer's actual and plan data with aggregate data from other customers in the software industry. We're told the intention is to roll it out to other industries in its customer base once the benchmarking service for software companies reaches critical mass. Nonprofit organizations are up next.

The service is essentially meant to enable these firms to answer questions such as: What revenue growth rates are others projecting? How is this changing quarter-to quarter? How did other companies perform versus their financial plan? These answers are arrived at by Adaptive's service team delivering quarter reports using extracted metrics – from some 50 key performance indicators (KPIs) – and aggregated information on a backward- and forward-looking basis. We're told the service is provided on an opt-in-only basis under a separate agreement to ensure client privacy.

The other new recent deliverable is an industry trends module, which is free to members of its online best-practices community. It includes income statement, balance sheet and cash-flow metrics, and is in effect designed to enable members of this community to examine historical trends in the financial metrics of their peer group, based on industry, company size and geography. The module, which draws on a licensing agreement with **iLumen** – a firm that analyzes and benchmarks financial, credit and industry data – reportedly contains five years of data for more than 10,000 midsized companies across all industries in the US.

### SWOT analysis

Strengths	Weaknesses
Adaptive is still exhibiting good growth, although it is somewhat tempered. It is the best known of the emerging breed of performance management players.	Profitability – something Adaptive doesn't currently have – is a good asset in a turbulent economy.
Opportunities	Threats
The NetSuite reseller deal opens up a new audience it could not have targeted adequately on its own. The Client Benchmarking Service creates new upsell potential to existing accounts.	Enterprise-type deployments open Adaptive up to more rivals, including Oracle/Hyperion, SAP/Business Objects and Clarity, which have broader performance management offerings and operate in areas Adaptive doesn't want to play in, such as financial consolidation.

*This is an excerpt from the independent report produced on July 14th, 2009. To read the full report, go to the following URL:*

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