Stanford eCorner

A Smoother Business Model

Lewis Cirne, *New Relic*

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New Relic Founder and CEO Lew Cirne says his company's business model incorporates both individual subscriptions and enterprise licensing as a way to smooth out revenue flow. In conversation with Stanford Engineering Professor Tom Byers, Cirne also says that a product's simplicity is key if it is to spread throughout a market, and that a firm's business model can guide product design.

Transcript

It's not just - you celebrate innovation and technology which I want to talk about... Yeah. ...but also innovation in the business models on the business side of things. Yeah. And so, New Relic is an instance of that. So yeah, my last company had to sell - like didn't have to sell but it made sense to sell my last company at six and I thought deeply on why that was and it really came down to the business model. That was a traditional enterprise software company. Enterprise software companies, license and maintenance enterprise software companies, you can spend 9, 12 months with the customer and then they sign up for a very large check that - and basically it's very hard to predict when that customer is going to say yes and usually after they say yes, it's another 90 days before you actually get a contract of them. So anyway, that's a really painful business model to execute to because it's hard to predict what the revenues and it's very expensive to build out that field presence. So when I started New Relic, I didn't want to be purely dependent on just enterprise business and I didn't want it to be a license business where it was very lumpy because it's really - it's hard to sleep at night if you don't know whether or not especially in the last seven days of the quarter were like 70% of revenues could come in and those are paying salaries, right? So I wanted a subscription business, I wanted a business where how do you reach the whole market and the way you do that, I think, in business software is you have to build a product that's so simple, so easy to use that the customer can see the value without the help of a salesperson.

And there is a lot of effort that has to go into design and thought about the on-boarding process that may seem obvious to folks in this room because of all the great consumer products you use, but it's actually pretty rare in enterprise software. So if you design a product with the business model in line - in mind, it can reduce your distribution cost because now, we give out a t-shirt with data nerd on it and somebody tries it out and they fall in love and they want to become a customer that compresses our sales cycle dramatically. Now, we do have an enterprise business as well that does have that traditional sales model but it's great to have that balanced subscription business of small companies. And that business model was by design but it started with the product being engineered for the business model. You can't just glue the business model you want to a product that isn't well-suited to it and that's why I think the incumbents are having trouble sort of being successful in the SaaS world, the products aren't engineered for the kind of business model that I was just describing.