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# SME SOFTWARE IN A FLAP

Seven companies are competing to sell online accounting software to Australia's small businesses. For some it's the opening tussle in a global rivalry. Can they all survive?

**A**ustralia's online small and medium enterprise (SME) accounting software market has exploded from a cosy duopoly into one of the fiercest, all-out stoushes in business. Two huge prizes are up for grabs: potential monthly fees of A\$30 to A\$100 from Australia's 2 million-plus small businesses, and the title of market survivor in a head-to-head battle between key global players in online SME accounting software. The ultimate prize: a slice of a global market worth tens of billions of dollars per year.

What's driving this move online? It's simple. Online software erases a lot of accounting's manual drudge work, accesses data in real time, and frees up accountants and their clients to look at more important business strategy. Because of that, it's transforming the whole client-accountant relationship.

The accounting software runs in a web browser, just like Gmail or online banking, with data stored on the software provider's servers. An accountant can view a client's books, with their transactions updated every 24 hours through bank feeds and automated coding, and provides monthly, weekly or even daily forecasts, warnings and advice.

For many accountants in practice, growing a firm's revenue through advisory fees is nirvana. Income from tax compliance services, once a staple for public accountants, is in danger of being white-anted by software automation, offshoring and the Australian Taxation Office's >



push to transfer data from online accounting systems straight into its own computers. By performing more advisory work, the accountant in effect transitions from number-cruncher to business growth expert and educator.

Online accounting software also attracts business owners. They like the greater control it gives them over their business and, according to accounting software consultant Margaret Carey, programs such as Xero and QuickBooks Online are also easier for non-accountants to use.

Service levels have risen accordingly. As bank feeds update accounts in real time, any issues with those accounts can be sorted quickly by the accountant and the business owner together. Carey argues that this online collaboration adds “tremendous value”. “It gives the clients a lot of peace of mind that someone can sort out their accounts straight away for them,” she says.

This transformation is being wrought by a mix of software giants and minnows. Can they all survive in the market?

## MEET THE PLAYERS

### The insurgents

**Xero**, the New Zealand-born company with global ambitions, defined the online accounting market early on by targeting both accounting firms and small businesses in its marketing campaigns. If you’re involved with a small business in Australia, you probably already know the Xero story. Its strong network of referring accounting partners has been crucial to its success, as has its 350-strong ecosystem of third-party extension programs. At last count, Xero claimed 158,000 Australian business entities were paying it subscriptions.

**Saasu** is the old man of the online accounting game, with more than a decade’s experience under its belt. A private company, it has eschewed the limelight and spent very little on marketing to accumulate a customer base of about 25,000 companies. It has carved out a niche as a favourite for high-transaction, e-commerce traders and larger businesses looking for a low-cost alternative to expensive mid-market accounting software.

### The incumbents

**MYOB** and **Reckon** have been the big players in the Australian market. But both moved relatively late to develop online versions of their software, and both suffered false starts that cost them time.



**Reckon**, which until last year sold Intuit’s QuickBooks in Australia, has launched an online accounting program called Reckon One that it expects will, many years down the track, replace its desktop flagship Reckon Accounts.

Reckon One takes a highly modular approach to software, selling a core general ledger module which businesses add to with invoicing, time and expenses, and project management units. Each of the modules can be upgraded, downgraded or turned off, and cost from A\$3 to A\$5 each per month.

But when Reckon One launched in 2014, it was written in a programming framework called Microsoft Silverlight which Microsoft had already decided to abandon. That forced Reckon to rewrite the software. The rewrite (and more modules) were due for completion in early 2015. Its relaunch will trigger a renewed marketing campaign to regain lost momentum.

**MYOB**, the biggest SME accounting software player in the Australian market, rebranded its product last year from MYOB LiveAccounts to MYOB Accounting Essentials and received a dose of badly needed development. It is probably the strongest threat to Xero in Australia, as it has been in the market for several years.

MYOB also sells an AccountRight range of hybrid desktop software. AccountRight saves its data either to MYOB’s online servers or to the desktop itself. AccountRight’s strength is its feature set: it has everything you would expect in a traditional desktop accounting program, including facilities such as complex inventory which most online-only competitors haven’t yet added. AccountRight’s drawback? It’s still desktop software which you must download and install, and it runs only on PCs.

### The global giants

The battle between the Australasian contingent would promise competition enough. But two international players have now arrived, promising to tear up the field even further.

**Intuit**, the giant of the US market, has kept a close eye on Xero as the NZ insurgent has moved from New Zealand to Australia, on to the UK and then into Intuit’s US territory. Intuit played a destabilising campaign in Xero’s strongest market by promoting its own online accounting program, Intuit QuickBooks Online, to Australian bookkeepers and accountants for just A\$4.99 per month. And after years running its Australian interests from Singapore, it has now hired 50 local staff and an Australian managing director – 2014 INTHEBLACK Young Business Leader and eBay veteran Nicolette Maury. It says it plans to hire many more Australian staff, and is also adding staff in the UK, Canada, Singapore and parts of Europe to expand its empire.

QuickBooks Online is a strong contender, with features and an interface comparable to Xero. But Intuit must overcome a decade of association between the QuickBooks brand and Reckon.

**Sage**, which claims to be the largest producer of accounting software in the world, is due to release its Sage One online accounting software program in Australia this year. Sage is a familiar name to Australian accountants: 7500 of them use its HandiSoft products to run their practices. But it lacks broader name recognition, and its first attempt at online accounting software was unsuccessful (the company binned the code and started again from scratch). But its latest product may be better: the company claims Sage One began outselling Xero in the UK in January. So now Sage, too, is coming for Xero in its home markets.

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## The power of the pipes

Online accounting software may reinvent the role of the accountant, but only if the accountant and client can go online in the first place. A reliable internet connection is absolutely critical to using online accounting software. In Australia, the national broadband network (NBN) is falling short of its original mission to provide blazing fast internet access to everybody.

However, the most important criterion is not

speed but reliability. Online accounting software doesn’t require a fast connection to operate as the only data travelling over the wires is numbers displayed on the screen. The database and all the heavy processing is carried out in the software vendor’s data centre on highly powerful servers.

Any firm that can download their email, watch a video on YouTube or make a reasonably good quality Skype call will have no problems using online accounting software. And with faster mobile data networks such as 4G, an accountant can check on a file on their laptop or iPad while out of the office.



### The next step up

Move up a step from software focused on small businesses, and the number of online accounting players thins out. But a tussle is brewing here, too, as online enterprise resource planning systems – ERPs – enter the SME accounting game. ERP systems track not only money but many other business resources, including raw materials, orders, and staff; in effect, they run businesses.

**NetSuite**, long a provider of ERP systems to fast-growing SMEs, is now trying to lure small businesses to its **JCurve** software, a detuned version of its flagship enterprise ERP. Last year its Australian arm marketed itself as a solution for businesses that had outgrown MYOB. When a business outgrows JCurve it instantly moves >

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to the flagship NetSuite system, which can run multinational companies such as Virgin Money.

As of January, JCurve has had to update its marketing. A year ago MYOB secured a licensing arrangement with an online ERP based in the US called Acumatica. In January this year it launched MYOB Advanced, a rebadged Acumatica localised for Australian GST and payroll. The product represents a new front for MYOB in the small- to mid-market; Acumatica is powerful enough to take on smaller implementations of the biggest ERP of them all, SAP.

**Big winners?**

So who will emerge as victor from this epic battle? Carey believes the market can tolerate seven players for a while yet.

“There are quite a lot of complexities in MYOB and Reckon’s desktop software that Xero, Intuit and Saasu don’t cover,” Carey says. “I was with a client last week who has an art gallery and she asked ‘What about Xero?’ And I told her: ‘It wouldn’t cut it for you’.”

Ben Kepes, a New Zealand-based technology analyst who is closely watching the accounting software contest, takes a different view. “Are tax and local operating regulations enough of a barrier for local players to have a point of difference?” he asks. He points to Xero’s acquisition of payroll software provider Monchilla in the US as evidence that the bigger players can simply buy up the know-how they need.

Intuit, Sage and Xero – the global Big Three of SME accounting software – have enormous financial resources. Intuit has a US\$5 billion balance sheet and Sage US\$3.3 billion. Xero has smaller assets and liabilities,

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but international investors are giving it all the money it needs. PayPal co-founder and famed venture capitalist Peter Thiel was one of the top financiers when it raised NZ\$180 million in late 2013.

“It’s hard to imagine how in any one location a small local vendor can really compete with the big guys,” Kepes argues. “No one cares about whether they use local or global software.”

**Data is everything**

Intuit and Xero are playing a larger game than just accounting. Each aims to become the dominant firm tying together whole networks of businesses and their advisers with seamless data exchange. Xero and now Intuit are referring to



their programs as not just accounting platforms into which third-party extensions can connect, but as operating systems for small business. At first this sounds like another name for a small business ERP. And certainly Xero has demonstrated the power of its constellation of add-in programs. But the end game is likely to include more than software.

Xero has already demonstrated how it can give its users access to loans, insurance and other services provided by financial institutions, with premiums and approvals automatically calculated from the Xero user’s accounting file. When its accounts are already stored online, a business only needs to allow a bank access to its file in order to find out whether it can, for example, get a short-term loan to cover this month’s payroll.

That real-life scenario is likely still several years away. So far only one financial institution (CGU) has moved quickly enough to demonstrate a proof of concept with worker’s compensation insurance with Xero. And businesses need to warm to the idea of giving access to their financial data on request.

While Xero’s existing revenue is drawn through monthly subscriptions, the value of its 400,000 businesses’ combined data could potentially exceed that if you factor in commissions from banks and insurers.

Then there’s the power of networking multiple businesses together. One Xero-using business can send an invoice to another through the accounting software itself. The invoice appears as a draft in the recipient’s data file, eliminating data entry and associated errors.

Xero is also working on business intelligence tools such as benchmarking. In New Zealand, Xero has snagged an astounding 90 per cent of the small business market, according to an *Australian Financial Review* report, and its anonymised database has more details about the nation’s financial health and spending habits than New Zealand’s government treasury.

Xero aims to give businesses that opt into its planned benchmarking project a ranking of how they are performing on key metrics compared to other businesses in the country or the region.

Intuit and Sage have plans of their own, but no one knows for sure how the Big Three’s schemes will play out. It’s yet possible that the local brands will keep hold of a good share of the Australian market. One thing seems certain: accounting software will remain, for some years to come, a business battlefield. ■



For more information on accounting software, head to [intheblack.com](http://intheblack.com)

**STRENGTHS AND WEAKNESSES**

**Xero**

- Easiest to use and most innovative
- Leader among micro and small businesses (1-20 staff)
- Still missing a basic inventory and can handle only a limited number of transactions (around 1000 a month)

**Saasu**

- Handles much higher number of transactions than Xero
- Automatically adjusts PayPal fees for e-tailers
- Smaller third-party program ecosystem than Xero

**MYOB Essentials Accounting**

- Steady performer from a well-known brand
- Recently added optical character recognition of bills and invoices
- Bank rules for transactions not as easy to set up as Xero

**Reckon One**

- Most customisable dashboard
- Most powerful mobile app
- Slow development – still waiting on advanced features for most of its modules

**JCurve**

- Runs many parts of your business from one database
- Cost comparable to Xero
- Interface not as easy to use as dedicated small business apps

**MYOB Advanced**

- Powerful program that can handle complex inventory
- Only just launched, so few partners likely to know how to implement it

**Sage One**

- User-driven interface simplifies accounting for business owners
- Difficult to compete with established players

**Intuit QuickBooks Online**

- “Money bar” keeps business focused on cash flow
- Strong interface
- Small ecosystem of apps

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