STATE OF THE CLOUD NATION

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Cloud technology has been around for a while now, and we thought it an opportune time to take stock of where it has come from and, more importantly, where we think it is going - specifically with regards to Cloud Accounting and how it impacts New Zealand businesses.

THE EMERGENCE OF CLOUD TECHNOLOGY has resulted in a massive change in the way New Zealand businesses manage their financial data and the manner in which accounting software providers sell and deploy the software.

From a small to medium enterprise (SME) perspective, cloud accounting has broken down the physical and literal walls between the business and the finance function. Owners and other users of financial data can obtain the information they need anywhere, at any time and from any device. This has also enabled richer discussions with advisors, including accountants, as they can discuss and talk about the same data in real time.

Probably the leading architect of this change in the New Zealand accounting space has been **Xero** (*www.xero.com*). Their recent annual report for the year to 31 March 2018 indicated over 1.3 million worldwide subscribers, including 301,000 New Zealand subscribers - up from 246,000 a year before. Xero now has a positive EBITDA result, which indicates a business whose historical research and development spend is starting to provide pay-back.

With a large part of New Zealand's GDP flowing through their platform, Xero is also jumping on the "Big Data" bandwagon. Their 'Small Business Insights" snapshot is drawn from their 300,000 plus subscribers, and the data is anonymised and aggregated to provide metrics – such as days to get paid.

With the recent addition of "Projects", which is a simple time and cost mechanism and with beefed up "Expenses" functionality, Xero is strongly typifying the ability of Software as a Service (SaaS) businesses to continually develop their core product by adding modular functionality. We expect this product broadening to continue.

MYOB (*www.myob.com*) was for a long time the default, "go-to" system for small to medium enterprises (SMEs) in New Zealand. As a result, many NZ businesses are still running the desktop package they bought off the shelf many years ago and, despite the cloud hype, haven't seen a need to update.

This may all be about to change as MYOB recently announced that, from 30th September 2019, they would no longer provide features, patches, compliance updates or product support for their MYOB AccountRight Classic desktop product. This is a key part of their strategy to transition their significant, but non-revenue generating, base into the cloud and onto the SaaS model, creating on-going annual revenue streams. They are aiming for 1 million cloud subscribers by 2020. While MYOB will be confident that their customers will place value on a perceived seamless transition and similar look and feel of their cloud versions – it may also open the door for customers to reconsider their options.

Xero is the obvious possible beneficiary from this, but it may also prove enticing to massive overseas players that currently have smaller Australian and New Zealand footprints, such as **Quickbooks Online** (*www.quickbooks.intuit.com*), to increase their market share dramatically.

ADD-ONS

As the core cloud accounting platforms continue to grow, so too does the "add-on" or connected application space. Users of Xero and MYOB have the ability to integrate an increasingly bewildering array of applications to drive operational processes, whether it be inventory management, customer relations, procurement, reporting etc.

We expect more niche solution sets to be brought to market and the start of a consolidation of the more generic solutions as "industry leaders" gain the greater share of market spend and buy up (or force out) smaller players. We also expect the big players to continue to add additional functionality – whether organically or by acquisition.

THE MID TO LARGER END

Beyond the Xero, MYOB and QBOs there are a number of ERP (Enterprise Resource Planning) solutions. These solutions are aimed towards the middle and larger enterprises and manage financials as well as operational processes such as Marketing, CRM, Sales and Procurement, Inventory, Warehouse Management and Manufacturing under one system banner.

While the transition to the cloud in this space has not been as pronounced as in the smaller business end we definitely see the same market dynamics in that, ERPs built in the cloud for the cloud tend to be growing faster than traditional on-premise systems.

A case in point is **Netsuite** (*www.netsuite.com*) which has experienced significant growth to make it one of the world's biggest cloud ERP platforms and is backed by massive player Oracle. Other systems making strides are **Microsoft Dynamics** (*www.dynamics.microsoft.com*), **Workday** (*www.workday.com*) and **MYOB Advanced** - for which Staples Rodway Taranaki is a Business Partner.

One of the questions we often receive is "when should a business look to upgrade to an ERP?". I asked ERP Sales Manager Lisa Nicks from **Fusion 5** (*www.fusion5.co.nz*) who specialises in helping companies move and grow into the right sized ERP solution: "You should look to move to an ERP solution when you have too many systems that you have had to stitch together to run your complete operations. This might include your core Financial Management or ERP solution, something else for Inventory Management, other software to manage your demand planning and replenishment or manufacturing, something to manage CRM and customer engagement and yet again some other piece of software for Marketing and your ECommerce platform.

"Companies also need to get a more experienced ERP solution when they grow into multi-company, multi-currency and multi-country and may need various national language support and have the need to manage company consolidation.

"Transaction volume can also dictate when it is time to grow into a new ERP, as the smaller solutions can have volume thresholds - so when you need to process 10,000 orders a month or have 100's of lines of SKUs it is often time to upgrade."

AUTOMATION AND AI

In our view we are going to see automation becoming more democratised, that is, being available to the masses, not solely in the domain of large organisations. It will provide businesses with real opportunities to gain efficiencies and cut costs.

Whilst many accounting platforms can already largely automate transaction coding and reporting, customer order receipts, delivery of goods, re-order of inventory, etc, it is going to be Artificial Intelligence (AI) which allows the automation to be adjusted and accommodate nuances or irregularities so that the automation "learns" and is effective in all cases. An example of this is taking stock levels of a similar item into consideration when reordering a product that has higher sales than normal. As well as efficiencies this will deliver greater insights and connections with customers as it pulls on and makes sense of enormous amounts of third-party data.

Accounting platforms which have their data in the cloud will be the ones better positioned to take advantage of the automation and AI toolsets.

SUMMARY

So that completes a round-up of the cloud accounting market in New Zealand, what we see happening and possible impacts on NZ businesses – small and not so small.

It is clear things will continue to change at pace. Some change will be welcomed, while other change, for example, a move from MYOB AccountRight Classic, may be forced on you. As always, in times of change it is important you take the time to take stock, talk to your advisers and react strategically.

If you wish to discuss the changing face of accounting technology, please contact your usual Staples Rodway advisor.