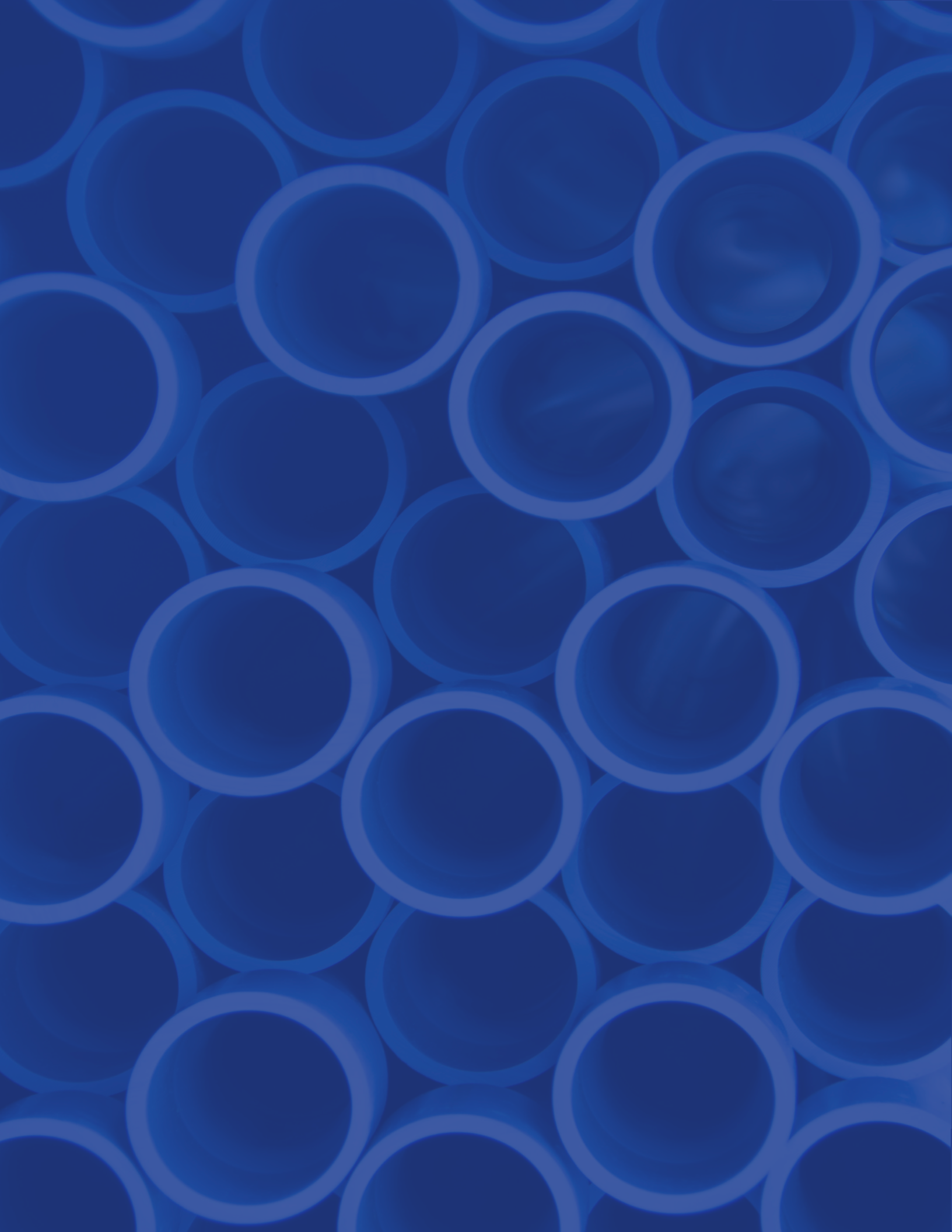


# Data Plumbing For The Australasian Accounting Industry

*Expert insights on the current changes within accounting practices, and why normalizaing client data is increasingly the key to unlocking value.*





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# Introduction

*The idea of normalizing client data*

THE ACCOUNTING INDUSTRY IS UNDERGOING IMMENSE CHANGE AS NEW TECHNOLOGIES, NEW DEMANDS FROM CLIENTS, AND A CHANGING REGULATORY FRAMEWORK FUNDAMENTALLY CHANGE THE ROLE OF ACCOUNTANTS.

The days of accounting practices that only perform compliance work are rapidly drawing to a close and increasingly it will be through value-added services that practices survive and prosper.

But the increasingly complexity and fragmentation in the accounting software space makes it hard for accountants to provide a seamless and holistic advisory offering.

Data plumbing, the idea of normalizing client data and integrating it into the core systems that accountants use, is increasingly the key to unlocking a higher value proposition for accountant.



# A historical perspective: Accounting software in Australasia

*From an accountant's perspective*

FOR THE PAST TWENTY YEARS OR SO, THE ACCOUNTING SOFTWARE INDUSTRY IN AUSTRALASIA HAS LARGELY CONSISTED OF A SINGLE VENDOR COVERING THE VAST MAJORITY OF SMALL AND MID-SIZED BUSINESSES.

From an accountant's perspective, this has been a relatively simple thing to support – while there is some complexity caused by the fact that supporting customers on desktop software does create something of a burden in terms of getting data and making journal entries, by and large it has been a minor struggle and accountants have developed systems and processes to manage the flow of data to and from their clients.



The advent of cloud computing generally, and cloud accounting packages in particular created an opportunity for accountants to be directly connected, in real time, to their clients accounting software. Accountants were sold on the promise of huge efficiencies created by this connected paradigm and many software vendors suggested that this would, at last, be the way for accountants to move from compliance-based relationships to far more added value ones.

An unintended and unseen consequence of the ease at which new software companies can be created, however, has meant that whereas in the past accountants generally had to only support a single piece of software, increasingly accountants are having to support a plethora of different client-side software packages: legacy desktop packages, cloud-enabled desktop packages, and true cloud software. Added to this is the fact that there are a greater number of different client-side solutions in use in Australasia than ever before. Only a decade ago there was one major accounting software vendor in Australasia (MYOB) with one or two very small competitors. The market is now served by three major players (MYOB, Xero and Intuit) with a large number of small entrants trying to get a toe hold (Saasu, Reckon, Freshbooks etc)

All of this complexity means that accountants are increasingly in need of a neutral data plumbing provider, a new concept that this paper seeks to explain.



# Industry fragmentation - The new normal

*The impact of technology*

It will come as no surprise to anyone working in the accounting industry in ANZ that the market is very much fragmented in terms of practice-side solutions in use.

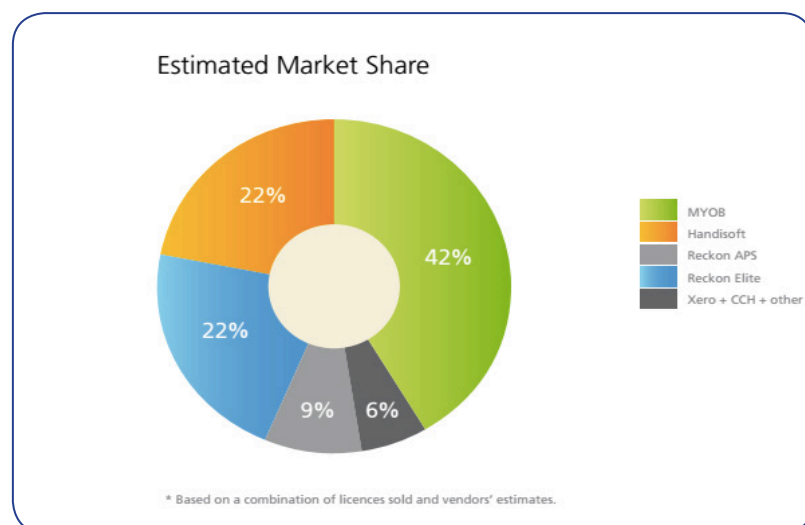
Recent findings detailed in the Macpherson report indicate two things; firstly that the state of accounting software in ANZ is highly dynamic, with vendors offering new functionality at a steady rate and with technology impacting heavily upon the landscape. Secondly the report showed that practices, and their clients, need to think of their software choices as a dynamic thing, up for constant reassessment.

This fragmentation is also evident in the client-side space. Whereas only a decade or so ago MYOB held the majority of the market in Australia, today we have both Xero and MYOB with several hundred thousand customers.

Far from a duopoly, however, we have Intuit pushing its QuickBooks product hard and a number of smaller vendors; Reckon, Saasu, Freshbooks and others.

In this time of dynamic change, both for practice-side and client-side solutions, it is important for practices to be as flexible as possible and not tied to technology vendors on either side of the equation. This is where a data plumbing solution adds value as it lessens the impacts of platform changes upon the practice.

Under a tradition (ie non data plumbing) model, replacing a practice solution, or supporting clients with new software, is a difficult process requiring both technology investment and business process change. As we detail later in this paper, by leveraging a data plumbing provider, practices maintain the ability to change providers within the context of their existing workflows.



» The diagram above, from the report, indicates the level of fragmentation in the practice-side space.

# Historical parallels - Third-party “plumbing” services

*Separating content and infrastructure*



certainty and choice that comes with separating these two different services.

The same goes for the electricity industry (standalone lines and supply companies) and media (Netflix over a third party internet connection as opposed to a single cable provider that delivered both connection and content).

We contend that it will increasingly be the case that service providers and users alike will see the value, the security and the certainty that comes from leveraging independent and specialist plumbing providers and that this will be an increasing trend across industries.

THERE ARE MANY PARALLELS OF CONTENT BEING SEPARATED FROM THE INFRASTRUCTURE ON WHICH IT IS TRANSPORTED AND THE BENEFIT THAT ACCRUE FROM THIS “SEPARATION OF THE POWERS.”

This is increasingly the case in the internet age as our understanding of the difference between content and plumbing improves. While twenty years ago it was a common occurrence for an internet user’s email address to be tied inexorably to their internet service provider, we now understand the security,

# The Value Of Data

*“Source of truth”*

Accountants’ lives have traditionally been typified by an ongoing need to move data backwards and forwards between their own systems and those for their clients.

The traditional model is that at the end of a financial period, the client takes a copy of their software file and sends it to the accountant. The accountant generally imports this file into their own practice-side solution and makes any journal entries or adjustments that are required.

Thereafter, the accountant re-exports the file back to the variety of software the client uses, and passes the file back to the client.

As you can imagine, this introduces a number of different potential problem areas – at every step along the line there is the possibility for errors to occur. Not only this but since the transfer of data is wholly asynchronous, there is a better than even chance that the data on one system will be fundamentally different from that on the other system – accountants and their clients now need to forensically work out which data is the “source of truth.”

For a profession which prides itself on accuracy and efficiency, this is a huge problem.

This situation is made all the worse by the fact that accountants are increasingly having to support clients on a myriad of different client-side solution – further adding complexity and potential problems into the mix.



# Two Approaches: one size fits all or what's best for the client?

*solutions within the SME market*

There is an ever-increasing number of different client-side solutions in use within the broader SME market. While it has been traditional for accountants to support only one or two different client-side software solutions, increasingly practices are looking to support all the different ways that clients work.

The days of an accountant being able to dictate the choice of software the SME client uses to run their business are gone – modern accountants need to support the plethora of different client solutions on the market since different solutions will suit different types of clients.



Accountants are increasingly feeling pressure to help their clients pick software solutions that best meet the particular needs of their sector and business, rather than the tools that the accountant themselves most feel comfortable with – the days of a single solution fitting the bulk of clients that an accountant has are long gone.

Whereas a decade ago the Australian market was largely a one-horse-race, with MYOB having the lion's share of the market, things today are hugely different. Xero has grown to scale with half a million customers, MYOB has leveraged an existing base and gained new customers through strategic acquisitions and Intuit has strongly entered the market with its QuickBooks Online product. At the same time, an increasing number of small players; MoneyWorks, Saasu, FreshBooks and Zoho among them have small, but relevant, market shares.

But how to support client choice, without increasing complexity and decreasing efficiency? This is where data plumbing comes in – data plumbing is, as the name implies, a way for accountants to support a wide range of client solutions, but within the context of a single practice-side solution and a common workflow.

A data plumbing solution allows accountants to integrate, quickly, accurately and in real time, the data from the different solutions their client uses, into their own practice and tax systems.

# Driving Practice Efficiency

*A modern model: Higher value work*

Accounting practices are increasingly striving to make their operations as efficient as possible. In a world of increasing competition, and more generic compliance-based activities becoming easier for clients to do themselves, removing as much friction between client data and accountants actually filing returns is key.

In a traditional model, that is one without effective data plumbing, accountants may have to spend a good proportion of their client time in simply moving data from one system to another. Manually obtaining client data files, exporting them, cleansing them and finally importing them into practice-side software is a big time sink and can take longer than the actual compliance work itself.

Data plumbing removes this significant source of friction and can mean that data transfer between the different client-side solutions they support, and their practice management solution is almost seamless.

A more modern model of how an accounting practice can work, for example, might involve a firm using a single practice tool and leveraging a data plumbing vendor to support clients using Xero, Quickbooks, MYOB and other client-side solutions.

The benefit of this efficiency goes far beyond simply saving billable time and therefore making accountants costs more manageable – by freeing up time, accountants create the potential to perform higher-value work for their clients or, alternatively, to service a greater number of clients than was previously possible. Examples of higher-value work might include cash flow analysis, business performance reporting or strategic advisory work.



Data pipes, therefore, give accountants options for their businesses – allowing them to move to higher-value work, to service more clients than before, or to gain back some of their precious time. The case study below is a good example of this in action.

## From single vendor to multi-cloud - one firm's journey

Five years ago a new Sydney accounting firm was set up with the vision of being a specialist cloud-accounting practice. The firm went "all in" with one cloud vendor and actively recommended it to its clients - it even went so far as to build out a fixed-fee advisory service based on that vendor's products.

At the same time, the firm embraced the vendor's accounting practice solutions and, over time, enabled some meaningful practice efficiencies by using a single vendor for the vast majority of its client-side and practice-side work.

Fast forward a few years and the vendor in question started hiking their prices - not only was this problematic from a practice perspective, but some clients who had been pushed to this software by the firm started to balk at the increased costs. It also created tensions from the perspective of the fixed-fee models the firm had developed.



The firm began actively looking for other options, and decided that supporting a range of client-side solutions was preferable, especially given some

attractive pricing options that challenger brands in the Australasian market were offering.

The difficulty the practice faced, however, was the not-insignificant time and process cost in bringing other client-side solutions on board - their practice was built upon a single vendor solution set and other vendors' products didn't neatly fit into that mold. In practice, the time cost of bringing a new client onto their systems included a manual process taking 30 minutes or more - having to perform this manual task a dozen times a year was corrosive to the profitability of the practice.

The firm decided to leverage Common Ledger's vendor-neutral data plumbing platform to allow them to service clients with a range of software products. By using Common Ledger, the firm is now able to once-again offer fixed fee packages and has the option of either making more profit on the packages, or passing the benefit on to the client by way of lower fees.

Now that Common Ledger is in use by the firm, they have the ability to support clients with an increasing variety of client-side software tools.



# The risks of a single-vendor model

## VENDOR LOCK IN

Relying on a single vendor for both client and practice side solutions introduces significant risks to the practice. What it means is that all the accountants eggs are in a single basket and if something untoward happens to that particular vendor, they are left exposed.

It is far safer, we believe, for accountants to be able to support any client, no matter what variety of software they use. This is further the case with clients that are in the midst of significant growth and may well outgrow a particular variety of software over time.

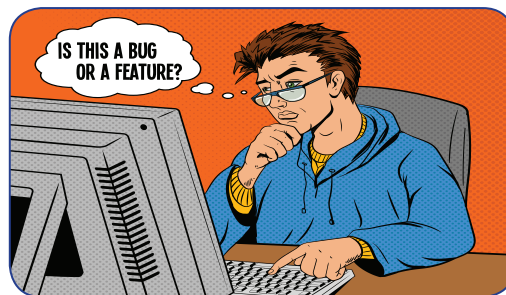
## EXPOSURE TO PRICE CHANGES

Related to vendor lock in, supporting only one type of client side software leaves accountants and their customers exposed to negative outcomes in the event that a vendor changes pricing. If an accountant is completely reliant on one type of client side software - they may be put into a dangerous position should that vendor decide to increase pricing.

## FEATURE LIMITATIONS

Different client-side solutions have different functional strengths and weaknesses. As such, it is highly unlikely that one type of software will suit all of an accountants' clients. It is important that an accountant can support all of the different features that clients need - be it inventory, core financials or customer management - as such a multi-solution practice will be able to support the greatest range of client types.

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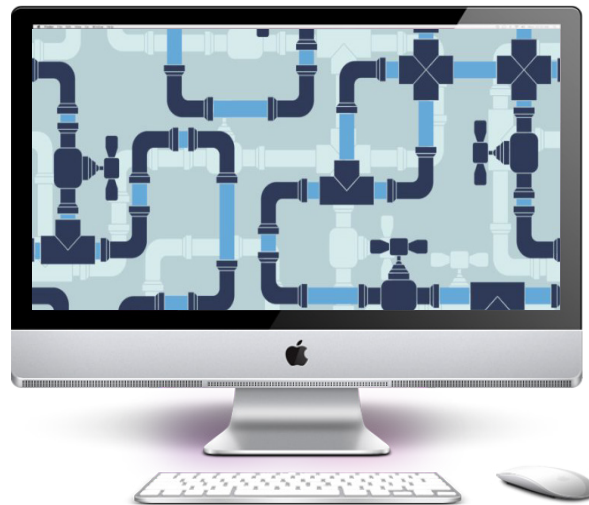
# Conclusion

As the world of accounting software becomes increasingly heterogeneous, there will be a corresponding increase in the necessity for data plumbing that effectively ties together the different client-side solutions with the software in use by an accounting practice.

While some software vendors would suggest that supporting a single client-side solution is enough for most accountants, we believe that this is an unrealistic assessment of the situation.

Accountants need choice themselves, and need to enable choice for their own clients. By utilizing data plumbing, accountants no longer have to force their clients into choosing one particular type of software.

Data plumbing is also a driver of practice efficiency, allowing accountants to service a greater number of clients and to perform higher-value work for those clients.





# About Diversity Limited

Diversity is a broad spectrum consultancy specializing in SaaS, Cloud Computing and business strategy. Principal and founder Ben Kepes provides various services including:

- Commentary – Ben is a noted commentator about Cloud Computing and enterprise software – he has written for a broad selection of media outlets, and is often quoted as a subject matter expert and influencer.
- Consulting – Ben is in demand with large organizations who turn to him for advice on technology starting. He spends time with both customers and vendors advising on all aspects of their strategy.
- Advisory – Ben sits on a number of boards, both formal and informal. He enjoys helping startups get to market and grow to scale.
- Investment - Ben is an investor in a number of different companies. These investments revolve around Ben's focus of delivering technology that can make a difference in how organizations work.

## About the author

Ben Kepes is a technology evangelist, an entrepreneur, a commentator and a business adviser. Ben covers the convergence of technology, mobile, ubiquity and agility, all enabled by the Cloud. His areas of interest extend to enterprise software, software integration, financial/accounting software, platforms and infrastructure as well as articulating technology simply for everyday users.

He is a globally recognized subject matter expert with an extensive following across multiple channels.

Ben currently writes for IDG and his own blog. His commentary has been published on Forbes, TechCrunch, ReadWriteWeb, GigaOm, The Guardian and a wide variety of publications – both print and online. Often included in lists of the most influential technology thinkers globally, Ben is also an active member of the Clouderati, a global group of Cloud thought leaders and is in demand as a speaker at conferences and events all around the world.



As organizations react to the demands for more flexible working environments, the impacts of the economic downturn and the existence of multiple form-factor devices and ubiquitous connectivity, Cloud Computing stands alone as the technology paradigm that enables the convergence of those trends. Ben's insight into these factors has helped organizations large and small, buy-side and sell-side, to navigate a challenging path from the old paradigm to the new one.

Ben is passionate about technology as an enabler and enjoys exploring that theme in various settings.



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