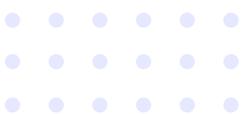




Codat's guide to the accounting software market

2021



Introduction

Despite the significant challenges posed to businesses by the pandemic, there has been a positive and perhaps unexpected outcome – a boom in new business registrations.

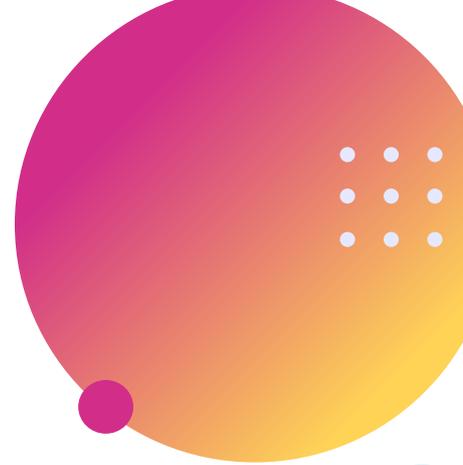
In 2020, the US experienced the [fastest rate of new business registrations in more than a decade](#). The same trend was also evident on the other side of the Atlantic – the UK saw [an additional 85,000 businesses set up in 2020](#) compared to 2019.

This is illustrative of a plethora of new business ventures inspired by our more digital and connected way of life.

Many of these newly emerging businesses are digital-first by necessity of the global lockdown they were born out of. For example, sectors experiencing the greatest growth in the UK include eCommerce ([up 88% with 12,490 new businesses registered in 2020](#)). Likewise, [online retail growth was 5-6 times the total annual growth for 2019 in Australia](#).

The global lockdown expedited digital transformation, requiring existing businesses to pivot in order to remain viable. The forced closure of physical offices and brick-and-mortar stores has shifted the primary channel of trade online.

Many businesses have in fact thrived during the pandemic due to dramatic changes in consumer behavior. For many – their adoption of eCommerce solutions and contactless deliveries coincided with a rapid increase in online sales, accelerating growth of the eCommerce sector by five years.





The cultural shift towards enhanced digitisation will likely have a lasting impact on the accounting software market.



The demand for accounting software packages has gained momentum in recent years. The growth has been aided in regions such as the UK by the introduction of Government initiatives such as Making Tax Digital. In addition, the already evident shift in demand from desktop-based packages to cloud-based services has been propelled further forward as small businesses look to manage their finances and access support remotely. It has also inflated the addressable market for accounting software providers.

Given the particularly competitive landscape, this has resulted in key players looking to adapt to the changing needs of small businesses in order to capture these new customers.

A number of providers have introduced new features such as cash flow management, specific lending partnerships or products, and new pricing tiers to make their platform more accessible.

The demographics of the SME affects their choice of accounting software.

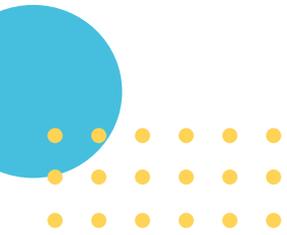
Choosing the accounting software is one of the most important parts of running a business.

A few factors influence this decision that are solely focused on the demographics of the business. These mainly fit into the following buckets:

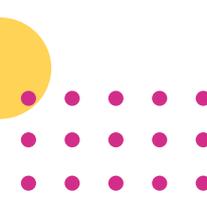
- » Size of SME
- » Industry that they operate in
- » Key features and capabilities of the software platform

Since our last publication in July 2020, we've updated the figures for each region in terms of market share.

Given that this period is only reflective of a 6-month change, the updates in terms of the market breakdown are subtle - with prominent players in each region still occupying a majority share. However, it is still clear that the market itself remains competitive, evidenced by the introduction of new solutions as a result of increasing convergence with financial services.



How we gathered the data

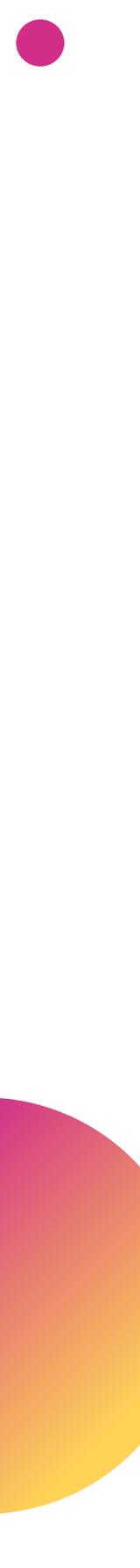


Data on accounting software market share is not publicly available and difficult to gather, which is why we have written this report, entirely on a best efforts basis. We have used a combination of publicly announced numbers from annual reports, governmental statistics, press reports, public surveys and private surveys conducted by Codat in individual markets, figures of businesses synchronising data through the Codat platform and other public and non-public data sources.

The methodology of how these figures were reported may not be publicly available. Therefore it may not be possible to accurately combine or contrast them. Based on the information available to us, we have provided our best estimate of the market share in the respective regions. If you know of additional sources of data or believe that our estimates are incorrect, please do let us know - we intend to continue refining these figures and will update them as new information becomes available.

Please note: All data has been provided on a best-efforts basis, however Codat cannot guarantee the accuracy or completeness of this information.

Codat accepts no liability which might arise from the content of this paper.



Spotlight UK

Since our last publication in July 2020, the number of SMEs in the UK has increased by 100,000 to 6,000,000 overall, the largest increase seen in eCommerce due to the surge in digitisation caused by the pandemic.

UK insight

According to Sage, cloud adoption in the UK is expected to reach 49% in 2021. Many accounting software providers are pursuing cloud-based solutions, even those who have traditionally led in providing desktop software. The use of desktop-based solutions continues to decline at a steady rate.

What's changed?

In terms of market share, the accounting software landscape has not changed drastically since July 2020. However, the notably fragmented UK market does leave the ~100,000 new businesses created in 2020 spoilt for choice when it comes to the task of selecting an appropriate provider.

Accounting software market adoption in the UK

It is worth noting that although there are now 6m SMEs in the UK, not all of these businesses use

accounting software. We estimate that 50% of businesses in the UK have adopted accounting software and the remainder use a combination of Excel spreadsheets and manual records.

Size of SME and accounting software used

This time we've broken down the SME landscape into a choice of accounting software by size of SME and included percentages where available. We have used revenue as the distinguishing factor to indicate size of business.

In the UK, we have defined micro businesses as those generating less than £2m in revenue, small businesses as those generating less than £10m and medium businesses as those generating less than £50m.

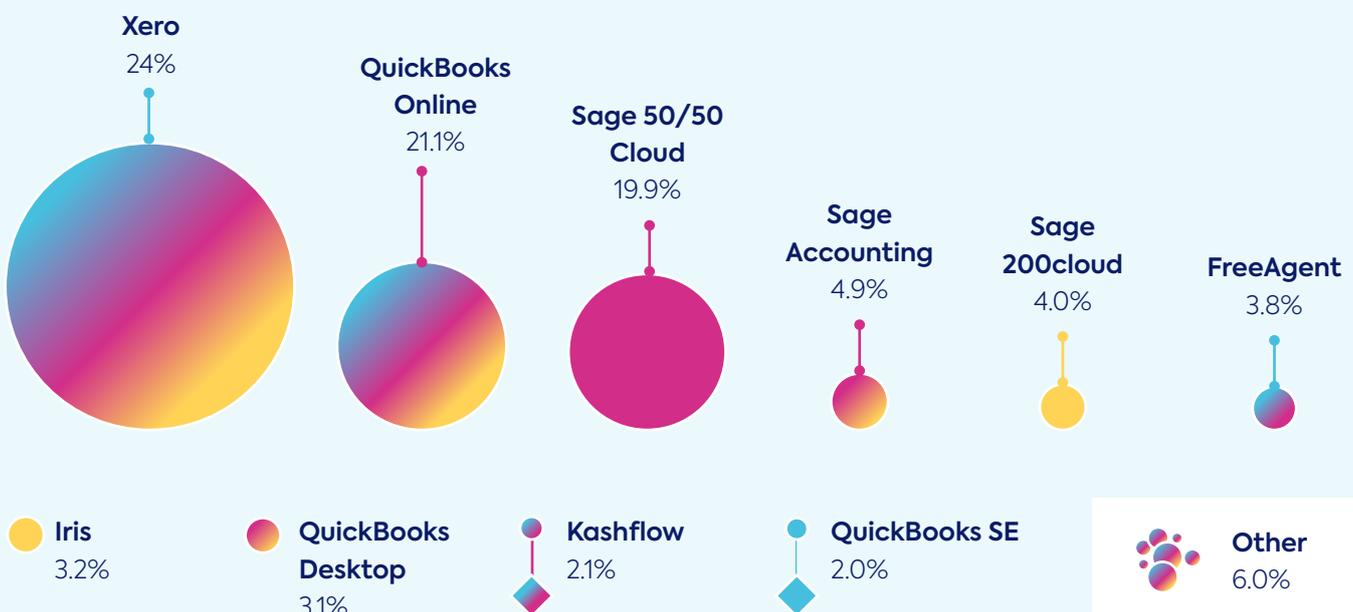
Our coverage has increased to

84%

of businesses supported

Size of SME and accounting software used

● Micro ● Small ● Medium ● Micro + Small ● Small + Medium ● Micro + Small + Medium



Spotlight USA

Since our last publication, the number of SMEs in the US has increased by 3% to 31,700,000 from the previous year, with California accounting for the largest proportion of SMEs (~7%).

USA insight

Whilst desktop software is gradually declining in the US, there has been a surge in the need for 'Desktop as-a-service' solutions, driven by the requirement to access data remotely when working from home. The US is a world leader when it comes to the adoption of cloud services generally, with 57% penetration forecasted in 2021, although SaaS and SME cloud accounting software lags behind these figures.

What's changed?

Intuit, with an estimated market share of 77%, remains the most dominant player in the US market. There is increased competition to capture businesses in the mid-market, with Sage Intacct, Oracle NetSuite leading in this space and the likes of Intuit aiming to compete by focusing on growing their 'advanced' offering.

Accounting software market adoption in the USA

It is estimated that ~64.4% of small businesses use accounting software in the US. In fact, according to the US Business Bureau Index, 20% of small businesses without accounting software struggle to last in their 1st year.

Size of SME and accounting software used

It is worth noting that there is no strict definition of an SME in the US - the factors vary by ownership structure, number of employees, industry and earnings.

For the purpose of this research, we have defined SMEs in the US as follows: micro businesses as those generating less than \$5m in revenue, small businesses as those generating \$5 - \$10m and medium businesses as those generating \$10m - \$1bn.

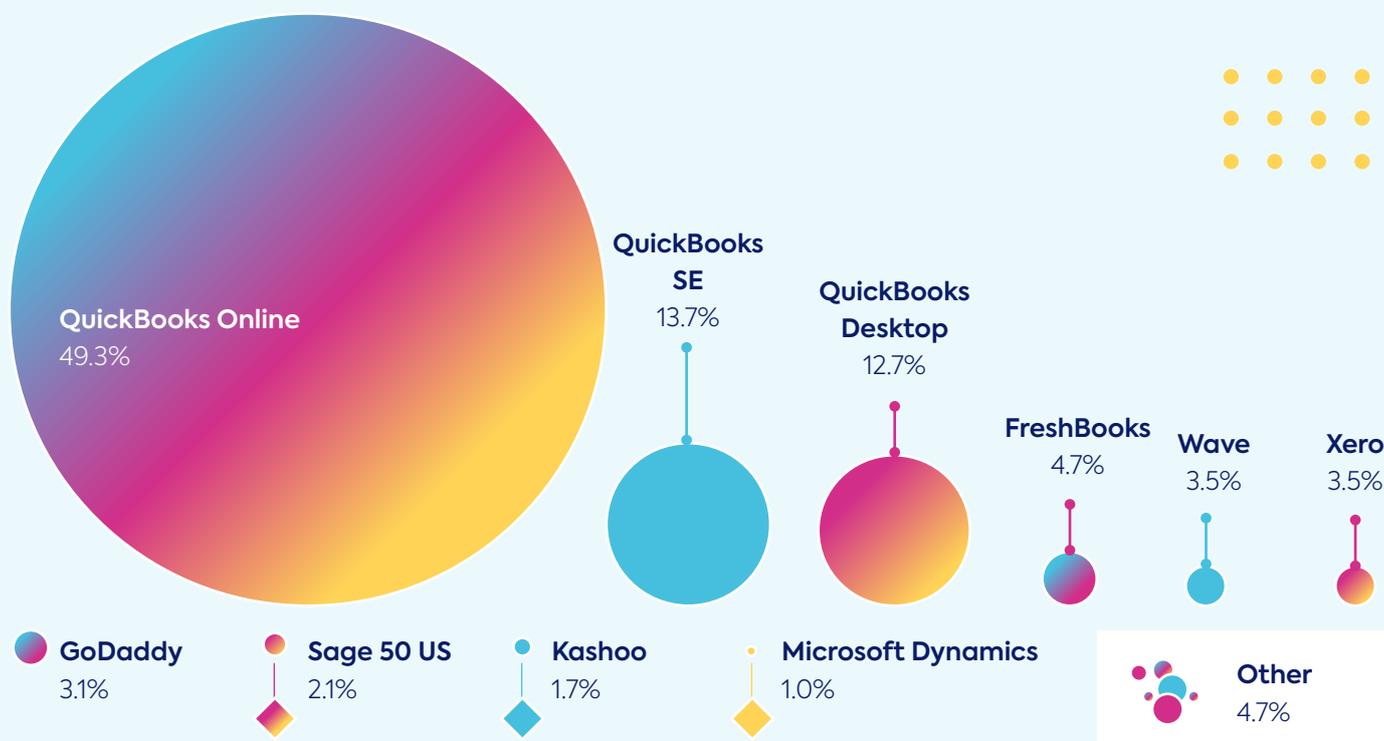
Our coverage has increased to

73%

of businesses supported

Size of SME and accounting software used

● Micro
 ● Small
 ● Medium
 ● ● Micro + Small
 ● ● Small + Medium
 ● ● ● Micro + Small + Medium



Spotlight Australia and New Zealand

Our coverage is currently

97%

of businesses supported

The number of SMEs in Australia & New Zealand has increased by ~2% over the past year to 2,905,753 combined.

Australia & New Zealand insight

In 2020, Australia introduced new regulation around businesses having to track timesheets and spending to avoid unfair employment practices. In response to this Government-led initiative, many accounting packages in the region have now partnered with or acquired HR platforms to ensure it is easy for businesses to stay compliant.

What's changed?

Australia and New Zealand have seen significant growth in cloud-based mid-market ERPs over the past year. Competition is increasing with NetSuite, Sage, SAP, Microsoft and players such as Odoo vying for dominance. Odoo experienced significant growth in 2020 by subscriber number, with its modular ERP approach allowing for additional functionality to be added as the business grows.

Size of SME and accounting software used

SMEs in Australia and New Zealand are defined by the number of employees. For consistency, we have grouped them by revenue using the cap defined by ASIC.

For the purpose of this research, we have defined SMEs in Australia and New Zealand as follows: micro businesses as those generating less than \$5m in revenue, small businesses as those generating \$5–\$10m and medium businesses as those generating \$10m – \$50m.

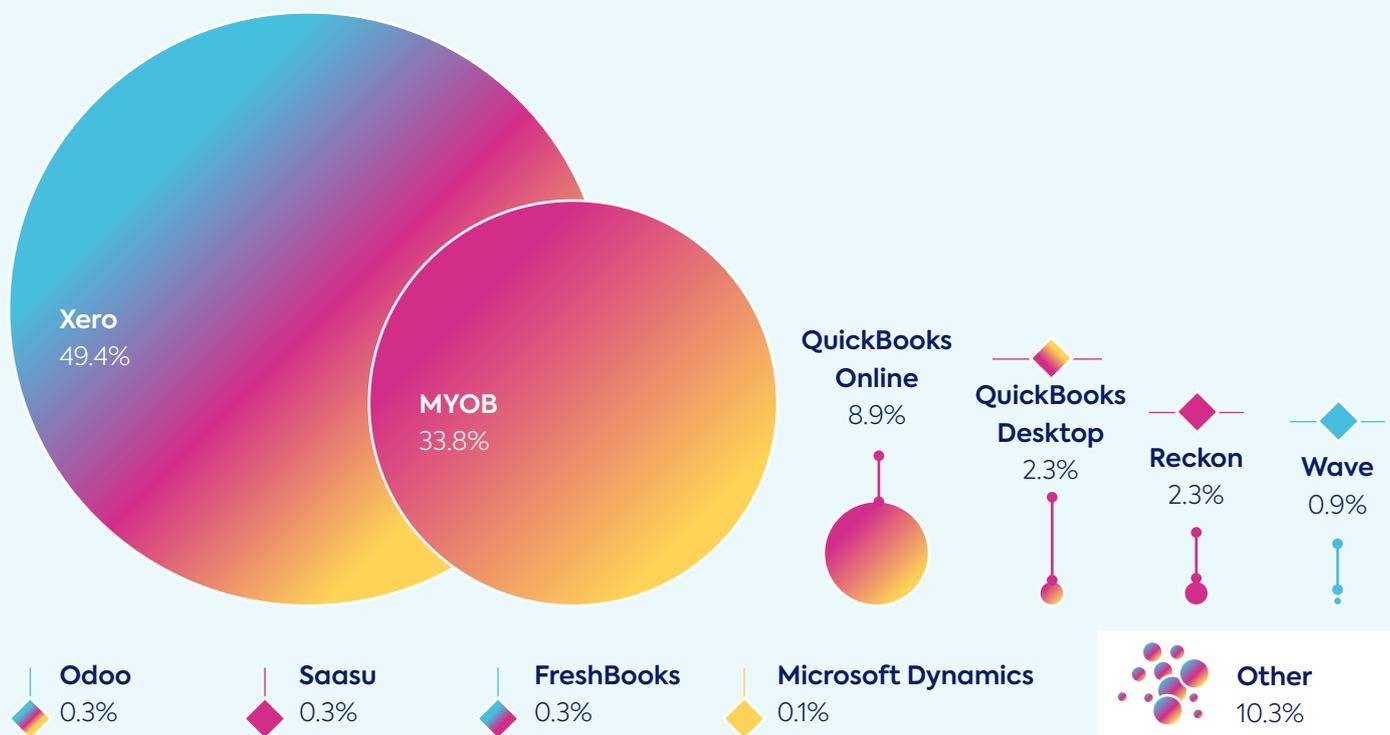
Percentage of businesses using accounting software

It is estimated that ~67% of small businesses use accounting software across Australia & New Zealand.



Size of SME and accounting software used

● Micro
 ● Small
 ● Medium
 ● Micro + Small
 ● Small + Medium
 ● Micro + Small + Medium



Spotlight Canada

Since our last publication, the Canadian government has reported ~8% growth in the number of SMEs to 1.23 million from the previous year. Over half of these businesses have fewer than 5 employees and 97.9% have fewer than 100.

Canada insight

According to a recent survey by Sage, Canadian accountants have started to perceive themselves as falling behind their North American neighbours when it comes to digitisation. One justification of this is the country's outdated payment infrastructure. Cheques are still widely used and a 'faster payments' scheme, similar to the one the UK introduced in 2008, is not expected to be available until 2022.

What's changed?

Intuit reported significant growth in the Canadian subscribers of QuickBooks Online in 2020 and it remains one of the business's top priority markets outside the US. The Canadian market plays an important role as a test bed for new technologies in North America, and is home to a comparatively large

number of challenger accounting software brands, including FreshBooks, Wave, Kashoo and Bench.

Size of SME and accounting software used

[The Canadian government](#) defines SMEs based on the number of people employed by a business. Firms with up to 99 employees fall under the 'small' category and those with 100 – 499 employees are classified as 'medium'. For the basis of this report, we have used the same categorisation, with 'micro' additionally constituting those with fewer than 10 employees.

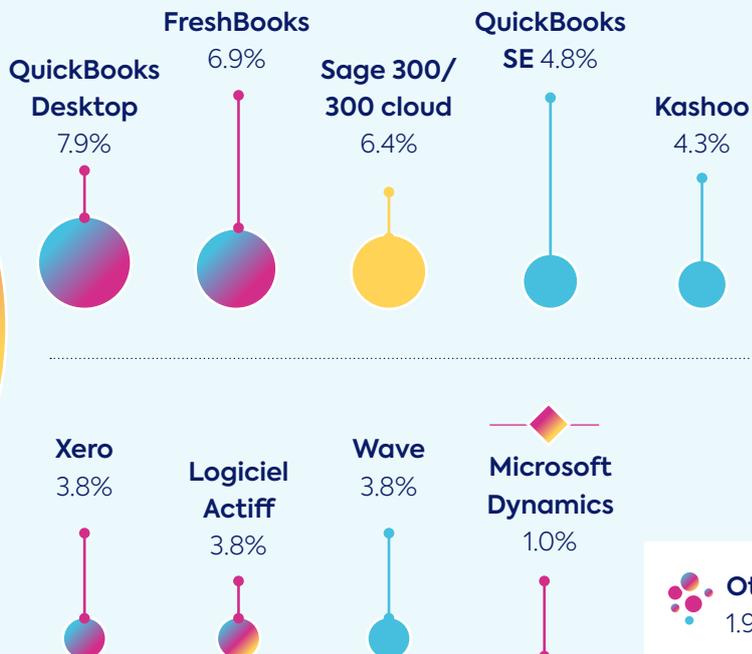
Percentage of businesses using accounting software

It is estimated that ~73% of small businesses use accounting software in Canada. The remainder are using a combination of Excel, paper ledgers and files.



Size of SME and accounting software used

● Micro
 ● Small
 ● Medium
 ● Micro + Small
 ● Small + Medium
 ● Micro + Small + Medium



The competitive landscape

There is competition among the largest players to obtain and retain market share. We've noted the following trends over the past year that indicate key competitive priorities:

Seizing the mid-market

sage

Following the acquisition of Intacct in 2017, Sage are heavily investing in their mid-market offering, launching it in the UK, Australia and South Africa in quick succession.

qb intuit quickbooks.

In fiscal 2020, Intuit reported a doubling in the user base of QuickBooks Advanced (to a total of 75k users), their offering for more complex businesses.



75K

total users of QuickBooks Advanced



Geographical expansion

intuit.

Intuit lists its priority international markets as the UK, Canada, Australia, France and Brazil where it estimates a \$28B opportunity for financial management software.



FreshBooks acquired Mexico-based invoicing tool, Facturama, launched in the UK and Ireland, and also recently opened international offices in the Netherlands and Croatia.



Xero saw 37% growth YoY in its 'Rest of World' category according to its latest earnings report, with South Africa and Singapore receiving a special mention.



37%

growth YoY in 'Rest of World' category for Xero



Product growth

intuit. | tradegecko

Intuit has rapidly launched a range of adjacent products, including QuickBooks capital small business loans, QuickBooks cash business bank account and QuickBooks commerce inventory management software, the latter powered by the TradeGecko acquisition.



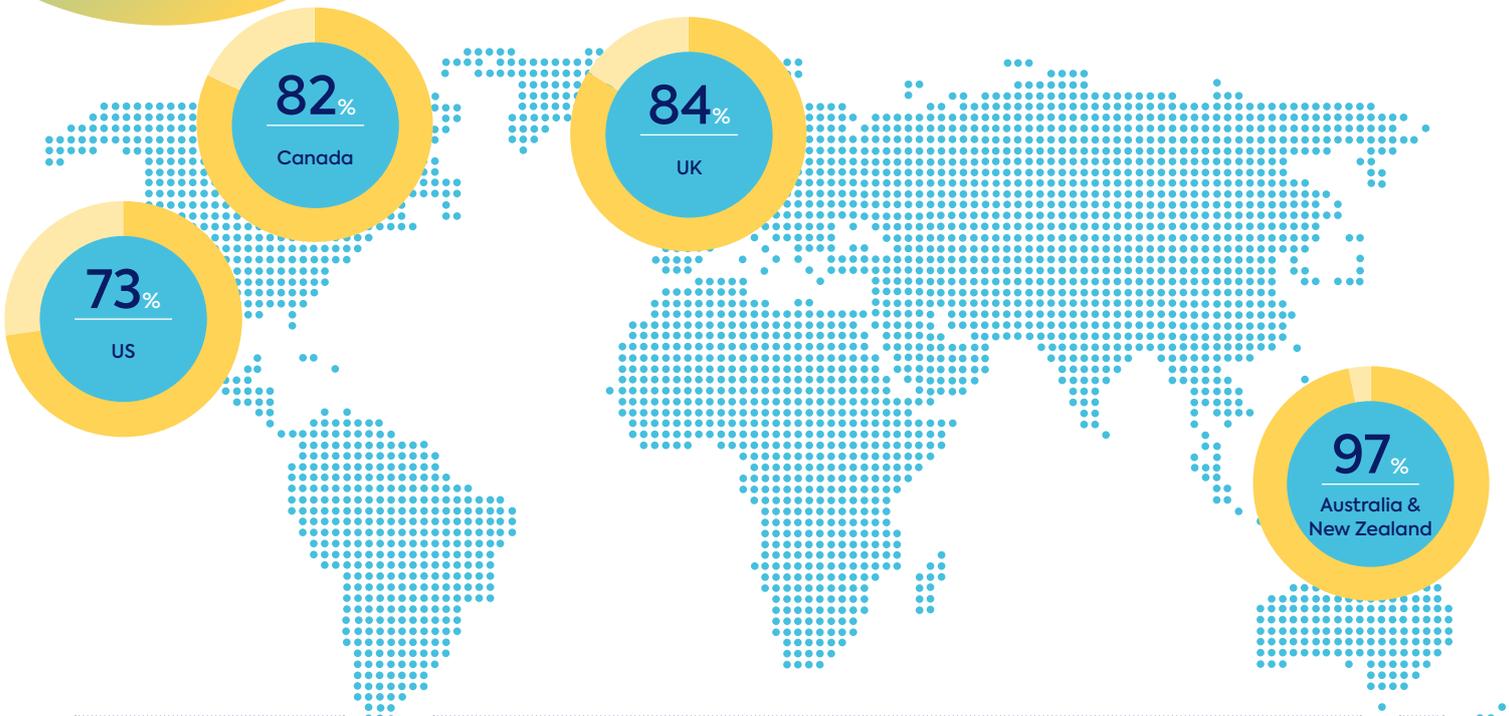
Xero announced their acquisition of the Waddle invoice financing platform in August 2020.

myob

MYOB was early to market with integrated financial services offerings, acquiring Paycorp in 2017 to power its payment solution 'PayBy' and partnering with OnDeck for MYOB loans.



Codat's coverage



Mid-market business



Microsoft Dynamics 365 Business Central

sage 200

ORACLE NetSuite

sage Intacct

COMING SOON

Small business

sage Business Cloud

FreshBooks

qb intuit quickbooks

KashFlow

Reckon R

myob

ZOHO

ClearBooks

=exact

sage 50

xero

Micro business

freegent

PANDLE

kashoo

wave

Conclusion



Accounting software has undoubtedly become the central operating system for SMEs. Business owners now rely on these platforms to provide a single source of truth in terms of their past, present and at times future financial position.

Widespread reliance on accounting software, coupled with the need to work remotely over the past year, has been responsible, at least in part, for the expedited adoption of hosted solutions. With this, some businesses are crediting the uptake in cloud software to the growth of their businesses.

The notably fragmented market and vast longtail of providers first identified in our July 2020 report is still very much evident and has left newly emerging businesses spoilt for choice when it comes to selecting the most suitable accounting platform for their unique needs.

Many accounting software providers have responded to this growth in new business registrations with geographical expansion, by launching adjacent products and a renewed interest in capturing mid-market customers in order to obtain and retain market share. Many providers also seem to be focused on capturing the businesses early on by offering basic functionality at affordable prices, attempting to extend the customer lifecycle.

At Codat, we are committed to building the platform for business data by achieving total connectivity between the products and services SMEs use. We are continually expanding our integrations with a wider variety of accounting, banking and commerce data sources utilised by businesses of all sectors and sizes. We will continue to provide reports outlining our findings as we do so.

Coming up next: keep an eye out for our commerce report which will be released later this year.

Visit our [Product Roadmap](#) to find out what we're building next.





Thank you

If you have any questions
about Codat please contact
us or visit our website

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