

Digital Entrepreneurship (Task 1B)

XERO DIGITAL DISRUPTION

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1. TASK 1A – PESTLE ANALYSIS

<https://www.youtube.com/watch?v=ehKjEiv0rEU&feature=youtu.be>

2. INTRODUCTION

2.1 Corporation Summary

Founded in 2006, New Zealand based Xero Ltd (Xero) is a service company that offers cloud-based accounting software and mobile app for small & medium enterprise (Xero Accounting Software, 2019). Xero provides a variety of accounting solutions including banking transactions, invoicing, business & account reporting and sales tax reports. (MarketLine, 2019). In 2014, Xero has publicised plans to file for IPO in 2015 (Yoo, 2019). Xero established its software & mobile app as a form of digital disruption for the accountancy industry using the cloud and advanced integrated technology, as classic software failed to adapt and exploit the technological means to face the future (Xero Accounting Software, 2019).

Xero generated revenues of NZD552.8 million, as reported end of March 2019. Revenue reported indicates an increase of 35.9% over the previous year (MarketLine, 2019). Also, Xero was ranked ‘#1 World’s Most Innovative Growth Companies’ by Forbes for 2014 & 2015 (Forbes, 2019).

2.1.1 Global Operation

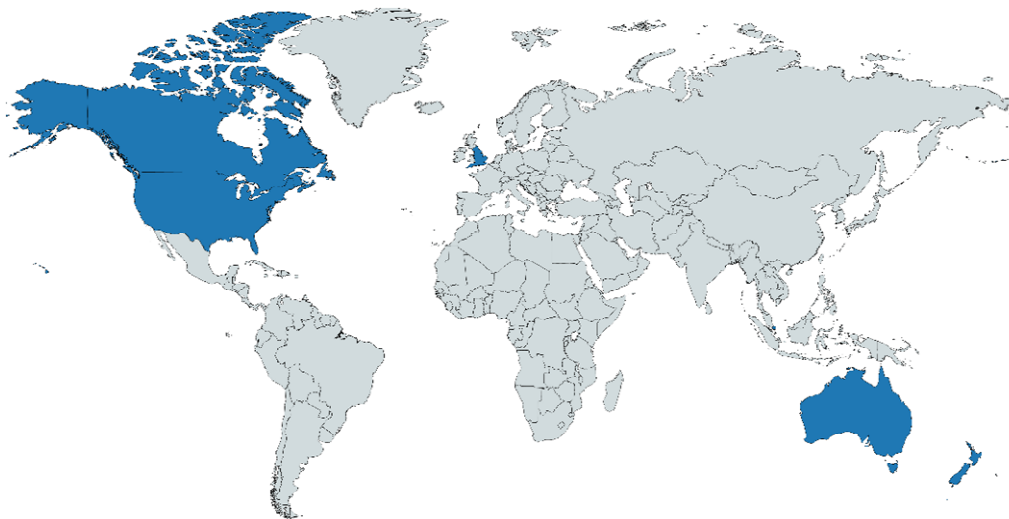


Figure 1 - Xero Global Operation Map (Xero Accounting Software, 2019).

Xero is spread globally as operating offices in the Wellington (HQ), New York, Auckland, Melbourne, Sydney, Brisbane and London (MarketLine, 2019), servicing 180+ countries (Xero Accounting Software, 2019).

2.1.2 People

Xero is comprised of a team of people who are passionate for changing the future through technological innovation and digital disruption. About 2,500+ employees globally work on various organisational departments enhancing Xero's portfolio of tools & services (Xero Accounting Software, 2019).

Board of directors:

- Steve Vamos – CEO
- Anna Curzon – CPO
- Kirsty Godfrey-Billy – CFO
- Mark Rees – CTO
- Chaman Sidhu – Chief Legal Officer

(Xero, 2019)

2.2 Scope

The aim of the report is to clarify Xero market situation locally, while assessing microenvironment conditions and internal organisational factors. This report will focus on Xero's presence in the Australian market, as large attention is directed towards Australian market as vital and dynamic market within the region (Xero Accounting Software, 2019) (Business.gov.au, 2019).

2.3 Justification of Data Collection Methods

The methodology was conducted using research based on the information which is available in resources, journal articles, market reports, official governmental reports, and Xero & other websites.

In addition, number of relevant stakeholders were reached to participate, including some of the current key personnel at Xero, providing inputs and adding major value to the report.

2.4 Abbreviations

The abbreviations used in this report are listed below:

Table 1 - Abbreviations

Term	Definition
Xero	Xero Ltd.
Xero App	Xero Accounting Mobile App
AI	Artificial Intelligence
ASIC	Australian Securities and Investments Commission
CAGR	Compound Annual Growth Rate

IPO	Initial Public Offering
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CTO	Chief Technology Officer
FY	Financial Year
ML	Machine Learning
NZD	New Zealand Dollar
R&D	Research & Development
SME	Small & Medium Enterprises
US/ USA	United States of America
USD	United States Dollar
UK	United Kingdom

3. COMPANY OVERVIEW

3.1 Business description

Xero is a service company providing online accounting solutions, bank reconciliation and invoicing solutions(Xero Accounting Software, 2019). Xero's customers are scattered over 180 countries. Xero is classifying revenue generation into two categories; subscription revenue and other operating revenues (MarketLine, 2019).

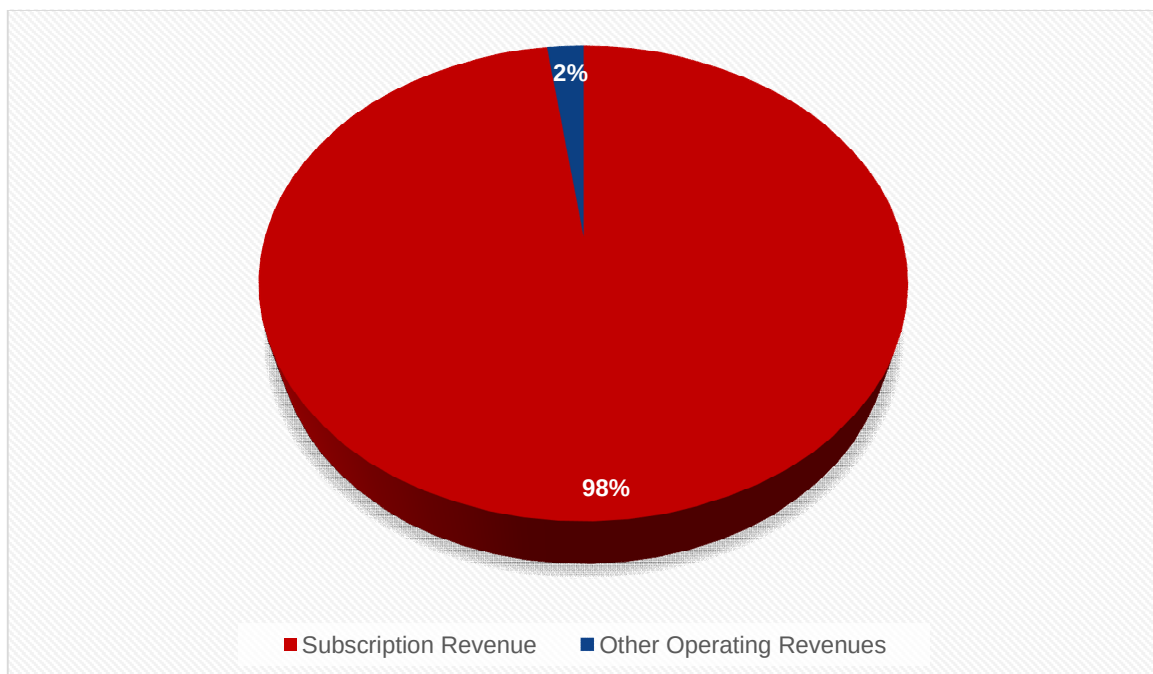


Figure 2 - Xero Revenue Categories (Xero, 2019)

Software subscription revenue is the company's main and key revenue as customers recurrent periodic fees payment for software licences, services and updates (Xero Accounting Software, 2019). This category forms 97.8% of Xero's total revenue, equalling USD269.33 million in FY2018 (Xero, 2019). Xero reached 1.81 million subscribers by 2019 (Xero, 2019).

Attendance fees for conferences and relevant events are comprised as other operating revenue. Also, revenue share agreements with financial web service providers and software services & maintenance are considered other operating revenue for Xero. This category reported USD5.96 million for FY2018, contributing with 2.2% of Xero total revenue (Xero, 2019).

Notable achievement of other operation revenue in 2018 was recording NZD2.1 Trillion worth of transactions using Xero's digital platforms (MarketLine, 2019).

3.2 Major Products

The major products offered by Xero is Xero cloud-based small business accounting software (Xero Accounting Software, 2019).

3.3 Key Competitors

Key competitors in the regions:

- Intuit Inc
- MYOB Group Limited
- Sage Group plc
- Reckon Ltd

(Capterra.com, 2019)

3.4 Business Strategy

Xero aims on developing an ecosystem to help various small businesses worldwide through the expansion of the digital platforms and relevant disruption using cloud-based software (Smith, 2019) (Montgomery, 1998). The introduction of this type of innovations is the vital focus to enhance the add value to customers globally. Moreover, Xero increase the platform integration with several banks, while bringing information & data to real-time (Financesonline.com, 2019).

As part of the digital improvement and expansion, Xero is keeping a focus on artificial intelligence to provide new products, including Xero Expenses, Xero HQ (Xero Accounting Software, 2019).

4. MICROENVIRONMENT ANALYSIS

4.1 Five Forces Analysis

As Xero is involved mainly with accounting firms, microenvironment should be directed towards the Australian accountancy market where accountancy firms are the focus. For this purpose, five forces analysis will reveal & assess the market key aspects, including IT & software providers as key suppliers (Porter, 2008).



Figure 3 - Forces in Accountancy Market Australia (MarketLine, 2019)

4.1.1 Buyer Power

Businesses vary in size in the Australian market, between SME and large corporations (Treasury.gov.au, 2019), which strengthens buyer power significantly. Xero targets SME (Xero, 2019), furthering the advantage of retaining one, sometimes local, accounting firm that has a good understanding of the nature of business and the client, while maintaining the business relations (MarketLine, 2019). Therefore, buyer power stands moderate.

4.1.2 Supplier Power

Major suppliers in accounting business are software providers, i.e. Xero, as a necessity to principally record and process accounting transactions & documents (Xero, 2019). Moreover, Xero's integration with ERP software strengthen its expansion and extension capacity, as introducing the cloud-base software (Xero Accounting Software, 2019), as accounting firms wouldn't spend funds on stuff training unless new

introduction has a cutting-edge advantage (MarketLine, 2019). As a result, supplier power is moderate.

4.1.3 New Entrant

The Australian market is very suitable and furnished for SME entrance (Treasury.gov.au, 2019) for qualified accountant with relatively nominal funds needed to start. The ASIC regulates the accountancy business in Australia being the governmental institute establishing laws & requirements (Asic.gov.au, 2019). The prospect of new entrant is moderate.

4.1.4 Threat of substitutes

Accountancy is a fundamental necessity for all businesses that makes no obvious alternative function, hence the accountants and accounting firms (MarketLine, 2019). In that case, accounting software shall be always a need, while improvement across digital channels can be very crucial (Xero Accounting Software, 2019). Consequently threat of substitution is extremely weak.

4.1.5 Degree of Rivalry

A massive level of rivalry occurs in the Australian accountancy market driven by the comparatively segmented market (MarketLine, 2019). The segmented market, includes the SME accountancy firms, is a cause of the relatively relaxed entry conditions (Treasury.gov.au, 2019). Australian tax legislation is continually changing resulting accountancy firms have to offer relevant tax advice and accordingly compete to attract clients as providing substantial monetary guidance(Asic.gov.au, 2019). Rivalry in Australian accountancy market is moderate.

5. INTERNAL ENVIRONMENT ANALYSIS

5.1 SWOT Analysis

A cloud-based accounting software for SME, Xero is facing several risks & challenges across the regions. Xero's main strengths are the notable focus on digital R&D activities, as well as developing strategic partnerships, however operational performance remains a Xero's key weakness. The fast-paced technological advancement is putting a considerable competition pressure on Xero to stay continuously challenging and improving. Where as Xero has currently excellent opportunities in the phenomenal demand for cloud computing and the growth of the sector of IT services globally (MarketLine, 2019).

Table 2 – Xero SWOT Analysis (MarketLine, 2019)

Strength ▪ Digital R&D Activities Focus ▪ Business Partnerships	Weakness ▪ Operational Performance
Opportunity ▪ Global IT Services Market ▪ Cloud Computing Market	Threat ▪ Competitive Pressure

5.1.1 Strength

Digital R&D Activities Focus

Xero has a powerful R&D team that always working on digital disruption among launching advanced cloud-based software & new systems managements (Xero, 2019). As customer needs are altering, continuous development of relevant digital platform is vital to allow Xero to maintain the competitive advantage over competitors (MarketLine, 2019). Xero R&D team aims to add new and improved functions adjusting to customer requirements, comprising integration with third-party relevant systems, whilst implementing ML & AI technologies (Xero Accounting Software, 2019).

Business Partnerships

Strategic partnerships with industry leader's technology companies is Xero's core strength, across various regions, achieving sizable global expansion (Xero, 2019). Business partnerships with local companies creates credibly and more establishment for the brand (MarketLine, 2019). Examples of partnerships includes; in US Square Inc., Google and Expesify, and in UK KPMG (Xero, 2019).

5.1.2 Weakness

Operational Performance

Xero encountered operational losses in FY2017 & FY2018, despite the sizable growth in revenue 37.6%. While Xero is spending to scale its global presence, developing

products and attract more subscriber, that can affect operational performance causing a major area of concern of loss position (MarketLine, 2019).

5.1.3 Opportunity

Global IT Services Market

As IT service market is flourishing globally, Xero holds its positive position globally (Xero, 2019). According to MarketLine; global IT service industry is expected to grow at a CAGR of 6.3% to reach US\$947 billion by 2022 from US\$697.7 billion in 2017. Infrastructure services accounted for 45.1% of the market share, followed by application services (30.9%), and BPO services (24%).

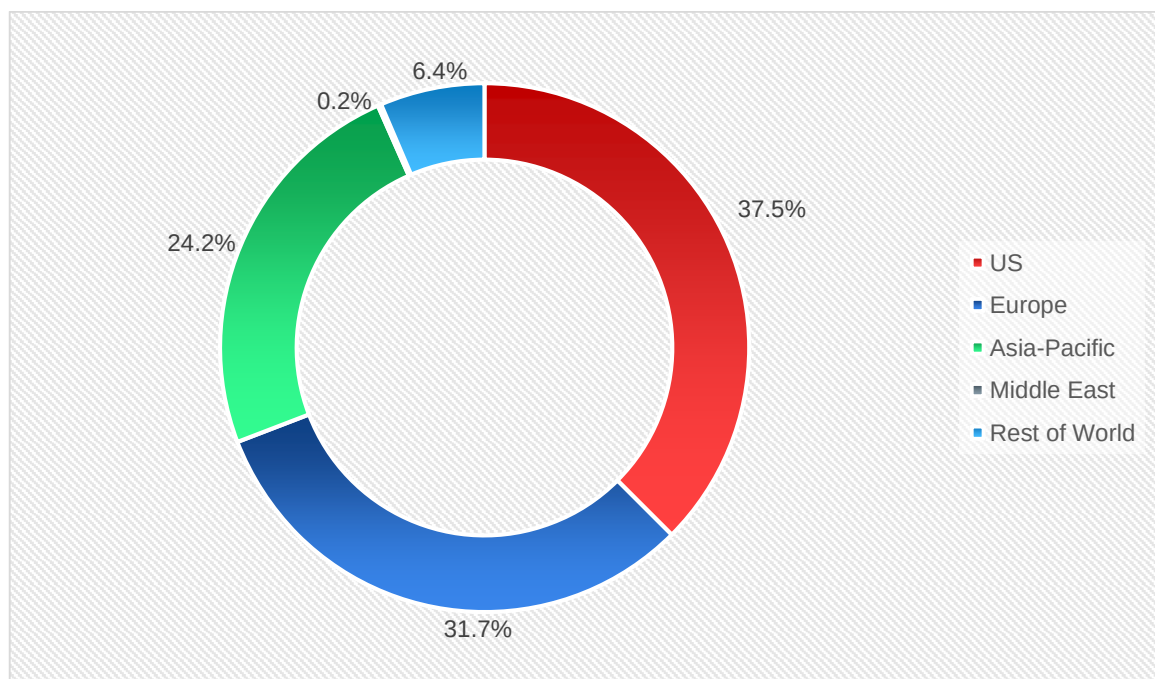


Figure 4 - IT Service Market Share Percentage - by Region (MarketLine, 2019).

Cloud Computing Market

Whilst targeting SME, cloud-based platforms enable companies to scale up operational performance & size, as well as offering easy access on variety of devices (Christauskas and Misevičienė, 2012). According to MarketLine, the global cloud computing market is expected to grow at a CAGR of 25.3% to reach US\$719,051 million by 2022 from US\$289,268 million in 2018. Platform-as-a-Service (PaaS) is expected to be the major contributor with a market share of 34.8%, followed by Infrastructure-as-a-Service (IaaS) with 32.9%, Software-as-a-Service (SaaS) with 22.7%, and Cloud Management Platforms with 0.9%, according to MarketLine.

Xero's applications expand to include accountant reconciliation of financial transactions and sending receipts & invoices. Additionally, it helps customer to import bank transactions and integrates with other relevant apps & platforms for usage ease (Eswaran, Devaki, Guntupalli and Pai, 2013) (Xero, 2019).

5.1.4 Threat

Competitive Pressure

Recently, the market for digital industries has become very dynamic, competitive and aggressive, where Xero operates. Competition is very broad and wide locally and globally, which creates pricing pressures. With the rise up of alternative web-based solutions, Xero could face challenges in keeping its current customers and struggle in appealing for new customers (MarketLine, 2019).

6. CONCLUSION & RECOMMENDATIONS

Based on all the analysis conducted on Xero internal factors and the Australian accountancy market, conclusions & recommendations can be made. Thus, it's apparent that currently Xero is uniquely positioned to go forward on its journey, owning people with right attitude and great strategic perspective.

Xero will need to work on offering code-free accounting solutions, enabling more accounting firm to assist SME with their financial data & relevant administrative activities. Furthermore, Xero should develop acquisition strategy to expand its capabilities and grow its presence globally driving the brand awareness.

As operating in a very dynamic, competitive and aggressive market, Xero needs always to maintain high level of continuous improvement & innovation to adjust and maintain position in such competitive market. Likewise, Xero has an outstanding opportunity to add value delivering more services while the cloud computing market is hungry for more and growing. Noticeably, more funds are recommended for R&D activities to influence some evolutionary and consistent functions as presenting a powerful and robust business platform.

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