

ERP + accounting software: The 5 value drivers for 2023 and beyond

April 2023



- As the "**source of truth**" for an increasing number of businesses, Enterprise Resource Planning (ERP) systems and accounting software play an **essential role in the finances, operations** and **long-term health** of the companies they serve
- We're seeing a concerted effort across players to take a **customer-centric approach** in how they develop and bring their solutions to market, according to the size, operations and industry of the business
- For **smaller businesses**, needs include compliance with tax regulation, removing friction points related to invoicing and payments with proprietary offerings and integrations, and surviving economic headwinds through access to Financing and optimal cash flow
- For **medium-sized businesses**, providers have the added focus on helping companies scale up and grow their operations
- For **enterprises**, challenges abound as there's a heightened need for unifying high volumes of data across channels, markets and subsidiaries into accurate, high quality visualisations that become meaningful decision-making tools. There's also a need for developing more efficient and sustainable supply chains and operations, and surety of local compliance when operating at a global scale

*"At KAE, we're always excited to see innovation and customer-centricity in practice, and there is an abundance of great examples of this in play across the industry. In this brief report, we explore the ERP and accounting software industry direction of travel and what **top value drivers are in focus for both providers and their customers in 2023 and beyond**"*

– Shona Sabah, VP & Head of Business Technology at KAE



Methodology

For this study, KAE conducted secondary research and in-depth interviews with U.S. and U.K. based experts and senior executives from across the industry

Topic area

Market players

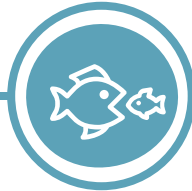
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- **Prominent market players include** SAP, Microsoft, Oracle (ERP systems) and Sage*, Xero, QuickBooks (accounting software)
- ERP providers **typically segment their customer base**, offering different ERP systems depending on size, complexity of operational needs and vertical
- This positions them well to **serve the needs of that audience**, but presents **challenges around scaling** with that business as they grow

M&A activity

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- A dynamic industry, there has been **intense M&A activity** in the space as players compete to **acquire new capabilities** by segment, vertical and product
- Providers now face **challenges in consolidating disparate brands / systems** into one coherent offering, while legacy players also double down on migrating on-premise deployments to their **cloud versions**
- **There is a threat** from newer cloud native entrants across segments

5 Value drivers

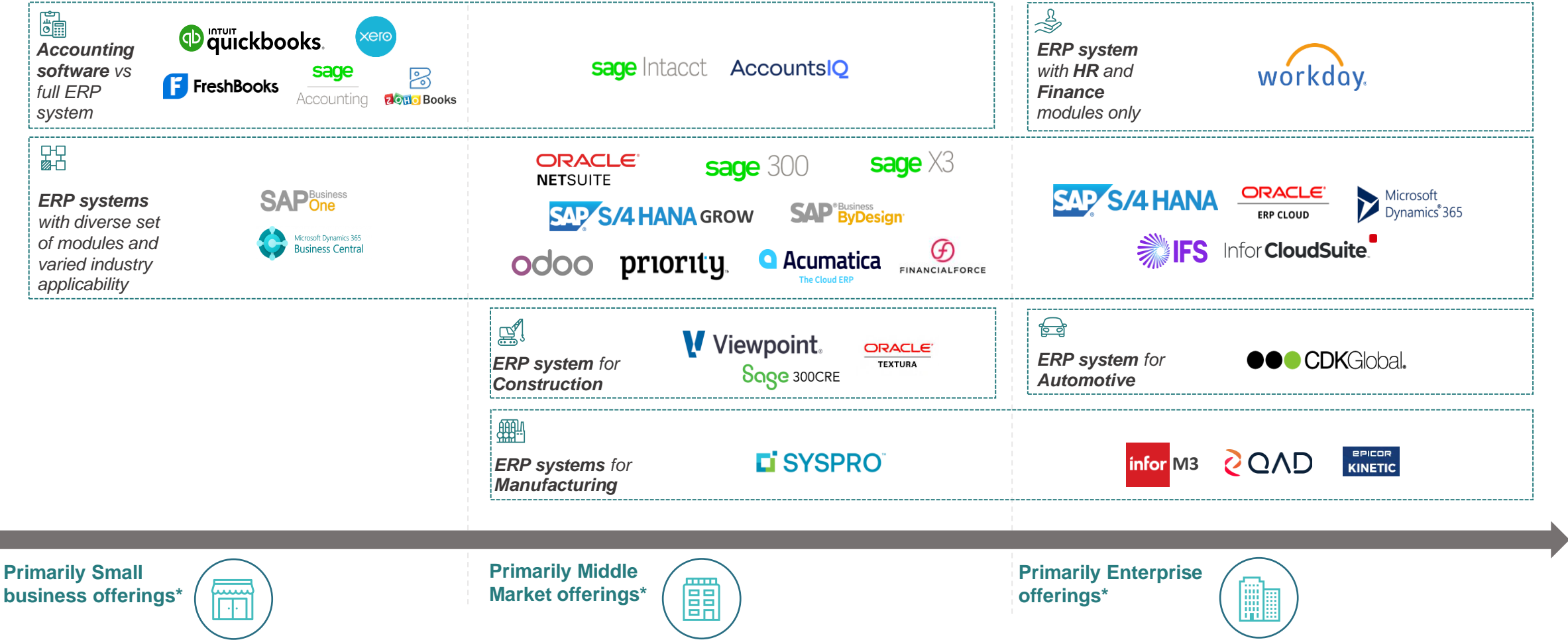
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- As offerings develop and new players enter the market, **some key battlegrounds include:**
 - Supporting specific workflows and use cases
 - Financing and payments
 - Enhancing performance and decision-making with data & analytics
 - Supporting regulatory, compliance and ESG requirements

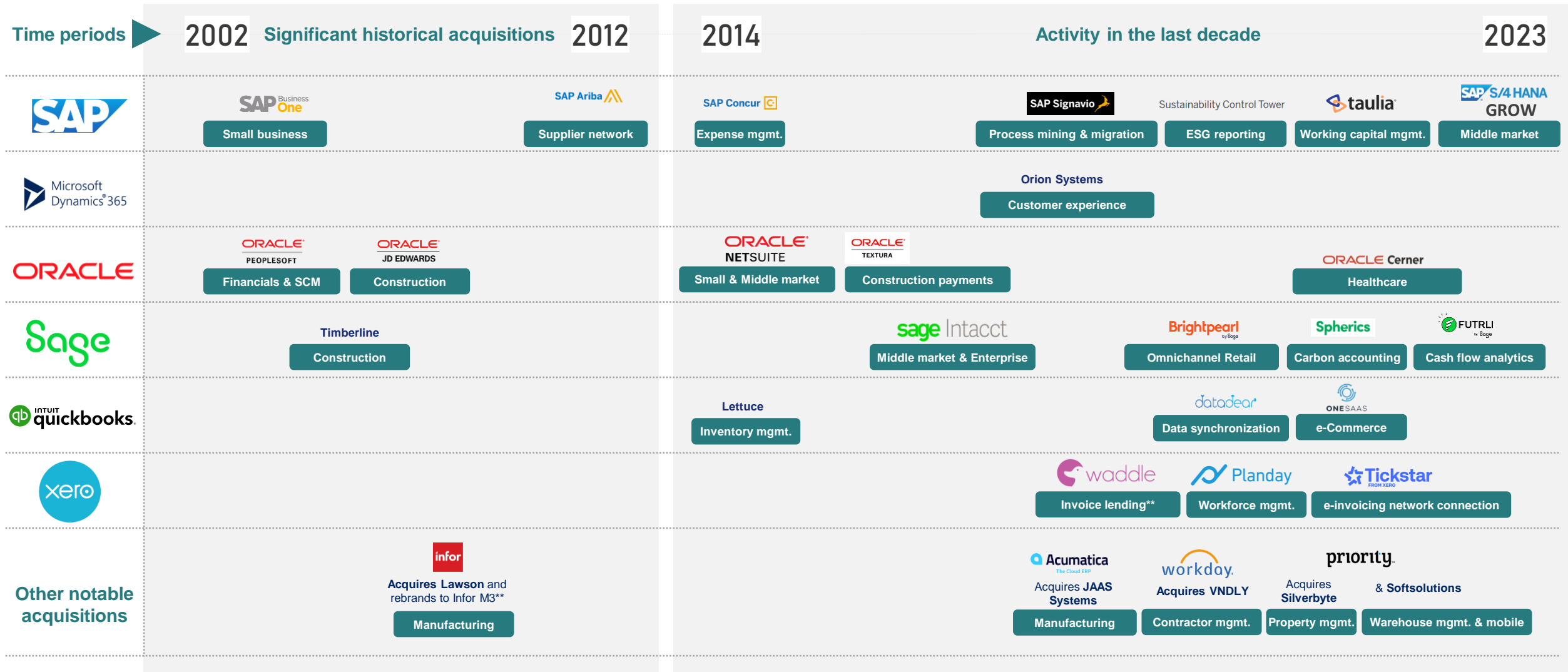


Players may offer multiple ERP and accounting software systems delineated by segment and vertical

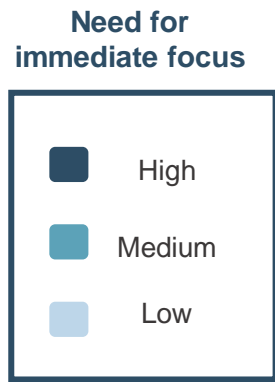










*Not exhaustive & Indicative placements. Segment definitions are fluid; providers offer solutions based not only on size of organisation, but also solution fit depending on complexity of operations, growth potential, etc.

Expect to see more consolidation of fragmented segment offerings into a core platform brand, with pre-configurations to suit the needs of different business sizes and industry best practices



5 key value drivers to focus on in 2023 and beyond...



		 Small	 Medium	 Enterprise
 Support specific workflows and use cases	▶	e.g., Projects and sole traders on site	Growth and channels	Industry best practice / transformation
 Access financing	▶			
 Payments experience	▶			
 Enhanced performance with better decision-making	▶	Visibility and tracking, real-time business performance, dunning/payment reminders	Scalability	Predictive analytics, forecasting etc. at group level
 Support compliance & regulatory goals	▶	Compliance with new regulations (e.g., digital invoicing, tax, etc.)*	“Glocalization” and sustainability	

*E.g., single touch payroll in AU, MTD in the U.K., payday filing NZ. potential Business Payments Coalition E-invoice Exchange Market Pilot in the U.S., Streamlined Sales and Use Tax Agreement (SST) to submit sales tax in participating states



Support specific workflows and use cases

- Players are increasingly meeting customers where they're at to **enhance usability and relevance** and **remove common friction points**
- High industry focus on developing solutions that consider users' **unique vertical or operational workflows**

Industry examples:

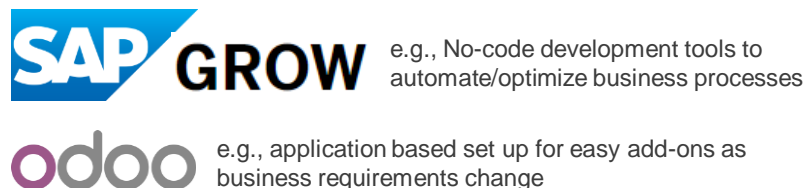
Progress invoicing for project work



Cross-border payments



Tools for scaling business



Integration with productivity tools



Best practice vertical configurations



Mobile version to support "on-the-go" working





Access financing



Companies increasingly **face economic headwinds** and **difficult trading conditions**, including around supply chain disruptions, inflation and liquidity challenges



ERP and accounting software providers are seeking to help solve for the **cash flow issues** that arise from this, particularly in the SME segments

Industry examples:

Invoice financing



Supply chain financing / access to working capital



Small business loans





Payments experience

- Customers have a **wide variety of third-party add-ons and apps** to integrate with, and payments are moving into the ERP / accounting software environment
- Providers increasingly partner to offer **integrated payment, A/P and A/R, and financing capabilities** within the ERP or accounting software environment, particularly in the SME space

Industry examples:

Pay-by-link / Pay-by-invoice



Payment integrations



Omni-channel payment acceptance



Embedded banking




Integrations with A/P and A/R software providers



- Many ERP providers offer a “pay-to-play” type model whereby paying for API access grants third parties the ability to integrate
- Going forward, native integrations using an initial API connection are expected to proliferate, offering a more seamless connection between the two systems
- Typically allows the user to “install” the AP/AR pre-integration within the ERP environment and then embeds the functionality therein
- Improves the UX with a single-sign on experience (though does not necessarily mean that all data syncing is real-time and API-based)




Enhanced performance with better decision-making

 Delivering **AI-driven tools and dashboards** for **enhanced decision-making** is a key part of the value proposition for many players in the market, especially at **Enterprise and Middle Market level**

This encompasses:

- Unifying data across channels, segments, markets and subsidiaries
- Cash flow and business performance
- Reactivity to market fluctuations and enhanced risk management
- Unified project mgmt.

 In the **small business** segment, empowering decision-making is focused on giving business owners visibility over cash flow (i.e., income, expenses, money owed etc.)

Industry examples:

AI/ML-powered pre-built business intelligence feature



Real-time monitoring of AP / AR






Unified Group Reporting feature





Support compliance & regulatory goals

-  **Digitization of tax, e-invoicing mandates** and helping customers **meet global regulatory and compliance standards** are top of mind for many providers
-  For businesses **operating internationally**, ERP systems especially help them to meet **localized governance and compliance mandates** with in-built features to support this
-  There is also a growing need for **ESG transparency and sustainable operations**, with providers such as SAP and Sage showing a strong focus in this area

Industry examples:

ESG reporting + insights



MTD for ITSA (U.K.)



Local regulatory compliance

Microsoft Dynamics 365
Business CentralMicrosoft
Dynamics® 365Supported by hyper-
scale infrastructure
Azure (GDPR, ISO
standards etc.)

Compliance-as-a-service



**Making Tax Digital (MTD)**

is a UK government initiative which aims to digitalise the tax system

MTD requires individuals and businesses to:

- Keep digital records
- Submit updates every quarter
- Use compatible software to submit updates



Making Tax Digital for VAT has been **mandatory since 1st April 2022**

Making Tax Digital for Income Tax Self Assessment (ITSA) is coming into effect in April 2026, which will end the need to submit annual tax returns altogether



The UK government provides a list of **software that is compatible with MTD for VAT or ITSA**

It is possible to use bridging software to integrate MTD with desktop-based accounting software

However, manually coping and pasting data from one place to another is not allowed, and can result in penalties



Many companies and accountants are upgrading to cloud-based software or subscribing for the first time, as this is perceived as the easiest way to comply with the regulation

39% of SMBs named MTD as the reason they have sought out accountancy services¹

“Demand [for cloud accounting services] is likely to remain elevated, due to the ongoing adoption of MTD for VAT, effective from April 2022, and the upcoming MTD for Income Tax from April 2024” – Xero 2022 Annual Report²



Overview of Sustainability Trends



Sustainability is gaining traction among businesses across industries driven by **internal goals**, **customer demand**, and **regulations**



The rising focus on sustainability may result in an increase in sustainability-related metrics such as:

- **Tools that track** metrics such as **greenhouse gas emissions per site, product or unit of revenue**
- Standard business processes, such as order-to-cash or procure-to-pay, will also aid in succinctly addressing the environmental impact



Currently, Sustainability related functionality seems largely geared towards the **Enterprise segment**

- **There is less industry activity in regards to small and medium businesses**, leaving a potential unmet needs in this segment as and when ESG related requirements become more onerous. Carbon accounting is one emerging area of focus for players such as Sage

Example Case Study

SAP Sustainability Control Tower



Solution overview

Designed to improve ESG transparency and enhance sustainable business performance



Record Data: Helps document reliable and authentic sustainability metrics via pre-built data integration, APIs, and file import



Audit-Ready: Data recorded is usually audit-ready that are seamlessly mapped to common global standards such as GRI, TCFD, EU Taxonomy etc.

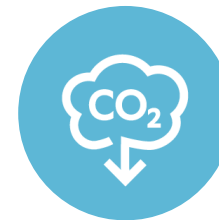


Actionable Insights: Companies can set targets and gain actionable insights into their core processes, forecast outcomes, and analyze scenarios

Key benefits cited



Automated integrations helps **centralize** and **unify** data



Companies can add their **own metrics**, **emission calculators** and **templates**



Helps **visualize sustainability data** following **best practices**



Reliable and audit-ready report generation features

There is not a “one-size-fits-all” set of recommendations, however as a strategic insights agency KAE has seen client success when you:



Start/Continue to deepen your knowledge of your **customer segment’s needs and pain points, anticipating what new requirements they may have as they grow**



Benchmark against the competition; in a fast moving industry, it’s important to continuously assess your differentiators and solution/marketing gaps



Identify new market opportunities and barriers (e.g., addressable size, local landscape, regulation etc.), developing a proposition that resonates with new audiences



Build an ecosystem that creates new revenue opportunities and improves your competitive positioning, while streamlining the user experience for your customers/users



Focus on what matters.

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Let's talk!

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About KAE

We bring the power of research, analytics and actionable insights so you have the information, data and trends that really matter to your business, helping you make better and faster evidence-led decisions

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