



BUSINESS SCHOOL

CHAMPIONS TROPHY
Case Competition

Case Study 4: Xero

Saturday 4 February



Case prepared by Emma Blackwood under the supervision of Winnie Chau. This case has been prepared solely for the Champions Trophy Case Competition. All data in this case has been obtained from publicly available sources and XERO Company. This case is not intended to serve as an endorsement, a source of primary data, or an illustration of effective or ineffective management.

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From: Consult Consulting
To: Champions Trophy Teams
Subject: Xero Strategy Presentation

Dear Team,

Our client is Xero, a world-leading cloud-based accounting software built for small businesses. Xero is a company rooted in innovation. Their cloud accounting software allows small businesses to simplify their everyday business admin. Combined with their clever customer acquisition strategy targeting accountants, Xero's product has become widely adopted in both the New Zealand and Australian markets.

Xero has asked us how they can accelerate their vision of becoming the most insightful and trusted small business platform. Xero's vision is "about offering their customers access to a fully integrated platform that gives them powerful insights about their business, drives more meaningful engagement with their advisors and helps them to make more informed choices about running their business".

With this aim, Xero has continued to develop their product, expanding their service beyond accounting and into other aspects of business administration. Xero will have to temper its high growth ambitions with a practical approach to prioritisation of products and resources. Challenging economic conditions and the need to reduce costs renders this essential. Further, while Xero previously found success acquiring end customers through accountants, this strategy complicates how Xero can communicate the benefits of their broader product suite to business owners.

Providing powerful insights to small business owners is a core part of Xero's vision. However, while Xero is exposed to valuable business data, there is an opportunity to leverage this data more efficiently. There is a question as to how Xero can use the business data they have collected as a strategic advantage.

To achieve its vision of becoming the most insightful and trusted small business platform, is it time for Xero to return to its innovative roots by redesigning their product and/or strategy? If so, what and how should they do this?

You will have ten minutes to present your recommendations, which will be followed by a ten-minute question and answer session. Our research team has compiled some relevant information, which is attached to this email.

Kind Regards,

Catherine Consultant
Xero Project Leader



2 – Company Overview

2.1 – About Xero

Xero was founded in 2006 to change the game for small business. Their accounting software introduced a new 'cloud accounting' category, allowing accountants and bookkeepers to collaborate with small business customers in real time. This was done through a single ledger for managing the business, monitoring financials and simplifying core compliance requirements. The financial insights delivered through Xero's platform help their customers focus on what matters most to their business- whether that is growing their business, diversifying their products and services, exploring new markets, improving processes, or going completely digital.

Since then, Xero has grown into a global small business platform that includes a core accounting solution, payroll, expenses, payments, projects and an ecosystem of more than 1,000 connected apps and more than 300 connections to banks and other financial institutions. Through an open platform, small businesses can seamlessly connect to solutions that help them confidently run their business and manage their finances.

In FY22 Xero had total operating revenue of \$1.1 billion (NZD), and ended the financial year with 3.3 million global subscribers and a team of 4,784 employees around the world.*

Xero's vision is to be the most insightful and trusted small business platform. Xero is doing this by offering customers access to a fully integrated platform that provides powerful insights about their business, drives meaningful engagement with advisors, and helps customers make informed choices about running their business.

*Please see the Appendix at page 14 for more details.

Our purpose

To make life better for people in small business, their advisors and communities around the world

Our vision

To be the most insightful and trusted small business platform

Inputs



What we do



Platform, technology and data

Xero's systems, processes and other knowledge and intellectual property drive innovation at speed to create beautiful products and generate insights



Customers, partners and ecosystem

Trusted connections within the community of small business customers, partners including small business advisors, ecosystem developers, and other stakeholders including regulators and governments



People and culture

Diverse world-class talent supported by an inclusive culture and working environment to do the best work of their lives



Social and environmental

Responsible practices across everything we do as a business, including social and environmental impact



Financial

Allocation of capital including revenue and cash flows to optimise financial performance, and access to capital to support execution of Xero's strategy and long-term value creation



2.2 – Xero's Product

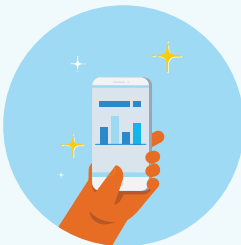
Our products

Xero's small business platform contains a range of integrated products, including:



Accounting and compliance software

Core accounting and compliance software for small businesses and their advisors, acting as a trusted system of record and making accounting, tax and other compliance simpler, smarter and more seamless.



Software for small business operations

Software for small businesses that helps them simplify day-to-day operations to better run their business in areas beyond their core accounting and compliance needs, such as managing inventory, payroll and employees.



Software for accountants and bookkeepers

Software that helps advisors manage their workflows, serve existing small business clients and support their compliance needs while also enabling them to identify and attract new clients.



Access to financial services for small businesses

Provide small businesses access to software to manage cash flow, take and make payments, provide fair and faster access to capital, and scale their business with increased confidence.



Integrations that provide access to third-party software

Third-party integrations with ecosystem app partners to create an open platform for small businesses and their advisors.

Our most popular plan

Starter

\$31

NZD per month

Good for sole traders, new businesses, and the self-employed.

- ✓ Send quotes and 20 invoices*
- ✓ Enter 5 bills
- ✓ Reconcile bank transactions
- ✓ Capture bills and receipts with Hubdoc
- ✓ Short-term cash flow and business snapshot
- ✗ Bulk reconcile transactions
- ✗ Use multiple currencies
- ✗ Claim expenses

Optional add-ons

- ⤵ **Payroll** from \$10 per month
- ⤵ **Track projects** from \$10 per month
- ⤵ **Analytics Plus** for \$10 per month^

Standard

\$66

NZD per month

Good for growing small businesses.

- ✓ Send invoices and quotes
- ✓ Enter bills
- ✓ Reconcile bank transactions
- ✓ Expenses for 1 person
- ✓ Capture bills and receipts with Hubdoc
- ✓ Bulk reconcile transactions
- ✓ Short-term cash flow and business snapshot
- ✗ Use multiple currencies

Optional add-ons

- ⤵ **Payroll** from \$10 per month
- ⤵ **Track projects** from \$10 per month
- ⤵ **Analytics Plus** for \$10 per month^
- ⤵ **Claim expenses** from \$5 per user

Premium

\$84

NZD per month

Good for established businesses of all sizes.

- ✓ Send invoices and quotes
- ✓ Enter bills
- ✓ Reconcile bank transactions
- ✓ Expenses for 1 person
- ✓ Capture bills and receipts with Hubdoc
- ✓ Bulk reconcile transactions
- ✓ Use multiple currencies
- ✓ Short-term cash flow and business snapshot

Optional add-ons

- ⤵ **Payroll** from \$10 per month
- ⤵ **Track projects** from \$10 per month
- ⤵ **Analytics Plus** for \$10 per month^
- ⤵ **Claim expenses** from \$5 per user

Ultimate

Good for larger employers and more complex small businesses.

[Buy now](#)

[Learn about the Ultimate plan](#)

Ultimate

\$97

NZD per month

- ✓ Everything from Premium
- ✓ Payroll for up to 5 people
- ✓ Expenses for up to 5 people
- ✓ Projects for up to 5 people
- ✓ Advanced insights with Analytics Plus

Xero offers four plans, each for different customer needs. Within these plans, Xero's non-accounting functionalities can be divided into two categories:

1. Optional Add-ons (APIs) – Created by external app partners, these external add-ons can be purchased by customers in the Xero App Store.
2. Non-accounting Xero functionalities integrated into a plan

Optional Add-ons

Xero's ecosystem has over 1,000 connected apps. Small businesses can discover and purchase apps to better support a wide range of business needs.

In August 2022, Xero introduced the Xero App Store, allowing customers to discover and buy apps more easily. Through search capabilities and personalised recommendations powered by machine learning, the Xero App Store presents relevant apps for customers based on their unique profile.

The Xero App store contains both applications built by Xero and built by external 'App Partners'. There are two tiers of App partners – the 'connected tier' and the 'premium tier'.

Every app signed up to the Xero App Store is eligible for the connected tier. 'Connected tier' partners will be listed on the Xero App Store and receive a number of features, including access to the Developer Centre, tools to grow awareness with customers, and free resources and guides.

The 'premium tier' is for top apps based on earned revenue and Xero App Store ratings. These partners can unlock even more benefits and opportunities to work closely with Xero to accelerate growth, including a premium Xero App Store listing and badge, additional in-person support, and premium technical features.

For each new app subscription from the App store, Xero earns 15% referral fee.

How can Xero build on its capabilities to become a one-stop platform for small businesses? Should this be done through app add-ons via App Partners, or through functionalities developed in-house that are bundled into the various Xero plans?

Which functions should Xero prioritise to become a one-stop platform for small businesses?





2.3 – Customer & Partners

A key contributor to Xero's success so far has been their partnerships with accountants and bookkeepers (partners) around the world, to help them drive deep and meaningful conversations with their clients.

Further, the Xero accountant and bookkeeper partner program gives partners the tools and knowledge to improve their practices and rewards them with a range of benefits that they can tailor to their own practice goals. Xero partners can become certified partners by completing an online course, improving their credentials to their customers. Xero connects with their partners through events and roadshows, such as the annual Xerocon.

Xero works best for small businesses whether employing or not, who are reached by Xero through their accountants and bookkeepers. However, this means that many of these small business owners do not engage with Xero directly. Instead, the product user is often the business's accountant. With Xero's focus moving beyond accounting only, the next step is to sell these new APIs and/or functionalities directly to small businesses.

As Xero shifts towards a full suite of business products, should Xero change its strategy to directly target the decision maker of the small business?

Regarding these new features, should Xero prioritise cross-selling through current customers or prioritise acquiring new customers?



2.4 – Global Aspirations

The opportunity for Xero to introduce the benefits of cloud accounting to more small businesses around the world remains significant. Xero estimates that in the markets it currently operates in, the total addressable market (TAM) is more than 45 million small businesses for core cloud-accounting tools with around 30M in the US, 5.5M in the UK, 2.5M in Australia and 550,000 in New Zealand. In addition to this, Xero's new focus on small business payroll exposes a large and exciting new category with an estimated TAM of more than 100 million employee users.

Xero operates on a global scale with a focus on Australia, New Zealand, UK and North America. Australia has the highest subscriber count (1.3M) as well as the largest operating revenue (\$483M).

In North America, given the size of the market and the relatively low levels of cloud adoption in small business, Xero focuses on product localisation through product development, partnerships and M&A. In FY22, Xero added more features to their suite of accounting and compliance reports in the US and Canada, such as enhanced tax reporting templates. Recent acquisition complement this, such as LOCATE Inventory, a US cloud-based inventory management provider, and TaxCycle, a Canadian tax preparation software company for accountants and bookkeepers.

There is still opportunity for substantial growth in the UK, represented by a large market opportunity and still relatively low levels of cloud accounting adoption. The Government's Making Tax Digital (MTD) initiative will be a significant contributor to growth with the ongoing adoption of MTD for VAT, effective from April 2022, and the upcoming MTD for Income Tax from April 2024. This initiative will require businesses of all sizes to keep digital records and submit their tax return. In order to help partners transition to the next phases of Making Tax Digital, Xero launched an end-to-end personal tax solution for UK accountants and bookkeepers. This makes it easier for UK partners to provide services using Xero Tax across corporate tax, accounts production, and personal tax for individuals and companies.

Xero's global growth was supported by increased spend proportional to revenue growth. This spend has largely been invested into global product innovation and platform delivery to support its growth strategy. This prioritisation has resulted in a decrease in the EBITDA margin from 22.5% to 19.4%.*

* Please see Appendix page 11.



Above: Xero employees

2.5 – Xero’s Data

Xero’s position means they can generate insights about the small business economy using anonymised and aggregated data. One of the ways Xero can use this information is through engagement with governments to advocate for small business, and support publication of academic research. This is driven through Xero Small Business Insights, including data for sales, jobs, wages and time to paid at national, industry and sub-national levels as well as Xero’s Small Business Index. This Index provides a regular, easy to understand reading on the overall state of small businesses in Australia, New Zealand and the United Kingdom. This information is now being used by organisations such as the Office of National Statistics (ONS) in the UK and the Australian Treasury to understand the health of the small business sector in their countries.

Artificial Intelligence (AI) and Data

Harnessing AI forms part of Xero’s global data strategy, building on the data flowing through the small business platform to create new capabilities that improve the Xero experience for businesses and advisors, save them time and deliver insights to help them plan for the future.

Xero’s machine learning algorithms for bank reconciliation predictions learn from millions of these historical reconciliations across different organisations. With these predictions, Xero can suggest to a user that money spent at an office supply store is likely to belong in Office Expenses, even if it is the first time the customer shopped at that store. This may seem inconsequential, but by streamlining a core task like reconciling bank statements, Xero may reduce stress and give business owners more time in their day, while making sure their data is accurate.

Xero’s Analytics Plus is an app integration offering forecasts powered by AI. The app uses data from a business’ Xero account to create a projection of their bank balance up to 90 days in the future. This projection can be altered by manually adding or removing transactions to see the impact of business decisions. Using this app could provide business’ better visibility of their potential cash flow in the longer term and help plan ahead.

Xero’s Responsible Data Use Commitments

Our commitments guide us in what it means to use data responsibly.

Data security and privacy

We are committed to keeping data secure and protecting your privacy at all times, and supporting you with product features and information to help you do the same.

Benefits small business

We are committed to using the data we hold for the benefit of small businesses.

Customer control and consent

We are committed to giving you control over your data by providing the tools to manage your consent for each product or service that uses your data.

Open and honest

When you sign up for one of our products or services, we are committed to letting you know what the benefits are, how your data will be used, if we’re providing your data to someone else, and who that is.

Privacy and data governance framework

In FY22, Xero made public a company-wide pledge to use data responsibly. This included eight Responsible Data Use Commitments to help guide data related decisions. Using data responsibly is in everyone’s interest, including small business customers, advisors, suppliers and partners. Customers trust Xero to use their data with care and respect. The Commitments help ensure Xero meets their expectations.

In line with the General Data Protection Regulation (GDPR), new projects that potentially involve higher-risk data processing must undergo a data protection impact assessment (DPIA) to identify the privacy impact, and set out recommendations for managing, minimising or eliminating that impact. The DPIA also forms a critical element of our approach to responsible data use and Xero’s data controls for personal data.

Anyone with access to Xero’s enterprise systems is required to undertake privacy training, to understand what personal data is and how to help protect it, and is required to pass an assessment upon completion of this training as a condition of accessing Xero’s systems.

How should Xero utilise its customer data to obtain a strategic advantage over its competitors?

Fees we collect

We are committed to never charging anyone a fee to access your data without getting your consent first and explaining to you the nature of the fees charged. We may charge a fee for products or services containing anonymous data without allowing an opt out for this.

Data-driven decision bias

We are committed to doing everything we can to get rid of unfair biases in data and our algorithms that might negatively affect you.

Trusted partners

We expect our trusted partners to approach responsible data use the way we do and are committed to bringing our partners on this journey with us.

Accounting and bookkeeper enablement

We are committed to supporting our accountants and bookkeepers by providing useful data and insights to help small businesses thrive, and to use data in a responsible way.

3 – Global Industry Information

There has been growing competition in the accounting tech sector, fuelled by more start-ups and the entry of new challengers from adjacent sectors. Given the increased breadth of services Xero provides to small businesses and individuals, Xero now competes with offerings over a range of industries.

Intuit

Intuit is a US-based global provider of financial management, marketing, and compliance solutions for small to medium sized businesses. Their *Quickbooks* offering is a direct competitor to Xero, with financial and business management online services. *MailChimp* is a marketing focused services for small businesses which assists in digital promotion through email, social media, ads and more. Across its services Intuit has a goal to become an AI driven expert platform and currently uses AI to personalise customer experiences.

Intuit uses a similar accountant-to-business acquisition strategy. Intuit sells tax and marketing services to professional accountants who then become key partners in reaching the small businesses.

In the 2022 fiscal year, Intuit made a total revenue of \$19.9B, including \$10.2B from small businesses and \$6.1B from consumers. This is a 32% increase from fiscal 2021.

Block Inc

Block Inc is a fintech provider which provides an ecosystem of financial products and services along with enabling merchants to accept credit card payments. Their product *Square* is a direct competitor with Xero, managing small business banking, payroll, inventory management and booking services. There are four categories of businesses which Square caters to – Food & Beverage, Retail, Beauty & Wellness, and Large Business. Each category has a variety of features from within the large Block eco-system included.

Square's features include the following: e-commerce, invoices, banking, customer directory, loyalty programs, marketing, staff timecards, payroll and checkout hardware.

In the 2022 Fiscal year, Block Inc made a total revenue of \$27.8B up by 86% since the previous year. Revenue from the United States makes up \$26.8B. Block Inc currently operates in many countries including the US, UK, Australia and Canada.

Sage

Sage Business Cloud is an ecosystem of cloud-based and cloud-connected solutions for small to medium sized enterprises and accountants. Sage products include accounting, payroll, and HR solutions. Notably, Sage Intacct automates several accounting processes and is in the works for providing automation solutions across payroll, HR and analytics.

Sage made a total revenue of \$3.0B in 2022 fiscal year, a 5% increase from the previous year. Most of this revenue is from the United States (\$1.3B) followed by Northern Europe (\$680M).

MYOB

MYOB is an Australian multinational corporation which provides accounting, tax and business support for small to medium businesses. Similar to other competitors, MYOB has a family of solutions including accounting, payroll and invoicing services as well as over 300 apps from third parties. MYOB generates a MYOB Business Monitor Report monthly which provides data insights for small to medium sized businesses regarding the economy, profitability, investment and digital adoption.

MYOB is not a publicly listed company.

4 – Appendix

4.1 – Financials

Business results

| Year ended 31 March | 2022 (\$'000s) | 2021 (\$'000s) | change |
|---------------------------------|-------------------|-------------------|-------------|
| Subscription revenue | 1,049,618 | 828,106 | 27% |
| Other operating revenue | 47,201 | 20,676 | 128% |
| Total operating revenue | 1,096,819 | 848,782 | 29% |
| Cost of revenue | (139,388) | (118,893) | 17% |
| Gross profit | 957,431 | 729,889 | 31% |
| Gross margin percentage | 87.3% | 86.0% | 1.3pp* |
| Total operating expenses | (921,849) | (663,825) | 39% |
| Percentage of operating revenue | 84.0% | 78.2% | 5.8pp |
| Other income and expenses | 31,087 | (4,377) | NM** |
| Asset impairments | (24,695) | - | NM |
| Operating profit | 41,974 | 61,687 | -32% |
| Percentage of operating revenue | 3.8% | 7.3% | -3.5pp |
| Net finance expense | (39,611) | (105,623) | -62% |
| Income tax credit/(expense) | (11,477) | 63,710 | NM |
| Net profit/(loss) | (9,114) | 19,774 | NM |
| Percentage of operating revenue | -0.8% | 2.3% | -3.1pp |

*pp stands for percentage points

**NM stands for not meaningful

Earnings before interest, tax, depreciation, and amortisation (EBITDA)

EBITDA disclosures (which are non-GAAP financial measures) have been included as Xero believes they provide useful information for readers in understanding Xero's financial performance. EBITDA is calculated by adding back net finance expense, depreciation and amortisation, and income tax (credit)/expense to net profit/(loss).

| Year ended 31 March | 2022 (\$'000s) | 2021 (\$'000s) | change |
|---|-------------------|-------------------|------------|
| Net profit/(loss) | (9,114) | 19,774 | NM |
| Add back: net finance expense | 39,611 | 105,623 | -62% |
| Add back: depreciation and amortisation | 170,687 | 129,541 | 32% |
| Add back: income tax (credit)/expense | 11,477 | (63,710) | NM |
| EBITDA | 212,661 | 191,228 | 11% |
| EBITDA margin | 19.4% | 22.5% | -3.1pp |

Income Statement

| <i>Year ended 31 March</i> | Notes | 2022 (\$'000s) | 2021 (\$'000s) |
|-------------------------------------|----------|-------------------|-------------------|
| Subscription revenue | | 1,049,618 | 828,106 |
| Other operating revenue | | 47,201 | 20,676 |
| Total operating revenue | 4 | 1,096,819 | 848,782 |
| Cost of revenue | 5 | (139,388) | (118,893) |
| Gross profit | | 957,431 | 729,889 |
| <i>Operating expenses</i> | | | |
| Sales and marketing | | (405,653) | (307,948) |
| Product design and development | | (372,024) | (249,532) |
| General and administration | | (144,172) | (106,345) |
| Total operating expenses | 5 | (921,849) | (663,825) |
| Other income | | 45,177 | 15,641 |
| Other expenses | | (14,090) | (20,018) |
| Asset impairments | 10 | (24,695) | - |
| Operating surplus | | 41,974 | 61,687 |
| Finance income | 6 | 4,080 | 5,155 |
| Finance expense | 6 | (43,691) | (110,778) |
| Net profit/(loss) before tax | | 2,363 | (43,936) |
| Income tax credit/(expense) | 21 | (11,477) | 63,710 |
| Net profit/(loss) | | (9,114) | 19,774 |
| Basic earnings/(loss) per share | 7 | (\$0.06) | \$0.14 |
| Diluted loss per share | 7 | (\$0.06) | (\$2.66) |

Statement of Cash Flows

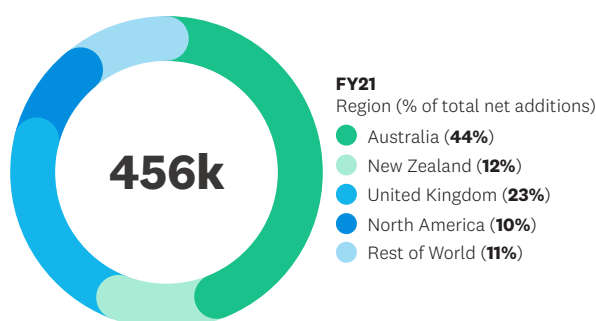
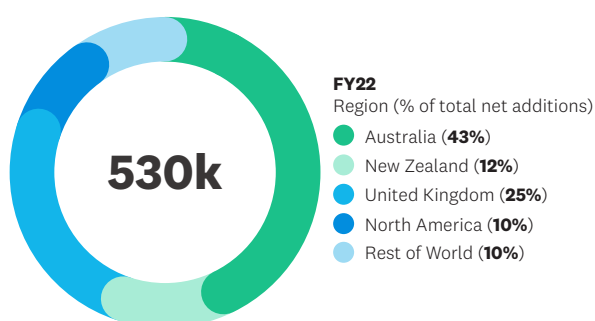
| Year ended 31 March | Note | 2022 (\$'000s) | 2021 (\$'000s) |
|--|-----------|-------------------|-------------------|
| Operating activities | | | |
| Receipts from customers | | 1,089,806 | 845,963 |
| Other income | | 3,161 | 6,089 |
| Interest received | | 2,926 | 6,827 |
| Payments to suppliers and employees | | (830,568) | (609,671) |
| Interest paid | | (8,715) | (19,089) |
| Income tax paid | | (20,239) | (11,480) |
| Net cash flows from operating activities | 22 | 236,371 | 218,639 |
| Investing activities | | | |
| Capitalised development costs | | (205,348) | (139,809) |
| Business acquisitions, net of cash acquired | | (185,423) | (36,277) |
| Purchase of property, plant and equipment | | (19,029) | (11,093) |
| Capitalised contract acquisition costs | | (16,344) | (10,561) |
| Other investing activities | | (3,900) | (230) |
| Net cash flows from investing activities | | (430,044) | (197,970) |
| Financing activities | | | |
| Proceeds from short-term deposits | | 963,878 | 795,540 |
| Payments for short-term deposits | | (1,044,173) | (855,428) |
| Proceeds from borrowings | | 4,279 | 814 |
| Repayment of borrowings | | (2,433) | - |
| Share options exercised | | 35,981 | 31,878 |
| Payment of lease liabilities | | (13,599) | (11,632) |
| Receipt of lease incentives | | - | 495 |
| Payments for buyback of convertible notes | | (5,455) | (415,305) |
| Proceeds from issuance of convertible notes, net of issuance costs | | - | 976,060 |
| Call spread options | | - | (80,921) |
| Proceeds from unwind of call spread options | | - | 108,633 |
| Financing transaction costs | | - | (5,670) |
| Net cash flows from financing activities | | (61,522) | 544,464 |
| Net increase/(decrease) in cash and cash equivalents | | (255,195) | 565,133 |
| Foreign currency translation adjustment | | 1,538 | (15,311) |
| Cash and cash equivalents at the beginning of the period | | 657,849 | 108,027 |
| Cash and cash equivalents at the end of the period | | 404,192 | 657,849 |

The accompanying notes form an integral part of these financial statements

Operating revenue by geography

| Year ended 31 March | 2022 (\$000s) | 2021 (\$000s) | change | change in constant currency |
|--|------------------|------------------|------------|--------------------------------|
| Australia | 483,288 | 384,150 | 26% | 27% |
| New Zealand | 149,392 | 130,384 | 15% | 15% |
| Australia and New Zealand (ANZ) total | 632,680 | 514,534 | 23% | 24% |
| United Kingdom | 291,614 | 223,564 | 30% | 30% |
| North America | 72,571 | 56,558 | 28% | 31% |
| Rest of World | 99,954 | 54,126 | 85% | 90% |
| International total | 464,139 | 334,248 | 39% | 40% |
| Total operating revenue | 1,096,819 | 848,782 | 29% | 30% |

Net subscriber additions



Regional subscriber numbers at 31 March 2022*



Australia
1,344,000

2021 | 1,115,000
▲ Up 21%



New Zealand
512,000

2021 | 446,000
▲ Up 15%



United Kingdom
850,000

2021 | 720,000
▲ Up 18%



North America
339,000

2021 | 285,000
▲ Up 19%

* Rest of World subscribers at 31 March 2022: 226,000 (31 March 2021: 175,000)

Subscriber numbers

The definition of 'subscriber' is: Each unique subscription to a Xero-offered product that is purchased by a user (e.g. small business or accounting partner) and which is, or is available to be, deployed. Subscribers that have multiple subscriptions to integrated products on the Xero platform are counted as a single subscriber.

| At 31 March | 2022 | 2021 | change |
|--|------------------|------------------|------------|
| Australia | 1,344,000 | 1,115,000 | 21% |
| New Zealand | 512,000 | 446,000 | 15% |
| Australia and New Zealand (ANZ) total | 1,856,000 | 1,561,000 | 19% |
| United Kingdom | 850,000 | 720,000 | 18% |
| North America | 339,000 | 285,000 | 19% |
| Rest of World | 226,000 | 175,000 | 29% |
| International total | 1,415,000 | 1,180,000 | 20% |
| Total paying subscribers | 3,271,000 | 2,741,000 | 19% |

4.2 – Xero Small Business Index Global Monthly Update – November 2022

<https://www.xero.com/content/dam/xero/pdfs/xsbi/global-update-nov-2022.pdf>

2022: Year in Review

After two years of navigating a major global crisis, small businesses most likely started 2022 hoping this year would be different. It was - but still presented plenty of challenges. Small businesses that had worried about keeping staff and if their customers would ever return, were suddenly struggling to fill jobs and dealing with rising costs at a pace most would not have seen before.

As 2022 draws to a close the challenge for small businesses over the next 12 months will be navigating the combination of still rising costs while their customers are reining in their spending even further as economic growth slows in response to higher interest rates aimed at controlling inflation.

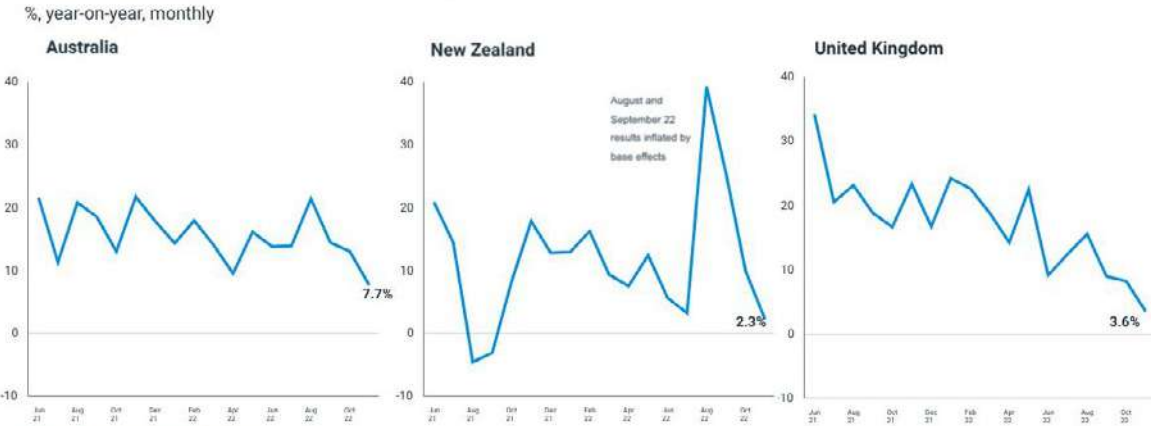
Two big challenges of 2022: Staying profitable in a high inflation environment and staffing

Most small business owners would have only ever operated in an environment of low and predictable inflation. This allowed them to have some measure of certainty over how much their costs would be going up by each year and make small adjustments to their own prices to maintain profit margins. But the combination of a surge in pent-up customer demand, adjusting global supply-chains, the unwinding of pandemic-rent holidays and the Russian invasion of Ukraine resulted in price rise for almost everything small businesses need. Rent, staff wages, energy and transport costs have all increased sharply in almost every economy.

This left small business owners needing to find that 'goldilocks' price point. Raise prices enough to stay profitable - but not so much that customers, themselves facing higher prices for almost everything, stop spending in the business completely.

These challenging conditions are reflected in the Xero Small Business Index data which shows that over the year, especially in the final few months, sales growth generally trended lower across all three countries.

Small business sales, international comparison

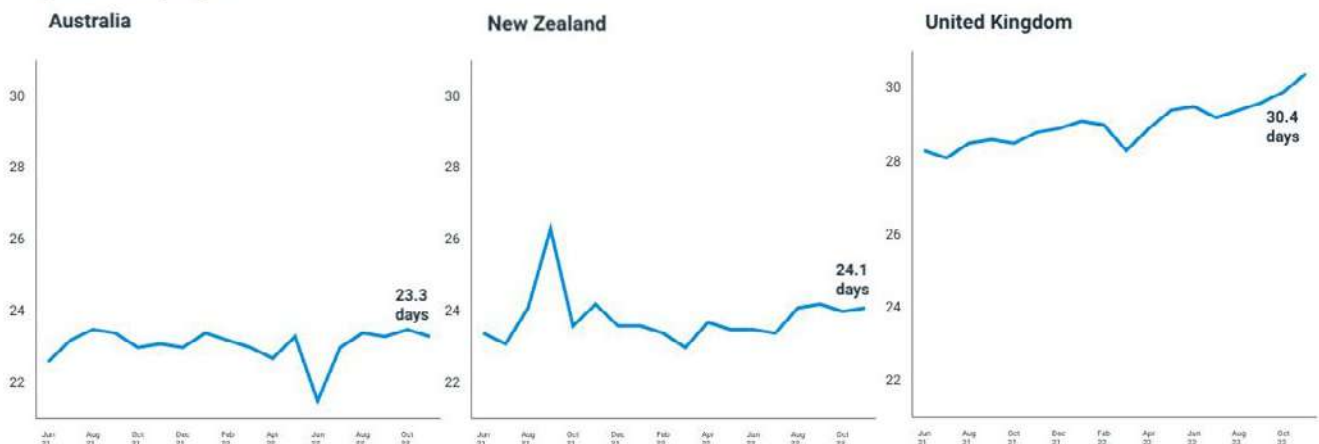


The other related challenge for small business in this high inflation environment is cash flow management - making sure there are sufficient funds flowing into the business to cover rising costs. The Xero Small Business Index data highlights this challenge through its time to be paid metric (see charts over page) which measures how long, on average, small businesses are waiting to be paid. A rise in this measures, as has happened in the United Kingdom over 2022, can be an indication of cash flow stress amongst customers and can make it harder for the small business to manage their own cash flow. In contrast, in both Australia and New Zealand the time to be paid metric was broadly stable throughout 2022, suggesting small businesses in these countries managed this challenge reasonably well.



Small business time to be paid, international comparison

days, seasonally adjusted



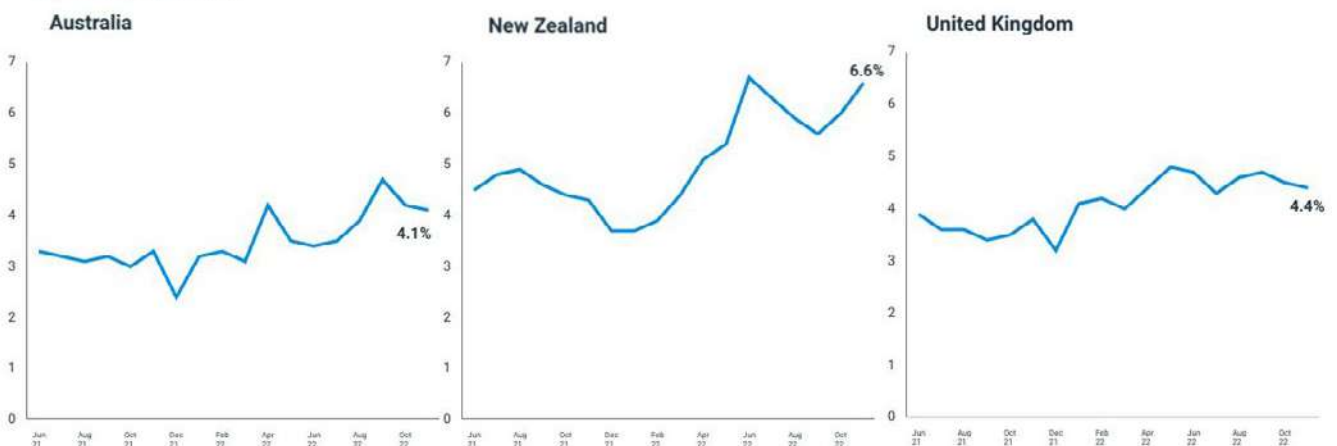
Source: Xero Small Business Insights

The other major trend of 2022 has been the competition for staff which has seen wages growth accelerate. This has been driven by the impact of international borders being closed for several years (Australia and New Zealand), an increase in older workers leaving the workforce (United Kingdom) and a lot of industries trying to hire people all at the same time.

The Xero Small Business Index data shows that wages in New Zealand in particular have accelerated strongly in 2022. There were signs that this pressure was starting to ease in August and September but there has been a resurgence of wages growth in the past two months. Wages growth has also picked up in Australia and the United Kingdom, although to a lesser extent.

Small business wages, international comparison

%, year-on-year, monthly



Source: Xero Small Business Insights

What will 2023 bring?

Resilience is a word that has been used a lot in relation to small businesses over the past three years, and they will need more of this in 2023. Small businesses will need to stay focused on managing their profitability and cash flow and on serving their customers as best as they can as growth slows.

Central banks are largely forecasting growth will slow in 2023, with some predicting their local economies will go into recession. Despite the large rises in interest rates in the past year, more are still likely in 2023. Even when inflation starts to fall during 2023, small businesses will still be contending with rising prices for some time as it is expected to take until 2024 before inflation returns to the target band of most central banks.

On a more positive note, unemployment rates are at record lows in most countries which will minimise the negative impact of any economic slowdown.

4.3 – Media Articles

Recession in 2023?

Source: *New Zealand Herald* – *If recession looms where's room for growth? Smes prepare for a tough year*

New tricks, harder work and more ad spending might be needed if small to medium-sized enterprises want to outwit some new challenges this summer. That's among findings from MYOB's SME Snapshot, conducted in the shadow of a looming recession predicted for 2023.

The snapshot found the main changes businesses plan include adding new products, increasing advertising, extending opening hours, taking on extra staff and using online retail.

The survey found more than 40 per cent of SMEs are trying different tactics, including broadening product ranges and extending opening hours this year to prepare for a slow year ahead.

Potential Uses of Financial Data

Source: *Financial Review* – *"The two reasons why ANZ is chasing MYOB"*

First, it would allow it to tap vast amounts of data on the small- and medium-sized business community. This could be used to shape ANZ's product development processes, but also its sale and distribution capabilities.

Being able to offer a working capital facility or loan to a small business at the moment they need it is an idea that banks have long chased.

Indeed, MYOB last year formed a partnership with fintech Valiant Finance – a start-up that has attracted capital from ANZ and the Westpac-backed venture capital firm Reinventure – to offer so-called "predictive financing" from a panel of lenders, including all the big four. ANZ may see itself bringing such an arrangement in-house if its takeover of MYOB is successful.

Second, buying MYOB gives ANZ's a big, fat database of potential customers. While a good chunk of MYOB customers will already be clients of ANZ, the blue bank would dearly love the opportunity to sell products and services across MYOB's customer universe.

Xerocon

Source: *CPA Practice Advisor* – *"2022 Xerocon Conference Wrapup: Partnership is the Secret Sauce"*

"Our product strategy was built from determining what does the small business need and how can we make it easy for the collaborating accountant," explained Ben Richmond, Xero's country manager, United States. When confronted directly on whether Xero's future plans include offering accounting and bookkeeping services itself, Richmond confirmed that was not in the plans.

Previously, the quarterly XSBI reports had been produced in England, Australia, and New Zealand, but as of August, the company produced its first Canada and United States reports. The most recent report focused on the role inflation has played in the post-pandemic small business recovery. Findings in the report show that recent small business growth can be traced in large part to higher prices resulting from inflation, rather than an increase in the amount of goods and services sold.

Through the XSBI program, Xero aggregates data on how small businesses are operating globally as well as within certain regions and can provide statistics and small business-specific data in a very short time frame, whereas government agencies often take months to compile similar data.



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