

VENDOR PROFILE

Accounting as a Service for Smaller Businesses: A Closer Look at e-economic A/S

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IDC OPINION

Denmark-based e-economic A/S has emerged as one of the leading European providers of software as a service (SaaS)-based accounting applications for smaller organizations. With approximately 50 employees, offices in Denmark, Sweden, Norway, and the U.K., and annual growth rates in excess of 50%, e-economic clearly resonates with its target audience and warranted a closer examination.

An analysis of the current business activities of e-economic led IDC to conclude the following:

- ☒ *SaaS entails a dramatically different market approach compared to traditional software.* e-economic has no resellers. Instead the company sells direct via the Web and indirect via a network of 3,000 public accountants and business service partners acting as referral partners. The public accountants have become strong supporters of the SaaS model because they can access the accounting data of their clients directly and thereby streamline work processes and detect bookkeeping errors sooner rather than later.
- ☒ *SaaS implies flexible and loosely coupled ISV relationships.* The application programming interface (API) of e-economic is publicly available. Some external SaaS vendors have pre-integrated their applications to e-economic without even notifying e-economic. Users wanting to leverage this integration must of course subscribe to both applications, but in a Web-services and on-demand world, formal collaboration and lab testing is no longer required.
- ☒ *Online communities of SaaS users will create value for customers beyond the application itself.* The typical manager of a start-up company needs more than an accounting application to manage his or her company. Emerging and future communities provide small businesses with the ability to post questions about best practices, examine experiences of peers, buy add-on applications, find reliable suppliers, and solve technical problems without the need to purchase expensive consulting hours.

IN THIS VENDOR PROFILE

This vendor profile looks at one of the significant European providers in the emerging accounting as a service (also referred to as SaaS-based financial accounting applications) market. The study examines the current market presence of the company and its growth strategy. Furthermore, IDC analyzes the future outlook of the company and provides guidance for vendors entering the accounting as a service market in Europe.

SITUATION OVERVIEW

Company Overview

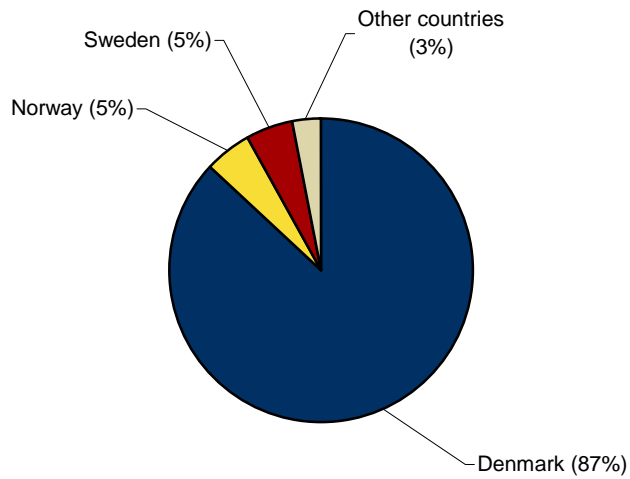
e-economic A/S was founded in 2002 in Denmark by a certified accountant, Jakob Wandt. The vision behind the new entity was to provide an affordable, hosted accounting application for public certified accountants and small businesses. The application was, from the very onset, created for Internet delivery, multi-tenancy, and subscription pricing.

Today, the company boasts 14,500 customers of which most have fewer than 25 employees. IDC estimates the 2007 revenues of e-economic to be in the €1.8 million to €2.0 million range, of which more than half was sold directly to end users and the rest was sold to users via public accountants. The company is profitable and self-funded, and has doubled revenues annually since its inception. It intends to grow organically in excess of 60% per year in the foreseeable future.

The majority of revenues come from the Danish market, but offices in Norway, Sweden, and the U.K. have started to see local customer momentum. This is shown in Figures 1 and 2.

FIGURE 1

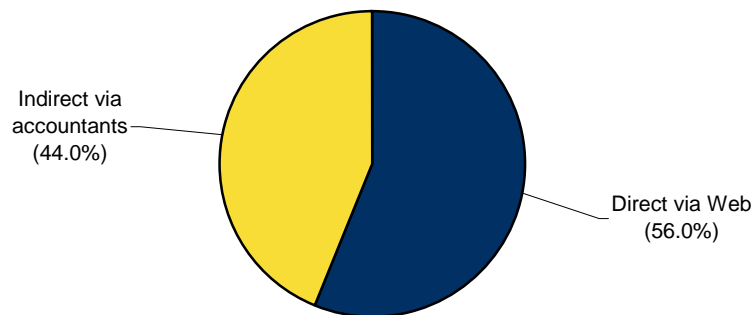
e-conomic, Revenue by Country, 2007 (%)



Source: IDC, 2008

FIGURE 2

e-conomic, Revenue by Channel, 2007 (%)



Source: IDC, 2008

e-economic currently employs 50 full-time employees of which almost half work with research and development and advanced product support. e-economic focuses on product development and sales and has virtually no professional services staff. Implementation and other services are carried out by customers themselves and the certified accounts that the customers work with.

Products and Pricing

e-economic carries two offerings. "Small" is priced at €20/user/month and is an entry-level business application with an annual transaction limit of 2,000. "Standard" is priced at €40/user/month and has no limit on transactions. Both offerings cover general ledger, accounts receivables, and accounts payables. Furthermore, customers can subscribe to add-on modules such as project accounting, extra dimensions, document scanning, inventory management, and subscriber management. The functionality is centered on the general ledger and the accounting view on the business.

Phone and email support is included in the subscription, and public accountants can access the accounts of their clients free of charge. Furthermore, e-economic offers document scanning, procurement, and report designer for public accountants free of charge.

e-economic also provides certain fee-based services such as electronic invoices to public sector entities and electronic data interchange to support large-scale business transactions. Such capabilities require a custom project in an on-premise world, but the hosted nature of SaaS permits a low-cost provision of such services.

Ecosystem and Partners

The ecosystem system is a central component of e-economic's go-to-market strategy. 3,000 public accountants refer their clients to the system and access client accounts as part of bookkeeping and auditing services. Approximately 44% of the revenue of e-economic comes from referred customers. Public accountants have been great supporters of SaaS-based accounting systems because they can access the same system as their clients. This greatly improves productivity and lowers the risk of late detection of serious booking errors or fraud. The accountant can instantly look up and retrieve the needed information in the hosted system and avoid tedious email exchanges with smaller clients who might find it very difficult to extract the required information to the accountant.

Another component of the ecosystem is external ISVs/portals. One ISV partner is Golfbox, based in Denmark. Golfbox sells its own administration system for golf clubs and includes an optional accounting module. This module is indeed e-economic, which has been integrated with the Golfbox application.

Automester is a franchise chain of 400 auto workshops. Each workshop uses the Automester auto workshop system with an optional accounting system, which is based on e-economic.

Interestingly, since the e-economic APIs are publicly available and simply require a valid subscription ID to work, some ISVs integrate the application without even notifying e-economic. In the age of Web services, formal agreements are not required when tying two products together.

Company Strategy

Product Roadmap

e-economic plans to maintain its current focus on functions around the general ledger. Some of the current key R&D priorities are:

- ☒ *Shift from HTML-based to AJAX-based user interface.* AJAX enables hosted applications such as e-economic to have "fat client" capabilities, such as very fast response times and multiple, connected entry screens. Slow response times of HTML-based applications have been an inhibitor to vendors of hosted applications, because traditional accounting users are accustomed to very fast response times of legacy applications.
- ☒ *Streamlining workflow of accounting-related documents.* The applications will be further developed to support intelligence online document capture, document analysis and reporting, and document presentment.
- ☒ *Assembly of broader business applications through application partners.* While e-economic expects to continuously add to the accounting capabilities of the product, the company is not expected to make major forays into new areas, such as customer relationship management, point-of-sales, or human capital management. A number of application partners using the e-economic API will fulfill this functional expansion.
- ☒ *Improved datacenter administration.* The ability to automate maintenance, operations, and provisioning is one aspect of datacenter administration that e-economic aims to improve. Another aspect is the ability to gather and display usage information per user/customer/module/API. Usage information helps the management of customer relationships, spotting customers with low or fragmented usage, and supporting users with their own reporting requirements.
- ☒ *Support for new countries (localization), languages, and currencies.* As e-economic establishes itself in new countries, the company will extend the application to support new languages, currencies, and local VAT and tax rules, reporting requirements, etc. e-economic has not published a formal expansion plan.

Communities as the Future Differentiator

A localized, hosted accounting application is not exactly easy for competitors to copy, but it is not impossible either. Giants such as Sage, Intuit, Microsoft, Google, and others are certainly watching this space and could assign impressive resources to build SaaS-based accounting applications. SAP's investment in BusinessByDesign is a clear example of such a move.

What is really hard to copy is a community on top of a hosted application. Much of the efforts of e-economic over the coming years will evolve around establishing a community of small businesses. The owner of a start-up cannot afford management consultants and does not have insight into best practices in accounting and analytics. By leveraging a community, small businesses can find information and solve problems in a cost-efficient way.

Currently, e-economic offers a blog-like newsletter as well as a wiki-like FAQ support page. However, going forward, other communities could include:

- ☒ Accounting best practice community, where members can post questions and answers in discussion trails.
- ☒ Sourcing and procurement community, where members can rate suppliers, pool purchases for volume discounts, and look for business partners among other e-economic users.
- ☒ Broader SMB SaaS communities similar to AppExchange from salesforce.com, in which SaaS solutions are cross-certified into wall-to-wall SaaS solutions for specific industries or purposes.

Sales to Multi-Unit Operators

Franchise and membership organizations represent large groups of small businesses (retail outlets, restaurants, or car workshops, for example) with similar IT needs. Each franchise or member must manage point of sales, VAT, annual accounts, payroll, etc. e-economic considers approaching franchise organizations, which in turn can offer their members a low-cost, standardized, and even customized solution with no IT footprint.

This segment requires a different sales approach because the franchise organizations act as midsize or large enterprises. This calls for a solution-oriented sales process driven by an account manager. e-economic is currently planning building and recruiting for this new market approach.

FUTURE OUTLOOK

Market Readiness

While CRM as a service has been around for longer and is a relatively mature market today, accounting as a service is a relatively immature market, mostly driven by local start-ups, such as e-economic in Denmark, Fortnox in Sweden, Twinfield in the Netherlands, and Collmex in Germany. Larger vendors such as SAP, Exact Software, and Mamut offer or are about to offer accounting and ERP as a service, but have not yet had a major impact on the segment.

Yet, from a demand perspective, European organizations appear ready for ERP or accounting as a service. A large Western European end-user survey by IDC showed that a surprisingly large proportion (37%) of organizations are planning an investment in SaaS to replace or supplement the functionality of existing ERP solutions within the next 24 months (*Western European Software-as-a-Service Attitudes and Plans, An IDC Survey, 2008, IDC #LC02Q, January 2008*). While this result might have more to do with intentions than concrete plans with allocated budgets, it nevertheless indicates a customer mindset ready for SaaS.

So, e-economic clearly has a window of opportunity before the market matures enough for the giants (Microsoft, Google, Oracle, and Sage) to enter the game and consolidate the market. Evidence from e-economic's own operations reveals viral nature of sales in a software as a service world. As an example, some German companies are using e-economic to cover their accounting needs, despite the fact that

the application has not been sold, marketed, or localized for Germany and is not available in German. Some of the German customers are subsidiaries of e-economic customers in other countries and some have simply signed on via the e-economic corporate Web site. They are using the application in English.

Future Competition and Consolidation

Today, e-economic competes with traditional software vendors such as Microsoft (C5), Mamut (Enterprise), and Visma (WinKompas). Other competitors include SaaS outfits such as Revilution (Revilution) and Deloitte (eCTRL) in Denmark, Fortnox (Fortnox) in Sweden, 24-Seven in Norway, TwinField in the Netherlands/U.K., and Xero in the U.K.

As the market for SaaS-based accounting grows in size and importance, IDC expects global vendors to enter. Such vendors could be today's leaders in accounting for small enterprises, i.e. Sage and Intuit, or Microsoft and Google seeking to complement other SaaS-based revenue sources with accounting.

Some smaller SaaS providers will be acquired during the current phase of high growth by larger vendors buying access to the SaaS market. However, IDC expects the majority of small, high-growth vendors to remain independent during the high growth phase, just as has been the case in other high growth software markets.

At some point in the future, growth will drop to low single digits and a wider consolidation phase will commence. This consolidation will not destroy the acquired SaaS specialists but rather align these under broader corporate and financial structures that are needed for a mature, low-growth market.

ESSENTIAL GUIDANCE

Advice for Accounting as a Service Vendors

For vendors selling SaaS-based accounting applications, IDC offers the following three points of advice:

- ☒ *Consider participation in external ecosystems.* A number of ecosystems have appeared such as salesforce.com's AppExchange and IDC believes more will come over time. Such portals serve as one-stop-shops for customers looking for pre-integrated business solutions and will become important forums to win new customers.
- ☒ *Consider acquisitions when entering foreign markets.* The market for accounting applications is intrinsically local and corporate and public accountants prefer local knowledge to a technically proficient foreign provider. An acquisition can bring local domain knowledge and resources, as well as a local installed base, which can bring about the credibility needed to win new customers and partners. Acquisitions add "foreign" code to existing products, but realigning code can be a small price to pay when conquering a new market.
- ☒ *Develop a consistent monetization strategy.* When selling a new concept, such as software as a service, customers appreciate simplicity in idea, product, and pricing model. Typically, the best-working pricing model is based on run-time, meaning that development tools, support, partner access, and IT operations

should all be included in one run-time fee. The pricing model of e-conomic is a good example of how to keep pricing simple and transparent.

LEARN MORE

Related Research

- ☒ *Western European SCM Applications, Forecast and Analysis, 2008–2012* (IDC #LC09Q, June 2008)
- ☒ *Western European ERM Applications, Forecast and Analysis, 2008–2012* (IDC #LC08Q, May 2008)
- ☒ *Western European CRM Applications, Forecast and Analysis, 2008–2012* (IDC #LC07Q, April 2008)
- ☒ *An End-User Perspective of the European CRM Market in 2008* (IDC #LC04Q, March 2008)
- ☒ *Western European Software as a Service Attitudes and Plans, An IDC Survey, 2008* (IDC #LC02Q, January 2008)
- ☒ *IDC's Software Taxonomy, 2008* (IDC #210828, February 2008)

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