

SEPTEMBER 2021

Xero ecosystem survey: Summary of findings

LONERGAN.

This research was commissioned by Xero and conducted by Lonergan Research for Xero ecosystem survey.



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Xero ecosystem survey

Methodology

Survey

A 26-question online study was conducted amongst members of the Xero ecosystem community.

Sample profile

The study was conducted among 1,435 members of the Xero ecosystem community.

Surveys were distributed internationally.

Project brief

This study aimed to uncover and explore the opinions and experiences of the Xero ecosystem community, in particular over the last financial year.

Fieldwork

Fieldwork commenced on Monday 30 November 2020 and was completed on Sunday 17 January 2021.

This project was carried out in compliance with the ISO 20252 standard



Disclaimer: The research was commissioned by Xero and conducted by Lonergan Research in accordance with the ISO 20252 standard. Lonergan Research surveyed 1,435 members of the Xero ecosystem community. Surveys were distributed internationally, and throughout Australia including both capital city and non capital city areas. The survey was conducted online amongst members of a permission based panel, between 30 November 2020 and 17 January 2021.

Foreword

Nick Houldsworth



Nick Houldsworth

Ecosystem EGM, Xero

Welcome to Xero's inaugural ecosystem survey report - our first comprehensive look at the humans that make up the Xero ecosystem community.

The Xero small business platform continues to grow and scale, and with the launch of the Xero App Store this year, it's crucial that we know more about who our ecosystem community is and what they need to succeed.

Our community numbers more than 70,000 users of our API, and over 1000 apps connected to the Xero platform. We surveyed more than 1400 community members for this comprehensive survey.

This report gives us a snapshot of the demographics that make up the Xero ecosystem community, including business size and industry. It shares insights into how the community has performed through 2020, their current state of play, and their sentiment about the future.

This is the first time we've really dug deep into this important part of Xero, and we're seeing some incredible insights emerge, including how important the Xero platform is to our ecosystem community members.

While the global pandemic continues to impact the world, it is an important time for digital technology. Cloud technology, like Xero and the apps in our ecosystem, has helped small businesses across the globe to weather a time of great upheaval, and decision-makers are taking notice. Governments are investing into getting their small business communities digitally connected, bringing opportunities to build exciting and innovative solutions for everyone. With that in mind while looking at the Xero ecosystem community in this report, I'm excited to see what's to come.

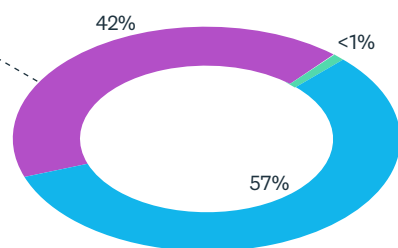
Take a look through our report, and you'll be excited too.

Research demographics

An overview of survey demographics

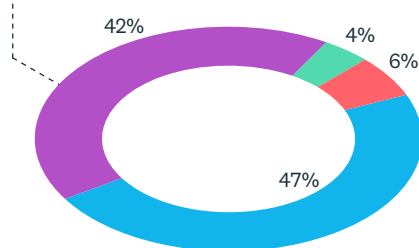
SAMPLE BREAKDOWN

Gender



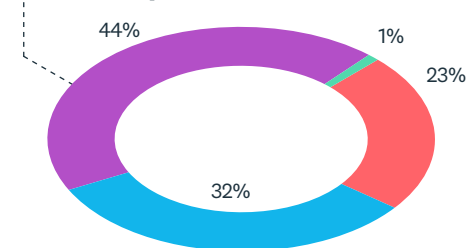
- Male (n – 824)
- Female (n – 605)
- Other (n – 6)

Generation



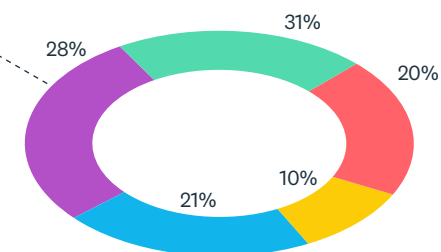
- Gen Z (18-24) (n – 89)
- Millennials (25-39) (n – 679)
- Gen X (40-59) (n – 603)
- Baby Boomers (60+) (n – 64)

Business phase



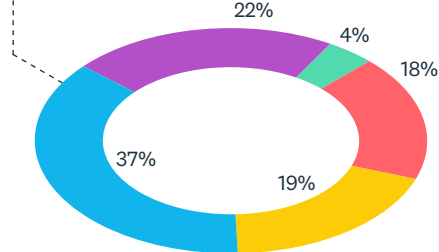
- Start-up (n – 326)
- Scale-up (n – 456)
- Established (n – 635)
- Possible wind-down/exit (n – 18)

Relationship to Xero



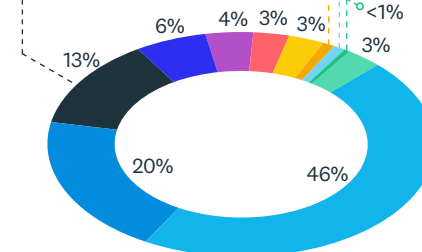
- Xero app partner (n – 282)
- Xero developer partner (n – 149)
- Xero connect partner (n – 303)
- Financial service partner (n – 401)
- Other (n – 449)

Business size



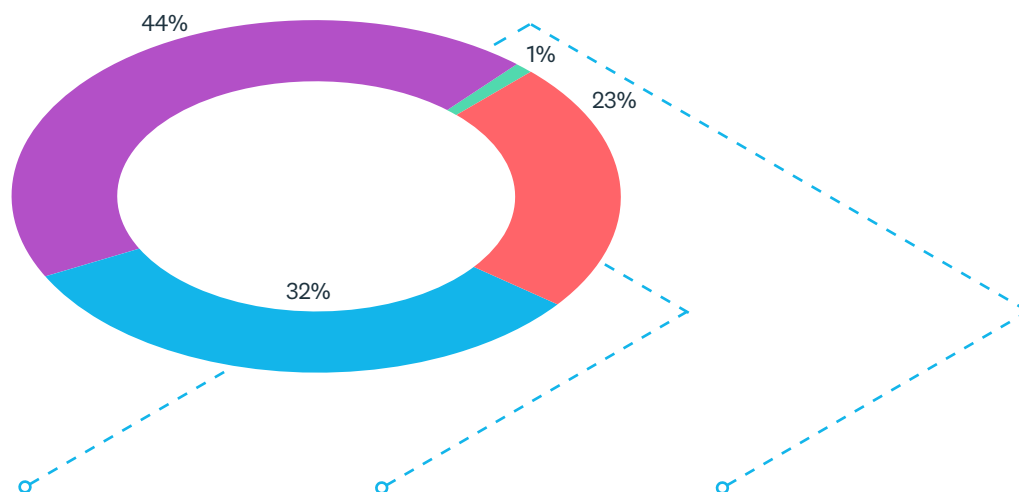
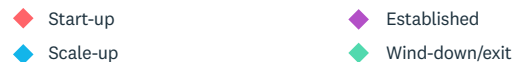
- Sole trader (yourself only or with non-business partners) (n – 258)
- Micro (2-4 employees) (n – 278)
- Small (5-19 employees) (n – 535)
- Medium (20-199 employees) (n – 310)
- Large (200+ employees) (n – 54)

Location



- Australia (n – 665)
- New Zealand (n – 284)
- United Kingdom (n – 181)
- United States (n – 85)
- South Africa (n – 59)
- Canada (n – 47)
- Singapore (n – 40)
- Philippines (n – 19)
- Hong Kong (n – 9)
- Malaysia (n – 4)
- Somewhere else (n – 42)

BUSINESS PHASE

**A third**

(32%) of Xero ecosystem community members' organisations are in the scale-up phase.

- Those with apps that integrate with Xero are more likely than average to be in the scale-up phase (41%; cf.¹ average 32%)

Nearly a quarter

(23%) of Xero ecosystem community members' organisations are in the start-up phase.

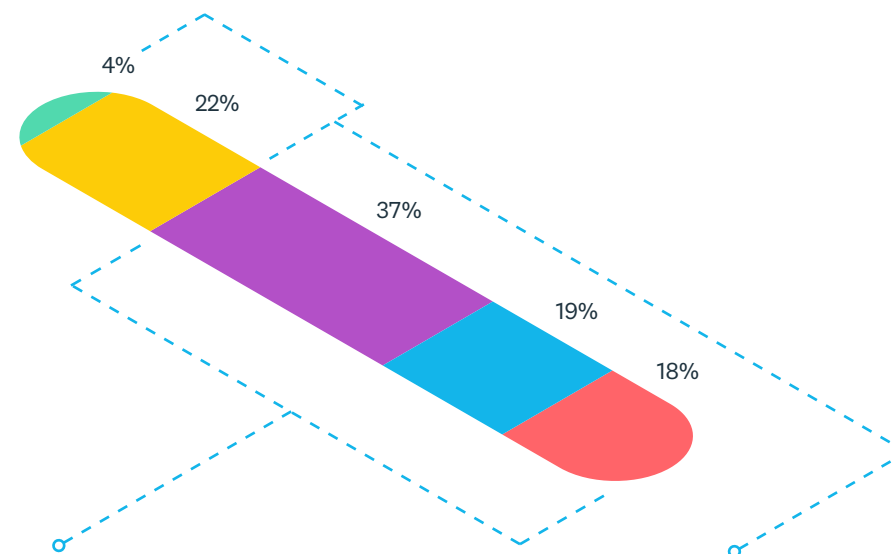
- Internationally, this is driven by those in Singapore (45%)

Most commonly

(44%) of Xero ecosystem community members' organisations are in the established phase.

- This is strongly driven by members in New Zealand (58%), and by Xero financial services partners (51%)

BUSINESS SIZE

**Three quarters**

(75%) of the Xero ecosystem community is made up of companies with less than 20 employees, including 18% who manage their business alone.

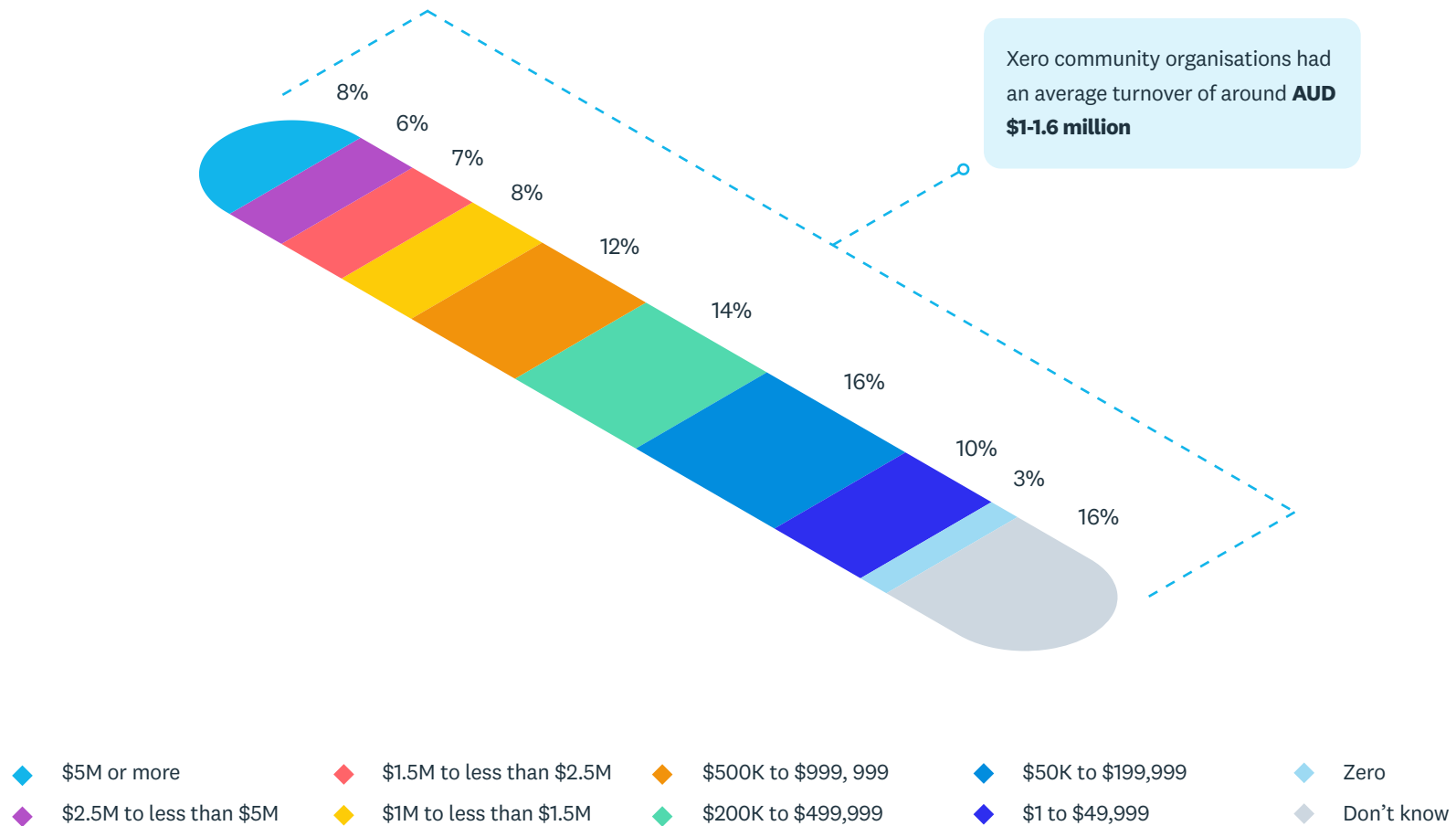
- Among those Xero ecosystem community members in the UK, 29% manage their business alone

Xero ecosystem developers are more likely than average to belong to organisations of **20 or more employees** (35%; cf. average 25%)

Source: Lonergan Research. Q10. Thinking about your organisation, which of the following best describes the phase the business is currently in? If none are an exact match, please select the one which is closest ?; Xero ecosystem community members (n=1,435)

¹ The term 'cf.' used in this report means 'compared with'

XERO COMMUNITY REVENUE/TURNOVER

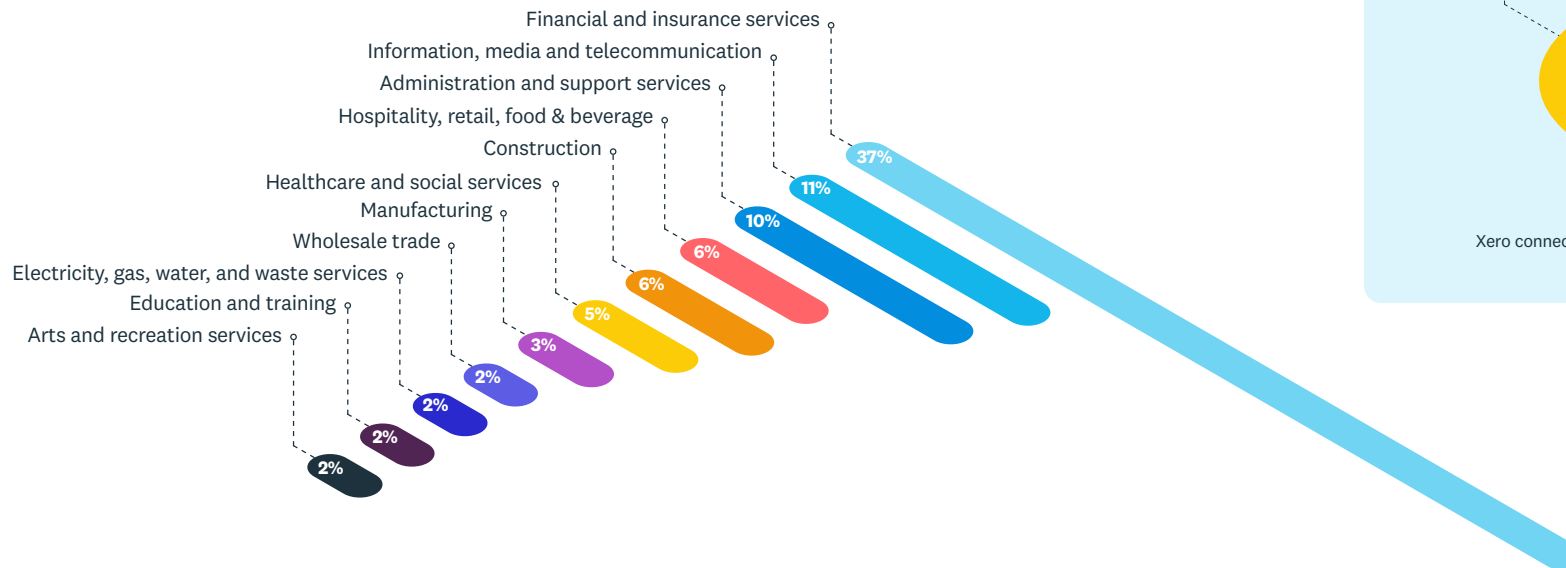


Source: Lonergan Research. Q13. To the best of your knowledge, which of the following categories best describes your organisation's revenue / turnover last financial year? *as AUD; Xero ecosystem community members (n= 1,435)

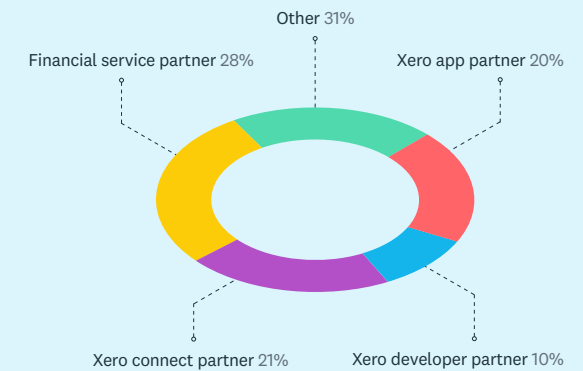
The community is made up of multiple industry sectors

The Xero ecosystem community is made up of numerous business sectors servicing multiple needs across many industries.

INDUSTRY SECTORS



Relationship to Xero



**Innovation is at the heart
of our ecosystem community**



VANGELIS KYRIAZIS, CEO

Case study: Innovation is at the heart of our ecosystem community

“Connecting to Xero is integral as it gives us access to really rich accounting data at the core of a business. We use that data to help our customers understand how their business is doing so they can make informed business decisions,” says Vangelis.

Syft Analytics is a business insights app that takes rich accounting data, and creates beautiful and easy to understand reports and insights.

Vangelis says, “Connecting to Xero is integral as it gives us access to really rich accounting data at the core of a business. We use that data to help our customers understand how their business is doing so they can make informed business decisions.”

Being customer-focussed, agile, and innovative are core to how Syft operates, enabling them to respond quickly to changing operating environments and customer needs. As the world quickly changed in the face of 2020's pandemic, Syft knew their customers needed all the help they could get.

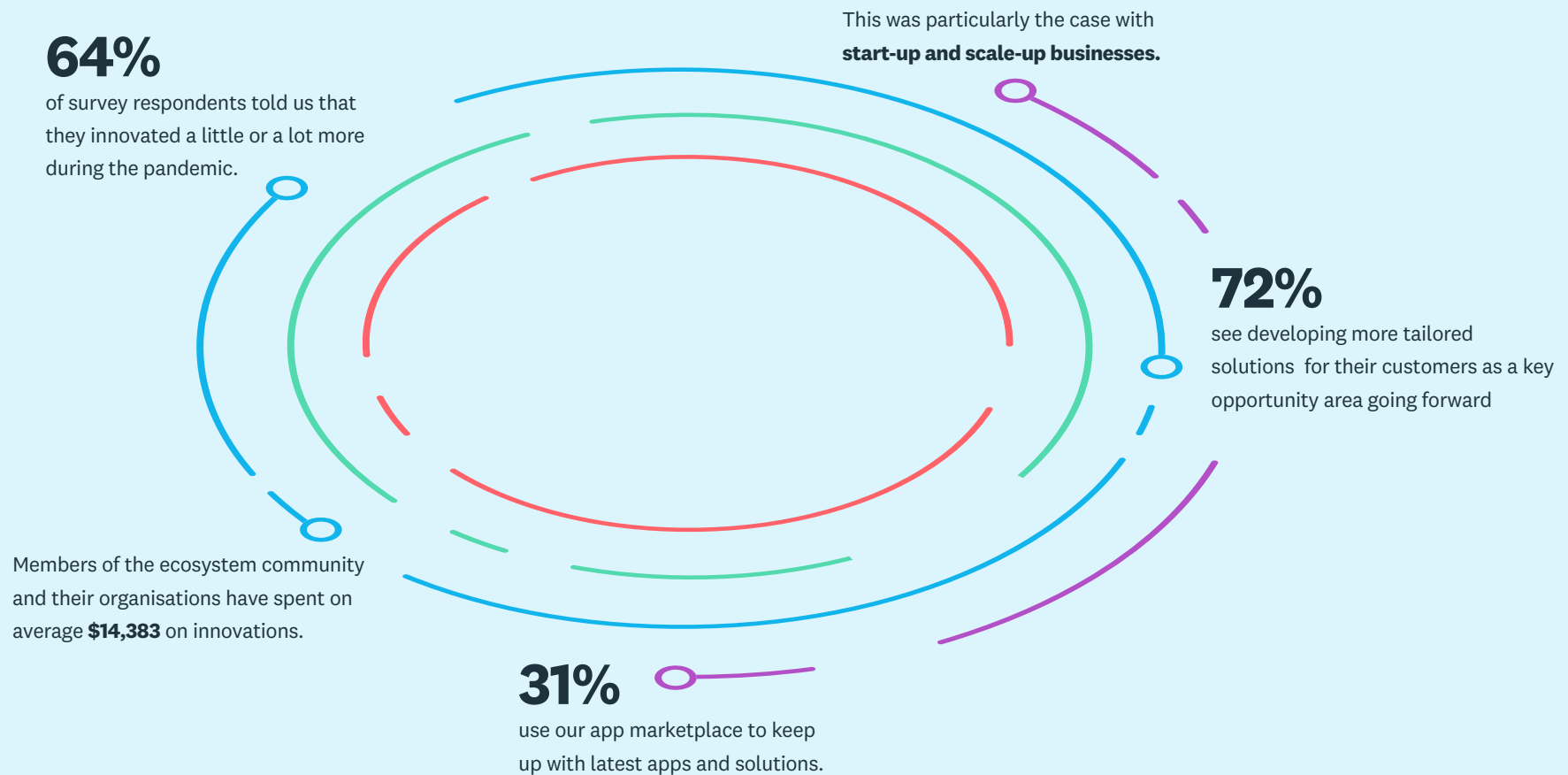


Syft used Xero's open API to:

- Quickly build plug 'n play **report packs** that seamlessly pulled together financial data from Xero to help small businesses apply for COVID-19 government support. These were regionalised for different government requirements.
- Pivot and create new short-term and long-term **cash flow forecasting tools**, called Cash Manager and 4-Way Forecast, to help small businesses plan for the future.

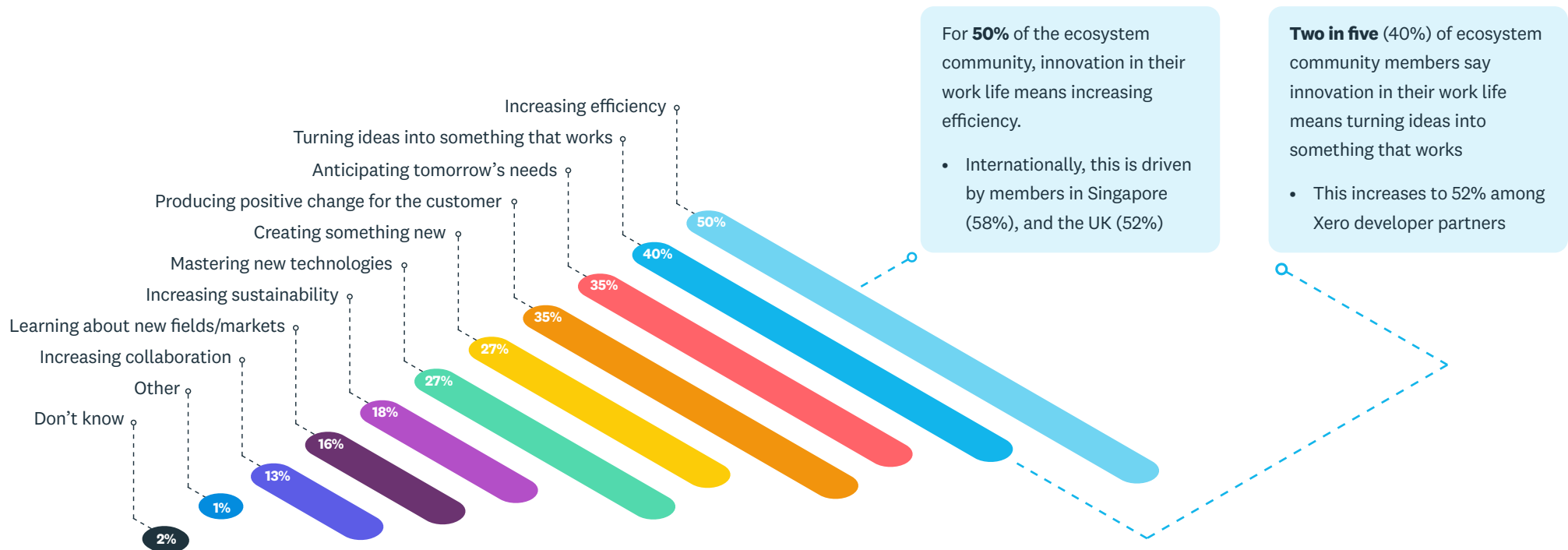
Our ecosystem community is active and innovative

2020 was a time for innovation and new ideas amongst the ecosystem community.



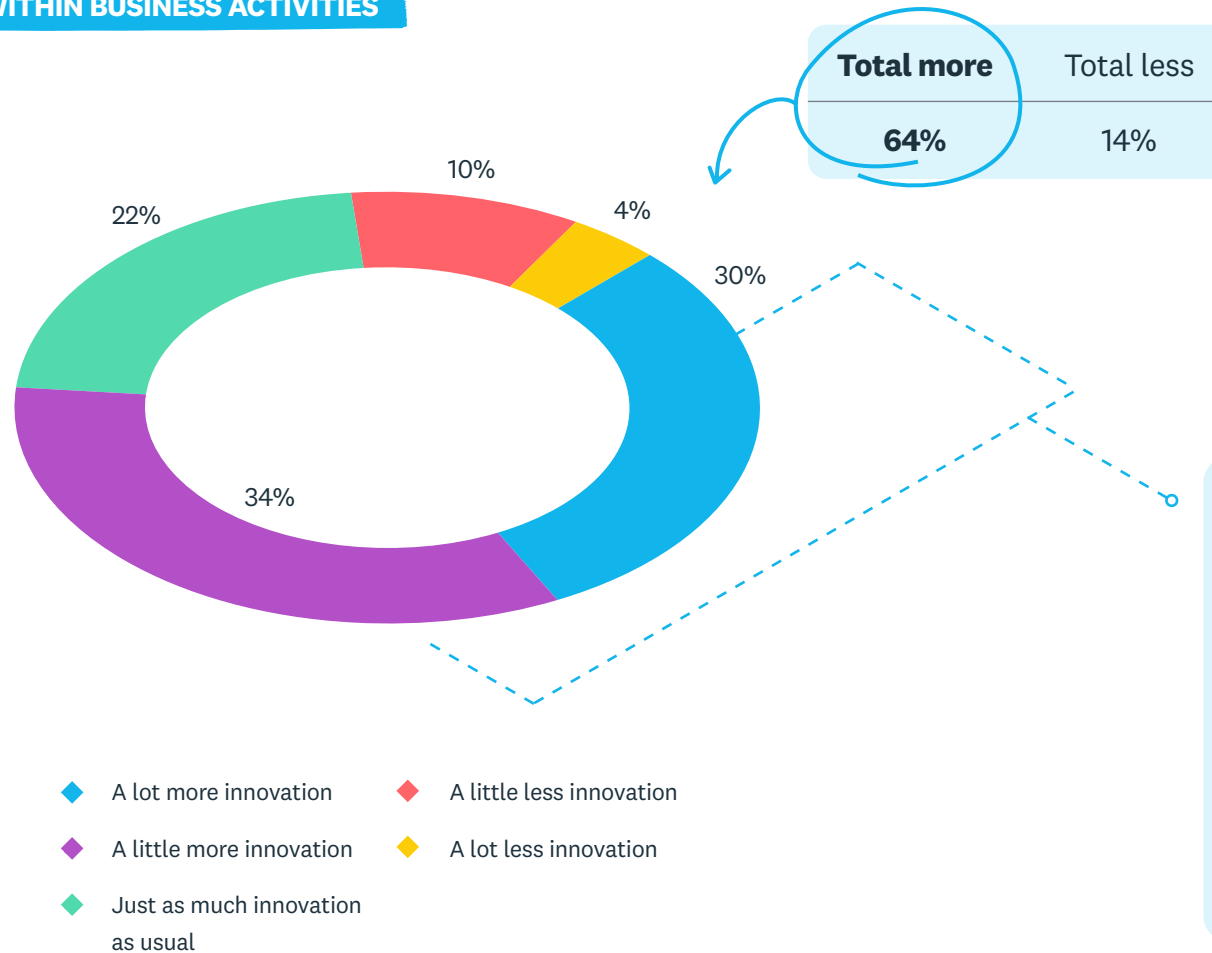
For half of the ecosystem community members, innovation in their work means increasing efficiency

INNOVATION IN WORK LIFE



2020 was a year of innovation for two-thirds of ecosystem community members

INNOVATION WITHIN BUSINESS ACTIVITIES



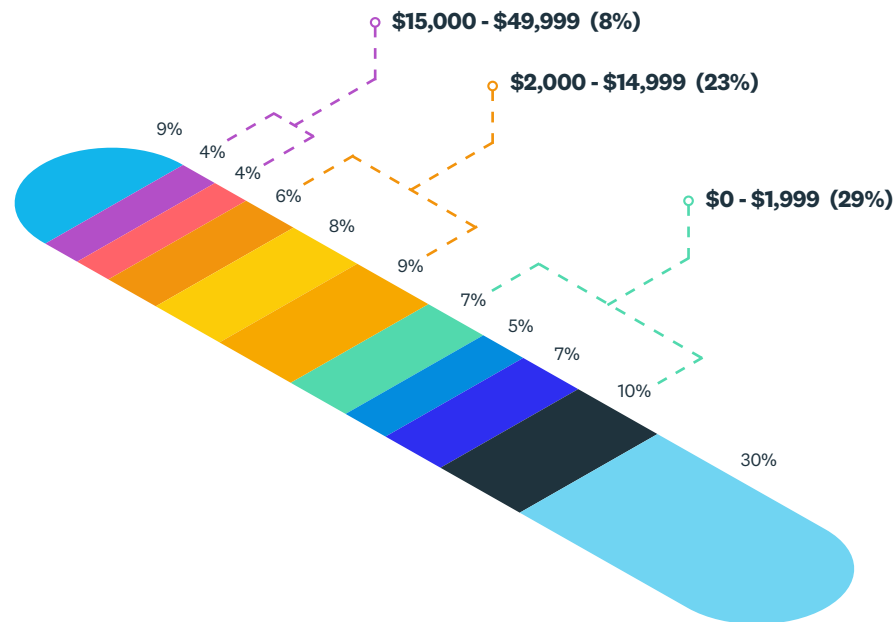
Two-thirds

of ecosystem community members felt they have innovated more in 2020, with **three in ten** (30%) saying they've innovated a lot more and a third (34%) innovating a little more.

Community members of organisations in the **start-up and scale-up** phase claim to have innovated more over 2020 than those in more established organisations (start-up 67%, scale-up 65%; cf. established 61%).

Ecosystem community member organisations have spent on average **\$14,383** on innovations

MONEY SPENT ON INNOVATION



- Members of the Xero ecosystem community and their organisations have spent on average **\$14,383** on innovations.
 - Xero developer and app partners have spent **more than average** on innovations in 2020 (developer partner \$27,349, app partner \$21,170)
 - Organisations in the scale-up phase spent more money in 2020 on innovations than average (\$17,026; cf. average \$14,383)
- The organisations of one in ten (9%) members of the Xero community spent **\$50,000 or more** on innovations in 2020.

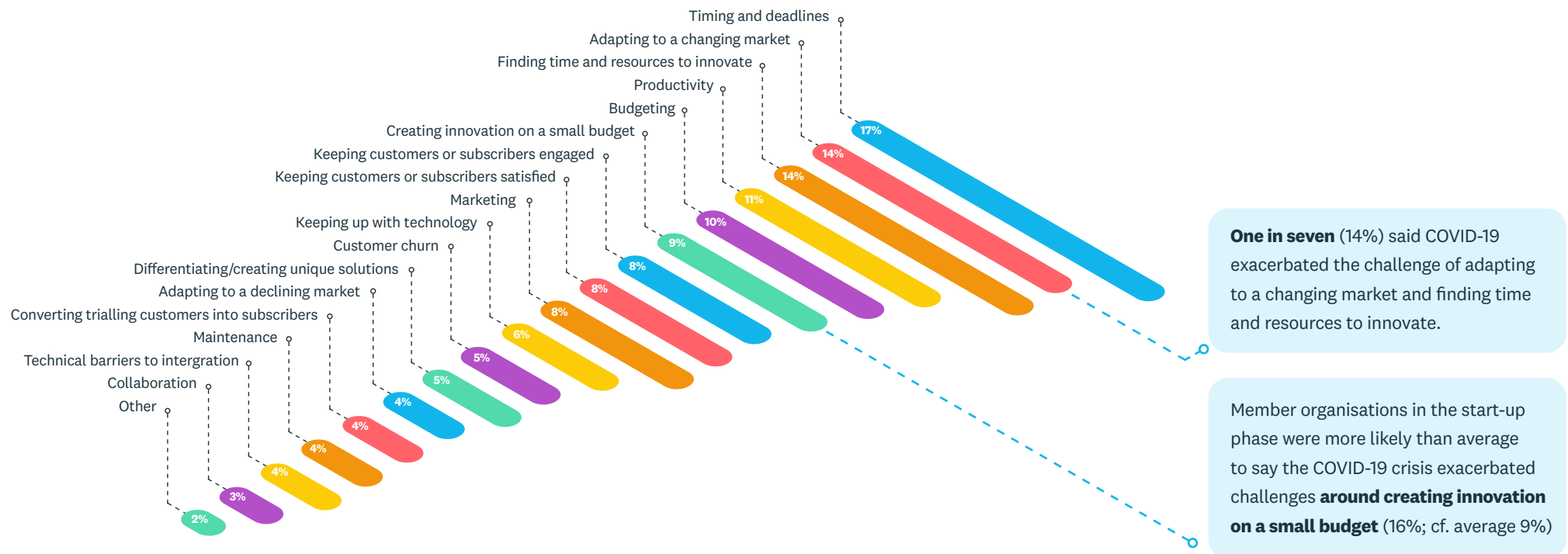
Spend on innovations in 2020 for Xero community organisations was approximately between AU\$9-18K:

Australia: \$14,398	Canada: \$17,160
New Zealand: \$16,373	Singapore: \$16,110
UK: \$11,847	South Africa: \$9,605
USA: \$17,976	

Facing down the COVID-19 challenge

Timing and deadline challenges were the most likely to be exacerbated by the pandemic

CHALLENGES EXACERBATED BY COVID-19



COVID-19 impacts

Facing major disruptions to their markets, start-ups and scale-ups seized the opportunity to do business in new ways to solve key challenges.



42%

of respondents said that profitability had been impacted during COVID-19



40%

said that revenues and profitability had also been impacted



41%

in our community said that COVID-19 had an impact on expansion opportunities

BUT

Our community, particularly those in smaller more agile businesses, have made the most out of a changed environment to drive positive outcomes for their customers and people.



48%

Positive impact on company culture



61%

Positive impact on customer relationships

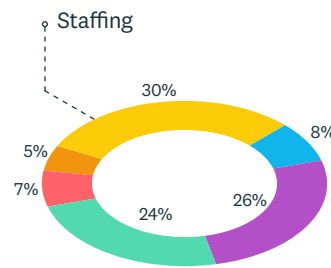
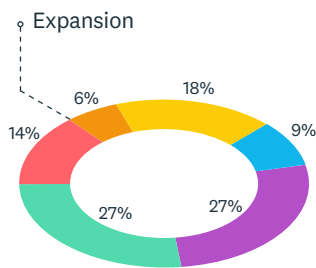
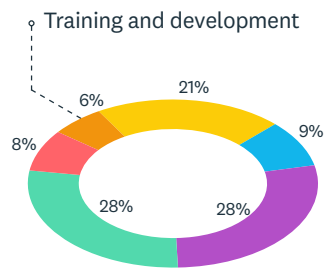
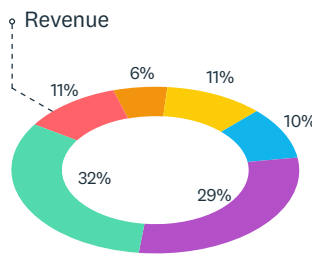
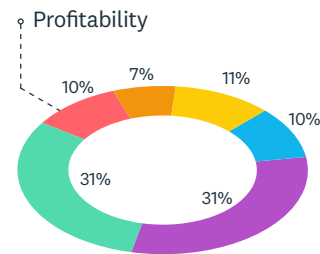
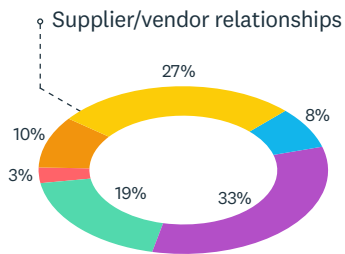
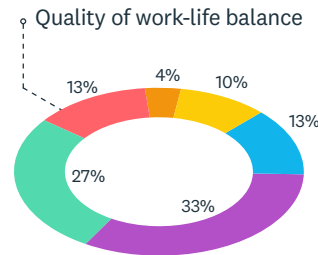
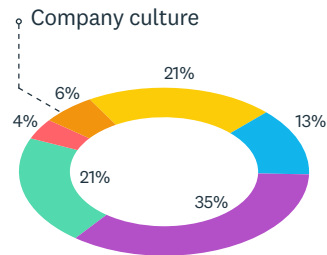
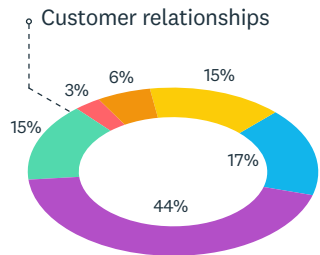


46%

Positive impact on work-life balance

Impacts to profitability

COVID-19 IMPACT



Very positive
Somewhat positive

Somewhat negative
Very negative

Unsure
N/A

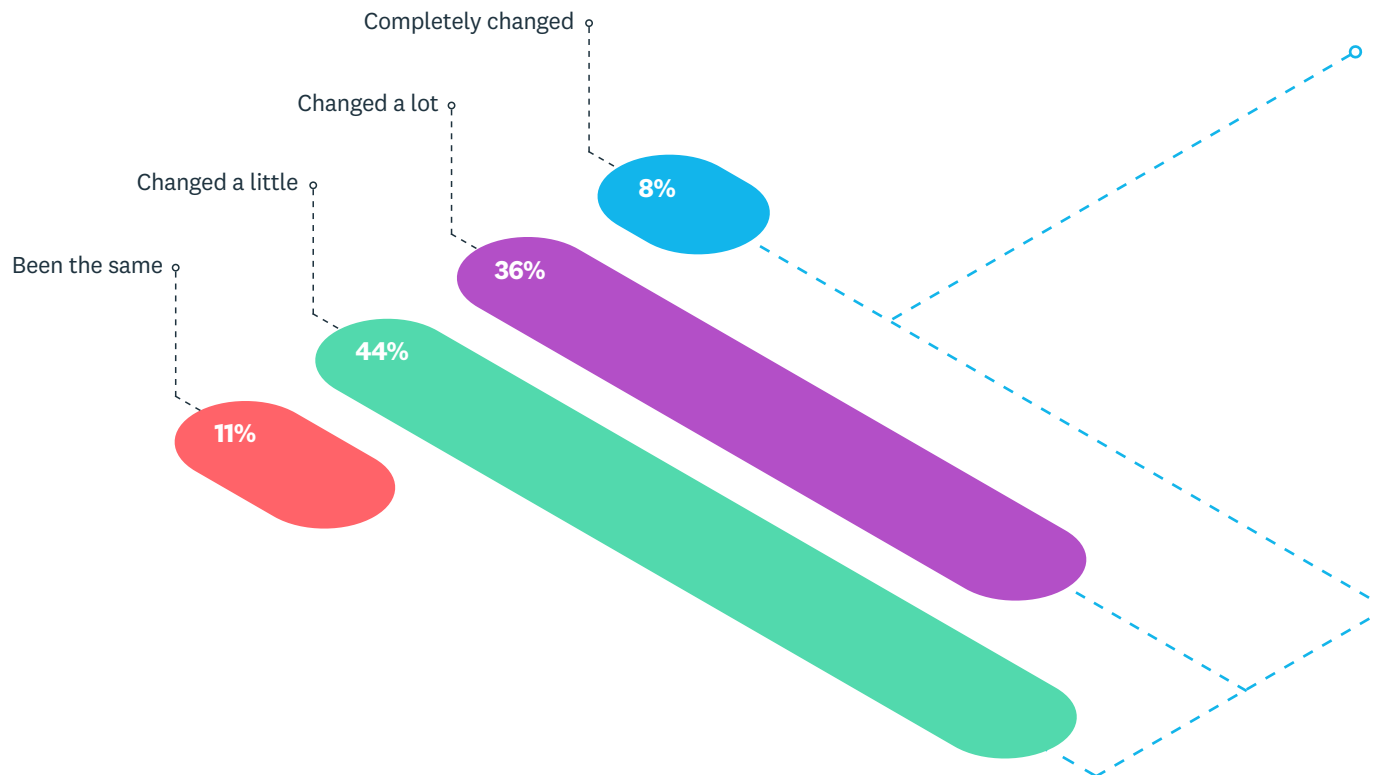
	Total positive	Total negative
Customer relationships	61%	18%
Company culture	48%	26%
Quality of work-life balance	46%	40%
Supplier/vendor relationships	41%	22%
Profitability	41%	42%
Revenue	40%	43%
Training and development	37%	36%
Expansion	35%	41%
Staffing	34%	31%

Internationally, Australian members fared better than average when it comes to the impact the COVID-19 pandemic had on revenue (total positive 45%; cf. average 40%) and profitability (total positive 46%; cf. average 41%).

However, many managed to positively leverage this period and build on customer relationships (61%), company culture (48%), and work-life balance (46%).

89% of Xero ecosystem community members think COVID-19 has changed business

CHANGE IN MARKET OPERATION



Nine in ten

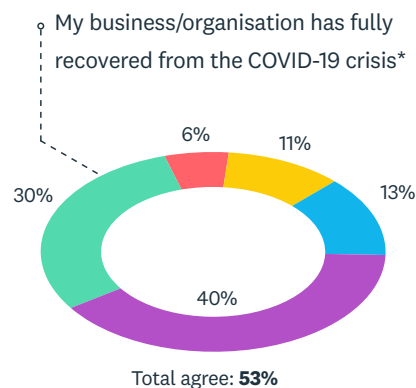
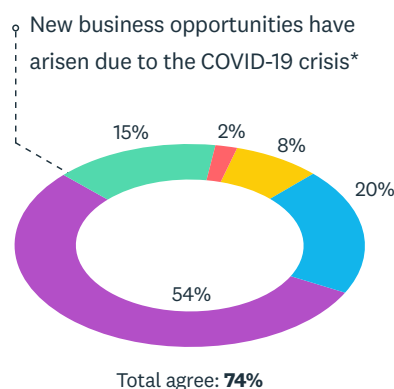
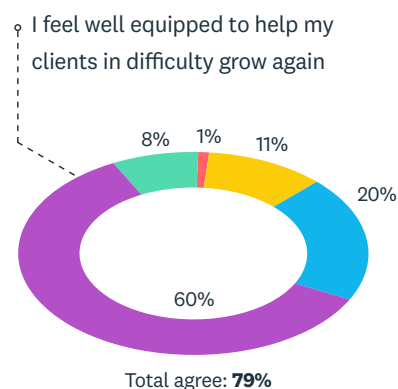
(89%) Xero ecosystem community members say the market they operate in has changed, with nearly **one in ten** (8%) saying it's changed completely.

Community member organisations in the scale-up phase are more likely than average to say the market they operate in has changed (93%; cf. average 89%), while those starting-up are more likely to say their market has completely changed (14%; cf. average 8%)

3 in 4 ecosystem community members have identified new business opportunities during COVID-19

HEALTH OF BUSINESS/ORGANISATION

- ◆ Strongly agree
- ◆ Agree
- ◆ Disagree
- ◆ Strongly disagree
- ◆ N/A



- — + **Three-quarters** (74%) of ecosystem community members have identified new business opportunities, and **four in five** (79%) feel well equipped to help their clients in difficulty grow again.
 - Larger organisations are more likely than their smaller counterparts to have identified new business opportunities (large 87%; cf. medium 76%, small 77%, micro 69%, sole trader 69%)
 - Xero app partners are more likely than average members to say they feel well equipped to help their clients grow again (84%; cf. average 79%)
- — + **More than half** (57%) of ecosystem community members were forced by the COVID-19 pandemic to do a full review of their organisation's business strategy.
- — + **Half** (53%) of ecosystem community members say their business/organisation has fully recovered from the first wave of COVID-19.

*as at January 2021

Source: Loneragan Research. Q20. Thinking about the health of your business or organisation 6 months down the COVID crisis. To what extent do you agree or disagree with each of the following statements?; Xero ecosystem community members (n= 1,435)

“We’ve seen a lot of tradespeople become busier than ever amidst this pandemic. Digitisation has definitely accelerated as trade business owners look at how they can manage their admin more efficiently,” says Michael.



TRADIFY

MICHAEL STECKLER, CEO

Case study: COVID-19 impacts and future outlook

2020 was a year that won't be forgotten quickly. While COVID-19's effects still remain a struggle for many, members of the Xero ecosystem community are optimistic about the future. But what about the small businesses we serve?

Tradify is a job management app developed specifically for trade and construction businesses. Founded in 2010 in New Zealand, Tradify joined the Xero app marketplace in 2013 and has since expanded into Australia, the UK and beyond. They pride themselves on being close to their customers, and with the 2020 pandemic lockdowns causing

upheaval across the world, it was more important than ever to know how those customers were feeling.

In September 2020 and February 2021, Tradify surveyed the business sentiment of hundreds of trade businesses from across Australia, NZ and the UK.

“We’ve seen a lot of tradespeople become busier than ever amidst this pandemic. Digitisation has definitely accelerated as trade business owners look at how they can manage their admin more efficiently,” says Michael.

The February 2021 ‘Pulse Report’ found that:

- Overall, trade businesses were optimistic about the year ahead (AU 66%, NZ 53% and UK 61%)
- Younger businesses (one to three years old) are more optimistic than more established businesses (AU 74%, NZ 60% and UK 69%)
- Growth and customer experience (AU), hiring more staff (NZ & UK) and improving efficiencies (UK) were 2021 goals.

A platform for success

The Xero ecosystem is seen as a **key success driver** for many within our community



With cloud adoption exploding off the back of COVID-19, more businesses are leaning into the ecosystem to create business efficiencies like never before.

Xero's ecosystem is helping small businesses and accountants thrive. The platform is making it simple and easy to integrate with apps, build upon existing software and create tailored solutions.

— — + Some key survey take-outs about why our community works with Xero:

- Creating specific solutions for their business/clients is the top reason members chose to work with Xero (53%)

— — + Other reasons include:

- My customers want to be able to sync with Xero (43%)
- To reach more customers (31%)
- To increase revenue (26%)

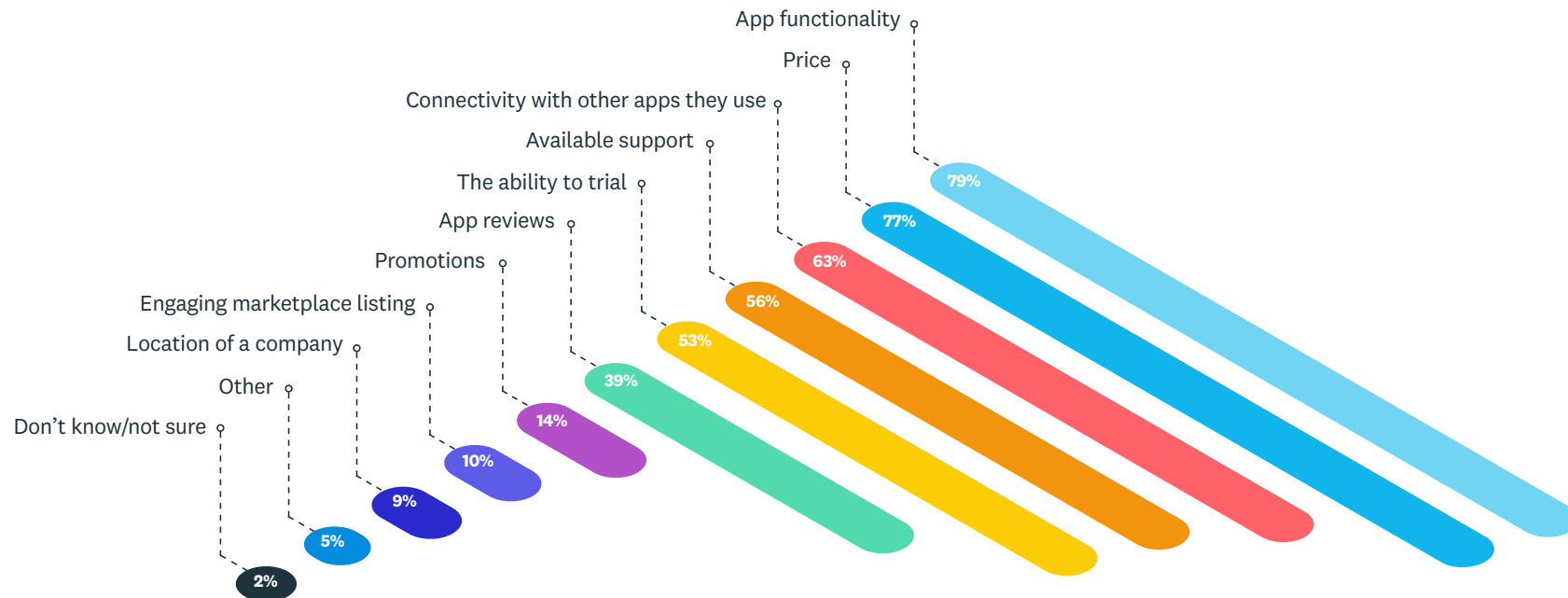
— — + The Xero app marketplace is a place to find other apps/solutions to 40% of the Xero ecosystem community

— — + Xero ecosystem community members most commonly describe the relationship between API/platform providers and developers across the industry as positive (33%)

— — + This increases to 43% among Xero developer partners and 41% among Xero app partners

Functionality is seen as the number one for influencing small business app purchases

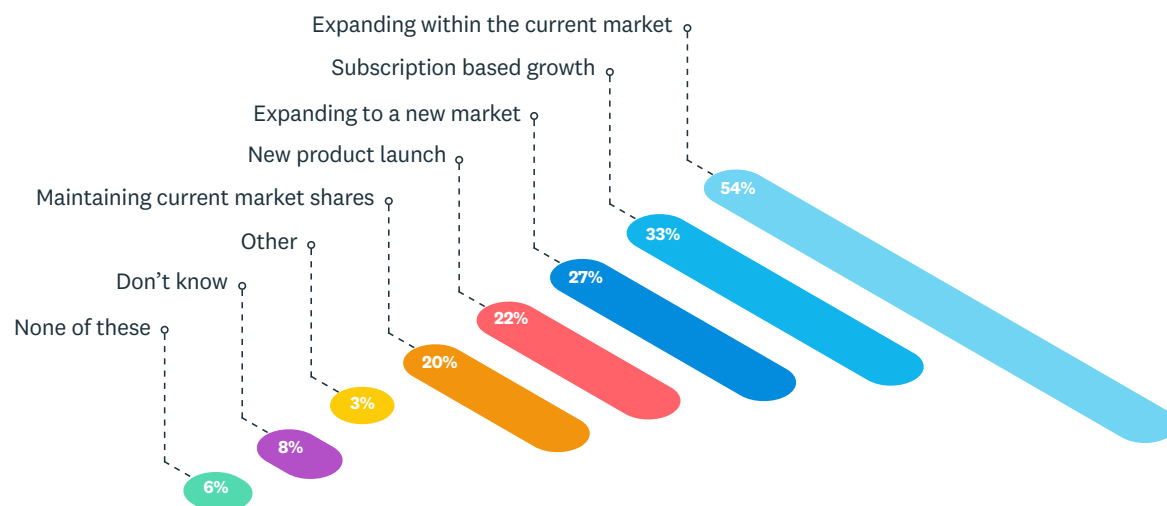
INFLUENCES ON APP PURCHASE



Four in five (79%) members of the Xero ecosystem community believe **app functionality** influences a small business to purchase an app. This is the most commonly selected attribute, however it is closely followed by **price** (77%).

More than half of ecosystem community member organisation goals for this financial year are to expand within the current market

GOALS FOR THE FINANCIAL YEAR



The most common opportunity identified for 2021 by the Xero community:

Growing their base of client prospects

- The ecosystem community has identified a wide variety of opportunities for 2021, most commonly growing their base of client prospects (96%) and the ability to better adapt than competitors (95%).
- Sole traders are less likely than average to identify new gaps in the market they can fill (86%; cf. average 91%), and delivering innovations on a new level (85%; cf. average 90%) as an opportunity in 2021.

Among the new goals the Xero community has set for the financial year ahead, **more than half** (54%) are planning to expand within the current market and **a third** are aiming to expand their subscriptions base.

More than a quarter (27%) of the community say their organisation plans to expand into a new market this financial year.

Ecosystem community members with organisations in the **scale-up phase** are more likely to say in the current financial year, their organisation is planning to:

- expand within the current market (63%; cf. average 54%)
- grow their subscription base (40%; cf. average 33%)
- expand into a new market (34%; cf. average 27%), or launch a new product (27%; cf. average 22%)

While **start-ups** are more likely to focus on subscription base growth (40%; cf. average 33%) and new product launch (29%; cf. average 22%), **established businesses** are more likely to aim to maintain their current market share (24%; cf. average 20%).



PAUL GREY, CEO

Case study: A platform for success

“For these small businesses, the integration between Xero and A2X does a brilliant job of simplifying the complexities of ecommerce accounting,” says Paul.

A2X is a powerful ecommerce accounting app that automates the complicated process of reconciling transactions between ecommerce platforms and Xero. Paul Grey, co-founder and CEO, used his own experience running an online business on Amazon as the inspiration to build A2X.

A2X joined the Xero app marketplace and app partner program in 2015, and has been well received ever since, with hundreds of five star reviews from Xero's global subscriber base. A2X's success has helped them to grow from initially serving Amazon-based businesses, to including Shopify, Etsy, eBay, and Walmart businesses too.

“For these small businesses, the integration between Xero and A2X does a brilliant job of simplifying the complexities of ecommerce accounting,” says Paul.

Businesses trading online exploded during 2020, with ecommerce growing by over 44% in the US alone. This meant huge growth for A2X.

“Globally, the number of Shopify stores using A2X to post accurate accounting journals to Xero is more than ten times where it was at the start of 2020,” says Paul.

With so many small businesses pivoting to online-storefronts, having access to the right tech for the job is crucial. Platforms like Xero make it easy for the right tech, like A2X, to find its way to the hands of small businesses.



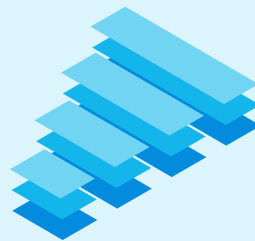
Key factors for ecosystem success in 2021

Of those surveyed, in 2021 smaller, agile companies are intent on leveraging Xero to grow their market share, grow subscription bases and be better than their competitors.



78%

of ecosystem community members cited being better able to adapt than competitors as crucial to success in 2021



80%

of respondents see 2021 as a year with the opportunity to grow

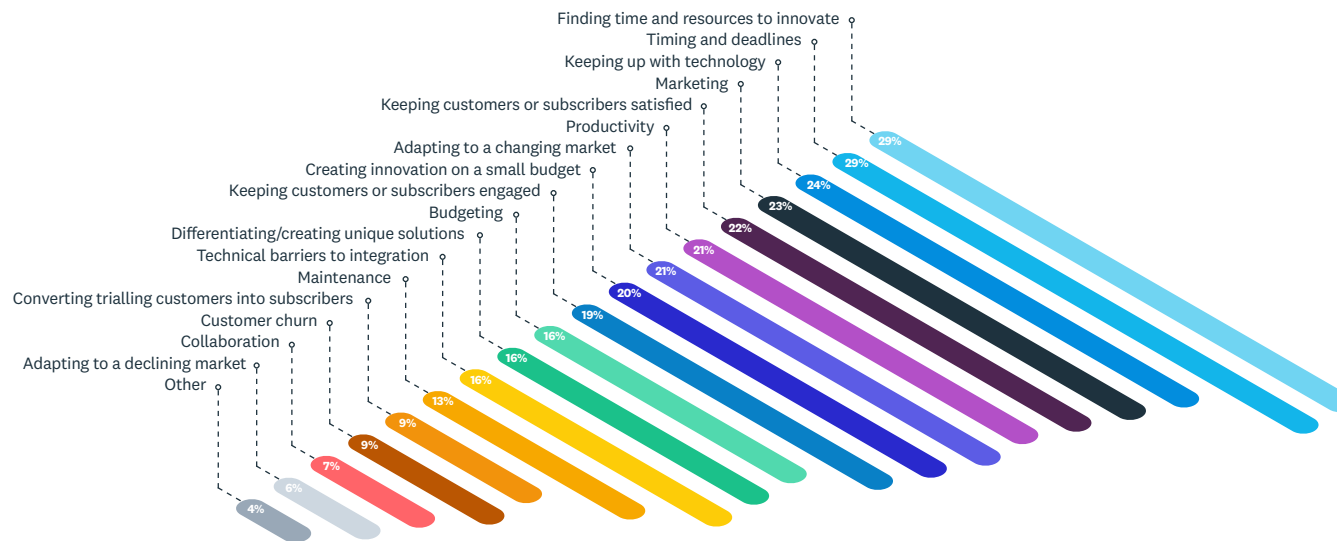


54%

are focusing on increasing their market share

Common challenges facing the ecosystem community are finding time and resources to innovate, and deadlines

COMMON CHALLENGES FACING THE XERO COMMUNITY



- + The ecosystem community deals with a great variety of business challenges including **three in ten** (29%) trying to find time and resources to innovate and deadline challenges
- + Xero app partners are **more likely than average** to face challenges converting trialling customers into subscribers (18%; cf. average 9%)
- + Xero developer partners are **more likely** to face challenges creating innovation on a small budget (32%; cf. average 20%), differentiating/creating new solutions (24%; cf. 16%), technical barriers to integration (27%; cf. average 16%), and maintenance challenges (23%; cf. 13%).
- + The most common challenge faced changes with the phase a business is in - start-ups face challenges related to marketing the most (29%; cf. average 23%)
- + Scale-up phase organisations experience challenges finding time and resources to innovate (35%; cf. average 29%)
- + Established organisations are challenged most by timing and deadlines (33%; cf. average 29%)

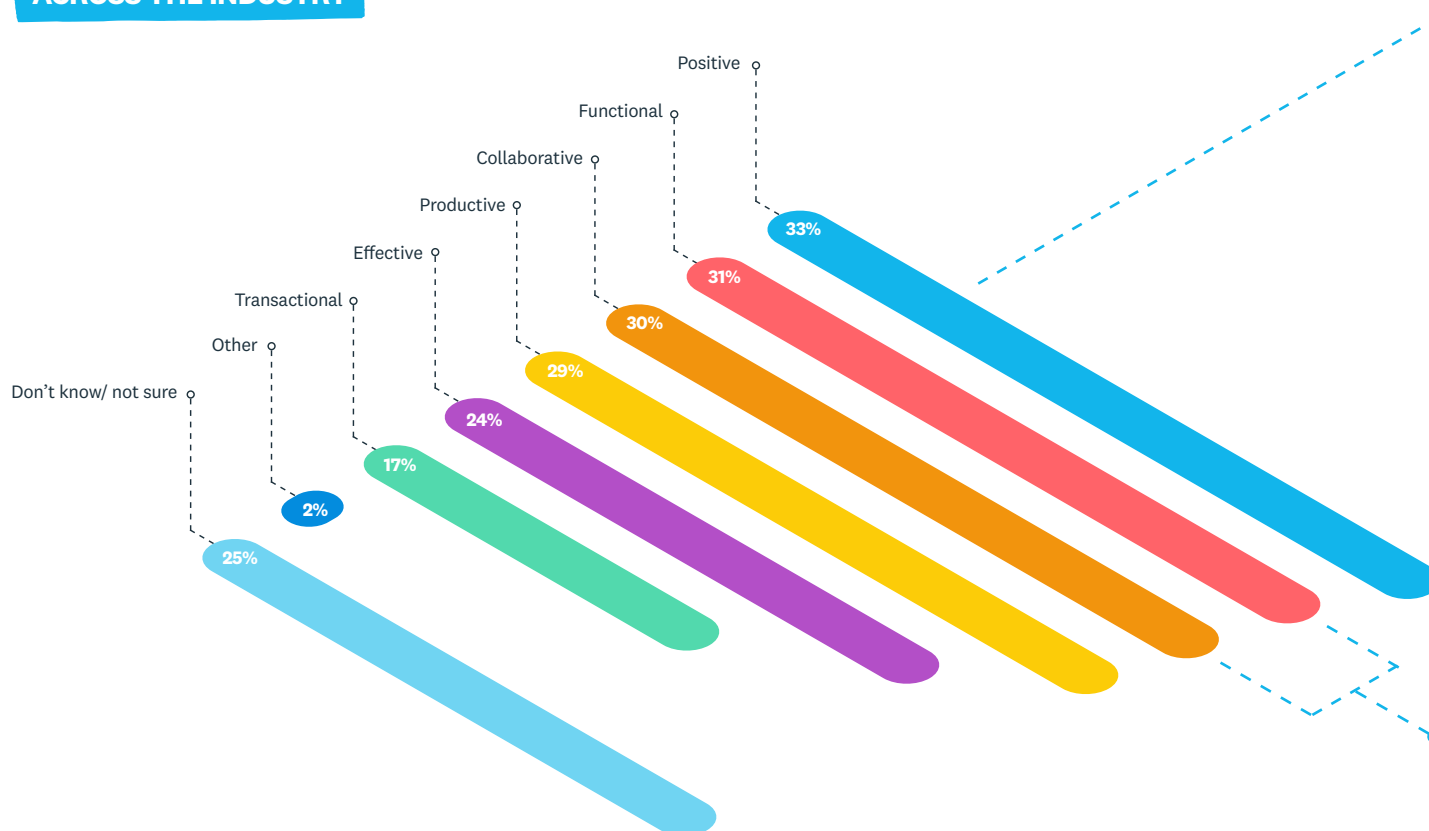
The business benefits of a healthy app ecosystem

The Xero community deals with a wide variety of business challenges



The relationship between API/platform providers and developers is most commonly seen as **positive**

RELATIONSHIP BETWEEN API/PLATFORM AND DEVELOPERS ACROSS THE INDUSTRY



Xero ecosystem community members most commonly describe the relationship between API/platform providers and developers across the industry as **positive** (33%). This increases to **43%** among Xero developer partners and **41%** among Xero app partners.

How members see the industry can change depending on where they live. Members in **Singapore** are most likely to describe the industry as **collaborative** (48%; cf. average 30%), while members in the **United States** are most likely to describe the relationship as **functional** (33%; cf. average 31%).

Final points

After a challenging 2020, it has been fantastic to see that our community remains resilient and optimistic. Despite the impacts of COVID-19, our survey found that our partners have looked for, and found, multiple opportunities to grow.



52%

of Xero community members claim access to the Xero platform has been important/critical in achieving their 2020 goals.



64%

of Xero community members felt they have innovated more in 2020.



67%

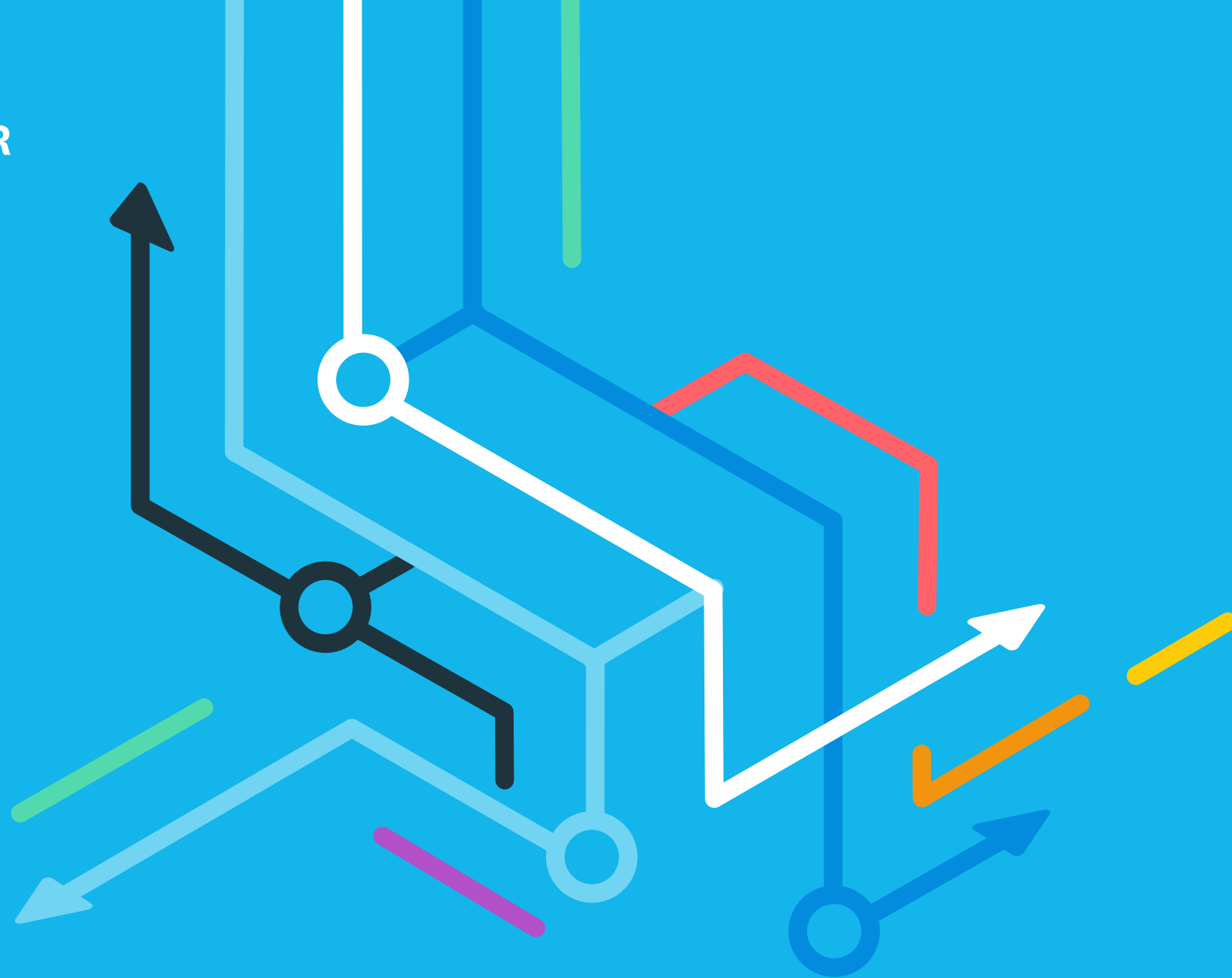
of community members with a history of Xero app integration have tackled challenges using Xero solutions.



The ability for partners to integrate with Xero is a key reason for joining our community. **The ability to create specific solutions** for their business/clients was cited by **53%** of respondents as the reason for being with Xero. Similarly, the importance of **an API/platform** was highly valued by over half of our partners.



When asked why they work with Xero, **43%** said that their customers want to be able to sync with Xero.



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This research was commissioned by Xero and conducted by Lonergan Research for Xero ecosystem survey.