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## ACCOUNTING & AUDIT

# The SMB Cloud Accounting Market is Still a New Frontier

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**Isaac M. O'Bannon** • Mar. 07, 2014



There has been a lot of activity in the online accounting market over the past few years and, according to some vendors, there is a big battle being waged for the minds (and wallets) of small businesses.

While there is certainly a battle, how big is it really? Looking at the really big picture, cloud accounting vendors are actually still on the edge of a vast frontier. After all, there are more than 11.5 million small businesses 1-20 in the United States, according to the latest available Census Bureau statistics. If you include “non-employer” businesses, generally independent contractors, that number rises to about 32.8 million.

Now, when you look at the number of users that the primary developers of online small business accounting software report, you can see that they’ve barely tapped this potential market. Even the definitive leader in the space, the proverbial giant Intuit, has only about 575,000 businesses (with an average of approximately three users each) using its QuickBooks Online system.

**Current Online Accounting Customers (paying):**

- **Intuit QuickBooks Online:** 575,000 businesses (1.57 million users)
- **Xero:** 250,000 businesses (users not reported)
- **Kashoo:** 150,000 businesses (users not reported)

(Note: The numbers above represent business entities, not individual users. Many business entities using a program have multiple users. Also, cloud accounting makers **FreshBooks** and **Wave** report 5M and 1.5M users, respectively. However, since they do not disclose what percentage of these are paid users versus free or dormant accounts, the numbers cannot be accurately positioned against these other vendors, who provided the paid user numbers above.)

While the reported user numbers above include U.S. and global statistics, even if the numbers were U.S. users only, these small business bookkeeping systems are only a drop in the bucket when it comes to the potential market. As a percentage of the worldwide cloud accounting market, however, the potential for growth is even much greater.

## **The Competition**

For vendors like Intuit who have long had desktop accounting systems, there will naturally be some growth in the online accounting side that comes from people transferring from desktop versions. However, the majority of the growth has been from non-desktop users, according to Intuit data, which shows 70 percent of their new QuickBooks Online users are truly new customers to the company.

Likewise, not all of the new customers drawn to the other online accounting systems like Xero, FreshBooks, Kashoo, Wave and Less Accounting are transitioning from Intuit's QuickBooks. The market is so wide open, in fact, that there is an abundance of small businesses who are currently using nothing more than a spreadsheet (or paper) to manage their books. That's the real target for all of these vendors.

There clearly is competition in the market, of course. That's because the most valued small business customer prospects are those who've already made the decision to use a cloud accounting system. They are already familiar with such systems and are comfortable with their data in secure online environments, just as they are comfortable using personal online banking functions.

So the competition between these vendors is a critical element, as it continues to drive change and result in more capable online accounting systems.

“Competition is great for our small business customers and it’s great for Intuit,” said Chris Repetto, Communications Director for Intuit’s Accountant and Advisor Group. “As always, we’re focused only on delighting our customers, and the latest customer numbers and growth rates show that customers are shifting to our online solutions in greater numbers than ever before. We’re proud of that, but will continue to listen to customers and roll out improvements every few weeks that address their key concerns and suggestions.”

Those still using desktop software systems are also ripe prospects, but may be resistant to change. They will inevitably need to move to the cloud, however. The largest set of small businesses, however, are also the most challenging. They are the ones who are not currently using a modern accounting system at all.

“Competition is spurring innovation in the cloud accounting market at a time when small businesses are looking for new ways to manage and grow their businesses, and financial institutions and advisors are looking for new ways to connect with small businesses,” said Jamie Sutherland, President of Xero US. “The small business market is enormous, and largely untapped and continuing to grow. Xero is not only taking market share away from legacy players like QuickBooks, but it is also expanding the market opportunity with nearly half of its customers being first time cloud accounting software customers.”

### **Professional Accountants Play Key Role in SMB Adoption**

The challenges above are also enhanced by how these vendors can reach small business owners. One of the most successful methods has been to reach out to CPAs and other public accountants who often offer services to many small businesses. Through programs developed to help accounting firms and their clients, all of these vendors are forging stronger relationships with professionals who are the key influencers over small business accounting purchases.

These systems also offer professional versions, such as QuickBooks Online Accountant, that enable anytime accountant access to their client’s data, as well as greater collaboration and the elimination of data transfers and IT headaches.

Using the professional accountant is also a strategically sound strategy, since these professionals are themselves ahead of the curve when it comes to adopting cloud technologies in their own accounting firms. According to a [recent survey of professionals](#) by the American Institute of Certified Public Accountants (AICPA), nearly half of respondents reported using cloud-based services in their own business

over the past year. The same survey also showed that CPAs continue to have strong influence when it comes to the technologies their clients use.

## **The New Frontier**

When looking at the number of small businesses who are using online accounting systems, then, it is clear that this market is still a new frontier. Similar to the American West of the early- and mid-1800s, a few groups (vendors) have already trekked into the wilderness and are setting up camp.

Just as with the settlers did, some of the vendors have lengthy experience, while some are fairly new. And some have deeper funding that virtually guarantees success in at least surviving the journey.

But it is just the beginning of the settlement process. This market is still a vast frontier with plenty of opportunity for all of these companies to see ever-increasing user growth, without even needing a war. There will be skirmishes, but there's hardly a major war going on in the cloud accounting space.

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