

ACCOUNTING SOFTWARE

SURVEY

SUMMARY

Recent years have seen significant changes in the accounting software market. As technology advances, users are demanding flexible, multi-location solutions from their accounting software providers. Reflecting these requirements is significant market growth in both web-based and web-enabled accounting software systems and the need for a fully integrated product.

Leading software providers are now selling, or in the process of creating, cloud-based systems that integrate a variety of the workflows within a business, rather than just the basic accounting function. This includes budgeting, benchmarking, timesheet recording and job costing.

To get a better understanding of how businesses view the current market and what they are demanding going forward, we asked our contacts to complete a short survey.

Our survey received almost 100 responses and comprised results from agencies representing all the major marketing services disciplines, as well as a number of market research businesses, TV and film production companies and theatres. The income generated by these businesses ranged from small start-ups generating less than £500,000 to mature businesses turning over more than £25m per annum.

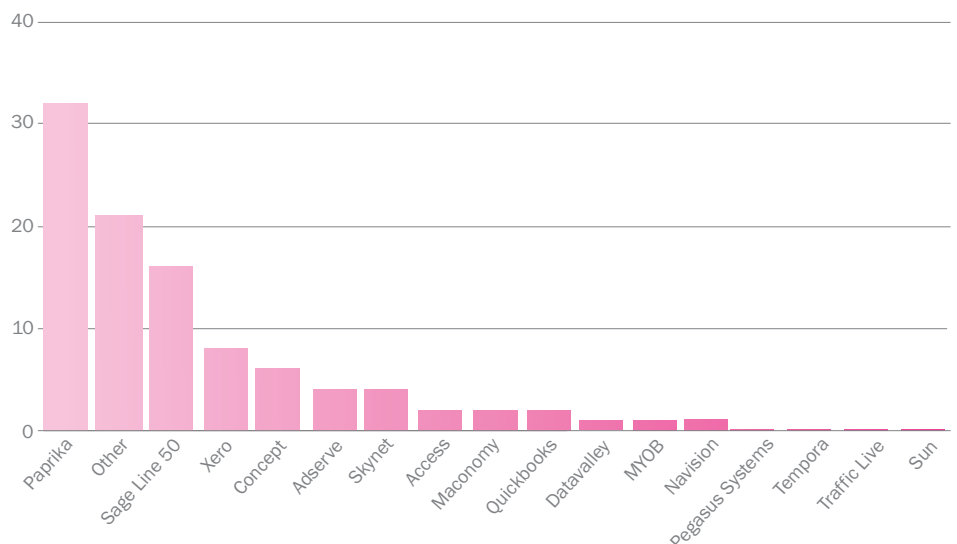
AGENCIES ARE DEMANDING SOFTWARE THAT CAN INTEGRATE ALL ASPECTS OF OPERATIONS, FROM STAFF RESOURCING AND BUDGETING THROUGH TO FINANCIAL REPORTING AND REVENUE FORECASTING

What is currently used and by who?

A wide range of software packages are being used by the businesses surveyed, although the front-runners from previous years stand out once again, being Paprika (32%) and Sage Accounts in its various forms (19%). New competition appears to be coming from Xero, with over 8% of respondents using this software.

It is, perhaps, of no surprise that Paprika remains at the top, as its focus is on providing fully integrated solutions specifically for creative agencies. Sage, on the other hand, whilst not focussed on the creative sector, appears to be the software choice for a number of agencies.

What accounting software do you currently use?



Accounting software survey summary

What is currently used and by who? (cont.)

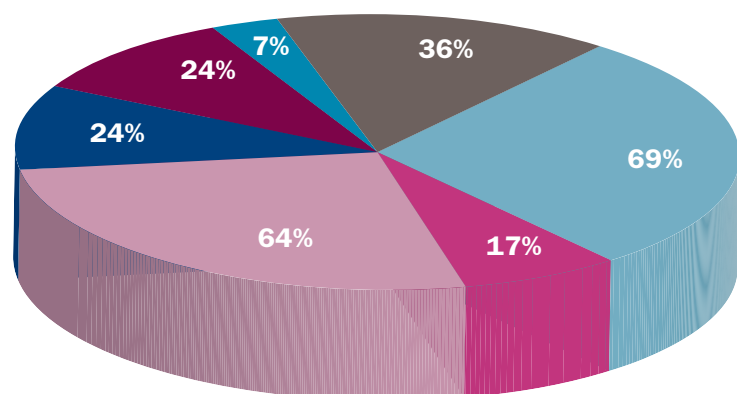
With the advent of mobile devices such as smart phones, tablets and notebooks, Xero, which puts emphasis on processing simple tasks from any location, has increased in popularity.

It is very interesting to note that whilst the packages used primarily within respondent businesses are slightly unsurprising, of perhaps more significance is the fact almost half of respondents use other software to supplement these packages. More on this later.

Our survey responses suggest that, for our clients, size of business does not appear to be a particularly important factor in the choice of software. Paprika appears to cover medium-sized businesses, but is also being used at the smaller end (below 50 employees) and the larger end (over 250). Sage, in various forms, is providing solutions for the lower-medium end (businesses with between 11-50 employees), but occasionally for businesses with up to 250 employees. Xero is capturing the smaller end of the market, with Xero users often employing below 50 employees and turning over less than £1m in fee income.

Although results are varied, a general pattern does emerge. Agencies with a relatively new, simple business structure, are making use of more basic, straightforward, accounting packages such as Xero and lower-end Sage packages. More mature businesses are tending to use the more complex variations of Sage or Paprika, with the largest businesses who responded either keeping with Paprika or moving to more heavy duty, complex software, such as Adserve or Navision.

In what area does the gap in your expectations and the reality of service manifest itself?



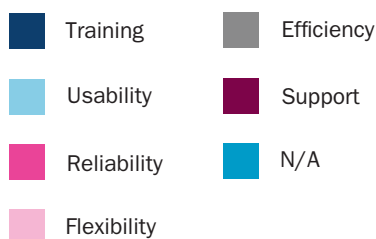
Reasons for using the software

The feedback suggests that a large proportion of respondents are using the packages that were used at the time of joining the company (35%) whilst a further one third were recommended their current product by colleagues or business contacts.

This reflects the view that changing IT systems can involve a significant upheaval of a business and, when this does occur, it is more likely to be on trusted recommendation rather than a general assessment of what the market offers.

The overwhelming majority of respondents use their current software for sales and purchase ledger, nominal ledger, VAT returns and bank reconciliations. Only about half use their software for timesheets and job costing, whilst less than a quarter use it for budgeting.

Whilst the basic financial reporting tools are obviously valued by the finance teams surveyed, a significant number (37%) identified having an integrated job costing and finance system as the most important feature. Staff resourcing and revenue forecasting were also noted as important.



Are current packages delivering on expectations?

With the general attitude being one of caution when it comes to changing IT, it is interesting to understand how incumbent software is meeting expectations. The majority of businesses (over 56%) have found that their current software does not meet expectations. Where this expectation gap manifests itself, this is most likely to be in respect of usability and flexibility, although a significant proportion also cite efficiency as a problem.

Issues with usability tend to be two-fold. Often training and support from the provider is identified as being inadequate for the user to undertake tasks as he/she wishes. This is supported by the fact that almost 40% of respondents felt that their system provider did not have a clear understanding of their business model, nor delivered on their key success criteria. Whilst over three quarters were receiving this support for free, responses highlight a potential issue with quality.

Alternatively, the software suffers from inherent restrictions in being able to meet the operational and reporting requirements of a creative business. A stark 4% reported that their current software meets all their reporting requirements, with over half of respondents suggesting it is meeting less than half their reporting requirements.

Where other tools are required to meet reporting obligations, the overwhelming software of choice is Excel. This suggests that Excel is providing the usability and flexibility that users are craving from their main reporting product.

With the requirement to supplement software packages with other tools, is there a large market to provide a fully integrated solution?

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Integrated solutions

Half of agencies in the survey are currently using more than one tool for job management and reporting, with the majority of these (over 60%) feeling that an integrated software package would benefit their business. Only 12% believe this would not be the case, whilst the remainder were unsure.

The need here is quite clear. Whilst current systems are providing the necessary basic finance needs (over 90% of respondents), agencies are being let down on other key criteria – 40% of respondents were not having their needs met in respect of client services; this rises to 50% for producers and strategy requirements and over 60% for creative needs.

In practical terms, this is demonstrated by the need for the majority of respondents to use alternative tools for job estimates, staff utilisation and client profitability.

Every cloud...

With the need for an integrated solution quite evident, the medium for such software is perhaps less so.

Less than a quarter currently use a cloud-based product. Of those that don't, only 26% thought such a version would be beneficial, although, with 44% being unsure, this may be down to a lack of awareness.

Where a cloud version was seen as beneficial, this tended to be in terms of ease of access and back-up/disaster recovery. Where the finance team had concerns, these were in the areas of reliability and security.

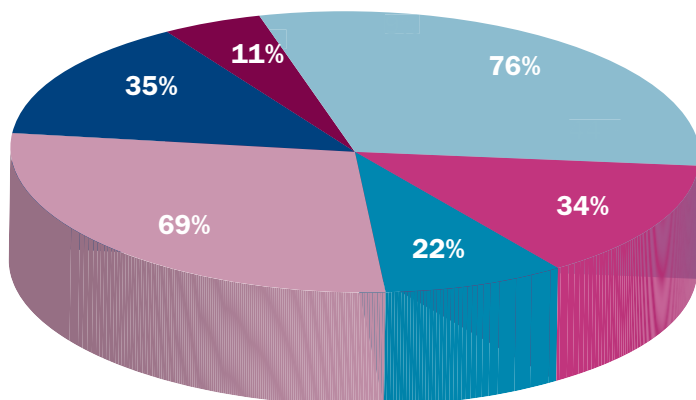
Overall

Agencies are identifying the gap between what their current systems can produce and what their key requirements are, and are suggesting that bridging this gap will be of significant benefit in terms of usability, flexibility and efficiency.

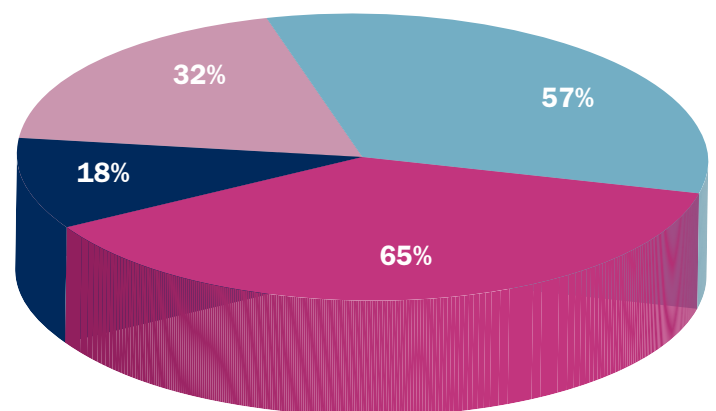
Ultimately, there appears to be a significant market for a fully integrated solution, as there is demand for such a system to sit at the centre of any modern-day creative agency, providing the foundation for making sound and informed operational and strategic decisions. Whether the desire is for this to be cloud-based is less clear, and is perhaps a sign that the market is currently not offering sufficient information and assurance of the benefits of web-based accounting.

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What do you see as the benefits of a cloud based version?



If you have concerns regarding a cloud-based product, what are they?



- Ease of access
- Reduced cost
- Improves business performance
- Back-up and disaster recovery
- Works across different platforms - Windows/MAC
- Security

- Reliability
- Inflexibility
- Security
- Lack of support

About Kingston Smith W1

Kingston Smith W1 is based in London's West End, where its team of eight partners and 50 staff specialise in advising marketing services and media businesses. We are able to provide a full range of audit, accountancy, tax and corporate finance services, as well as specialist ad hoc advisory services on all financial issues.

Our clients comprise those in marketing services such as advertising, public relations and digital, as well as TV and commercial production companies, media technology companies, consulting firms, live entertainment and music agencies. Our clients range from start ups and sizeable independents through to multinationals and AIM listed groups, where we advise on a range of financial and business issues.

Our range of services has been developed to advise growing, successful businesses at every stage of development. By working with businesses with similar challenges and opportunities, we are able to understand our clients better, ensuring our advice is more relevant, knowledgeable and commercial. As such, in addition to our compliance work, we advise on a wide range of taxation and other financial and commercial issues to a greater depth. Such specialist areas of advice include employee incentive schemes, succession planning, exit planning, business valuations, profit improvement reviews, business plans, grooming for sale and pre sale tax planning.

Furthermore, through the data we collate in our annual survey 'Financial Performance of Marketing Services Companies', we are also able to give invaluable benchmarking advice on numerous key performance indicators.

We know that the marketing services landscape is constantly changing and so we provide all of our clients with opportunities to discuss key issues in their sector with their peers through regular lunches, seminars and events in our Soho office. We also host regular breakfast briefings that focus on hot topics in the sector. With our clients' success at the forefront of our minds, we're keen to ensure that they get the most value from our expertise.

About Kingston Smith W1 Corporate Finance

Kingston Smith W1 Corporate Finance helps people who own marketing, media and media technology businesses grow and harvest the value in their businesses.

With our sector expertise, we are able to help produce structured business plans that are viable in the face of identified industry pressures.

Companies with a sustainable competitive advantage still command a premium in the market. We seek to identify the hidden assets that make a business attractive to buyers and exploit these to maximise value, whilst revealing where the premium lies.

We are also responsible for finding buyers of the right strategic fit for our clients' companies.

Kingston Smith W1 Corporate Finance is also actively engaged in sourcing finance for businesses. Through our established relationships with proactive banks and financiers, we help business owners make the best case for raising finance, whilst mitigating areas that funders may see as risky.

Many of our clients choose to buy another business as part of their expansion plans. Our corporate finance specialists ensure that all the associated risks are minimised by completing comprehensive due diligence.

As an international firm of accountants, we also have IFAs who will help with personal financial planning and can advise on tax, accounting and key staff incentives, as well as a division that provides specialist advice on IT systems and HR.

Contact us

If you would like to discuss any of the matters arising in this edition or how we can help you, please contact one of the Kingston Smith W1 partners by email or on 020 7304 4646.

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