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How to select the best  
Accounting System for  
your business

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# **Xero with Add-Ons versus The Alternatives**



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# Xero with Add-Ons

versus

# Business / Accounting / ERP Software Alternatives

*At present the arguments between Xero and alternative accounting software products seem to be clouded by Cloud vs Non-Cloud issues. While these are valid concerns, the argument for Xero being better because it is a “Cloud system“ becomes irrelevant when users realise that many of the alternative software packages can be both cloud-based and on-premise.*

*Before we can compare the alternatives, let's look at where Xero fits in the market.*

# Xero

*Firstly, Xero can be an excellent solution for those clients that match the Xero target market.*

In their own words, Xero is “Small Business Accounting Software – Everything you need to run your business, Beautifully.” The key wording here is “Small Business”. Many people seem to think Xero can run any sized business. It CANNOT. However, that doesn’t rule out Xero as a great solution for many people.

Xero is targeted to micro and small businesses and has the following features:

- *Online Invoicing – To create professional recurring invoices.*
- *Fast Bank reconciliation – bank statements are imported and categorised.*
- *Payroll – calculates the payroll.*
- *Raising Purchase Orders and Paying Bills.*
- *Online/mobile access.*
- *Cheap monthly pricing plans.*
- *More than 300 Add-Ons.*
- *Access for bookkeeper and accountant remotely via the Web.*

In simple terms, Xero allows a small business to raise their invoices to customers; pay their supplier bills; and produces a simple Profit & Loss and Balance Sheet report. The reporting from Xero’s General Ledger is very powerful, and it is very easy for the bookkeeper and the accountant to review and adjust the figures.



This ability to change is very compelling for bookkeepers and accountants because it allows them to have many clients on standardised Charts of Accounts and therefore treat them all the same. For many accountants, it means they can then upload the Xero data straight into the accounting firm's taxation software without any further work. (A question for users will be what reduction this has on their accounting compliance costs?)

Xero is an excellent solution for a business with no stock control and where all of the accounting work is delegated to the bookkeeper/accountant to do on behalf of the business.

If you are a consultant or a tradesperson where all of your data is recorded via your bank statements, then Xero could be a great choice of software, and would often be recommended.



## The 'Add-On' Challenge!

*The challenge comes where your business has outgrown the simple capabilities of Xero itself; or where your growing business is using MYOB or QuickBooks and you are now being recommended to move to Xero.*

If you are looking at Xero and want to match MYOB or QuickBooks for features or achieve the additional functionality your business needs, you will need to consider the Add-Ons that are available with Xero.

Now the fun starts... Which Add-Ons do you need? How do you choose from the 300+ on offer?

Before considering the Add-Ons, let's just step back and review the term 'Add-On'.

*An Add-On is an additional software program designed to add extra features and functionality to the main software program. The Add-On program is usually sold, developed and supported by a third party.*

For many people the concept of an Add-On seems to be a new feature, but for those in the industry an Add-On is just the same old story but with refreshed marketing.

Accpac is one of the older accounting software products well-known for selling Add-Ons and in their day Accpac supported approximately 1,000 Add-Ons. Accpac published comprehensive catalogues featuring details of their many Add-Ons, as the ability to use these with Accpac gave enhanced features and made it more attractive in the marketplace.



It is interesting to note that most of the standard accounting software products all have third party Add-Ons and even recommended Add-On market places on the web. This is the case from the SAP level down to the MYOB level, and in lots of instances you will see the same Add-On products available in the market places of many different vendors. (As an example, compare the lists of MYOB Add-Ons with the list of Xero Add-Ons; you will see many of the same Add-Ons featured on both lists.)

The reason for having the same Add-Ons available to use with different accounting software packages goes back to one of the long-standing arguments in computing. Is it better to use 'Best of Breed' software when you can, or instead use 'All in One Software' that has all the capabilities you need in a single software solution bought from a single vendor?



## BEST OF BREED: The best product of its type.

*Organisations often purchase software from different vendors to obtain the Best-Of-Breed offering for each application area.*

For example, organisations may purchase a human-resource package from one vendor and an accounting package from another. Although Enterprise Resource Planning (ERP) vendors offer numerous enterprise applications and claim that their integrated system is a superior solution, it is rare that every module in an ERP system is Best-Of-Breed.

The trade-off between separate Best-Of-Breed products is the ability to integrate the individual products. Normally an All-In-One solution means that all the components are designed to work together and to share information seamlessly while separate products do not work quite as well or to the same depth.

Everyone has their own opinion on this argument and no doubt in choosing your solution you need to decide which best suits your business.

# Choosing Add-Ons

*Let's consider some of the generic questions to ask if you are planning to use Add-Ons for Xero (The same questions apply for Add-Ons with any other accounting system).*

## 1. What is the relationship between Xero and the Add-On company?

Remember, Add-Ons are usually developed and sold by completely separate parties to Xero. In almost all cases, Xero and the Add-On provider take no responsibility for each other.

## 2. How financially stable is the Add-On company and who are they?

Xero is a publicly listed company on the Australian Stock Exchange (ASX: XRO). Xero is still investing in growth and is expected at some stage soon to report their first profit. In contrast, the company behind the Add-On could be based anywhere and their financial stability may not be well known. You cannot take the financial stability of any company for granted.

## 3. How many clients or sites does the Add-On company have?

Xero have thousands of sites and the majority of these do not need Add-Ons so the number of sites using a particular Add-Ons must be far smaller.

## 4. Where is your data held?

Much to many people's surprise, the data being held by the Add-On software is completely separate to the Xero data. In some cases, your data may be hosted by the same third party hosting company that Xero use, but your data is managed independently, with separate contractual arrangements between you and the providers of the various Add-Ons you may use.

## 5. Who owns the Data?

Don't take it for granted that you own your data. This is subject to the agreement you are entering into with each Add-On provider. Additionally, it is not guaranteed that you will be able to get your data back from the Add-On provider in an easily usable format if you want to shift to a different Add-On from another provider.

## 6. Who is supporting the software?

Xero supports Xero only. Instead you should be asking 'Who supports the Add-On?' and 'How well does the Add-On company support the Add-On software?'

## 7. Who takes responsibility for the linking of the products?

Normally the Add-On supplier will take on this responsibility, but if you are using a Best-Of-Breed Add-On and if Xero is just one of many products they can link to, they may not go out of their way to help you. Instead their support may be limited to supporting their own product.

## 8. Who manages the changes if Xero does an upgrade?

Normally the Add-On supplier will need to manage these changes, but you need to consider the implications and impact on your business if the link between the Add-On and Xero fails for your business. Normally if the standard link works for others, but is not working for you then this is an issue for your business to somehow fix. The failure to quickly resolve this type of integration issue can have expensive and critical impacts for many businesses.

### **9. Is your accountant / Bookkeeper providing support for your Add-On?**

The normal answer for this is No. The majority of accountants and bookkeepers are only interested in the accounting figures that are required for the BAS and Tax returns. Your accountant may very well recommend you use Xero, but don't expect to get support for Add-Ons you may use in your business. This becomes an issue for your business.

### **10. What are the costs involved in running the Add-On?**

In many cases the cost of the Add-On can be more than the cost of using Xero. Just like buying a phone, beware of the different pricing plans. The business model for most companies selling Add-Ons is based on being able to profitably charge recurring monthly fees to their customers. These fees can come in many varieties such as Per month; Per year; Per login; Per concurrent user; Number of transactions; Number of employees; A percentage of your sales; Number of products; or some combination of any of these.

The pricing may appear to be low cost to start with, but these fees can quickly add up, especially over a period of several years. These fees can also become ongoing Fixed Costs for your business, and may be difficult to quickly and easily reduce if times get tough and you need to cut your expenses.

### **11. Will Xero be releasing their own module with those features in the future?**

When Xero added 'payroll' to the standard system it caused many users to have to scrap their payroll Add-On. This meant extra work to do a new implementation of the payroll system for the business.

## 12. Where will you get staff that have experience in your Add-On? How will you train your staff to use these Add-Ons?

Finding staff who know Xero is becoming relatively easy and there are a wide range of training options readily available. In contrast, most Add-ons have only a niche position in the market place. It is unlikely that new staff will be fully experienced in using these add-ons and training options may be limited.

While some of these questions and answers may appear negative, it's important that you think through each question and how it applies to your business. It may well be the case that using Add-ons is an efficient and cost-effective way to tailor your accounting software to your individual business needs and be the right solution for you.

Ultimately, any decision you make is best made with full knowledge of the business risks and responsibilities involved.



# Specific Add-Ons

*In reviewing the Add-Ons available for Xero, there are essentially three different types of Add-Ons.*

## 1. Add-Ons that extract data from Xero for external Reporting

These tools including products like Spotlight, Fathom, Diga, Google Docs by Zapier and others are all about the extraction of the data from Xero. With the extraction of the data, these tools can then give the users enhanced reporting and allow the businesses to use their data in smarter ways.

There is little or no risk in using these tools because the key data is held in Xero. Should the link with Xero not work or the Add-On company disappear, you have not lost the key data. You will have lost your enhanced reporting capabilities, which whilst unhelpful for your business will usually not be catastrophic.

## 2. Industry-Specific Add-Ons

These are the products that are purposely designed for specific niches and in many cases also link with other systems such as MYOB and QuickBooks.

Many industry-specific Add-Ons have been in the market place for many years servicing specific niches. For example, products like SimPro, Leap, and Connectwise are industry-specific Add-Ons and the link to Xero is just one of many they support.

With these products the decision process needs to be reversed. The user should be reviewing the Add-On as the main purchase and considering the use of Xero as one of the options available to them. In this case, Xero accounting software becomes the Add-On since the General Ledger reporting within Xero is an end result of the work done in the main industry specific product, with just the summarised results fed into Xero or alternatives.

*I was once called out to assist a business with what they said was an MYOB problem. The client had 10 staff members actively using a Job Costing Add-On which was managing all jobs, timesheets and stock control for the business and feeding into their bookkeeper's MYOB.*

*After investigation, it became obvious that the problems the client was experiencing were with the Job Costing system, and had nothing to do with MYOB. Unfortunately, the support from the Add-On provider was proving difficult to obtain.*

*The lesson here is that if you are in a specific business niche, then look to solve that problem with well-supported niche-specific solutions and then worry about the bookkeeping or accounting requirements as a secondary issue.*

### 3. Generic Add-Ons

These are the Add-Ons that provide solutions to weaknesses in the original product's feature set. In some accounting software systems, the Add-Ons are available as 'modules' that can be purchased separately to provide the required features and functionality. For example, many accounting systems have separate modules for Inventory, Point of Sale, Invoicing, Job Costing, Payroll, HR, eCommerce, etc.

The key point here for businesses using Xero is that Xero becomes the heart of this universe and therefore needs to be the one centre of truth for the relevant data in the business. Unfortunately, this is not always the case with some Add-Ons.

The challenge for many users is the wide variety of available Add-Ons. Deciding which Add-on is most appropriate for their business will require the user to go through the same decision-making process as for any software purchase. This usually involves thinking through what are the required features and functions you need for your business and rate these as either "Mandatory" or "Nice To Have". Then you assess the various Add-Ons against your Requirements List and do the Cost/Benefit analysis.

When reviewing the features of the specific Add-On, also consider how the integration to Xero works. Many users assume this will be a hassle-free process. Look at these examples and consider how you need the Add-on to work and integrate in your business.

- *Invoicing*
  - » Will the Add-On run the Debtors & Sales and just pass data through to the General Ledger Journals (e.g. CR Sales /GST DR Bank/Debtors DR Cost of Sales CR Stock)



- » OR will the Add-On pass the invoice over to Xero and process in Xero's debtors for collection?  
How will stock be tracked?
- » How is the customer name/address to be maintained?
- » How are sales statistics reported?
- *Purchasing*
  - » Will the Add-On manage the Creditors/Suppliers and just pass through to the General Ledger Journals (e.g. CR Creditors DR Purchases/ Stock)
  - » OR will the Add-On pass the invoice over to Xero and process in Xero's creditors for payment?
  - » How will the suppliers name/address be maintained?
  - » How will the Add-On deal with stock? Will it record changes in stock when stock is received or when stock purchases are invoiced by your suppliers? If based on the purchase order/goods receipt, how will it deal with the situation if the invoice has a different cost to the purchase order price?
  - » Since Xero does not track stock, how will you reflect the value of stock in the financial accounts?

## Add-Ons: Reality versus Sales Hype

*The majority of the cloud Add-ons in this category are relatively new products. Be aware that 'marketing' sometimes outstrips performance.*

When doing a comparison to the standard modules in the All-In-One products, it is obvious many of the new Add-Ons that may claim to be 'Best-Of-Breed' do not actually have the features which would make them superior to the All-In-One products.

The feature sets of these Add-ons are improving, but many are reflecting similar basic features that the On-Premise products had at the same stage of their evolution. Some On-Premise products have been in development for ten to twenty years, with new features being regularly added. (Just compare the MYOB that was available when GST was released to what MYOB is today).

The key point here is to make sure that the Add-on you are planning to use is actually going to do the job you need it to do in your business. Realise that many new products – including software Add-ons are promoted with a significant amount of hype around them.

Users should be wary of this hype and make sure they understand the current reality for the software before committing to using it as a vital part of their business!

The biggest issues will come from where the users' expectations are not met because the users did not do their own investigation. What they imagined they would get from a cheap solution was not matched in the real or even the Cloud world.

In making your decision look past the marketing of any of the products (Add-ons & Non-Add-ons) and look to what features and functions the business needs.

REMEMBER,  
we all live and work in  
the same market and  
YOU GET WHAT  
YOU PAY FOR.  
The price in most cases  
matches the value.

'On-Premise' software is installed and run on computers within the building of the organisation using the software. 'Cloud' software is installed at a remote facility somewhere on the Internet. Issues surrounding these two options include maintenance and ownership.



# Multiple Add-Ons Can Mean Multiple Dramas

*If you are thinking of using multiple Add-ons in your business, then you need to be prepared for multiple dramas.*

The majority of users who have just ONE Add-on linked to Xero should have minimal issues and should feel comfortable with this decision.

The most dissatisfaction from using Add-ons will come where users add more than ONE Add-on into their business systems. This is becoming far more common as businesses and consultants push to make Xero do more rather than moving to the bigger alternatives.

## Multiple Add-On Example



*Imagine a situation where a business decides to go with the above solution. (Please note, while this is only a hypothetical example of a system, it is nonetheless promoted on the web as being both possible and viable.)*

- *Xero: For the customers/suppliers and General Ledger*
- *Vend: Point of Sale with Inventory*
- *Spotlight: Reporting*
- *Workflowmax: Project/Job Cost management*
- *Quotient: Quoting of Inventory*
- *Unleashed: Inventory Control*
- *Geops: Work Allocation for Trades*

The business would be facing 7 different monthly payment plans. As a rough estimate, the pricing for a 2-3 user site would be \$500-\$600 per month.

Most users expect that Xero should be the controller of data, which is not unreasonable. But how does this work in practice when you consider that this business needs customer information in Xero, Vend, Workflowmax, Quotient, Unleashed and Geops.

### Some questions to consider for this business would include:

- *Do they have or need all customer information in all Add-Ons?*
- *Are they all synchronised at the same time? Or one after the other? How often is this done?*
- *If they update a phone number in one Add-On and someone else updates another one with a different number, who wins when they update Xero?*
- *What happens if the same customer is created in two different Add-Ons?*
- *Who do they go to if the synchronisation doesn't work? Which Add-On's support service will help them? How will they deal with conflicting advice?*
- *What happens if one of the Add-Ons improves their product with an update and another one takes a different approach while others don't change at all?*
- *Stock/Inventory control is interesting because Xero doesn't track the Quantities so where is the stock centre of truth? Which Add-On?*
- *Will this mean the duplication for the management of pricing, descriptions and costs?*
- *How will the bookkeeper and staff reconcile the debtors/creditors/stock/job costing when balances are in multiple Add-Ons?*

This example may seem a little excessive but a pool shop which added just three (3) Add-Ons has been struggling with these types of integration problems for 12 months.

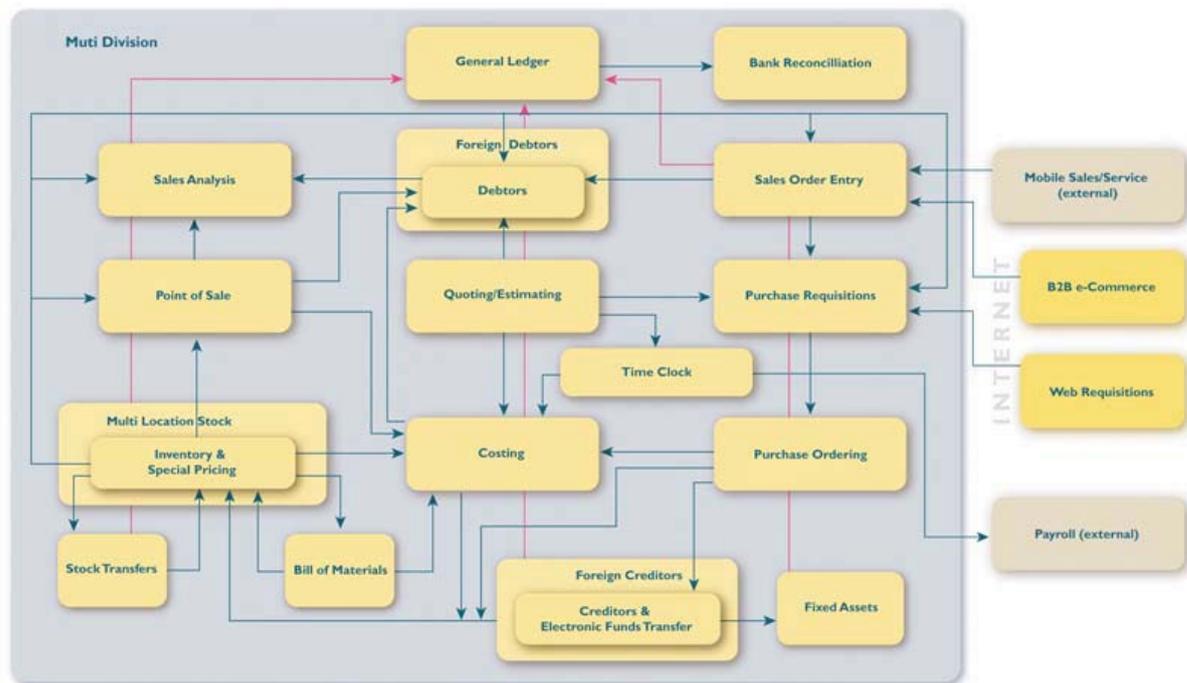
## Alternative Solutions

As an alternative solution, a business needing this type of functionality could consider an All-In-One product or a small Enterprise Resource Planning (ERP) product.

There are many potentially suitable products that meet these criteria. These include previous market leaders like Attache, Arrow and Sybiz through to more contemporary products like Triumph, MYOB Exo, Greentree, Pronto and then into multinationals like Microsoft Dynamics, SAP and Oracle.

All of these products come with the ability to pick and choose the appropriate modules or components a business may wish to use.

The diagram below explains the modules available within the solution from Triumph Business Systems. As is obvious, all the components are interrelated so problems and issues with integration do not exist.



These types of products come with many functions and features that are just built in as standard and are normally not marketed that well because it is just expected that they should be able to perform.

An example of this would be Quoting, where a Quote can be easily converted to a Sales Order. The system can then manage the tracking of back orders, automatically sending orders to suppliers, and then on-receipt of the goods into inventory can release these products for picking either manually or to PDA units. All the products are integrated across Point of Sale, Web shops, Job costing and Sales Orders so descriptions, pictures and stock availability are available in all areas. Even if a special price is given to a client or group of clients, these prices can then be used across all areas.



Additionally, the reporting of sales can be budgeted for and then compared by sales reps, by products and by product groups.

The downside is that the added complexity of these products requires more administrative skills to bring all parts of the business together as a whole business, rather than running each part as individual silos of business.

If your business is only doing a small number of transactions it is easy to use a spreadsheet or an Add-on to manage the transactions, then it is not normally worth taking the leap to the bigger systems. If the volume or complexity of the business is increasing then the savings from having an integrated system will probably offset the requirement for additional administrative skills.

### **How to select the best Accounting System for your business**

This usually involves thinking through what are the required features and functions you need for your business and rate these as either “Mandatory” or “Nice To Have”.

Then you can assess the various All-In-One products against your Requirements List and do a Cost/Benefit analysis.

## Summary

*In commenting about Xero and other systems and outlining questions to consider, I have not tried to say that Xero with Add-Ons is the right or wrong solution OR that the Alternatives are going to be a better or worse solution for your business.*

My comments and questions are here so that you, the business owner, can make better decisions for your business in this critical area. Changing to a different accounting system is not a simple process regardless of what people say.

Many business owners tell us they simply do not know what they don't know, and if you don't know what questions to ask, it is nearly impossible to find the answers out by yourself. You need to be able to see through the hype and marketing that comes with any new product release and make the decisions that are right for your business.

Simple businesses can get by with simple solutions, but if your business is more complex, as is to be expected in the real world, then your business systems will probably need to be more complex as well.

Given this, most businesses can benefit from professional assistance and guidance to help select the best options. Whether you get professional help or not, you will need to review your business requirements first before you decide on the most suitable solution for you based on your own circumstances. What is best for you may or may not be what is best for your bookkeeper or accountant, but they are not the ones who work in your business and run the business. They are essentially there to meet the compliance rules as set by the Tax Department. They will probably not be awake all night worrying about the critical issues in your business.

Don't be afraid to ask the dumb questions. It is better to approach these decisions from a ground-up approach rather than diving head-on into one product or another without giving proper thought and consideration to the full range of implications it will have for your business.

**Ultimately, you need to be making the decision on what is best for your business with a solution that:**

- *Meets your requirements;*
- *Gives you flexibility for the future;*
- *Reduces your business risks;*
- *Is achievable for your business with your resources;*
- *Suits your management style; and*
- *Allows you to sleep well every night.*



## About The Author

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Colin Atkinson BSc, CA, MACS is a chartered accountant who also holds a degree in computing. He is one of the few Chartered Accountants who has been recognized as an IT Specialist by the Institute of Chartered Accountants.

Colin founded CA Management Services in 1986, following a career as an Auditor and computer consultant with two of Australia's major accounting firms and as Company Secretary of a listed mining company. Since 1986, Colin has led CA Management Services to be a leading accounting software support organization with a proven history of successful installations in a wide range of systems.

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