

THE BUSINESS END EMERGING COMPANIES



Back in the game:
MYOB co-founder
Craig Winkler invests
in a competitor

CASE STUDY

STEALING MYOB'S FUTURE

Software entrepreneur Craig Winkler has the market leader, which he helped found, in his sights.

Report: Kath Walters

● Software entrepreneur Craig Winkler wants to steal the future of the company that was once his own. And he has 18 million reasons to hope he succeeds.

Last year, Winkler invested \$NZ18 million (\$14 million) in Xero, a company publicly listed in New Zealand, which sells online accounting, book-keeping and business development services. It competes directly with MYOB, the software company started by Winkler and business partner Brad Shofer and Chris Lee 22 years ago.

Rod Drury, Xero's founder and chief executive, plans to redefine the way accountants and small businesses work together.

His company is also challenging old models of work and leadership (Drury is in the head office only two days a week), and fighting against the fate of most successful start-ups in Australia and New Zealand – being taken over by competitors from North America, Europe or the United Kingdom.

It won't be easy. Drury believes Xero's software-as-a-service (SAAS) business model – in which customers pay a monthly fee to use Xero's software online

– will replace the existing business model of buying and installing software on servers or desktops, which is the dominant model offered by MYOB in Australia and New Zealand, Sage Group in the UK and Intuit Small Business in the United States.

But SAAS is expensive to establish. "It is not just building the software," Drury says. "It is establishing support systems, a full-service business. Employing lots of people costs a lot of money every month and you get low monthly fees that build slowly over time."

Its target market is hard to win: accountants, who are conservative, and small businesses, which are time poor.

"Selling to small business is really hard," Drury says. "There is always something better for them to do than change."

Drury is an experienced software entrepreneur. He sold his first company, Aftermail, which deals in email management software, for \$15 million to Nasdaq-listed company Quest Software.

He is determined not to sell out again. He has answers to the problems his company faces.

Already, Xero has raised \$NZ40 million from its initial listing at \$NZ1 in June 1997 and a placement last year, when Winkler became involved. Drury reckons this will be enough to reach break-even point in 2011.

"We planned to be a public company from the start. If we took venture capital, we would have been for sale from day one." Rather than his sales staff burning shoe leather visiting and

enlisting small business customers one by one, he has them recruiting small accounting practices, which in turn convert their clients.

"We are doing very well with all-female accounting firms and with young firms building national practices, without having to travel, using Skype [free phone and video calls] and online tools.

"Also, high-net-worth customers, who want to manage their business and investments when they travel."

Drury established a strategic partnership with Telstra, which means promotion and credibility among their small business customers. It took 12 months. He combines this with seminars and educational events, all tactics used by MYOB in Winkler's reign.

Winkler lost his company to venture capital partnership Manhattan Software Bidco in January 2009.

Media reports about his response were wrong, he says. "It was a hostile takeover," he says. "There were things written up about how it was my baby ... well it was and it wasn't."

Winkler says the timing was wrong, but he was already planning life after MYOB. Winkler rebuffed Drury's first approach about Xero but later agreed to coffee. He was sold. "Drury had a history and cred as an innovator. I thought, 'This is the next wave!'"

"I went through the first wave [with MYOB], when we moved programs from DOS [an old computer operating system] to GUI [graphic user interface, or what you see is what you get]."

Winkler is on Xero's board but he lives in Melbourne. Drury lives in Hawke's Bay, a renowned wine-growing region and surfers' haven hundreds of kilometres north of Xero's headquarters in Wellington (45 minutes by plane).

Winkler says: "These guys live and breath SAAS. It is how they operate."

There are good signs for Xero. Last year's placement, intended to raise \$NZ23 million, attracted \$NZ29 million. At September 2009, its last report, Xero had 12,000 customers, an increase of 445 per cent over one year. Sales grew 282 per cent to \$1.3 million, for the same period. The company is signing up 1000 customers a month and has 73 employees.

Xero is converting MYOB customers to Xero "every day", Drury says. Winkler says Xero is not really confronting MYOB's market yet. "There will come a day," he says. **BRW**



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Rod Drury,
Xero founder