codat

A guide to enabling accounting automation for your SMB customers

How optimizing your product suite with native accounting sync can help you become SMBs' go-to financial platform

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Introduction

The growing need for accounting automation

> With the rise of **open banking** and **embedded finance**, it's becoming easier for software providers to build new features and functions quickly into their platforms.

Today, even the smallest SMB must run through a complex set of tasks just to close their books at the end of every month. As a result, a number of digital third-party solutions—from payroll platforms to corporate card providers—have emerged to automate and simplify each of these workflows.

But business finance is an increasingly ambitious (and highly competitive) space, and the SMB software market is currently worth over $52 billion. Most SMB-focused software providers aren't willing to limit themselves to offering one or two point solutions. Instead, they're angling to build comprehensive product suites and become their customers' main financial operating system.

With the rise of open banking and embedded finance, it's becoming easier for software providers to diversify their roadmaps and build new features and functions quickly into their platforms. For example, in addition to payment processing, PoS systems can now offer payroll, inventory, and invoicing services by integrating a few simple, readymade APIs.

So, how can providers stand out in this competitive market? One way is syncing to their SMB customers' accounting software and automating their most critical financial tasks.

Almost two-thirds of SMBs use accounting systems like QuickBooks or NetSuite to help them close their books, but they still spend countless hours manually transferring data between those platforms and their other financial applications.

By syncing to accounting systems and automating bookkeeping and reconciliation, software providers can resolve several pain points for their SMB customers.

For SMBs:

- Real-time visibility into company-wide finances, with enhanced opportunities for cash flow forecasting and budget planning
- Increased efficiency, saving time and resources that can be spent on higher-impact analytical tasks
- Reduced risk of human error, avoiding pitfalls like inaccurate records and delayed or duplicated payments

By building accounting integrations into their platforms, providers themselves can also score several business benefits and gain a competitive edge in the SMB market.

For providers:

- A better user experience and more efficient, cost-effective solutions
- Opportunities to expand into adjacent markets, tap into new revenue streams, and build broader and stickier customer relationships
- Reduced likelihood of churn, as customers can manage more financial tasks in their app and thus spend more time using it
- Enhanced partnership opportunities with accounting software providers, opening up new distribution channels

In this guide, we take a closer look at accounting automation for SMBs: what it is, what it looks like across key use cases and industries, and how software providers can build powerful, native accounting integrations that meet the needs of modern businesses.

1.

What is accounting automation?

At the most basic level, accounting automation streamlines workflows that would otherwise have to be carried out manually—like creating and updating financial records, consolidating business data across isolated systems, and generating comprehensive statements and reports.

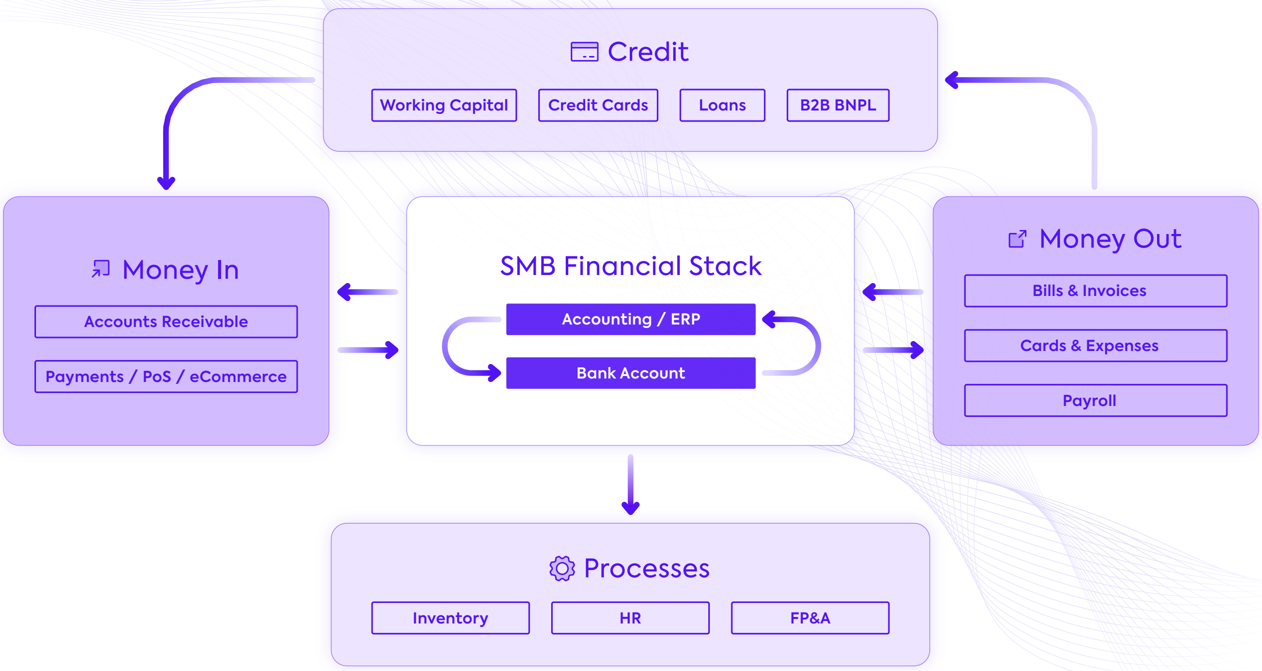
This can be broken down into three categories of information that needs to be recorded and reconciled with a company's accounting tools:

- **Bank feeds**, including all account balances and transactions
- **Payments received** from clients and customers, including invoices processed through accounts receivable and credit control and smaller transactions processed through PoS systems
- **Payments issued** for business-wide expenses, including vendor invoices and bills, corporate card spend, and employee payroll

Some reports estimate SMB finance teams spend 60 to 80% of their time reconciling these records through manual workflows that could be fully automated.

Not only would direct, real-time integrations eliminate any chance of human error and flawed or obsolete information—ultimately yielding more valuable data sets—they'd save businesses hundreds of hours per year.

In summary, accounting automation provides finance teams with peace of mind and gives them back the time, energy, and brainpower they need to focus on higher-impact tasks.



2.

How providers solve accounting automation for SMBs

To understand how software providers can best help SMBs automate their bookkeeping, we first have to consider the four options they have when it comes to transferring business data into and out of their customers' accounting systems:

MANUAL PROCESSES

While it's growing less and less common, some platforms still require manual data entry, which means users have to enter information into their systems line by line or export and upload static files like spreadsheets.

Since finance teams oversee every aspect of the process, manual methods offer the most flexibility and control—but they're also the most cumbersome, time-consuming, and subject to mistakes, rendering them inconvenient and impractical for regular accounting.

THIRD-PARTY WORKFLOW AUTOMATION

E.G., ZAPIER, IFTTT, TRAY.IO

These tools make APIs easier to use by overlaying a no-code or low-code interface that automates tasks based on defined rules—for example, updating a customer's record in the CRM whenever Shopify records a sale. They don't standardize integrations, so they generally can't be embedded into a platform, but they do allow SMBs to offload simple tasks like reconciliation.

Workflow automation tools democratize access to APIs, and they perform well when a basic, general connection will do. But they tend to be insufficient for disciplines like accounting, which involve complex, precise workflows requiring cross-domain expertise. That's why accounting-specific automation tools have become a more practical alternative.

THIRD-PARTY ACCOUNTING AUTOMATION

E.G., GREENBACK, AMAKA, SYNDER

Accounting automation tools enable custom connectivity between an SMB's accounting system and the other platforms they use to run their business—like Amazon and Square.

They're tuned in to the complexities and pain points of accounting flows and respond with tailored features—like SKU matching, itemized exports, tax and fee identification, and options to schedule data syncs and configure data outputs.

However, third-party solutions are limited in what they can do, since they have no control over the accounting platforms and APIs they rely on. They also face a proliferating software market that requires them to complete more and more complex integrations just to keep up. Often, they can't automate enough processes without help from accounting experts, and implementing them successfully almost always means leaning heavily on support teams.

Remember, **third-party automation tools aren't free—and they're only available for specific flows like eCommerce. SMB users can end up paying anywhere from $20 a month (and up) for functionalities they'd rather just get from their preferred software applications.**

NATIVE ACCOUNTING INTEGRATIONS

Native accounting integrations are the gold standard for automation. They're designed to fit a particular platform and work seamlessly behind the scenes to sync the specific data types users need.

Because they lead to a better user experience and reduce churn, **more and more providers are building native accounting integrations**, rather than leaving customers to cobble together manual processes or seek out a third-party solution.

Spend-management platforms like Brex and Ramp have been at the vanguard, building feature-rich, native sync to popular accounting systems. Their target audiences—finance and operations teams at smart, rapidly scaling companies—aren't willing to settle for shaky third-party integrations when it comes to something as important as accounting.

Of course, native accounting integrations can be costly, work-intensive, and difficult to build, scale, and maintain. To solve this issue, universal APIs have emerged to provide white-labeled, standardized connections to multiple accounting systems through a single integration. That way, providers can buy one simple, turnkey solution and offer industry-leading, native accounting integrations across the board.

In the next section, we take a deeper dive into why seamless, native accounting integrations are advantageous across several important use cases—and explore what these high-quality connections really entail if providers decide to build them in-house.

3.

Accounting automation by use case

- Bank transactions
- Payments out
  - Payroll
  - Expenses
  - Accounts payable and bill pay
- Payments in
  - Point of sale, eCommerce, and other B2C payments
  - Accounts receivable and B2B billing / invoicing

Accounting automation can apply to a variety of practices in different markets and industries.

Below, we analyze some of the market trends and recent developments that are driving the need for accounting connections across key use cases—from banking to incoming and outgoing payments—and share the data types, workflows, and strategies providers should keep in mind when tackling automation for SMBs.

Bank Transactions

THE CURRENT MARKET

The banking market has changed dramatically in the wake of COVID-19, with incumbents under increasing pressure from neobanks and other digital-first fintechs that provide greater connectivity and enhanced user experiences.

One of the key considerations for SMBs in a post-pandemic world is interoperability between their bank account and their accounting software, and outdated methods like manual data reconciliation and screen scraping no longer satisfy their demand for efficient, effortless processes.

Instead, SMBs are turning to solutions like bank feeds, which transmit standardized banking and expense data directly into their accounting system.

Software providers that offer bank feeds also have a leg up when it comes to customer engagement and retention. SMBs tend to purchase a cloud accounting platform very early in their journey—and that platform quickly becomes their central operating system. They're much more likely to choose a bank account that integrates seamlessly with that accounting platform and automates critical tasks like bookkeeping and reconciliation.

41%

of SMBs would reject a financial application that's unable to integrate with their preferred accounting software.

In fact, in a recent survey, Codat found that 70% of SMBs feel financial integrations make their operations faster and more effective—and as many as 41% would reject an application that's unable to integrate with their preferred accounting software.

WHAT ACCOUNTING AUTOMATION SOLVES

Banks and neobanks need to be able to support a wide range of services in real time—from accounts to loans to corporate cards—to meet growing demand for instant, transparent solutions.

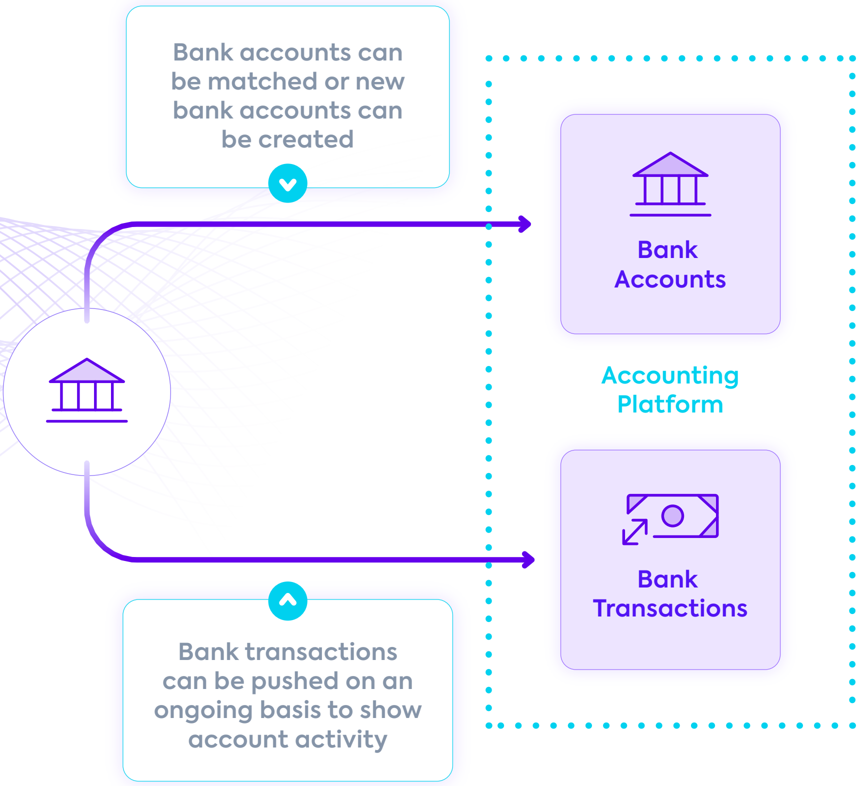
But banking data on its own is just numbers in a vacuum—it doesn't provide the contextual details SMBs need to make informed business decisions. Someone from their finance team still has to spend hours cross-referencing and reconciling each expense in their accounting system to get a clear picture of the company's finances.

Syncing an SMB's bank statements digitally to their accounting software and automatically reconciling transactions means saving them time and giving them the context they need to properly analyze and optimize their spend.

HOW TO BUILD IT

Financial institutions can enable matching of bank accounts with existing accounts in their SMB customers' accounting system—or allow them to create new accounts.

Bank transactions can be pushed against the relevant bank accounts to show credits and debits, removing the administrative logjam typically associated with manual reconciliation.



Payments out

Payroll

THE CURRENT MARKET

COVID-19 has had a big impact on payroll platforms as they serve an increasingly remote workforce. The onset of the pandemic caused many workers to think more critically about the conditions and benefits they're offered by employers—leading as many as 75.5 million in the U.S. to quit their jobs in 2021, at the start of what analysts are now calling the Great Resignation.

As SMBs work harder to recruit and retain talented workers, they're looking to payroll providers to help them implement attractive programs like shorter pay cycles, earned wage access (or on-demand pay), and greater transparency around compensation.

In most cases, these programs rely on integrated and automated bookkeeping, which helps HR teams not only process payouts quickly and accurately, but also access real-time reports that help them track and analyze costs, spot any emerging issues, and respond efficiently.

39%

of SMBs outsource payroll processing and reconciliation to costly accountants

WHAT ACCOUNTING AUTOMATION SOLVES

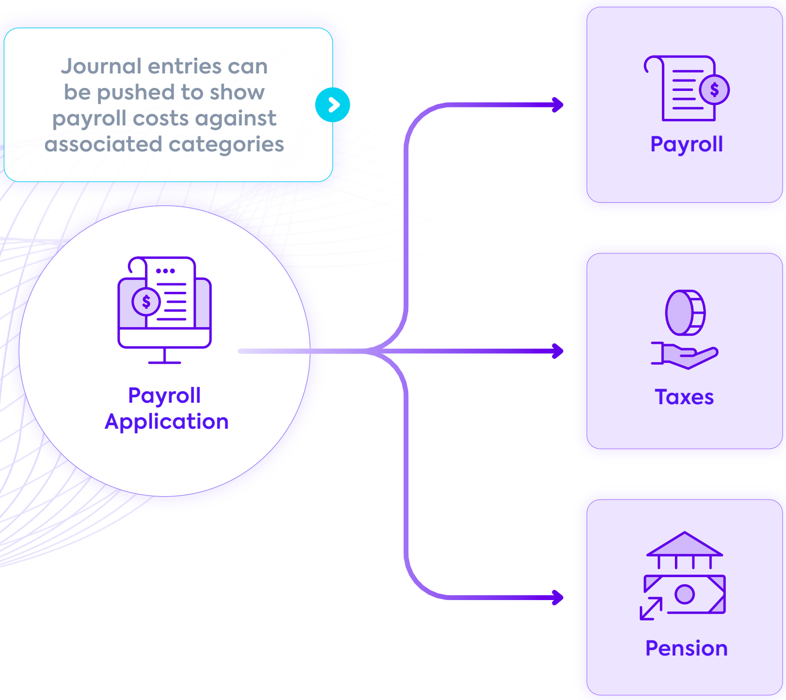
Payroll is usually a business's largest outgoing expense and one of the most nerve-racking finance tasks each month. People's livelihoods are on the line, so the stakes are particularly high, and there's little to no room for human error. As a result, many SMBs (about 39%) end up outsourcing this sensitive function to expensive accountants, a move that can quickly drain their capital.

By integrating SMB customers' payroll with their accounting software, providers can allow them to post detailed payroll, HR, and benefits data with the click of a button—ensuring their employees are paid accurately and on time.

HOW TO BUILD IT

To enable accounting automation for SMBs, payroll providers can:

- Retrieve a list of accounts from their customers' software—for example, each business may reconcile payroll costs, pensions, and taxes to different nominal accounts
- Pull the chart of accounts from the accounting software to identify where to push the payroll journal
- Post a journal to show correct amounts against each account so the transactions can easily be reconciled against the business's bank feed



Expenses (corporate cards)

THE CURRENT MARKET

Expense management is one of the fastest growing sectors in finance, with corporate cards making up $1 trillion of an estimated $10 trillion B2B payments market. Competition is fierce to become the SMB corporate card of choice for several reasons:

- Interchange fees constitute a major source of revenue
- SMBs are branching out and going increasingly digital with payments
- Market leaders like Brex and Ramp have achieved decacorn status in valuations

To win a significant share of this exploding market, corporate card providers need to be able to integrate seamlessly with their customers' accounting software, map expense data quickly and accurately to the accounts in their system, and sync all relevant documentation like digital receipts.

Unlike bank feeds, expense integrations go one step further and pre-categorize transactions when they appear in an accounting system. That typically makes expense cards an SMB's preferred way to spend (compared to other bank cards), boosting a provider's interchange revenue.

Providers are also being pushed to design better, smarter accounting integrations to gain a competitive edge. That might mean building in additional features like transaction-splitting tools and options for customization.

WHAT ACCOUNTING AUTOMATION SOLVES

When it comes to expenses, lack of automation can impact SMBs in many ways, including:

- Increased risk of human error and expense fraud, with one study finding 19% of all expense reports contain errors or are missing information

- Approval delays, with traditional pay-and-reclaim models leaving employees out of pocket and frustrated for weeks

- Lack of financial insights, with finance teams unable to track spending until official expense reports are submitted

- Low and overly restrictive rates and credit limits, since corporate card and expense management providers get a limited view of their SMB customers' financial health

The solution? With accounting automation, providers can push receipts and pre-categorized transactions with tax breakdowns to their customers' accounting software, offering better visibility and control over their corporate spend and saving them hours of manual reconciliation.

HOW TO BUILD IT

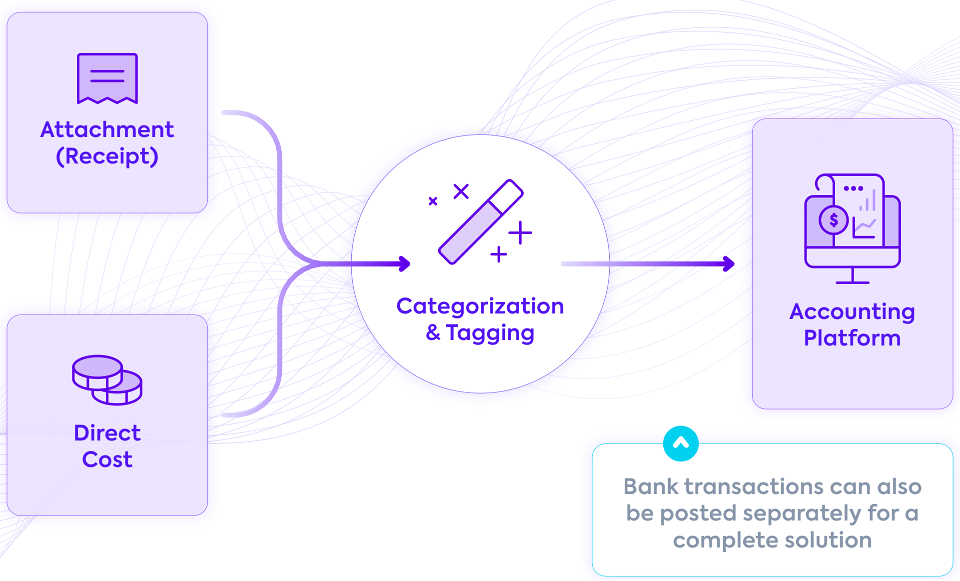
To enable accounting automation, corporate card providers and expense management platforms need to retrieve several data types from their customers' accounting software:

- Bank accounts
- List of accounts
- Tracking categories

This data can then be mapped, allowing customers to dictate what each point is recorded against. Customers can also track expenses against identifiers outside their chart of accounts, including departments and locations.

Providers can then retrieve the list of tax rates, which can be pushed against the direct cost to help customers categorize their spend.

Finally, providers can enable their customers to create a direct cost within the accounting application. A bank transaction line can then be pushed to each customer's accounting platform and reconciled against the direct cost.



Accounts payable (AP) and bill pay

80%

of finance leaders think their outdated AP process is holding them back

THE CURRENT MARKET

Many SMBs still rely on manual AP functions to run their business. One study shows that as many as 80% of all SMB invoices and 40% of all B2B payments are still settled via paper check. That's led to a situation where a vast majority (80%) of finance leaders believe their company's outdated AP process is holding them back and costing their business time and money.

Bill pay platforms make it easier for SMBs to manage and pay supplier invoices from a single interface with preferential payment methods and terms.

Of course, bolstering the visibility, accuracy, security, and speed of bill pay is only half the battle. The other half is minimizing friction and maximizing efficiency by sending AP data directly to SMBs' accounting systems and automatically reconciling their payments.

WHAT ACCOUNTING AUTOMATION SOLVES

When financial data is siloed across multiple platforms, doing something relatively simple—like checking an invoice against a purchase order or a payment—involves jumping between apps and manually cross-checking information. That can have several adverse effects, such as:

- Wasted time and efforts on data entry
- A lack of visibility into upcoming spend
- Overly complex validation processes and increased risk of fraud

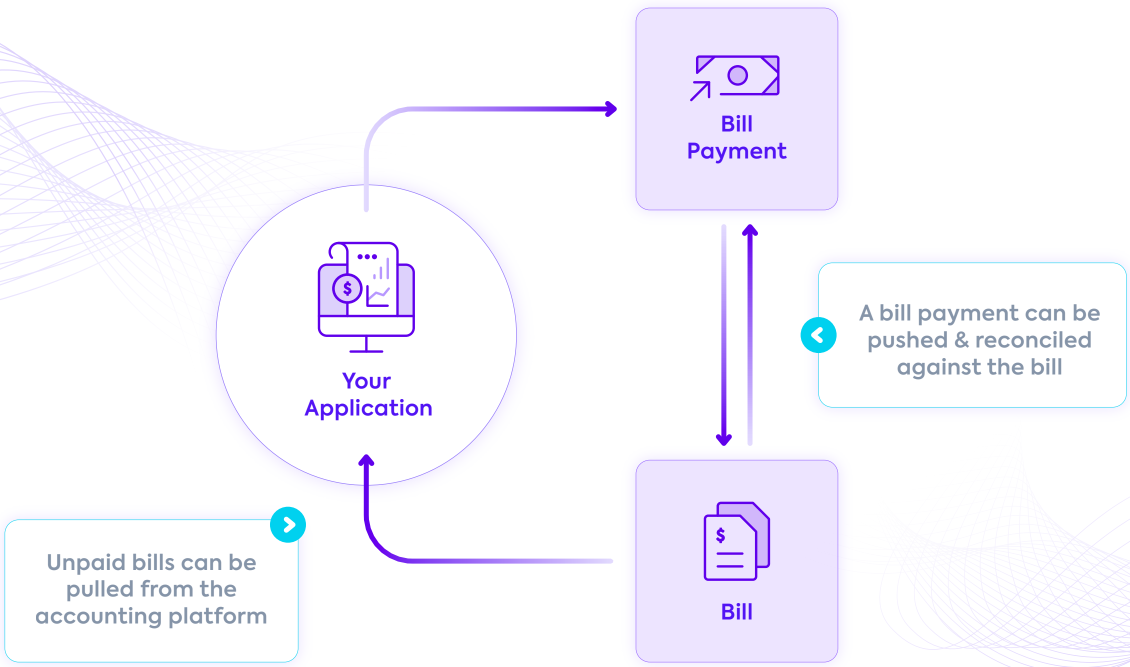
With automated accounting, not only is reconciliation instant, SMBs get a holistic view of their AP and AR pipeline—offering them deeper insights into their financial health and greater opportunities to forecast cash flow and build effective budgets.

HOW TO BUILD IT

To enable accounting automation, bill pay platforms can:

- Pull unpaid bills from their customers' accounting platform, then itemize the record of goods purchased from or services provided by a supplier
- Enable a vendor bill to be created within their application and then synchronized to customers' accounting platforms
- Retrieve a list of accounts that can be mapped, enabling customers to dictate which account their payments should be reconciled from

Once a payment has been made, a bill payment can then be pushed to the customer's accounting platform and reconciled against the bill, marking it as paid.



Payments in

Sales feeds from PoS, eCommerce, and other B2C payments platforms

THE CURRENT MARKET

The latest estimates value the global PoS and eCommerce software market at over $10 billion, and it's projected to grow to $42.5 billion by 2027. But this sizable industry—which is indispensable to retail, hospitality, and other services that need reliable ways to sell in-store and online and to process customer payments—is also highly fragmented. According to several reports, even the largest providers only cover about half of the market, thanks to heavily commoditized services with extremely thin margins.

To claim a foothold in this tough market, many providers are looking to offer features beyond payments processing that add value to a merchant's business—like inventory tracking, order fulfillment, and working capital solutions.

PoS and eCommerce platforms offer a single source of truth for a merchant's real-time sales data and also hold a wealth of contextual metadata around orders, products, payment methods, and more. Their importance to a merchant's operations makes it essential that they stay in sync with the general ledger, which serves as the business's financial command center.

Merchants will often pay a third-party provider to handle this for them—but it can be done right from their PoS system through a native accounting integration.

WHAT ACCOUNTING AUTOMATION SOLVES

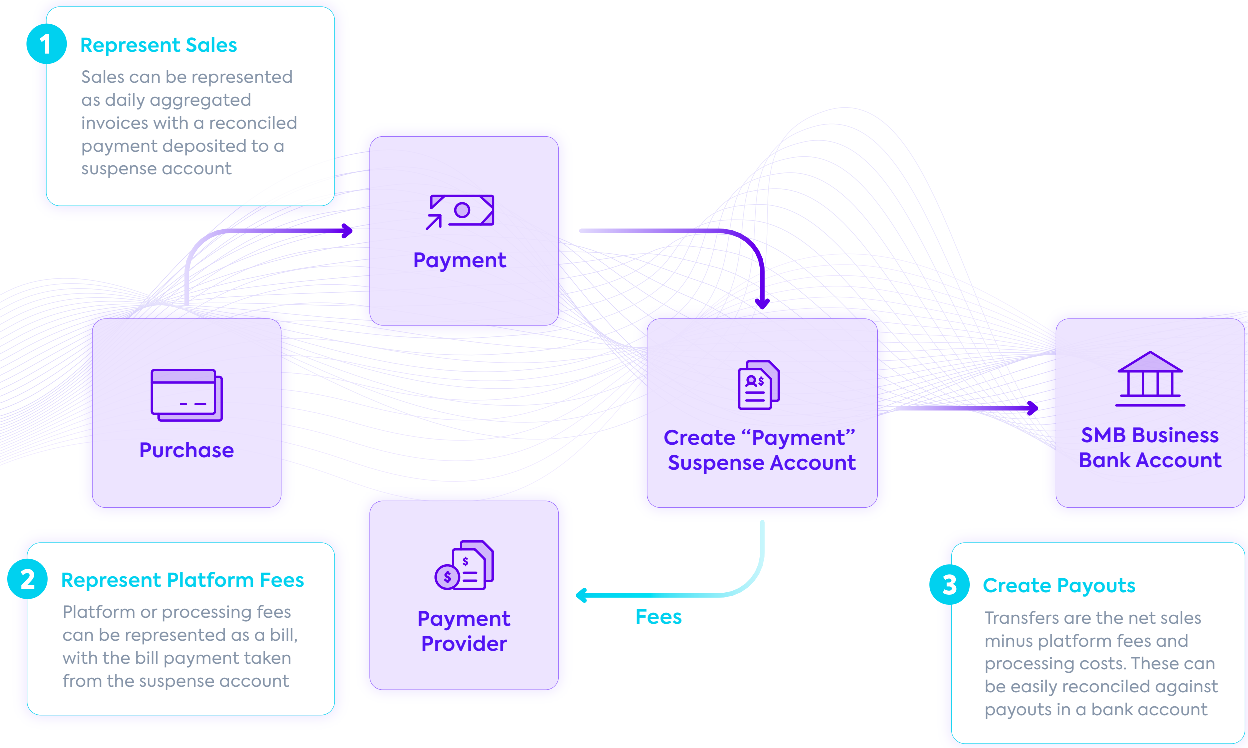
The catch-22 for many SMBs is that the desired goal—earning and accepting more customer payments—also increases the administrative burden of bookkeeping and reconciliation.

Without smart, automated accounting integrations, SMB merchants either spend hours manually entering sales data into their accounting system or suffer from a lack of visibility into their finances—which limits their ability to track their cash flow or access capital.

HOW TO BUILD IT

To enable accounting automation for their SMB customers, PoS and eCommerce platforms can:

- Give merchants a range of options for how sales are represented in their accounting system. For example, some merchants with high volumes of discrete transactions may want to aggregate sales data into daily or weekly sales invoices. Merchants with fewer, higher-value transactions may want to create an invoice for every transaction or create journal entries.
- Let merchants control when and how often data is synced. Most will require a daily schedule, but many others will need more flexibility.
- Make it easy to handle tax rates across transactions, as even different products in the same transaction can incur different sales taxes. Support for sales taxes also needs to take into account different regions, especially when working with merchants who sell across different U.S. states.
- Create bills or expenses in the accounting platform to represent fees charged per transaction by the platform or underlying payments provider
- Enable simple, one-click reconciliation of sales data against payouts, which appear as a bank transaction
- Let merchants see their history of what has and hasn't synced, with an easy way to update past data and recover missing data



Accounts receivable (AR) and B2B billing/invoicing

34%

of B2B companies plan to automate AR in the coming years

THE CURRENT MARKET

The old adage still rings true: These days, research shows it's 5 to 25 times more expensive to acquire a new customer than it is to keep an existing one. Plus, boosting customer retention rates by 5% can boost overall profits by 25% to 95%.

For B2B companies, one way to drive customer satisfaction—and keep customers' business—is to make invoicing and payment quick and painless.

That's why 34% of B2B companies are planning to automate their AR processes over the next few years—and why the AR software market is currently seeing a CAGR of over 12%.

WHAT ACCOUNTING AUTOMATION SOLVES

Of course, streamlining billing is great, but it means little if finance teams then have to manually transfer records into their accounting system.

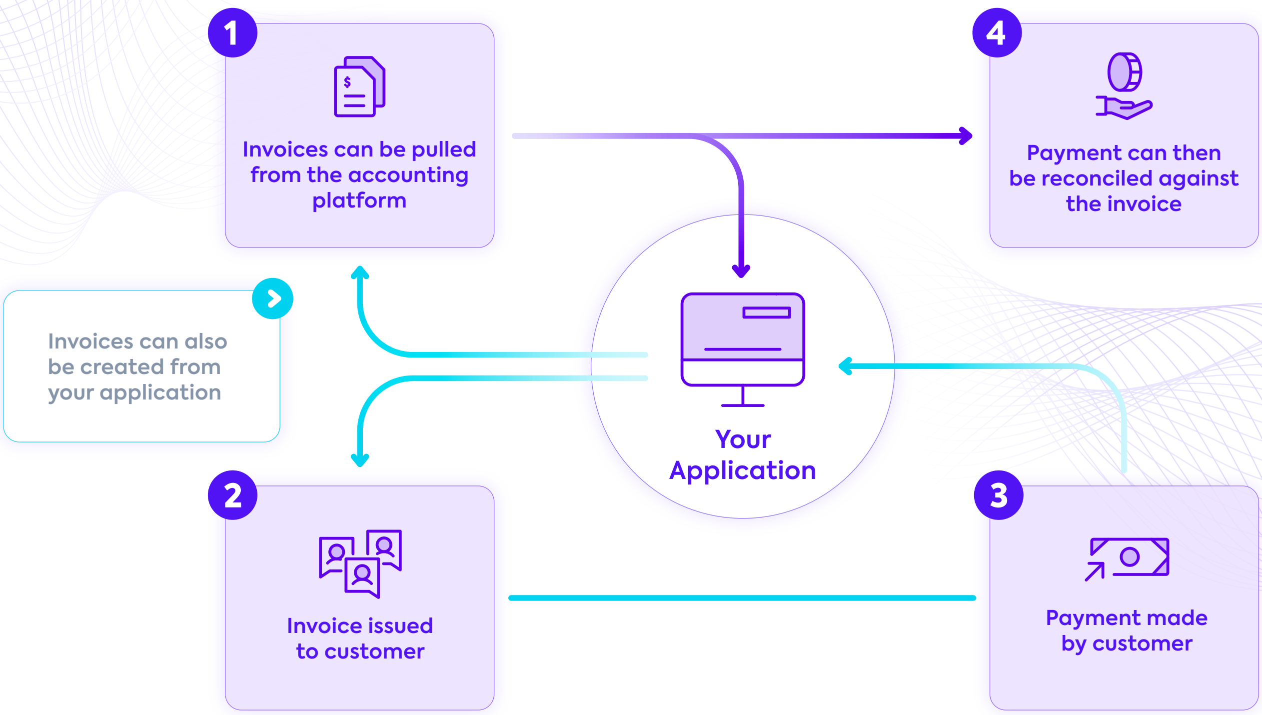
When it comes to AR, manual data entry isn't just inefficient; it can lead to incorrect or duplicated bills (resulting in angry customers) or invoices that fall through the cracks (depriving the supplier's business of precious revenue).

Providers can help their SMB customers simplify receivables from end to end—and get paid faster, to boot—by exporting invoices directly to their accounting software, ensuring the two platforms are in sync and that all customers' financial reports are up to date.

HOW TO BUILD IT

To unlock accounting automation, B2B billing and invoicing platforms can:

- Retrieve and map a list of bank accounts, enabling customers to dictate which account payables are received in
- Retrieve and map a list of accounts, enabling customers to dictate which general ledger account income and platform fees should be recorded against
- Retrieve and map a list of tracking categories, enabling customers to track income against identifiers sitting outside their chart of accounts, including departments and locations
- Retrieve a list of tax rates, which can be pushed against invoices
- Push payments to customers' accounting platform with a payment link, allocating and reconciling payments against invoices



4.

Tips for effective accounting automation

There's a lot software providers need to think about when working native accounting sync into their platforms—and the initial build is only part of the challenge. Developing viable integrations also means considering factors like data model changes, API deprecations, emerging edge cases, and the costs of ongoing maintenance.

Here are some considerations to keep in mind:

- **Go in with a plan**

  An essential step when tackling accounting automation is laying out a solid plan. This means clearly defining business goals, analyzing who will use the integrations (and why), and establishing the resources and skill sets needed to build them.

- **Understand the SMB tech stack**

  It's important to have a firm grasp of the market and the most popular financial platforms used by SMBs—especially the ones holding the required data for key use cases. There are many ways to accomplish this, from customer surveys to market research. Codat also offers helpful guides that break down the heavily fragmented SMB accounting and commerce software markets by geography.

- **Check the feasibility of each integration**

  Certain platforms may not have APIs suitable for integration—or they may have certain use case restrictions, partnership or registration requirements, and specific approaches to authorization.

- **Assemble an expert team**

  Accounting integrations (and accounting data) are complex, and building them in-house requires a team of specialists, including product managers, technical architects, engineers, and quality assurance consultants—as well as experts with in-depth knowledge of bookkeeping principles and accounting data behavior.

- **Estimate the total cost**

  Taking your final team into account, costs for an initial build should cover approximately 4 weeks (for a basic integration) or 12 weeks (for a more complex integration)—multiplied by the number of integrations needed to cover a substantial share of the SMB market. Keep in mind, maintenance will require its own, additional budget.

- **Develop proactive models for data standardization, categorization, and storage**

  Data assets and their behavior can vary depending on the platform, meaning development teams have to map and standardize different attributes with each new integration as they scale. Accounting data can be especially tricky, since each SMB organizes accounts in their own, unique way.

  Simply put, data standardization is something providers need to think about if they're planning to build multiple accounting integrations—and they're unlikely to ever need just one.

Want to learn more about developing your own accounting automation? Download our complete integration guide to break down the basics of a successful in-house build. Or, to outsource these integrations, check out our guide to accounting coverage, which shares actionable ways to assess a data provider's connectivity.

5

Key takeaways

Regardless of a provider's specific use case or industry, building native integrations with the accounting software their customers use—and automating the flow of business data between systems—can help them build stickier, better performing products, grow their market share and revenue streams, and become the go-to financial platform for SMBs.

Better still, they don't need to go it alone—or build it all in-house. **Turnkey APIs like Codat** offer standardized connections to multiple accounting systems through a single integration, making it easy for software providers to get native accounting integrations up and running quickly.

Glossary

- **Accounting automation** is the automation of otherwise manual accounting tasks, such as tagging expense data and entering it into accounting software.
- **Accounting integration** is any connection between a provider's platform and external accounting software, regardless of the use case. A provider may build accounting integrations for an accounting automation feature, but also for a dashboard feature or underwriting.
- **Expense automation** is sometimes used to refer to an accounting automation feature that is specific to expense data. This term can be helpful for providers using multiple types of accounting automation—e.g., expenses and AP. There is no standard definition of what it entails, but it always involves accounting integration and usually includes receipt chasing and auto-categorization, as well.
- **Expense reconciliation** is the act of checking the expenses recorded in accounting against a bank statement or bank feed. Bank reconciliation as a whole extends this process to everything in the bank statement—i.e., not just expenses.
- **Reconciliation/reconciling** in accounting is comparing two sets of records to ensure that they match. Reconciliation is a process that typically happens in accounting software or wherever a business's books are kept.
    - It can sometimes make sense to refer to two systems being reconciled—e.g., reconciling a PoS system with accounting software. In this example, it refers to the process of comparing the PoS system's data with the transaction data in accounting. However, a PoS reconciliation is an entirely different process that happens entirely within the PoS system and is intended to check that cash is not missing from the register.
- **Sync (verb)**, when applied to accounting automation, involves connecting related data points or items. For instance: "We'll automatically sync all approved transactions and their receipts, even if that receipt is uploaded months later, making for easy reconciliation."

About Codat

Codat is the universal API for business data, providing two-way connectivity to over 30 different accounting, banking, and commerce platforms used by SMBs. Our integrations are standardized to a single data model, so financial applications and software providers can build to Codat once, rather than having to build and maintain a growing number of complex accounting integrations themselves.

To learn more about our platform—and how you can automate bookkeeping and reconciliation for your SMB customers—contact a member of our team or visit our website:

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