

*Erik van der Meijden is the Chief Executive Officer of Exact Holding B.V., a Netherlands-based provider of accounting and other cloud business software for small- and medium-sized enterprises (SMEs). He joined Exact as CEO in March 2012. Since March 2016, he also has been interim Managing Director for its Cloud Solutions unit. Once publicly held, Exact was acquired by a private equity firm in October 2014. It ranks No. 21 on PwC's Fastest Growing Cloud Companies, based on cloud-related revenue growth from calendar 2013 to calendar 2014.*

**PwC – What were the major challenges Exact had to overcome in its transformation to the cloud?**

**Van der Meijden** – We had to learn to deal with a whole new business model with different dynamics. We used to release two software upgrades each year. Our customers then had to implement those new versions, learn new functionalities and manage the issues that arose around connectivity with their other applications. With our cloud solutions, we can do upgrades every day. Such a continuous upgrade process has created a totally different dynamic within Exact.

**PwC – How did you deal with this challenge in your organisation?**

**VdM** – Finding the right organisational set-up for our cloud business was a challenge. Initially, growth was hampered by a lack of dedicated management attention. In 2012 we made the decision to go all out with our cloud transformation. We created Cloud Solutions as a separate business unit and ran it as an internal startup instead of as part of the existing business in which it would have little weight and get little attention. The growth strategy we executed has been quite successful: we now have around 265,000 customers in the cloud and annual recurring revenue has grown from around €4 million in 2011 to over €50 million in 2015.

**PwC – How do you convince customers to move to the cloud?**

**VdM** – It is not a matter of us convincing customers. I like the analogy to electric cars: for years they weren't very appealing to consumers, and car manufacturers didn't have their hearts in that market. Then Tesla introduces the Model S and the market breaks open: consumers now outpace manufacturers in the move to electric vehicles and all major manufacturers are scrambling for a position in this market.

It is the same with cloud solutions. The software industry has for years been reluctant to change its successful business model of selling annual licenses, upgrades and maintenance fees. The move to the cloud has been driven by a few very successful companies, until an inflection point was reached and suddenly large numbers of customers want to move to the cloud. Functionality is a major argument for many of them, as well as the fact that they no longer need to make upfront investments in hardware and licenses.

**PwC – Is security a concern of your customers?**

**VdM** – I hardly have any discussions about the security, confidentiality, and reliability of cloud solutions anymore in the Netherlands. A couple of years ago I did, but customers have come to realise that we can offer a level of professionalism in managing and protecting their data that most small- and medium-sized enterprises could never achieve on their own.

**PwC – For Exact, the transformation to the cloud has required a conscious decision to start cannibalising a profitable existing business.**

**VdM** – Indeed, and we had a lot of internal discussion about it in the beginning, but in practice the effects have turned out to be limited. Initially, 80% of revenues from our Cloud Solutions came from new customers, now this has gone up to 90%. We have benefited in this respect from strong customer segmentation: with Cloud Solutions we target customers with 1 to 50 employees for which their accounting software does not need significant tailoring beyond the industry modules we offer. Our more traditional Business Solutions target companies with 50 to 1,000 employees. After a period of decreasing revenues, we're also back at single-digit growth for Business Solutions. So, the growth in cloud does not go at the expense of Business Solutions.

**PwC – What did you have to do to overcome those initial fears of cannibalisation?**

**VdM** – Internal discussions centred on the business model. Cloud solutions by definition are by subscription, whereas traditional software is sold under license. Initially we offered annual cloud subscriptions, but to lower entry and exit barriers we introduced monthly subscriptions. With that we introduced the risk of customers canceling after one month. Dealing with that risk basically meant we had to rely on the quality of our product: confidence that we retain our customers because our solutions are of value to them, not because they are locked-in.

**PwC – And how did you manage your stakeholders?**

**VdM** – When we were still a publicly held company, investors and financial analysts always asked why we were moving toward a subscription model. The answer is simply that that is how the industry works now. Subscription models are the *de facto* standard within the cloud market; we have no choice but to comply.

**PwC – Did the focus on quarterly results impede the execution of your long-term strategy?**

**VdM** – Absolutely. In an earlier stage of our transformation, after we had completed an internal restructuring and we had put Cloud Solutions on a solid growth trajectory, I wanted to grow even faster in the cloud. Our shareholders were divided on that, and we had to temporise our transformation in order not to alienate investors and the stock

market. With our current private equity owner, the focus is not on short-term results and we can invest more in growth.

**PwC – Where does competition for Exact come from?**

**VdM** –Mainly other suppliers of cloud accounting software. In recent years there have been many new entrants in this market, as traditional players in the on-premise market have moved in. In cloud accounting, Exact is now a global top three player, and in Europe we are the largest in revenue and number of customers. But a top three position becomes meaningful only if we can maintain this over a couple of years and extend it to more countries.