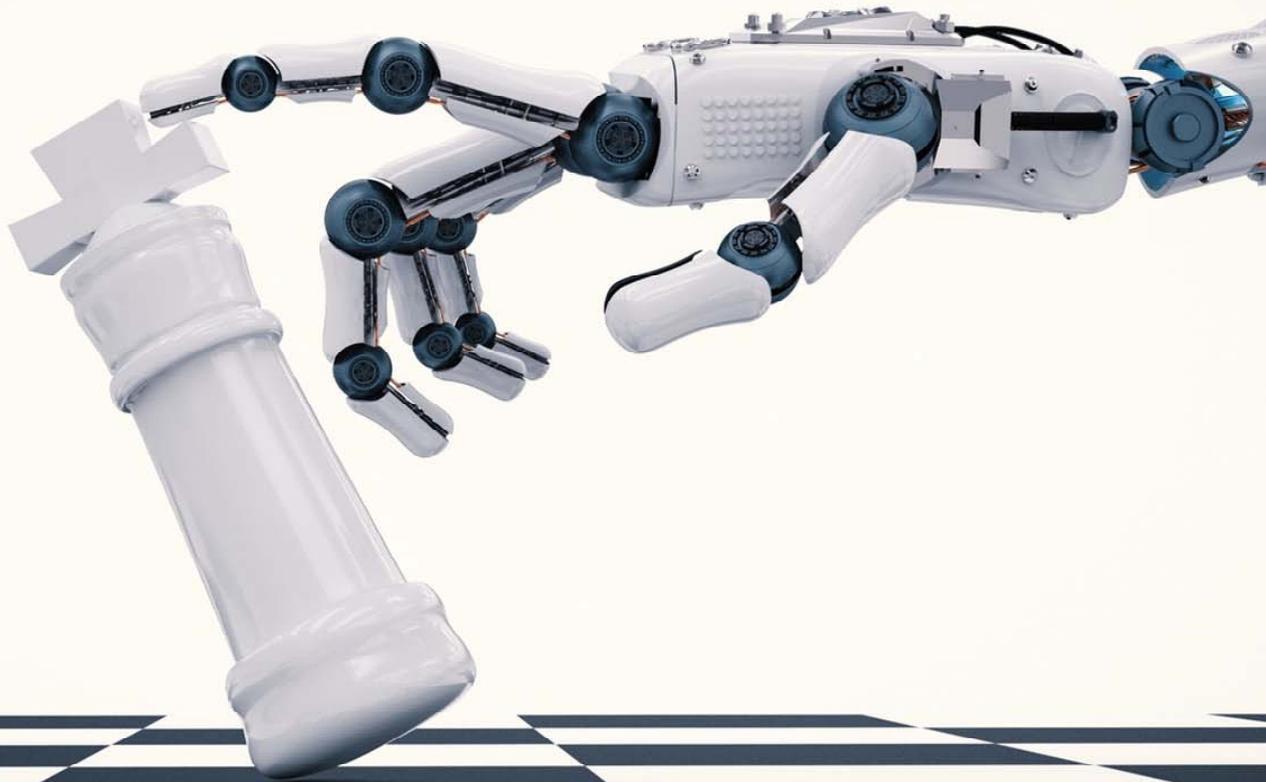


**MEGI**

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**A BRIEF EXPOSÉ**

**HOW MEGI WILL TRIGGER THE  
WHOLESALE TRANSFORMATION OF  
CHINA'S ACCOUNTING INDUSTRY**

# AI-POWERED MEGI - THE RISE OF SUPER-SOFTWARE

When MEGI officially launched in 2015, after months of development, few professionals in China understood the implications of this new cloud-based accounting application. Even those who supported our progress could not appreciate the vision of our team. And nobody, except our team, expected that we could bring about radical change in our industry but that's precisely what is happening. This year, we reached our goal of a complete set of core features to manage a China-based operation. With that, we are about to "turn on" artificial intelligence along with our own data-enriching features. An AI-powered MEGI will introduce hyper-productivity to firms starting in 2017.

Since launch, MEGI has added new, innovative features not found even in leading cloud accounting software. We focused on bringing massive efficiency gains to our industry, and to that end we developed SmartLedger, an additional edition of MEGI designed specifically for accountants. With SmartLedger, we created a pathway to transformation. Firms can use MEGI SmartLedger to continue serving their market, and later upgrade their client-base to more advanced management on MEGI Standard editions.

MEGI is designed to support firms through the upcoming transformation by creating a unified experience across all editions. That's why the same underlying themes underpin our roadmap:

- Unlocking efficiency gains through process transparency, better client-accountant collaboration and automation.
- Delivering business management tools that support effective decision-making in the context of China. This includes the development of dashboard and intermediate reporting tools.
- Bridging Chinese business practices and local requirements with "Western" management methodology.

The introduction of artificial intelligence is a milestone that our entire team has been looking forward to, but it is also a milestone for China's accounting industry. Our development includes measures that will help firms weather the disruption and smoothly upgrade to new models. To that end, MEGI is closely connected to, and has invested in, AXEL Standard. AXEL Standard provides training and consultancy services to help firms upgrade their systems and transform their organisation.

# DISRUPTING AN INDUSTRY

## A paradigm shift in accounting & business services

An inevitable paradigm shift is about to impact China's accounting industry. We've already passed the event horizon, the point of no return. Beside a handful of investors and firms, most of the industry will be taken by surprise. The arrival of Artificial Intelligence (AI) and the rise of AI-powered accounting software has brought the end to bookkeeping, low-level accounting and compliance as we know it. Without their "bread-and-butter" services, firms will be forced to rethink their services offering, their revenue model as well as their relationship with their clients and workforce.

The coming changes will usher the wholesale transformation of the industry comparable to what taxi companies, financial institutions and retailers experienced when Didi Dache, WeChat, AliPay and JD arrived in their market. AI-powered MEGI will help redefine who firms work, hire and grow in the future. It will impact all aspects of the current service offering, including:

- Data entry & enrichment
- Data compilation & verification
- Bank reconciliation
- Fapiao reconciliation
- AR/AP Analysis & Audit
- Creating & posting journals
- General ledger analytics
- End-client queries and alerts
- Period end closing
- Currency reporting & adjustment

The changes will also make room for new services, including software implementation and maintenance services as well as business advisory services.

## Automation by Design

While Artificial Intelligence is critical to the automation of advanced and complex processes, MEGI does not rely solely on technology to achieve massive efficiency gains. We deliver automation through our design and with features engineered to minimise data-handling by people. These features can be found throughout all editions of MEGI and include coding templates (fast codes), journal templates and smart auditing functions.

When we design new functions we also consider the future of software, away from desktop computers and keyboards and towards touch-enabled surfaces (e.g. tablets and mobile phones). By design, we are slowly replacing data entry with small scripts that manipulate data automatically. This is realised through our Data Dock module and will allow functions like automatic upload of data from third-party sources, automatic validation and sorting of data. It will also enable the automatic auditing of data such as variance analysis and other quantitative investigation techniques.

## Shooting a sitting duck

There are industries that are more vulnerable to digital disruption than others. They are easy to spot: a large percentage of their processes utilise data that is “machine-readable” by default. These stand to lose (and gain) the most from disruption, so they do what other now-extinct industries did: they bury their head in the sand, and pray for more regulation and bureaucracy to stifle the innovation that threatens their traditional revenue model. The accounting services industry is a prime example, if not the epitome of a sitting duck.

*Think about it for a moment.* Accounting and associated business services deal (almost exclusively) with data like dates, amounts and reference numbers. That is basic machine-readable data. What’s more, that data typically comes in pre-compiled formats (e.g. csv, xlsx, etc.) that can be loaded into computer systems without any human interaction. To make matters even worse (for the incumbent structures), the output that customers pay for is also mostly raw data, only displayed in print-friendly reports. The reports sent to the tax authorities (for tax compliance) and to external stakeholders (for bookkeeping and financial management) are basically raw data. Do you realise what this means? It means a “smart-enough” computer program could do all that work on its own, or with very little help from people. And that computer program has arrived: MEGI is in testing phase with Artificial Intelligence (AI) technology.

## The missing link in a chain reaction

Artificial intelligence promises to power-up almost every business application currently on the market, but that promise is based on the availability of high-grade fuel, in other words, quality data.

You could compare it to nuclear fission. Nuclear fuel (natural uranium) must be artificially improved before it can be used to create energy. This process is called ‘enrichment’. The same is required for the data used by artificial intelligence in accounting applications. Source data must be systematically and veraciously enriched until it acquires relevant context and offers complete representation. Until then, even the best AI will produce poor outcomes. The current leading accounting applications were designed to capture only limited (bare minimum) financial data, so they are not positioned to leverage AI to its fullest. MEGI is fundamentally different.

From the beginning, MEGI was created to capture the reality of business transactions beyond the basics. This principle has driven the development of unique features such as our Data Dock and MEGI’s plugin/extension marketplace. Our foundations were engineered to capture detailed context for each and every financial transaction captured in MEGI. The technology used to do that is not new, but like nuclear enrichment, it requires a precise methodology. That why we developed MEGI Tags, a feature to attach rich metadata to financial data.

*OK, but how do tags work?* Well, imagine software that would record transaction from your bank statement. That’s standard and quite “dumb”. Bank statements contain very little context: they just give a date, amount and some type of reference number. In MEGI each transaction on a bank statement could be “enriched” with relevant metadata (MEGI Tags) to add real meaning. For example, a transaction may be enriched with metadata that would indicate location,

supplier name and industry, associated purchase order or product line or even relevant promotional campaign codes. After the enrichment process, the transaction will be “understandable” by a computer.

Like nuclear enrichment, the process is nonlinear. The more enriched the data is, the easier it gets to enrich it further (and to enrich new data arriving into MEGI). Once a database reaches a critical threshold of enrichment, it rapidly becomes the “single source of truth” of the business. That’s a critical achievement for a database and it will ensure MEGI is the single most important point of connection for AI technology. This is also a key point of differentiation with competing software and it makes MEGI much more ‘sticky’ ( it makes users much less likely to switch to other software).

## **The imminent wholesale transformation of accounting**

*We have crossed the event horizon.* For decades, the industry has been profiting from government regulation and bureaucracy but that’s about to end. The Chinese government is actively reforming its taxation system and embraces the digitalisation of the industry. In the past twelve months we’ve seen the introduction of a new VAT regime, real-name requirements for special VAT fapiao and general VAT fapiao, and broader electronic validation for all transaction records. These reforms have created the perfect conditions for digital disruption. All that was missing until now is a business application capable of leveraging AI technology, automation and a vast ecosystem of digital tools. That’s precisely what MEGI has built. Put together, these forces are making bookkeeping and compliance services (provided by humans) redundant.

*Now, what happens when a computer does your job 10x better, faster and cheaper than you do?* That’s the question that thousands of firm in China must face and the answer is evident: transform or perish. While bookkeeping and compliance services produced an easy revenue model in China, that has led to complacency among firms who failed to anticipate the advent of AI-powered accounting software (lead by MEGI). They neglected to invest in an up-skilled workforce and ignored the market’s demand for higher value services, such as SaaS applications solutions as well as business planning and advisory services. As software steps up to perform bookkeeping and compliance automatically, and as government continues to digitalise the taxation system, firms will lose their “bread and butter”. The better firms will adapt quickly, others will shutter for good.

Unlike other crises that industries face, the ones caused by digital disruption leave no time for orderly transition. In the coming twelve months, the fittest firms will separate from the rest in order to survive. These leading firms will adopt AI-powered MEGI to continue to deliver basic bookkeeping and compliance services at a fraction of their usual costs. They will unlock new revenues from value-adding services that leverage real-time data. They will attract new clients who value advanced functionality offered by MEGI for business planning and data-driven business management.

## Which side of history are you on?

Investors always have to choose which side of history they want to be on, and there are only two camps: 1) those who record and talk about history and 2) those who make it happen. With the imminent disruption of the accounting industry, this is no longer time for fence-sitting. Those who hope that old model will endure are mistaken. If you are an investor, this may be the signal you've been waiting for: the introduction of technology that will trigger the irreversible failure of traditional models and the rise of a great software company.