

AI simplified: **Xero's AI guide for small businesses**

2024



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business



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How this guide works

This guide is designed to help small businesses understand how artificial intelligence (AI) can be used in their business and the key things to consider when using AI tools. AI can be useful and beneficial for your business, provided you ensure that there are clear guidelines for your teams on when AI can and can't be used, and you protect the privacy of your customers.

Topics include

- 1 **AI for small businesses: the big picture**
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AI Glossary:

Artificial intelligence (AI): The ability of software to complete tasks that involve applying some intelligence. What we consider to be AI changes as technology improves. When the field of AI started more than 50 years ago, finding a driving route between home and the office would have been considered a feat!

Machine learning (ML): A technique in AI that uses data to 'teach' a computer how to complete tasks. Machine learning models process many examples of a task to be completed (such as reconciled bank statement lines), in order to recognise the relationship between the inputs for the task (for example, a bank statement line) and the expected result (such as the correct account code).

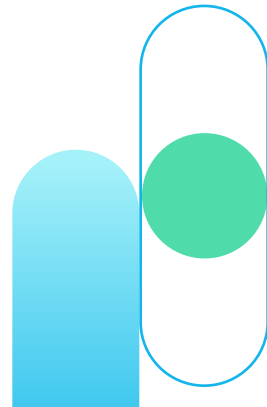
Generative AI (GenAI): A type of AI that focuses on creating content (such as text, images and audio) by learning from an existing set of content. It learns the complex relationships contained within content (for example, word to word, or colour to colour) and uses this information to generate new content.

Predictive AI: This type of AI focuses on learning patterns between two sets of related data (such as past and present transactions), in order to complete tasks where only one of those sets is available (for example, present transactions) and we need to predict the other (for example, future transactions).

Generative vs predictive AI: A key difference between these two types of AI is that only predictive AI is taught the concept of a correct answer. Generative AI has a much fuzzier concept of correctness — it's taught to produce content that is hard to distinguish from the data used during teaching.

Large language model (LLM): An LLM is a type of generative AI model that has been taught to generate written content which is hard to distinguish from human writing. Language models aren't new, but recently they have grown much bigger (hence the name!). Recently, with dramatic increases in size, these LLMs (which include OpenAI's ChatGPT, Google's Gemini and Meta's LLaMA) are able to complete tasks like summarising, answering questions, and even planning a holiday.

This is a general guide only and isn't advice. As always, please consider your own circumstances and seek advice from your professional advisors as appropriate.



1. AI for small businesses: the big picture

Most of us have been using AI in our everyday lives for quite a while – when we search for a movie to watch on Netflix, scroll through our social media feeds, or look for the best route when travelling. But when generative AI (GenAI) burst into the mainstream in 2022, in the form of OpenAI's text generator ChatGPT and Stable Diffusion's text-to-image maker, its tremendous technological power was available to the general public for the very first time.

Since 2022, there's been a flurry of excitement and exploration, as small business owners explore how they can use these AI-powered tools and features in more complex and exciting ways within their business. We've seen AI being used to create intelligent chatbots that can handle more difficult customer inquiries, to construct high quality blog posts, to translate content into multiple languages, to find and fix bugs in code for websites, and much more. It started to feel like AI had all the magic answers.

Now in 2024, the hype surrounding this set of technologies is dissipating and we're understanding more every day. We've learned about 'hallucinations', where GenAI tools produce responses that might read well, but are not necessarily accurate, or in some cases, are completely fabricated. We've seen GenAI images produced with errors in the form of extra fingers or missing limbs, images that are both unrealistic and even unsettling. We know now that there are many things that these tools can't do. As smart as these models are, they don't yet know what they're saying or understand the nuances of language. But with new releases like ChatGPT-4o, the gap is reducing.

Other, bigger challenges are looming on the horizon. Criticism has been directed at AI tools on issues about misinformation, intellectual property, discrimination and bias. The many concerns about AI tools include whether they use data to train their models without the data owners' permission, and whether proper measures are being taken to prevent these models from disclosing this data to others. Governments and regulators around the world are looking at how existing laws can apply to AI tools, or if new laws need to be created.

So where does that leave us?

As AI systems grow in popularity, they rightly invite more scrutiny. This isn't a bad thing; it signifies a move beyond hype and a focus on how AI works and when it doesn't. As is often the case with nascent technologies, questions are starting to be asked on the value of GenAI and its current limitations, which in turn will lead to more meaningful improvements. It's still a long way off from reaching its full potential, which will require better models and better data sets.

AI is here to stay, and it's only going to extend its reach into our lives. If you're at the start of your AI journey, this might feel daunting. It's normal to feel sceptical or apprehensive when using new technology. But as you'll see in this guide, **the small businesses that start small and take simple steps every day to familiarise themselves, to experiment with AI tools and features, and to understand what it can and can't do, are more confident about the possibilities for AI to transform particular functions and their business in the future.**

Just like other apps that you use, AI is simply a tool to help you do your work faster and more efficiently. As one small business owner told us, AI is assistive so that you become more available; it allows you to focus on the areas of the business that you want to focus on. But like all tools, it needs to be used in a careful and considered manner, and it always requires human intervention and oversight.

At Xero, we've been thinking a lot about AI and how it can help small businesses and their advisors. AI is not new to Xero; it already powers a range of products across Xero, including bank reconciliation predictions, Hubdoc data capture, Xero Expenses, and cash flow forecasting in Xero Analytics. But we're looking at how we can bring new capabilities, like our AI-powered smart business companion Just Ask Xero (JAX), safely and seamlessly to customers when they need them.

In this guide, we look closely at how small businesses are using AI inside and outside of Xero, and how it can be used to streamline your workflows and enhance your operations. We hope this guide is a source of inspiration and learning, no matter where you are on your AI journey.

2. Getting started with AI

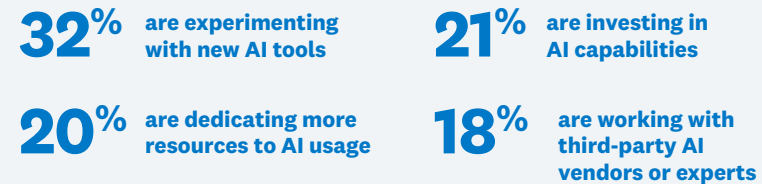
What to consider when using generative AI

As GenAI becomes more capable, small businesses are naturally exploring the potential benefits, but also need to be wary of some of the risks it could pose, particularly concerning security and privacy of data. While GenAI promises to automate tasks and augment human capabilities, there are some things small businesses should watch out for when considering it for their business. These include:

- **GenAI can get it wrong, while sounding right:** AI models can produce inaccurate information, not just based on flawed data but also through what the industry refers to as 'hallucinations' – making up plausible but incorrect outputs. This highlights the need for having checkpoints and ensuring humans fact-check and edit any automated answers.
- **Check that GenAI hasn't copied someone else's homework:** AI systems may inadvertently replicate copyrighted material or otherwise use others' intellectual property without permission. While some platforms are implementing indemnification programs for users, businesses need to be careful about using imagery that may be deemed infringement on others' copyright.
- **Your customers choose you:** AI-generated content could lack authenticity, originality, and the personal touch that distinguishes successful small businesses. Moreover, without human intervention and oversight, AI could make critical errors due to lacking the depth of human experience and reasoning.
- **You know your business best:** AI may struggle to fully understand the unique aspects and nuances of your specific business, potentially generating irrelevant or unsuitable results.
- **Keep your customers safe:** There are concerns about maintaining the confidentiality of sensitive information, losing control, and potential cyber threats.

The reality is not a binary choice between humans and AI; rather, it's about integrating AI seamlessly into our existing processes, akin to tools like autocorrect, Alexa, FaceID or Grammarly that enhance rather than replace human input.

As a small business, you are not alone in your concerns about AI. Xero's survey of more than 3,000 small business owners across six countries also showed they are proactively exploring AI adoption.



Source: [Xero Future Focus AI report \(2023\)](#)

Just Ask Xero, your smart business companion

Xero is developing a conversational interface called Just Ask Xero (JAX), which uses powerful GenAI technology. JAX will help automate routine accounting tasks and provide personalised insights wherever you are. When available, Xero's customers will be able to "Just Ask Xero" to complete tasks like generating an invoice, editing a quote or paying a bill, either in Xero or via other commonly used apps and devices such as text message, WhatsApp and email. JAX will not only complete the task, but in the future it will also anticipate other tasks that may follow, such as sending an email to follow up on an overdue payment. It will also provide personalised insights so customers can make informed business decisions.

[Learn more about JAX](#) [here](#)



CASE STUDY



Ryan Mitchell In The Flow



In The Flow builds growth infrastructures for digital agencies that attract and convert dream clients. After selling his first agency, Ryan Mitchell founded In The Flow in Queenstown, New Zealand, and was determined to approach this business differently.

This started with rethinking the agency business model and value proposition. “A lot of the time agencies are selling tactics or outputs, for example, we’re going to create three social posts or five blogs,” says Ryan. “But what the client actually wants is an outcome. We want those social posts or blogs to drive new followers or create leads. By framing the whole understanding of what clients actually want, I realised that the value was actually in the outcomes, not in delivering outputs.”

This led to Ryan exploring AI and other software that would allow his team to build more efficient outputs. On the financial side, Ryan has been using Xero for a decade. “It taught me how to be a bookkeeper essentially!” When OpenAI released ChatGPT in late 2022, Ryan was quick to look at how he could integrate text-based AI tools into his operations. Ryan uses tools like ChatGPT to analyse large public datasets for industry and competitor information, and to help produce different forms of content like LinkedIn articles. “It’s saved me about an hour every few days. It means I can spend an extra hour or two on the agency strategy and direction.”

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Ryan’s advice for small businesses dipping their toes into AI:

- **Keep the human touch:** “It’s important to verify and always do a final sanity check as there’s still an element of hallucinations that happen when you’re using these AI tools.”
- **Make it a habit:** “Get used to just using it. I get the most value when I’m consistently using ChatGPT because I’m building that muscle of how to engineer prompts to get the outputs I want.”
- **Find its limits:** “Experiment with it. There’s a lot of things you can do with it – try to break it and see where the limits are, see what it’s good at and what it’s not.”

One final word of advice from Ryan: “AI is really good at producing outputs. But what AI doesn’t do, is to point the business in the right direction. Sure, it can get you there faster. But if you’re pointing in the wrong direction, you end up having to do a whole bunch of backtracking to get you back on the right path.”

CASE STUDY



Kate Plumb

Kid Psychology



Kate Plumb, a psychologist operating solo practice Kid Psychology, specialises in treating children with autism, ADHD, and other neurodiverse conditions.

Her days running the clinic were filled with assessments, group sessions, and individual consultations, leaving her feeling overwhelmed and with little time for the necessary bookkeeping, accounting, and patient management tasks. “I wear a lot of different hats in the clinic,” Kate says. “But it was becoming too hard to hire people to help me during busy periods. I didn’t have time to document the procedures I followed automatically, so I became overburdened at work.”

Seeking a solution, Kate’s foray into AI began with a simple need: creating standardised operating procedures. She turned to ChatGPT to generate process templates for onboarding temporary workers, especially during busy periods. “Templates made it easy for them to follow procedures, freeing up my time for more meaningful interactions,” she says. Encouraged by this success, Kate explored using AI in other areas, such as creating templates to structure patient sessions and summarising case notes.

As a registered AHPRA practitioner, Kate is bound by guidelines to keep patient records confidential and secure and was initially apprehensive about using

“We need to proactively drive AI developments in clinical administration, so we can make sure that it’s doing exactly what we want it to.”

AI-powered tool PatientNotes in therapy sessions. However, she was reassured by the tool’s data protection measures, and with parental consent, found the accuracy of the transcribed notes exceeded her expectations. The efficiency gains from AI have enabled Kate to focus more time on patient care, expand her caseload, and provide faster report turnaround times. Although the field has been slow to adopt AI, Kate believes psychology as a profession can significantly benefit from embracing it, particularly in streamlining administrative tasks and therapeutic applications.

“We need to proactively drive AI developments in clinical administration, so we can make sure that it’s doing exactly what we want it to,” she said. Moreover, Kate sees the potential for AI to enhance therapeutic connections with younger generations raised on technology. “We’ve barely scratched the surface of what AI can do in therapy,” Kate said, “and that’s the area I’m most excited about.”

3. How to use AI in your business

Ways to use AI inside your business

Small businesses can utilise AI-powered tools to streamline operations, improve customer service, and ultimately grow their business. Let's look at some practical examples of how you could use AI in your business.

Marketing for new clients

Struggling with generating creative marketing campaigns or generating leads?

- AI can be a game changer for small businesses with limited marketing budgets. It can help develop initial campaign ideas and strategies, craft compelling content for social media posts and email campaigns, and even generate scripts and visuals for promotional videos.
- AI can also assist with search engine optimisation (SEO), ensuring your website ranks higher in search results and reaches more potential customers.
- AI can assist small businesses to analyse marketing campaign performance, track what competitors are doing, and use chatbots to gather information from potential leads – such as contact information and their needs – when visiting your website.

Customer service

For any small business, delivering outstanding customer service is crucial for building loyalty and driving growth. AI can significantly improve your customer service operations by automating repetitive tasks.

- AI-powered chatbots can answer basic customer questions 24/7, freeing up your employees to handle more complex enquiries.
- By analysing customer service interactions, AI can help you develop a comprehensive list of FAQs, ensuring your customers can easily find answers to common questions.
- AI can help customer service teams categorise and prioritise customer emails, to address urgent issues first.

Document and record management

Too often, managing documents and records is a significant time burden for small businesses.

- AI can assist in creating professional presentations, expediting the communication of complex information to clients or colleagues.
- AI-powered document scanning and classification systems can automate the organisation of important records, eliminating the need for manual sorting and filing. This results in a significant reduction in time spent searching for specific documents, allowing staff to dedicate more time to value added tasks.
- Perhaps the most impactful application of AI here is its ability to extract data from scanned documents and populate client records with the extracted information. This eliminates the need for manual data entry, a tedious and error-prone process.



CASE STUDY



Russell Jones JonesMillbank



Russell Jones and Adam Millbank met at film school, and decided in 2011 to combine their expertise as filmmakers, camera operators and editors to launch JonesMillbank, a full-service video production company based in Bristol. Today, the company produces TV commercials and branded content for a wide variety of clients, from the British Library to the British rock band, IDLES.

Russell and his team were no strangers to using emerging technologies in sound, editing and visual effects to expand the creative possibilities in filmmaking. However, the arrival of a number of diffusion-based image services including MidJourney, Dall-E 2, Stable Diffusion as well as OpenAI's ChatGPT in late 2022 presented both opportunities and challenges for the company. "While we started experimenting and trialling these new AI systems and tools, we were trying to tread a delicate line," says Russell. "Since we started, our ethos has revolved around working closely with people and maintaining an in-house team."

Implementing AI was a gradual process for Russell and the team. The company explored how they could integrate AI tools into their workflows to enhance creativity and efficiency. "We largely use MidJourney for mood boards, basic storyboards and reference imagery. It helps us to visualise more accurately, whether that's the age, gender and race of the protagonist, or understand the exact kind of framing we need."

"We largely use MidJourney for mood boards, basic storyboards and reference imagery. It helps us to visualise more accurately."

The company also uses CustomGPT, a sandboxed version of ChatGPT where you can upload any number of documents, websites, PDF and spreadsheets and more, and the tool uses that business content and data to pull out answers. "It acts as an internal chatbot where our team can go and ask questions, like 'what's our maternity policy?'. It's incredibly good at surfacing factual information for employees, helping to onboard new team members, and it's completely anonymous and confidential."

Despite the possibilities these new technologies present, Russell believes it is important to support human talent, and ensure that AI does not displace jobs that otherwise would be filled with real people. The company is in the process of creating a policy on areas where they should or shouldn't use AI. "We are a people-powered production company. We've always focused on creating stories with people both in front of the camera and behind. We're doubling down on this as a differentiator."

MidJourney AI prompt: a close-up of a pair of construction boots, facing the camera, in the style of Wes Anderson, legs are wearing jeans



Behind the scenes on a music video for IDLES



MidJourney AI prompt: a 9-year old girl looking at the camera, in a botanical gardens, super wide angle, outside, midday

Ways to leverage AI within Xero

Many small businesses depend on their accountants for core accounting and financial processes. But what are those other business areas that involve admin and time intensive processes? What are the most important areas that you should focus on for growth and where AI can benefit the most?

Any assistance to speed up your routine business tasks, reduce financial admin and provide insights to grow your business helps you free your time to focus on things that matter to you. Platforms like Xero have a range of tools that use AI to help make these tasks quicker and easier while providing deeper insights about your business. At Xero, our AI strategy is designed to help us remain laser-focused on our customers by addressing four critical elements:

- Automating and streamlining repetitive, time-consuming tasks:** We know that small businesses and their advisors often feel overwhelmed by the sheer volume of administrative tasks they must complete. Xero automates repetitive work, whether it's using the bank statement extraction tool in [Hubdoc](#) or predicting and populating fields in bank reconciliation, so businesses can reconcile their accounts faster and more easily. This saves you precious time on manual tasks that can be repurposed to focus on what truly matters – growing the business or serving clients.

- Smarter decisions, faster:** Making informed choices is crucial for success. One of the best ways we can help with that is to deliver the right insights to our customers, at the right time. For small businesses, getting a clear picture of how the business is performing — and what to expect in the future — is vital. [Xero Analytics Plus](#) is powered by AI and offers cash flow forecasting up to 90 days in the future, including predictions for recurring bills and invoices, as well as spend and receive money transactions. We know [from our research](#) that most small businesses struggle to maintain a healthy cash flow, so these insights are vital for helping spot opportunities and mitigate risk.
- Getting answers instantly:** Getting help shouldn't be a hassle. We've embedded a conversational AI tool in [Xero Central](#) — our customer support and learning site — and right in the Xero platform, that provides answers in clear, natural language alongside relevant articles. New customer onboarding is also a breeze with our AI-powered setup guide. We combine your data with the user-friendly interface of LLMs for a seamless experience. Our vision is to bring Xero's power to the apps and platforms you already use every day, allowing you to interact with Xero and get the answers you need, on your terms, and at your convenience.



A major breakthrough: First-of-its-kind technology behind Just Ask Xero

In February 2024, Xero unveiled its AI-powered smart business companion [Just Ask Xero \(JAX\)](#). JAX's underlying technology fuses the flexibility of generative AI with a groundbreaking, proprietary control system that guides JAX through precise accounting data, making it smarter, more accurate and more secure than unguided generative AI models. These guardrails will help overcome some of the challenges of existing generative AI models, by guiding the model with data that is accurate and relevant to the business, while protecting the user's data.



CASE STUDY

Scott Goodfriend
 Ultimate Food Tours


Scott Goodfriend loved taking his friends on impromptu food tours around New York City, and before long he realised that this fun hobby could in fact be a very good business idea. In 2019, he launched Ultimate Food Tours, a New York City-based food experience company.

Scott says Xero's automated reconciliation features significantly reduce the time he spends on bookkeeping, allowing him to shift his focus back to business growth and customer engagement. "It would literally take hours a month to do and now that I'm using Xero everything is up-to-date and in the right place," he says. "I was able to launch two new food tours, a podcast and a cooking class with that extra time. It's an incredible time saver that enables me to focus on the product and marketing, which is where I want to be spending most of my time."

When a new wave of generative AI tools reached mainstream in 2022, Scott integrated various tools, such as ChatGPT for drafting content and MidJourney for creating pitch decks and visual assets, into his daily workflows. "I just found AI to be initially very helpful, in organising my thoughts and being able to make rough drafts of things. It was a real time saver with the creative conceptualisation."

For any small business that doesn't know where to start with AI tools, Scott has one key piece of advice: "Just be curious about it. AI is here to stay. Instead of trying to solve problems the way you always have, try to think about how AI can help you, because there are a lot of great tools out there."

"I just found AI to be initially very helpful, in organising my thoughts and being able to make rough drafts of things. It was a real time saver with the creative conceptualisation."

How small businesses are using AI

We asked some of our small business customers how they're using AI in their business today. Here's what they're currently using:



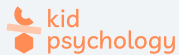
JonesMillbank uses:

- Midjourney to generate images for mood boards, storyboards and reference images
- Adobe Photoshop's generative fill tool to edit existing images and expand them using AI
- Adobe Premiere for filling in gaps in interviews using AI



Ultimate Food Tours uses:

- ChatGPT for rough drafts of ideas and scripts, and creative conceptualisation
- DALL-E to generate images for marketing materials
- Captions for dynamic captions, noise cancellation, and music for some videos
- Adobe AI tools like Audio Enhancer, and Essential Sound within Adobe Premiere
- Riverside FM, which uses AI to pull out insights from interviews, for his podcast



Kid Psychology uses:

- ChatGPT to generate onboarding templates for temporary workers
- Patient Notes, a health-specific AI tool that helps transcribe interviews and case notes for patients securely



In The Flow uses:

- ChatGPT for a number of workflows, including analysing large public datasets for industry and competitor information, and producing content for LinkedIn

Getting started

When used well, AI can create a magical 'the whole is greater than the sum of its parts' experience, where humans and AI work in close partnership and accomplish things faster and with less effort. Harnessing that partnership lets companies of many sizes deliver new and better experiences, remove manual toil, and provide helpful insights at a hyper-personalised level. Think about the countless decisions your business makes daily. AI can streamline many of these processes, making them faster, easier, and better informed.

From chatbots to customer relationship management platforms (CRMs), accounting to marketing, the breadth of application and range of AI tools available is vast. Choosing the right solution will depend on the unique requirements and day-to-day activities of your small business. However, one thing is clear: AI is no longer a competitive advantage reserved for large corporations; it's a valuable resource and powerful ally for enterprises of all sizes, including small businesses.



Beautiful business