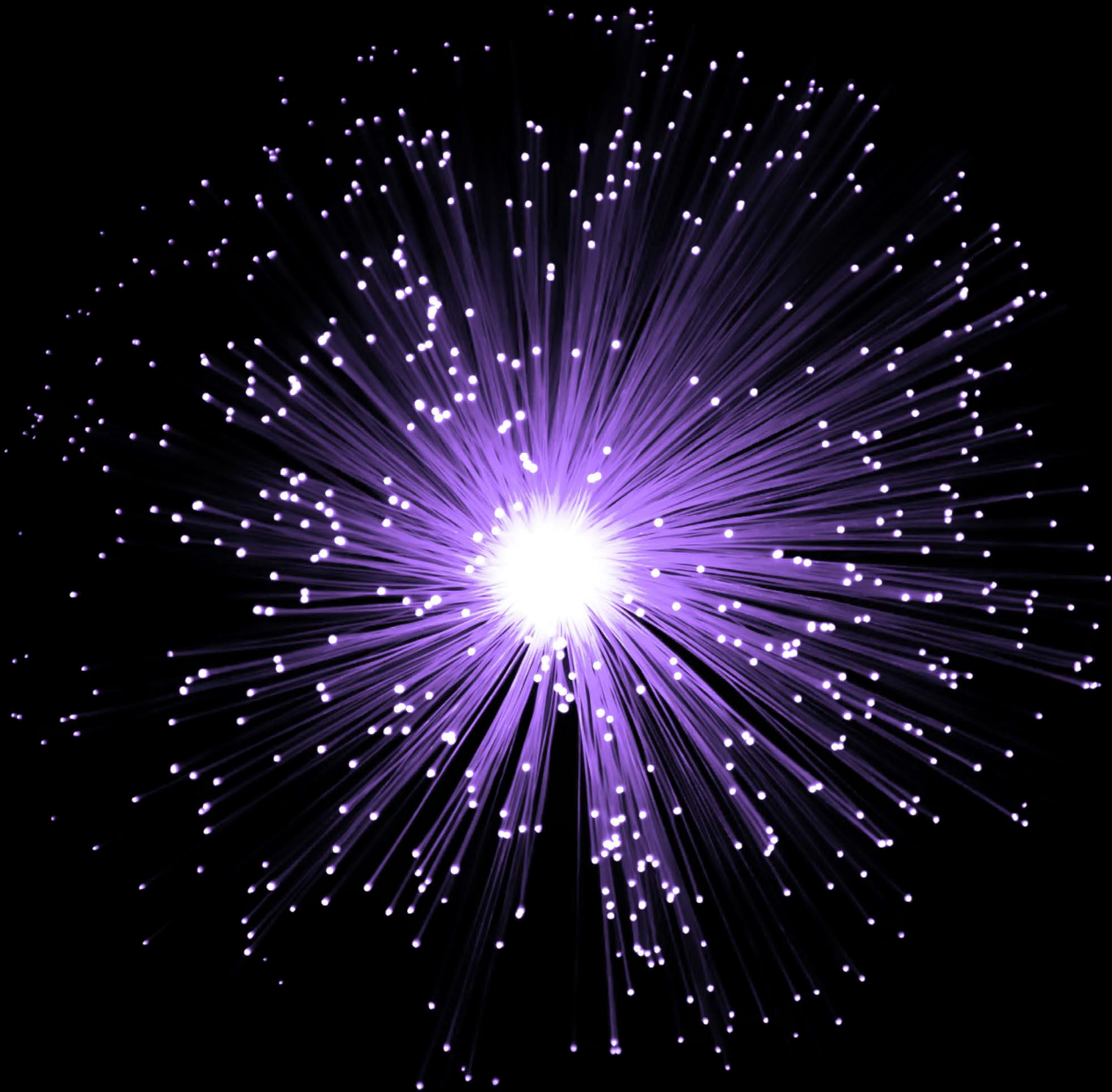


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**Connected  
Small Businesses 2016**

Google

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# Connected Small Businesses 2016

The digital dividend for Australian SMBs



## Distribution of SMBs across digital engagement ladder

Advanced	9%
High	34%
Intermediate	34%
Basic	23%

Australian SMBs that have reached 'advanced' levels of digital engagement, compared to SMBs that have 'basic' digital engagement:



are **1.5x** more likely to be growing revenue



are **14x** more likely to be innovating



are **8x** more likely to be creating jobs



earn **1.4x** more revenue per employee



are **7x** more likely to be exporting



have a more **diversified** customer base

However, more than **90%** of SMBs are not taking full advantage of today's digital tools, with many businesses identifying **'inadequate skills'** as a barrier to making the most of the web.

## How can SMBs set up for digital success?



**Pick** tools that are right for the business



Recognise business **change** may be required



Don't be afraid to **learn** new things



Understand and **adapt** to changing circumstances



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# Highlights

Digital tools open up significant new opportunities for small- and medium-sized businesses (SMBs) within the Australian economy to grow and innovate. Technology enables better connectivity, engagement and understanding of customers. Applying new technologies can help SMBs to improve business outcomes and become more agile in an increasingly digital economy.

This report provides updated insights on the use and benefits of digital tools in Australia's SMB sector – a sector which generates significant economic activity. SMBs contributed \$608 billion to the economy in 2014-15, representing over half of private sector economic activity. Australian SMBs also employed over 7.2 million workers in 2014-15, more than two-thirds of private sector employment.

Based on a national survey of over 600 Australian SMBs, Deloitte Access Economics has taken a fresh look at levels of digital engagement, such as through SMB use of social media, e-commerce, websites, online marketing tools and data analytics. The level of business engagement was then compared with performance metrics such as revenue growth, job creation, exports and innovation in order to identify relationships between digital engagement and business performance.

The survey revealed that Australian SMBs are becoming more digitally capable over time, with the average level of digital engagement having increased relative to our 2013 *Connected Small Businesses* report. At the same time, the digital landscape is continually evolving. Ongoing developments in digital tools and their use by Australian SMBs means that the goalposts for SMBs to qualify as highly digitally engaged continues to shift.

This report uses a revised digital engagement ladder to analyse the benefits for SMBs that are currently at the digital forefront, while still acknowledging the gains associated with each step up the ladder. Under the 2016 digital engagement ladder, around one-quarter of Australian SMBs are operating at a basic level of digital engagement, with only 9% at an advanced level.

## Distribution of SMBs across digital engagement ladder – 2016



Compared to businesses with basic digital engagement, Australian SMBs that have advanced levels of digital engagement are:

- 1.5 times more likely to be **growing revenue**, and earned 1.4 times more revenue per employee in the previous year
- More than 8 times more likely to be **creating jobs**, creating an average of 12 additional jobs in the previous year
- 7 times more likely to be **exporting**
- More than 14 times more likely to be **innovating** by offering new products or services.

Overall, the results indicate that there are significant benefits to be gained with each step up the digital engagement ladder. These benefits were found for SMBs across all industries, sizes and geographies. **SMB revenue growth was almost 20 per cent higher for each step up the digital engagement ladder – that’s a big digital dividend for business.**

Yet despite these benefits, almost half of all SMBs at lower levels of engagement do not regard digital tools as relevant for their business. This suggests that there is still work to be done in helping some SMBs understand the value associated with increased digital engagement.

Other barriers to SMB digital engagement included the perceived cost of adopting digital tools and a lack of skills to use these tools. In particular, a number of SMBs identified inadequate skills in both technical capabilities and in understanding how digital technologies can be applied to benefit their business as barriers to further engagement. Despite this, more than one-quarter of these SMBs indicated that they have no current plans to address this digital skills gap.

Australian SMBs have much to gain from improving their digital engagement. New technologies will continue to change existing markets, drive increased competition and shift consumer expectations. To succeed in this environment, SMBs will need to adopt digital tools and be flexible and innovative in their use of these technologies.



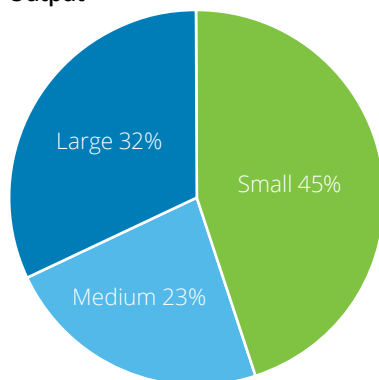


# SMBs make a significant contribution to the economy

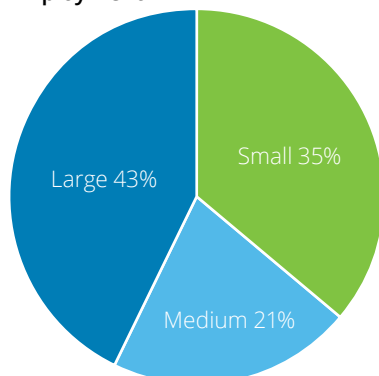
Small and medium sized businesses (SMBs) are significant contributors to the Australian economy, both in terms of the number of people they employ and their output. The sector contributes more than half (57%) of private sector economic activity (industry value added), representing \$608 billion in 2014-15, and more than two-thirds of private sector employment (68%), with SMBs employing around 7.2 million people in 2014-15 (Chart 1).

**Chart 1: Share of private sector output and employment by business size\*, at end June 2015**

## Output



## Employment



Understanding how Australian SMBs can effectively use digital technologies to improve their business outcomes can therefore facilitate increased economic, and jobs, growth across Australia. In this context, Google Australia commissioned Deloitte Access Economics to analyse the use of digital tools by Australian SMBs and the benefits they deliver to businesses. This analysis provides an update of the findings of an earlier *Connected Small Businesses* report from 2013.

Small business policy is also an important part of the Australian Government's economic agenda and future growth strategy. The Treasurer, the Hon. Scott Morrison MP, has previously highlighted that 'small and medium businesses are driving jobs growth in Australia and must continue to do so' (Morrison 2016).

The 10-year enterprise plan in the 2016-17 Federal Budget, which is designed to support growth and jobs in the Australian economy, recognises the potential SMBs have in driving future economic activity. The Government intends to support SMB growth through a series of tax cuts and other incentives, which will have an estimated impact of a 'permanent increase in the size of the economy by just over 1% in the long term' (Treasury 2016). As this report will show, improving the digital engagement of SMBs can further contribute to Australia's economic growth.

\*Small and medium businesses are defined as businesses that employ 0-19 and 20-199 people respectively.

Source: ABS Cat. No. 8155.0, Deloitte Access Economics (2016)

# The digital landscape for Australian SMBs is continually evolving

The use of digital technology enables businesses to increase accessibility, information availability and connectivity with their customers. In today's economy, many Australian consumers now expect to be able to engage with Australian businesses through online channels. This is particularly important for SMBs, who may not have the size or reach to engage with existing or new customers without a digital presence.

In this context, Australian businesses are constantly developing new ways to use digital tools and technologies within their core business functions and to interact with their customers. The changing digital landscape presents many opportunities for businesses to use both new and existing technologies to drive growth and innovation.

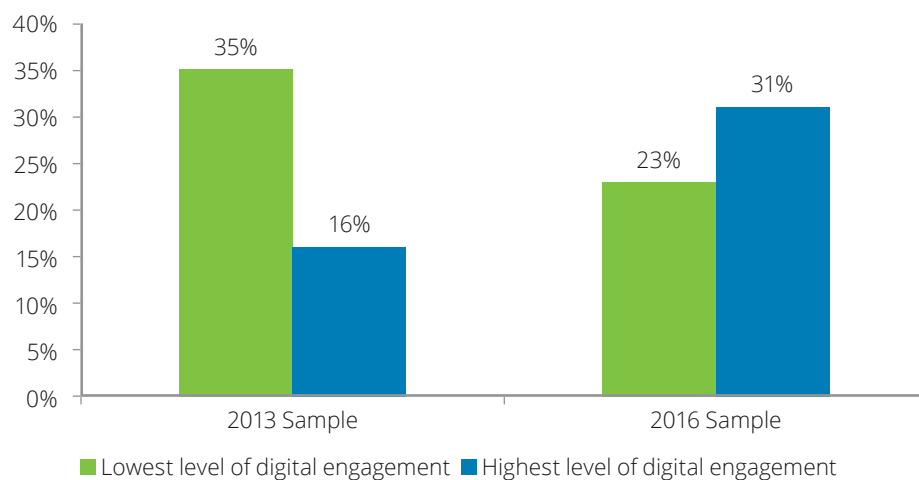
Our 2016 survey of 600 Australian SMBs suggests that businesses are becoming more digitally capable over time. The average level of digital engagement is improving, as SMBs learn more about new technologies and how digital tools can be used to improve business functions, processes and strategies.

In the 2013 *Connected Small Businesses* report, a sample of 500 Australian SMBs<sup>1</sup> was surveyed and classified into four levels of digital engagement based on their use of digital tools. Of these SMBs, 35% were ranked as being at the lowest level of

digital engagement – that is, only having a business email address. 16% were ranked at the highest level of digital engagement, through their use of search engine marketing and search engine optimisation.

Applying the digital engagement ladder classifications from the 2013 report to our 2016 sample of SMBs allows us to assess changes in digital engagement over time. Overall, there has been an improvement in engagement levels: compared to the 2013 sample, the share of SMBs at the lowest engagement level in 2016 has declined from 35% to 23%, while the share at the highest level has increased from 16% to 31% (Chart 2).

**Chart 2: SMBs by digital engagement using the 2013 *Connected Small Businesses* engagement ladder**



Sources: Deloitte Access Economics, Stancombe Research and Planning (2016); *Connected Small Businesses* (2013)

<sup>1</sup>In the 2013 survey, 'SMBs' were defined as Australian businesses with up to 100 employees. The 2016 sample of SMBs includes Australian businesses with up to 200 employees, though the majority (94%) of these have fewer than 100 employees.

At the same time, the ongoing developments in, and evolution of, digital tools and how they are used by Australian SMBs means that the goalposts have shifted: what was previously thought to be an indicator of very high levels of digital engagement may no longer be considered as best practice and is now more mainstream across SMBs. In addition, the 2016 survey includes some digital tools that have been adopted by SMBs in recent years that did not form a core part of our 2013 digital engagement ladder, such as video advertising and mobile capabilities.

Consequently, for this 2016 version of *Connected Small Businesses*, we have updated the digital engagement ladder to reflect the fact that the digital landscape for Australian SMBs has evolved since the previous report (Figure 1).<sup>2</sup>

It is important for businesses to keep improving in their use of new digital tools in order to fully realise the benefits that new technologies and applications can offer. The updated digital engagement classifications will allow us to analyse the extent to which SMBs that are currently at the forefront of digital technology use benefit from these tools, while still acknowledging that there are gains to be made with each step up the engagement ladder.

**Figure 1: Digital engagement ladder classifications – 2016**



Source: Deloitte Access Economics (2016)

Using the updated 2016 digital engagement levels defined in Figure 1, we find that 23% of our 2016 sample are operating at a basic level of digital engagement; intermediate and highly digitally-engaged SMBs each represent 34% of the sample; and only 9% of businesses are considered to be operating at an advanced level of digital engagement (Figure 2).

**Figure 2: Distribution of SMBs across digital engagement ladder – 2016**



Sources: Deloitte Access Economics, Stancombe Research and Planning (2016)

<sup>2</sup>Note: this report primarily focuses on the use of digital tools for outward purposes such as marketing and customer engagement. Technologies that are used for other reasons such as cloud-based software for internal management or mobile capabilities for employee collaboration are not directly within the scope of this report.

SMBs that are more digitally engaged experience significantly higher revenue growth rates

**+58ppt**  
Advanced

**+27ppt**  
High

**+18ppt**  
Intermediate



# Revenue growth is a key benefit of SMB digital engagement

SMBs that move up the digital engagement ladder have better growth prospects, both in terms of experiencing increased revenue growth as well as having higher expectations for future revenue growth. On average, our survey results suggest that revenue per employee is more than 1.4 times higher for digitally advanced SMBs (around \$223,000 per employee) as compared to those with a basic level of digital engagement (around \$157,000 per employee).

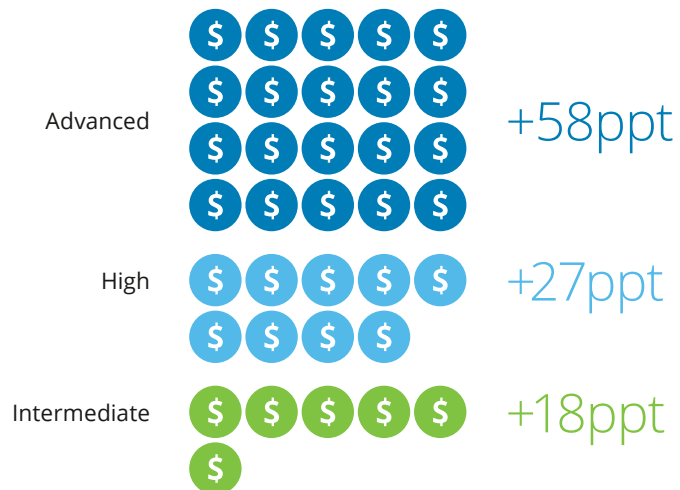
Deloitte Access Economics performed a regression analysis using the survey data to determine how much extra revenue growth a business was achieving for each extra level of digital engagement attained relative to the basic engagement level. Further technical details on the regressions performed as part of our analysis can be found in the Appendix.

The results of the regression suggest that greater digital engagement pays off. SMBs at an advanced level of digital engagement were 1.5 times more likely to have experienced revenue growth over the previous 12 months compared to basic SMBs. For the average 'basic' SMB in our survey sample – which had a 24% chance of increasing revenue over the previous year – this means that all else being equal, moving up to the advanced level would result in a 37% chance of experiencing revenue growth.

With respect to the magnitude of the revenue increase, moving up a level of digital engagement was associated with an average increase in revenue growth of 19 percentage points per level, up to a total benefit of 58 percentage points of growth for 'advanced' SMBs compared to 'basic' SMBs (Chart 3). This is consistent with the findings of the 2013 *Connected Small Businesses* report, where the average SMB experienced a 20 percentage point uplift in revenue growth for each move up the digital engagement ladder.

The finding that increased digital engagement has a positive relationship with revenue growth is also consistent with results from other similar studies. For example, Deloitte Access Economics' 2016 report *SMBs in the digital race for the customer* found that a 1% increase in spending on online services (such as social media, online marketing and websites) for a given SMB leads to a 2.9 percentage point increase in annual revenue growth for that business.

**Chart 3: Revenue growth over the past 12 months, compared to 'basic' businesses**



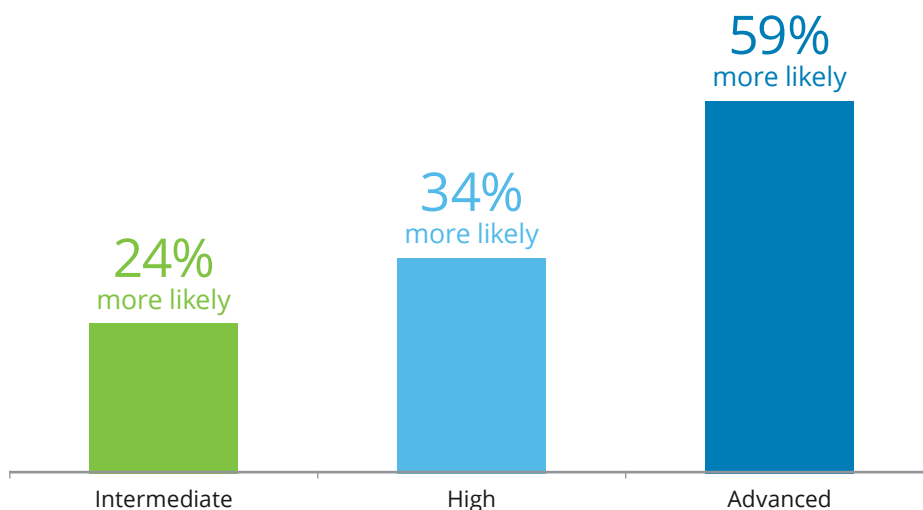
Sources: Deloitte Access Economics, Stancombe Research and Planning (2016)

It should be noted that the effect may go both ways, namely SMBs experiencing rapid growth are likely to have more resources to invest in digital engagement than businesses with lower growth. However, as will be discussed later in this report, our analysis also illustrates how this growth may be achieved – for example, higher digital engagement levels are also found to be associated with increased exports and innovation. Combined with the evidence from our case studies, this suggests that SMBs that engage in more advanced digital strategies reap the benefit of increased revenue growth as a result.

Not having an effective digital engagement strategy can impact the ability of SMBs to grow and limit opportunities for potential expansion. Our modelling finds that a higher digital engagement also has a positive impact on SMBs' expectations for future revenue growth. That is, SMBs that are actively using more advanced digital tools and strategies – such as search engine optimisation, customer data analytics, and online video advertising – are more likely to expect to grow in the future.

On average, SMBs at an advanced level of digital engagement were 59% more likely to expect their revenue to grow over the next 12 months compared to SMBs with a basic level of digital engagement (Chart 4). For example, the average 'basic' SMB in our survey sample had a 19% chance of expecting revenue growth over the next year – all else being equal, adopting sufficient digital tools to be classified as 'advanced' would result in a 78% chance of expecting future growth for this particular SMB (i.e. more than 4 times more likely to be expecting future revenue growth).

**Chart 4: Likelihood of expecting revenue growth in the next 12 months, compared to 'basic' businesses**



Sources: Deloitte Access Economics, Stancombe Research and Planning (2016)

Our analysis concludes that there is likely to be a substantial dividend in terms of revenue growth associated with SMBs engaging with digital technologies. And the relationship between higher levels of digital engagement and business growth is not limited to particular industries or business size and age<sup>3</sup>, indicating that digital engagement is linked to growth across the spectrum of Australian SMBs. This suggests that the growth of SMBs through increased digital engagement can be a significant contributor to growing the Australian economy.

<sup>3</sup>Our regression analysis accounted for the effects of business industry, age and location, as discussed in the Appendix.

## Case study: Vuly A website experience that works

Websites have been a critical driver of growth for Vuly, a trampoline manufacturer, distributor and retailer that was founded in 2007 and is based in Brisbane, QLD. The company has grown rapidly since its inception, with annual revenue from its Australian retail operations increasing from around \$1 million in 2007 to around \$30 million today. Similarly, Vuly has gone from employing 3 people in 2007 to a regular workforce of around 40 people today. Vuly's website has been important in facilitating its local and overseas sales, with Vuly trampolines being sold across a number of countries in the Americas, Europe, and the Middle East.

The website experience that Vuly offers its customers is a key component of its digital strategy. Vuly founder and CEO, Joe Andon, sees the website as critical for the company's growth: 'our website is our store. We aim to provide the customer with a positive website experience through high-quality photographs, videos, simplified messages, streamlined navigation and country-specific content. The depth of our website's content is important because in many cases, a customer will buy our products directly from our website based on the photographs or videos they see on the site.'

The return on Vuly's investment in its online presence has been significant. A website upgrade after Vuly's first year of operations led to a tripling in sales revenue in the following year. Joe believes that constant iteration and improvement of the website is essential for driving business growth: 'we have spent \$1 million over the last 24 months planning and developing a major website upgrade, including updated photographs, videos and content. The new website will be released later this year along with the launch of a new range of products, which will help us to promote them and drive increased sales.'

Vuly also recognises the importance of other digital tools and social media channels such as Google, YouTube, LinkedIn and Facebook. According to Joe, 'different digital tools lead to different outcomes. Our website is the most successful channel for generating sales, while YouTube has been used to increase brand awareness. Business-related posts are published on LinkedIn, and Facebook posts feature regular blogs about new products and customer trampoline experiences.' Vuly uses search engine optimisation (SEO) to attract customers, actively engaging in off-page SEO by having major stockists of Vuly trampolines – such as Toys 'R' Us, Harvey Norman and Bunnings – maintain links to Vuly's webpage on their retail site.

“Our website is our store. We aim to provide the customer with a positive website experience through high-quality photographs, videos, simplified messages, streamlined navigation and country-specific content.”

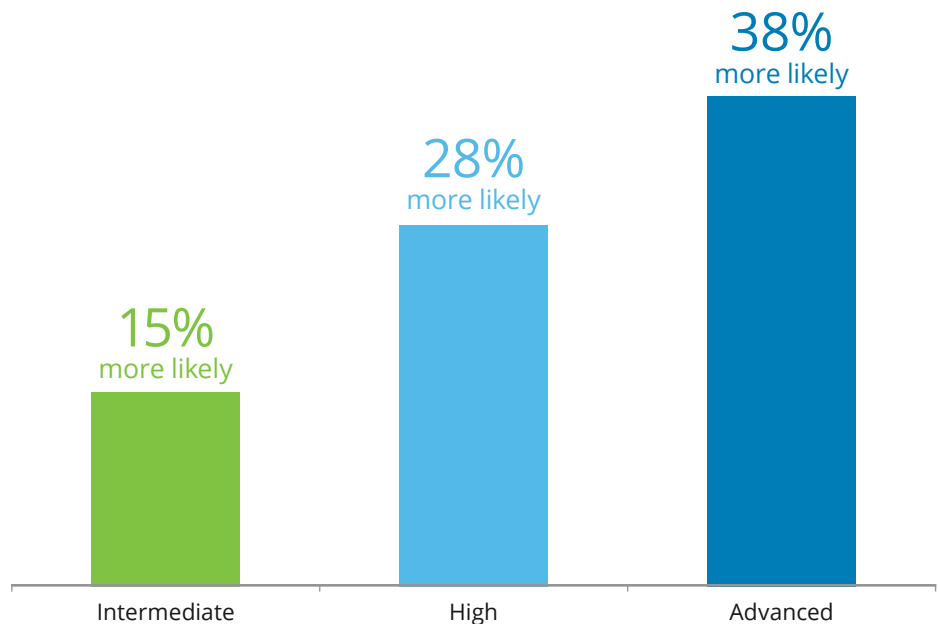
– Joe Andon, Vuly

# Digitally-engaged SMBs create more jobs

Improving digital engagement amongst SMBs may be an effective way of creating more jobs across the Australian economy. Our regression analysis suggests that SMBs that were more digitally engaged were also more likely to have experienced employment growth over the last 12 months.

On average, SMBs with an intermediate level of digital engagement were 15% more likely to have experienced employment growth over the past 12 months compared to 'basic' SMBs, while those with an advanced level of engagement were 38% more likely to have created jobs (Chart 5). For example, the average 'basic' SMB in our survey sample had a 5% chance of experiencing employment growth – all else being equal, moving up to the advanced level would result in a 43% chance of employment for this particular SMB (i.e. more than 8 times more likely to have experienced employment growth).

**Chart 5: Likelihood of employment growth over the past 12 months, compared to 'basic' businesses**



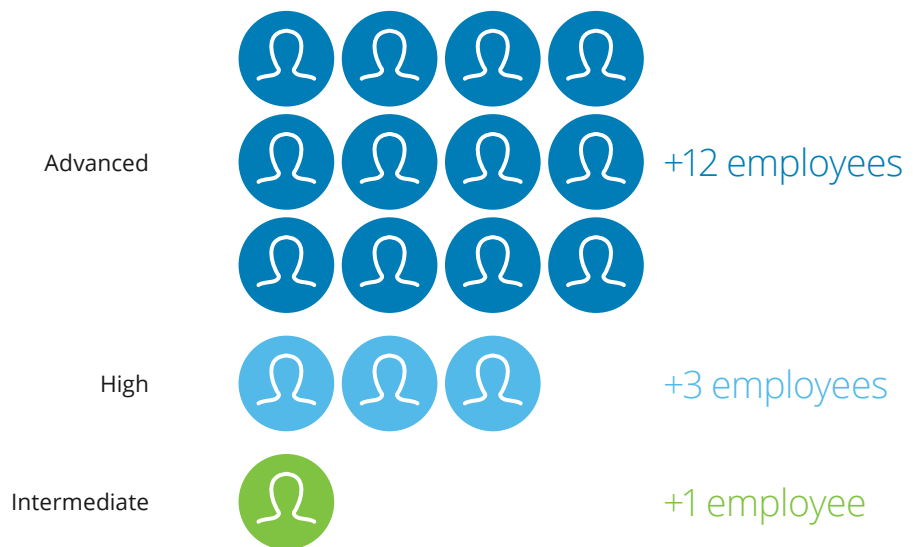
Sources: Deloitte Access Economics, Stancombe Research and Planning (2016)



Using the survey results, Deloitte Access Economics also performed an analysis of employment changes in Australian SMBs over the past 12 months against digital engagement levels, in order to assess the size of the relationship between job creation and digital engagement. The adoption of digital tools led to an average increase in employment of up to 12 workers compared to SMBs with a basic level of digital engagement (Chart 6).

Alongside the higher growth rates that digitally-engaged SMBs were found to experience in the previous section, these results suggest that there can be significant improvements to core measures of business performance associated with increased use of digital tools and technologies. Australian SMBs who invest in greater levels of digital engagement are better placed to experience employment growth and create jobs for the Australian economy. In addition, as noted above, these employees at more digitally-engaged SMBs are typically more productive – with revenue per employee more than 1.4 times higher for digitally advanced SMBs as compared to those with a basic level of digital engagement.

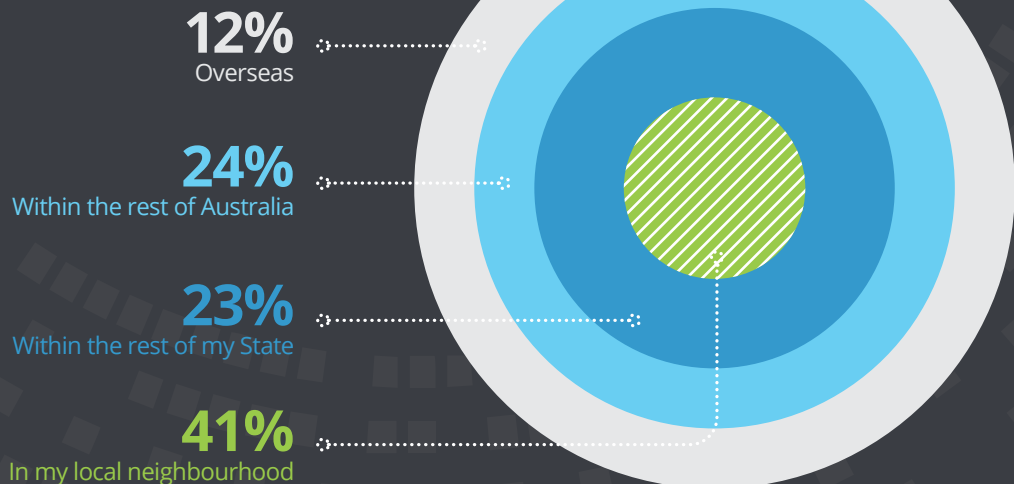
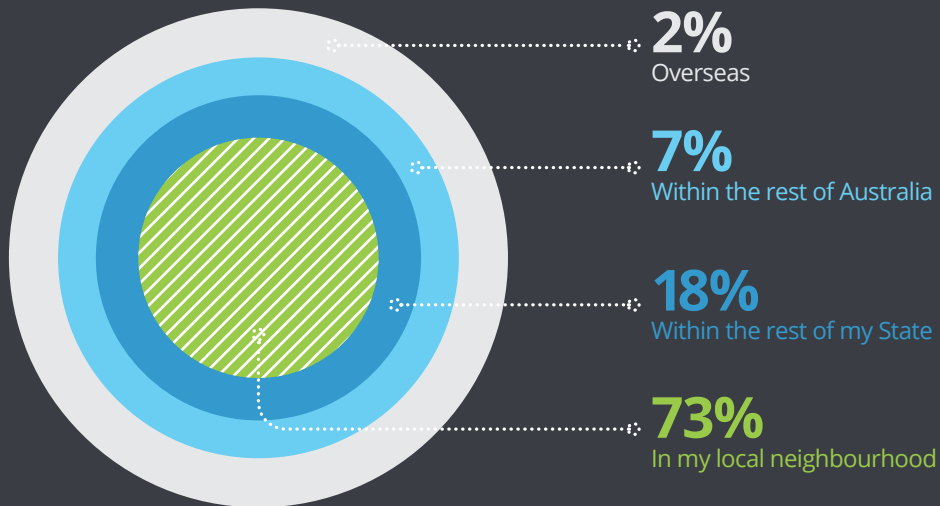
**Chart 6: Increase in employees over the past 12 months, compared to 'basic' businesses**



Sources: Deloitte Access Economics, Stancombe Research and Planning (2016)

Digitally advanced SMBs have a more geographically diverse customer base

Basic SMBs



Advanced SMBs

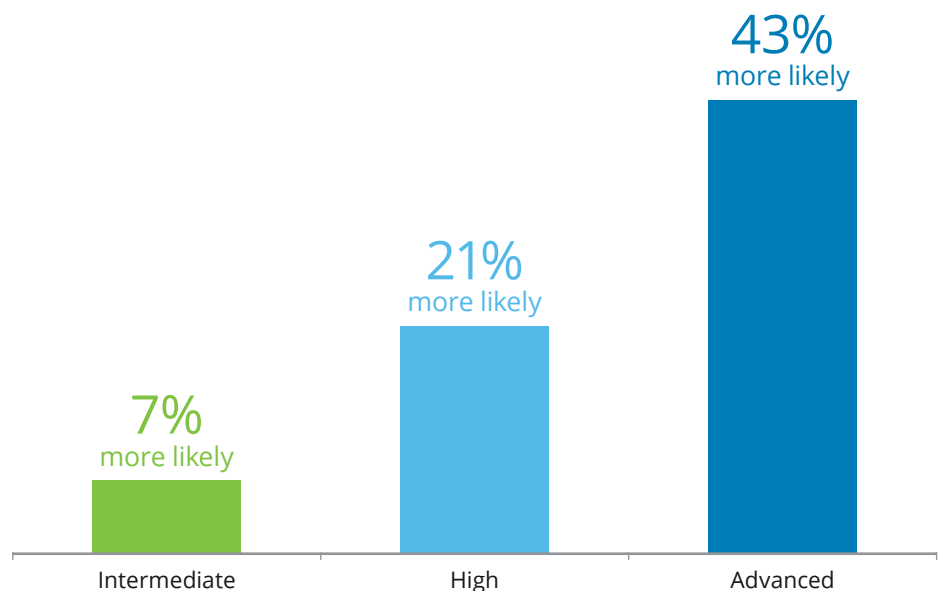
# Digital tools help SMBs export and diversify their customer base

Using digital tools can assist Australian SMBs in reaching new customers. This includes new markets that had previously not been accessible, such as customers from new geographic locations, demographics or other market segments. A key benefit associated with applying digital technologies to business functions such as online marketing or maintaining a website with e-commerce capabilities is that a wider audience can be reached.

This is particularly the case for SMBs who want to export their products or services overseas. Internet connectivity is now widespread across most other countries – including both developed and developing economies – which means that enabling customer interaction through online channels can help businesses to directly reach their target overseas markets.

Our survey results show that Australian SMBs who are more digitally engaged are also more likely to have exported over the past 12 months. SMBs with an intermediate level of digital engagement were 7% more likely to have exported compared to basic businesses, with this increasing to 43% more likely for SMBs at an advanced level of digital engagement (Chart 7). For example, the average 'basic' SMB in our survey sample had a 7% chance of having exported – adopting sufficient digital tools to be classified as 'advanced' would result in a 50% chance of having exported for this particular SMB (i.e. 7 times more likely to have exported).

**Chart 7: Likelihood of exporting over the past 12 months, compared to 'basic' businesses**

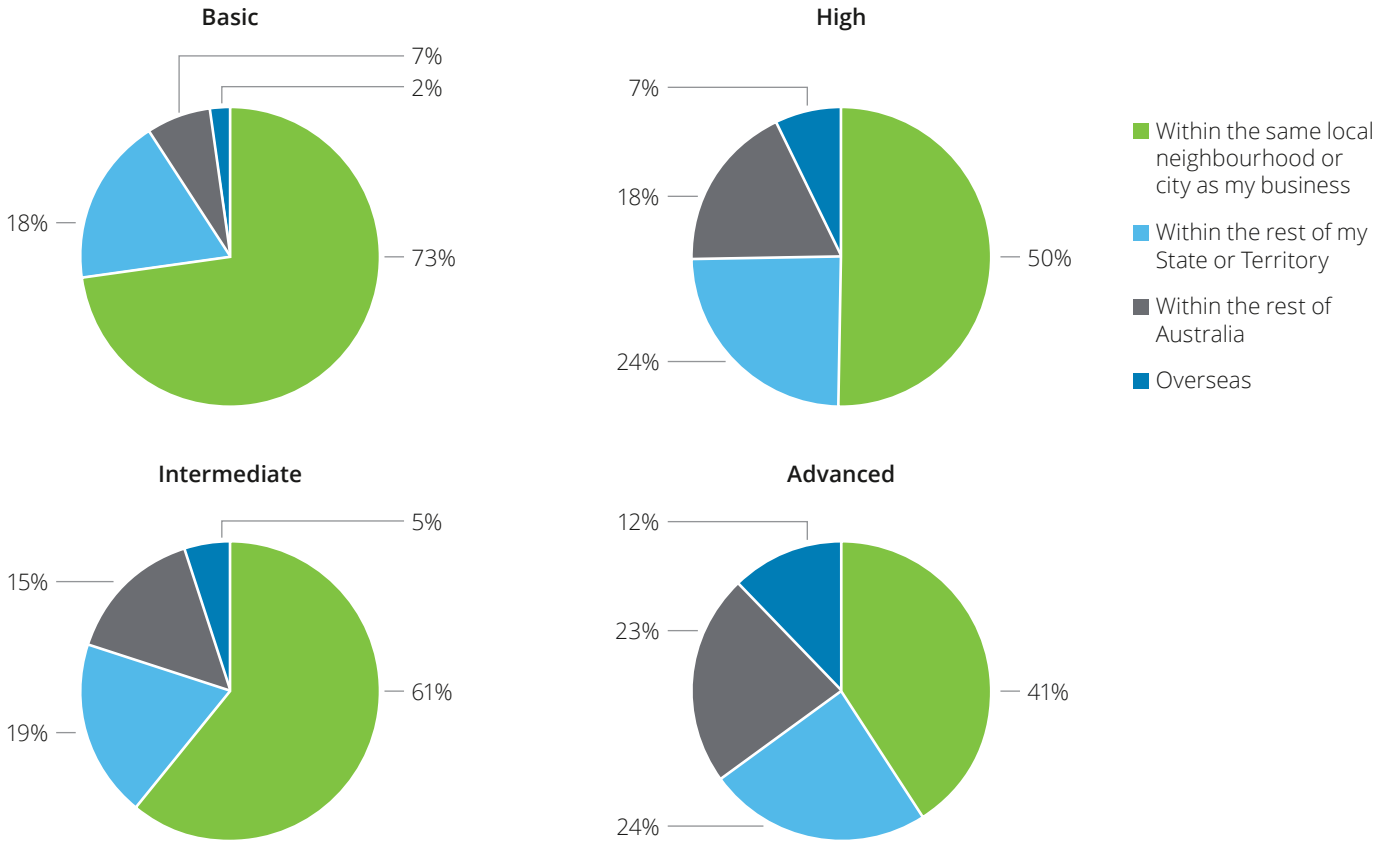


Sources: Deloitte Access Economics, Stancombe Research and Planning (2016)

The benefits of reaching new customers also extend to SMBs who would prefer to maintain their sales and operations within Australia. The volatility of business revenue is significantly higher for SMBs as compared to larger businesses (Connolly, Norman and West 2012). As such, diversification is important for Australian SMBs more generally, to ensure that these businesses have access to as many different sources of revenue as possible in order to minimise the risks associated with individually unstable revenue streams.

Not only does the use of digital tools help to facilitate increased exports to overseas customers, it also enables SMBs to diversify their customer base within Australia to areas outside of their local neighbourhood, city or region. Our survey findings reveal that SMBs with a basic level of digital engagement predominantly sell to customers in their local area, with almost three-quarters (73%) of their customer base coming from within their neighbourhood, city or region (Chart 8). In contrast, for advanced Australian SMBs, only 41% of their customers are locally based, with 23% coming from interstate (compared to 7% for basic SMBs) and 12% of customers from overseas (compared to 2% for basic SMBs).

Chart 8: Distribution of customer base by location

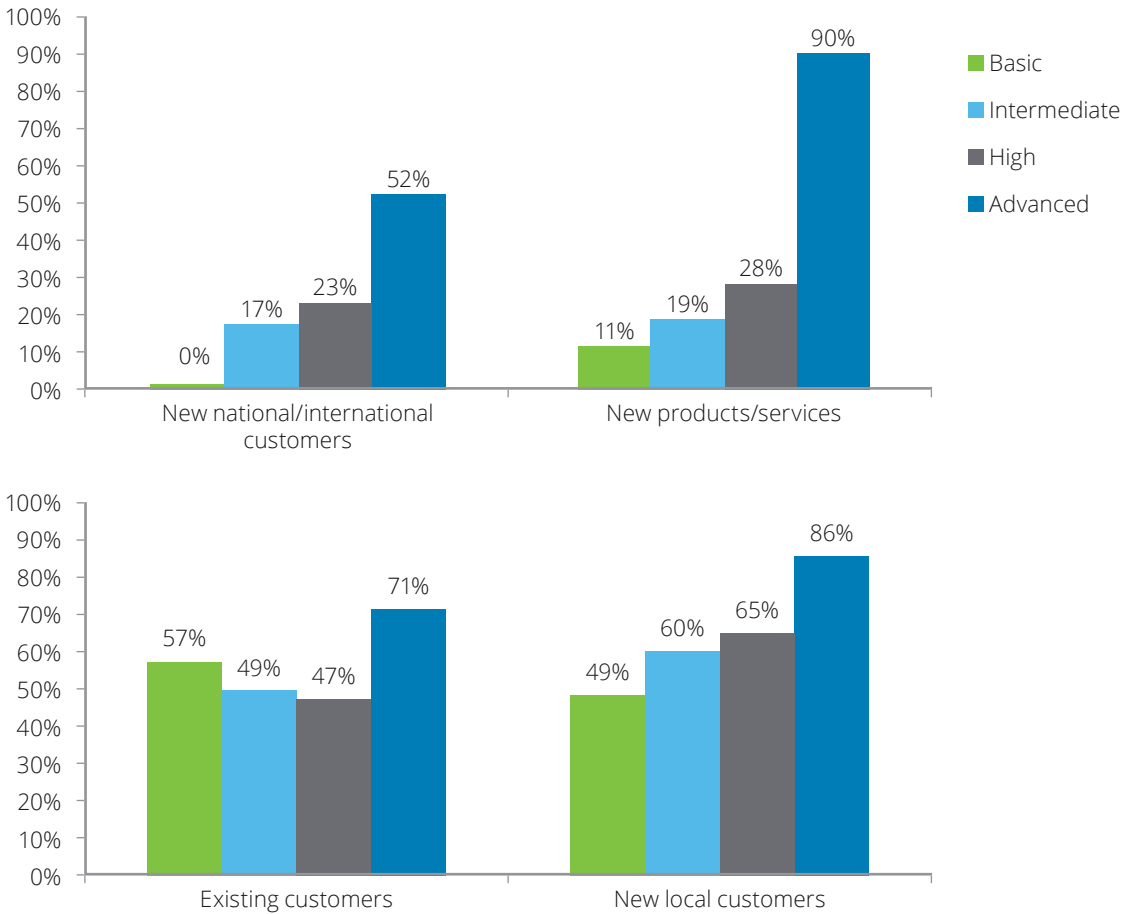


Sources: Deloitte Access Economics, Stancombe Research and Planning (2016)

This report has previously highlighted that SMBs with lower levels of digital engagement typically experience lower revenue growth compared to businesses that are more digitally engaged. The fact that these SMBs have a larger concentration of customers in their local market could be one contributing factor to this lower growth rate, as businesses that are able to reach new customers through the use of digital tools are also likely to be growing faster than SMBs with a more limited pool of potential customers.

An analysis of the sources of growth for SMBs who experienced increased revenue over the past 12 months shows that new national or international customers represented a source of growth for around half (52%) of SMBs with an advanced level of digital engagement, compared to zero SMBs with basic digital engagement (Chart 9). SMBs that are more digitally engaged were also significantly more likely to experience growth due to innovation, with 90% of advanced SMBs stating that new products or services represented a source of revenue growth over the past 12 months (discussed in further detail in the following section).

**Chart 9: Sources of revenue growth over the past 12 months**



\* Respondents were able to select more than one answer. This chart shows the share of SMBs that selected each source of revenue growth as a proportion of all SMBs that experienced revenue growth, by digital engagement level.

Sources: Deloitte Access Economics, Stancombe Research and Planning (2016)

### Case study: Candle Bark Creations Harnessing the power of digital marketing

Candle Bark Creations, launched in 1996, is a small boutique greeting card and custom stationery business based in Alexandria, NSW. The company uses digital marketing to reach customers across Australia and currently supplies over 500 stores nationally, providing custom stationery to thousands of customers every year. Candle Bark is run by founder Fiona Hulme and employs four other staff members.

In the past, Candle Bark has used more traditional types of advertising to market their products, including letter box drops and partnerships with other stationery companies. The company began using digital marketing in 2013 to promote their custom corporate Christmas cards. According to Fiona, 'this opened up a whole new market for Candle Bark by enabling us to promote our specialised products to businesses across Australia'. Ongoing use of digital marketing tools since then has driven significant year-on-year growth in Candle Bark's corporate Christmas card business, with sales increasing by 95% in 2013, 48% in 2014 and 37% in 2015.

Digital marketing has provided Candle Bark with scalability, flexibility and new growth opportunities. Fiona explains that 'we are now easily able to advertise to all types of businesses across Australia, and – importantly – we have the ability to target our advertising campaigns towards specific markets, whether that is based on location, age or lifestyle. We can therefore make sure that our marketing dollars are being aimed at the right customers for our products. In addition, the information that comes with using online marketing tools such as knowing who clicks on our ads can be used to further improve our business.'

Another benefit that Candle Bark has experienced from using online advertising tools is a higher conversion rate and increased control over marketing costs. According to Fiona, 'the conversion rate from digital marketing is higher than that of other marketing strategies that we have previously used. Online advertising is now the only form of paid advertising that we employ at Candle Bark. Furthermore, knowing our conversion rate helps us to better control our marketing costs and keep track of how much each client has cost the business in marketing spend.'

“ We are now easily able to advertise to all types of businesses across Australia, and – importantly – we have the ability to target our advertising campaigns towards specific markets, whether that is based on location, age or lifestyle. ”

– **Fiona Hulme,**  
Candle Bark Creations

# Digital tools drive innovation

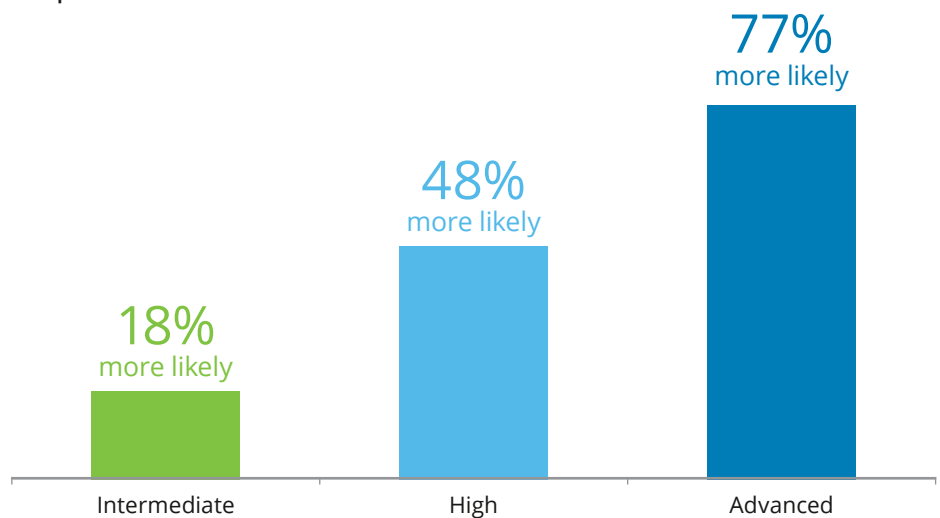
Innovation is important to every sector of the Australian economy – it keeps businesses competitive and relevant. The use of digital tools provides significant opportunities for SMBs to drive innovation within their business.

In this report, we measure innovation as a business' propensity to create and offer new products and services to their customers, noting there are other dimensions to innovation. Our econometric modelling indicates that Australian SMBs with a greater level of digital engagement were more likely to have offered a new product or service over the past 12 months.

On average, SMBs with an intermediate level of digital engagement were 18% more likely to have innovated in the past 12 months when compared to SMBs with a basic level of digital engagement, with this increasing to 77% more likely for 'advanced' SMBs (Chart 10). For example, the average 'basic' SMB in our survey sample had a 6% chance of having innovated over the past year – all else being equal, moving up to the advanced level would result in a 83% chance of having innovated for this particular SMB (i.e. more than 14 times more likely to have innovated).

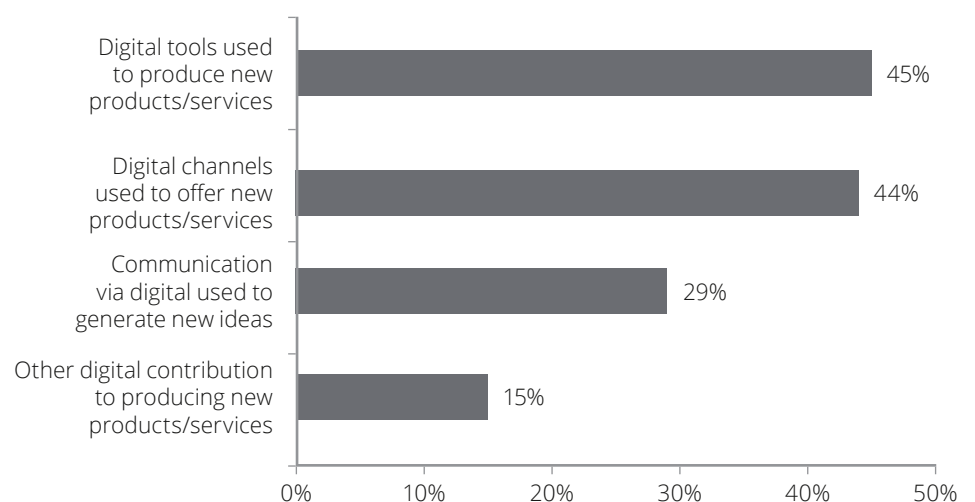
The survey results also provide further details on the different ways in which the use of digital tools can facilitate increased innovation for Australian SMBs (Chart 11). Of the SMBs who had created a new product or service in the past 12 months, the biggest impacts identified were in the use of digital tools as a means to produce new products (highlighted by 45% of respondents) and in creating new channels to sell and market new products (44%).

**Chart 10: Likelihood of offering new products or services over the past 12 months, compared to 'basic' businesses**



Sources: Deloitte Access Economics, Stancombe Research and Planning (2016)

**Chart 11: Types of innovation using digital tools**



\* Respondents were able to select more than one answer.  
Sources: Deloitte Access Economics, Stancombe Research and Planning (2016)

In a world where technological developments are rapidly evolving and digital disruption is becoming more pervasive across the economy, having a business strategy for increasing digital engagement grows increasingly more important. Our results show that SMBs who invest in their digital engagement by increasing their use of digital tools are more likely to innovate – and those who seize the opportunity to innovate are more likely to stay ahead of the competition in our fast-paced global economy.

## Case study: HealthEngine A digital marketplace transforming traditional small businesses in the health industry

HealthEngine is an innovative online directory for health practices around Australia. The company was founded in 2006 and is based in Perth, WA, employing around 80 staff. There are more than 3,000 active health practices listed on the HealthEngine online marketplace, including general practitioners (GPs), specialists and allied health services. HealthEngine allows patients to view, and book, available appointments online.

The company provides an online platform to connect patients with health practitioners, in an industry that has typically been slow to take up new technologies when it comes to interacting with patients. Matthew Dunstan, HealthEngine's Head of Sales and Marketing, explains that 'local GPs and dentists are usually small businesses that previously would have used more traditional and localised marketing tools such as letterbox flyer drops or local signage. HealthEngine's online marketplace allows them to reach more customers. It provides an opportunity for practitioners to be more digitally engaged in creating and marketing their businesses' brand in the competitive market for health services – such as by uploading photos, videos and articles onto their HealthEngine profile.'

While some practices have their own website as well as a HealthEngine profile, many rely on HealthEngine's directory as their sole source of online engagement. A key benefit of listing on HealthEngine is the ability to improve the efficiency of booking systems. According to Matthew, 'HealthEngine can be linked to each provider's practice management software, giving live information on available appointment times. Customers booking through HealthEngine helps GPs and other health service providers to fill gaps in their day. Online bookings are also typically more committed to their appointment as they have sought out a specific time – overall patient do-not-attend ratios have fallen from around 4% to 0.5% for practitioners using HealthEngine'.

HealthEngine is considering new ways to innovate and add value. The company has recently invested in a mobile-first strategy, developing an app that allows patients to find and book health appointments on their mobile device. Recently, HealthEngine has also enabled practices to supplement their online listing with search engine marketing (SEM). Matthew says that 'SEM helps to attract additional customers to a practitioner's HealthEngine profile. We can also use our booking system to provide information on the conversion rate of profile visits to appointments, which can be used to determine the return on investment for SEM and other digital marketing tools.'

“Local GPs and dentists are usually small businesses that previously would have used more traditional and localised marketing tools such as letterbox flyer drops or local signage. HealthEngine's online marketplace allows them to reach more customers.”

- **Matthew Dunstan,**  
HealthEngine



# SMBs with lower digital engagement need to be convinced of the value of digital tools

In the 2013 *Connected Small Businesses* report, we noted that there was a job to be done in order to 'win over the sceptics'. That is, businesses who do not regard the internet and other digital tools as important needed to be convinced of the value that can be gained from digital engagement and the establishment of a business digital strategy.

Our updated survey of 600 Australian SMBs in 2016 shows that there is still work to be done in this area. When businesses with basic or intermediate levels of digital engagement were asked about the biggest barriers to adopting digital tools, almost half (46%) of the respondents identified 'digital tools are not relevant for my business' as one of their top three barriers.

However, our survey results show that there are benefits to be gained from increasing digital engagement for SMBs across all industries and sizes. This suggests that convincing the 46% of basic and intermediate businesses who remain sceptical is still a key factor to improving digital engagement amongst Australian SMBs.

It is important to note that there are benefits to be gained across the digital engagement spectrum for SMBs that improve their use of digital tools. As shown in the previous analysis, businesses can attain improved revenue, employment, diversification and innovation outcomes from moving from a basic to intermediate or intermediate to high level of digital engagement. At the same time, the largest benefits are realised by SMBs at the most advanced digital engagement level.

Adopting digital tools and a broader digital strategy can initially be perceived as costly for SMBs from both a time and money perspective. Australian businesses with lower levels of digital engagement need to be convinced that the benefits associated with investing in digital activities can be significant, as highlighted in this report, and that these benefits can lead to a positive return on investment. As digital technologies continue to develop over future years, it will be important for Australian SMBs to take advantage of opportunities to improve their digital engagement to drive increased growth.

Conversely, the costs and risks associated with being left behind can be significant. Deloitte's 2012 report *Building the Lucky Country: Digital disruption – short fuse, big bang?* highlighted that 'when it comes to digital disruption, the biggest risk may in fact be doing nothing at all'. In an increasingly digital economy, businesses who choose not to adopt digital tools could find themselves losing market share to both local and international competitors who embrace new technologies. Consumers may also prefer to engage with other, more digitally connected businesses, for a better customer experience.

Aside from convincing Australian SMBs of the value of digital tools, there are a range of other issues that SMBs have raised as potential barriers to digital engagement. These include:

- The belief that digital tools are not effective for their business
- Concerns around the cost of adopting digital tools
- Concerns surrounding data security and privacy
- A lack of skills or knowledge to use digital tools, either on the part of the business owner or their staff.

The analysis presented in this report shows that digital tools can be effective for all SMBs in improving business performance on metrics such as revenue growth, employment and customer diversification. Econometric modelling using our survey results show that there are positive impacts to be had for SMBs with high levels of digital engagement irrespective of their industry or location.

In addition, while there can be upfront and ongoing costs associated with adopting digital tools, many of these costs have declined over recent years following technological advancements and increased competition amongst service providers, such as in cloud offerings and services (Business Insider 2015). There is also an increasing focus on the information security aspects associated with digital tools such as cloud data services and other enterprise applications (Tang et al, 2016), and providers of these technologies are consequently working to improve the security features associated with their products.

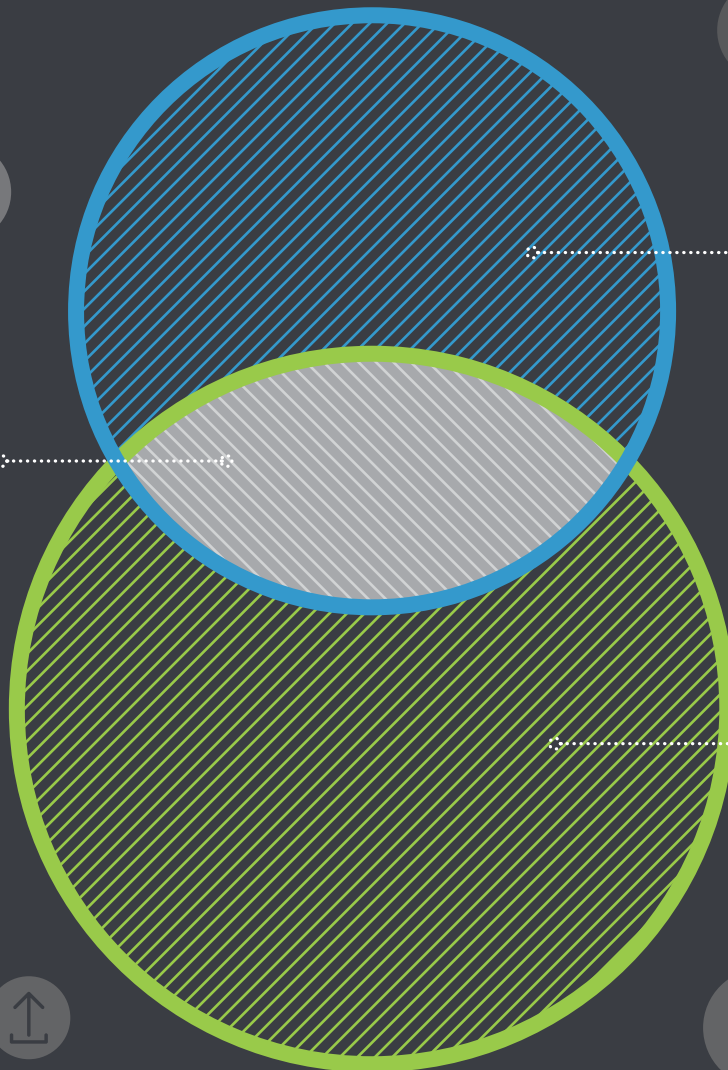
The last issue of lacking digital skills is explored in further detail in the following section.

SMBs with inadequate digital skills need to improve on both technical and business skills

**24%**  
Both technical  
& business skills

**25%**  
Technical  
capabilities

**39%**  
Understanding  
of business  
application



# Developing the skills to use digital tools can improve SMB engagement

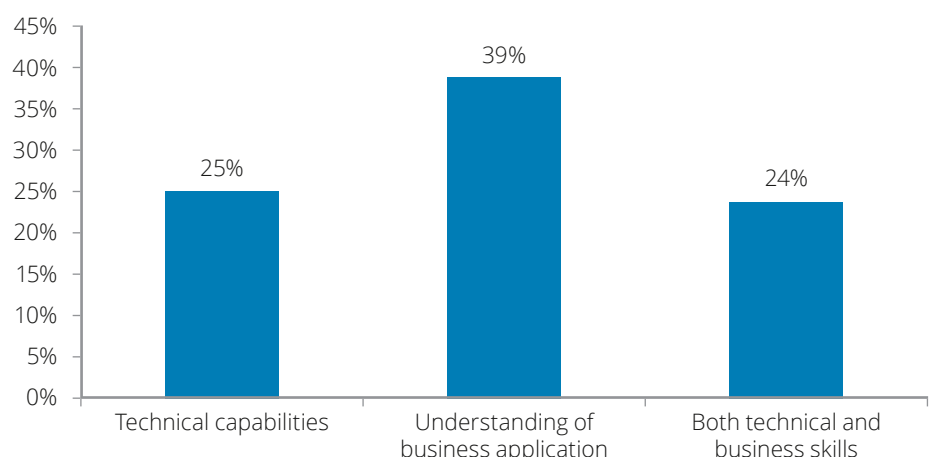
Digital skills and literacy are becoming increasingly important in today's workforce, with many employers across the Australian economy seeking workers with both business-related and technical ICT capabilities (DAE 2016). Given that a lack of digital skills and knowledge has been raised as a barrier to SMB digital engagement, developing these skills is also valuable for Australian SMBs to improve their use of digital tools and move up the engagement ladder.

Our survey suggests that businesses who believe that inadequate digital skills represent a barrier to improving digital engagement – either on the part of the business owner or their staff – are lacking in both technical and business skills:

- 'Technical' skills represent the technological capabilities required to use different digital tools, such as how to use accounting or management software or how to design and create a website.
- 'Business' skills are the understanding of how digital tools can be used for commercial purposes and functions in ways that will benefit the business, such as knowing how data analytics or search engine marketing could be applied to reach new customers.

Around one-quarter (24%) of SMBs that highlighted a lack of digital skills as a barrier believe that improvements in both technical and business skills are required in order to better engage with digital tools for business use. 39% noted that their business' owner or staff have an inadequate understanding of the business applications of digital tools, while 25% believe that a lack of technical capabilities is presenting a barrier to further digital engagement (Chart 12).

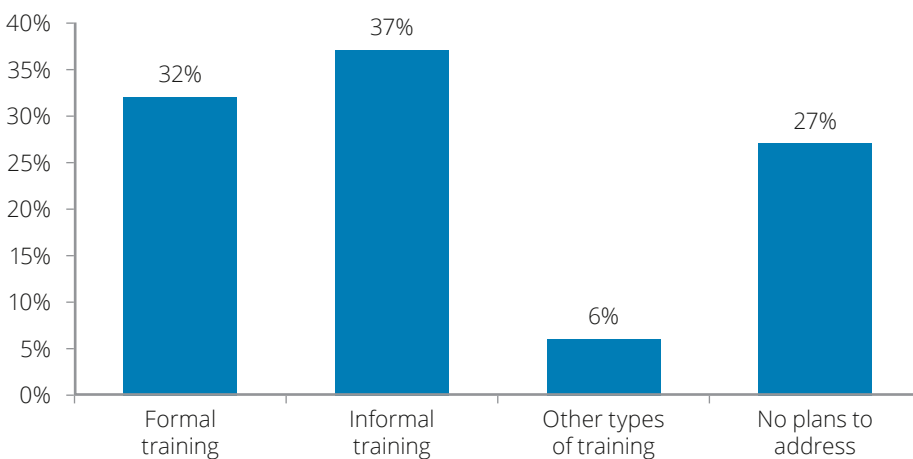
**Chart 12: Skills required to improve digital engagement amongst SMBs highlighting a lack of digital skills as a barrier**



Sources: Deloitte Access Economics, Stancombe Research and Planning (2016)

Many Australian SMBs that highlighted a lack of skills as a barrier to adopting digital tools also plan on addressing their digital skills gaps – through a mix of informal training such as online material or learning on the job, and more formal training such as corporate training options or enrolling in targeted courses (Chart 13). However, concerningly, 27% of SMBs who believe that inadequate digital skills are a barrier to increasing digital engagement have no plans to address their digital skills gaps in the future.

**Chart 13: Plans to address digital skills gaps amongst SMBs highlighting a lack of digital skills as a barrier**



\* Respondents were able to select more than one answer.  
 Sources: Deloitte Access Economics, Stancombe Research and Planning (2016)

# SMBs should consider how to set up for digital success

Increased digital engagement can have benefits for Australian SMBs at all stages of the digital engagement ladder. This report has highlighted the significant digital dividend to be gained by SMBs that embrace the opportunities offered by digital tools, with respect to growing revenue, creating jobs and diversifying customers. Applying technologies to business processes and functions can help SMBs to focus on their strengths, as well as making it easier to stay up-to-date as the digital landscape continues to evolve in the future.

There are a number of factors that could be considered by Australian SMBs in setting themselves up for success through the use of digital technology. While moving up the digital engagement ladder will involve different businesses taking different actions and steps, some general considerations for SMBs setting up for digital success are discussed below.

## **Pick the tools that are right for the business**

Different businesses have different technological requirements – not all digital tools are relevant for every SMB. For example, the use of e-commerce platforms may not be applicable to businesses that produce services, where payment is typically made at the point of service delivery, as compared to SMBs who sell goods and take payment upfront before delivering the product. Other business characteristics such as the size of the business (micro, small or medium) and the target market (business-to-business or business-to-consumer) can also affect the types of digital tools that might be most useful.

As such, SMBs should think strategically about what digital tools are most relevant for their businesses' requirements (MYOB 2014). This might include considering which types of technologies are most suitable, as well as which particular tools within each technology would be most relevant – for example, there are many different types of online advertising or social media channels.

Making these strategic decisions can be challenging for SMB owners that don't have a good understanding of the available digital tools. For these SMBs, it may be useful to engage a digital mentor to help teach them the basics of applying technology to their business. This mentor would ideally be a trusted digital native that could assist in identifying the digital channels and capabilities that might help the SMB to grow. The SMB could then start by testing one of these technological applications within their business, potentially under the guidance of their digital mentor, and leverage off their learnings and experiences here to drive future advances and successes in their digital engagement.

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“ Different digital tools can lead to different outcomes for your business, so select the tools that are relevant for your requirements and broader strategy. ”

– Joe Andon, Vuly

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### Don't be afraid to learn new things

Learning how to use digital tools can be challenging for SMBs. As previously highlighted, inadequate digital skills can present a barrier for the further adoption and application of technology within Australian SMBs. It is important that as new digital tools are introduced into the business, employees are able to be trained in the skills required to use these tools (NRC 2015). SMB owners and management should also be open to learning new things and familiarising themselves with how digital tools could be applied to add value to particular areas of the business. There are many resources that SMBs can draw on as part of this process, including online information and engaging with third party service providers.

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“ Even businesses in traditional industries can benefit from digital technology and online engagement. Consider how your business might benefit from using new digital tools, and how you could facilitate this change. ”

– Matthew Dunstan, HealthEngine

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### Recognise that broader business change may be required

Digital engagement requires more than just selecting the right technologies and tools to adopt within the business. In order to fully realise the benefits associated with digital tools, Australian SMBs should also work to integrate the technologies into their functions and operations. This may mean that business changes are required – for example, adopting online marketing tools in isolation is likely to be less effective than having a broader marketing strategy that includes a focus on digital marketing techniques. Understanding the implications of adopting digital tools and adapting business processes more broadly to work with new technologies and integrate digital tools into core operations could lead to greater benefits for SMBs (LinkedIn 2015).

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“ Digital tools can offer a more efficient or flexible way of performing current business functions – you may find that some existing processes would be better replaced with a digitally-enabled approach. ”

– Fiona Hulme, Candle Bark Creations

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### Understand and adapt to changing circumstances

The digital world is continuously evolving, with the development of new technologies and new applications for existing digital tools. In addition, SMBs can operate in a rapidly changing environment, with growth, innovation and other factors having the potential to disrupt the status quo and change existing business dynamics in a short period of time. Australian SMBs should be comfortable with the idea that the digital tools that are appropriate today will inevitably change over time. This might mean that what a particular SMB is doing today will look different in 12 months' time.

For example, a business with a low level of digital engagement may start by using online directory listings and third-party e-commerce platforms, later progressing towards setting up their own website with mobile and e-commerce capabilities as they become more digitally experienced. Cloud technologies can also help to improve SMBs' ability to adopt other technology in the future: by facilitating more integration with other digital tools and with features such as automatic software updates, cloud can give SMBs more agility in an increasingly digital world (Smart Company 2016). Overall, businesses should be thinking about how digital tools can be applied to suit both their current requirements as well as their future growth strategy.

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# Appendix: Modelling methodology

## Survey

Data for this project was gathered using an online survey undertaken by Stancombe Research and Planning. Stancombe surveyed a sample of 600 Australian SMBs with fewer than 200 employees. Note that this differs slightly to the definition of SMBs used in the 2013 *Connected Small Businesses* report, which surveyed a sample of 500 SMBs with up to 100 employees. The majority (94%) of the 2016 sample of SMBs had fewer than 100 employees.

Respondents to the survey were either business owners themselves, or directors or managers of an SMB. As part of the survey, respondents were asked questions about the business' levels of engagement with various digital tools, performance with respect to metrics such as revenue and employment growth, and general business characteristics such as age, industry and location.

## Classification

Each SMB was classified into one of four levels of digital engagement. This classification was based on their use of and engagement with a number of different types of digital tools, as outlined in the following table.

Recognising that different digital tools may or may not be relevant for individual businesses, SMBs were not required to be using every digital tool specified for a particular engagement level in order to be classified at that level. Rather, SMBs that met a given threshold for each level were deemed to be operating at that level of digital engagement.

Digital engagement	Description
Basic	Business only has a business email address and uses traditional methods of marketing (e.g. post, newspapers). Business does not use social media and does not have website. May be listed on an online directory but this has been done by a third party; business has no control over listing.
Intermediate	Business has a website and may also have a listing on an online directory that they control. May also be listed on an online marketplace or third party e-commerce platform (e.g. eBay). Business makes some use of social media and/or basic online marketing (e.g. webpage ad banners).
High	Business has a mobile-responsive website, which may have e-commerce or booking capabilities. Business makes extensive use of social media and/or higher levels of line marketing methods (e.g. search engine optimisation, automated email advertising).
Advanced	Business that uses data analytics to analyse customer information to inform decisions. Business uses advanced online marketing tools (e.g. search engine marketing, social media advertising, video advertising).

## Econometrics

Econometric modelling is used to identify the relationships between SMB digital engagement and business performance.

The econometric model estimates the impact of digital engagement on revenue growth, employment, innovation, and export activities. Digital engagement levels are measured by technology availability and sophistication in the use of digital technologies among Australian SMBs.

Our modelling approach is primarily driven by the underlying characteristics of the data. While some variables, including expectation of revenue growth, innovation and exports can be categorical in nature (i.e. respondent identified one of multiple possible options), others such as revenue growth and growth in the number of employees can be continuous variables (i.e. respondent could nominate any number as a response). In this research, we applied a combination of linear and probit regression framework to measure the statistical relationship between the variables.

In addition to digital engagement, other explanatory variables include:

- Age of the business
- Industry
- Location

### Linear regression framework

Simple ordinary least squared (OLS) regression models are applied on continuous variables, including nominal revenue growth and growth in the number of employees.

### Probit regression framework

Probit regression, also called a probit model, is used to model binary outcome variables. For example, the outcome of expected revenue growth can be categorised below.



To determine the likelihood of expecting revenue growth over the next 12 months, we define the outcome variable in a binary fashion where: 'significant decline in revenue', 'some decline in revenue' and 'remain relatively unchanged' is assigned a value of 0; and 'some growth in revenue' and 'significant growth in revenue' is assigned a value of 1.

Having defined the outcome variable as binary (0/1), we then model the conditional probability of a 'successful' outcome ( $y=1$ ) as a linear combination of the predictors. For the purposes of this report, the predictor variables were the level of digital engagement, age of the business, location and industry. This can be conceptualised as follows:

$$p = \text{pr}[y = 1 | X_{1i}, \dots, X_{Ki}, \beta_0, \dots, \beta_K] = \Phi \left( \beta_0 + \sum_{k=1}^K \beta_k X_{ki} \right)$$

Where  $\Phi(\cdot)$  is the cumulative distribution function of the standard normal distribution. The marginal effects in the probit model were calculated as follows:

$$\frac{\partial \text{pr}[y = 1 | X_{1i}, \dots, X_{Ki}, \beta_0, \dots, \beta_K]}{\partial X_{Ki}} = \beta_k \Phi(\beta_0 + \sum_{k=1}^K \beta_k X_{ki})$$

Where the regression coefficient ( $\beta_k$ ) depends on the values of the predictor variables and the regression coefficients. Note that the 'basic' digital engagement level was chosen to be normalised for the purposes of identification.

### Causality

It is important to note the general issue of causality. It is possible that higher levels of revenue growth drives more digital engagement if strongly performing businesses had more time or resources to undertake digital take-up. Equally, given the ways in which engagement helps growth – through employment, exports and innovation and based on the evidence of our case studies, the most common story is one of digitising businesses reaping benefits.

### Interpretation

The reported results are the marginal impacts after controlling for other business characteristics, including size, age, location and industry, which means that individual experiences with rising digital engagement are likely to vary.





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