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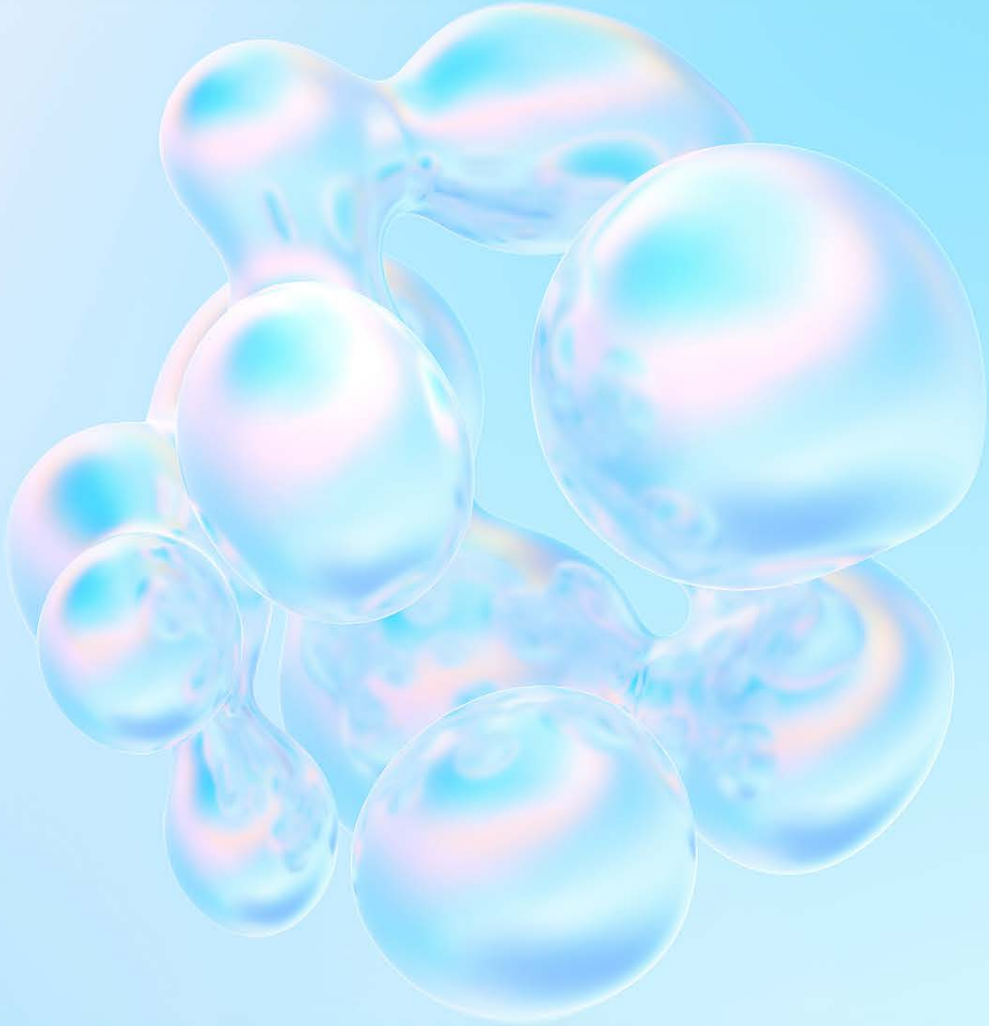

The AI edge for SMBs

Amazon 2025

Deloitte
Access Economics

About this report

Deloitte Access economics has been engaged by Amazon to analyse and model the economic potential of increased adoption of Artificial Intelligence (AI) by small- to medium-sized businesses (SMBs) in Australia.*

This report assesses the current state of AI adoption, as well as the challenges and enablers which will determine the extent to which the AI opportunity is realised. The report also explores the policy landscape in Australia and provides practical next steps to drive adoption in the SMB sector.

The findings outlined in this report have been informed by a survey of 1,000 Australian SMBs, the development of a bespoke AI Maturity Index and consultations with industry experts.**

* In this report, a SMB is defined using the Australian Bureau of Statistics (ABS)'s definition of small- and medium-sized businesses.
** Survey data was gathered through a third-party provider based on questions designed by Deloitte Access Economics.

Key takeaways

1

SMBs are key to increasing productivity but are currently lagging behind.

$30,000

Small businesses generate $30,000 less in labour productivity on average compared to large businesses, while the gap for medium businesses compared to large businesses is $19,000.

The 2.5 million SMBs operating in Australia account for 55% of economic activity generated by the private sector.

Yet Australian SMBs are middling when it comes to productivity compared to their international peers and lagging in productivity when compared to large businesses in Australia. New innovative technologies like AI provide a clear path to reduce the gaps.

2

AI is already transforming the SMB landscape with retail SMBs leading the way.

65%

Two thirds of SMBs are using AI solutions in their business. Medium-sized businesses are 55% more likely to be using AI solutions (51% for small and 79% for medium).

SMBs understand the importance of AI to remain competitive in the business landscape, with adoption gathering pace. The most common areas in which SMBs are deploying AI solutions are in IT operations, marketing, and sales and customer service.

Competitive pressures in retail is driving accelerated adoption. Retail SMBs are 22% more likely to have adopted an AI solution than a business in another industry and two-to-three times more likely to have adopted an agentic AI solution.

3

Nearly all SMBs could improve their return from AI: with greater adoption or use of AI being the most common way for SMBs to realise the benefits.

2 in 5

SMBS have only a basic level of AI maturity based on our survey, while a further 51% have an intermediate level. This suggests substantial room for improvement.

Deloitte's AI Maturity Index provides a detailed assessment about how well a business is integrating AI solutions into their business. The Index contains five key pillars: AI services or solutions used, Business systems and data quality, Workforce usage and skills, AI strategy, and ethics and responsible AI.

Out of the five pillars, SMBs scored best in business systems and data quality and had the most room for improvement in the use of AI platforms and solutions.

4

The most common challenge to adoption is lack of awareness for businesses who may be overwhelmed with pace and number of solutions.

33%

Of businesses not using AI report the biggest challenge is not knowing how to get started. Businesses using AI need to understand how to realise more value from the technology.

There were more than 10,000 distinct AI tools in 2024 according to some estimates, making it easy for SMBs owners or managers to get overwhelmed with the potential choices. This was particularly true for small businesses compared with medium businesses.

To address this challenge, we propose the Australian Government consider a time limited AI investment boost that incentivises SMBs to invest in their AI journey. This means a $1 billion government investment could unlock an addition $1 billion in co-investment.

5

The dividend from small improvements to AI maturity amongst SMBs can deliver outsized results.

$44 billion

In additional economic activity could be generated if just one-in-ten SMBs with basic maturity moved up to an intermediate level and one-in-ten SMBs with intermediate moved up to enabled.

Improving AI adoption will help generate economic activity and likely improve profitability for individual businesses.

Our modelling suggests that a SMB moving from basic to intermediate could expect a 45% increase in profitability which jumps to 111% increase for a business moving from intermediate to enabled.

Contents

Kickstarting AI adoption among SMBs is a $44 billion productivity opportunity for Australia's economy

Australia is facing a productivity challenge. Labour productivity growth has averaged just under 0.4% a year since 2015, compared to the 60-year average of 1.6%.[1]

The Australian business landscape is dominated by small to medium-sized businesses (SMBs). They make up 99% of Australia's 2.5 million businesses,[2] employ millions of Australians, and contribute substantially to community prosperity.

However, SMBs consistently lag larger enterprises in productivity, with Productivity Commission research indicating that smaller firms are significantly less productive per hour worked than large firms in most industries.

This gap matters - because incremental gains in SMB productivity, when scaled across the economy, can translate into substantial improvements in national income, wages, and competitiveness.

AI offers a major opportunity to close this gap. By streamlining operations, enhancing customer engagement, and enabling smarter decision-making, AI has the potential to transform the performance of SMBs. But adoption remains uneven, and without targeted support, many businesses risk being left behind. Understanding how SMBs are currently adopting AI – and where the challenges lie – is therefore critical to unlocking this opportunity.

So how prepared are our SMBs to seize this opportunity?

This report, informed by a survey of more than 1,000 small businesses across Australia's economy has sought to paint a picture not just of current adoption, but the relative AI maturity in our small business landscape. This study finds that small businesses are enthusiastic about using AI, but either:

- **Don't know where to start** (33% of businesses surveyed); or
- **Have adopted AI** (65%) but are using its most basic applications such as traditional AI (40%) primarily for non-technical functions like brainstorming and developing new ideas, and drafting and reviewing emails or documents.

Realising the benefits of AI lies in not just ensuring businesses are engaging with AI but are taking strategic steps to incorporate it into their business. Deloitte Access Economics has developed an AI Maturity Framework which assesses a business' readiness to adopt AI solutions across five pillars: AI services and solutions, infrastructure and underlying data quality, workforce usage and skills, AI strategy, and ethics and responsible AI.

How can improving AI maturity lead to economic returns?

Modelling conducted for this study suggests that modest improvements in maturity can deliver outsized economic returns. If just one-in-ten SMBs with basic maturity moved up to an intermediate level and one-in-ten from intermediate moved up to enabled, the estimated productivity uplift is $44 billion to the Australian economy.

At the firm level, a step up in AI adoption from basic to intermediate is expected to increase a firm's profitability by 45%. The average profit generated by a small business with fewer than 20 employees in 2023-24 was $106,000. A medium-sized business with 20 to 199 employees generated an average profit of $1.4 million. This means small and medium businesses with higher levels of adoption can see their profits increase by an expected $48,000 and $630,000 respectively.

$44B

Economic potential of SMB AI adoption

If just one-in-ten SMBs moved up one rung from basic to intermediate AI adoption, this could contribute an additional $13.4 billion in GDP annually.

5%
ENABLED

54%
INTERMEDIATE

41%
BASIC

Only 5% of SMBs are enabled to fully realise the potential benefits of AI

Improving AI maturity is the key to unlocking economic benefits

The insights in this report have been informed by a bespoke AI Maturity Index that has been developed using the responses from more than 1,000 small businesses across 19 industries. Businesses were assessed against five pillars to ascertain their relative AI maturity. These results have identified that:

- **41%** of small businesses are **BASIC**
- **54%** of small businesses are **INTERMEDIATE**
- **5%** of small businesses are **ENABLED**

Businesses that fall into the **BASIC** category reflect the lowest level of AI maturity. SMBs in this category are most likely to express challenges in adoption like "not knowing where to start" or are using off the shelf AI (such as ChatGPT) in an ad hoc manner. Some of these businesses are also yet to adopt any form of AI. Improving the maturity of just one-in-ten of these businesses (i.e., moving them up one rung to Intermediate) could yield an additional $13 billion to the Australian economy.

Businesses that fall into the **INTERMEDIATE** category, are more experimental with their use of AI and have begun putting more formalised measures around its use, the infrastructure required and workforce skills. These businesses are well positioned to take the next step, and have the most to gain from another leap in maturity.

ENABLED businesses are considered those operating at the frontier – they have performed well against all five pillars and are observing the benefits of AI across their business. They use AI across a number of platforms to establish predictive analytics and integrate real time decision making. SMBs in this category are most concerned with ensuring that AI regulation does not become so complex that it stifles its use.

Realising the economic opportunity requires supporting the broader diffusion of AI across small businesses in the economy while also encouraging continuous integration of AI across business practices to improve maturity. This study found that across all levels of maturity, different adoption challenges remain.

Increasing AI maturity requires SMBs to focus on the following five pillars of Deloitte's AI Maturity Index

AI services and solutions

The types of AI which businesses have adopted, the breadth of business functions, and extent to which bespoke solutions were developed.

Business systems and data quality

The extent to which SMBs have centralised data systems, and the frequency of data quality checks.

Workforce usage and skills

Workforce capabilities in the use of AI tools and availability of training related to AI.

AI strategy

Whether SMBs have clear objectives around the use of AI, funding, risk management plans, and integration of AI strategy with other business objectives.

Ethics and responsible AI

Whether SMBs have practices, procedures or controls in place for the responsible and ethical use of AI.

What are the adoption challenges to maturing AI use among SMBs?

Based on the responses collected through our survey, SMBs identified five key AI adoption challenges.

ADOPTION CHALLENGES

#1
Not knowing where to start

Businesses across all industries cited a lack of awareness of AI and how it can be used in their business as a key challenge. Conversely, the key enabler for adopters of AI was the ability of their team to identify the most appropriate use of AI and then incorporating it to improve operational efficiency.

#2
Business systems and data quality limitations

Without suitable business systems and data, the ability of SMBs to scale up AI solutions is being held back. Surveyed SMBs generally rely on less complex types of data (e.g. financial and customer records) to support AI solutions as opposed to sources like call centre recordings.

#3
Workforce skills

There is a sense that SMB workforces are largely unprepared for AI, and more formal training is required. More than half of SMB workforces have basic or novice levels of familiarity with AI, and just 10% of workforces have advanced AI skill levels, and there are not enough opportunities for workers in SMBs to upskill in AI.

#4
Funding and investment

Many SMBs operate in highly competitive markets and face relatively higher unit costs than larger businesses, they often face tighter budgets, restricting their ability to make large-scale capital or technology investments without a clear return on investment. Despite this, SMBs are willing to spend a considerable amount on AI solutions where appropriate.

#5
AI governance and standards

Surveyed SMBs highlighted the need for more AI guidance as well as industry guidelines for using AI in an ethical and responsible way, but if the regulatory burden associated with AI use is too great, some SMBs may avoid such technology altogether.

To accelerate AI adoption among SMBs, it's crucial to address common challenges and provide targeted support

To accelerate AI adoption among SMBs, it's crucial to address common challenges and provide targeted support.

Implementation challenges permeate all users of AI. Many businesses struggle with understanding how to integrate AI effectively into their operations. Greater focus is therefore needed on uplifting knowledge of AI uses through guides on how such tools can be practically implemented into businesses.

The rapid pace of AI development makes it difficult for businesses to keep up, often leaving them struggling to adapt their strategies and systems quickly enough. Greater connectivity, support centres or other mechanisms, between AI researchers or start-ups, can help SMBs to adopt AI quickly enough to benefit from the technology.

Regulatory settings are a key priority for the government, as highlighted in recent Productivity Commission reports. Harnessing data and digital technology emphasises that regulation is the foundation for AI growth - and that there is a careful balance between regulation that provides the optimal conditions to support AI adoption and innovation, and regulation which is overly burdensome.

However, the greatest barrier to realising the economic opportunity that AI presents for small businesses is getting started. To boost AI adoption, we propose the Australian Government consider a time limited AI investment boost that incentivises SMBs to invest in their AI journey.

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$1 BILLION AI INVESTMENT BOOST for SMBs that could unlock $2 billion in investment

Why?

Australian SMBs are the backbone of Australia's economy making up 99% of Australia's 2.5 million businesses. While Australian large enterprises rank among the most productive in the OECD, Australian SMBs sit only in the middle of the pack compared to their international peers.

This gap matters - because incremental gains in SMB productivity, when scaled across the economy, can translate into substantial improvements in national income, wages, and competitiveness. AI offers a major opportunity to close this gap. Moreover, governments play a fundamental role in funding education and training in Australia to build foundational capabilities to support AI uptake.[1]

This study has found that **kickstarting adoption and encouraging marginal improvements in capability can deliver outsized economic returns.**

- If 10% of Australian SMBs who currently don't use AI or use AI for the most basic applications could start using it in more sophisticated ways, the Australian economy could realise a $13B benefit.
- If 10% of Australian SMBs elevated their use of AI from process-based AI flows to integration across multiple business areas, Australia could realise a $31B benefit.

What?

To support Australian SMBs to take the first step in their AI journey and improve their maturity, the Australian Government should introduce a time limited (one financial year) $1 billion AI Investment Boost for SMBs that could unlock $2 billion in investment.

This investment will seek to incentivise SMBs to invest in AI adoption by offering a tax deduction on such investments, so as to reduce the financial burdens faced by businesses. To support SMBs with an aggregated annual turnover of less than $50 million with their adoption of AI in areas such as training, strategy and technology, by providing an additional 50% tax deduction.

Who?

To support SMBs with an aggregated annual turnover of less than $50 million with their adoption of AI in areas such as training, strategy and technology, by providing an additional 50% tax deduction.

How?

Parameters for investment (based on the AI Maturity Framework established in this report) that businesses can choose to invest in:

Workforce
Specific skills training to support small businesses to prepare their workforce to adopt AI and understand how to use it (e.g., provided as a voucher to spend on training).

Strategy and governance
Support to develop a bespoke AI strategy for their business.

AI services and solutions
Investment in an AI product or a supporting investment in business systems linked to an intention to improve workflow to support future investment in AI.

Business systems and underlying data quality
Investments in support of technology upgrades which can enable future adoption of AI solutions.

Key insights

SMBs comprise a significant part of the Australian economy

2.5 million
SMBs, or 99% of all Australian businesses

60%
of Australia's company profits

$1 trillion
of economic activity generated each year

5%
ENABLED

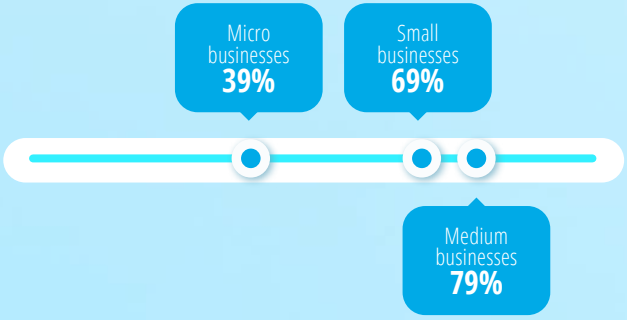
54%
INTERMEDIATE

41%
BASIC

Current AI adoption among SMBs

Current AI adoption among SMBs

Level of adoption



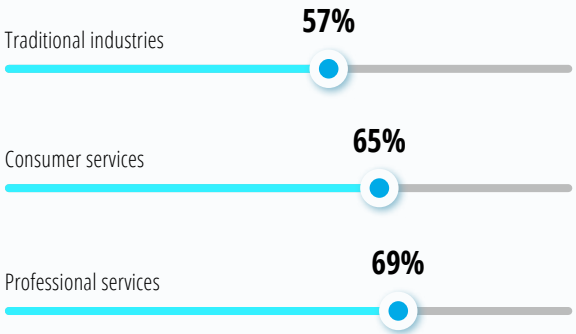
Potential increase in business profitability

45%
A SMB moving from basic to in progress

111%
A SMB moving from in progress to enabled

SMBs in traditional industries are less likely to have used AI than those in professional services or consumer services, but SMBs from all industry groups plan to increase AI expenditure in the future.

Any AI use



Key AI adoption challenges

#1 | **Not knowing where to start**

#2 | **Business systems and data quality limitations**

#3 | **Workforce skills**

#4 | **Funding and investment**

#5 | **AI governance and standards**

AI Maturity Pillars

- **AI services and solutions**
- **Business systems and data quality**
- **Workforce usage and skills**
- **AI strategy**
- **Ethics and responsible AI**

$44B

Economic potential of SMB AI adoption

If just one in ten SMBs moved up one rung from basic to intermediate AI adoption, this could contribute an additional $13.4 billion in GDP annually.

01

SMBs are an important force in Australia's economy

SMBs are an integral component of our economic structure

Part of our national identity and core to our nation's entrepreneurial spirit, SMBs represent more than half of Australia's private sector activity

SMBs are an important force in Australia's economy

While Australia's economic narrative over the last few decades has been largely driven by mining, there's another narrative that runs in parallel – that small businesses are the backbone of our national economy.

And it's not wrong – of the total 2.6 million businesses in Australia, 97% are 'small businesses' (comprised of less than 20 employees), with a further 2% of classified as 'medium-sized' (between 20 and 200 employees).[1] These SMBs are represented across all sectors and are responsible for a significant share of employment as well.[2]

SMBs make an important economic contribution comprising more than half of Australia's private sector GDP and almost 60% of company profits.[3] Moreover, they make an important social contribution by supporting local communities through the goods and services they provide and charity.[4] Nowhere is this truer than in regional and remote Australia where SMBs are disproportionately located, serving communities overlooked by larger businesses.[5]

SMBs come in many shapes and sizes

SMBs are diverse and include businesses from family-run restaurants and stores, to individuals running an online business in their spare time, to developed enterprises employing dozens to hundreds of people. They operate across the economy but are more important in some areas than others. For example, while SMBs account for more than 70% of economic activity across agriculture, construction, and accommodation and food service, they play a relatively smaller role in sectors such as mining (25%) and transport (40%).[6]

SMBs are also more likely to operate in certain sectors such as professional services (14% of all SMBs), construction (14%) and healthcare (9%). Their revenue varies, with most SMBs having a turnover of less than $2 million, while some earn over $10 million.[7] This diversity in size, revenue and sector highlights the varied needs of SMBs and that a one-size-fits-all solution to problems is unlikely to be effective.

SMB role in innovation

SMBs make an important contribution to Australian innovation by undertaking research and development (R&D), registering trademarks and filing patents. Australia's innovation ecosystem has struggled in recent years with R&D expenditure falling to 0.9% of GDP compared to a peer average of 1.8%. However, this decline is driven by close to 25% decline in investment from large businesses over the past decade, while SMBs have almost doubled the spend on R&D over the same period.

These trends have seen SMBs' share of total R&D expenditure growing from a historical average of 35% to 55% in recent years. According to the Reserve Bank of Australia, today the biggest contribution to R&D spending in Australia comes from SMBs in professional services who comprise 26% of the national total compared to 8% from large firms in the same sector.

SMBs make a significant economic contribution to Australia, and enhancing their competitiveness will be crucial for the future of Australia's economy

SMBs play a crucial role in the Australian economy and make a significant contribution to total output.

With over **$1 trillion of economic activity** generated each year by SMBs, this accounts for over half of Australia's annual private sector GDP.[8]

SMBs are a key source of **innovation** and **entrepreneurship**, driving growth in key sectors.

As of 2022-23, the contribution of small and medium businesses (those with 0-199 employees) to the **total value-added** in fact outweighs that of businesses of other sizes in a range of industries[9], including:

- Agriculture, forestry and fishing **(79%)**
- Rental, hiring and real estate services **(74%)**
- Other services **(59%)**
- Construction **(53%)**

SMBs are a major source of employment in Australia

Australia's SMB productivity gap

SMBs are underpinned by great capacity to innovate and seize opportunities – but only where they can overcome challenges

Growth

SMBs' growth paths vary significantly. A larger share of small businesses are characterised as high growth (defined by businesses with three-year revenue growth over 20%), compared to large businesses. However, they also hold the highest share of low growth (as defined by businesses with three-year revenue below 0%) businesses compared to large businesses.[1]

In Australia, 60% of small businesses close within their first three years of operation, and 20% close within their first.[2] The reasons for such high rates of closure are diverse, but many are underpinned by two key factors; a lack of capital, and a lack of knowledge. These two factors also inhibit businesses' capacity to uptake new technology – with lack of awareness around its use in operations, and a lack of capital to fund its use, or hire labour with the skills to use it.

Innovation

SMBs also take divergent paths when it comes to innovation. Despite a widely held belief that innovation is the foundation of small business, fewer than half of all small businesses undertook any innovation activity in 2023 compared to two-thirds of large businesses (Chart 1.1). Medium businesses are in general more innovative with 65% undertaking any innovation activity, surpassing large businesses in 2023. The increase in medium businesses innovation rate closed the more than 10 percentage point innovation gap of a decade ago.

Small businesses too have closed the innovation gap in more recent years. However, the relatively modest increase stands in contrast to faster growing SMB spend on R&D over the same period. There is evidence of differing trends between innovation rates (the rate at which SMBs are innovating) and the rate at which SMBs are spending money on R&D. This suggests that those SMBs who are innovating are spending proportionally more doing so.

Productivity

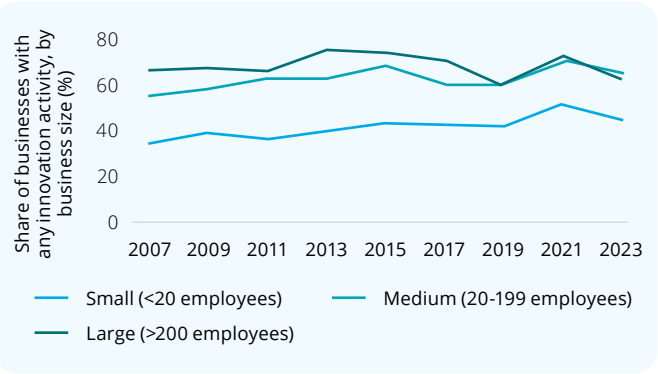
A lack of innovation among some SMBs contributes to another important gap – that SMBs consistently underperform their larger counterparts on the metric that matters most: productivity.

Labour productivity – a measure of economic output per employee – among small businesses is lower than medium-sized businesses who in turn have lower labour productivity than large businesses. The size of this gap is substantial, with the average small business producing $30,000 less per worker than the average large businesses, while medium-sized businesses have a production gap of $19,000 per worker (Chart 1.2).

The aggregate impact of the SMB productivity gap is significant. If small businesses were to close even half their productivity gap to medium-sized businesses, the Australian economy would be almost $30 billion larger each year. Moreover, SMBs using increased technology can be up to 45% more productive than those that do not use technology as much.[3]

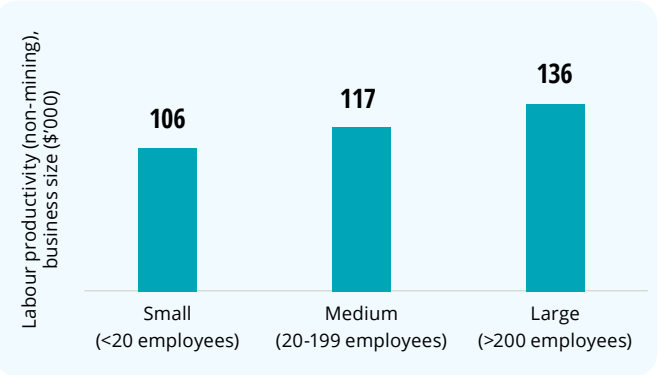
These gains in productivity are feasible - SMBs have done it before. In fact, the labour productivity gap between SMBs and large businesses has fallen by a third over the past decade from 28% in 2015-16 to the 19% in 2023-24.

Chart 1.1 Larger businesses are the most likely to be innovators



Source: Australian Bureau of Statistics (2025)

Chart 1.2 Labour productivity in non-mining sectors is highest in larger businesses



Source: Australian Bureau of Statistics (2025)

Now is not the time to get left behind

The global adoption of transformative technologies is disrupting the competitive environment, so what do improvements in productivity mean for SMBs?

Australian SMBs currently lag peer nations

Australian SMBs lag large businesses by more than those in other nations. For example, while Australian large businesses are among the most productive across the OECD, Australian micro and small businesses (those with 1-49 workers based on the OECD definition) are middling performers. This disparity sees Australia having a larger small businesses productivity gap than many peer countries including Germany, France, Sweden and the UK (Chart 1.3).

Falling investment in innovation through areas such as R&D spending is one area holding Australia's productivity growth back. On this measure, Australia also lags the rest of the world with gross expenditure on research and development (GERD) as a share of GDP reaching 1.7% in 2021-22 compared to the OECD average of 2.7%.[1] Based on existing trends, Australia is expected to fall further behind.

A lack of investment translates into lackluster outcomes with the World Intellectual Property Organisation placing Australia 78th in the world in knowledge diffusion and 52nd in terms of knowledge absorption.[2] However, Australia ranks better across some measures of technology adoption with the Productivity Commission finding that Australian businesses have a comparatively high uptake of cloud computing services. On the other hand, they find Australian businesses have historically trailed in their use of data-driven technologies such as data analytics and AI.

These trends may be set to continue with research finding, that despite fast growth, Australia has the second lowest share of generative AI usage across the Asia Pacific locations surveyed, with adoption at 54% compared to a regional average of 67%.[3]

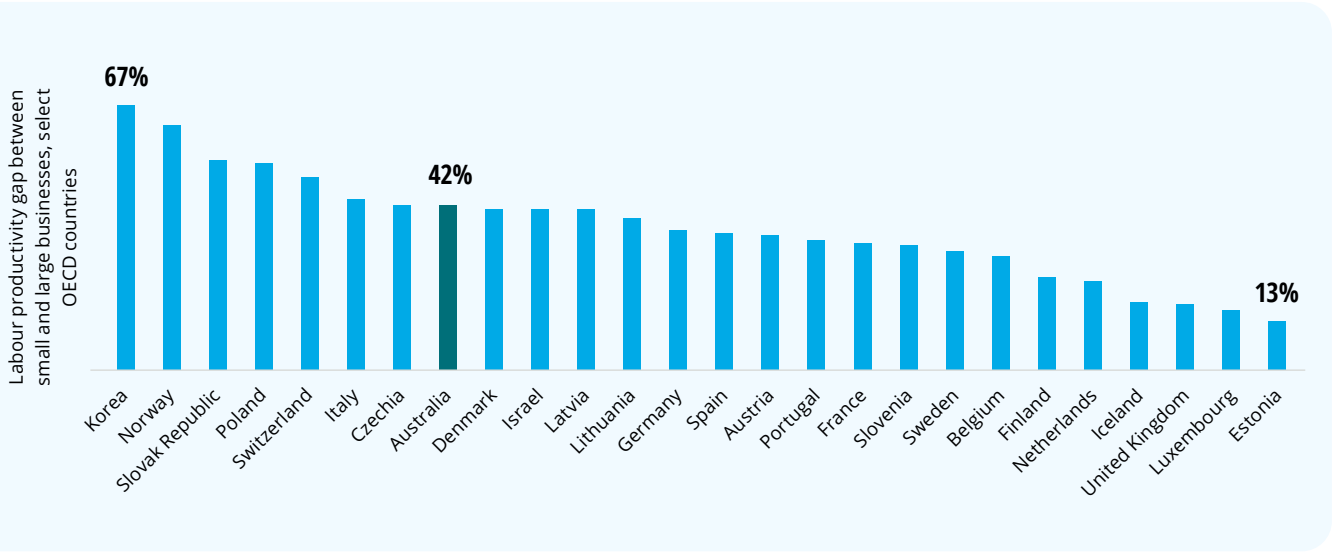
Australia's trust in AI also lags with another survey finding that, of the 47 countries considered, Australians were least likely to agree that the benefits of AI outweigh the risks. Also, rather than improving over time, Australian's trust in AI systems has declined since 2022.[4]

These trends are of concern for SMBs because we know that, when they do act, they receive outsized returns from adopting innovative goods, services and business practices. For example, among innovating Australian SMBs, approximately 10% derive between 25-50% of their incomes from innovation while 12% derive more than half. Additionally, small businesses who hold patents pay median wages roughly 80% greater than those without patents.[5]

Now is the time to act

The Productivity Commission estimates that generative AI could conservatively increase Australia's labour productivity by 4.3% over the next decade.[6] For Australia, whose SMBs are already trailing the world, this represents an unparalleled opportunity to catch a tailwind. But more than this, failing to act will see Australia fall further behind the pack.

Chart 1.3 The productivity gap between Australian large and small businesses is relatively high compared to peer nations



Source: Australian Bureau of Statistics, OECD (2025)

02

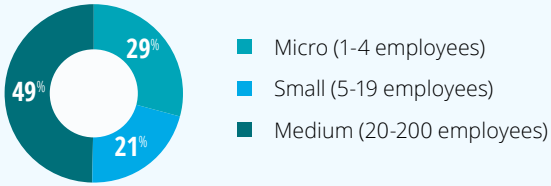
The current state of AI adoption

The SMB AI adoption landscape

Deloitte Access Economics' survey of more than 1,000 SMBs across Australia highlights the varied uses of AI today and the challenges they face in adoption

Who is using AI?

Share of AI adoption by SMB type



SMBs in traditional industries lag those in professional and consumer services in terms of AI use

	Any AI	Agentic AI
Traditional industries (e.g., construction, resources)	57%	36%
Professional services	69%	54%
Consumer services	65%	50%

SMBs plan to increase the share of total expenses spent on AI solutions in the future

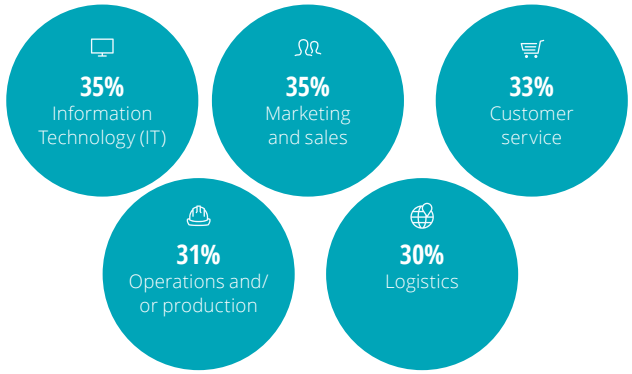
	FY 2024-25	Willing to spend in future years
Traditional industries	33%	36%
Professional services	36%	42%
Consumer services	32%	40%

How are they using it?

Adoption of any AI is encouraging, but agentic AI adoption remains low

	Any AI	Agentic AI
Micro businesses	39%	2%
Small businesses	67%	18%
Medium businesses	79%	33%

Top 5 areas of business with fully implemented AI solutions



Primary reasons why SMBs are adopting AI

What has been their experience?

Top 5 AI adoption challenges faced by businesses

- **34%** Concerns about regulatory, legal, ethical, compliance and other risks
- **33%** Lack of awareness of AI and how it can be used in business
- **32%** Technology implementation challenges
- **30%** Lack of talent and/or technical skills
- **29%** Lack of funds or resources

Benefits of using AI for a range of applications

60%	**Increased efficiency** *("Drafting and reviewing emails or documents")*
51%	**Improved quality of output** *("Drafting and reviewing emails or documents")*
39%	**Improved decision making** *("Financial summary reporting")*
39%	**Workers focused on more high value tasks** *("Employee recruitment and HR analytics")*
38%	**Improved customer experience** *("Customer support and chatbots")*

Overall AI skill level of employees differs between SMBs

AI is being used but not as much as it could be, or to its full potential

AI adoption rates differ considerably between industry groups and business sizes, but SMBs that already adopted AI are generally using it for similar purposes

SMBs rely on relatively simple AI tools such as ChatGPT rather than more advanced agentic AI tools that have greater potential to boost productivity

Adoption rates of any AI tool is considerably high in all three industry groups (see Appendix A for detailed industry groups and definitions). Over half of surveyed SMBs in each group stated that they have adopted and started using AI in their businesses.

However, different levels of adoption persist between industry groups, with SMBs in professional services generally exhibiting higher levels of adoption of generative AI and traditional AI than those in traditional industries and consumer services. Moreover, adoption of relatively more advanced agentic AI solutions remains low among SMBs in all three industry groups.

SMBs are starting to experiment with AI solutions in a wide range of functions. However, there is still considerable potential for more advanced agentic AI solutions for applications like supply chain optimisation or employee training. By making business functions more agentic, SMBs can save time and resources to use elsewhere in their business. Between 17% and 26% of SMBs have stated that they would like to use AI for some of these more advanced applications but are simply not sure how which means there is room for government and industry to address these knowledge gaps through initiatives like use-case scenarios and pilot program assistance.

However, businesses which are adopting AI solutions are using them to automate time-consuming tasks, freeing up time for more important business functions

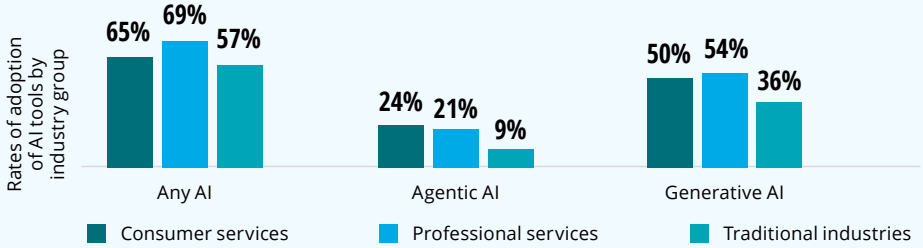
Although many SMBs continue to rely on more basic AI tools, there are signs that SMBs are using these tools to free up some of their time. Many of the tasks that SMBs stated they were currently using AI for are time consuming, such as reviewing emails and documents, and generating marketing content. By applying AI to these tasks, SMBs can focus on more critical or productivity-enhancing functions such as product development, and this alone can boost business productivity. Moreover, SMBs recognise the benefits of AI to innovation, with a substantial proportion of surveyed SMBs indicating that they are currently using or planning to use AI for tasks that require creativity such as brainstorming and developing new ideas.

Traditional AI
Focused on classifying and analysing structured data to make classifications, recommendations or predications based on predefined rules and criteria.

Generative AI
Designed to generate new or original content or data. This may involve the use of text, images, videos, music, or other forms of media to produce outputs.

Agentic AI
Type of AI that can autonomously plan, make decisions, and take actions to complete multi-step tasks in coordination with other agents or human teams, and with minimal human direction.

Chart 2.1 SMBs are most likely to adopt traditional AI solutions, followed by generative and finally agentic solutions



Survey question: "Which of the following types of AI solutions does your business currently use? and What is the main industry your business operates within?" (n=1,011)

Figure 2.1 Top three most common applications of AI

	Currently using AI	Planning to use AI	Would like to use AI, but not sure how
Brainstorming and developing new ideas	30%	28%	19%
Drafting and reviewing emails or documents	29%	30%	19%
Generating marketing or advertising content	27%	35%	17%

Survey question: "In which of the following ways is your business using or planning to use AI?" (n=1,011)

SMBs are motivated and willing to pay to adopt AI

Businesses are adopting AI for a range of reasons like improving efficiency and keeping up with customer expectations

SMBs are already spending around a third of their total expenses on AI solutions and are willing to spend more in the future

Businesses surveyed claim to be allocating more than a third of their budgets on AI-related solutions which may also include spending on broader digital tools with embedded AI features such as cloud platforms, CRM systems or accounting software. Nonetheless, there is considerable investment taking place and businesses are willing to increase their spend in the future as the technology and how it can be implemented to deliver value to businesses is better understood. There is also likely to be an abundance of high-quality and verified AI services which address specific business needs which should result in greater demand as well. A verified AI service refers to an artificial intelligence system whose safety, reliability and usefulness have been demonstrated not only through formal checks, but also by being widely adopted and trusted by many users and organisations.

Interestingly, businesses across traditional industries, professional services and consumer services had a similar willingness to spend of between 32 and 36 percent of expenses. In the future, professional and consumer services (40 to 42 percent) were willing to increase spend more than traditional industries (36 percent).

SMBs are adopting AI for five key reasons

Businesses are adopting AI because they were approached by a custom AI service provider. Over time, there may be a shift to businesses strategically seeking out AI solutions as their awareness increases.

Particularly in customer-facing industries like retail, customer expectations is a key driver of adoption as these tools are increasingly adopted by competitors.

Automation is the third largest driver of adoption as businesses are looking to make their operations as efficient as possible to free time for more value-adding tasks.

The fourth reason is that businesses were already adopting tools which have now introduced AI functionality.

The fifth reason was that businesses, through the investment, would have a positive return on investment. If this proves to be true, and businesses are able to measure the benefits of adopting and paying for AI solutions, this should be a strong driver of further adoption which may require greater upfront investment.

Chart 2.1 SMBs plan to increase the share of total expenses spent on AI solutions in the future

	FY 2024-25	Willing to spend in future years
Traditional* industries	**39%**	**36%**
Professional services	**67%**	**42%**
Consumer services	**79%**	**40%**

Survey question: "How much did your business spend on AI solutions in FY 2024-25 as a proportion of total expenses, and how much would your business be willing to spend going forward?" (n=1,011)

**See Appendix 1 for definition of traditional industries*

Chart 2.2 Reasons for adopting AI (share of adopters)

Survey question: "Prior to adopting AI, what was the primary motivation for incorporating AI solutions into your business operations?" (n=1,011)

Retail snapshot | fierce competition is driving adoption

A retail SMB is 22% more likely to have adopted an AI solution than other industries and 2 to 3 times as likely to adopt an agentic solution

Competitive pressures in the retail sector are driving the adoption imperative

The Australian retail sector faces challenges on many fronts – whether it's the extended cost-of-living crisis which has fostered more cautious consumer behaviour, customers engaging in omnichannel shopping or keeping up with the rapid pace of innovation in payments platforms; retail is one of the most competitive sectors in the Australian economy.

Given such a competitive environment, it's unsurprising that this study has found that retailers exhibit some of the highest rates of adoption of AI. A retail SMB is 22% more likely to have adopted an AI solution than other industries and 2 to 3 times as likely to adopt an agentic solution. These characteristics reflect the sector's economic dynamism: new entrants bring fresh formats, channels, and customer experiences, while established firms must continually adapt or risk being displaced. This competition drives the adoption of AI tools amongst Australian retailers including online and physical stores.

This is further driven by a more direct relationship between the adoption of these tools and the profitability of the business and the need for innovation to remain competitive in a period of rising operating costs and increasing alternatives being available to the consumer.

AI adoption is delivering outsized returns for retailers

For those who are adopting, it's paying dividends. Retail SMBs with intermediate levels of adoption are twice as profitable as those with basic adoption levels. This contrasts with a 12% uplift in profitability from basic to intermediate adoption in other industries. This finding suggests that the retail industry is uniquely exposed to disruption from AI due to the ability of businesses to convert the use of AI directly into operational efficiencies and revenue growth. Given the clear return on investment, retailers are adopting sophisticated AI solutions much faster than other industries.

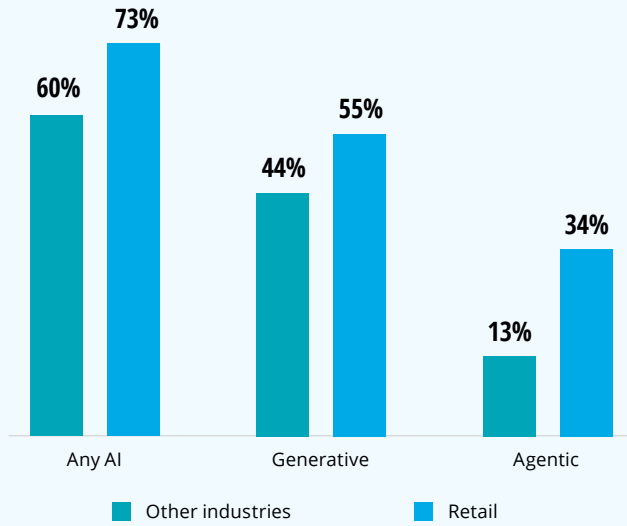
This is in part due to the availability of e-commerce software providers which have introduced AI-driven features such as personalised product recommendations, automated email campaigns, and demand forecasting. This means integration is low-friction, with low or zero upfront cost, which delivers measurable benefits, enabling even small retailers to compete.

However, there remain pockets of the industry that are struggling to engage with AI

For those businesses struggling to adopt AI, this study observed that some of the main adoption challenges were not dissimilar to other industries:

- SMBs in retail expressed an inability to translate AI use cases to their business strategies, with 8% of surveyed retailers stating that a "disconnect between AI use cases and strategy in their business" was the main AI adoption challenge.
- Like many other surveyed SMBs, retailers most emphasised the need for the government to assist them in adopting AI through policies directed at their workforces. This includes improving AI education and training initiatives (14%) and providing incentives to support workers in AI upskilling (13%).

Chart 2.4 SMB retailers are adopting AI at much higher rates than other industries



Survey question: "Which of the following types of AI solutions does your business currently use?" and "What is the main industry your business operates within? " (n=1,011)

03

AI Maturity Framework

AI Maturity framework

AI maturity tells us about readiness – how prepared are businesses to not only adopt, but to reap the full benefits of AI

Building the AI Maturity framework

To assess the maturity of SMBs in their use of AI, a structured framework scores businesses across five pillars. This contribution to the literature provides conceptual clarity which defines business readiness and can also be used as a practical measurement tool.

A survey of 1,000 SMBs was used to develop an AI maturity framework to measure the readiness of businesses to capture the potential benefits of AI adoption. The survey questions were based around the pillars of the framework which are described on the following page. The survey also captures insights on the perceived challenges to and enablers of AI use according to SMBs.

The figure overleaf provides an overview of what each level of maturity could mean in practice for a business in each of the five Index pillars. These descriptions provide an indication of the characteristics of businesses at each stage of their adoption journey.

The Index results shown on the following page aims to separate businesses based on these distinctions. In practice however, it is a combination of all five pillars of maturity in the Index and the building blocks of maturity which form each pillar which will lead to a business being enabled to adopt AI.

This framework should be interpreted as a set of domains which enable businesses to adopt AI in a meaningful way. It is possible for a business to be a leader in adoption without reaching the enabled stage in one or more pillars.

Finally, AI operates in a constantly evolving landscape and as more is understood about how to make the most of this new tool, the criterion for a business to be enabled will also need to be revisited.

AI Maturity Framework

Figure 2.2 Deloitte AI Maturity framework

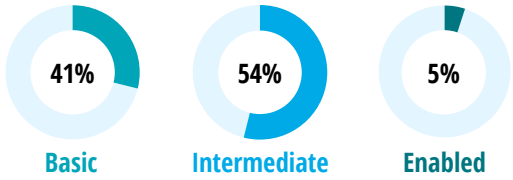
	AI services and solutions	Business systems and data quality	Workforce usage and skills	AI strategy	Ethics and esponsible AI
What this pillar measures	This pillar measures the types of AI which businesses have adopted, the breadth of business functions, and the extent to which bespoke solutions were developed.	This pillar measures the extent to which SMBs have centralised systems for storing and sharing data and the frequency of data quality checks which are essential for AI solutions to be used effectively.	This pillar measures workforce capabilities in the use of AI tools and the availability of training related to AI.	This pillar measures whether a firm has clear objectives around the use of AI, funding to increase capabilities, risk management plans, and integration of AI strategy with other relevant policies and strategic objectives of the business.	This pillar measures whether a business has practices, procedures or controls in place for ethical AI use.
Basic*	Either doesn't use AI, or uses off-the-shelf AI tools sparingly, mainly for simple tasks, with little integration into business processes.	Data remains siloed and inconsistent, limited cleaning or validation, often spreadsheet-based with minimal automation or governance.	Few employees aware of AI; tools used informally if at all, limited training or structured opportunities to build capability across staff.	Adoption occurs opportunistically without alignment to wider business goals or structured investment.	No ethical guidelines or safeguards in place; no risk management plan, AI use is largely not monitored.
Intermediate	Employs several AI solutions with some integration into workflows across the business.	Centralised storage established, periodic quality checks conducted, some automation and integration supporting more reliable reporting and decision-making.	Staff actively experimenting with AI; some training opportunities, usage spreading across teams.	Formal strategy drafted; adoption priorities linked to business goals; leadership increasingly engaged in planning and oversight.	AI-related policies emerging; basic safeguards applied inconsistently; some risk management processes established but not properly enforced.
Enabled	Bespoke or customised AI embedded throughout operations, tightly integrated with systems, delivering clear value.	Fully integrated, high-quality, scalable systems with real-time validation, automated pipelines, and strong governance ensuring data reliability enterprise-wide.	Organisation-wide AI proficiency, with employees applying tools regularly with structured training available.	Comprehensive roadmap with measurable objectives, clear milestones, and ongoing executive oversight established.	Formal policies, responsible AI principles embedded across all operations, and enforced risk management procedures.

* Basic maturity accounts for SMBs that have not yet adopted any AI solutions.

Just 5% of SMBs in Australia are considered enabled to adopt AI

How do we stack up?

Across all five pillars, 41% of SMBs have basic AI maturity, 54% of businesses are in the 'Intermediate' category, and just 5% of SMBs are enabled to reap the full benefit of AI solutions in their business.

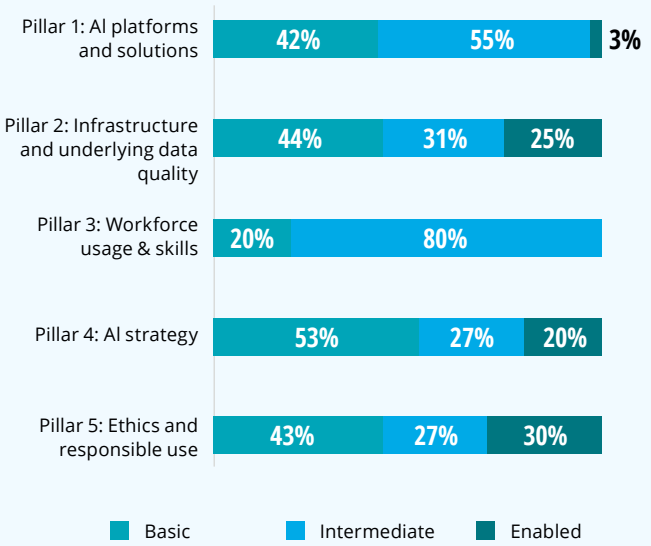


Pillar 1 **AI services and solutions**	This pillar measures the types of AI (i.e. traditional, generative, agentic) which businesses have adopted, the number of business functions which have adopted, and the extent to which bespoke solutions were developed. 42% of SMBs have basic maturity, 55% intermediate maturity and 3% being enabled.	*Most businesses are in the early stages of adopting AI solutions.*
Pillar 2 **Business systems and data quality**	This measures the extent to which firm's have centralised systems for storing and sharing data and the frequency of data quality checks which are essential for AI solutions to be used effectively. 25% of businesses were enabled and a further 31% were intermediate.	*A quarter of businesses have the systems and data in place to embed AI into their operations.*
Pillar 3 **Workforce usage and skills**	Pillar 3 measures workforce capabilities around the use of AI tools and the availability of training related to AI. None of the firms surveyed were enabled, and four out of five were intermediate for this pillar.	*Less than 1 percent of businesses have the workforce skills needed to properly use AI.*
Pillar 4 **AI strategy**	This measures whether a firm has clear objectives around the use of AI, funding to increase capabilities, risk management plans, and integration of AI strategy with other relevant policies and strategic objectives of the business. 53% of business had basic maturity, 27% were intermediate and 20% were enabled.	*One-in-five businesses have a formal AI strategy but around half have a basic or no strategy.*
Pillar 5 **Ethics and responsible use**	This pillar measures whether a business has the practices, procedures or controls in place around AI use. This includes whether a person or team is responsible for monitoring risks, guidelines on safe use, an internal system to report employee concerns, protection from cyberattacks, and compliance reviews. 43% of firms had basic maturity, 27% were intermediate and 30% were enabled.	*Almost a third of businesses have introduced responsible AI frameworks to their adoption of AI.*

Small businesses are ready to adopt AI, but they need time, confidence and targeted support to do it well. Making it easier for them to engage with new technology will unlock genuine productivity gains

Will Harris, Chief Operating Officer
Council of Small Business Organisations Australia (COSBOA)

Chart 2.4 Distribution of SMBs across the AI Maturity pillars, by maturity level



Sophisticated use of AI is critical for SMBs to become leaders in adoption

Understanding the unique constraints which businesses face is an important lens to design targeted policies and initiatives which will unlock the full potential of AI for SMBs

Many medium-sized businesses are enthusiastic adopters, with a strong foundation and interest in AI, but are not yet leaders.

Some medium size businesses may have implemented simple AI solutions in areas like marketing automation, customer service chatbots, or basic analytics. They may also have invested in systems to improve their data quality, but they have yet to embed AI deeply into core business processes or develop more sophisticated solutions across the business. While they demonstrate a clear commitment to and readiness for AI adoption, their use to-date remains operationally narrow, with significant potential to progress toward more transformative and strategic applications.

The constraints which distinguish the leaders, enthusiastic adopters and late starters are often industry-specific.

There is a high prevalence of retail businesses in the leader category whereas the enthusiastic adopters are most commonly in the finance, professional services and manufacturing industries. This could be explained by retail businesses having access to a range of embedded AI solutions and operate in highly competitive global markets, which enable and reward rapid adoption of AI tools.

In contrast, financial and professional services businesses are often constrained by heavy regulatory scrutiny and legacy systems which naturally results in adopting AI for low-risk, low-reward applications such as drafting research or brainstorming. Manufacturing also faces challenges with the integration of physical AI solutions which cannot be seamlessly integrated and raises concerns around safety and quality control.

Within the same industry, the constraints to AI adoption differs between established businesses, startups and scaleups. Where traditional businesses often grapple with legacy systems, established processes, and risk-averse cultures, startups and scaleups benefit from agile structures, modern technology stacks, and a greater appetite for experimentation, enabling faster and more sophisticated AI adoption.

Shown below is the relationship between the sophisticated application of AI against the firm's performance on the AI maturity Index.

- *Sophistication* reflects a combination of type of use (e.g., traditional or Agentic), use cases, business function and whether the application is bespoke or embedded within existing software (for example)
- *AI Maturity Index* reflects the firm level performance against the five pillars of the Index.

LEADERS
Often these are medium businesses with many from retail, technology and professional services.

5% of businesses

ENTHUSIASTIC ADOPTERS
Often these are small and medium businesses with many from finance, professional services and retail.

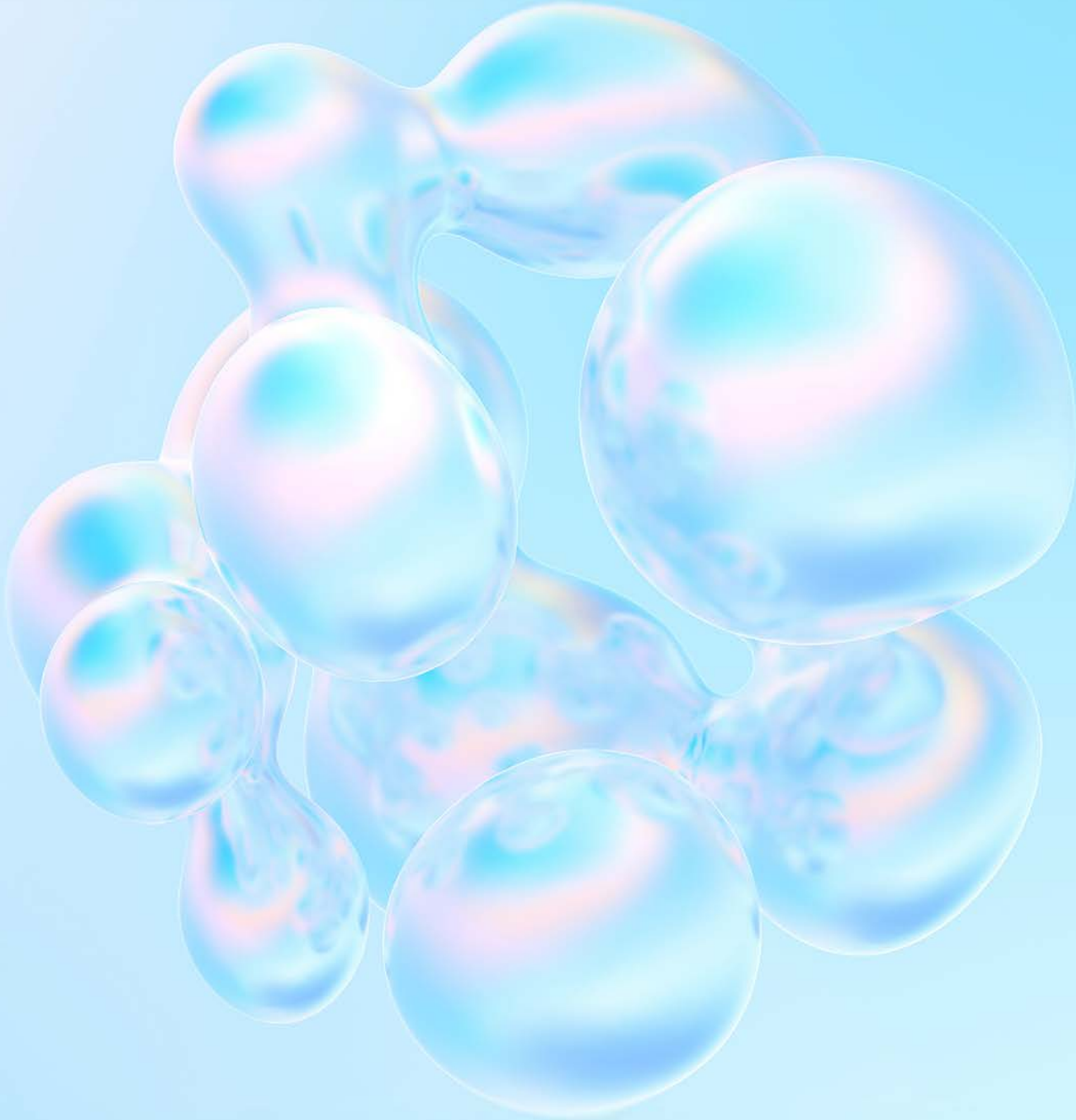
56% of businesses

LATE STARTERS
Often these are micro and small businesses, across a range of industries

39% of businesses

04

Lifting SMB productivity



Adopting AI can lift SMB productivity

The 2.5 million SMBs in Australia are a critical driver of the economy, employing over 7 million workers, but there is a need to lift labour productivity within these businesses which are facing increasing pressure from rising costs and global competition

The productivity gap between SMBs and enterprise presents a significant national opportunity.

Research from the Productivity Commission and ABS suggests that small businesses produce less output per hour worked than their larger counterparts (enterprise) across most industries. This productivity gap reflects challenges in scaling operations, accessing capital, investing in technology, and attracting skilled labour.

However, this gap also represents a significant national opportunity. Targeted support to lift SMB productivity - through digital adoption, workforce upskilling, streamlined regulation, and improved access to finance - could yield substantial economic dividends. Even modest gains in SMB efficiency could translate into billions in additional economic output, particularly in sectors like construction, professional services, and retail where small firms dominate.

One way to measure the productivity gap is by comparing the value added by each worker employed by an enterprise against SMB in a given industry. From this, we can find that enterprise has higher labour productivity in several industries including technology, logistics, real estate, utilities, and construction. For instance, within the technology sector, the labour productivity gap between enterprise and SMBs is higher than in other industries likely because of economies of scale associated with labour.

AI adoption can play a critical role in bridging the gap, particularly in industries like those listed which require scale to compete effectively. AI can increase the amount of output produced per worker by augmenting their work and may also reduce the headcount needed for SMBs to compete with larger firms through the automation of a wider domain of tasks and workflows.

Without action, there is a risk that powerful network effects and access to capital will cause the gap to widen, whereby larger firms will benefit from a self-sustaining cycle of growth which smaller firms are not able to compete with. The impact of this won't be isolated to particular firms and industries and will threaten the overall dynamism of the economy, that is, the capacity of businesses to generate new ideas which drives innovations of efficiency.

Figure 4.1 Labour productivity in SMBs is lagging enterprise in many industries

Industry	SMB	Enterprise*	Gap
Technology	$199,000	$347,000	$148,000
Logistics	$124,000	$211,000	$87,000
Real estate	$255,000	$322,000	$77,000
Utilities	$384,000	$451,000	$67,000
Construction	$143,000	$209,000	$66,000

Note: Labour productivity is measured as Industry Value Added per worker.
Source: DAE analysis of ABS Industry 2023-24
** Enterprises refer to businesses with at least 200 employees.*

One rung up - what if we could improve the AI Maturity of Australian SMBs?

If just one-in-ten SMBs with basic maturity moved up to intermediate and another one-in-ten moved from intermediate to enabled, this could contribute an additional $44 billion in GDP annually

Estimating the economic opportunity of improved AI maturity

To estimate the economic impact of increasing SMB adoption of AI, Deloitte Access Economics developed an adoption Index (a combination of a firm's AI maturity and sophisticated use of AI solutions) to capture the impact of movement between different stages of adoption. This Index has been used to estimate the productivity uplift from increasing adoption. We have included a "Frontier" maturity level at which it is anticipated very few businesses will experience a complete transformation of their businesses as a result of AI adoption. They can be thought of as the "most-enabled" SMBs in terms of AI.

First, a modest scenario has been modelled which considers what would happen if one-in-ten SMBs which are basic adopters of AI were to become intermediate adopters.

Australia's SMB comprise 2.5 million businesses which contribute $1.2 trillion to the economy, 59% of the value added by the private sector. According to Deloitte's Adoption Index (which is based on both AI maturity and sophisticated use), 41% of SMBs have basic levels of AI adoption.

Given the inherent uncertainty of uptake, a modest scenario for AI adoption has been considered whereby one-in-ten SMBs nationally move from basic to intermediate levels. Considering the rates at which new technologies have been adopted in the past, this improvement is well within reach.

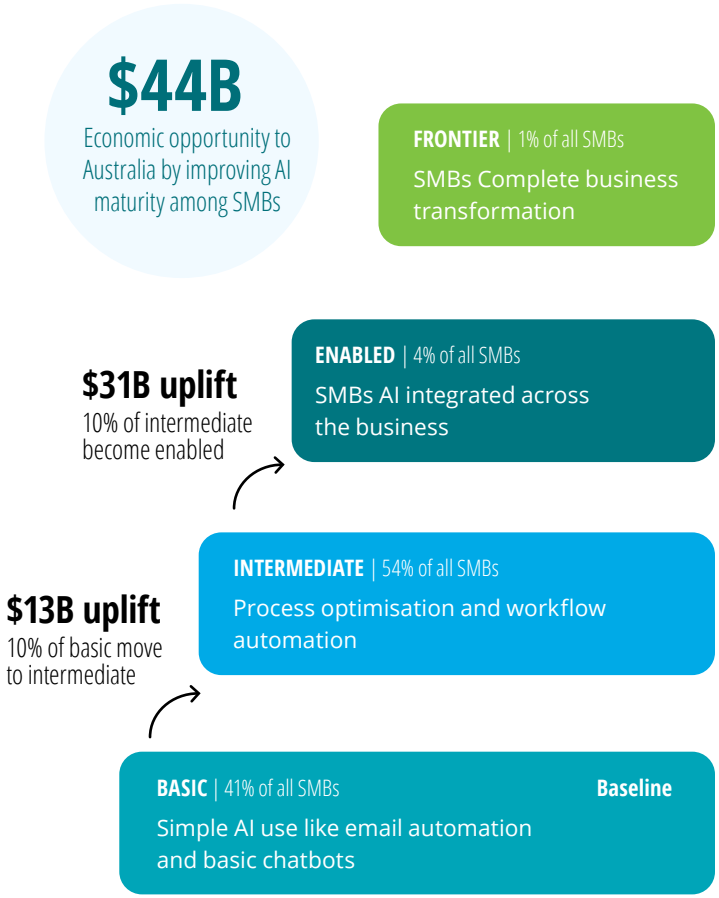
Second, the modelling estimates the firm-level effect of AI adoption on profitability.

Based on our survey of over 1,000 businesses, a model was estimated of business profits against their stage of AI adoption after controlling for other factors like headcount and the industry the business operates in. This model estimates that moving from basic to intermediate levels of adoption can improve profitability by 45%. This estimate measures the effect for a typical firm and the effect on a particular firm will depend on a myriad of factors.

This scenario is estimated to result in an economic uplift of $44 billion or 1.3% of GDP.

If one-in-ten businesses in the basic and intermediate tiers improved in their AI adoption to realise a boost to their margins, this would result in an economic productivity uplift of around $44 billion.

Figure 4.2 Stylised modelling framework



What does it mean to be on the frontier?

Only 1% of all SMBs are currently operating on the frontier of AI adoption

We have included a "Frontier" maturity level at which it is anticipated very few businesses will experience a complete transformation of their businesses as a result of AI adoption. They can be thought of as the "most-enabled" SMBs in terms of AI.

Examples of businesses which could be at the frontier

Auto repair shop with diagnostic AI

- Customer describes symptoms
- AI suggests likely issues
- Guides mechanic diagnostics
- Orders parts automatically
- Provides cost estimates

General Practitioner (GP) clinic with analytical AI

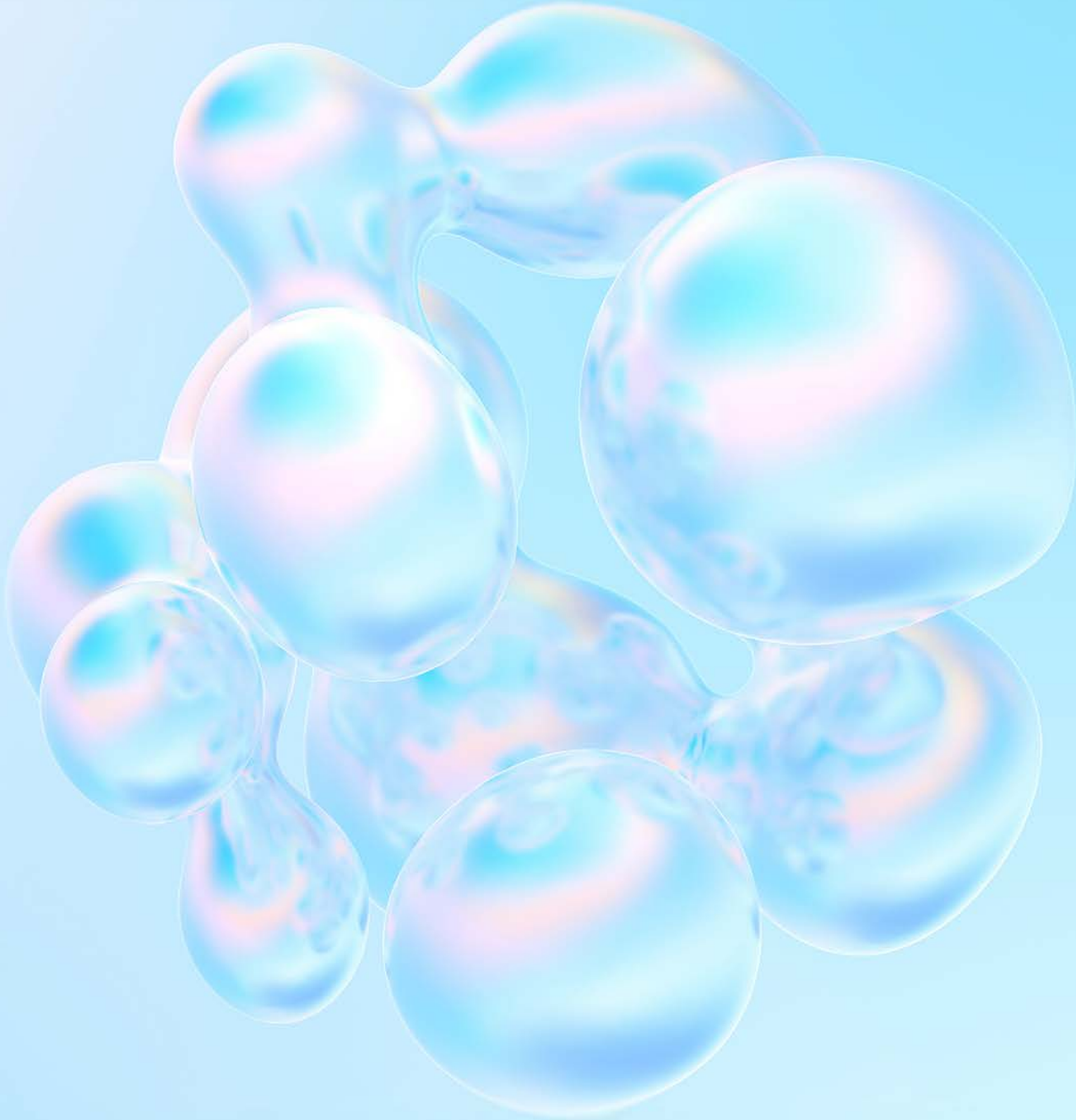
- AI reviews a patient's medical history
- Reviews the patient's symptoms
- Makes an early diagnosis of patient's condition
- GP reviews and validates the diagnosis, while AI prefills GP's notes

Accounting firm with predictive tax planning

- AI analyses client spending patterns
- Predicts tax liability
- Recommends deduction strategies
- Files returns automatically
- Plans quarterly payments

05

Key adoption challenges



Unpacking challenges in AI adoption among SMBs

Each business faces unique challenges in properly adopting and integrating AI into their functions

When looking at the adoption of any new form of technology, including AI, SMBs face significant challenges. Several studies have highlighted the key implementation hurdles to digitisation for SMBs being a lack of funds, high investment costs*, and a business culture that does not embrace digital transformation,[1] and many of these challenges also apply to AI adoption. It is therefore paramount that policymakers and industry understand exactly what is holding SMBs back from more widely adopting AI tools as this is necessary to then formulate policies and strategies that can successfully foster increased AI adoption and integration.

The findings from this report's survey revealed that SMBs face a complex suite of challenges in adopting or further implementing AI solutions. These challenges are not experienced uniformly across SMBs. Different business structures, industries, and levels of AI maturity will encounter unique challenges. Through surveying SMBs and consulting with industry stakeholders, some common themes emerge amongst the breadth of challenges experienced.

Starting with 'why'

For many SMBs, the question of 'why' is simple – AI provides a new set of tools to scale while reducing costs. However, for other SMBs, endless growth wasn't the reason they went into business.

For this cohort of SMBs, AI offers a host of unsung benefits that don't necessarily mean lifting their growth ambitions. By cutting through complexity, **AI tools can free up business owners and employees to do more of what they love** – whether it's creating and selling unique products or spending more time with their customers and in the local community.

These benefits are not limited to current SMBs and could promote higher rates of business formation, as would-be owners grow confident that AI can help with the hard stuff.

Key to adoption challenges faced or perceived by SMBs based on survey responses

Not knowing where to start

Unsure what AI tools are available to be used, how they can be applied and struggle to keep up with the pace of change

Lack of adequate business systems and data quality

There are challenges implementing the technology with existing systems

Workforce skills

Workforce lacks the AI skills and upskilling opportunities to effectively use AI

Funding and investment

AI tools are too expensive, or the business lacks funding to invest

AI governance and standards

Concerned about regulatory risks and there is a lack of strategy for AI implementation

Survey question: "Which of the following are the most significant challenges to adopting or further integrating AI solutions in your business? Please rank up to 5 choices." (n=1,011)

** While high investment costs associated with upgrading business systems can be a challenge, not all forms of AI adoption require such investments that are beyond the reach of SMBs, such as "pay-as-you-use" AI models which can be used in the cloud.*

#1 | Not knowing where to start

SMBs are generally enthusiastic about adopting AI solutions for their business, however many do not know where to start. In some cases, risk aversion stems from a lack of knowledge, rather than skepticism about the benefits of using AI

Across all industries, not knowing where to start was a common barrier to adoption

Our survey insights suggest that approximately 9% of all businesses cited a lack of awareness as the greatest challenge to adoption. Based on some estimates, there are more than 10,000 distinct AI tools in 2024, spanning domains such as machine learning, natural language processing, automation, and analytics[1], so it is no wonder that they don't know where to start. The technology is quickly evolving and many businesses are overwhelmed with choice with little information on how AI can be used in their business.

A third of SMBs noted a lack of awareness of AI and how it can be used in business as one of the top five challenges for their organisation. This response was greater among micro and small businesses, who may not have the resources to research available AI solutions, how to use them, and whether they are value for money.

SMBs are looking for support that has been tailored to their industry and business size

In our survey, SMBs emphasised that any support for AI adoption needs to be both industry-specific and tailored to business size. There were considerably different rates of SMBs in different industries listing a lack of awareness of AI as one of the top five challenges to adoption, with higher rates among those in "Arts, Entertainment and Recreation" (20%) and "Manufacturing" (14%), but less prevalent within industries such as "Logistics and Transport" (4%). Similarly, levels of AI awareness differed between SMB sizes. This was one of the top five adoption challenges more widely for micro (37%) and small (36%) businesses than medium (30%) businesses, suggesting that support to increase AI awareness and readiness needs to primarily focus on smaller businesses, despite being an issue for SMBs of all sizes.

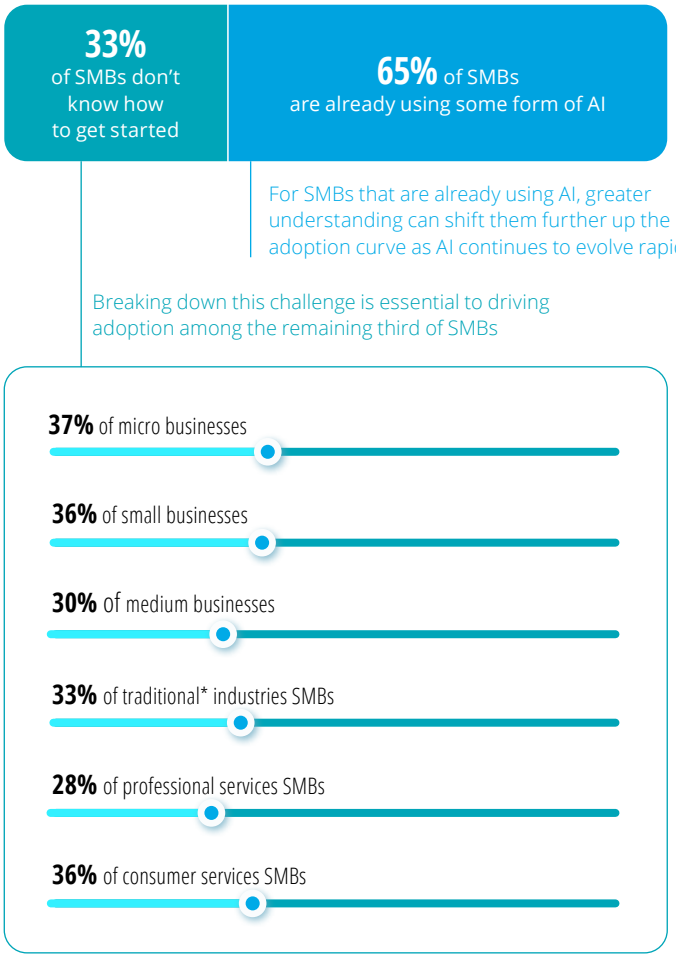
Workforce skills are central to overcoming this problem

Furthermore, there is evidence that when businesses have a general understanding of where to start, they are more likely to realise the benefits from AI more easily. 51% of surveyed SMBs that are currently using AI believe that one of the key factors that enabled them to realise benefits was the ability of their team to identify the most appropriate use of AI technology and then incorporating it to improve operational efficiency. Therefore, assisting SMBs in navigating how to adopt and integrate AI into their businesses is key.

Risk aversion and selecting the right product

For SMBs, the barrier to entry can seem insurmountable – especially when it comes to integrating AI solutions within core business activity. Adding to this challenge, there are numerous expensive "reskins" of the same tools, making it difficult to identify whether a product is a novel application, or an existing tool that has been re-badged and marked-up. Deepening SMBs' understanding of AI tools can assist with this selection process, enabling businesses to find and apply the right product that meets their needs.

Figure 5.1 A third of SMBs don't know how to get started using AI



Survey question: "Which of the following are the most significant barriers to adopting or further integrating AI solutions in your business? Please rank up to 5 choices." (n=1,011)

**See Appendix 1 for definition of traditional industries*

#2 | Business system and data quality challenges

SMBs may not know how to best leverage their data to support widespread AI usage and integration

SMBs may be limiting their ability to best utilise AI

Although some businesses may be willing to adopt AI, they simply do not have the systems in place to enable adoption. This was evident in the fact that surveyed SMBs generally rely on less complex types of data to support their AI solutions such as digital marketing data (51%), financial information (43%) and customer information (39%). However, fewer SMBs stated that they use more advanced data sources to support their AI solutions such as call centre recordings (16%) or the Internet of Things (IoT) (11%).

Only a fifth of surveyed SMBs have a centralised/integrated system for the collection, storage and analysis of data, while over 30% have data stored across teams or systems. This further highlights that many SMBs still lack the necessary digital capacity to effectively incorporate AI into their operations. Differences exist between business sizes as well. Medium-sized businesses which have adopted AI solutions are around two times as likely to have centralised systems for storing data.

Incorporating more advanced AI tools into core business functions requires businesses to have the right systems in place which can carry a higher upfront cost

This includes faster computing performance, larger storage capacity for data and AI software, as well as some advanced networking technologies that enable the transfer and processing of data.[1] However, given that some of this infrastructure requires significant levels of investment, it is not surprising to see that many surveyed SMBs, particularly micro and small businesses, do not have adequate business systems in place for some AI tools.

A lack of systems appropriate for AI use is likely to be a key contributing factor to SMBs from all industries experiencing difficulties in adopting and integrating AI into their processes. A considerable number of surveyed SMBs from all three main industry groups, traditional industries (28%), professional services (39%), consumer services (29%), listed "Technology implementation challenges" as one of the top five AI adoption challenges, highlighting that this is an economy-wide issue for SMBs.

Even medium-sized businesses with the systems in place to adopt AI tools continue to face challenges in integrating them in their operations.

41% of surveyed medium businesses listed "Technology implementation challenges" as one of the top five challenges to AI adoption, which was considerably higher than for small (29%) and micro (18%) businesses. This suggests that investment needs to be followed by ensuring that AI tools are properly integrated so they can be used optimally.

Fortunately, not all AI tools require SMBs to invest in other systems. This includes tools that can be used in the cloud, in which service providers look after the underlying systems, while businesses simply pay for the services they use. Tools such as these can act as an important first step for SMBs on their AI adoption journey, especially if they currently lack sufficient funds to upgrade their internal business systems.

Chart 5.1 Medium-sized AI adopters are likely to have a centralised or integrated system for collecting, storing and analysing data

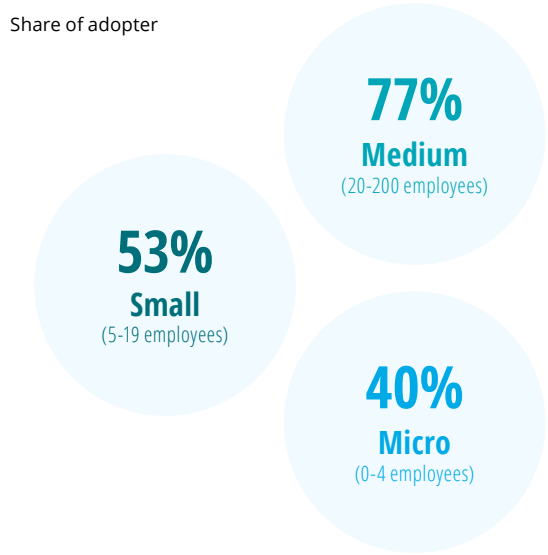
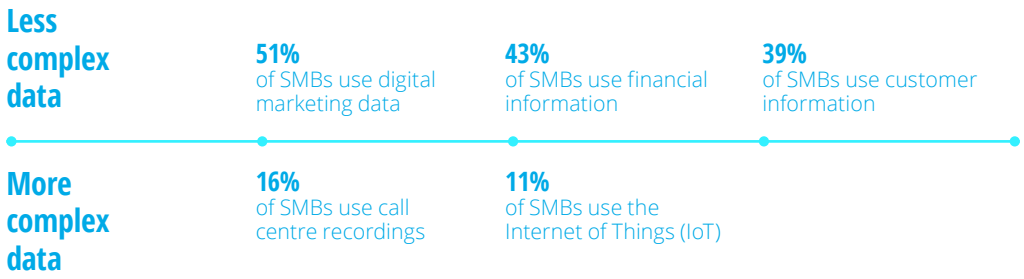


Figure 5.2 Less complex types of data are often used to support AI solutions



#3 | Workforce skills

Workforce concerns are front of mind for many SMBs, while workers are learning, they feel unprepared and cautious about using it

SMB workforces are largely unprepared for AI, and more formal training is required

Over half of respondents consider their workforce to have basic or novice levels of familiarity with AI, while just 10% believe that their workforce have advanced AI skills. Given that labour costs account for between 10 and 60% of total operating costs depending on the industry[1], SMBs recognise the need for greater preparedness of workers for AI-related disruption.

Moreover, there is a lack of opportunities for workers in SMBs to upskill in AI, particularly within Australia's smallest businesses. Just 17% of surveyed micro-businesses and just under half of small businesses report having formal training on the effective use of AI, while close to 85% of medium-sized businesses offer such training, which highlights the needs for additional support for SMB workers to upskill where the business may not have the means to offer formal training programs on AI to their staff.

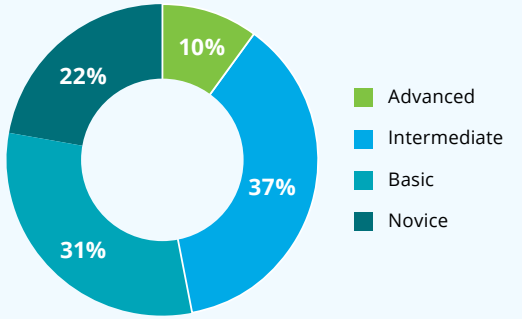
A large proportion (34%) of surveyed SMBs listed policies designed to improve education and training associated with AI among their top suggested actions for the government to properly support AI integration. Many surveyed SMBs also listed policies that provide incentives to upskill workers for AI use (36%) as a top policy priority when it comes to AI adoption. This suggests that SMBs recognise the need for additional support from government for businesses to achieve the level of upskilling required in the sector.

Workers remain cautious about using AI

SMBs also recognise that their workforces are cautious about using AI, potentially because of job security concerns or distrust in these applications. On average, between 53% and 67% of surveyed SMBs in each industry group either agree or strongly agree that their employees are cautious about using AI, with the remainder of respondents' employees generally neutral or not concerned about using AI.

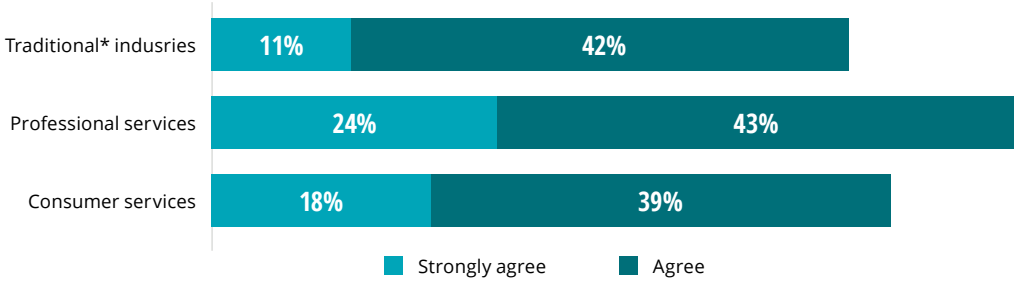
Professional services workers are the most likely to be cautious, compared with traditional industries or consumer services. This may be driven by the heavy regulatory scrutiny placed on these industries and the level of guidance and support offered to workers to provide the assurance that they are able to use these tools.

Figure 5.3 Average level of familiarity of workers with AI



Survey question: "Which of the following best reflects the average skill or level of familiarity that your workforce has with AI?" (n=1,011)

Chart 5.2 Share of SMB workforces which are cautious about using AI



Survey question: "Please respond to the below questions with respect to your workforce's engagement with AI: In general, our workers are cautious about using AI" (n=1,011)

**See Appendix 1 for definition of traditional industries*

#4 | Funding and investment

In addition to the regular cost pressures faced by SMBs, a lack of funds and willingness to invest in AI continues to hold back adoption among SMBs

The challenge is not willingness but capacity to invest given thin margins and uncertainty about which tools will add immediate value to the business

Funding is a key challenge for any SMB. Given that many operate in highly competitive markets and face relatively higher unit costs than larger businesses, they often face tighter budgets, restricting their ability to make large-scale capital or technology investments. An April 2024 survey of 506 Australian small businesses by Prospa[1] (in collaboration with YouGov) revealed that due to financial strain, 46% of owners had reduced their own income, 31% tapped into personal savings to cover business expenses, and 22% reported having no cash reserves.

Roughly 29% of surveyed SMBs listed a "lack of funds or resources" as one of the top five key challenges to adopting or further integrating AI solutions into their business. Despite these pressures, the median surveyed SMB spent 26% of total expenses on purchasing AI solutions in FY 2024-25 and is willing to spend up to 37% on AI solutions in the future, which demonstrates that businesses are eager to adopt AI solutions.

Small and medium businesses need to see a clear return on investment before committing their limited resources to developing AI capabilities

For many businesses at the early experimental stages of adopting AI, there is a need for proof of the value which can be added to the business such as greater efficiency of workers or higher retention of customers. Smaller businesses also have shorter payback periods, that is, the time they are willing to wait before they recoup their upfront investment in AI. Unlike enterprise, SMBs cannot wait for a year to see a return and are biased towards solutions with lower upfront costs which deliver measurable value within months.

Furthermore, implementing or investing in an AI tool can be perceived to be more expensive than they are in reality, especially by SMBs that are unaware of how such tools work. For instance, many AI tools can be used in the cloud where service providers manage the systems and users of those tools are only required to pay for the services that they use.

Survey insights Open-text responses reveal that cost is a key adoption challenge

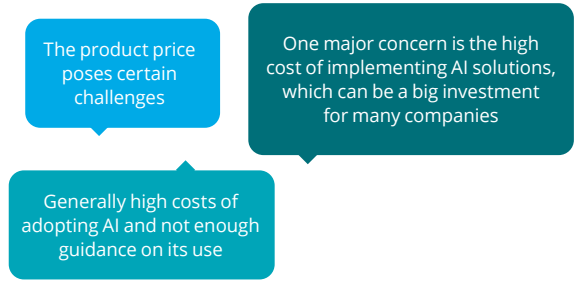
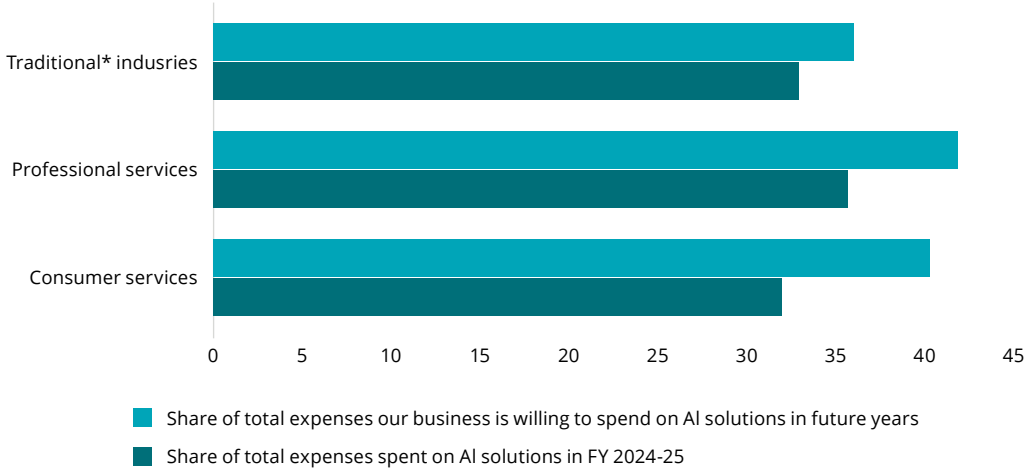


Chart 5.3 SMBs in all industries are spending a considerable amount on AI and are willing to spend more



Survey question: "How much did your business spend on AI solutions in FY 2024-25 as a proportion of total expenses, and how much would your business be willing to spend going forward?" (n=1,011)

**See Appendix 1 for definition of traditional industries*

#5 | AI governance and standards

AI remains a relatively new form of technology and businesses face uncertainty about regulations and standards pertaining to the adoption and use of AI

Building business confidence in AI requires great guidance

Given that many SMBs still lack a sufficient understanding of how to use AI tools, guidance to ensure the responsible use of AI is crucial in building business' confidence in integrating AI into their operations. Although SMBs want clear and standardised regulations of the ethical use of AI, they also do not want to be overburdened in an already complex regulatory landscape.

Surveyed SMBs highlighted the need for more AI guidance (33%) as well as industry guidelines for using AI in an ethical and responsible way (30%), but if the regulatory burden associated with AI use is too great, some SMBs may avoid such technology altogether.

Frameworks for the responsible use of AI are crucial to providing businesses with confidence in AI solutions and the correct way to use them. Around 90% of surveyed SMBs believe that guidelines on the appropriate use of AI at work are either very or somewhat effective training materials for their workforce. Rather than additional AI regulations, surveyed SMBs demonstrated that they more importantly need proper guidance on how to use AI responsibly and correctly.

AI training and strategy

In practice, 64% of surveyed SMBs currently provide their employees with training on the use of AI, in areas such as AI literacy, ethics and best practices. However, just 32% of surveyed SMBs have an AI strategy that is embedded in their core processes and decision-making, highlighting the need for businesses to develop clear policies and standards associated with the use of AI.

Of the surveyed SMBs that currently have an AI strategy, the majority of their strategies incorporated several elements. These included clear objectives and timelines for the use of AI (71%), integration with other policies (55%), funding allocated to increasing AI capabilities (52%), and response plans for AI risks (46%).

The importance of a right balance of regulation

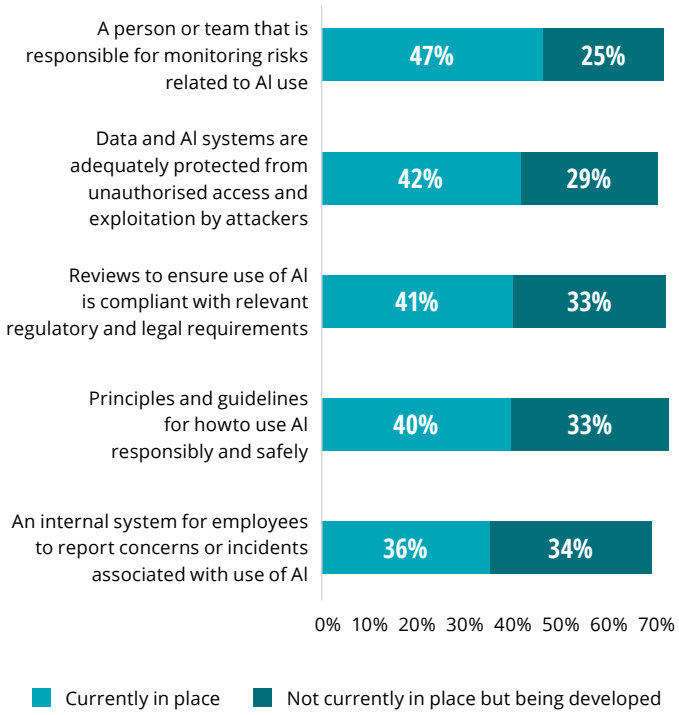
As of 2023, the number of regulatory restrictions in Australian federal law reached its highest level, increasing by 88% since 2005.[1] SMBs are therefore facing a growing regulatory burden, and it is important for AI governance standards not to further hamper the competitiveness and innovation of Australia's smaller businesses. Balancing effective regulation to ensure the ethical use of AI without introducing further unnecessary red tape was a key message of the Productivity Commission's (PC) 2025 inquiry into "Harnessing data and digital technology".[2]

To ensure that the productivity benefits associated with AI can be realised, the PC recommended an outcomes-based approach to AI regulation, in which current laws are amended where necessary, instead of introducing new AI technology-specific regulations which would only add further layers of red tape for businesses.

SMBs are dedicating resources to ensuring AI is used in an ethical manner

Many of the SMBs surveyed stated that they had at least one form of practice, procedure or control in place to manage the adoption of AI in their business. The most widely used procedures and controls for the use of AI by SMBs include having a person responsible for monitoring AI risks (47%), ensuring data and AI systems are protected from cybersecurity threats (42%) and reviews of compliance with AI regulations (41%). Moreover, a substantial proportion of surveyed SMBs stated that these procedures and controls are currently being developed for their businesses.

Chart 5.4 Practices, procedures and controls related to AI use



Survey question: "Which of the following practices, procedures or controls related to AI use are in place in your business?" (n=1,011)

06

Making sure SMBs don’t miss out

Tailoring the AI policy landscape to support SMBs

While there exists a suite of policy initiatives in Australia to support the uptake of AI by businesses, these approaches miss that there is an opportunity to bring a more systematic approach to address barriers

Current AI policy initiatives have laid the foundations for broader adoption

Recognising the potential for AI use to contribute to economic growth, the Australian Government committed to developing the forthcoming **National AI Capability Plan** in 2024, with key objectives to grow investment, strengthen national AI capabilities and skills, as well as leveraging systems to maximise the efficiency benefits from AI technologies.[1] Moreover, Australia's **Artificial Intelligence (AI) Action Plan**[2] published in June 2021 set out key focus areas for Australia in regard to AI capabilities and includes a broad range of actions aligned to these focus areas. The Action Plan has outlined $124 million to be allocated across a range of initiatives covering four key areas:

- Developing and adopting AI to transform Australian businesses
- Creating an environment to grow and attract the world's best talent
- Using cutting edge AI technologies to solve Australia's national challenges
- Making Australia a global leader in responsible and inclusive AI

Further to this, there are also more targeted policy supports for Australian businesses such as the National AI Centre (NAIC) led by the Department of Industry, Science and Resources (DISR) that is designed to establish Australia as a leader in responsible and secure AI, by focusing on the growth of AI use in industry.[3] In particular, the NAIC's initiatives focus on accelerating the growth of a local AI industry which can provide both domestic and international businesses with innovative AI solutions.

Furthermore, the government's **AI Adopt Centres** (see right) provide support specifically to SMBs engaged in domestic or international trade to adopt responsible forms of AI.[4]

B2B support is enabling adoption

Several technology and software companies are increasingly providing products and services tailored to SMBs and their use of AI tools. For instance, one particular software company offers SMBs with an AI platform which allows them to experiment with Agentic AI and practice training models for eventual scale-ups.[5] Similarly, another technology company has its own AI customer relationship management platform which provides SMBs with tailored product recommendations based on their previous purchases. By combining AI predictive analytics with virtual assistants and chatbots, this company provides SMBs with more personalised and timely advice on AI and digital technology solutions. Although such platforms only provide SMBs with an implicit way of trialing AI solutions, they nonetheless increase their knowledge of such tools while also transferring AI knowledge from more AI mature firms to those that are less aware of AI's potential uses.

However, larger businesses in a wide range of industries are also recognising the importance of increasing the AI literacy of their suppliers and other SMBs in their respective supply chains. For instance, through consultations, one large Australian business provides AI tools to its SMB suppliers, enabling them to conduct transactions and source information more easily. This also provides their suppliers with exposure to AI and its benefits, potentially encouraging them to consider these solutions for their own operations.

Realising the AI opportunity for SMBs requires support that has been aligned to contemporary adoption challenges

The policies and initiatives set out here provide an important foundation for broader adoption. However, as our research has demonstrated, there are ongoing challenges facing SMBs as they adopt AI, or attempt to. To address these challenges, and at scale, we have recommended a systematic approach the Australian Government could take that will complement existing initiatives, bolster the forthcoming National AI Capability Plan, and ensure Australian SMBs are capable of leveraging the benefits of AI for their businesses and workforce.

The four AI Adopt Centres and their primary areas of focus

Small to Medium Enterprise Centre of Artificial Intelligence (SMEC AI)

Assists SMBs in science, agriculture and low emissions technology sectors through consultations and short courses.

Safe AI Adoption Model (SAAM)

Provides a free online hub of tools and resources to SMBs related to AI safety and risk minimisation.

Australian Regional AI Network (ARAIN)

Provides services such as education sessions and training tools to regional SMBs, especially those in primary industries.

ARM Hub AI Adopt Centre

Provides training and technology demonstrations to SMBs involved in manufacturing in the areas of AI and robotics.

Accelerating AI adoption

To accelerate AI adoption among SMBs, it's crucial to address common challenges and provide targeted support

SMBs are not a homogenous group, and a nuanced view should be taken to policies and supports to improve AI use – accounting for the differing characteristics which define SMB use.

To accelerate AI adoption among SMBs, it's crucial to address common challenges and provide targeted support. Just as SMBs are a diverse cohort, so too are their uses of AI that vary in sophistication and maturity. In order to best help SMBs utilise AI to their advantage, policies and supports designed to improve adoption and use of AI amongst this cohort will also need to be diverse – there is no one size fits all approach. This report outlines recommendations which offer practical strategies to help SMBs confidently implement AI and unlock its full potential. These are outlined in detail in Appendix B.

Implementation challenges permeate all users of AI. Many businesses struggle with understanding how to implement and integrate AI systems effectively into their existing operations, which can slow down adoption and limit the benefits of AI. Greater focus is needed on increasing the knowledge of the uses of AI, and guides on how such tools can be practically implemented into businesses is required.

The rapid pace of AI development makes it difficult for businesses to keep up, often leaving them struggling to adapt their strategies and systems quickly enough. Greater connectivity, through ecosystems or support centres, between AI researchers or start-ups, and SMBs can ensure that they are able to adopt AI quickly enough to benefit from the technology.

The importance of regulatory settings has been highlighted as a key priority for government by the recent Productivity Commission reports. Harnessing data and digital technology emphasises that regulation is the foundation for growth in AI – and that there is a careful balance between regulation that provides the optimal conditions to support AI adoption and innovation, and regulation which is overly burdensome.

However, the greatest challenge to realising the economic opportunity that AI presents for small businesses is getting started. To boost AI adoption and encourage greater or more mature uptake of AI among SMBs, we propose the Australian Government consider funding a time limited (one financial year) AI investment boost that incentivises SMBs to invest in their AI journey.

THE AI INVESTMENT BOOST

Why? Australian small businesses are the backbone of Australia's economy making up 97% of Australia's 2.5 million businesses. While Australian large enterprises rank among the most productive in the OECD, Australian SMBs sit only in the middle of the pack compared to their international peers. This gap matters - because incremental gains in SMB productivity, when scaled across the economy, can translate into substantial improvements in national income, wages, and competitiveness. AI offers a major opportunity to close this gap. Moreover, governments play a fundamental role in funding education and training in Australia to build foundational capabilities to support AI uptake.[1]

This study has found that **kickstarting adoption and encouraging marginal improvements in capability can deliver outsized economic returns.**

- If 10% of Australian SMBs who currently don't use AI or use AI for the most basic applications could start using it in more sophisticated ways, the Australian economy could realise a $13B benefit.
- If 10% of Australian SMBs were elevated their use of AI from process-based AI flows to integration across multiple business areas, Australia could realise a $31B benefit.

What? **To support Australian SMBs to take the first step in their AI journey and improve their maturity, the Australian Government should introduce a time limited (one financial year) $1 billion AI Investment Boost for small businesses that could unlock $2 billion in investment.**

This investment will seek to incentivise SMBs to invest in AI adoption by offering a tax deduction on such investments, so as to reduce the financial burdens faced by businesses. To support SMBs with an aggregated annual turnover of less than $50 million with their adoption of AI in areas such as training, strategy and technology, by providing an additional 50% tax deduction.

Who? To support SMBs with an aggregated annual turnover of less than $50 million with their adoption of AI in areas such as training, strategy and technology, by providing an additional 50% tax deduction.

How? Parameters for investment (based on the AI Maturity Framework established in this report) that businesses can choose to invest in:

- **Workforce:** Specific skills training to support small businesses to prepare their workforce to adopt AI and understand how to use it (e.g., provided as a voucher to spend on training).
- **Strategy and governance:** Support to develop a bespoke AI strategy for their business.
- **AI services and solutions:** Investment in an AI product or a supporting investment in business systems linked to an intention to improve workflow to support future investment in AI.
- **Business systems and underlying data quality:** Investments in support of technology upgrades which can enable future adoption of AI solutions.

Getting started

This study has highlighted that one of the greatest challenges for adoption is not knowing where to start – businesses can fill in the checklist below to get started on their AI journey

By checking off each of the requirements sequentially from all five areas, SMBs can ensure that their internal processes and operations are AI-ready.

Defining goals and priorities associated with AI

Define a goal

Do you have a specific business problem you want AI to solve?

Identify use cases

Have you identified 1-3 areas where AI could help your business? (e.g., customer service, inventory management, marketing).

Timeline and targets

Do you have a timeline for when you want to start using AI?

Building AI capabilities and readiness of the workforce

Skills assessment

Do you know which staff members need to learn AI tools?

Training plan

Have you planned any AI training for your team?

Progress tracking

Can you track who has learned to use AI tools effectively?

Strengthening management of data and governance

Compliance monitoring

Does someone in your business stay updated on AI rules and regulations?

AI policies

Do you have basic rules about what AI tools staff can and cannot use?

Data security

Is your business data stored on a cloud-based system?

Business systems and data quality

Current system assessment

Do you have reliable internet and modern computers?

How do you capture and store data? Is it manual or is it automated?

Gap analysis

Do you know what technology upgrades you might need for AI? (e.g., new software, faster internet, etc.).

Budget and plan

Do you have budget set aside for AI tools and upgrades?

Developing pilot programs and pre-scaled initiatives

AI project team

Have you assigned someone to lead your AI efforts?

Implementation roadmap

Do you have a plan for testing AI tools before fully committing?

Performance measurement

Can you measure if AI tools are actually helping your business?

Simple & high-impact steps for action:

1. Update your business strategy to set clear AI objectives aligned with operations.
2. Assess current technology, business processes, and employee skills for AI readiness.
3. Identify gaps in business systems and workforce skills, noting training and investment needs.
4. Implement robust governance processes, then plan targeted pilot programs, including technology upgrades and workforce training.

A

Appendices

Appendix A | Summary statistics and key definitions

Appendix A.1 Industry group classifications

Industry group classification	Surveyed SMB industries	% of respondents
Consumer services	Retail Trade and Consumer Goods (e.g., manufacturing, retail of physical goods)	36%
	Healthcare and Life Sciences	5%
	Hospitality and Accommodation	3%
	Arts, Entertainment and Recreation	3%
	Education	3%
Professional services	Finance and Insurance Services	8%
	Professional and Technical Services	8%
	Technology, Information and Communication	7%
	Administration and Support Service Activities	2%
	Government, Public Administration and Defence	1%
Traditional industries	Construction	6%
	Manufacturing	6%
	Logistics and Transport	3%
	Agriculture	2%
	Resources	0%
Other industries		8%

Note: Survey data was gathered by Dynata, a third-party provider, based on questions designed by Deloitte Access Economics.

Appendix A.2 Definitions of AI types

Types of AI	Definition	Examples
Traditional AI	Focused on classifying and analysing structured data to make classifications, recommendations or predications based on predefined rules and criteria.	• Online search engines • Voice assistants • Tools that incorporate traditional AI functionality (e.g. Xero, Salesforce, Canva)
Generative AI	Designed to generate new or original content or data. This may involve the use of text, images, videos, music, or other forms of media to produce outputs.	• ChatGPT • DALL-E • GitHub Copilot
Agentic AI	Type of AI that can autonomously plan, make decisions, and take actions to complete multi-step tasks in coordination with other agents or human teams with minimal human direction.	• Agentforce • Microsoft Autogen • Now Platform

B

Appendices

Appendix B | Deloitte AI Maturity Index

Appendix B.1 Deloitte AI Maturity Index

The Deloitte AI Maturity Index developed for this research is informed by the answers to the questions shown in this appendix. This methodology was applied to over 1,000 organisations based on the responses to the survey.

Responses were normalised into scores between 0 and 100. For example, if an organisation answered that 'there is an organisation-wide AI strategy with defined processes to prioritise and measure value', it received a score of 100 for that question, while if only some departments had AI strategies, the response would be captured as a score of 60.

A weighted average score was then taken for questions within each pillar. The overall Index is then a simple average score across the five pillars. Those with a score below 20 were categorised as 'Basic', those with a score between 20 and 80 were categorised as 'Intermediate' and those with a score above 80 were categorised as 'Enabled'.

The questions used to inform the Index are shown on the right and on the following page.

Pillar 1: AI platforms and solutions

1, Which of the following types of AI solutions does your business currently use:

- Traditional AI
- Generative AI
- Agentic AI
- We are not currently using AI but plan to introduce it into our business within the next 12 months
- We are not currently using AI and do not plan to introduce it into our business in the next 12 months
- Unsure/Prefer not to say

2, Which areas of your business have adopted AI solutions?

- Operations and/or production,
- Marketing and sales
- Finance
- Human resources
- Customer service
- Information Technology (IT)
- Management and administration
- Logistics (e.g., supply chain)
- Legal

3, Which of the following best describes your business's approach to using acquiring or developing AI solutions?

- We have purchased custom AI solutions from a technology vendor.
- We have purchased 'off the shelf' AI solutions from a technology vendor (e.g. Microsoft Copilot, Salesforce Einstein, Google Workspace AI tools, Amazon Bedrock).
- Our business has developed AI solutions for use within our business.
- We use publicly available AI models and applications built on them (such as the models powering ChatGPT and Claude).
- We use AI solutions where they are embedded in other systems (such as internet search engines or recommendation engines)
- Unsure/Prefer not to say

Pillar 2: Business systems and data quality

1, Does your business have a centralised or integrated system for collecting, storing and analysing data?

- No – data is stored separately across teams or systems and there is no plan to transition to a centralised or integrated system
- No – data is stored separately across teams or systems but there are plans to transition to a centralised or integrated system
- Yes – we have a centralised or integrated system but not all data is stored there
- Yes – we have a centralised or integrated system used across our business
- Unsure/Prefer not to say

2, How often is your business conducting quality checks on the data or information used for AI solutions or platforms?

- Never
- Only in response to issues or problems
- Once a year or less frequently
- More frequently than once a year
- Unsure/Prefer not to say

Appendix B.1 Deloitte AI Maturity Index

Pillar 3: Workforce usage and skills

1, Which of the following best reflects the average skill or level of familiarity that your workforce has with AI?

- Novice – Most workers do not consciously interact with AI solutions regularly and only have a surface-level understanding of AI solutions and how to use them
- Basic – Most workers have basic prompting skills, access to public AI tools, a broad understanding of ethical issues using AI
- Intermediate – Most workers can use advanced features and complex prompting, critically evaluate AI outputs, implement practices that promote ethical use of AI, and have a broad understanding of the technology underpinning AI solutions
- Advanced – Most workers can customise AI solutions, upskill other team members, address ethical issues associated with use of AI, and have an advanced understanding of the technology underpinning AI solutions
- Unsure/prefer not to say

2, Does your business have any formal AI training on the effective use of AI?

- Yes, our business provides training for employees on the use of AI
- No, our business does not provide training for employees on the use of AI
- Other (please specify):
- Unsure/Prefer not to say

Pillar 4: AI strategy

1, Which of the following practices, procedures or controls related to AI use are in place in your business?

- Clear objectives for the use of AI and timelines for implementing of AI solutions or capabilities
- Funding for increasing AI capabilities
- Response and remediation plans for risks related to AI use
- Integration with other relevant policies (privacy, data governance and cyber) or strategic objectives of our business

Pillar 5: Ethics and responsible use

1, Which of the following practices, procedures or controls related to AI use are in place in your business?

- A person or team that is responsible for monitoring risks related to AI use
- Principles and guidelines for how to use AI responsibly and safely
- An internal system for employees to report concerns or incidents associated with use of AI
- Data and AI systems are adequately protected from unauthorised access and exploitation by attackers
- Reviews to ensure use of AI is compliant with relevant regulatory and legal requirements

C

Appendices

Appendix C | Productivity modelling methodology

Appendix C.1 Framework to estimate the economic impact of AI adoption by SMBs

Outlined below are the steps taken to estimate the economic impact of increasing AI adoption among SMBs in Australia. Principally, this approach seeks to quantify changes in profit growth among SMBs can contribute to national economic output.

Step one: Measuring AI Adoption

We first construct an AI Adoption Index based upon indexes for:

AI Maturity which is the firm's underlying capability to adopt AI solutions across five pillars: platforms, systems, workforce, strategy, and ethics.

Sophisticated Use which is the extent and depth of actual AI integration in the firm. This includes the types of AI adopted, depth of use cases and the breadth of business functions adopting, the extent to which solutions are bespoke or purchased, and an overall self-assessment of adoption.

These two components are normalised on a 0–100 scale and combined into a single AI Adoption Score.

Step two: Estimating the Firm-Level Impact on Profitability

Using survey data from SMBs, we model the relationship between the AI adoption score measured in step 1 and profitability using a quantile regression approach. The model controls for a firm's size, share of revenue from government, industry, years in operation, and the title of the respondent within the business. A limitation to note in this approach is that more profitable businesses are also more likely to adopt AI.

Step three: Estimating the Economy-Wide Uplift

To estimate the broader economic impact, we scale the firm-level effect based on economic data on the share of private-sector GVA which SMBs account for and the profit share of SMB GVA. This provides an estimate of the aggregate GDP uplift from increased AI adoption among SMBs.

1 Measuring AI adoption

AI adoption = AI Maturity + Sophisticated Use

2 Firm-Level Impact on Profitability

ΔProfit = **β** x AI adoption + Headcount + B2G + Industry + YIO + Title

- β: % increase in profits associated with a 1-point increase in AI adoption.
- Headcount: Number of employees
- B2G: Share of revenue which came from Government
- Industry: The industry group which the business operates in
- YIO: Years in operation
- Title: The title of the respondent

3 Economy-Wide Uplift

ΔGDP = Δ AI adoption × β × SGVA × Sprofit

- SGVA: Share of private-sector GVA which comes from SMBs
- Sprofit: Ratio of SMB profit to GVA

Bolded elements are the variables of interest in each step.

Appendix C.2 Econometric modelling results

To estimate the relationship between AI adoption and business performance, an Ordinary Least Squares regression was estimated. To reduce the risk of omitted variable bias, key characteristics of organisations were included as control variables.

The dependent variable used is the profit generated by respondents in 2025. The key independent variable of interest was the AI Adoption Index which is based on a combination of the AI maturity index and sophisticated use index using a principal component analysis.

A quantile regression model was used given the prevalence of outliers in the sample with very high levels of adoption and/or profit. A log transformation was also applied to the dependent variable (profit) to reduce the impact of outliers and improve the interpretability of the parameter. A number of control variables were included despite statistical insignificance to prevent unobserved variables bias being captured in the coefficient of adoption. The key result from this model is that all else held equal, a typical SMB with in-progress AI maturity is 39% more profitable than a firm with basic AI maturity.

The model specification was as follows:

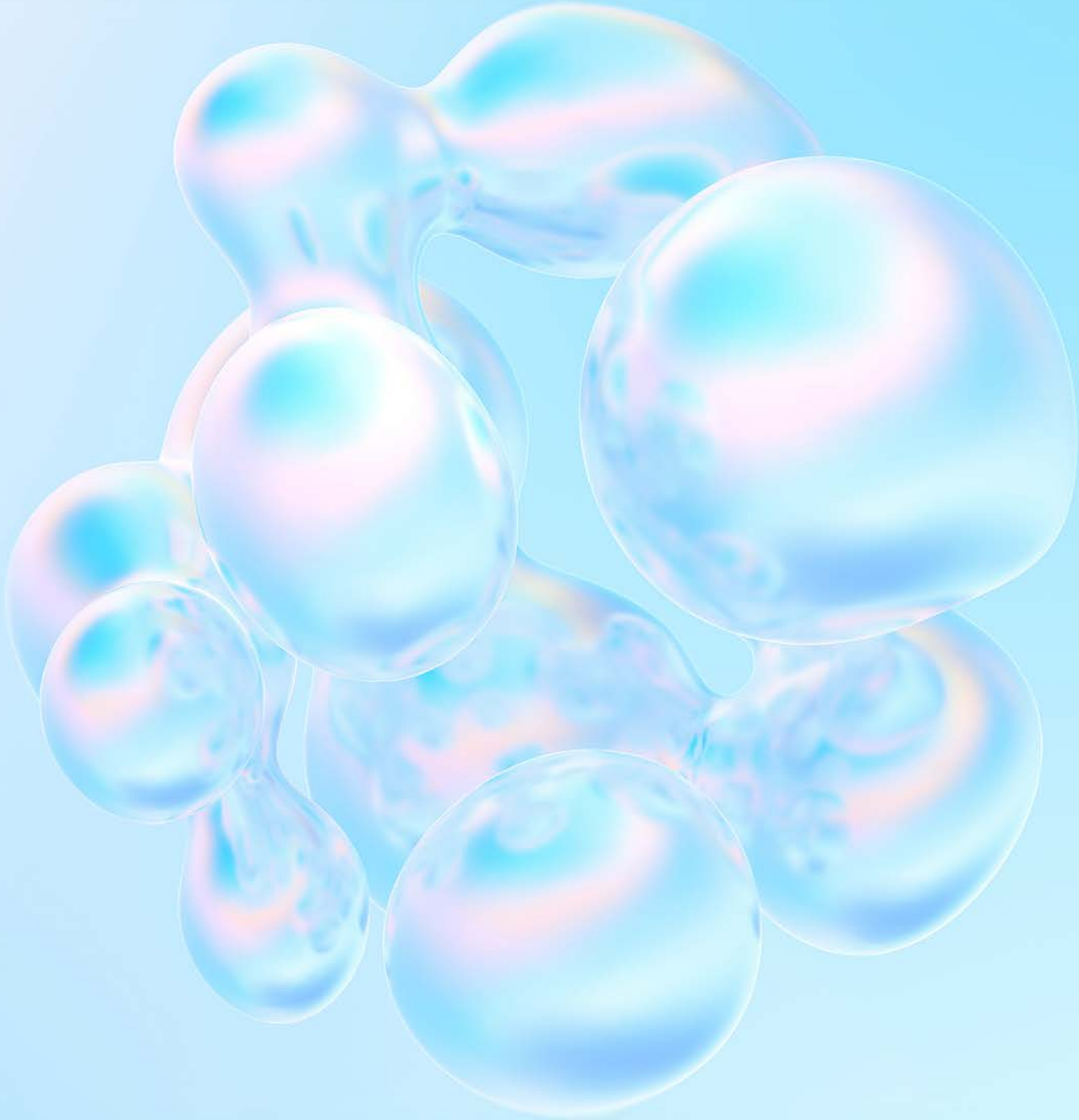
$\text{Log(Profit)} = \beta_0 + \beta_{adopt} \times \text{AI adoptionin-progress} + \text{AI adoption}_{enabled} + \text{Headcount} + \text{B2G} + \text{Industry}_{consumer} + \text{Industry}_{professional} + \text{Industry}_{other} + \text{YIO} + \text{TitleOwner} + \text{Title}_{Executive} + \varepsilon$ Where:

- β_0: Intercept
- β_{adopt} = % increase in profits associated with a firm moving from basic to in-progress AI maturity
- AI adoption = Whether a firm is in the in-progress or enabled stages of maturity, with reference to basic maturity
- Headcount = Number of employees
- B2G = Share of revenue which came from Government (between 0 and 100 percent)
- Industry = The industry group which the business operates in, with reference to traditional industries.
- YIO = Years in operation
- Title = The title of the respondent, binary flags for owners and senior executives
- ε = error term capturing unobserved factors

Model results

Variable	Estimate	Std. Error	P-Value
Intercept	11.8913	0.305	0
AI adoption (In-progress)	0.3905	0.213	0.067
AI adoption (enabled)	1.1389	0.745	0.126
Title (owner)	-1.439	0.235	0
Title (executive)	-0.3295	0.254	0.195
Industry (consumer)	0.0636	0.266	0.811
Industry (other)	-0.4685	0.432	0.279
Industry (professional)	-0.4026	0.293	0.17
Headcount	0.0158	0.002	0
B2G Share	-0.0194	0.006	0.001
Years in Operation	0.0027	0.003	0.311

Endnotes



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Executive Summary

Kickstarting AI adoption among small businesses is a $44B productivity opportunity for Australia's economy

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SMBs are an important force in Australia's economy

SMBs are an integral component of our economic structure

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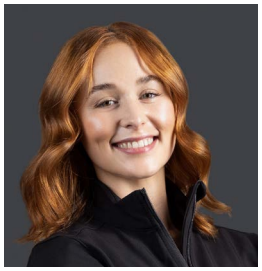

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