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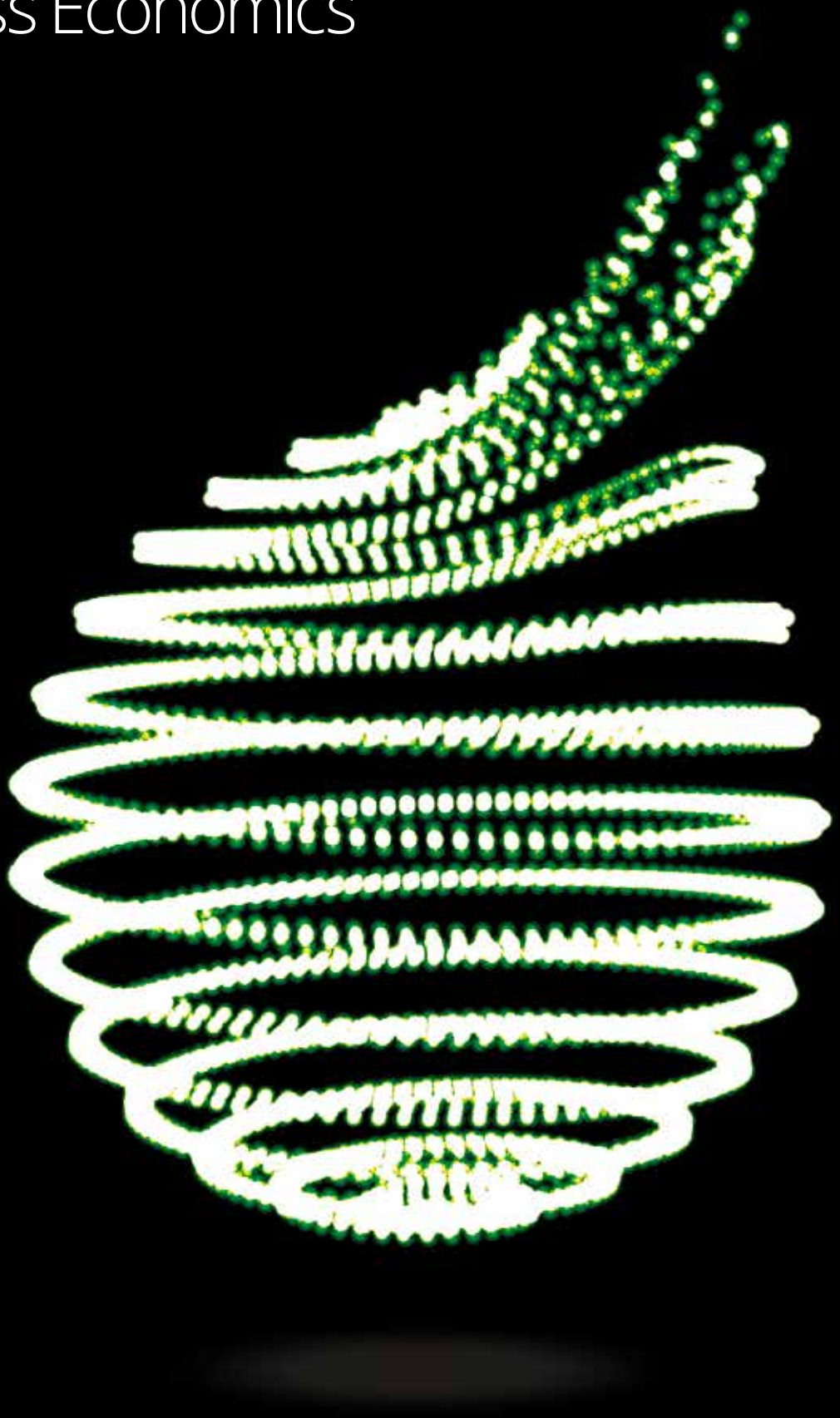

Connected Small Businesses 2017

Google

About this study

This report is the third in the *Connected Small Businesses* series for Google on the use and benefits of digital tools in Australia's SMB sector. These reports have found that Australian SMBs are becoming more digitally capable over time, as the digital landscape continues to evolve, and have also explored the financial and other business returns to more advanced levels of digital engagement.

This year, the analysis is based on a national survey of over 1,500 SMBs and presents a deeper dive into the factors driving a SMB's digital engagement – including region, industry and characteristics of the business owner.

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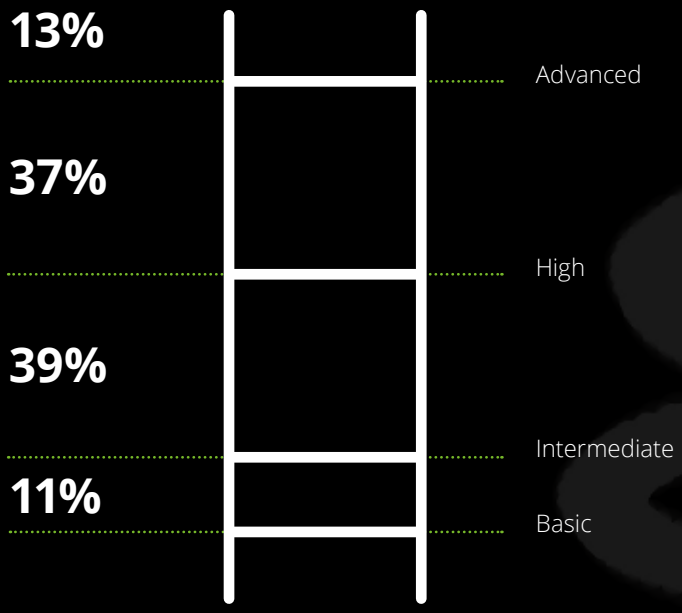
Connected Small Businesses 2017

The digital dividend for Australian SMBs

Distribution of SMBs across digital engagement ladder



Financial benefits

In 2017,

relative to Australian SMBs with basic levels of digital engagement, SMBs with advanced levels of digital engagement are:

50% more likely to be growing revenue

Earn + 60% more revenue per employee

SMB digital engagement is accelerating

In **2017**, the share of SMBs with basic digital engagement has fallen to **11%**. This is 12 percentage points below the **23%** estimated just 12 months ago, compared with the same fall over the prior **3 years** suggesting Australian businesses are **becoming digitally engaged**

Opportunities for improvement

- Rental, hiring and real estate services, administration and support services, arts and recreation services and agriculture
- Regional and rural SMBs
- More established SMBs
- Older business owners
- Business owners who have lower use of personal technology

Contents

Highlights

SMBs make an important contribution to the Australian economy, accounting for over half of private sector economic activity in Australia and over two-thirds of private sector employment. In recent years, digital engagement has become a critical ingredient to SMB success.

This report finds that Australian SMB's are increasingly digitally engaged, and that their take-up of digital tools has been accelerating over time.

The Deloitte Access Economics digital engagement ladder, which classifies SMBs from 'basic' to 'advanced' levels of digital engagement, has found that in 2017, the share of SMBs with basic digital engagement has fallen to 11%. This is 12 percentage points below the 23% estimated just 12 months ago, compared with a similar fall over the prior 3 years, suggesting Australian businesses are becoming digitally engaged For the first time, half of SMBs had high or advanced levels of digital engagement.

Digital engagement is important for the success of SMBs, and the research reveals clear and significant financial benefits associated with higher levels of digital engagement. **In 2017, relative to Australian SMBs with basic levels of digital engagement, SMBs with advanced levels of digital engagement are:**

- **50% more likely to be growing revenue; and**
- **earn 60% more revenue per employee.**

In previous research, Deloitte Access Economics found that compared to businesses with basic digital engagement, Australian SMBs that have advanced levels of digital engagement are:

- **more than 8 times more likely to be creating jobs, creating an average of 12 additional jobs in the previous year;**
- **7 times more likely to be exporting; and**
- **more than 14 times more likely to be innovating by offering new products or services.**

The results in this report also point to the significant economic opportunity from further use of digital tools by the SMB sector. A Deloitte Access Economics research paper (Qu et al. 2017) finds that productivity enhancements associated with adopting digital technologies contributed over $104 billion to Australia's GDP over the decade to 2014. With SMBs making up about one third of gross value added in the economy, they are likely to have contributed a significant share of this. The benefits could be even greater if the half of SMBs with basic or intermediate levels of digital engagement increased engagement to advanced or high levels. Australian policymakers, as they look to stimulate productivity and broader economic gains, should consider the potential of higher digital engagement within the SMB sector.

Across industries, the information, media and telecommunications industry continues to perform strongly on digital engagement, with 69% of the industry having high or advanced digital engagement. Traditional industries such as mining, manufacturing and utilities (64% high or advanced) and trade and hospitality (60%) are also performing well, contrary to perceptions of lower digital engagement. These industries are performing more strongly on digital engagement than knowledge industries such as professional and financial services, and health, education and public administration, of which the proportions of high and advanced digital engagement are 42% and 51% respectively.

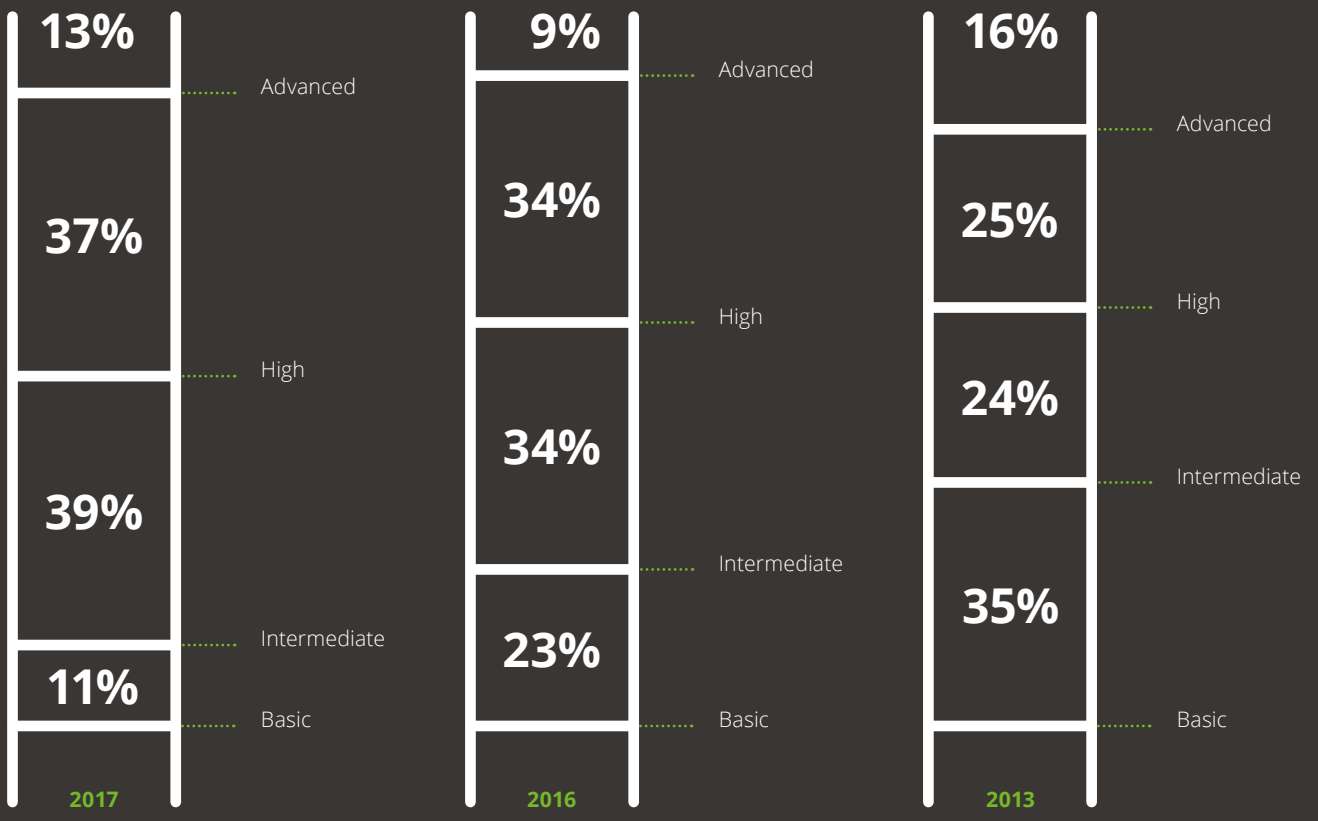
While digital engagement increased across the board, some SMBs face greater opportunities for improvement. SMBs in regional areas, with more established operations, and in industries such as rental, hiring and real estate services, administration and support services, arts and recreation services and agriculture have lower digital engagement on average. Our research suggests that age of the business owner or manager, their attitude and use of technology are all key factors in determining the level of digital engagement for the business.

SMBs have identified a number of barriers to increasing digital engagement and the vast majority (87%) of SMBs are not taking full advantage of today's digital tools. The most commonly perceived limitations are data security and privacy concerns, the cost of digital tools and lacking the time to learn to use technology. Further, 61% of respondents ranked either that they didn't know how to use digital tools or their staff had inadequate skills to use digital tools in their top 3 barriers to digital engagement. This suggests there is still some way to go in increasing digital engagement.

The education and upskilling of business decision makers can help build trust in digital tools and address potential issues or perceived barriers to digital engagement.

Deloitte Access Economics

Figure i: Digital engagement ladder



Note: The ladder has undergone revisions to reflect changes in technology available and use, which affects comparability of advanced engagement. In 2016, the share of SMBs with advanced engagement grew to 31% based on the 2013 definition, and from 9% in 2016 to 27% in 2017 based on the 2016 definition.

1. SMB snapshot

There are over 2.1 million small and medium-sized businesses (SMBs) in Australia. **SMBs make an important contribution to the Australian economy**, accounting for over half of private sector economic activity in Australia and over two-thirds of its employment (see Figure 1.1).

SMBs operate across all industries in the economy. Figure 1.2 shows the diversity of SMB output across industries, ranging from nearly 20% of industry value add in the information, media and telecommunications industry to over 95% of output in agriculture, forestry and fishing.

From a survey of 1,500 SMBs, **we found the Australian SMB sector is optimistic about the future**, with 75% expecting their revenue to remain steady or grow over the next 12 months. The average SMB in the sample had 26 employees, 70% had their head office located in a CBD or metropolitan area and the majority of business owners or managers were within the 35-54 year old age bracket. Another aspect of SMB diversity is the age of their operations. Around half of businesses in the survey sample have been in operation for over ten years. Across the economy, this reflects around 1 million businesses. On the other end of the spectrum, over a hundred thousand businesses have been in operation for less than a year.

Fixed broadband internet continues to be the main internet connection used by two-thirds of businesses (66%). As the rollout of the NBN accelerates, around half of SMBs with fixed broadband reported having NBN access this year.

There was also variation in the technologies used by SMBs, and evidence of potential opportunities being missed. For instance, over 60% of surveyed businesses have a business email and a website, with most of these websites (83%) being mobile responsive.

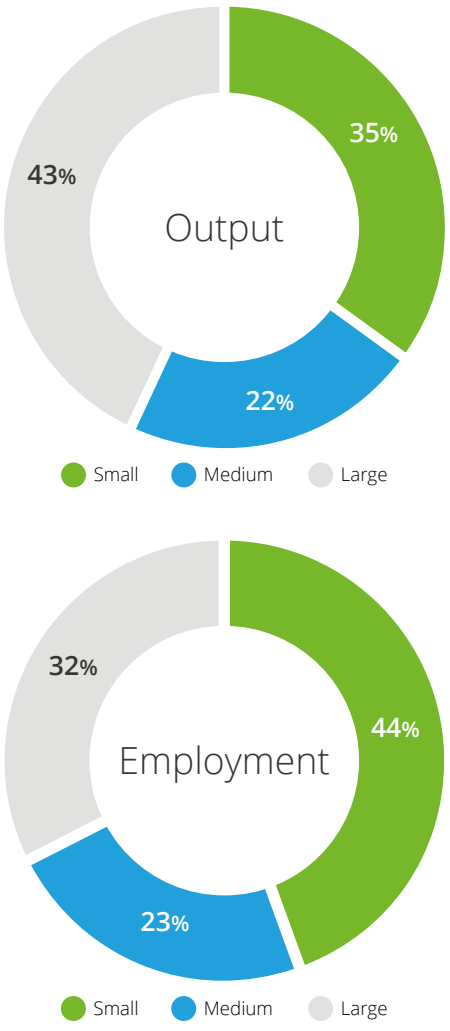
The productivity link

A Deloitte Access Economics research paper that examined the productivity enhancements associated with adopting digital technologies across the Australian economy (Qu et al. 2017) found a significant impact on long-term economic growth. The results of this research suggest that technology use has been a major contributor to increased living standards in Australia; indeed, the adoption of digital technologies contributed to a 6.6% increase in Australia's steady state GDP over the decade to 2014, equivalent to over $104 billion.

With SMBs making up approximately one-third of gross value added in the economy, they are likely to have contributed a significant share to this GDP gain. Importantly, this has been achieved with only half of SMBs having achieved high or advanced levels of digital engagement. As more SMBs climb the digital engagement ladder, we expect more improvements to flow.

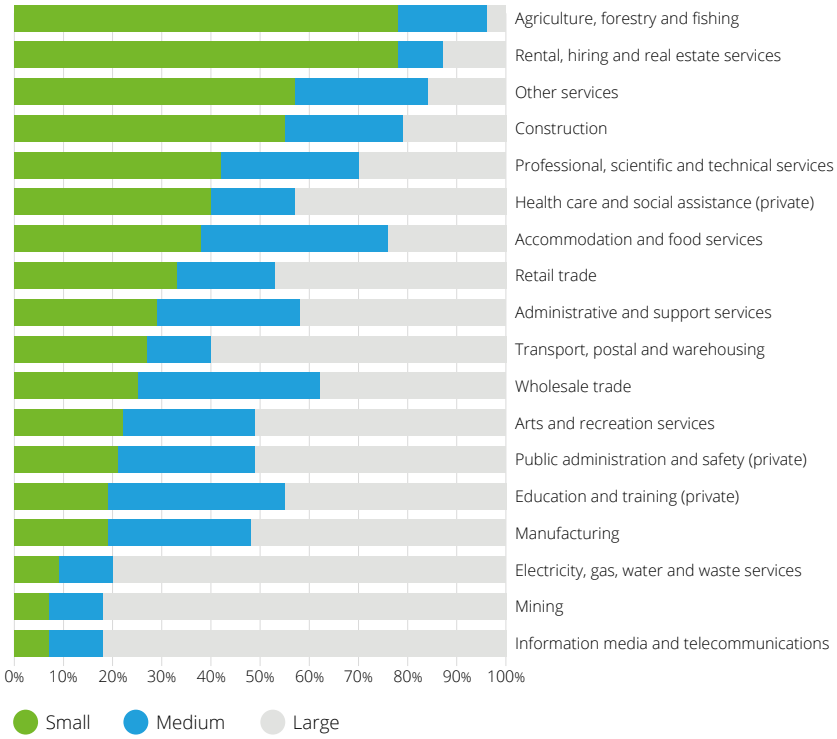
Australian policymakers, as they look to stimulate productivity and broader economic gains, should consider the potential of higher digital engagement.

Figure 1.1: Share of private sector output and employment by business size* at end of June 2016



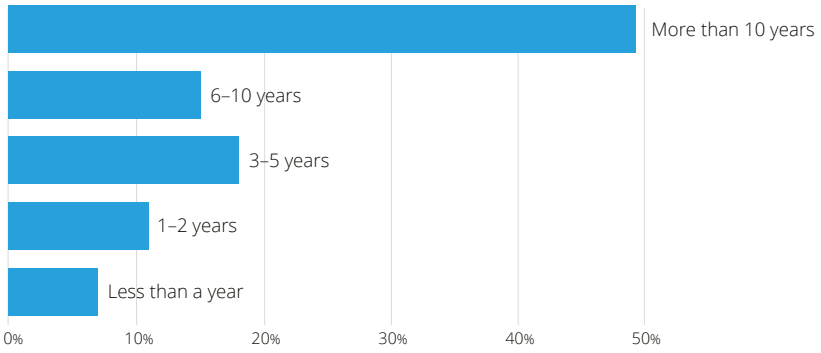
* Small and medium businesses are defined as businesses that employ 0-19 people and 20-199 people respectively. Source: ABS Cat. No. 8155.0, Deloitte Access Economics (2017)

Figure 1.2: percentage of output in industry by business size



Source: ABS Cat. No. 8155.0, Deloitte Access Economics (2017)

Figure 1.3: Age of business



Source: Deloitte Access Economics (2017)

2. Business success and digital engagement

In recent years, **digital engagement has become a critical ingredient to SMB success**. Digital tools can help improve operational processes and assist development and implementation of a business strategy, and are strongly correlated with revenue growth, innovation and expanded market reach. As such, it's important that Australian businesses are thinking creatively and broadly when considering how digital tools may be used for their businesses to acquire the full benefits of technology.

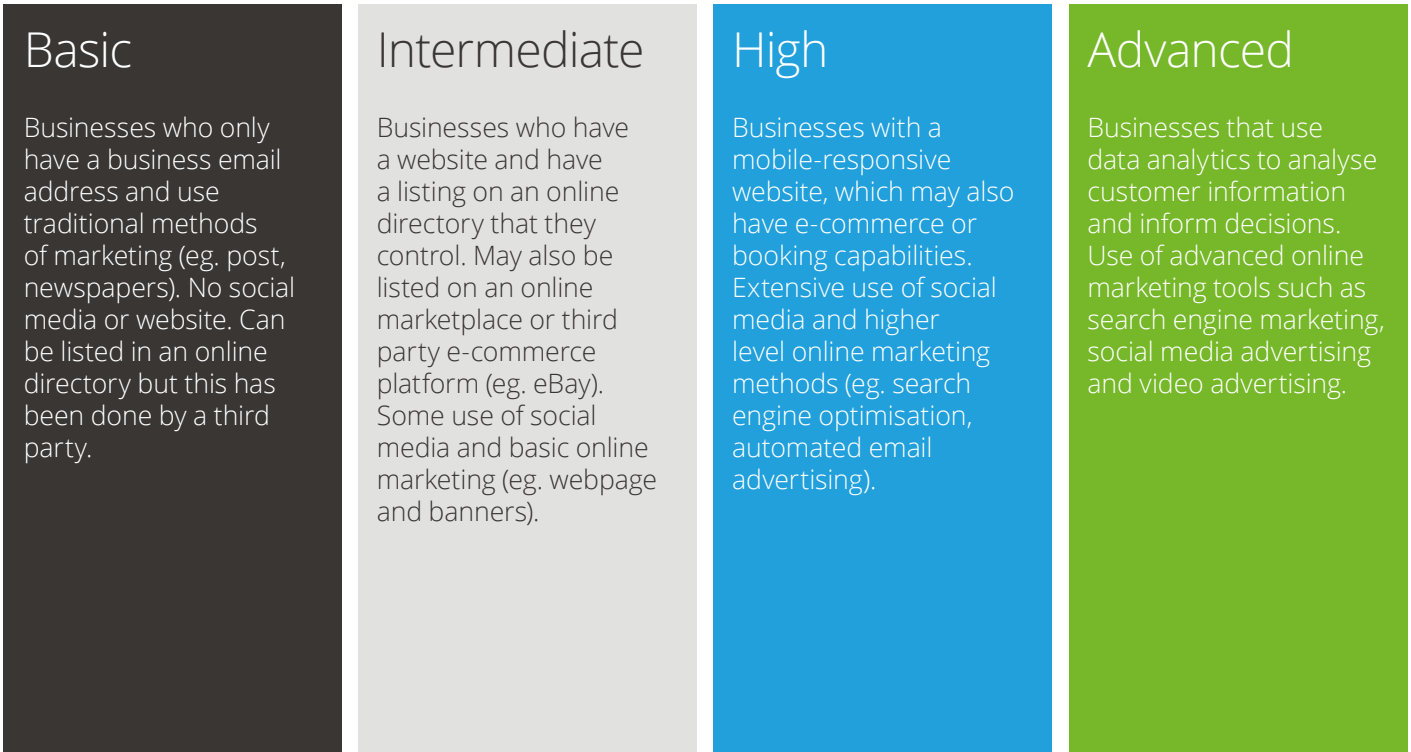
Less digitally mature businesses tend to focus on how technology can solve discrete business problems through individual digital technologies. For instance, a survey by MIT Sloan found that only 15% of companies at early stages of digital engagement report having a clear and coherent digital strategy (MIT Sloan 2015). This leads to limited use of technology without considering how the technology could be fully integrated with their business plan or objectives.

In the *Connected Small Businesses* series, Deloitte Access Economics has developed a digital engagement 'ladder' ranking SMBs on their engagement with a range of digital tools.

The 2017 ladder classifications are detailed in Figure 2.1, measuring digital engagement through use of technologies such as email, social media, websites, online marketing and data analytics.

Even compared to 12 months ago, **digital engagement is on the rise**. Our survey of 1,500 Australian SMBs found that this year, 50% of SMBs were 'advanced' or 'high' in their digital engagement, compared with 43% in 2016.

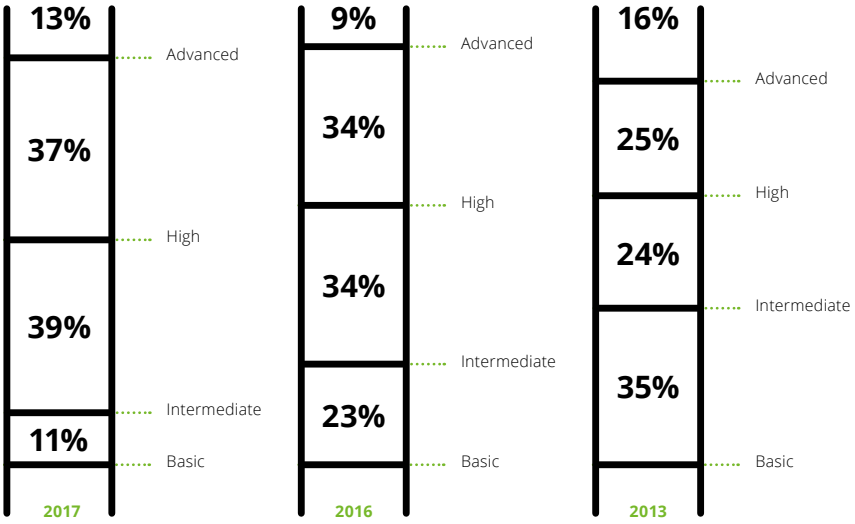
Figure 2.1: Digital engagement ladder classifications 2017



This also represents an **acceleration in digital engagement over time**. Between the 2013 and 2016 *Connected Small Businesses* reports, 'basic' levels of digital engagement fell by 12 percentage points, and the same improvement has occurred between 2016 and 2017. While the digital engagement ladder is updated to take into account updates in technology, the new focus is how quickly firms can move up to higher rungs. At the same time, the ladder is getting 'higher' with more technologies added to the list, and new technologies continuing to evolve and become more accessible.

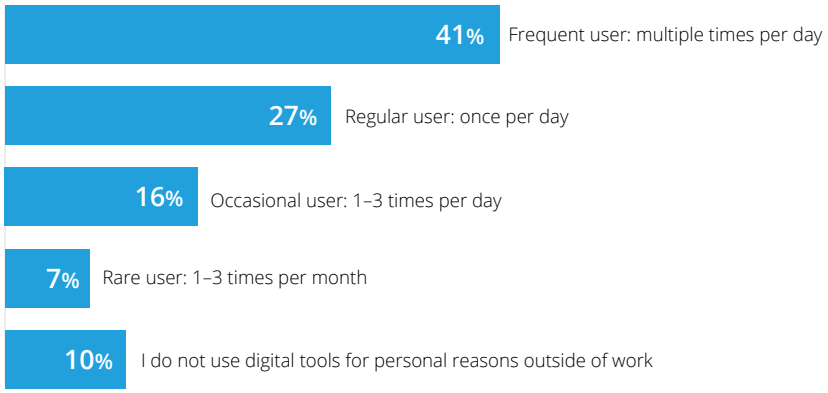
This trend towards higher digital engagement reflects a number of factors. **Digital technology is becoming more relevant and useful in all aspects of people's lives**. More than two-thirds of SMBs (69%) reported frequent or regular use of digital tools for personal reasons outside of work, which increases familiarity with these systems and lowers the barrier for take-up.

Figure 2.2: Digital engagement ladder



Note: The ladder has undergone revisions to reflect changes in technology available and use, which affects comparability of advanced engagement. In 2016, the share of SMBs with advanced engagement grew to 31% based on the 2013 definition, and from 9% in 2016 to 27% in 2017 based on the 2016 definition.

Figure 2.3: Use of digital tools for personal reasons outside of work (e.g. social media, internet shopping, online bookings)



Source: Deloitte Access Economics (2017)

3. Why is digital engagement important?

Digital engagement is important for businesses as, among other things, it improves access to and communication with customers, supports and streamlines business operations and has the potential to boost sales and revenue.

Our analysis also reveals clear and significant financial benefits of higher digital engagement. In 2017, relative to Australian SMBs with basic levels of digital engagement, **SMBs with advanced levels of digital engagement are:**

- **50% more likely to be growing revenue; and**
- **earn 60% more revenue per employee.**

SMBs that are more digitally engaged are better able to identify the benefits of their digital tools and are experimenting with a wider variety of technology. This is because digital technology is part of their businesses strategy and is used to transform the way their business operates (MIT Sloan 2015). For instance, 73% of advanced businesses are maintaining and analysing data from customers or visitors to their website. This can provide invaluable insights to the customer base of a business and potential avenues for growth.

When our survey asked SMBs to rank their 'top 3' benefits to digital engagement, 35% of respondents identified **increased sales and revenue and access to new customers in Australia** (see Figure 3.1).

Related to increased access to customers, SMBs also perceive a benefit of digital engagement as allowing them to promote brand awareness and project their brand image. One third of SMBs recognised this as being in their top 3 benefits of using digital technologies.

On the other hand, SMBs were much less likely to consider the potential benefits to innovation and market access that stem from digital engagement. For instance, a survey of exporting businesses found that SMBs were more likely to sell direct to overseas customers in the future to achieve significant financial benefits (Deloitte Access Economics (2017c).

Financial benefits of digital engagement

In 2017, relative to Australian SMBs with basic levels of digital engagement, SMBs with advanced levels of digital engagement are:

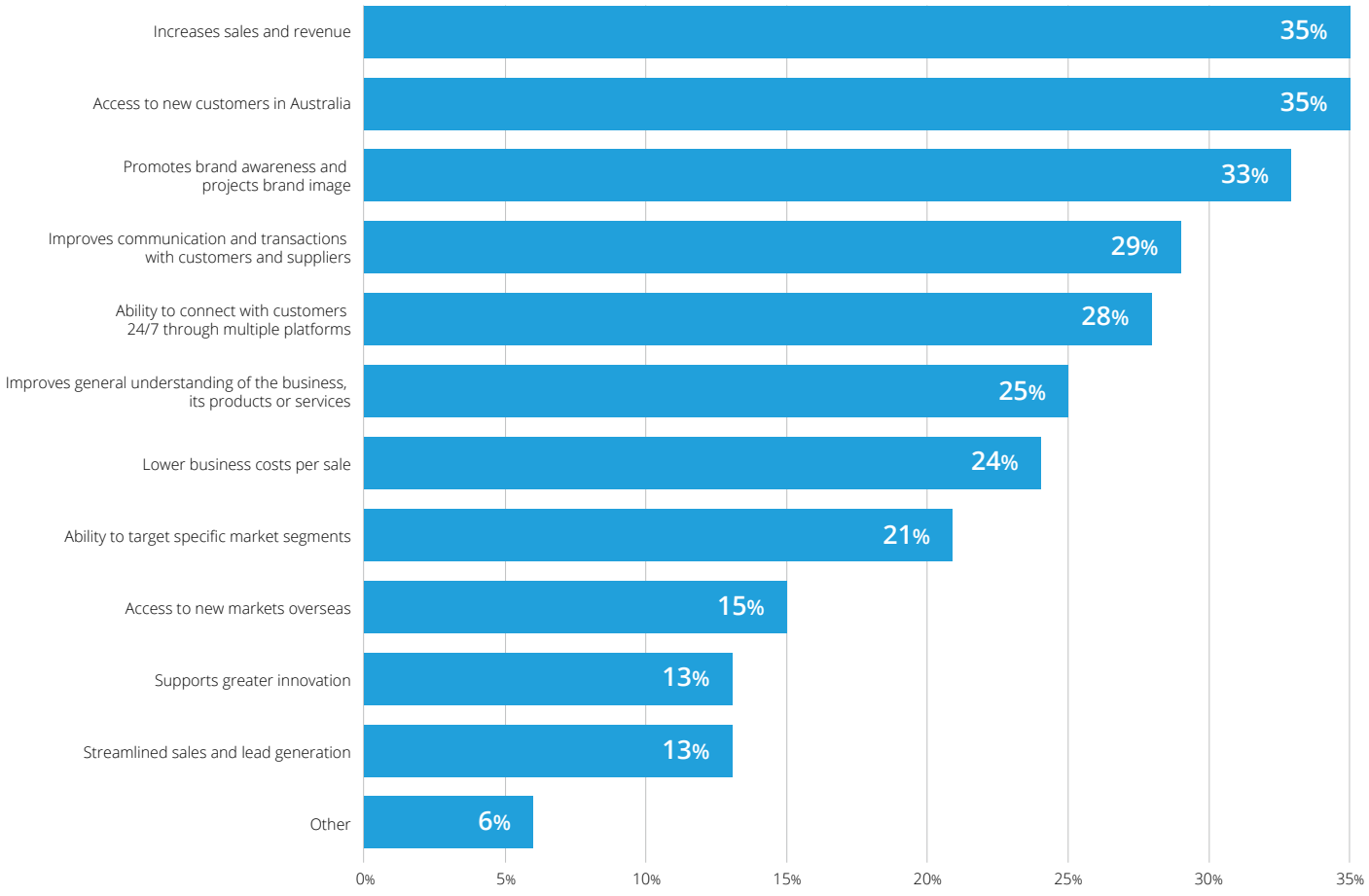
- 50% more likely to be growing revenue; and
- earn 60% more revenue per employee.

In previous *Connected Small Businesses* research, Deloitte Access Economics found that compared to businesses with basic digital engagement, Australian SMBs that have advanced levels of digital engagement are:

- more than 8 times more likely to be creating jobs, creating an average of 12 additional jobs in the previous year;
- 7 times more likely to be exporting; and
- more than 14 times more likely to be innovating by offering new products or services.

These results indicate significant benefits to be gained from higher digital engagement. Across all industries, sizes and geographies, SMB revenue growth was almost 20% higher for each step up the digital engagement.

Figure 3.1: Top three ranked benefits of digital tools



Source: Deloitte Access Economics (2017)

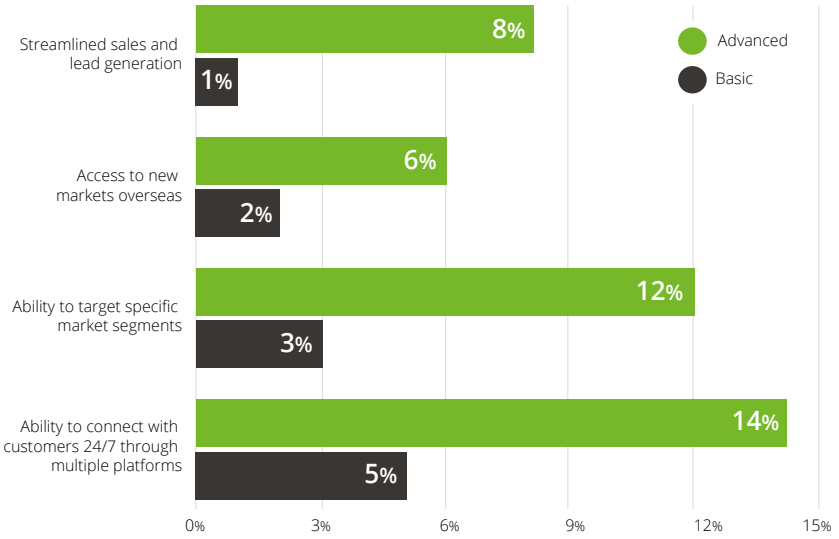
Considering our results, which suggest there are substantial benefits to digital tools, this perception has two potential explanations. The first being that businesses require further information about the benefits of digital tools, and the second being that these businesses may not be fully considering the return on investment (ROI) of digital tools, meaning the benefits may remain unknown.

Figure 3.2 shows that businesses with advanced digital engagement were much more likely to identify particular benefits with digital tools. They were around four times as likely to identify the ability to target specific market segments and three times as likely to identify the ability to connect with customers 24/7 through multiple platforms as key benefits from using digital tools, relative to businesses with basic digital engagement.

This suggests that businesses with higher levels of digital engagement tend to recognise an ongoing opportunity to better identify and reach new customers.

While SMBs with headquarters located in metropolitan and regional areas prioritised the benefits of digital engagement in a similar way, rural businesses were most likely to cite their top benefit as accessing new customers

Figure 3.2: Identified benefits of digital tools for businesses with basic and advanced levels of digital engagement



Source: Deloitte Access Economics (2017)

in Australia (14% of rural SMBs compared with 12% of metropolitan SMBs). But rural SMBs were also more likely to be unsure about how this could benefit their business (16% selected 'don't know' compared with 5% of metropolitan businesses).

The age of respondents also influenced their identified benefits from digital technology. While the top three identified benefits were similar across age groups (increased sales and revenue, access to new customers in Australia and promotes brand awareness and brand image), younger respondents (aged 18-34) were more likely to recognise the reduction in costs from digital tools (10% compared to 6% in other age groups). Meanwhile, those aged 35-54 identified the ability to segment market groups more than any other age bracket. Finally, one in 10 of respondents aged 55 and above were unable to identify any benefits (see Figure 3.3).

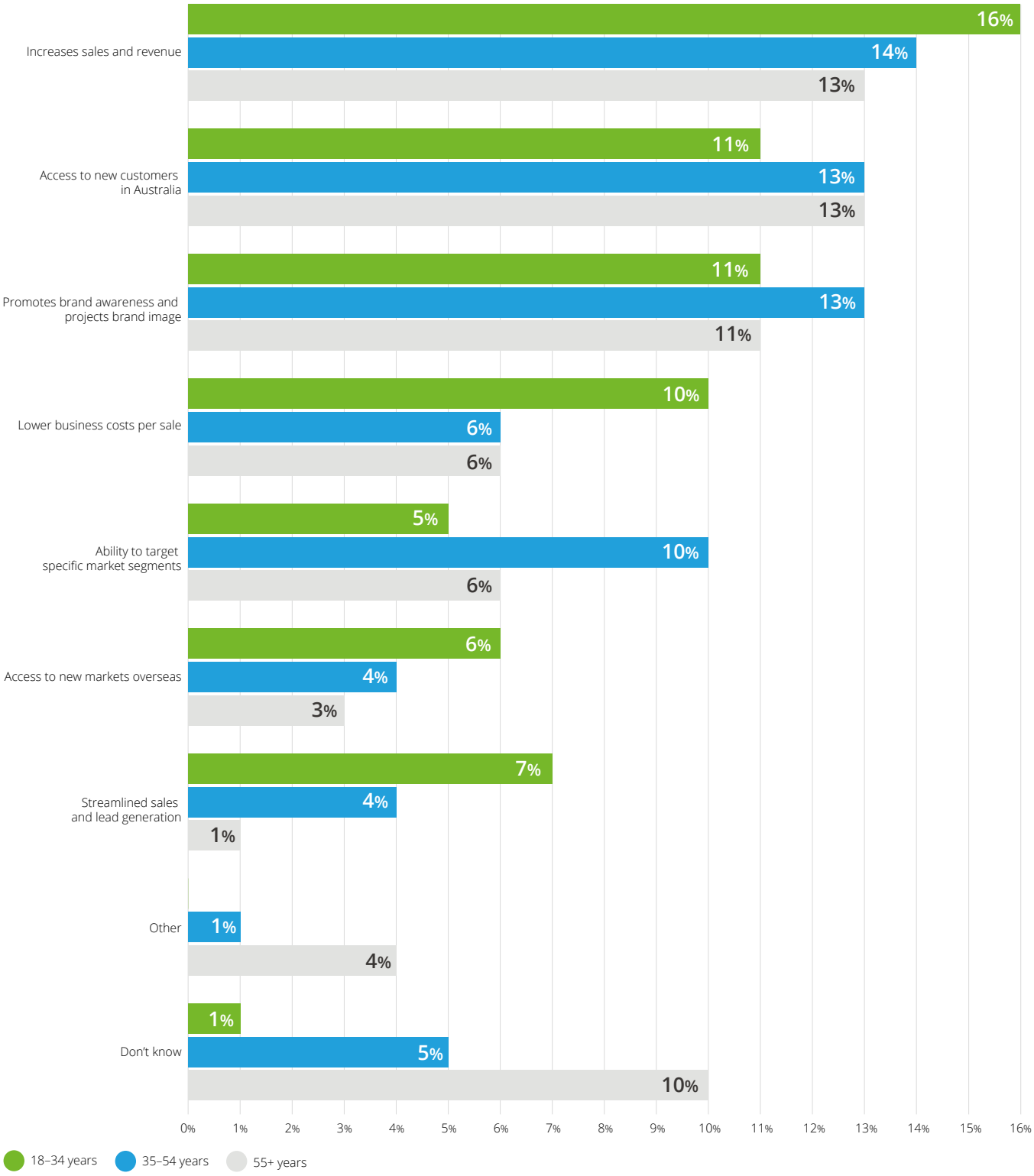
Over the horizon

When businesses incorporate digital tools to their business strategy, they become receptive to new technologies that can present opportunities. In the next five years, 40% of SMBs expect to be expanding their use of technology to incorporate machine learning and other new technology within their business operations.

These technologies build on the cloud, mobile, social and data analytics technologies at the forefront of digital engagement today. In fact, the average SMB with advanced digital engagement is already making use of many technologies that were not canvassed in our initial *Connected Small Businesses* report in 2013.

This underpins the importance of digital engagement today – businesses that are engaged now are more likely to be engaged in the future, keeping ahead of the curve and potentially pulling further ahead of competitors.

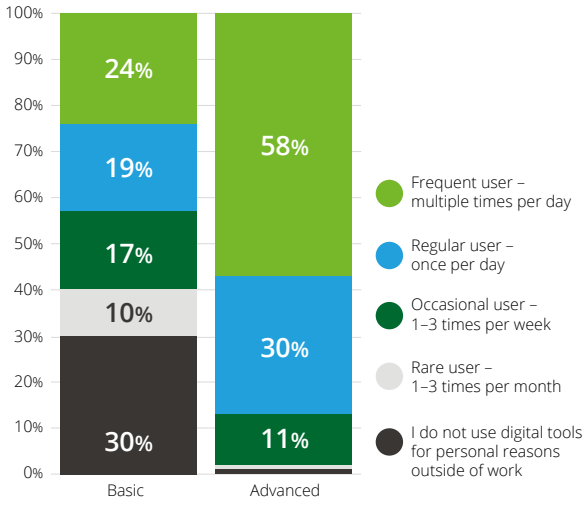
Figure 3.3: Identified benefits for businesses by age of respondent



Source: Deloitte Access Economics (2017)

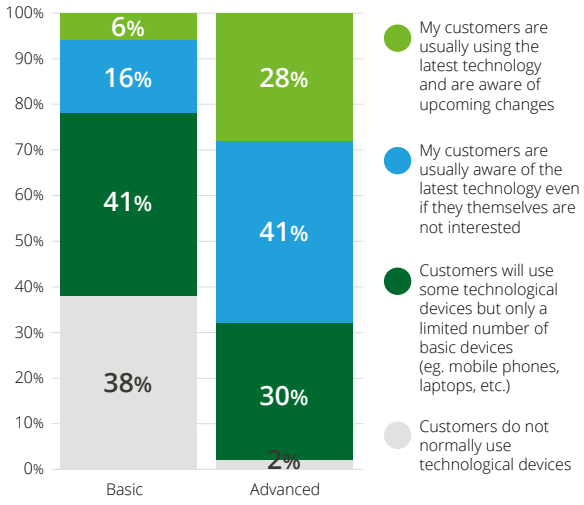
4. What drives digital engagement?

Figure 4.1: Personal use of digital tools outside of work by level of digital engagement



Source: Deloitte Access Economics (2017)

Figure 4.2: Level of technological savviness of customers by level of digital engagement



Source: Deloitte Access Economics (2017)

What makes a business owner or manager more open to incorporating and using digital technologies in their business? Our research suggests that age of the business owner or manager, their attitude and use of technology are all key factors in determining the level of digital engagement for the business.

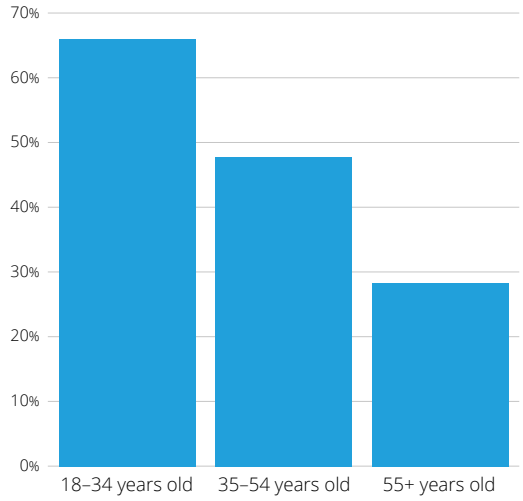
Our modelling suggests that those **business owners or managers who personally use more digital technology are more likely to reap the benefits of digital engagement in their business**. Figure 4.1 shows that leaders of digitally advanced businesses are more than twice as likely to be frequent users of personal technology.

Another related explanatory factor in determining digital engagement is the respondent's **attitude towards technology**. The survey involved a range of questions that attempted to capture how the respondent felt about technology. 81% of SMB owners or managers in digitally advanced businesses agreed with the statement that they "often try to learn about how technology works or operates" while less than half of owners or managers in SMBs with basic digital engagement reported the same.

Similarly, nearly three quarters of owners in businesses with advanced levels of digital engagement agreed with the statement that they take an active interest in how other businesses are benefiting from technology. Only 15% of owners with basic levels of digital engagement agreed with this statement.

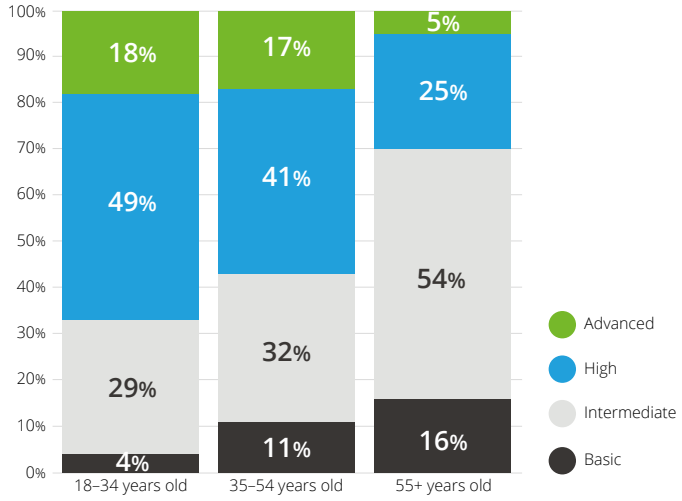
The business owners' **perception of the technological savviness of their customers was also found to be a key indicator of digital engagement** of a business. Figure 4.2 shows that businesses with basic digital engagement are much more likely to believe their customers do not normally use technological devices. In contrast, over a quarter (28%) of businesses with advanced digital engagement believe their customers are usually using the latest technology.

Figure 4.3: Frequent users of technology for personal use, by age



Source: Deloitte Access Economics (2017)

Figure 4.4: Age of respondents by level of digital engagement



Source: Deloitte Access Economics (2017)

While some businesses with basic levels of digital engagement may serve a different customer base, it is also possible that they have underestimated the technological savviness of their customers. Australian individuals and households are recognised for rapidly adopting new technology; one study by Telefonica ranked Australia third in embracing digital tools – ahead of Japan, UK and Germany after adjusting for the size of the economies (Sky News 2016). Telsyte (2017) found that more than 40% of Australian households had at least one internet of things at home (IoT@Home) device, and that the average household has 13.7 internet connected devices.

An additional factor influencing the digital engagement of a business was the **age of the business owner or manager**. Younger respondents were found on average to have higher digital engagement scores than older cohorts. Figure 4.3 shows that while 66% of 18-34 year olds are frequent users of technology, 28% of business owners or managers aged 55 and were frequent users of technology.

This is supported by the finding from survey results that the level of digital engagement of a SMB with an older business owner or manager tends to be lower than that of a SMB with younger owners or managers (as seen in Figure 4.4). For respondents aged 55 years and older, 16% of relevant businesses were found to be at a basic level of digital engagement, with this percentage decreasing to 4% for those aged 18-34. In contrast, 18% of SMBs in the youngest age group were digitally advanced, compared to only 5% of SMBs where the respondent was 55 years or older.

Relatedly, while businesses that have been in operation longer tend to contribute a greater share of industry output, statistical analysis shows that these SMBs tend to have lower levels of digital engagement. This makes sense as more established businesses may have legacy processes but also suggests that there are significant opportunities for established businesses that pursue a digital strategy.

5. Opportunities for improvement

While the benefits of digital tools are clear, not all SMBs are making use of this potential. **87% of SMBs are not taking full advantage of today's digital tools and 61% of respondents ranked either they didn't know how to use digital tools or their staff had inadequate skills to use digital tools** in their top 3 barriers to digital engagement.

This chapter presents a deeper dive by industry and region and finds that SMBs in regional areas, and in industries such as rental, hiring and real estate services, administration and support services, arts and recreation services and agriculture, have substantial opportunities to improve their business outcomes by using digital tools.

5.1 Industries

Digital engagement has been increasing across Australian SMBs in all sectors of the economy – consistent with findings from the Digital Pulse Report (2017) which found higher levels of business digital engagement across all industries. Despite this, it is important to recognise that **industries face different opportunities and some are performing better than others**.

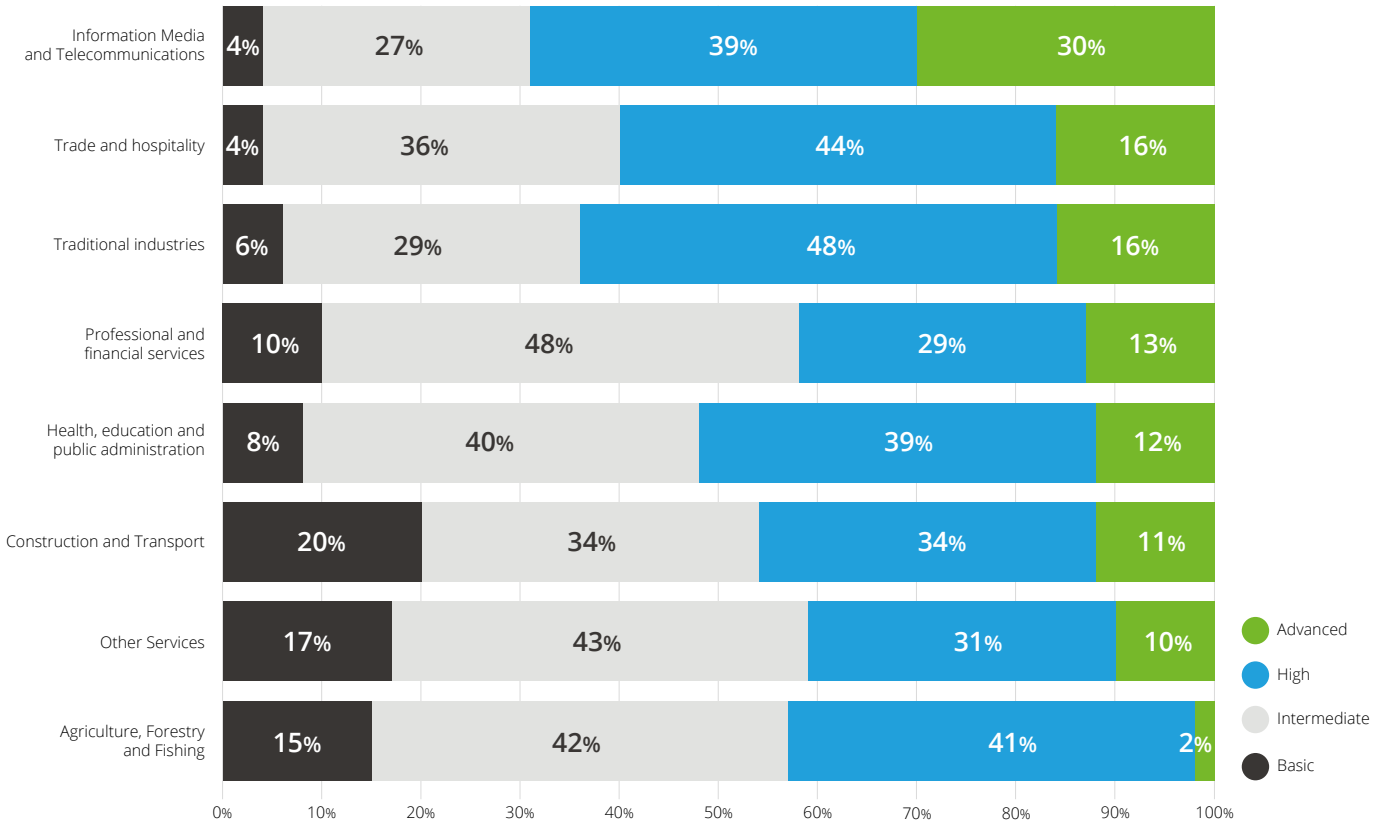
As shown in Figure 5.1, the information, media and telecommunications industry continues to perform strongly on digital engagement, with 69% of the industry having high or advanced digital engagement. Traditional industries and trade and hospitality suffer from the perception of having lower digital engagement, but are increasingly seizing opportunities to use digital tools to achieve their business objectives. These technologies may contribute to more efficient operations or even new business models. The digital engagement of each of these three industry clusters is statistically significantly higher than for the 'other industries', when controlling for age, gender, location, and personal use of digital tools.

It is interesting to see that **traditional industries such as mining, manufacturing and utilities, and trade and hospitality are performing more strongly on digital engagement** than knowledge industries such as professional and financial services, and health, education and public administration.

Other services and agriculture are less likely to have advanced levels of digital engagement, and may risk falling behind on digital engagement. Agriculture is one of Australia's key export sectors, and while there is significant innovation in the sector, the limited digital engagement today could hinder the ability to capitalise on new digital technology in the future.

Notwithstanding rising digital engagement for some perceived "non-digital industries", there is still room to improve the penetration of digital tools across the board.

Figure 5.1: Level of digital engagement by industry[1]



Source: Deloitte Access Economics (2017)

1. Aggregated industries are defined as follows:
   - Trade and hospitality: Wholesale trade, Retail trade, Accommodation and Food Services
   - Traditional industries: Mining, Manufacturing, Electricity, Gas, Water and Waste Services
   - Professional and financial services: Professional, scientific and technical services, Financial and insurance services
   - Health, education and admin: Health care and social assistance, Education and training, Public Administration and Safety
   - Construction and Transport: Construction, Transport, postal and warehousing
   - Other services: Rental, hiring and real estate services, Administration and support services, Arts and recreation services, Other services.

5.2 Regions

Digital tools have significant benefits for regional and rural SMBs, as we know they can aid a business seeking to improve their reach and customer engagement. However, **lower levels of digital engagement in regional and rural areas means there is a growing risk of digital divide**.

As shown in Figure 5.2, metropolitan SMBs (defined as those in the CBD of a capital city or metropolitan area) continue to have higher levels of digital engagement. 15% of metropolitan businesses have advanced digital engagement, relative to 6% and 5% in regional towns and rural areas respectively.

The difference is most pronounced when considering the proportion of SMBs with basic engagement across regions – notably, those in rural areas are more than 3 times more likely to have basic digital engagement than metropolitan SMBs. One factor affecting this is the lower availability of high-speed internet in rural areas, likely affecting the use and take-up of digital technologies. For instance, our survey found that nearly 12% of regional and rural businesses rated their internet connection as poor or inadequate for their current business needs compared to 8% of urban businesses.

The digital divide is also evident when comparing capital cities with the rest of the state (see Figure 5.3), as SMBs in Sydney, Perth, Melbourne and Brisbane & Gold Coast tend to be ahead of their regional counterparts on digital engagement.

That said, **there are many examples of innovative regional businesses putting digital tools to great use**. For example, Corporeal Health in Northam aims to meet the growing needs of regional and rural communities in Western Australia by providing access to innovative occupational and community health services through a team of tertiary-qualified professionals living in different locations. Carl Della, founder of Corporeal Health notes that the business "relies heavily on the digital world by using cloud-based operating platforms and specialised software to support remote monitoring of clients. We use tablets and smartphones to remain productive anywhere" (Google 2017).

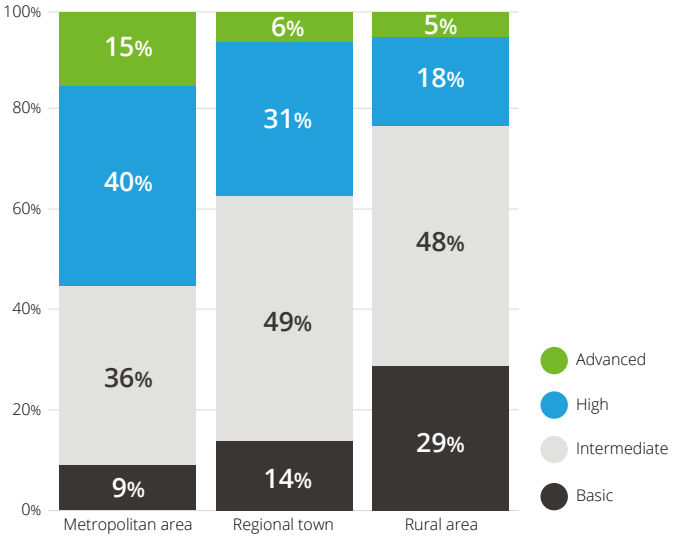
Similarly, Bridestowe Lavender Estate, a lavender farm located 50km north-west of Launceston, makes use of its online presence and ability to be easily found on the web to attract more than 50,000 visitors from around the world, becoming a particular attraction for the growing Chinese tourist market (Google 2017).

Case study: Vinomofo

Vinomofo is an example of a business that, in little over 10 years, has grown from backyard start-up to one of the fastest growing technology companies in the nation, using the web and digital know-how to become a leading retailer of Australian wine (Deloitte 2017d). The company has evolved several times, each with technology core to its purpose. Today Vinomofo employs more than 100 staff and caters to a membership of more than 540,000 wine lovers; shipping wine to members across Australia, New Zealand and Singapore. Over the next 18 months, Vinomofo is expecting to expand to China, the US and Europe.

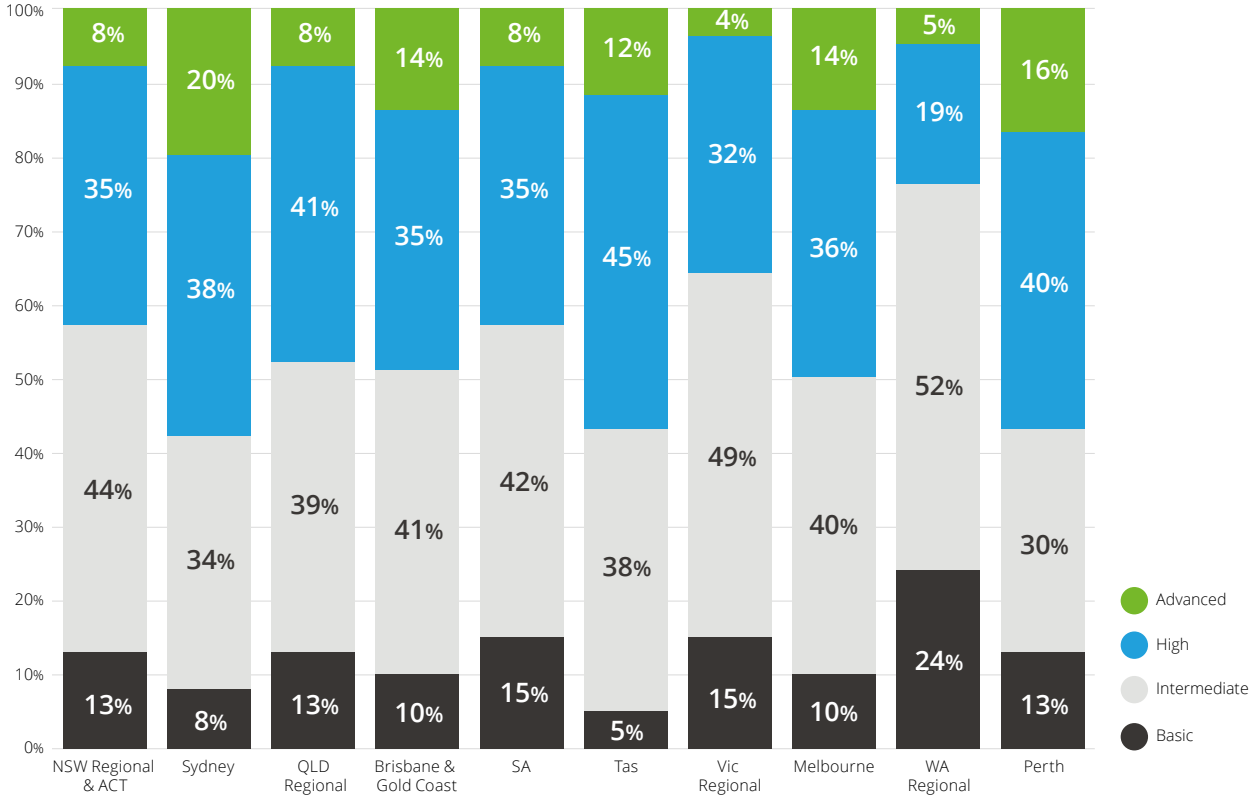
Vinomofo's strength and success is in its customer relationship model. By putting its data to use, with rigorous measurement and careful analysis of customer preferences, Vinomofo is able to be more relevant in what they offer members via their purchase propensity engine, which assesses the likelihood of a customer to buy a given offer based on predictive analytics. This focus on technology, and their direct relationships with producers, enables them to offer what they say are the best deals on the best wines in the country (Deloitte 2017d).

Figure 5.2: Digital engagement of urban, regional and rural areas



Source: Deloitte Access Economics (2017)

Figure 5.3: Digital engagement by capital city and rest of state areas



Source: Deloitte Access Economics (2017)

6. Levelling the playing field

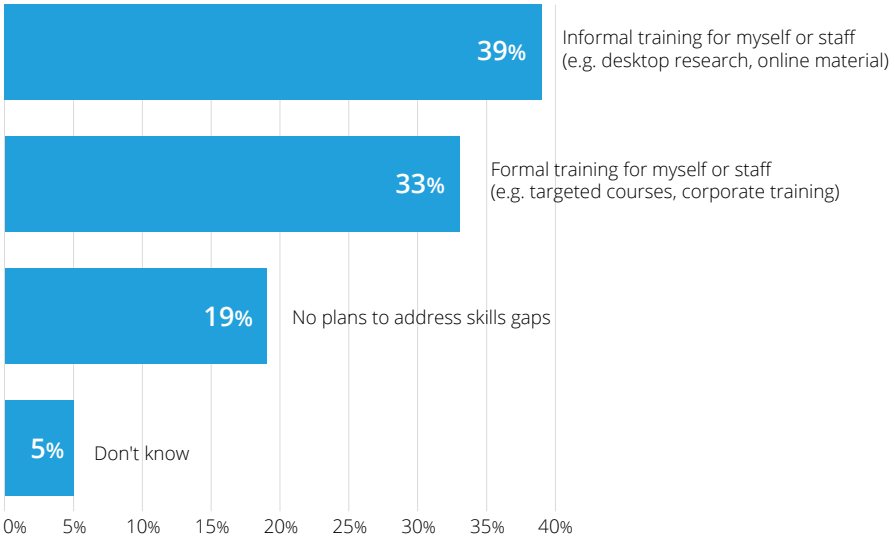
As noted in Chapter 3, effectively leveraging digital tools can provide significant benefits to Australian SMBs. Of the surveyed businesses, 11% reported not having an issue engaging with digital tools for their business, which aligns closely to the 13% of SMBs identified as having advanced digital engagement.

Yet **not all businesses find digital engagement to be straightforward**.

When SMBs were asked to identify their top 3 barriers to digital engagement, the most commonly perceived limitations were data security and privacy concerns (identified by 38% of SMBs). The next perceived barrier most likely to appear in SMBs' top 3 was the cost of digital tools (34%). While the cost barriers have reduced in recent years, cost perceptions are holding some SMBs back.

These top two barriers were the same as in those identified in 2016, but this year's results reflect the growing sophistication of SMBs and their understanding of the use and benefits of digital tools. For the first time, the cited barrier of digital tools as 'not effective for my business' has fallen out of the top three, replaced by lacking the time to learn to use technology.

Figure 6.1: Plans to address skills gaps in using digital tools



Source: Deloitte Access Economics (2017)

Nearly one in five SMBs (19%) cite their staff having inadequate skills to use digital tools and 18% cite their own lack of knowledge of how to use business tools in their top 3 barriers.

SMBs have a range of approaches to addressing these skills shortages, with informal training of business owners, managers and staff being the most common (see Figure 6.1). However, it is of concern that nearly one quarter of businesses (24%) either have no plans to address skills gaps, or don't know how they might go about doing so.

A recurring theme from both the previous *Connected Small Businesses* reports (2013 and 2016) is that **some businesses still need to be convinced of the benefits and effectiveness of digital tools** for their business. While this proportion of businesses has fallen to 29%, compared with 46% in 2016, there is still work to be done on identifying and measuring these benefits for many SMBs.

6.1 Next steps: overcoming the barriers

There has been progress in SMB digital engagement over time, but there is still potential for further improvement. What are the next steps for Australian SMBs?

At one end of the spectrum, 11% of SMBs in 2017 had basic levels of digital engagement, with those operating in regional and rural areas, those with more established business operations, and those in other service industries (including rental, hiring and real estate services, administration and support services, arts and recreation services) and agriculture at greater risk of being left behind.

Around three-quarters (76%) of SMBs now have intermediate or high levels of digital engagement. **With every step up the ladder there are financial dividends, and there are opportunities for these businesses in striving for advanced digital engagement**.

Improving the education of business decision makers is key to unlocking greater digital engagement. While time pressures are a constant challenge for business owners, an investment in building their digital skills will help grow confidence around adopting and using digital tools in day-to-day operations.

Greater knowledge and upskilling can help build trust in digital tools. It can also help to address potential issues or perceived barriers to take-up of digital technology.

An action plan for SMBs with basic levels of digital engagement could include:

- greater communication of the benefits of digital engagement;
- increasing knowledge and skills around digital tools to support use and take-up;
- incorporating digital training to ensure skills stay up to date; and
- identifying a business' barriers and where possible, specifically addressing those limitations.

For businesses already at an intermediate or high level of digital engagement, it is important to keep the momentum going. The barriers are not as great for these SMBs as they have already started to adopt digital tools, and the next steps will involve targeting specific skill needs or capabilities. This could involve training staff in the use of more advanced concepts or the use of software. Businesses should consider which tools will be most effective in the context of their operations and consumers to reap further dividends.

Increasing the digital engagement of Australia's SMB sector will result in wide-ranging financial, customer and efficiency benefits for both businesses and the Australian economy as a whole.

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Appendix A
Survey and modelling approach

Survey

Data for this project was gathered using an online survey undertaken by Research Now. Research Now surveyed a sample of 1,534 Australian SMBs with fewer than 200 employees. Note that while this is the same methodology as the 2016 *Connected Small Businesses* this differs slightly to the definition of SMBs used in the 2013 *Connected Small Businesses* report, which surveyed a sample of 500 SMBs with up to 100 employees. The majority of 2016 and 2017 sample of SMBs had fewer than 100 employees, making up 94% and 93% of the sample size respectively. This suggests that the sample is comparable across these years.

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

Digital engagement classification

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

Econometrics

Econometric modelling is used to identify the relationships between SME digital engagement and business performance and characteristics of the owner or manager. Modelling to determine the benefits of digital engagement was conducted in 2016 report, the same models were applied to the new data set and were broadly consistent with the previous year.

New modelling was undertaken to explore statistically significant factors in determining a business' digital engagement. Variables for age, personal use of technology, attitude towards technology and customer use of technology were found to be statistically significant. The model controlled for industry of the business, revenue and whether the head office was located in an urban or regional area. In this research, we applied a linear regression framework to measure the statistical relationship between the variables.

Causality

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

For the modelling estimating the determinants of digital engagement of businesses, the factors considered (age, attitude towards technology and personal use of technology) are likely to be affected by multicollinearity. This would suggest that isolating the impact of each individual variable is difficult to estimate. However, the large sample size of over 1,500 evidence suggesting these factors contribute to a business owner or manager's use of technology does suggest these are useful explanatory variables. The effect of these variables on the level of digital engagement were what was intuitively expected.

Interpretation

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

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

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