



Connecting Australia:

the big future
of small business

Connecting Australia:

the big future of small business

We all know how important small business is to the Australian economy and how technology is providing new opportunities. Using Xero Small Business Insights data from tens of thousands of Australian small businesses, this study¹ explores the connection between the use of technology by small business and their performance.

While increased connectivity, affordability and the cloud have made business technology more accessible, the majority of Australian small businesses are yet to fully embrace the opportunities afforded to digitise their systems, processes and customer engagements.





Smaller firms are half as likely to have a website as larger businesses. They are also far less likely to use technology to support business processes such as stock control, marketing, business planning, production operations, invoicing, payroll and accounting. The study also shows that internet services are having a powerful effect on business performance.¹

At NBN Co our mission is to lift the digital capability of Australia, and we are committed to providing the infrastructure that will power the digital transformation of small businesses, wherever they may be.

Stephen Rue

- Chief Executive Officer
- **NBN Co**

¹ Commissioned by NBN CO and prepared by AlphaBeta with the support of Xero, the global small business platform



Then and now;

fast broadband breaks down barriers for small business

Access

In 1999, only 3 percent of small businesses had broadband with others relying on dial up, or no connection at all.²

Fast forward to 2019 and 99 percent of small businesses have access to broadband.³

The **nbn**TM network rollout has brought nearly three-quarters of all Australian small businesses within reach of high speed broadband in the past five years.⁴

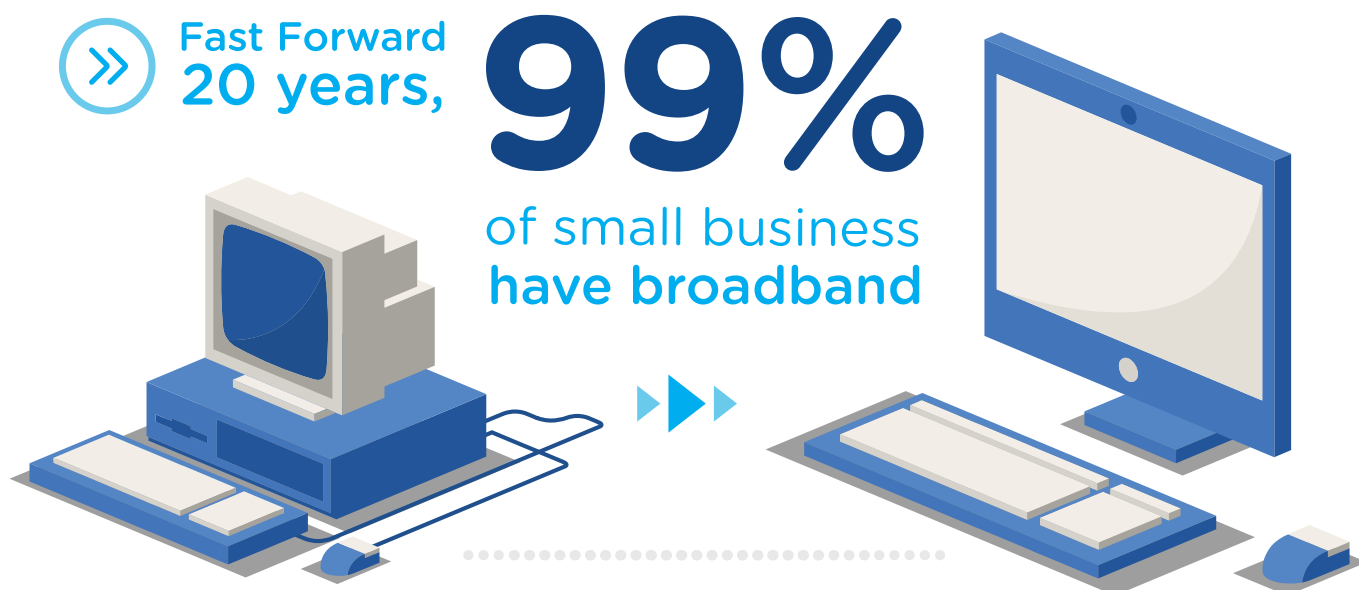
Speed

In 2009, most small businesses accessed the internet via a DSL connection with speeds in the range of 5-12 Mbps.⁵

In 2019, the average small business can access speeds of around 30-50 Mbps.⁶

Faster speeds are available through fibre expansion options previously not available in the market, delivering 100Mbps, and up to 1Gbps synchronous speeds.

The increase in speeds has coincided with the rollout of the **nbn**TM, which has facilitated connections and high performance. Activations increased from around a quarter-million in 2014 to 5.5 million in 2019.⁷

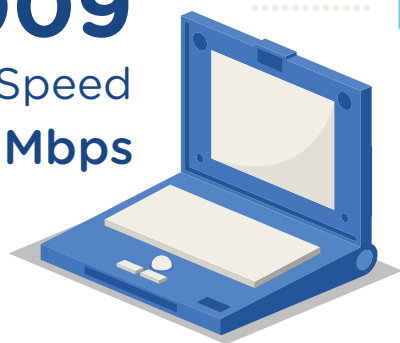


² ABS 8129.0 - Business Use of Information technology; nbn corporate plan

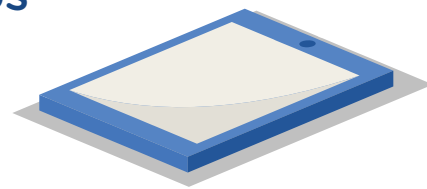
³ Estimate from nbn trends

⁴ nbn corporate rollout information

2009
Avg Speed
5-12 Mbps



2019
Avg Speed
30-50 Mbps



Technology is becoming more affordable for small businesses

Fortunately, as demand for internet access and internet-based applications have increased, unit prices for broadband connectivity have become more affordable.

The Australian Bureau of Statistics tracks telecommunications prices in the consumer price index (CPI) and shows that telecommunications equipment and services have experienced much slower price growth than the overall Australian CPI.

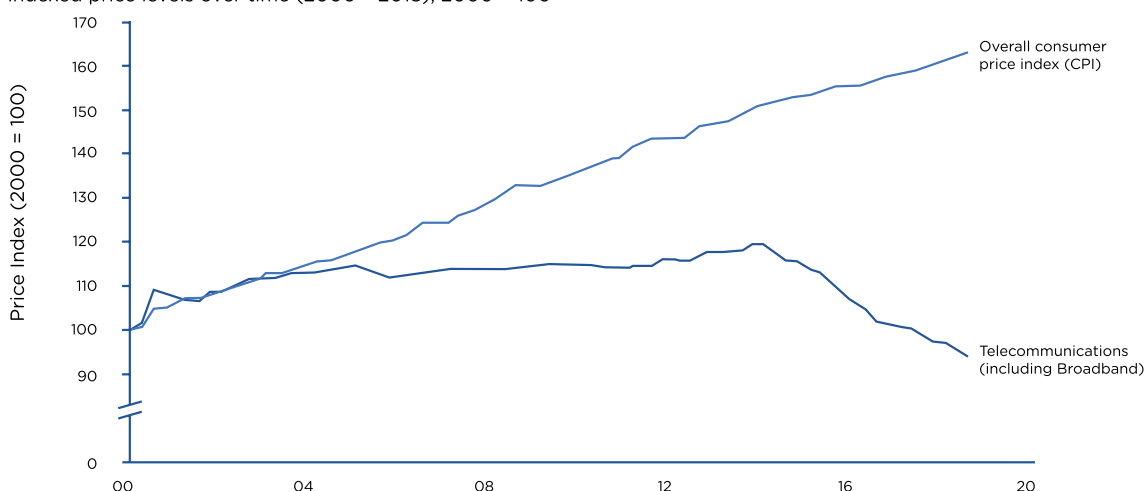
Telecommunications unit prices have fallen 6 percent since 2000 while the CPI has increased by 63 percent.

Exhibit One -

Telecommunications prices have grown more slowly than the consumer price index

Consumer price index

indexed price levels over time (2000 - 2018); 2000 = 100



Price growth

63%

-6%

Note: Broadband is a component of the CPI sub-group 'Telecommunication equipment and Services'. While CPI focuses on consumer prices, businesses are often on residential-like broadband plans.
Source: ABS 6401.0, Consumer Price Index - September 2018, Table 7 (Group, Sub-group and expenditure class weighted average of eight capital cities).

⁵ nbn corporate plan

⁶ nbn corporate plan

⁷ nbn corporate plan

Solutions more available and affordable than ever before

A key driver of change in how small businesses operate has been the rise of cloud-based business applications. Cloud uptake is growing rapidly due to the low cost and ease of use, with 42 percent of Australian businesses now using paid cloud services compared with 31 percent in 2015-16.⁸

Perhaps most importantly, cloud-based apps are providing large-enterprise capabilities to small businesses, enabling them to access a range of systems that were once available only to large firms.

To better understand how apps are transforming small business, we looked at apps available in the Xero app marketplace. We found that many small businesses are using apps from this marketplace to automate several key functions in their business.

Many small businesses are yet to seize the opportunity

As consumers move online, businesses large and small are positioning themselves to capitalise on e-commerce opportunities. Yet only 43 percent of small businesses have a website, and 34 percent receive orders online (Exhibit 3) showing that e-commerce integration and economies of scale might be lagging behind for smaller businesses.

⁸ Australian Bureau of Statistics (2019). Characteristics of Australian Business, 2017-18. Available at <http://www.abs.gov.au/ausstats/abs@.nsf/mf/8167.0>

⁹ AlphaBeta, Xero (2018), 'From little things, big things grow'.

Exhibit Two⁹ – The most popular apps relate to:

- Finance
- Marketing Sales & Customer Management
- Strategic Management
- Human Resources
- Procurement, Logistics & Distribution

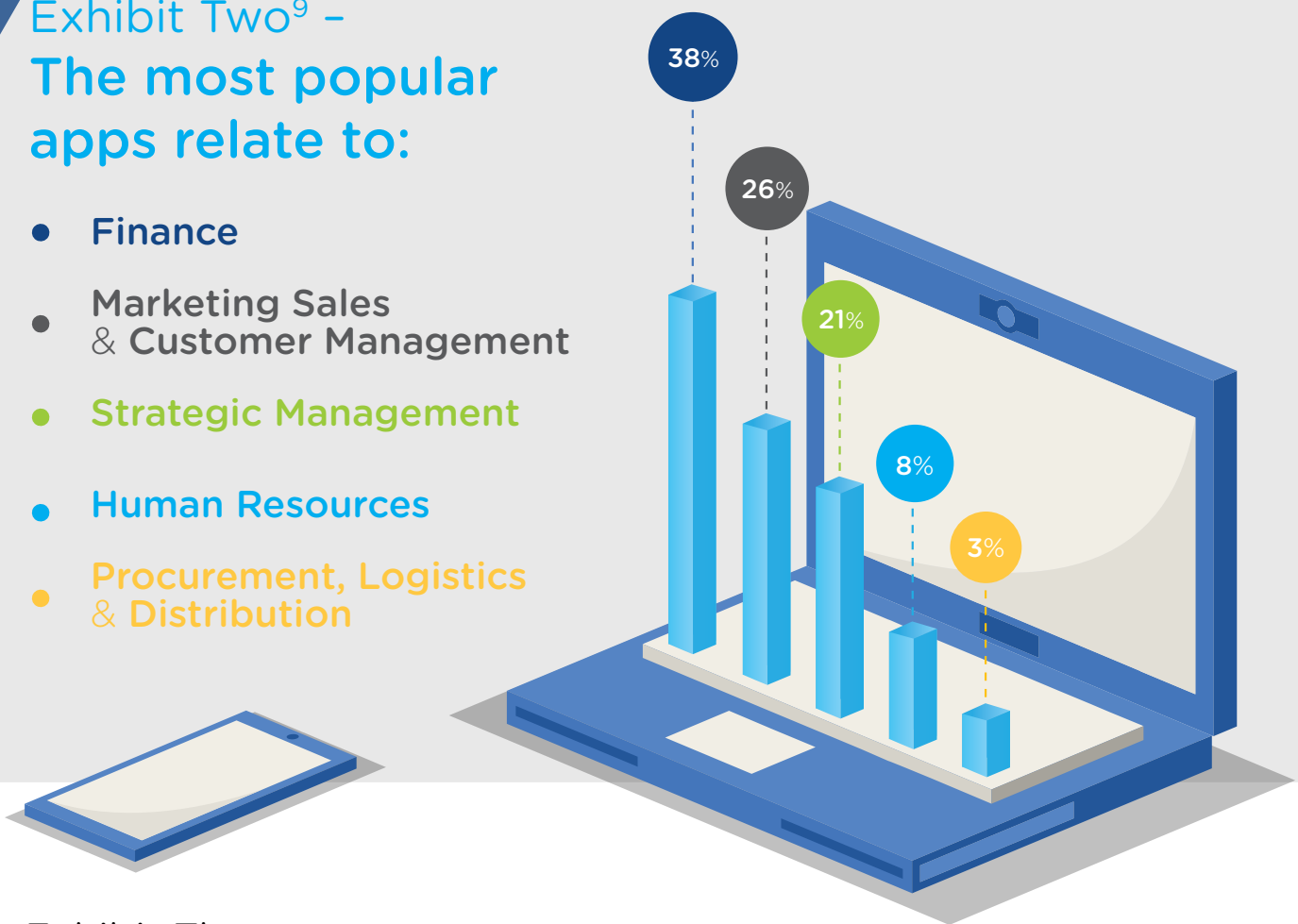
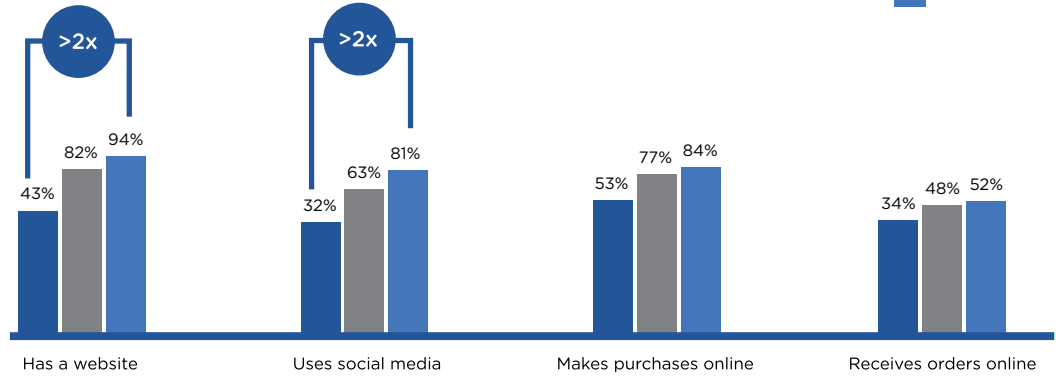
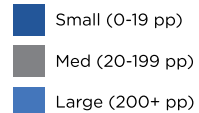


Exhibit Three – Smaller firms are much less likely to connect with customers and suppliers using the internet

Firms using technology for business processes

% of firms by size



Note: % of firms that report they use these technologies to a high extent.
Source: Australian Bureau of Statistics.

Smaller firms are also much less likely to use the internet to reduce costs and lift productivity

Today, business owners can use technology-enabled productivity tools to help make back-office tasks easier, quicker and cheaper to complete

Contemporary productivity tools have gone beyond the label of “helpful” for small businesses and instead have become crucial for their success.

However, Australian small businesses are far less likely than larger businesses to use technology to support business processes such as stock control, marketing, business planning, production operations, invoicing, payroll and accounting (Exhibit 4). This is consistent with 2017 OECD findings that small businesses lag in the adoption of more sophisticated digital technologies.¹⁰

While cost and access may have improved, small businesses still face other barriers to adopting technology, including a lack of knowledge and time, and concerns around cyber security.¹¹

¹⁰ OECD (2017), 'Enhancing the Contributions of SMEs in a Global and Digitalised Economy'.

¹¹ Department of Industry, Innovation and Science (2018), 'Small Business Digital Taskforce: Report to Government March

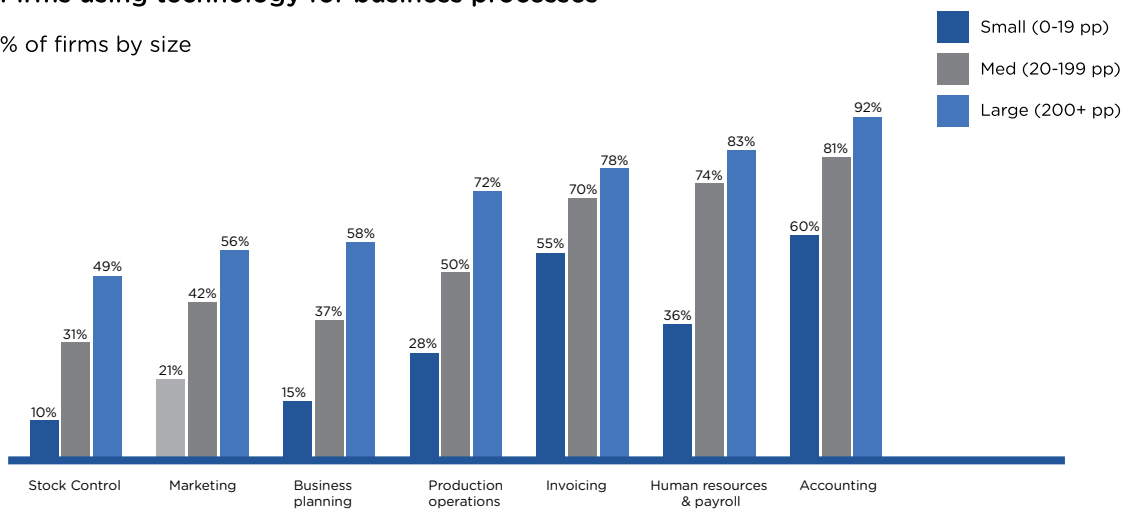


Exhibit Four –

Smaller firms are less likely to use technology for business processes such as stock control, marketing, operations and business planning

Firms using technology for business processes

% of firms by size



Note: % of firms that report they use these technologies to a high extent.

Source: Australian Bureau of Statistics.

How much are small businesses really spending on technology change

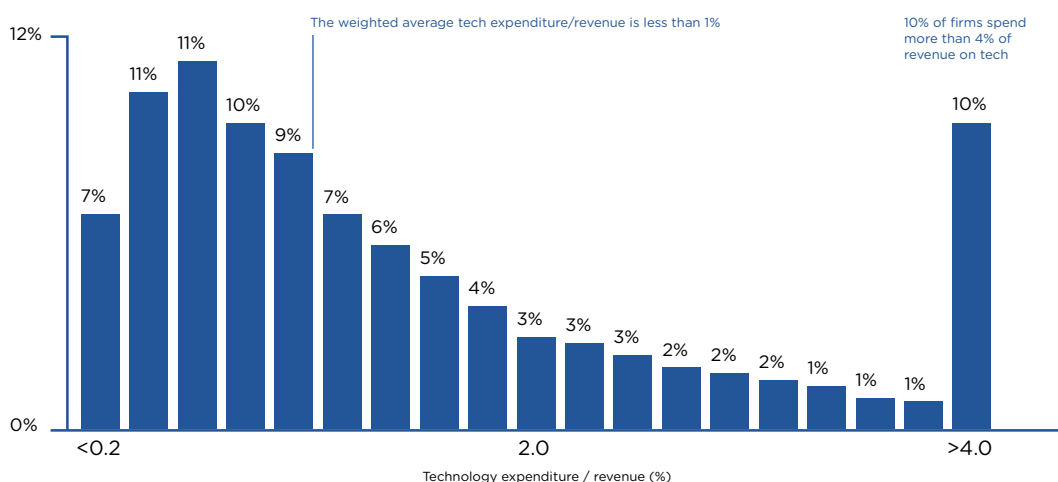
Small businesses spend on average less than 1 percent of total revenue on technology, or around \$5,000 a year

Exhibit Five

The average Australian small business spends less than 1 percent of revenue on technology; however one in 10 are leaders that spend more than 4 percent

Technology spend distribution

% of all firms in each spend category, 2017



Note: Firms with zero technology expenses are excluded. Weighted by state and population counts
Source: AlphaBeta, Xero SBI, ABS 8165.0



The amount spent by individual firms varies greatly. There is a noticeable gap between digital leaders and the rest of the pack: while about half of firms spend one percent or less of revenue on technology, one in 10 firms are deemed to be **'Tech Leaders'** as they dedicate more than four percent of revenue to these technologies.¹²

The bottom spending firms are **'Low Spenders'** that spend less than 0.27 percent of revenues on technology.¹³

Small businesses in the Information Management Technology (IMT) sector are most likely to be **'Tech Leaders'**.¹⁴

This reflects the fact that digital technologies are particularly important to IMT businesses, which include news outlets and blogs, software developers, and web hosts.

Firms in the accommodation and food services sector are most likely to be **'Low Spenders'** with almost one in five firms in these sectors spending less than 0.27 percent of revenues on technology. These firms are also less than half as likely as the average small business to be **'Tech Leaders'**.¹⁵

¹² Xero Small Business Insights (SBI)

¹³ Xero SBI

¹⁴ Xero SBI

¹⁵ Xero SBI

Small businesses that invest in technology grow more quickly

The research revealed a correlation between growth in technology spending and business performance. Businesses that spent more on technology over time tended to be more successful in growing their revenues.

The analysis compared the 25 percent of small businesses whose technology spending increased the most with the 25 percent whose spending increased the least. It shows that firms with the highest levels of technology spending growth year on year between 2015 and 2017 also grew their revenues 3.5 percentage points more than those in the bottom quartile of technology spending growth. These businesses also saw employment grow 5.2 percentage points more than those in the bottom quartile.¹⁶

Growth was slightly higher when compared with internet spend. Firms in the top quartile of internet spending growth grew revenue 5.7 percentage points more and grew employment 5.4 percentage points more than those in the bottom quartile.

While it's important to note that the findings in Exhibit 6 imply correlation, and not causation, they reflect the importance of fast, reliable broadband services that meet the needs of small businesses. These connections underpin all digital interactions, including consumer engagement, business partnerships, and access to cloud technologies that greatly improve efficiency and competitiveness.

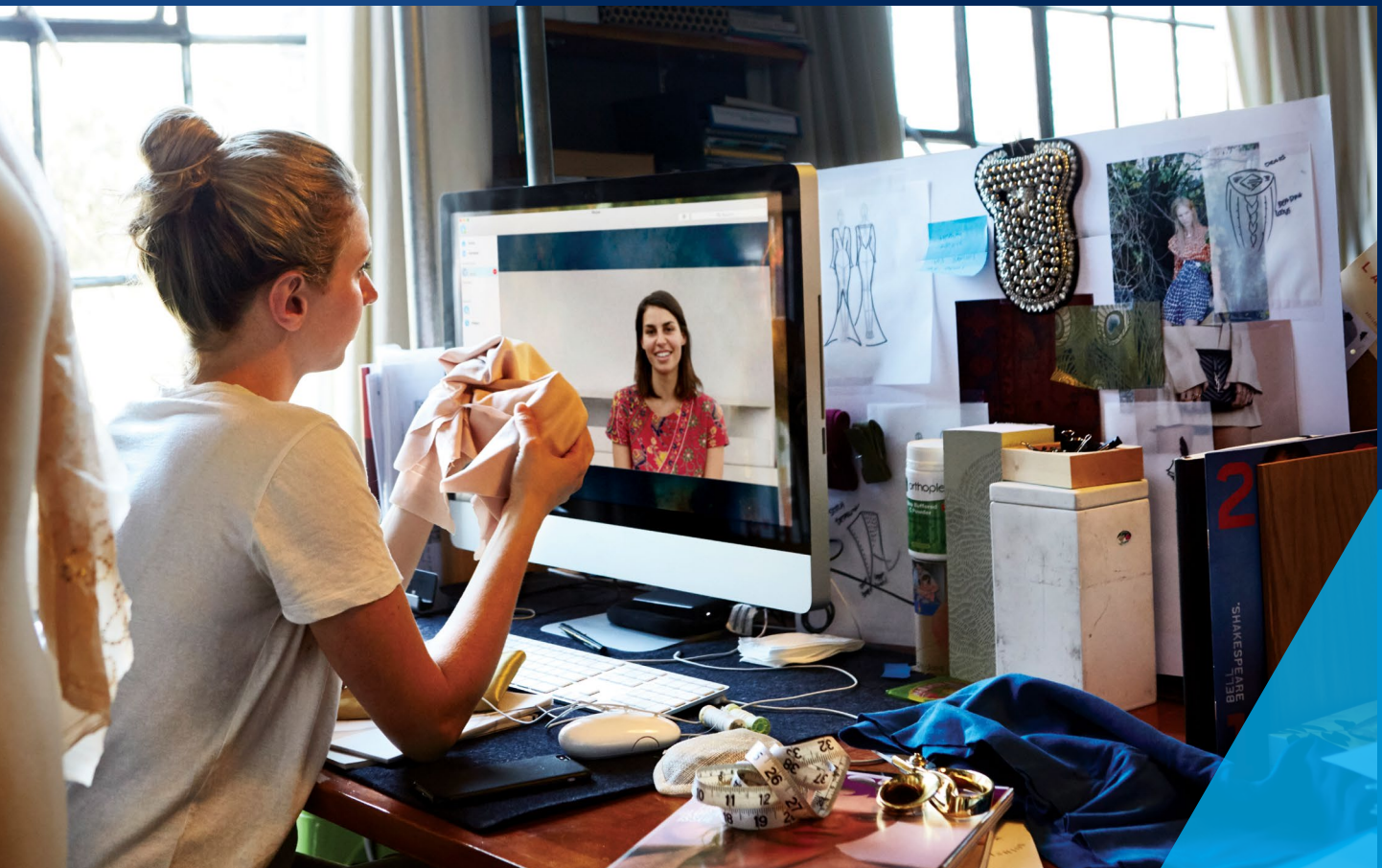
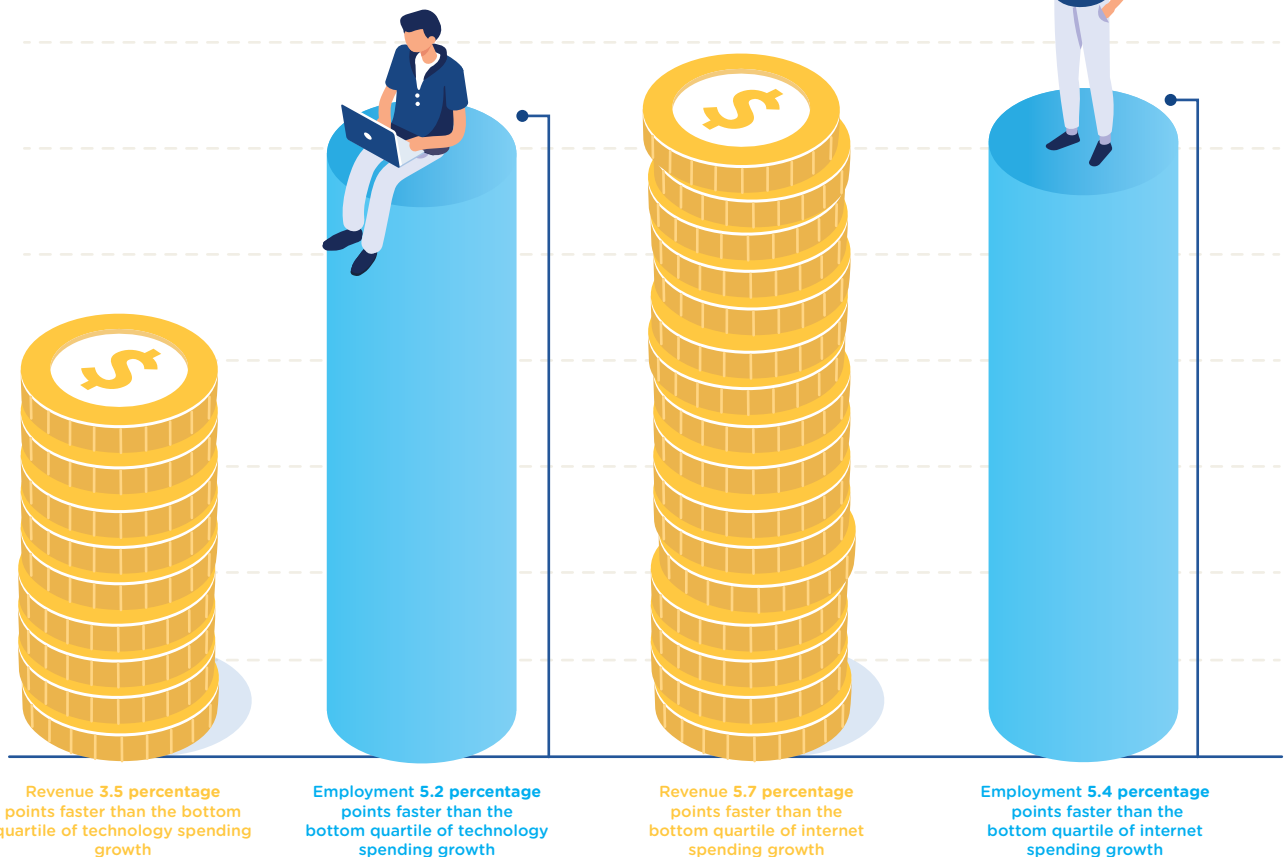


Exhibit Six - Small Business technology spend vs growth

Small businesses with high technology spending growth (75th percentile) grew:

Small businesses with high internet spending growth (75th percentile) grew:



Source: AlphaBeta, Xero SBI selected indicators, by employment size, by industry 2015 - 2017



Small business ‘Tech Leaders’ in action

Building homes in the cloud with Abode New Home

Since starting their home building business over 20 years ago, Justin and Karinda Gill from Abode Homes have seen a lot of change – no more so than in their business operations. Their business is entirely cloud-based with Justin and Karinda using digital systems to design homes, to order the building materials required, and schedule subcontractors.

Abode requires all its subcontractors to use its systems for quotes, invoicing and other interactions – thus sharing the productivity benefits of this new technology with other businesses in the notoriously disaggregated building sector.

“We’ve made the conscious choice to invest in digitising our business operations and processes and that’s paying dividends. We’ve been able to operate more efficiently, deliver a more seamless home-building experience to our clients and expand our business into new markets. The construction industry has been slow to change so for us, technology has given us a real point of differentiation and advantage in the market.”

Karinda Gill, Owner Abode New Homes

Conclusion

The report found a correlation between small increases in digital investment and significant benefits to small businesses. Based on Xero Small Business Insights data from tens of thousands of Australian small businesses, we know that the average small business spends around \$5,000 per year or less than 1 percent of revenues on technology.¹⁷

Businesses that increase their technology spend – and their internet expenditure in particular – tend to grow their revenues and employment more quickly than those with a lower level of technology investment.

The digital divide between small and large businesses is closing too slowly. While Australian small businesses have embraced internet connectivity, many are still not fully realising the potential of digital technologies. More work needs to be done to help understand and overcome the barriers to technology adoption and ensure all Australian small businesses can experience the benefits of being Tech Leaders.





Disclaimer

This document provides a summary of the key findings of the Connecting Australia - How technology is levelling the playing field for small business which can be found in full at www.connectingaustralia.com.au. This document includes and is in parts based on assumptions or estimates. It contains general information only and should not be taken as taxation, financial, investment, or legal advice. Readers should not use this report as the sole basis for making business decisions and should always obtain specific and detailed professional advice about any business decisions.

nbn provides wholesale services to phone and internet providers. nbn™ wholesale speed tiers available to providers vary depending on the access technology in an end customer's area. An end customer's experience, including the speeds actually achieved over the nbn™ broadband access network, depends on the nbn™ access network technology and configuration over which services are delivered to their premises, whether they are using the internet during the busy period, and some factors outside of nbn's control (like their equipment quality, software, chosen broadband plan, signal reception, or how their provider designs its network). Speeds may also be impacted by the number of concurrent users on the nbn™ Fixed Wireless network, including during busy periods. Sky Muster™ satellite end customers may also experience latency.

Any third party must make and rely on their own inquiries and review of the AlphaBeta research. The methodology is available at <http://www.alphabeta.com/wp-content/uploads/2018/04/AlphaBeta-Connecting-Australia-Project-Summary-methodology.pdf>. For more information about Connecting Australia visit www.connectingaustralia.com.au © 2019 nbn co ltd. 'nbn', 'bring it on', 'Sky Muster', 'gen nbn' and the Aurora device are trademarks of nbn co ltd ABN 86 136 533 741. Copyright: This document is subject to copyright and must not be used except as permitted below or under the Copyright Act 1968 (CTH). You must not reproduce or publish this document in whole or in part for commercial gain without prior written consent of NBN Co Limited. You may reproduce or publish this document in whole or in part for educational or non-commercial purposes