Navigating to the Future: The Annual Pulse Check and Action Plan for Small and Medium Business in Australia & New Zealand

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Salesforce commissioned Deloitte Access Economics to prepare a series of reports on the state of the Small to Medium Business (SMB) sector in Australia and New Zealand. In particular, the research specifically focuses on the middle market SMBs with 16 to 100 employees.

This is the first paper of the series *Navigating to the Future: The Annual Pulse Check and Action Plan for Small and Medium Business in Australia & New Zealand*.

In the *Pulse Check*, we analyse the SMB sector from three angles: the general business environment and competitive landscape, the role of digital technology in the sector, the aspirations and plans of owners and managers of SMBs. The results of this report are based on quantitative evidence from a new survey of 500 SMB owners and managers, qualitative analysis of four case study businesses across different sectors, and previous research and analysis by Deloitte and other organisations.

In the *Action Plan*, we propose ways in which SMB owners and managers can act on the insights from the pulse check. This is based on the economic analysis itself, but also draws on the practitioner expertise of Deloitte Private, Deloitte’s SMB specialists. This year, we outline directions in five areas: quality and customer service, sales and marketing, staff, cloud and data analytics, and business agility.

### Competitive Landscape for SMBs

We analysed the competitive landscape for SMBs in three ways: how they compete, who their customers were and who their competitors were.

In terms of how SMBs compete, a common perception is that SMBs focus on price competition and that in recent years, the use of technology would have become a more important part of competition strategy.

In fact, the results in this report are that prices are actually the third most important factor (12.3% of SMBs), behind the quality of goods (20.8%) and customer service (13.7%) as the key points of SMB strategy. The use of technology was a key strategy for just 7.7% of SMBs. Using better marketing strategies and achieving operational efficiencies were also less significant competitive considerations.

In terms of customers, we found that SMBs rely heavily on the SMB sector itself, with 50% having SMB customers. This is important because SMBs are a volatile customer base, with around 300,000 SMBs turning over every year (ABS 2014).

Finally, in terms of competitors, the standout finding is that online competition has intensified over the last two years; with the proportion of SMBs competing with online-only businesses has increased by 5 percentage points, moving from 19% to 24% in just two years. While other sources of competition remain steady, this signifies that digital competition is becoming more intensive in the SMB sector.

There are substantial competitive advantages in online-only presence including dramatically lower cost structures, broader market reach and reduced search costs for consumers. The presence of these online competitors with totally different business models presents a real challenge to more traditional SMBs.
The use of technology continues to become more pervasive throughout the SMB sector in the Australian market. While we found the use of technology across different business functions is increasing, penetration is still less than half of SMBs.

Figure 1.2: Use of digital technology across business functions

The relative importance of different digital technologies for SMBs is changing. The most important digital trend affecting SMBs currently is the internet, including websites and search engine advertising. SMBs ranked it first two years ago, and today. In two years’ time it will still be ranked second. The second most important trend is mobile technology – smartphones, tablets and mobile apps.

The digital trend experiencing the fastest growth in significance is cloud computing – rising from the least important trend two years ago to the third most important in 2016. The other digital trend that will rise in importance is data analytics – using data collected through sales, search engines, mobile technology, loyalty cards and other means – to better understand customers,
Aspirations and planning
Perhaps unsurprisingly, this report finds that the number one aspiration for most SMBs

Figure 1.3: Aspirations for SMBs

is improving profit margins (52% of SMBs) as shown in Figure 1.2. Other important objectives are improving customer satisfaction and achieving work life balance. Higher levels of employee satisfaction were a modest objective of SMB owners and managers (38%). This is somewhat at odds with a separate strand of questioning that found that SMBs are more concerned about access to skilled labour than other common business concerns. Some 17% of SMBs surveyed identified skilled labour as their current top concern (although it was down from 20% two years ago). SMBs also identify recruiting the right talent as the most important growth factor for the future.

On planning, the report finds that 27% of SMBs either had no plan or only had plans for the current financial year. Our analysis finds that planning is correlated with improved business performance and profitability. We believe lack of planning is a significant opportunity in the SMB sector to better manage market risks and address challenging issues facing their business.
The Annual Pulse Check and Action Plan for Small and Medium Business in Australia & New Zealand

SMB Action Plan

The Action Plan proposes ways in which SMB owners and managers can act on the insights from the pulse check. This is based on the economic analysis itself, but also draws on the practitioner expertise of Deloitte Private, Deloitte’s SMB specialists. This year, we outline directions in five areas: quality and customer service, sales and marketing, staff, cloud and data analytics, and business agility.

Quality & customer service
SMBs can raise quality and customer service even higher by focusing on doing something really well, improving sourcing, rapidly refining products based on customer feedback, and using the best channels to communicate.

Cloud to keep up, data to get ahead
Cloud platforms are a cost efficient way for business to get the best technology available and compete with more established players. The ability to capture, analyse and derive insights from data is becoming a critical factor of a successful SMB.

Sales & marketing
SMBs can make sales more efficiently by reassessing their sales cycle, offering free trials, reducing friction points. Online channels can offer superior ways to reach new markets. It’s also important for more mature SMBs to avoid complacency on customer satisfaction.

Attracting and retaining talent
Social media and online services can be a cost effective way of reducing on-boarding time and costs. Alongside traditional engagement tools like recognise personal objectives of staff and offering training and variety, flexible ways of working and access to new digital tools can also lift employee satisfaction.

Build business agility
Business agility is particularly important for SMBs, as businesses in the sector often have a narrow focus in the market and rely on a small number of customers for their revenue. Strategies like a flexible corporate plan, reviewing market performance, having real time information about the business and releasing products and services as soon as they are viable can increase a business’s agility.
Introduction

This is the first paper of the series *Navigating to the Future: The Annual Pulse Check and Action Plan for Small and Medium Business in Australia & New Zealand*

In the *Pulse Check*, we analyse the SMB sector from three angles: the general business environment and competitive landscape, the role of digital technology in the sector and the aspirations and plans of owners and managers of SMBs.

In the *Action Plan*, we propose ways in which SMB owners and managers can act on the insights from the pulse check. This is based on the economic analysis itself, but also draws on the practitioner expertise of Deloitte Private, Deloitte’s SMB specialists.

This report particularly focuses on middle market SMBs with 16 to 100 employees. The broader definition of SMBs is businesses with up to 200 employees. We believe that middle market SMBs is worthy of specific analysis because it is quite different to those sole traders and micro businesses, whose numbers might otherwise dominate the results. Micro-businesses are an important part of the SMB landscape in general, but not the focus here.

It is important to note that due to definitional differences, some of the figures cited from external sources are not directly comparable, and where available we cite figures for medium businesses with 20 – 199 employees, as this cohort is most closely aligned with our focus group. We believe these figures provide a good starting point to understanding the sector in general.
Navigating to the Future
Framework

The first edition of this research series explores the changing competitive landscape of the SMB sector in Australia and New Zealand, the role of digital technology in the sector and the future aspirations of SMB. The report focuses on medium term trends and issues that are currently affecting the sector.

The report is a blend of research, analysis and practical experience, in particular we have conducted:

• a review of existing literature.
• a new survey of 500 Small to Medium Business owners and managers in Australia and New Zealand.
• targeted consultations with business leaders.
• workshops with Deloitte Private – the arm of Deloitte that specialises in small business advice.

We analysed the results from these exercises and have drawn out key conclusions of interest to an SMB audience. We blend the key findings with our own know-how to devise a roadmap for small business leaders crafting their business strategy or trying to improve their business performance - including a range of practical action points.

• Chapter 2 examines the competitive landscape for the SMB sector in Australia, including recent trends, how business compete and how customers are changing.
• Chapter 3 explores the role of digital technology in the SMB sector, including overall trends and the next wave of digital competition.
• Chapter 4 analyses the aspirations of SMBs and examines how they are planning to achieve their goals.
• Chapter 5 provides an action plan for SMBs to respond to topics discussed in this report.

Economic context

Before we move into the fresh findings of this report, we begin with a few contextual remarks.

We recognise that there is a broader context of economic challenges. These have been well documented. Consider the following facts:

• Falling productivity: Australia’s multifactor productivity growth has been falling at an average of 0.6% a year since 2007-2008. According to Productivity Commission Chairman, Peter Harris: “our performance has been significantly worse than that of most other developed economies for more than a decade”.
• Digital Disruption: The Deloitte Report, Digital Disruption: Short Fuse, Big Bang? found that two-thirds of the Australia economy faces a ‘big bang’ scenario - meaning a dramatic change in revenue sources due to emerging digital trends within the next five years.
• War for Talent: Australian businesses face additional employee costs because of staff turnover. Every year about 11% of employees change their employer and for more than one in five it is because of unsatisfactory working conditions.
• Changing Business Model: whilst digital disruption is providing substantial benefits to Australian businesses in the form of increased connectivity and productivity, it is also forcing businesses to respond by changing existing business models.

The small to medium business sector plays a significant role in the Australian and New Zealand economy, particularly in terms of their contribution to employment and production. Consider the following facts in Australia:

• Over 99% of the 2.1 million actively trading businesses in Australia in 2013 were small to medium businesses (ABS, 2013).
• More than 70% of the Australian workforce is employed by SMBs (RBA, 2012).
• SMBs contribute about 47% to Australia’s annual GDP (RBA, 2012).
• Almost 90% of businesses engaging in innovative activity are small business (ABS, 2014).

Given its economic significance, we believe that the SMB sector is well placed to address some of the broader and longer term economic challenges.
Digital Disruption

A recent Deloitte report, *Digital Disruption: Short Fuse, Big Bang?* found that two-thirds of the Australian economy faces a ‘big bang’ scenario – meaning a dramatic change in revenue sources within the next five years.

War for Talent

Australian businesses face additional employee costs because of staff turnover. Every year about 11% of employees change their employer and for more than one in five it is because of unsatisfactory working conditions.

Changing Business Model

In a competitive marketplace, firms must be collaborative to grow and to profit, whether to become more efficient in the way they operate, or to become more innovative in their products and/or processes.

SMBs are Important

There are more than 2.1 million businesses in Australia that can be classified as Small to Medium Businesses. Collectively, they represent more than 99% of businesses in Australia, employing more than 70% of the Australian workforce and contributing about 57% of Australia’s annual GDP (RBA 2012).

NZ SMBs are similar

SMBs in NZ broadly have similar characteristics to those in Australia; around 30% of NZ workers are employed in businesses with less than 20 employees. SMBs in NZ are a major source of innovation and exports. (MBIE, 2013)
The competitive landscape

We analysed the competitive landscape for SMBs in three ways: how they compete, who their customers were and who their competitors were.

**SMBs focus on quality and customer service to compete**

In terms of how SMBs compete, a common perception is that SMBs focus on price competition and that in recent years, the use of technology would have become a more important part of competition strategy.

In fact, the results in this report are that prices are actually the third most important factor (12.3% of SMBs), behind the quality of goods (20.8%) and customer service (13.7%) as the key points of SMB strategy as shown in Figure 2.1. The use of technology was a key strategy for just 7.7% of SMBs. Using better marketing strategies and achieving operational efficiencies were also less significant competitive considerations.

Having a great product and an even greater customer experience is obviously important. However, through our conversation with successful businesses we believe that other factors can also help improve the competitiveness of SMBs.

Product differentiation is another important success factor. An article in the Journal of Marketing found that, product differentiation is critical for such small businesses to create perceived value among consumers and navigate away from price competition. A successful product differentiator can also help small business to slowly build brand loyalty among customers and create a perception that there are no other substitutes (Smith, 1956).

**Most SMBs focus on quality and service, but place less emphasis on other success factors like technology and employees.**

Lastly, better marketing and sales strategy is also essential. Pervasive digital trends have had a significant impact on the way business is done, including how businesses market and sell their products. For example, a study by Varian in 2009 found that value of internet marketing is between 2 to 2.3 times the value of advertising expenditure, significantly higher than traditional marketing channels (Varian, 2009).
SMB’s customers can experience significant churn
The middle market small businesses are a particularly interesting segment, as they have broken the confines of micro businesses which primarily service households, and have not yet reached the scale of a large enterprise.

Small businesses are often reliant on a small number of customers for their revenue; churn in their customer base is likely to have a substantial impact on their ability to survive. ABS figures in 2012 show that over 43% of medium businesses relied on a small number of clients to survive. Of those, 60% said that there would be a moderate to large impact on the business’s income if one of these customers was lost.

In this report, we found that middle market SMBs derive significant portion of their customer base from SMBs themselves, as shown in Figure 2.2, an average of 50% said their customers are other small businesses.

We note that this is somewhat higher than corresponding ABS statistics from 2012-13, which showed that approximately 31% of revenue for medium business are sourced from SMB organisations, this could be primarily attributed to definitional differences.

SMBs typically experience high rates of turnover, around 300,000 new SMBs start operations each year and a similar number cease to exist (ABS, 2014). This high churn represents a risk to SMBs that rely on the sector for customers and struggle to replenish their customer bases.

As a result, it is not surprising that the RBA (2012) found that between 2005 and 2010, over 50% of small businesses had a change in revenue of over 25%, similarly over 30% of medium business had the same revenue volatility.
Navigating to the Future

SMBs facing online-only competitors

19% 2 years ago
24% Now

Digital competition is heating up

Small to medium sized businesses face competition from a diverse range of organisations including large corporates, government agencies, not for profits, overseas businesses and other small to medium sized businesses.

The most significant change has been a considerable increase in competition from e-businesses with an online presence only, moving from 19% to 24% of SMBs facing such competitors as shown in Figure 2.3. This signifies that digital competition is heating up.

Industries at the digital frontline have already seen dramatic shake ups in their market composition; ICT leads the pack with as much as 50% of competitors from online-only origin. There are substantial competitive advantages in online only presence including dramatically lower cost structures, broader market reach and reduced search costs for consumers.

The number of small businesses facing online competition has increased by as much as 5 percentage points.

A Productivity Commission report in 2011 found that online retail stores are able to offer lower prices in general, with some product ranges’ price differential reaching as much as 50%. This highlights the threat to small businesses from online competition.

Previous research by Deloitte, Digital Disruption: Short Fuse, Big Bang? suggests that it is actually the industries where digital disruption is now spreading that face the biggest potential change – areas such as Professional Services, Finance and sectors where government has traditionally played a significant role such as health and education.

While digital competition poses a significant challenge to existing business in the market, it is also a fact of life; businesses that respond positively can also reap benefits and reinforce their position in the market as is discussed later in this report.
**Hipages – Directory reinvented**

Founded in 2004, Hipages Group is an Australian directory business that focuses on home improvements, natural therapies and pet services. The business operates on a cost-per-lead model, generating more than 1.5 million visits to its website every month and has over 55,000 listed service providers.

Built from a $5,000 start-up fund in the garage of CEO David Vitek, the firm started as a not-for-profit natural therapy information website. It quickly transformed into a directory service as it sought to deliver the next step in the customer experience, connecting them with therapy providers. Similarly, Hipages’ venture into the home improvement market stems from the recognition that there isn’t a unified customer experience, or a “go to” site for such a large industry. Ultimately, that philosophy of “delivering what the customer needs at the end of the day” became core to Hipages’ business value.

Convincing people the value of a business service – the value proposition – is challenging in starting a new business. David Vitek says he learnt the hard way: “when we first started, we were turning about 1 in 15 leads into customers. Each one involved several calls. But then we realised, the best way to convince a customer about your product’s value was to let them use it.” It changed from a “call and convince” business model to “trial and subscribe” model. Customer conversion leapt to 7 from every 15 leads.

Small businesses often experience a period of rapid growth. It is important that all parts of business can be easily scaled along with the business. According to Vitek: “having things in the cloud helps… platforms such as Salesforce allow you to centralise all your data in one place and analyse them anytime you want so it doesn’t get lost along the way”. Indeed, one of the key advantages of cloud technology is accessibility and mobility on demand, with platforms such as Amazon Web Service business can scale at the click of a button, without investing in expensive infrastructure and capacity.

Innovation is another key theme at Hipages: “You need to race to stay ahead of the curve, constantly pushing boundaries and continuously staying relevant.” says Vitek. The next big thing on Hipages’ horizon is facilitating payments between vendors and consumers to improve experiences even more.
SMBs in the digital economy

Digitisation of the SMB sector
The use of technology continues to become more pervasive throughout the SMB sector in the Australian Economy.

By some measures, technology use is high. Consider that in 2013, over 98% of SMBs had a computer and 96% had access to the internet (Sensis, 2013).

When it comes to an online presence, participation is lower. As shown in Figure 3.1, only half of small business and three quarters of medium sized businesses have an online presence.

![Figure 3.1: Share of businesses with online presence](image)

Further, beyond the basic use of technology, other research suggests that SMBs are not fully exploiting digital capabilities in their business.

According to a previous report by Deloitte in 2013, *Connected Small Businesses*, a third of SMBs that have internet access have only used it for email. Further, some 84% did not use digital marketing technologies, one of the biggest advantages of having internet access for SMBs (Deloitte, 2013).

In this research, we build on previous work and examine what SMB functions are done through digital channels. While we found the use of technology across different business functions is increasing, it is still at a much lower level than what it could be.
As shown in Figure 3.2, the use of digital technology for Sales and Marketing purposes is 30%. While survey results indicate growth in this area – it is expected to be 32% in 2016 up from 26% in 2012, this still mean that the majority of SMBs (68%), will continue to not use digital channels in 2016 for sales and marketing functions.

Raw materials and sourcing supplies is the least digitised SMB function. At just 26% as of 2014, there are substantial opportunities for SMBs to integrate digital technology in its supply chains.

According to Deloitte’s Digital Disruption research, a key source of advantage for many new market entrants is their ability to cut costs and increase intelligence and transparency within their supply chains. In particular, digital technology can help small business improve quality and reliability in the supply chain and offload costs to partners and customers (Deloitte, 2012).

Use of digital channels for human resources and business management was 28% and 29% and also growing over the reference period in the survey.

Our survey results can also be used to demonstrate that digital tools can contribute to profitability. As shown in Figure 3.3 we found that using technology to source supplier and material is most strongly correlated with an improved profit margin, followed by using technology to manage the business and to market products.
The correlation coefficient of 0.15 means that every 1% increase in technology use in finding suppliers was associated with a 0.15% increase in the chance of a positive profitability performance.

It is possible that high levels of technology use are associated with strong business metrics due to either the reverse causation or other unobservable variables driving the links. Causation could also run the other way if strongly performing businesses had more time or resources to take up technology in its operations. In this research, we have supplemented our quantitative analysis in this report with case studies to gain a better understanding of the impact of technology in businesses. Businesses are clearly using these tools to improve their performance.

The Annual Pulse Check and Action Plan for Small and Medium Business in Australia & New Zealand

In this research, we asked Australian and New Zealand SMBs what digital trend was most affecting their business – two years ago, now and what they expected in two years’ time.

The most important trend is the internet, including websites and search engine advertising. It was ranked first two years ago, and today and in two years’ time will still be ranked second. This confirms the continuing importance of the internet as the central platform for the digital economy.

As shown in Figure 3.4, the second most important trend is mobile technology – smartphones, tablets and mobile apps. Within two years, it will be the most important trend. Mobile devices are not simply a form of communication, they are a new and different way of interacting with customers. As the internet becomes a mobile-first platform, businesses will increasingly use digital with mobile in mind.

Cloud solutions and data analytics are the next big things

Along with the growing use of digital technologies, another finding in the survey data is the changing drivers of change. The significance of digital tools is changing all the time.

The proliferation of technology tools such as smartphones in the Australian economy and across the world occurs at a stunning pace. An ACMA report in 2013 estimated that smartphone penetration in Australia has grown by 26 percentage point to 61% in just under 2 years; it’s expected to be over 92% by 2017 (ACMA 2013). There are widespread implications for our economy, which will rival the impact of economic reforms introduced in previous decades.

The digital trend experiencing the fastest growth in significance is cloud computing – rising from the least important trend two years ago to the third most important in 2016. This makes sense in the context of the barriers to SMBs’ engagement with new and innovative technology. ICT can involve upfront costs and require technical expertise to manage. In contrast, cloud-based services make IT more flexible, allowing users to store information, software and shared resources in data centres that are accessible via the Internet. Because they are external, cloud services allow companies to reduce the computing infrastructure they own directly and, in turn, the size of the teams required to manage it.

A combination of growing consumer demand and business mobility trends are pushing SMBs onto mobile and the cloud.

The Department of Communication found that SMBs using cloud services were 106% more likely to see a rise in revenue (2014). This can be attributed a variety of benefits Cloud computing brings to the SMB space, including the breakdown of large capital expenditures to variable operating costs, and providing much more accessibility and mobility to businesses.

The competitive edge brought about by cloud services goes beyond changing cost structure for technologies.

Consider the example of property buyer’s agent business, Cohen Handler. It uses cloud technology to capture and analyse big data including web traffic, search queries, social profiles and sales records. It provides the business with more accurate predictions of future demand and pockets of growth. (See case study box for more details).

We observe that SMBs planning on moving into the cloud in the next two years may simply be keeping up with their competitors. The other digital trend that will rise in importance is data analytics – using data collected through sales, search engines, mobile technology, loyalty cards and other means – to better understand customers, competitors and business processes to improve revenue and reduce costs.
Cohen Handler - Real Estate 2.0

Cohen Handler is an Australian-based property buyer’s Real Estate agency. The firm specialises in auction strategies, negotiation tactics and off-market properties. Founded in 2010, Cohen Handler now employs 28 staff and has grown sales revenue at a rate of 150% the last 2 years.

The firm didn’t start at a business conference or in a management classroom – the founders, Ben Handler and Simon Cohen, met at a Halloween party in Los Angeles. Ben recalls a moment where the pair was baffled by the lack of representation of property buyers in Australia. This was the “critical problem” in the real estate sector and a growth opportunity to tap into.

While starting any business has challenges, creating a market is tougher. According to Ben Handler: “It took a lot of ‘head bashing’ in the first two years of the business to explain to people how buyers are so mis-represented and that this is a problem. You need an edge to win; if you’re doing what everyone else is already doing, you don’t have an edge”.

SMBs following standard practices can find differentiation difficult. For Cohen Handler, competitive edge is about delivering a hassle free and efficient way of buying property. “People engage our services for a number of reasons. Typically these people are time poor, frustrated with the real estate process, or sick of missing out on property. They want efficiency and are willing to pay for it”. Ben Handler believes that the proliferation of technology in the market is driving impatience of consumers; they are increasingly willing to pay for services that could improve their experiences.

Technology has played an important role in Cohen Handler’s success. By moving customer relationship management onto the cloud, the business was able to facilitate more collaboration between and across teams. The ability to capture leads purely on the cloud also helps the business to scale quickly, without overall reliance on sales representatives. “Keeping a track record is also important”, Handler says. It is important for his business to know where they went wrong or did well. Every sale at Cohen Handler is turned into a field report, so employees and management can review, and learn.

Recruitment is another big topic at Cohen Handler. “We have a very flat structure and we pay a lot of attention to our people”. Handler says a new starter at the firm is encouraged to do a “tour of duty” rotation, recognising that people might not enjoy their roles and want change. The “tour” is tailored to the employee and designed to challenge them to the best they can.
Aspirations and planning

Most businesses aspire to higher profit not growth
It is important to recognise that SMB owners will most likely have vastly different aspirations for their businesses. Not all will want to become as large as possible. In this section, we shed light on Australian and New Zealand SMBs’ aspirations and how they want to get there in the future.

What is the most important goal for most SMBs?
Improving profit margin (52% of SMBs) as shown in Figure 4.1. Given the tough competitive landscape described in Chapter 2, a focus on basic business metrics is not surprising. Also important was improving customer satisfaction.

Figure 4.1: Aspirations for SMBs

<table>
<thead>
<tr>
<th>Objective</th>
<th>% Aspirants</th>
</tr>
</thead>
<tbody>
<tr>
<td>Improving profit margin</td>
<td>52%</td>
</tr>
<tr>
<td>Improving customer satisfaction</td>
<td>45%</td>
</tr>
<tr>
<td>Work life balance for you and staff</td>
<td>38%</td>
</tr>
<tr>
<td>Higher levels of employee job satisfaction</td>
<td>38%</td>
</tr>
<tr>
<td>Acquiring new customers</td>
<td>38%</td>
</tr>
<tr>
<td>Growth in sales</td>
<td>36%</td>
</tr>
<tr>
<td>Building brand awareness and market reach</td>
<td>30%</td>
</tr>
</tbody>
</table>

We note that work life balance and job satisfaction, while significant, were only prioritised by around a third of SMBs, an interesting finding given the importance SMBs place on staff for their success (as outlined in next section).

Also down the list of priorities is growth. This concords with other research from overseas. According to a recent study by the University of Chicago (Hurst & Pugsley, 2011), only 24% of small businesses in the US wanted to grow into large enterprises. It is possible that some SMB owners or managers see growth as increasing their workloads, increasing financial risks or having other consequences that reduce its attractiveness.

As a related finding, only 30% of Australian and New Zealand SMBs aspire to building more brand awareness and expand their current market share. As shown in Figure 4.1, most SMBs focus on improving their bottom line and the ability to service their customers better.
SMBs struggle to find skilled labour

Many factors will play a role in SMB growth over time, including productivity, pricing, quality and new technology. However, as shown in Figure 4.2, the most important driver was recruiting the right talent (38% of SMBs).

Separately – not shown in the figure – the survey results also showed that SMBs are concerned about access to skilled labour. Some 17% of SMBs surveyed identified skilled labour as their current top concern (although it was down from 20% two years ago).

In a separate analysis by the ABS (CAT 8158.0, 2012), over 30% of small businesses reported the inability to find skilled workers within the labour market or within their own business as a barrier to innovation, second to lack of access to funding.

Collectively, these results reflect a much broader economic challenge to supply sufficient specialised or skilled labour to businesses. Consider the following facts:

- The next five years are projected to see fewer than 125 people exiting education for every 100 people retiring, the lowest replacement ratio in Australia’s history (Deloitte, 2011).
- According to a 2010 Australian Industry Group survey, nearly half of businesses considered that there was a high to extreme risk of skills shortages impacting negatively on their businesses in the next five years.

Businesses across the economy are in a ‘war for talent’, with SMBs finding it more difficult to recruit the best. Larger enterprises can typically offer higher benefits and job security for employees. SMBs need their own edge to win in the competitive hiring landscape against larger players.

Deloitte’s previous work in The Digital Disruption: Harnessing the Bang? and The Connected Workplace suggests that digital could be part of the solution. For example, flexible IT policies such as the ability to use technology to work from home have played a major role in improving overall employee satisfaction and retention. Online recruitment tools such as The Search Party have also been effective in reducing time and cost of recruitment for businesses.

Planning helps SMBs succeed
Planning helps a business chart a course for its goals; it is an integral part of a business’s strategic development. In this research, we found that 27% of SMBs either had no plan or only had plans for the current financial year. We believe this represents a significant gap in the SMB sector to manage market risks. With better planning, there could be future competitive advantages and improved productivity. It will affect the allocation of resources.

Successful businesses consulted in this research regularly assess their current operations, identify market segments with future growth potential and adjust resource allocation accordingly, making sure that focus is shifting away from areas where their products are no longer competitive or commoditised to the more productive segments of the market.

For example, people analytics business Revelian, has a detailed multi-year plan that separates between costs and revenues for existing business (based on past performance) and plans around specific growth initiatives the business can take advantage of if market conditions allow. Corporate plans need not be inflexible documents followed to the letter; they can be flexible to adjust to changing circumstances.

Strategic planning helps SMBs to navigate these transitions over longer time horizons through setting intermediate goals and milestones rather than responding abruptly.

In this report, we found that SMBs with longer planning horizons were much more likely to have increased profit than those with shorter term plans or no plans. Specifically, 83% of SMBs with more than 5 years planning horizon saw an increase in profit compared to only 39% for those that didn’t plan at all.

Figure 4.3: Businesses that plan for longer horizons are more profitable
Revelian – People Analytics

Founded in 1999, Revelian (formerly Onetest) is an innovative Australian company at the forefront of providing psychometric tests, surveys, games and communication analytics for businesses. Today, Revelian provides over 600,000 assessments annually. Its clients include some of Australia’s largest retailers, mining and construction companies, and government agencies. Revelian also provides extensive volume based assessments for both the graduate and SMB sectors. It now has a presence in the United Kingdom and is planning additional global expansion.

CEO Warwick Kirby shared with us his philosophy for success: “You can’t be too passionate about your business to the extent that it impairs measured decision making. Decision making should include extensive research and data analysis and rely less on ‘gut’ and ‘feel’ when the stakes are high.”

Business leaders of SMBs need to also appreciate the product lifecycle of unique innovation and the opportunities and risks that they create. “Large companies are often looking to acquire innovative SMBs to differentiate themselves in their market. SMBs should be aware of their capabilities, make conscious decisions about their growth and exit strategies, and plan their business accordingly.”

Kirby believes that successful technology-based SMBs need to be lean and agile: “Don’t build anything you can’t commercialise, aim for continual release of products and pivot resources accordingly to successful product lines.” To achieve this discipline SMBs need to constantly evaluate themselves, gathering intelligence and analysing data to assist them in planning for success.

Successful SMBs should be aware of the unique value they bring to market and always look to grow that value through continual innovation and product differentiation. “You need to often fly the plane while constantly rebuilding it,” according to Kirby. Kirby recommends that SMBs ask themselves one simple question when striving to develop their unique value – “We are the only company in the market/world/region that…?”

Revelian’s technical expertise is leveraged with best practice cloud platforms to manage its operational systems including accounting, expense management and CRM. Kirby said, “The biggest barrier to working with other businesses is mismatched legacy technology. It’s a lot easier and cheaper if you use the best practice technology that everyone else is using – it’s all about open API’s.”
Advice, insourcing and outsourcing

SMB owners are often time or resource constrained or do not have the in-house expertise to perform all functions a business needs. SMBs consistently face decisions over whether to insource or outsource functions.

SMB owners and managers mostly get trusted advice from professional experts (55%), although 47% said employees and ex-colleagues were trustworthy sources of advice. Only 20% and 26% thought about government and suppliers.

It is possible that, where appropriate, government-funded personnel could provide greater assistance. Government programs such as Small Biz Connect in NSW\(^1\), BusinessPoint in ACT\(^1\) and Business Enterprise Centres across Australia\(^1\) for example all provide quality expert advice for small businesses across various issues. We believe these programs are sometimes undervalued and underutilised by small businesses.

There has been significant growth in cloud-based business services providers in recent years, such as Salesforce for customer relations management and sales and Xero for accounting services. These and other businesses can be opportunities for SMBs to reduce costs or improve their services. According to Revelian, another benefit of outsourcing functions rather than using business-specific solutions is that it is easier to work with other businesses who also use the same platforms.

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**Figure 4.4: Key sources of advice for SMBs**


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\(^1\) [http://www.becaustralia.org.au/](http://www.becaustralia.org.au/)
SMB objectives change over time

Business large and small alike grow at a certain pace, but unlike large established businesses, growth for small businesses often mean that a conscious transition is needed to move onto the next stage.

This is an important concept; we found that as small businesses move away from being a start-up, the business focus also transitions from building customer base to improving profit margins and employee satisfaction. In particular, only 15% of start-ups that existed for less than 1 year identified profit a key goal for their business compared to 67% for businesses that existed for more than 10 years.

One of the more interesting trends we found in this report is around acquiring new customers. As we’ve seen in previous sections of this report, most customers for middle market SMBs are small businesses, and there can be a significant churn in this customer base. The success of small businesses is then dependent on the constant renewal of their market presence, including acquiring new customers and building their brand awareness.

In this report, we found that as the start-up momentum wears off, businesses focus much less on acquiring new customers, only 21% for SMBs between 1 to 3 years old compared to 38% in start-ups. However, as businesses progress, acquiring new customers becomes increasingly important, with 58% of business that existed for more than 10 years identifying it as their top priority.

Figure 4.5: The SMB maturity curve

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Redback Conferencing – Making Distance Obsolete

Redback Conferencing is an Australia teleconferencing and event facilities company founded in 2007. Redback has become one of the largest event delivery companies in Australia, hosting more than 700 events in 2013 and expecting to host more than 1200 this year.

It hasn’t always been a smooth ride. Founder and CEO Jeff Downs says Redback struggled to get products to the market for the first 18 months and was struggling to find its footing.

The secret to success, according to Downs: “You need to take a leap of faith at some point. Stop working IN the business and start working ON your business, it’s about empowering and trusting your employees.” SMB owners and managers often overload themselves with too many responsibilities and felt they have to be in charge of everything. “I was drowning…doing Excel sheets which I knew nothing about, rather than focusing on running my business. I was the most expensive bookkeeper in Australia”. Downs recalls a moment when he took a leap of faith and hired someone to look after his accounts, which bought him the time he needed to focus on the big picture for his business.

Having a clear vision of how you fit into the market is also important. “You can’t be everything to everyone, at some point you have to make a decision.” This is especially the case in markets where dominant players have both the advantage of scale and technical prowess. It is crucial for SMBs to figure out their market niche, where they can play to their strength and build momentum. “Don’t try to be the biggest guy in the market, but try to be the biggest guy in the room” as Downs puts it.

For all SMBs, employees are a central element to delivering a high level of quality and efficiency. They are especially important for services businesses. “Redback doesn’t have a service without our staff. They are why our customers love us”. Building employee engagement at Redback is done through a variety of means – hiring for cultural fit, not just skills; offering an attractive working environment; and recognising that employees have their own aspirations for the business and their personal lives. “Our Redback website introduces our whole team, not just the senior folk, and gives voice to our employees personal life objectives, which we encourage and think is really important.”

In addition, Downs thinks SMBs must remain agile, and react to changes in the market and its environment more broadly. “SMBs need to avoid commoditised services. For us, that means shuffling out of the standard video-conferencing market to providing a high quality service and growing our events hosting business where we can differentiate more in the market. You need to keep moving to stay profitable.”
Quality & Customer Service
SMBs can raise quality and customer service even higher by focusing on doing something really well, improving sourcing, rapidly refining products based on customer feedback, and using the best channels to communicate.

Cloud & Data
Cloud platforms are a cost efficient way for business to get the best technology available and compete with more established players. The ability to capture, analyse and derive insights from data is becoming a critical factor of a successful SMB.

Build business agility
Business agility is particularly important for SMBs, as businesses in the sector often have a narrow focus in the market and rely on a small number of customers for their revenue. Strategies like a flexible corporate plan, reviewing market performance, having real time information about the business and releasing products and services as soon as they are viable can increase a business’s agility.

Sales & Marketing
SMBs can make sales more efficiently by reassessing their sales cycle, offering free trials, reducing friction points. Online channels can offer superior ways to reach new markets. It’s also important for more mature SMBs to avoiding complacency on customer satisfaction.

Attracting and retaining talent
Social media and online services can be a cost effective way of reducing on-boarding time and costs. Alongside traditional engagement tools like recognise personal objectives of staff and offering training and variety, flexible ways of working and access to new digital tools can also lift employee satisfaction.
In the Action Plan, we propose ways in which SMB owners and managers can act on the insights from the Pulse Check. This is based on the economic analysis itself, but also draws on the practitioner expertise of Deloitte Private, Deloitte’s SMB specialists. This year, we outline directions in five areas: quality and customer service, sales and marketing, staff, cloud and data analytics, and business agility.

Where appropriate, we present tangible examples of business solutions that have been successful in addressing the key focus areas.

Raise quality & customer service even higher
Superior quality and customer care are the most common competitive strategies used by SMBs. While they have always been important for successful businesses, they are now also the principal ways in which SMBs are taking on the growing group of online-only businesses, whose lower cost bases and broader market reach provide a significant threat to SMB survival. This section provides some actionable directions for SMBs to further improve their performance in these areas.

Based on the case studies in this report and Deloitte Private’s experience, we believe the following are effective directions for improving quality and customer service:

• Focus on doing something very high quality. The smaller scale of SMBs makes it more difficult for them to cater to everyone in the market compared with large diversified businesses. Instead, SMBs can look to find specialty where they can excel and dominate a narrower market segment. ‘Be famous for something’ is common advice to start-ups. This can be achieved through innovation, a unique product/service that is not offered by any other competitors; or through superior quality of product or service, differentiating their offering from the rest of the market.

• Start from the source. A great starting point to improving quality is sourcing better input materials. This can include anything from buying better products to sell through a retail business, buying better produce to use in a café, or using a better delivery service so the customer receives their goods faster. Digital tools can play a role here, with more choice from online businesses and real time monitoring of supply chains to put SMBs in control.

• Refine products based on customer feedback. A key learning in this report is that it is difficult to get anything right the first time. Businesses can now release products with basic functionality and refine over time based on consumer feedback. Market research through digital channels – social media, mobile app ratings, online scores etc. can offer cheaper and faster feedback than traditional paper-based customer feedback surveys.

• Reconsider your channels to interact with customers. Customer service ultimately involves interactions with the consumer, and more than often, customer feedback is an important part of this process. Technology channels such as websites, social media and mobile apps can help facilitate these interactions and help consumers connect with the business more easily.

One example of a business that has embraced customer service improvements is Hipages. The online directory service provides a platform for customers to rate their every interaction and experience with its service providers. Not only has the company gained great insights as to where they can do better, it has become a core part of their operation to filter out bad providers and improve the overall quality of its customers’ experience.

Consumers are becoming more demanding, with even small business expected to offer around the clock support for its customers. Consider Australian online travel company TripADeal, the company found that 62% of customers abandon sales at the very last minute due to lack of support to answer basic questions. The company responded by moving its customer enquiry management function into the cloud, giving it the ability to track customer enquiries and improve turnaround time for bookings from 24 to 2 hours. Not only has this process helped the company deliver a superior customer experience, their customer sale conversion rate has also increased by 70%.

Make efficient sales and broaden marketing
SMBs often rely on a small number of customers for their revenue; a churn in their customer base is likely to have a substantial impact on their ability to survive. In addition to improving quality and customer service, SMBs will also need to ensure they are attracting and converting customers in a cluttered local market with increasing global competition.
Based on the case studies in this report and Deloitte Private’s experience, we believe the following are effective customer directions:

- Reassess the processes involved in selling to new customers (including websites and mobile apps) – when they understand the value proposition, how they are contacted etc. Consider free trials of services to get customers started. And monitor the sales cycle closely so that there are few points of friction or lack of communication that may see customers drop off and not proceed to the sale.

- Recognise that it is usually cheaper to maintain customers than find new ones, so keep an eye on existing customer satisfaction levels. It is about avoiding complacency. Newer businesses put a greater emphasis on customer satisfaction, so do long term successful businesses. This means it is in between, when businesses are between 1 and 10 years old that they need to watch out for complacency. As previously mentioned, social media, mobile app ratings, online scores etc. can offer cheaper and faster feedback than traditional means.

- Broader markets exist beyond immediate locales, and can be reached more cheaply through online channels. There can also be ways in which customer leads can be generated automatically, such as through website traffic. Having a means of capturing contact details and learning about potential customers is important. Marketing this way can reduce costs and reliance on sales teams.

Online channels are already a well-known opportunity to reach customers more cost effectively. They can also be used to deliver new experiences for customers. Consider Birdsnest, a clothing company. It began as a physical store in the regional NSW town of Cooma, launched a website in 2008 and embraced social media to build an engaged community. Its vision is to make shopping online an experience and has differentiated itself by offering unique shopping options such as the ability to shop by colour, shop by occasion or shop by body shape. Having embraced online and social media the company now turns over $20m, has over 200 staff and sells its products all over the world. It is an example of the scalability that online web businesses have.

Another example is the Australian Institute of Personal Trainers. It is Australia’s leading provider of practical fitness education. Established in 1999, the company has grown from only a handful of campuses in Queensland to a network of over 100 campuses and over 250 Mentors Australia-wide. It is an organisation that has embraced multiple customer acquisition channels from direct sales, industry partners, search engine optimisation and search engine marketing, social media, as well as print and TV advertising. By constantly assessing and testing alternative customer acquisition channels, it was able to optimise its customer acquisition strategies and marketing spend effectiveness.

**Attracting and retaining talent**

As SMBs grow and expand, attracting skilled and experienced employees becomes increasingly important. There is a war for talent in the Australian market, but we found that SMBs are not getting serious enough about recruitment. While most recognise that it is a priority for growth, few had a plan to adequately address it.

Based on the case studies in this report and Deloitte Private’s experience, we believe the following are effective staff directions:

- Consider new ways of finding and recruiting new employees including social media and online services. This can be a cost-effective way of reducing on-boarding time and costs.

- Improve employee engagement by offering staff flexible ways of working, including allowing bring your own device, use of the internet/social media for work tasks and telework.

- Beyond perks and pay, development opportunities are a very important staff motivator – offering job rotations, formal training, and variety of work or collaboration opportunities can also build staff loyalty.

- Recognise that staff have personal objectives outside of work – value them, such as through appropriate time off or flexibility policies, and celebrating employees’ personal achievements.

One example of a business disrupting the employment market is The Search Party. It has developed technologies that increase productivity and efficiency in the recruitment business. The Search Party uses big data algorithms and a smart negotiation/settlement platform to bring value to businesses, candidates and the recruitment industry. It says it has reduced the time it takes to hire from an average of 81 day to just under 12 days, dramatically reducing the cost to hire, and broadening Australia’s and the UK’s access to talent.
RecruitLoop was another company that started after its founders had years of frustration with traditional recruitment. RecruitLoop aims to solve this by developing a platform for employers to automate and outsource the recruitment process on demand.

**Cloud to keep up, data to get ahead**

In this research, we found that majority of SMBs are looking to shift away from internet focused technology to mobile based, with cloud and data analytics next on the horizon. Globally, cloud computing has offered easy to use, flexible and cost effective technology solutions that are transforming traditional business functions.

Cloud platforms are an effective way for small business to get the best technology available to compete with more established players.

We also found that businesses are also using technology solutions including cloud computing to capture big data, allowing them to more accurately analyse aspects of their businesses to make effective decisions about sales, marketing and services. The ability to capture, analyse and derive insights from data is becoming a critical factor of a successful SMB.

The optimal mix of tools will vary from business to business, depending on the nature of employee outputs, location, and other features of organisation structure. Here, efforts should concentrate on identifying technologies and features of workplace design that will be most effective in enabling collaboration activities, making them available, and promoting use by employees.

Based on the case studies in this report and Deloitte Private’s experience, we believe the following are effective technology directions:

- Consider cloud services for business functions including sales, IT, finance and accounting, HR and general business management. Do not see cloud as simply an opportunity to reduce costs, but also to provide more information about the business to better inform decisions.
- Data analytics strategies can range from basic spreadsheet analysis, to harvesting online and mobile data to better design services for customers. Data offers a way of challenging and testing the ‘instincts’ of business managers.

Many businesses are successfully using data analytics. For example, Phocas’ software delivers a simple yet powerful analytical capability that quickly turns data into a chart, graph or map at the click of a mouse or touch of a screen. It could quickly generate visualisation of data on local, regional or global sales, inventory, forecasts, prices, profit margins and budgets. Phocas enables the user to carry out ad-hoc data interrogation or associate and consolidate data, identify trends and conduct modelling. Phocas’ software is an example of the how the cloud can leverage big data and provide real time analytics to empower SMBs to derive better insights from their data.

Many SMBs have begun migrating to cloud based applications including Salesforce, Google Docs and Xero. These cloud services help alleviate the need for businesses to store and manage data and maintain expensive hardware. Information can be updated and accessed from any computer anywhere. There is only one set of data in the cloud, which improves the accuracy of the information and therefore minimises errors.

The ability for owners to interact with their accountant in real time instead of having to send physical files to the accountant each time provides time savings to SMB owners. The monthly access fee is typically less than the cost of purchasing alternative subscription based software.

**Build business agility**

Business agility is the capacity of a business to adapt rapidly and cost-efficiently in response to changes in the business environment. It is the capacity to identify and capture opportunities before competitors. Business agility is particularly important for SMBs, as businesses in the sector often have a narrow focus in the market and rely on a small number of customers for their revenue.

This report finds that businesses able to move more quickly in response to changing customer demands or market circumstances are more profitable.
Based on the case studies in this report and Deloitte Private’s experience, we believe the following are effective agility directions:

- Have a flexible corporate plan. Even if the plan has a 5-year horizon, it can have strategies for dealing with new circumstances and initiatives that can be implemented if targets are met. This also means being open-minded about change and not seeing the corporate plan as something to be implemented no matter what.

- Constantly review market segments and identify weaknesses. Areas of declining revenue or profitability may not just be a downturn, it may reflect greater competition or the commoditisation of goods or services.

- Have scalable systems that can respond quickly to ups and downs. For example, cloud based services can be purchased on a use basis, rather than requiring major up-front investments.

- Minimum viable product. In the past, new initiatives could be designed, piloted and tested extensively. As market processes accelerate, there is a greater need for businesses to focus on what they can deliver to market that is acceptable and then refine over time. This can also be used for market testing — unsuccessful initiatives can be discontinued at an early stage, reducing the costs of failure.

- Have the processes to enable informed but timely decisions. New cloud-based accounting services can provide businesses with real time financial dashboards to inform decision making. Board processes must also allow timely decisions.

One example of an agile company is Redback Conferencing. It is a business that was established as a video conferencing provider. The business is facing increasing pressure from larger players commoditising the standard video conferencing market. To combat this, Redback has shifted its focus toward high quality services such as event hosting, where it can differentiate more in the market and retain competitive advantages.
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Methodology

This appendix provides some additional methodological detail for our study.

Survey design

The survey was designed by Deloitte Access Economics in consultation with Salesforce and Stancombe Research and Planning.

The survey was implemented by Stancombe Research and Planning in June 2014 as an online survey, successfully completed by 502 owners and managers of small to medium business with 16 – 100 employees across Australia and New Zealand.

Survey responses include self-reported business performance metrics and their respective expectations. It is important to note that there are inherent issues in interpreting survey data, and that these should be considered in interpreting the results. However, we believe that our results are nevertheless indicative of the true value/measure within a reasonable margin. Nevertheless, caveats of the analysis could include:

• First, it is possible that there are biases in the survey sample, it is difficult to assess the biases in sample selection without definitive national distribution figures across multiple business characteristics.
• Second, it is possible that survey respondents interpret questions differently.
• Third, it is possible that survey respondents systematically misjudge the nature of their business and cause inaccuracies – for example, acknowledging how long their organisation have been in existence for.

Consultations

The consultations were conducted by the Deloitte Access Economics team during September 2014 to October 2014. Four consultations were specifically chosen to cover multiple industries.

The interviewees responded to a number of questions on challenges for the business, corporate strategies, innovation and technology use. The consultations provided insights into the current state and future planning of the organisation.

The following interviews were conducted:

• Hipages Group – David Vitek (CEO).
• Revelian – Warwick Kirby (CEO).
• Cohen Handler – Ben Handler (CEO).
• Redback Conferencing – Jeff Downs (CEO).