

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

Salesforce
October 2014



Project Overview

- Small to medium sized business is an important but neglected area of the Australian economy
- Reports about SMBs tend to focus on short term economic conditions, and be written for an economic or government audience
- Salesforce commissioned Deloitte Access Economics to prepare the first of an annual report series on the changing landscape for middle market SMBs - how they compete, how they can win, how digital is changing things, and for this first report, the aspirations of SMBs

salesforce

Research

Deloitte Access Economics

Experience

Deloitte Private

Practical Knowledge



COHEN HANDLER

-
- Main findings of the research
 - Full report next month with detail on business directions
 - Focus more on medium sized business than micro businesses

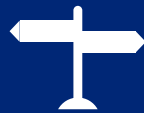


1 Competitive Landscape



2 Digital Transformation

Navigating
to the Future



3 Aspiration and Planning

Economic and Business Context



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 it operates, or to become more innovative in its 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 contribute 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 gets tougher

Digital competition heating up

Main competitors	2 years ago	Now
Small to medium sized businesses in Australia or New Zealand	49%	50%
Large corporate businesses in Australia or New Zealand	33%	33%
Government departments, agencies or organisations	22%	20%
e-businesses (online presence only)	19%	24%
Not for profit organisations	20%	19%
Overseas brand businesses	25%	26%
Have no competitors	8%	7%
Don't know	6%	5%

Question: *Which of the following are your main competitors? (multiple selection)*

- SMBs are facing more pressures from online presence only competitors
- Online businesses have lower costs of distribution and broader market reach
- Productivity Commission (2011) found lower prices in online retail stores, with the price differential greater than 50% for some product categories.

SMBs customers are constantly changing



26% Consumer or households

50% Small to medium sized businesses (i.e. up to 200 employees)

15% Large corporate businesses (i.e. more than 200 employees)

5% Government departments, agencies or organisations

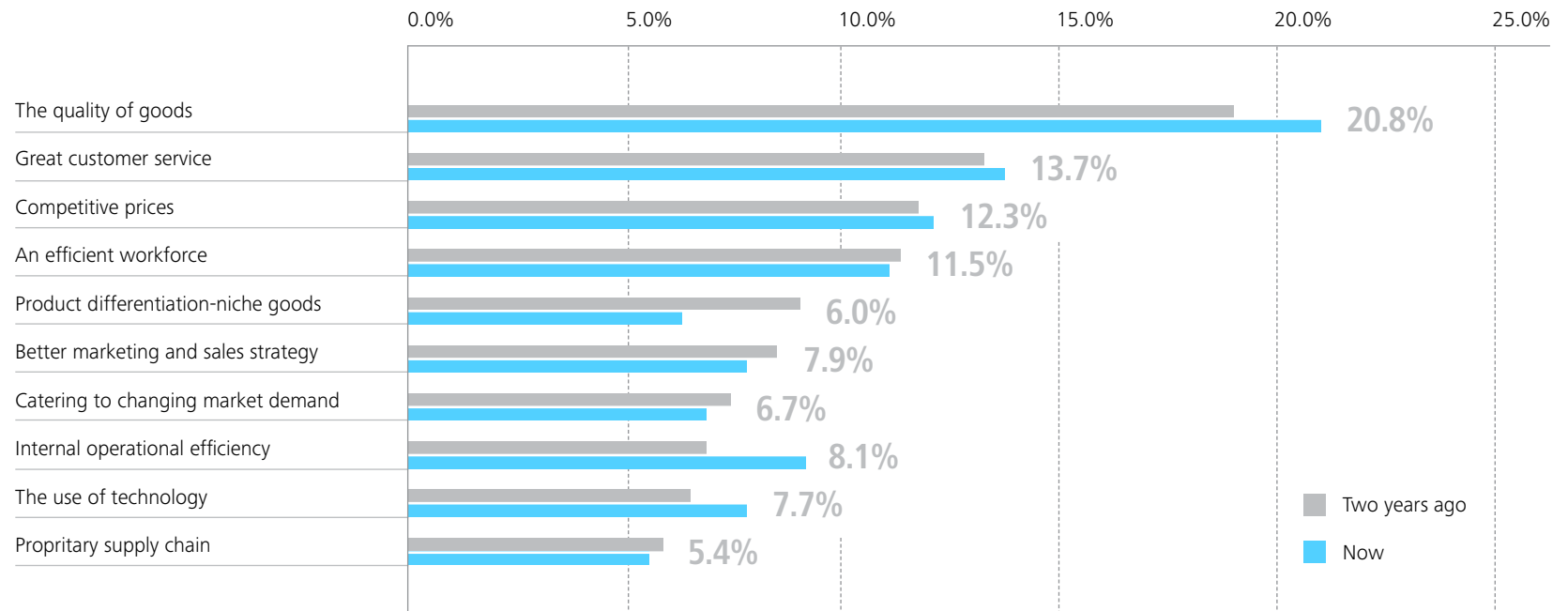
2% Not-for-profit organisations

2% Don't know

Question: *What is the largest share of your customer base?*

- Half of the customers in the SMB sector are SMBs themselves
- There are approximately 300,000 new SMB businesses each year, and a similar amount of business cease to operate (RBA, 2012, 0-199 employees).

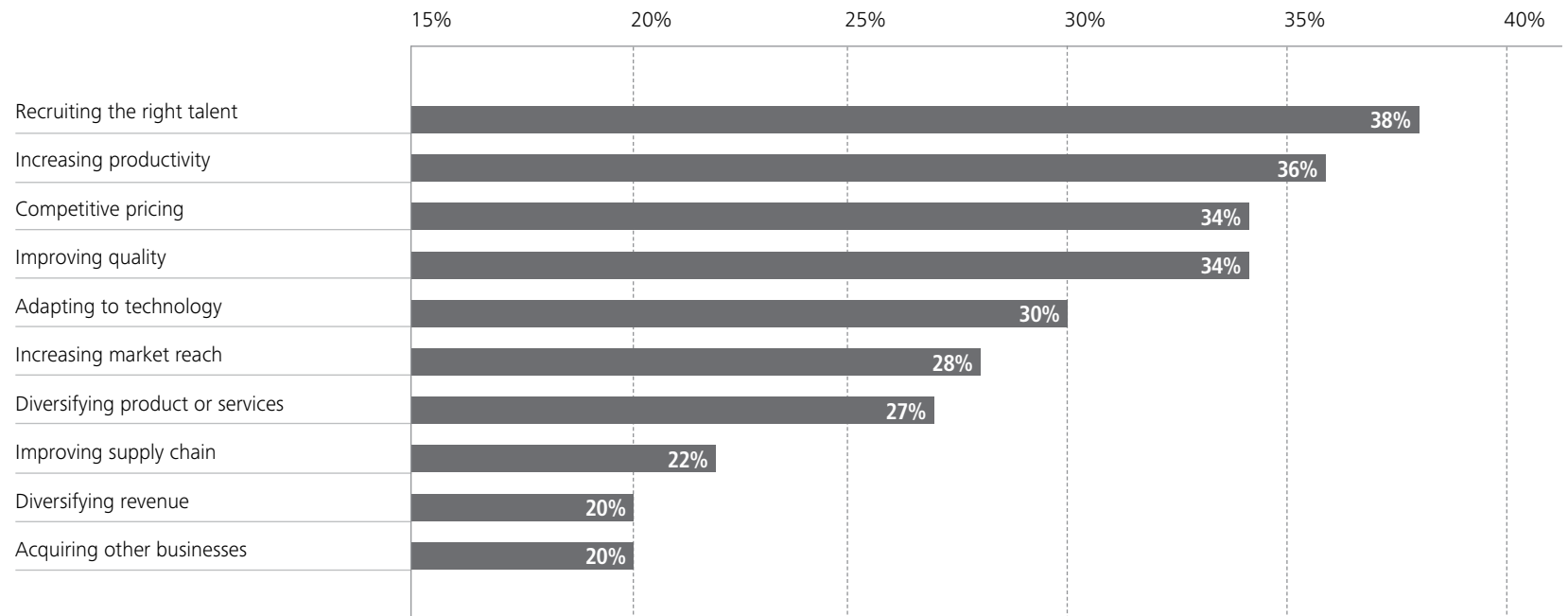
SMBs competing on quality & service



Question: *Which of the above are most important to the success of your organisation? (multiple selection)*

- Business most commonly identify the quality of their product and service as the major differentiator for them in the market. This trend has grown over the last two years.

The key differentiator is people

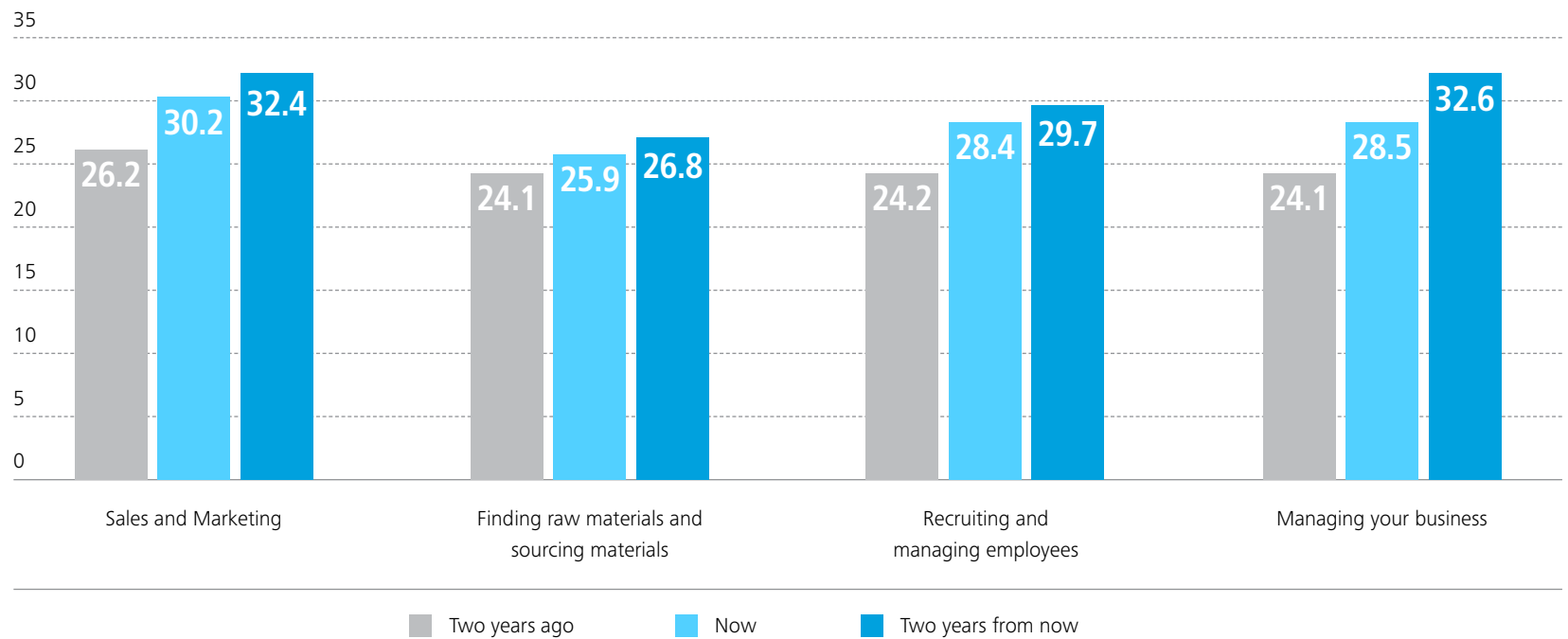


Question: *Which of the following do you believe are most important to the growth of your organisation? (multiple selection)*

- Business believe future growth is more likely to come from recruiting the right talent and increasing in productivity
- Separately, they cite accessing skilled labour as the number one issue facing their business

SMBs in the digital economy

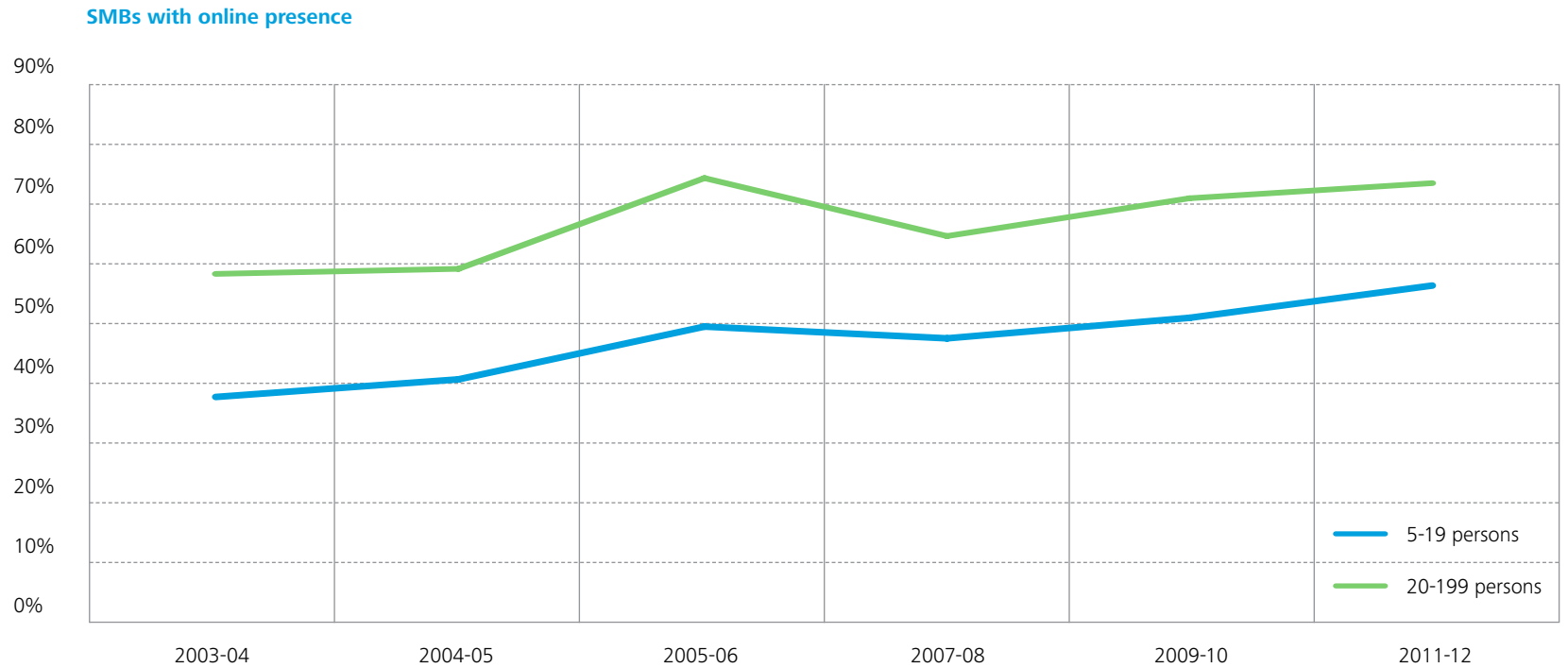
Digital is becoming more pervasive in SMBs



Question: *How much of the above business operations are done through digital channels?*

- Intensity of technology use within SMBs have been increasing over time
- The average SMB performs approximately a third of its key functions through digital technology.

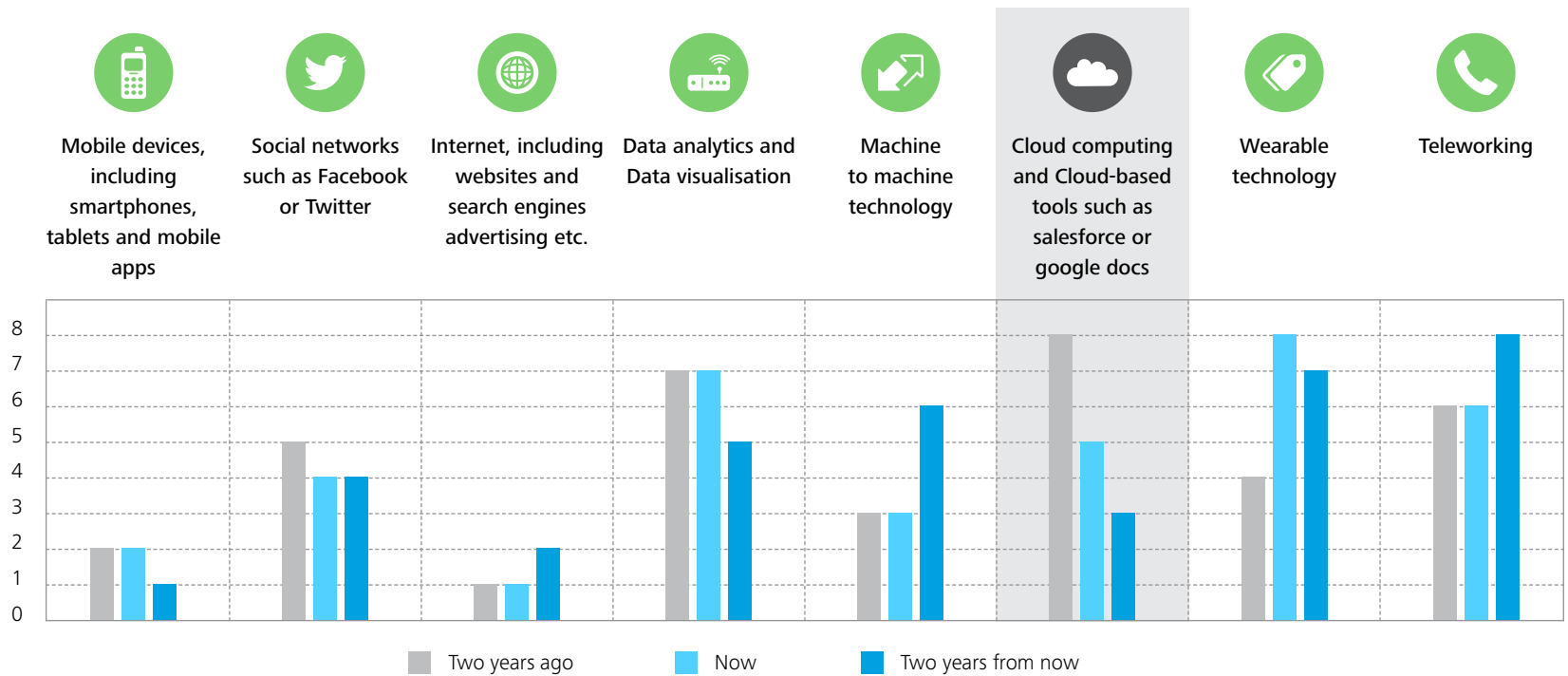
More and more SMBs are moving online



Source: ABS business use of technology 2011-12

- In 2011-12, over 57% of small businesses had an online presence compared to 76% of medium businesses.
- In the past 8 years, 19% of smaller businesses and 18% of medium businesses got online.

SMBs going mobile, cloud is next

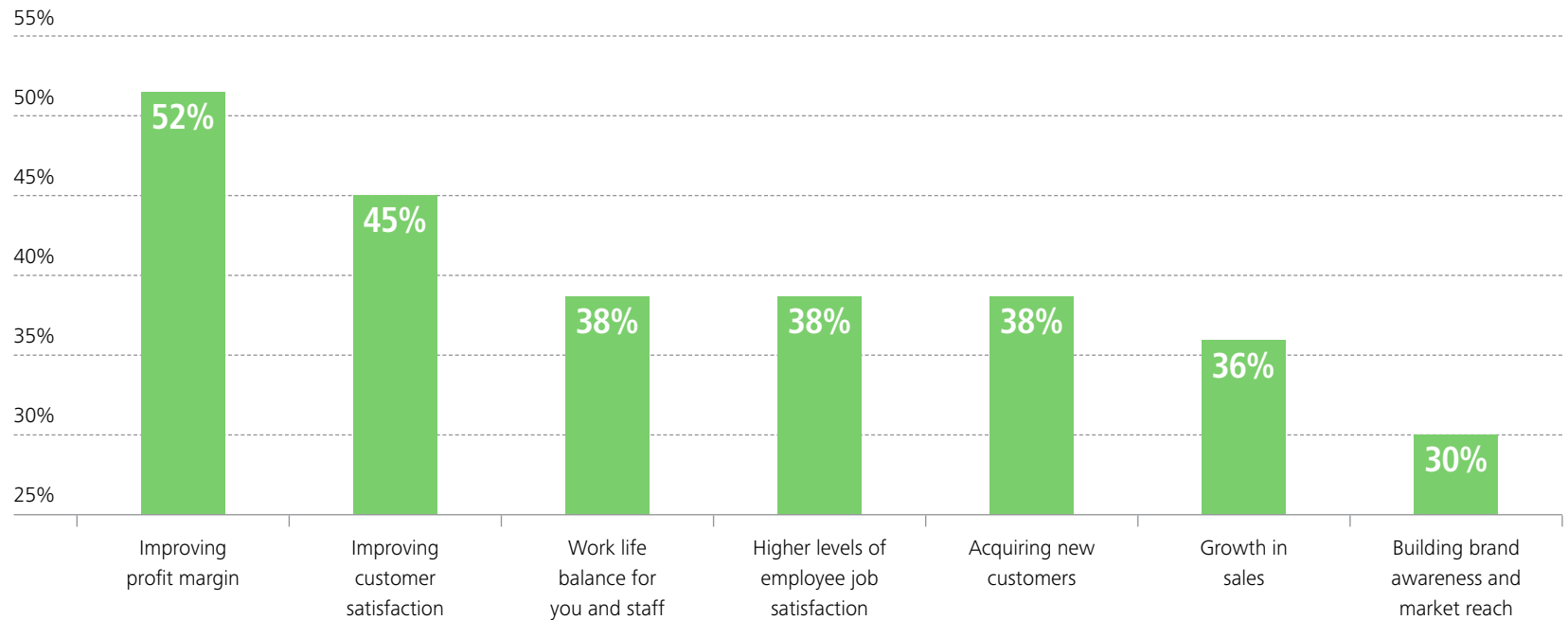


Question: *Which of the above digital trend do you believe most affecting your business?*

- SMBs are increasingly influenced by different types of technology.
- Internet, Mobile and Cloud are the top 3 Influences
- Most noticeably, cloud has increased its importance from 8th to 3rd.

Aspirations and planning

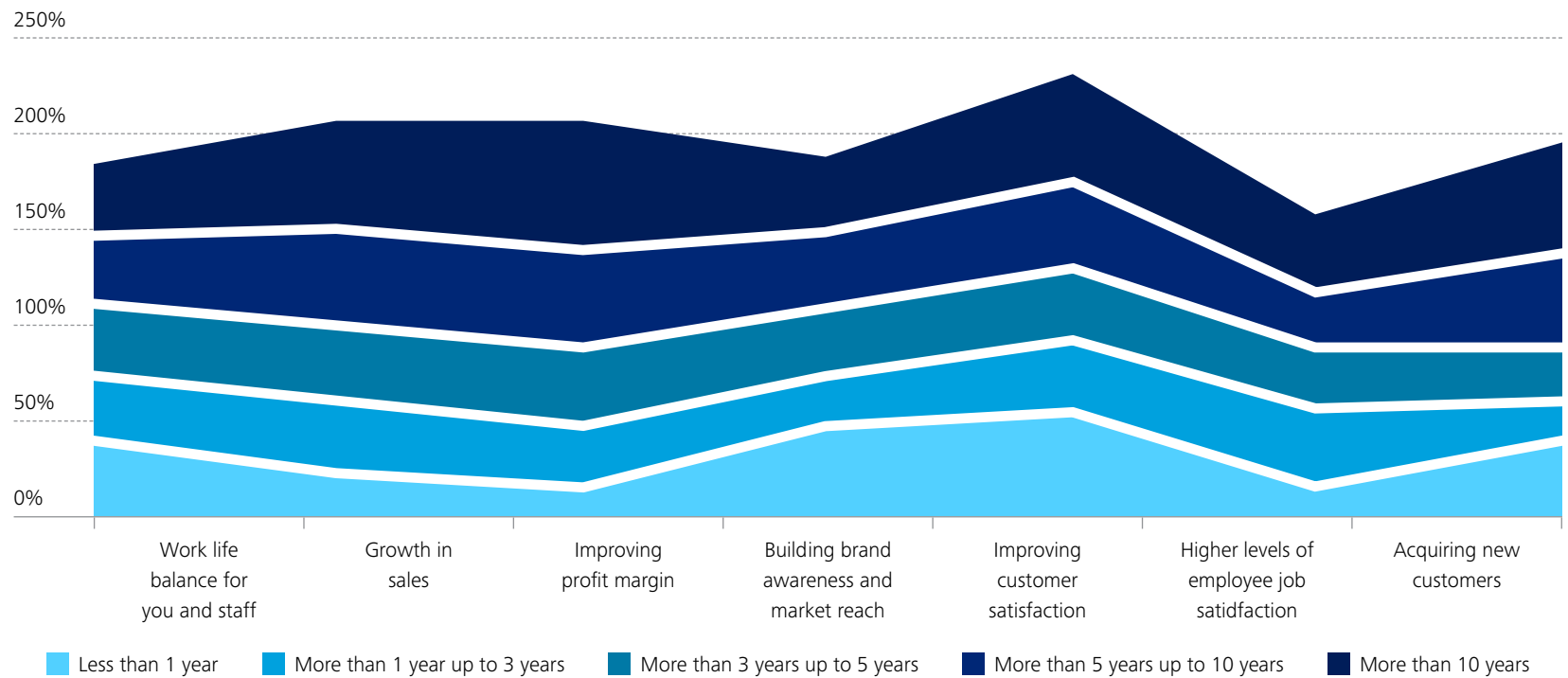
Commercial objectives clearly important



Question: *What are the key goals or measures of success for your business?*

- Improving profit, growing sales, and greater customer satisfaction are most common themes of business objectives
- Most SMBs are not concerned with achieving larger scale, they are content with their current operations and just want to improve their profitability.

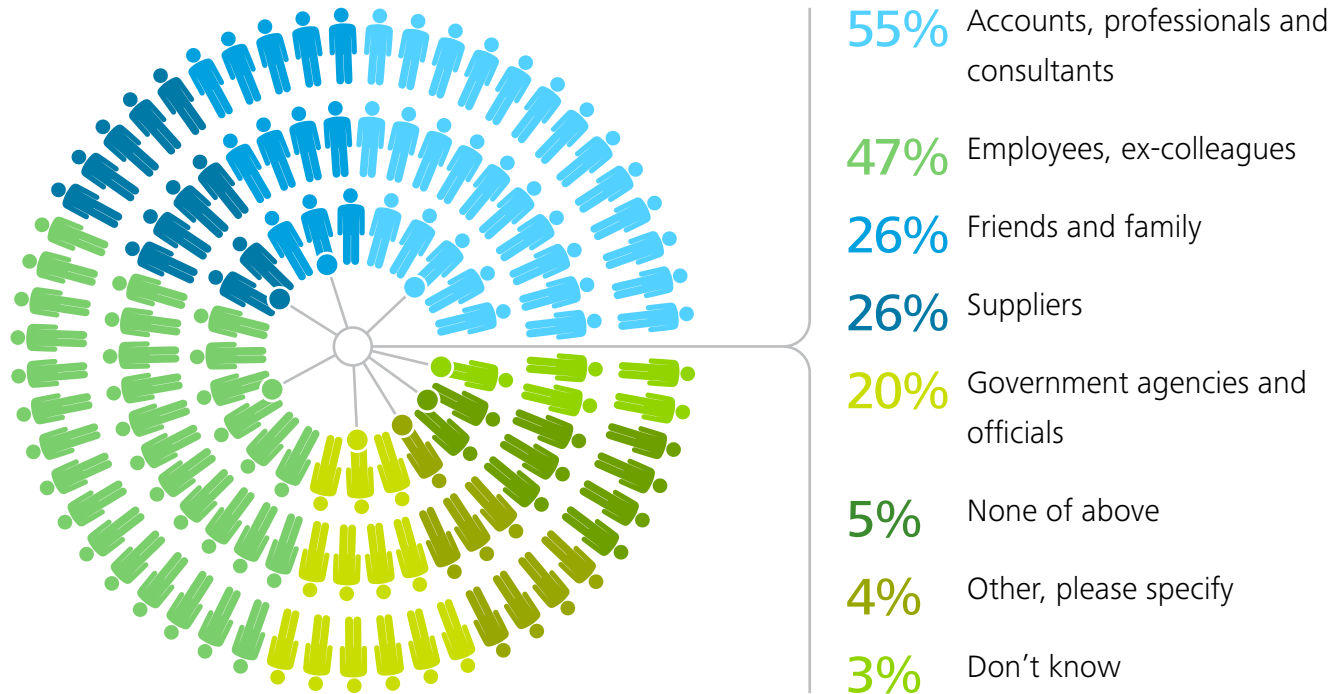
Start-ups vs. Established SMBs



Question: *What are the key goal for you and your business?*

- Relatively new to market SMBs tend to focus on profit and sales less than more established SMBs, and more emphasis on customer satisfaction, building brand awareness and market reach.
- Growth in profit and sales is among the most common goals for more established SMBs.

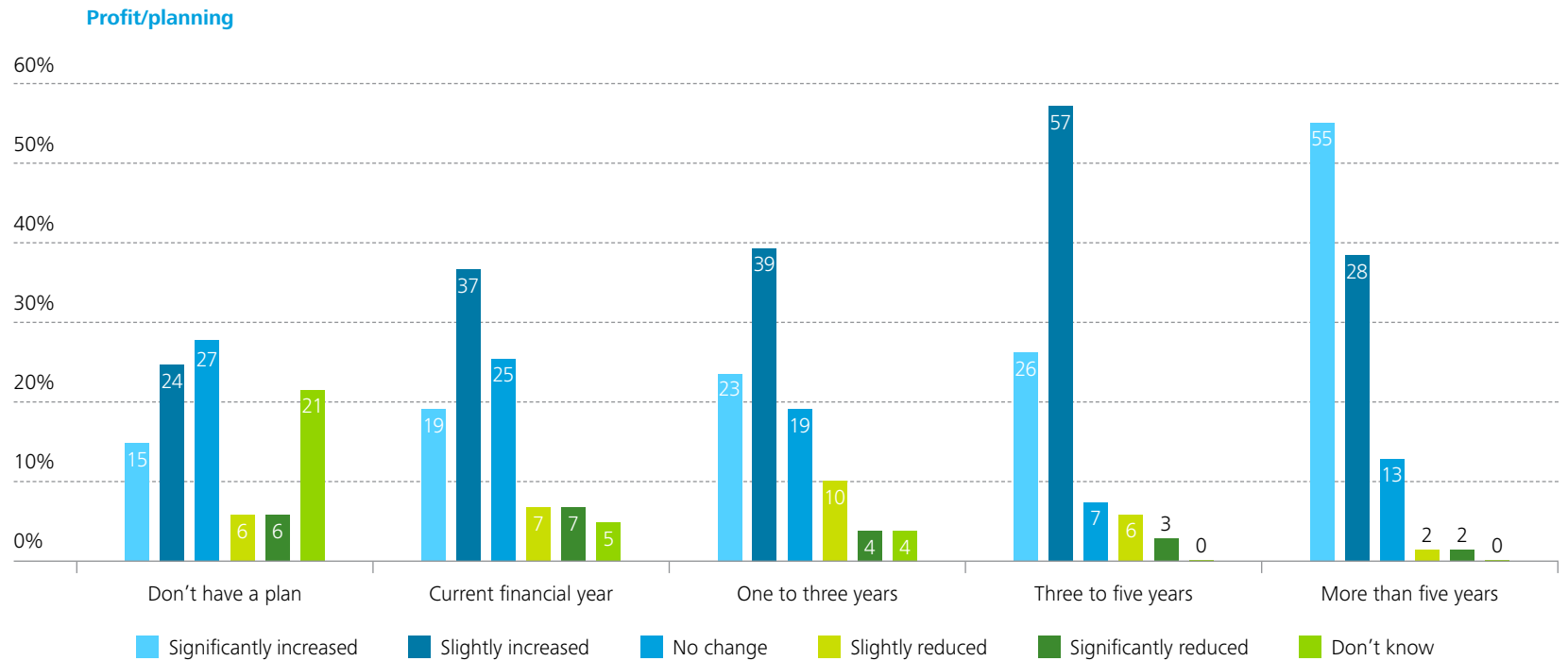
Business Advisory



Question: *Who do you trust to provide you with advice or ideas for your business? (multiple selection)*

- Most trusted SMB advisors include Accounts/Professionals/Consultants and Employees.

Business Plan



Question: *Do you have a business plan? If so, what is your planning horizon? How has the profitability of your business changed over the last two years?*

- SMBs with longer business plans are likely to see their profit increasing over time.
- 55% of businesses with longer than 5 year planning horizon expect a significant increase in profitability, whereas only 15% of those that didn't have a plan expect the same outcome.

How should SMBs respond?

Customer

SMBs need to constantly assess their marketing spend to ensure they are attracting and converting customers at the least cost in a cluttered local market with increasing global competition. New digital players can be channels for sales, not just competitors. Some of your business customers might be your next collaborators.



Cloud and 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.



Agility

In the beginning, it can be best for a business to have a narrow focus and become famous for something. But over time, agility is important. Businesses that can move fast stay profitable.



Staff

As SMBs grow and expand, attracting skilled and experienced employees becomes increasingly important. There's a war for talent in the Australian market. SMBs should get serious with staff recruitment and retention, including digitising the workplace and focusing on employee engagement.



Gather the smarts

SMBs owners should recognise their limitations. They should be able to recognise a gap in experience and skills and outsource these functions accordingly. In some situations, the best approach may be an alliance or team structure with other businesses to deliver the best solution.



Redback Conferencing

Making Distance Obsolete



SMBs need to avoid commoditised services and differentiate

Redback Conferencing is a teleconferencing and online events business founded in 2007. It expects to host 1200 events this year.

According to Redback Conferencing CEO Jeff Downs SMBs need to avoid commoditised services and differentiate. That is why Redback is moving from standard teleconferencing to providing a high quality events service. "Don't try to be a biggest guy in the market, but try to be biggest guy in the room."

There were early struggles to get services to market in the first 18 months. The next step for the business required a 'leap of faith'. "Business owners have to stop working IN the business and start working ON the business, empowering employees."

Building employee engagement is very important for success, especially in SMBs. Hiring for cultural fit, not just skills, is a good strategy. Also important are offering an attractive working environment, and recognising that employees have their own aspirations for the business and their personal lives.

Revelian: *The People Analytics Company*



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.

An innovative Australian company at the forefront of providing psychometric tests, surveys, games and communication analytics for businesses.

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."

Revelian's technical expertise is leveraged with best practice cloud platforms to manage its operational systems including accounting, expense management and CRM. Revelian CEO Warwick Kirby says, "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 is all about open application programming interfaces."

Cohen Handler

Real Estate 2.0

COHEN HANDLER

You need an edge to win, if you're doing what everyone else is already doing, you don't have an edge.

Cohen Handler is an Australian-based property buyer's Real Estate agency.

For Cohen Handler, that competitive edge is about delivering a hassle free and efficient way of buying property.

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.

As the business has grown, culture was among the biggest challenges facing Cohen Handler, the collaboration between the team started to lose momentum. "I believe this was a sink or swim time for the business as culture is king."

The ability to capture leads purely on the cloud also helps the business to scale quickly, without overall reliance on sales representatives.

Research Methodology and Sources consulted



Background research

- Desktop research of existing SMB publications and statistics
- Informing overall project scope and survey design.



Survey

- Deloitte designed the survey in conjunction with Salesforce
- Stancombe Research and Planning carried out the fielding to 502 SMB owners/managers across Australia and New Zealand
- Survey fielded between 4th Sept 2014 and 16th Sept 2014
- 31 questions in total covering 19 industries.



Consultations

- Individual consultation was conducted with three middle market Australian companies including Revelian, Cohen Handler and Redback Conferencing.

Sources

- Australian Bureau of Statistics, 8167.0 Selected Characteristics of Australian Business
- Australian Bureau of Statistics, 8219.0 Business Use of Information Technology
- ACMA (2014), Communications report 2012 – 13 series: Report 1 – Australian SMEs in the digital economy
- Australian Taxation Office (2010), Understanding the Small and Medium Enterprise Market
- CPA Australia (2013), The CPA Australia Asia-Pacific Small Business Survey 2013
- Deloitte Access Economics (2013), The Connected Small Business
- Deloitte Access Economics (2013), Digital Disruption: Short Fuse, Big Bang?
- Feng et al (2012), Customer orientation for decreasing time-to-market of new products: IT implementation as a complementary asset. *Industrial Marketing Management*, 41, 929-939.
- RBA (2012) Small business: an economic overview
- Telstra (2007), SME trends and achievements
- Telstra (2007), Australia's future and the challenge for SMEs
- Telstra Business, Back to business survey series (2009 – 2011)
- Salesforce (2013), Secrets to Business Growth: Tips from 3 successful entrepreneurs
- Sensis, e-Business report series (2012 – 2013)
- Yellow pages (2013), Yellow social media report

This publication contains general information only, and none of Deloitte Touche Tohmatsu Limited, its member firms, or their related entities (collectively the "Deloitte Network") is, by means of this publication, rendering professional advice or services.

Before making any decision or taking any action that may affect your finances or your business, you should consult a qualified professional adviser. No entity in the Deloitte Network shall be responsible for any loss whatsoever sustained by any person who relies on this publication.

General use restriction

This report is prepared for Salesforce. This report is not intended to and should not be used or relied upon by anyone else and we accept no duty of care to any other person or entity. The report has been prepared for the purpose set out in our Standard Form of Agreement dated August 2014. You should not refer to or use our name or the advice for any other purpose.

About Deloitte

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee, and its network of member firms, each of which is a legally separate and independent entity. Please see www.deloitte.com/au/about for a detailed description of the legal structure of Deloitte Touche Tohmatsu Limited and its member firms.

Deloitte provides audit, tax, consulting, and financial advisory services to public and private clients spanning multiple industries. With a globally connected network of member firms in more than 150 countries, Deloitte brings world-class capabilities and high-quality service to clients, delivering the insights they need to address their most complex business challenges. Deloitte has in the region of 200,000 professionals, all committed to becoming the standard of excellence.

About Deloitte Australia

In Australia, the member firm is the Australian partnership of Deloitte Touche Tohmatsu. As one of Australia's leading professional services firms, Deloitte Touche Tohmatsu and its affiliates provide audit, tax, consulting, and financial advisory services through approximately 6,000 people across the country. Focused on the creation of value and growth, and known as an employer of choice for innovative human resources programs, we are dedicated to helping our clients and our people excel. For more information, please visit Deloitte's web site at www.deloitte.com.au.

Liability limited by a scheme approved under Professional Standards Legislation.

Member of Deloitte Touche Tohmatsu Limited

© 2014 Deloitte Touche Tohmatsu.

MCBD_Hyd_10/14_50881