



14 December 2017

Digital Economy Strategy Team
Department of Innovation, Industry and Science
GPO Box 2013
Canberra ACT 2601

By email: digitaleconomy@industry.gov.au

Dear Digital Economy Strategy Team

The Digital Industry Group Incorporated (DIGI) welcomes the opportunity to make a submission to the Department of Innovation, Industry and Science on the Digital Economy Strategy consultation paper.

DIGI members include Facebook, Google, Microsoft, Oath and Twitter who collectively provide various digital services to Australians ranging from Internet search engines to digital communications platforms. These services and platforms facilitate new distribution, marketing and revenue generating channels for Australian businesses and content creators. They are also driving fundamental changes to the way that business is conducted and content is created and distributed.

DIGI thanks the Department for the opportunity to make this submission. If you have any questions or require any additional information, please let me know.

Kind regards,

A handwritten signature in black ink, appearing to read "N Buskiewicz", with a stylized flourish at the end.

Nicole Buskiewicz
Managing Director
DIGI

DIGI Submission on the Digital Economy Consultation Paper

1. Background: how Australian households and businesses use digital services

Before turning to specific questions raised in the Consultation Paper, we wanted to provide, by way of background, some insights into the ways in which digital services are used by Australian households and businesses, and the benefit that this has within the Australian society and economy.

McKinsey&Co found that while digital services have the potential to deliver significant economic and societal value, this benefit is only just starting to be realised. Specifically, McKinsey found:

“The speed and scale of adoption of social technologies by consumers has exceeded that of previous technologies. Yet consumers and companies are far from capturing the full potential impact of these technologies. Indeed, new uses, technical advances and social business models will evolve, driven by user innovation and advances in technology.”¹

a. Consumer and social benefits

Many aspects of Australian daily life are now being conducted online. People are able to stay in touch with family and friends throughout the day, across cities, across the country and around the world, and also receive news and information instantaneously. Research has shown that this has improved people’s sense of well-being. For example, in a recent Facebook study, researchers found that: “the more people talking one-on-one, such as writing wall posts or comments, especially with close friends, the more their well-being improved”².

Many DIGI member services are used for socially beneficial purposes, including:

- Microsoft’s Skype Translator, which now allows for audio translation in real time across 60 languages including English, Russian, Spanish, French, German, Chinese (Mandarin), Italian, Portuguese (Brazilian) and Arabic, enabling more people to connect across the world.
- Google Maps, which was engineered in Australia, saves Australian users 29 hours on the roads, on buses and trains and walking.
- And Twitter, which operates in over 40 languages and gives everyone the power to create and share ideas instantly, bringing people together across national, social and cultural boundaries.

¹ The social economy: unlocking value and productivity through social technologies, 2012, McKinsey&Company, p.3 <http://www.mckinsey.com/industries/high-tech/our-insights/the-social-economy>

² The Relationship between Facebook Use and Well-Being Depends on Communication Type and Tie Strength, Facebook research paper, July 2016.
<https://research.facebook.com/publications/the-relationship-between-facebook-use-and-well-being-depends-on-communication-type-and-tie-strength/>

The proliferation of content, applications and services available online has delivered enormous value directly to consumers. This includes greater consumer access to information, banking and healthcare, communities of common interest, new forms of media and entertainment, and civic participation.

b. Business and economic benefits

DIGI members make a significant contribution to Australian businesses, including those in traditional sectors, which can transform and evolve thanks to digital technologies. Indeed, Deloitte's The Connected Continent II Report found that "digital businesses are not a standalone industry category that sells to non-digital businesses; digital technologies are a strong part of the core and operation of these businesses [across different sectors],"³ and there are countless examples of Australian businesses utilising digital tools and services to grow their business.

One example is Quadlock, a Melbourne start-up that has used digital services and advertising to grow their business that now exports to over 100 countries⁴. Similarly, Vuly, an Australian trampoline manufacturer, which started off as an online-only business has grown rapidly since its inception, with annual revenue from its Australian retail operations increasing from around \$1 million in 2007 to around \$30 million in 2016. Today, Vuly trampolines are sold across a number of countries in the Americas, Europe, and the Middle East.⁵

McKinsey also found that social technologies (being technology that allows people to connect and communicate online) can improve knowledge worker productivity by 20-25%⁶. While in a recent study, Deloitte Access Economics found that small to medium sized businesses that have advanced levels of digital engagement are 1.5 times more likely to be growing revenue, are 8 times more likely to be creating jobs, are 7 times more likely to be exporting, and are 14 times more likely to be innovating by offering new products and services, compared to businesses with basic levels of digital engagement.⁷ At the macro level, in 2015, Google's digital technologies supported \$15.1 billion in benefits for Australian business:

³ The Connected Continent II: how digital technology is transforming the Australian economy, Deloitte, 2015, p.2

<https://www2.deloitte.com/content/dam/Deloitte/au/Documents/Economics/deloitte-au-economics-connected-continent-ii-2015-300315.pdf>

⁴ Facebook Business, Success stories, Quadlock. <https://www.facebook.com/business/success/quad-lock>

⁵ Connected Small Businesses 2016, Deloitte Access Economics, p.10.

<https://www.deloitte.com/au/connected-small-business>

⁶ The social economy: unlocking value and productivity through social technologies, 2012, McKinsey&Company. <http://www.mckinsey.com/industries/high-tech/our-insights/the-social-economy>

⁷ Connected Small Businesses 2016, Deloitte Access Economics, p.2.

<https://www.deloitte.com/au/connected-small-business>

“although different concepts, this economic activity is broadly equivalent in scale to half the annual output of the agriculture industry and double the size of the airline industry”.⁸

Microsoft’s partner network includes over 10,000 partners, of which almost 70% are Australian small businesses, employing close to 300,000 Australians and contributing \$20billion annually to the Australian economy. (Capitlalis, 2016)

Against this background, DIGI believes that the many success stories of Australians engaging digital services to their benefit, some of which we have highlighted above, supports the observation made in the Consultation Paper that “digital technologies have immense potential to drive competition, innovation and productivity”⁹.

2. Specific comments on matters raised in the Consultation Paper

a. The role of government [in enabling and supporting the digital economy]

i. Meaningful and considered consultation

We believe the Government has a significant role to play in enabling and supporting the growth of Australia’s digital technology, starting with meaningful consultation on issues affecting the digital industry. DIGI and members already proactively and collaboratively engage with various levels and areas of Government, including the Office of the eSafety Commissioner, the Attorney-General’s Department, and law enforcement. However, we are concerned that government-run consultations do not always given stakeholders a reasonable opportunity to participate. For example, there have been two recent instances when stakeholders were given 1½ and 3½ business days respectively to review and provide feedback on draft legislation. While we understand there are political and government deadlines that must be met, such short timeframes make it extremely difficult to give considered policy advice, and give the impression of tokenistic consultation.

ii. Principles-based and technology-agnostic regulation

In the past 12 months alone, DIGI and members have participated in a number of consultations around important policy issues such as copyright reform, countering violent extremism, privacy and data protection, online safety and digital literacy. Given the fast-moving nature of technology, it’s important that government policies and regulation of these policy areas are principles-based, technology agnostic and mindful of the limitations of technological solutions that can sometimes arise. We appreciate that technology policy can be a complex and highly technical area, and are always happy to brief government about the technical aspects of our respective technologies and platforms.

⁸ Google Economic Impact: Australia 2015, AlphaBeta, 2015 p.9
http://media.wix.com/ugd/f01257_178469dfca6e48ef9ae11f34efb2ff0b.pdf

⁹ p5

iii. Policies that encourage innovative solutions

By the same token, it's important that government policies encourage the industry to develop innovative solutions to social problems, rather than create disincentives. One example where industry has been discouraged to innovate is the Government's recently introduced *Enhancing Online Safety (Non-consensual Sharing of Intimate Images) Bill*, which in its current form treats websites that exist solely to distribute intimate images in the same manner as good actors like DIGI members, all of whom invest heavily in tools to remove such content when they are notified of its existence.

iv. Coordinated approach to stakeholder engagement

In recent times, DIGI and members have participated in a large number of consultations relating to the digital industry, some of which overlapped and created a significant duplication of efforts (both on the industry and government side). For this reason, we believe another important role for Government is to ensure there is a coordinated approach to the various policies and reviews that are undertaken in relation to the digital industry and economy.

b. Digital literacy

i. Media literacy

We all have a responsibility to develop the skills required to understand what we read online. There are things everyone can do to improve their digital literacy, but it's particularly important that we educate the next generation on the changing media landscape.

DIGI members are taking action to help people skill up and improve their digital literacy. Initiatives include working with news publishers as part of global consortium focused on helping people make informed judgments about the news they read and share online¹⁰.

ii. Empowering young people with skills to counter hate speech

DIGI has also partnered with a number of government and youth organisations to promote tolerance and reject hate speech online. Most notably, in coordination with the Attorney-General's Department, we hosted [DIGI Engage](#), a youth forum for over 100 Australian youth focused on promoting diversity and respect in our society.

We are also exploring opportunities to better leverage our partnerships with organisations like the Alannah & Madeline Foundation, who have a number of high impact initiatives in the digital literacy and education space, including their eSmart Digital Licence and eSmart Schools program.

¹⁰ See for example [The News Integrity Initiative](#), and the [First Draft Coalition](#).

c. Enabling SMEs

DIGI discusses the significant opportunity economic opportunity that technology and the internet has created for Australia's SMEs in a recent submission to the House Standing Committee on Industry, Innovation, Science and Resources, to which we refer the Team.



15 December 2017

Committee Secretary
House Standing Committee on Industry, Innovation, Science and Resources
PO Box 6100
Parliament House
Canberra ACT 2600

By email: ijsr.reps@aph.gov.au

Dear Committee Secretary

The Digital Industry Group Incorporated (DIGI) welcomes the opportunity to make a submission to the House Standing Committee on Industry, Innovation, Science and Resources inquiry into impacts on local businesses in Australia from global internet-based competition.

DIGI members include Facebook, Google, Microsoft, Oath and Twitter who collectively provide various digital services to Australians ranging from Internet search engines to digital communications platforms. These services and platforms facilitate new distribution, marketing and revenue generating channels for Australian businesses and content creators. They are also driving fundamental changes to the way that business is conducted and content is created and distributed.

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Nicole Buskiewicz
Managing Director
DIGI

Submission on the Impacts on local business from global internet-based competition

Overview

The Digital Industry Group Inc (DIGI) is well placed to provide insights on two of the five key questions put by the House Standing Committee on Industry, Innovation, Science and Resources, notably;

- What are the consequences for small businesses in terms of new competition and access to digital platforms?
- How are small businesses responding to digital change and what is their uptake of new digital business services?

There is strong evidence showing that the economic and business opportunities created by technology and digital platforms to Australian small to medium businesses (SMBs) are substantial. Using research and case studies, this submission will highlight these opportunities - as well as the many benefits - that technology has afforded this important sector of Australia's economy, using research and case studies.

Section One: The economic opportunity accruing to Australia's SMB sector through technology

- 1. The Internet has had a profound impact on commerce around the world.** The Web, social media, online search, mobile apps, cloud computing, and countless other Internet technologies have facilitated cross-border data flows and trillions of dollars in economic activity. These technologies have made it easier for businesses of any size to find new customers, boost sales, increase productivity, and invest in innovation. At the same time, the Internet has lowered barriers to starting a new business and offers entrepreneurs unprecedented scale and resources.

New insights into how Australian small businesses use online tools were made available as part of the launch report for the [Future of Business](#) collaboration announced in February 2016 between Facebook, the OECD and the World Bank. In the first seven months to September 2016, 5000 small businesses on Facebook in Australia responded to the survey via email and revealed that on average, small businesses in Australia use online tools to:

1. Provide information (95%)
2. Advertise to potential customers (92%)
3. Communicate with customers or suppliers (92%)
4. Show products/services (92%)
5. Sell products/services (82%)
6. Manage internal business processes (56%)

AlphaBeta has also found that;

- Australian SMBs attribute around \$90 billion of income to the Internet; and
- 1 in 3 SMBs receive orders via online platforms.

- 2. Businesses are able to reach global markets using technology.** All kinds of businesses, from the largest e-commerce sites to the smallest local businesses, are able to reach new markets through technology. Today, every business can be a “micro-multinational” and take advantage of the ~3 billion consumers online.

The January 2017 report for the Future of Business Survey mentioned above, which focused on small businesses and international trade, found that:

- Digital presence matters for international trade: 17% of small businesses with a digital presence are engaged in international trade. But small businesses that have yet to trade internationally face challenges including market access limitations and other customs and foreign country-specific regulations.
- Small businesses engaged in international trade are more confident about the present and near-term outlooks of their businesses than non-traders. And these small businesses attribute growth — in revenue, resources, and jobs — to their use of online tools to trade internationally.
- Small businesses that use digital tools for a higher number of purposes are more likely to engage in international trade.

Of potential interest to the Committee, from March to May 2017, 10% of small businesses in Australia reported in the Future of Business Survey that they were trading internationally, including 17% exporting.

Google is helping SMBs make the most of the opportunity to reach global markets by offering tools and services they can use to grow and promote their businesses online. Some examples are: [AdWords](#), [Google My Business](#), [Google Translate](#), [Global Business Map](#), and [Google Analytics](#).

Microsoft also provides a range of tools to assist small businesses to embrace the benefits of digital technology and tap into global marketplaces on its [Digital Transformation site](#), and to advertise their wares to global customers through [Bing Ads](#).

eBay’s platform is particularly beneficial for its 40,000 Australian small business users, providing an ecommerce gateway to global sales. In partnership with logistics companies, SMBs - including those in regional or remote locations - can see and ship to 171 million eBay shoppers worldwide.

Oxford Economics recently quantified the likelihood of export incidence for digitally engaged SMBs, noting the web, social media, online search, mobile apps, cloud computing, and countless other Internet technologies are facilitating cross-border trade and data flows, generating trillions of dollars in economic activity.

Oxford found a strong growth dividend for the Australian economy if more small businesses were to embrace digital tools and technology, potentially driving the creation of up to 10,500 jobs and addition of \$3.3 billion to Australia's export sales.

Small businesses with high levels of digital engagement are not only more likely to find new overseas customers, but also more likely to be accessing new sources for products and services – in other words, the web is opening Australian SMBs to a broader spread of potential suppliers and trade partners.

3. Technology is part of the solution, and is being used to create more opportunities for SMBs in both new and traditional industries

Facebook's Economic Impact Report 'Small Businesses are Growing with Facebook in Australia' (2017) found that:

- More than 1 in 3 small and medium-sized businesses on Facebook built their business on the platform
- 46% say they've been able to hire more employees due to growth in demand since joining the platform
- 61% say they have increased sales because of the platform
- 59% of SMBs on Facebook believe the platform allows them to sell products or services to in other cities, states or countries
- 69% of SMBs on Facebook state that the platform helps them attract customers
- 62% say digital and social media skills are important when thinking about hiring a new employee, more than where an applicant went to school, and
- 78% of SMBs believe Facebook helps to connect people in their local community.

Google's machine-learning [software](#) is available for free, so people can take the software, change it and build on it to create new opportunities: whether it's about helping businesses with time-consuming, repetitive tasks (eg. [sorting cucumbers](#)); helping researchers develop forecasting or analysis models (e.g. [forecasting electricity prices](#)); or helping small startups like Tribe [supercharge their products](#) to take on bigger competitors.

Yahoo Small Business offers SMBs [domain names](#) to establish their presence online; [Website Builder](#), which enables them to build websites using a simple DIY Tool; [Web Hosting](#), to build web applications and advanced websites; [business email](#); [Localworks](#), which enables them to be found in online search engines and directories; and [Ecommerce](#) tools to launch an online store.

Online platforms can also be used to help workers and business owners build new skills that may be useful for jobs of the future. On YouTube, for example, you can learn [new language](#), prepare for a [job interview](#), or even take a full [course in machine learning](#).

Even the most traditional sectors of the Australian economy, like agriculture, can benefit from the use of global digital platforms. Using Internet of Things technology, Microsoft's Azure Machine Learning and apps, Australian start up [The Yield](#) works with primary producers to measure and predict hyper-localised growing conditions - taking the guesswork out of farmer with live data and insights. This ensures that farmers can better manage the impact of changing weather events, potentially costing growers hundreds of thousands of dollars every year.

4. **But companies are not the only beneficiaries.** Millions of developers, musicians, authors, and other types of creators can now instantly reach a global audience and make a living doing what they love thanks to the digital distribution platforms made possible by the Internet. And consumers benefit from the increased choice, competition, and efficiency that the Internet promotes.
5. **Digital engagement has become a critical ingredient to SMB success, and drives greater productivity and higher revenue growth.**

Data from the Deloitte-Google series of national SMB surveys shows those businesses with an advanced level of digital engagement are;

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

From previous research, we know that this cohort is also;

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

To help close the gap in digital skills and help small businesses make the most of the web, Google also launched the [Digital Garage](#): a free online training platform. In its first year, Google had more than 50,000 Australians visit the The Digital Garage online and, their national traveling training roadshow has directly engaged thousands of SMBs. The platform includes almost 90 training modules; everything search to social media to digital marketing, to help small businesses grow online.

Microsoft also published a report based on in-depth interviews with 30 Australian organisations called [Embracing digital transformation: Experiences from Australian organisations](#).

The report finds that there is no one size all approach to embracing digital transformation. It recommends breaking down the digital transformation task into the

core areas of engaging with customers, empowering your employees, optimising your operations and reinventing your products and services. It also covers some of the challenges businesses likely to come up against such as finding the right people to help you make changes, reassessing the culture and mindset of your business, and setting out a clear vision for the future.

In a connected world, delivering great customer experiences is key to a successful business and Microsoft is seeking to ensure that all Australian business have access to tools and technology that make them successful. [Microsoft's small business blog](#) provides access to Australian-specific content, case studies, advice and notices of events, training and workshops.

6. The productivity link

Productivity enhancements associated with adopting digital technologies contributed over \$104 billion to Australia's GDP over the decade to 2014.

Given SMBs contribute about one third of gross value added in the economy, policymakers should consider the potential to stimulate continued digital engagement growth by the SMB sector.

Deloitte Access Economics and eBay Research also poses the following caution when formulating policies and regulatory frameworks for the digital and agile economy, as follows:

"The regulation of digital platforms needs to be considered very carefully because of the dynamic nature of digital business, and weighed up against how constraints on platforms may reduce their effectiveness in helping small business grow." Platforms, Small Business and the Digital Economy', 2017).

Section Two: Insights from Deloitte-Google research: the digital capability of Aussie SMB's

This report is the third in the [Connected Small Businesses](#) series on the use and benefits of digital tools in Australia's SMB sector.

These reports have found that Australian SMBs are becoming more digitally capable over time, as the digital landscape continues to evolve, and have also explored the financial and other business returns to more advanced levels of digital engagement.

In 2017, Deloitte surveyed 1,500 SMBs for a deeper dive into the factors driving a SMB's digital engagement – including region, industry and characteristics of the business owner.

1. Deloitte found an increase in the digital capability of Australian SMBs, and that the take-up of digital tools has been accelerating over time. For the first time, half of SMBs had high or advanced levels of digital engagement.

In 2017, the share of SMBs with basic digital engagement has fallen to 13%. This represents an improvement of 10% YoY, as businesses have moved up the engagement ladder. The YoY improvement matches the level of improvement observed between 2013 and 2016, suggesting the take up of digital tools has been accelerating.

2. Contrary to perception - some industries are over-indexing on engagement

Traditional industries such as mining, manufacturing and utilities (64% high or advanced) and trade and hospitality (60%) are highly engaged, contrary to perceptions.

These industries perform more strongly on digital engagement than knowledge industries such as professional and financial services, and health, education and public administration, of which the proportions of high and advanced digital engagement are 42% and 51% respectively.

3. Engagement drivers: personal perceptions and engagement

Understanding of technology use by prospective customers drives SMB engagement.

More than one-third of businesses with basic levels of digital engagement believe their customers do not 'normally' use technology, yet [ABS data](#) shows more than 85% of Australians aged 15 and over use the Internet in any given week.

4. Awareness and digital skills remain a barrier for the majority of SMBs

Many SMBs cite the inadequate skills of staff (19%) or their own lack of knowledge (18%) of how to use business tools as key barriers to greater digital engagement.

A recurring theme from past reports is that some businesses need to be convinced of the benefits and effectiveness of digital tools for their business. While this proportion of businesses has fallen by some 17%, more than one-third of SMBs remain in this category.

Equally of concern, nearly one quarter of businesses (24%) either have no plans to, or don't know how they will make plans, to address skills gaps.

5. Next steps

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

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

- Greater communication of the benefits of digital engagement;
- Increasing current knowledge and skills around digital tools to support use and take-up;
- Incorporating digital training to ensure skills stay up to date; and
- Identifying a business' barriers and where possibly, specifically addressing those limitations.

For businesses already at an intermediate or high level of digital engagement, it is important to maintain the momentum, to ensure they keep pace with new tools and technology.

Section Three: Case studies

Vinomofo



Vinomofo is an example of a business that, in little over 10 years, has grown from backyard start-up to one of the fastest growing technology companies in the nation, using the web and digital know-how to become a leading retailer of Australian wine (Deloitte Technology Fast 50, 2013).

The company has evolved several times, each with technology core to its purpose. Today Vinomofo employs more than 100 staff and caters to a membership of more than 540,000 wine lovers; shipping wine to members across Australia, New Zealand and Singapore. Over the next 18 months, Vinomofo is expecting to expand to China, the US and Europe.

Vinomofo's strength and success is in its customer relationship model. By putting its data to use, with rigorous measurement and careful analysis of customer preferences, Vinomofo is able to be more relevant in what they offer members via their purchase propensity engine, which assesses the likelihood of a customer to buy a given offer based on predictive analytics.

This focus on technology, and their direct relationships with producers, enables them to offer what they say are the best deals on the best wines in the country.

Artist Guitars



A childhood love of guitars and industrial design led Ian Bush to pursue a career in the music industry and, in 2009, he started Artist Guitars from his garage.

Turning to the web, Ian launched a website, online store and digital advertising, and Artist Guitars soon found its target market; people looking for high quality beginner guitars.

Before long Ian was shipping out guitars every day and business snowballed from there. With a proven product and business model Ian quickly realised Australian customers represented just a tiny fraction of his potential customer base and that if he could capture a similar beginner guitar niche market in all markets globally he would stand to grow enormously.

Operating as an online business made reaching customers abroad relatively easy. He started by broadening his website and digital marketing strategy to target customers in New Zealand and found this to be a great success. Since then Ian's replicated the strategy in the UK allowing him to tap into a market that's 3x the size of Australia.

From its Sydney head office, Artist Guitars has now served over 240,000 customers - and is looking to add more export markets to the mix.

HiSmile



Growing up, Australian entrepreneurs Nik Mirkovic and Alex Tomic always wanted to start a business and, in their early 20s, that's exactly what they did. By then, they had been actively seeking the right opportunity for a decade. They ultimately found that opportunity in the teeth-whitening field, which led to the creation of HiSmile, a vegan-friendly, cruelty-free teeth-whitening kit.

HiSmile offers one-off products and subscription services, and focuses on being an ethical, socially conscious company, while still delivering a quality product. Millennials love the product, but they are not the only ones. "In barely two years, the growing business has made over \$10 million from a customer base of 100,000 people worldwide," says Nik.

How did that happen? Much of it was because of Facebook. Nearly 100 percent of the company's marketing efforts take place on social media. The founders say Facebook helped them discover their target market via boosted posts. "We pushed so much content out because of social media. We got to see what content got the best interactions," says Nik.

With the company doing so much business on Facebook, they have amassed more than 650,000 followers across all their social platforms. Specifically, by allowing them to post gorgeous before and after photos, Instagram has been a top-performing outlet for the company. That has allowed them to continue to grow because they can see exactly what works and what customers want when shopping for teeth whitening products.