MYOB submission on *The Digital Economy: Opening up the Conversation* discussion document

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Forward

MYOB welcomes the opportunity to contribute to the discussion on the future of Australia's digital economy. We're passionate about how the power technology can simplify success for business and we believe our country is well placed to take advantage of the opportunities offered by digitisation.

In order build a successful digital economy, we need to look at trajectory and where we want to be, rather than the terrain around us now. Planning for the future in traditional linear ways needs to be re-thought. In a world where technology drives exponential change, we need to open ourselves up to new ways of building our businesses, our government and our society.

We're now in the second decade of a century that will see 1,000 times the progress of the last[1]. Change has always been a part of social, business and governmental life – but the amount and speed of that change is new. That is why we must look ahead.

This discussion document on the digital economy is timely, because many of the rules that govern commerce in Australia were written in an analogue age. If we are to realise the opportunities, we should plan to be brave, embrace a culture of openness and collaborate across different eco-systems.

All organisations – including government, private sector and education and training institutions - will need to be flexible about the ways in which others will tap into their eco-system. New ways of working together will be key. This will include a mindset shift in which we stop thinking about the periphery of our activity as room for potential extension; and instead embrace and empower others to build alongside our core.

For more than 26 years MYOB has been creating market-leading business management tools for businesses of all size across Australia and New Zealand. We're at the forefront of moving people to advanced cloud-accounting, payroll, payments and business management solutions, and we're incorporating the latest innovations in artificial intelligence and machine learning solutions into our services. We see ourselves as future makers.

To do this, we identify the technological and social trends that are shaping the world and think about how they will impact on our customers and our business in the future. We then look at what opportunities there are to innovate off these trends today. It does not mean setting up a ten-year plan that would inevitably be wrong. It means ensuring there is space in our thinking to focus on the future.

We think government, business and society could benefit from the same approach. We need to understand the technologies that are impacting society today, but to truly succeed we need to look over the horizon and prepare for tomorrow.

Tim Reed

CEO MYOB

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[1] Ray Kurzweil, *The Law of Accelerating Returns*

> *The innovation age should be good for Australia. For a modest-sized economy, we have deep science and technological capabilities in areas such as agriculture, health and new fields such as quantum computing. Yet our political and cultural debates are falling behind the technological and business transformation that is happening all around us."*
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> **Australian Financial Review, 19 Sept 2017**

Key points from MYOB:

1. We need to embrace a culture of openness, collaboration and recognise the importance of eco-systems and partnerships. Specifically:
   a. Think trajectory, not terrain
   b. Actively engage with the digital eco-system and be highly flexible in the arrangements you strike
   c. Don't feel threatened by the loss of possible future expansion or control, but rather encourage an eco-system that strengthens and expands the core
2. Government and some business structures mean the incentive to act this way can be lacking – being truly innovative in a commercial and regulatory sense will mean changing how we approach planning for the future. The old rules won't work in the new age
3. To set Australia up to prosper in the digital age we need appropriate regulation of data that protects rights and encourages innovation
4. The government should be in the platform business and look to ways it can open up and engage with the private sector to deliver the next generation of digital and public services (through sharing data and application programming interfaces)
5. We shouldn't be afraid of the digital economy – we should embrace the opportunities it brings
6. The cashless economy is coming – consumers are leading the way, but the government will need to take bold steps to make it happen

How is digital technology changing the world?

In response to the themes in questions: 1, 14, 15, 16, 18, 20, 21 and 22

MYOB has been helping Australian businesses succeed for more than 26 years. Then, as today, we believed in the power of technology to help businesses become more efficient, more productive and more profitable. They saw that technology had the potential to bring the tools that previously had been the preserve of larger enterprises to smaller businesses – to help them compete. For more than a quarter-century MYOB has been developing those tools, utilising the latest technological developments to help our customers and their advisors run their businesses better.

Today we operate in Australia and New Zealand. We have approximately 1.2 million businesses using our solutions daily. That is approximately one-in-two businesses in both Australia and New Zealand. Forty thousand accountants, bookkeepers and tax agents use our applications to run their businesses and to take care of the affairs of many of those small businesses engaging directly with the ATO and other regulators.

For MYOB, those 26 years have been a time of rapid change. When we started, most businesses did not have a computer. Certainly, the Internet was not around. The forms of communication and infrastructure that we can leverage today simply did not exist. Over these years, we have built a very loyal set of customers that reflect the diversity of our nation. There are customers in regional and rural areas through to customers in the suburbs and the cities. There are businesses that were started yesterday to those that were started 25 years ago. Our clients span the generations too, from teenagers through to people in their 70s and 80s. All of them are dealing with the topics and challenges considered by the working paper.
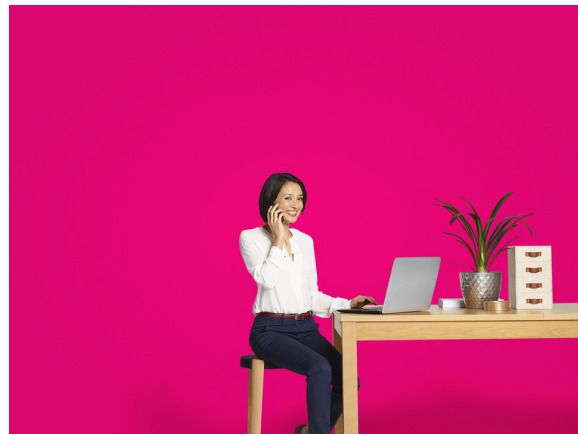
After more than two decades of rapid change and evolution, businesses that have developed in the information age are used to the notion of disruption. MYOB's latest Business Monitor survey of more than 1000 SMEs has highlighted that SMEs are tuned into the need for digital innovation and are implementing technological strategies to help secure their future success.

The survey found 76 per cent had invested in technology as a means to innovate over the last 12 months, prioritising computer hardware or software, new machinery and up-skilling employees.

The findings also revealed that 78 per cent of SMEs believe advancements in technology will impact their business in the next decade; 40 per cent of which expected a significant impact.

This is important because the next phase of change, when the pace and scale of change grows exponentially and disruption becomes the driver of business innovation – will result in a new normal of constant revolution.

The key trends that business operators expect will alter their industry cover a broad range of technologies, many of which are rapidly advancing today. From improvements in connectivity and cloud computing, to robotics and machine learning, Australian business owners can anticipate significant change over the next decade.

The Automation Advantage report by AlphaBeta found machines will unburden the average Australian of an average of 2 hours of manual work over the next 15 years and will deliver $2.2 trillion boost to Australia's national income by 2030 ($1 trillion from accelerating the rate of automation and $1.2 trillion from transitioning the workforce)[2]. This shift will drive increases in non-automatable tasks like interpersonal interactions, synthesising information, creative activity and decision making – the things that add value to a business.

Digitisation is transforming how businesses manage their operations and make decisions. Manual tasks are being automated in a way that allows greater focus on the things that add value to a business – like serving customers, research and development or upskilling staff. MYOB has been at the forefront of building digital solutions to allow this transformation to occur.

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[2] http://www.alphabeta.com/the-automation-advantage/

As one of the country's leading fintech innovators, we see our role as setting the platform for other businesses to achieve success. Our development teams draw on the latest developments in artificial intelligence and machine learning to give business owners and managers ever more powerful tools for managing their operations. With more businesses connected to us than any other business software company, we feel a huge obligation to help our customers win in the digital economy.

Our vision for Australia and how to plan for it

In response to the themes in question 2.

MYOB's vision for a thriving digital economy is one where businesses can succeed by tapping into the opportunities offered by technological progress. All parts of the economy are likely to be affected by digitisation, but concerningly there are still many people who are unaware of the changes coming – or are resisting them.

Change does not need to be a negative, but we will need to think of actions to help businesses and individuals transition to new ways of commerce and working, so the costs of disruption are not crippling. Getting this right will be essential to enable Australia to extract the most benefit from the changes.

MYOB is playing a significant role in leading this transition, with the vision of the "Connected Practice", for accounting clients to leverage the power of automation tools in transaction processing and compliance and enable new income streams for practices in business advice.

In the past, practices have focused closely on the first two functions. However, the advent and popularity of cloud computing (and online accounting solutions in particular) has meant changes to earning potential for compliance-focused practices. Nowadays with automation (bank feeds, for example) becoming more and more common, practices must reconsider their business model – in particular how they bill, what services they offer, and (most importantly) what value they can provide to their clients. The concept of Connected Practice seeks to leverage the time savings that automation brings to transaction processing and compliance. It is focussed on bringing new income streams to the practice through business advisory services.

For MYOB, business is personal. Whatever fantastic developments await us, we need to keep what is important to people at the heart of our vision. Some of the tangible benefits of our technology include:

- MYOB Online users save over $3,000 pa on time spent doing manual bank reconciliation tasks
- Our bank feeds function saves MYOB Online service subscribers approximately half-a-day a month, every month, doing data entry and bank reconciliation
- MYOB Online users say they now spend half-a-day a month less, each month, on Payroll tasks
- 4 out of 5 Online subscribers say that the service provides extra security for the storage of their accounting information
- 9/10 say MYOB software has 'improved the simplicity' of their accounting & book-keeping processes and makes their reconciliation more accurate

We want to see every Australian benefit in our shared digital future – that means enabling every member of the community to take part, and designing engagement processes and interfaces to the digital world that take account of the different life stages and levels of digital.

It also means recognising the economic and cultural barriers that exist in society and ensuring everyone has equal opportunity to enjoy the benefits of a digital economy. At MYOB we've met our 40 percent target of placing women in entry level engineering roles and support initiatives like the DevelopHer programme to bring women without coding experience into our business to learn new skills. In addition, together with Infoxchange and the Monarch Institute, MYOB has launched the I CAN with MYOB program – with the aim of giving people with a wide range of ages, cultural and social backgrounds, and abilities the opportunity to become bookkeepers.

We're not saying the government or other businesses need to come up with 10-year development plans for Australia's digital economy. The problem with this approach it it'll inevitably be wrong, given people tend to overestimate the amount of change that will happen in the short term, and underestimate the amount of change that will happen in the medium-to-long term.

Further, it's an overly technocratic approach, when the focus ought to be about how people will benefit from the changes. MYOB's Connect Practice recognises this: we're taking the big technology trends that are changing society and building them into our tools for accountants – so that they can use their intuition, insights, creativity and relationships to build value for their clients.

Our trajectory-based approach to development means constantly looking at the world around us and evaluating what developments will have the biggest impact on society next decade, and then thinking about what we need to do now to be ready for that change.

Through partnering and engagement with industry, government can be at the forefront of technology changes and benefit from business's ability to embrace a digital economy quickly. We're encouraged by the work government is doing in this space – and are pleased to be part of the discussions. This work is vital if we're going to modernise legislative approaches and provide a framework to allow for more digital transformation.

How can government help unlock the digital economy?

In response to the themes in question 3.

The Australian government has a vital role to play in setting the "platform" for Australians to benefit from the digital economy and regulate the use of data.

"Platforms" play a vital role is digital life – they are both the computing environment in which software is executed, and a metaphor for the way digital services underpin the communications and connections that define the digital world.

The important thing to keep in mind is how platforms become intertwined with the provision of services. They are the building blocks for how the rest of the digital world connects.

The government should see the vast data sets and communication tools that it manages as platforms to underpin Australia's digital future. This means opening those data sets (with appropriate controls) to allow the creative spirit of the Australian people to innovate on top of those platforms.

The ATO is an excellent example here – it is building a digital platform and opening APIs to connect to providers such as MYOB and our competitors. Enabling access to this and other sources of government data on platforms that allowed us to connect and communicate with that data would open almost limitless opportunities for new financial services to be created.

Providing a platform for accessing health, or education data, gives us the chance to develop new and innovative ways of analysing the data to better improve the services themselves, or support development of new ones.

Obviously appropriate controls and protocols will need to be enacted to ensure Australian's retain control over any personal information, or data is randomised and anonymised – making identification of individuals impossible.

MYOB operates in this manner. We have built up a thriving eco-system of developers who innovate off the back of our products – connecting over 300 external add-ons through our application programming interface (API) This network effect means other software developers are building tools that connecting into our core system to offer innovative new services to customers that use MYOB.

With so much public business now done online, we'd love to see more government departments set up APIs for their systems. There are huge opportunities for government and businesses to work closer together to improve each other, drive effectiveness, productivity, innovation and network effects.

It's about understanding more will be done outside your business than inside; about being flexible in the ways in which people can tap into the eco-system. MYOB encourages people to not just think about the periphery of their core business as room for potential extension; we suggest embracing and empowering others to build with them, and in doing so strengthen their core.

Government also has an important part to play in ensuring all Australian's can participate in the digital economy. That role encompasses ensuring the next generation is equipped with the ability to take part in the digital economy, and the skills to build the digital solutions of tomorrow.

There are countless examples where the government could be educating people on specific issues and processes that support their engagement with the economy. From running events with industry and community groups, or through the public education and TAFE system seminars, through to support the education that other providers, such as ourselves or our competitors, provide to clients.

MYOB invests in training thousands of clients in how to use our services to connect with the ATO and other government services. Giving business owners the skills they need to participate in the digital economy is an ongoing process. It's not a binary on-off thing or a course that you do for one day.

It is the ongoing acquiring of skill that occurs day in and day out. A good example comes from our nation's banks – they've been great educators in this country because they taught people how to use digital interfaces to access banking. As MYOB brought more businesses into cloud accounting, we realised to take full advantage of the benefits the technology can provide, we needed to take our customers on a digital transformation journey. That meant online tutorials, workshops, blogs and community engagement pages where people could go for more information. It meant setting up smart tools in the software to help our customers get the most out of the service and designing the user experience to be as seamless and intuitive as possible.

There is no reason that government, representing one-third of the economy, could not be taking a similar perspective. As it further embraces its own digital transformation there is an important education element to keep in mind. Government needs to ensure tools, support and training are available to all parts of society.

This is important because allowing the digital divide between those that are fully engaged in the digital world and those that are excluded through ability, socio-economic background, age or language risks creating two types of citizen in our country and exacerbating entrenched disadvantage.

Regulating the use of data

In response to the themes in question 3.

MYOB believes the appropriate regulation of data will be critical in terms of setting Australia up to prosper in the digital age and clear rules in this area would assist businesses share data more willingly. In terms of our competitive advantage of a nation, having well thought through laws around the ownership, storage and use data will be key to ensuring we stay ahead of the innovation curve. This includes:

- Data Ownership: data should be owned by the customer (meaning customers can ask for access to data, give permission for data to be shared etcetera), but usage rights should be retained by the business for the purpose of innovation
- Data Rights: businesses should have the right to use the data in an aggregate form and retain data for commercial purposes. This means a customer should not be able to require a business to "delete" all data on them, particularly if it is needed to optimise systems or underpin auditability of key systems
- Data Sharing: once a customer requests data to be shared with another party, the original party should not be held accountable or liable for the security of that copy of the data. For example, if a client asks MYOB to share data, via our API, with another software business and that business is compromised or shares that data wilfully with another party, MYOB should not be liable
- Limited liability: there ought to be guidance on what liability should be when data breaches occur. There is an argument this should be limited to the revenue generated through the products and services that were paid for by the client. Having clear guidelines would ensure everyone understood the impacts of data breaches, as well as the accountability level of different services.

What does the future look like?

In response to questions 4, 5, 6, 7 and 8.

MYOB has operated on the leading edge of computerisation and now digitisation for more than 26 years. Our mission is to support businesses of all sizes succeed by using the power of technology to help them develop and grow.

Each year MYOB spends more than $50 million on research and development to improve our solutions, meaning our clients have the latest technology on hand to help them manage their business.

Our strategy is to look at the digital trends that are shaping society today and will do into the future, then think how our customers can benefit from incorporating them into our products.

This means not starting with a plan for the business; it means starting start with a view of the future of our industry and society.

For MYOB (and many others in the tech sector) these trends include:

- **Artificial Intelligence (AI) and Machine Learning** – using the power of computers to automate data collection and interpretation to provide a deeper level of insights and analysis. AI and machine learning is speeding up transaction processing for our customers with algorithms that 'learn' and improve as more information comes in, allowing accountants to take on greater advisory roles
- **Data and The Internet of Things (IoT)** – the vast amount of data that is created by more things connected to the internet is matched with improvements in computing capabilities to make use out of that data
- **People and the Nature of Work** – A new understanding of how and why people are engaged in work – then building tools to enable and support those ways of working. Our Connected Practice allows seamless processing of workflows between the accountant and his or her customers. Accessing content via mobile is another example – people can access info as it correlates to their life.
- **Organisations as part of eco-systems** – understanding the opportunities that will come as the boundaries between businesses, government and other entities breakdown

It's important to note these trends include both technological and social – but they shouldn't be thought of separately. They all interact with one another to build the digital economy that this discussion document seeks to understand.

Artificial Intelligence and Machine Learning

These days talk of AI is everywhere, with the underlying concern that its advancement will be a threat to jobs and industries of all kinds, and therefore presents a risk to social stability.

We're a bit more optimistic. We see new and different jobs springing as new uses of the technology become apparent – and the important thing to keep in mind is technology changes the parts of work that can be automated, leaving the human element for us to build upon.

So, instead of trumpeting the virtues of AI from the rooftops as previous pioneers have been inclined to do (from pride, excitement, and a need to source funding), technology companies have simply got on with embedding the technology into their products and systems.

"Artificial Intelligence (AI) is usually defined as the science of making computers do things that require intelligence when done by humans." Jack Copeland, 2000.

Data and The Internet of Things (IoT)

In the digital economy, anything that can be digitised, will be digitised.

Futurist Kevin Kelly tells the story of the first industrial revolution featuring the electrification of everything. Where once products and processes were built or produced by muscle power, the introduction of electricity meant these same products and processes could now be improved through electrification.

Today, just as the 20th century sought to electrify everything, the Internet of Things (IoT) will potentially connect everything – physical, virtual, human, animal, inanimate, and natural. Anything that can have a sensor embedded can produce data about behaviour and share that data on the internet.

By 2020 we are likely to have 50 billion different devices connected to the internet, possibly more.

Kevin Ashton, who lays claim to coining the term 'Internet of Things' in 1999, suggested in 2009 that the formative years of Internet information was mostly comprised of inputs from humans themselves. His vision of the Internet of Things (IoT) was letting computers track and gather data independently of humans, by embedding data gatherers in pretty much everything.

Today, humans are no longer the only creators. Rather, walking sticks and cars, fridges and windows and thousands, millions, billions of other newly cognified everyday items and gadgets are creating and transmitting data.

Unlike much of the human-generated data, though, this data has specific uses. It's things 'talking' to each other; things triggering actions without human intervention; things automating previously manual processes. THIS is the Internet of Things.

Why do we need an Internet of Things?

The IoT means improved automation, monitoring, measurement, insight, as well as new business opportunities and better product and service value.

For example:

- Devices communicating with each other can automate mundane processes. Using a service like IFTTT (IF This, Then That), we can trigger actions such as automatically saving Gmail attachments to OneDrive, or backing up photos to a Dropbox.
- Embedding sensors monitoring wear and tear in machinery means we can not only prevent downtime for machinery; we can predict it.
- A device's data anonymously sent back to the manufacturer can help to improve product innovation (or reveal new product opportunities).
- New business models using 'X as a Service', where X is a product - potentially given away or leased for no upfront cost - with the user charged only for reported use (for example, a fridge that tracks door opens; a tennis racket that reports swings; a walking stick that tracks distance).

The four IoT markets

- Consumer IoT: lightblubs, your phone, your fridge, your car, your electricity meter
- Commercial IoT: Logistics, healthcare, insurance – pretty much all services
- Industrial IoT: Vehicle production, mining, agriculture – pretty much all manufacturing
- Infrastructure IoT: electricity grids, public transport, roads – the Internet-connected city

The real value of IoT comes from the networking of multiple devices across various platforms. Take a shoe store. Its desired outcome may be to always have the necessary stock required to make sales, but not too much stock. How that's achieved isn't necessarily important; more that it's achieved at a good price and in a timely and effective manner.

IoT comes into play by:

1. Monitoring physical stock levels - through POS software recording sales like MYOB 's Kounta, which allows customers to run their business through the register, view real-time sales data, inventory and performance indicators on any mobile device, and integrate with accounting software in a powerful online platform

2. Monitoring shoe popularity - sensors on the boxes or storage shelves that track how often a box is removed for a customer to try the shoes. Similarly, shoes on display with sensors that record how often they're handled.
3. Tracking store traffic - not just counting the number of customers through the door, but where those customers spend the most time in-store
4. Analysing store and sales data from local and overseas locations
5. Leveraging low-cost logistics - booking freight options that report discount rates for half-full runs

This highlights the benefits for just one business. The effect on the whole economy from these kinds of productivity and efficiency gains will be enormous.

A digital future

Our customers in the future will hardly notice AI and the IoT doing their work for them. They'll go about the business of doing their business without entering a transaction or recording an invoice or approving a pay run. Frictionless transactions might enable that future, where the business advisor sets their client up with the accounting solution, while sensors in-store record data that feeds into the accounting solution managed by the business owner's advisor.

Sound far-fetched? Amazon Go will allow customers to shop without scanning their goods. No cashier, no self-scanning – simply walk in, select what you want, and walk out.

The Committee for Economic Development of Australia (CEDA) identified the probability that 40% of Australia's workforce (more than five million people) could be replaced by automation within the next 10 to 20 years. This is a common prediction but in the past new technology has not necessarily destroyed jobs but created new ones. We can't know what new jobs might emerge in the future but there will be more roles in the artificial intelligence industry as that technology becomes more mainstream. AI will disrupt industries though, some jobs will be lost, and people will need to learn new skills.

It's interesting to note that there have been around 1,500 new jobs created since 1990 – positions such as SEO specialist, web analyst, social media manager, vlogger (or blogger, for that matter). In most major cities, approximately 10 percent of workers are in one of those 1,500 roles.

The jobs of the future will be different than they are today. The biggest risk is to sit still and expect things to stay the same.

The cashless society is coming

At MYOB we believe Australia would be well served by moving away from cash.

A cashless society is no longer science-fiction and Australian businesses, governments and consumers are well placed to take full advantage of the shift. Already, we have made leaps in this direction, embracing technology such as Paywave, Apple Pay and Android Pay.

The way we pay for goods and services is constantly evolving. Next year cheques will be officially being phased out by 2018. Cashless is the logical next step. As with many monetary trends, the push is being led by consumers, but it will need government's support.

According to Reserve Bank of Australia research, consumers prefer to pay electronically for convenience and these days people are comfortable using debit and credit cards, even for small purchases. For MYOB clients it means they can email out an invoice to their customers with an embedded link. Their customers can click on the link, which will take them to a payments page where they can pay the invoice instantly, speeding up cashflow.
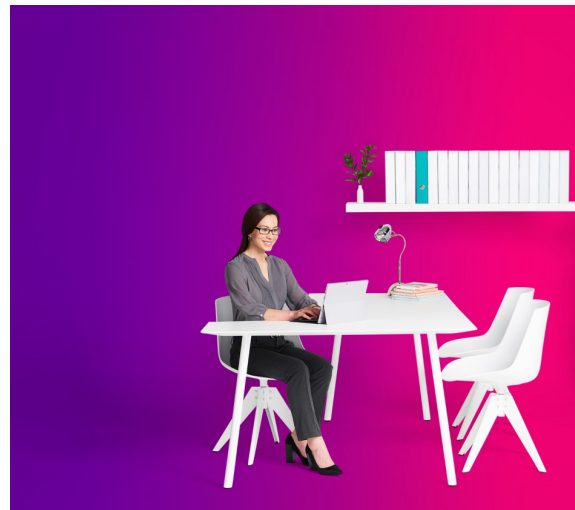
MYOB believes the cost of running a small business across the board would be lower if we moved to a cashless economy. The transactions that are captured electronically can flow in to the digital ecosystem. They will be captured by accounting platforms such as MYOB and flow right through to the tax system.

Consider the holding cost of cash across the economy. It is a hidden cost and is quite material. Getting rid of real cash would help speed up cashflow, right around the economy.

Going cashless would also eliminate the time and money it costs businesses to deal in cash. Businesses will reduce bank visits and avoid the need to balance the till. In many cases removing these tasks would cover extra credit card fees they may incur.

Even more costly to the country is the black economy. In this years' federal budget papers, the government estimated $25 billion worth of business being done off the books, leading to a black hole in government revenue.

The government's taskforce into the black economy will be investigating a move to a cashless society. Its initial report states: "The Taskforce also intends to examine whether there is any reason for businesses to operate on a cash only basis given the availability and increasingly low cost of non-cash payment methods today."

The government has a huge role to play here – and potentially stands to benefit the most. Ensuring that regulatory systems are preparing for this world by building the cashless vision into their forward plans is key. Consumers will get there before us – we need to make sure our business and governmental systems provide no hinderance to removal of the dead weight of cash.

In our view, the digital economy and the cashless economy will go hand-in-hand, driving more innovation simplifying success across society.