



**Small Business
Development Corporation**

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Digital Strategy Consultation Team
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THE DIGITAL ECONOMY: OPENING UP THE CONVERSATION

The Small Business Development Corporation (SBDC) is pleased to be able to provide its views on the Federal Government's Digital Economy Consultation Paper.

I am heartened to see that this critical issue is an area of national focus. The SBDC works with small businesses on a day-to-day basis and we know that while many of them are aware that they should be better engaging with the digital economy, they often lack the time, knowledge or resources to properly harness these opportunities and integrate technology into their business.

I hope the attached submission provides some useful insight into the issues small businesses face when engaging with the digital economy, and the opportunities that they see coming from it. Please note that the submission is intended to represent the views of small businesses in Western Australia, and does not represent the views of the Western Australian Government.

If you would like to discuss this submission further, please don't hesitate to contact Mr Martin Hasselbacher, Director of Policy and Advocacy on (08) 6552 3302.

Yours sincerely

David Eaton
SMALL BUSINESS COMMISSIONER

30 November 2017



Small Business Development Corporation

**Submission to
`The Digital Economy:
Opening up the Conversation'**

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Context

The Small Business Development Corporation (SBDC) is an independent statutory authority of the Government of Western Australia (WA) established to foster the growth and development of small businesses in this State. The SBDC provides a range of services to prospective and existing small business operators, including business skills workshops, general and specialist business advisory services, and an alternative dispute resolution service.

In addition to providing these services, the SBDC plays an important role in advocating to all levels of government on behalf of WA's small business sector. This includes commenting on government policies in the best interests of the State's 218,000+ small businesses.

This submission is made by the SBDC on behalf of small businesses in WA, and does not reflect the views of the WA Government. Responses have been informed by the SBDC's day-to-day experiences in dealing with small businesses, along with direct input from a selection of our small business clients.

The Digital Economy

It is now an almost essential part of being a small business owner in the 21st Century to be online and engaging with the digital economy. The opportunities to sell to a global marketplace and innovate business systems and processes through technological advancements means having digital literacy is a fact of running a business today.

But it can also be a scary proposition for some, with many prospective and existing small business operators lacking the skills and knowledge to confidently engage with, and make the most of, the digital economy.

To this end, the SBDC advises business intenders and operators — through general and specialist business advice, dedicated workshops and guidance material — that it is fundamental that they understand the online world and what their prospective customers are looking for. It is important that small business operators recognise that even if customers don't actually buy online, they are still doing extensive Internet research and looking to engage through websites, social media and blogs. And if a business is not connecting with customers through these channels, it is essential they realise that their competitors will be!

Based on our dealings with small business operators daily, the SBDC sees that despite many of them knowing at some level that better engagement with the digital economy can bring about benefits for their business, they often lack the time, knowledge or resources to properly harness these opportunities and integrate technology into their business.

A recent report by Deloitte Access Economics, 'Connected Small Businesses 2017'^{1,1} reveals that the share of small businesses which currently have only basic levels of digital engagement (as compared to more advanced levels) has improved, falling from 35 per cent to 11 per cent over the last four years. Even so, it is estimated that only one in two small businesses still only have a basic or intermediate level of digital engagement (down from 59% in 2013).

¹ Available from: <https://www2.deloitte.com/fau/en/pages/economics/articles/connected-small-businesses-qoogle.html>

When the SBDC asked a number of small business operators what they thought about the digital economy in general, views were mixed. Some saw it as confusing and hard to keep up with:

'It's creating confusion and frustration in older business owners.'

'I constantly have to be on the front foot when it comes to learning new technologies and marketing techniques. I've got a marketing degree and have spent a decade in the marketing industry and I find it hard enough to keep up, I can only imagine how other business owners feel.'

While others saw it as an opportunity:

'it's generated brilliant free brand awareness and sales for my small business.'

'I can work remotely from my client and team. This has become acceptable and works well when relationships are already established.'

'I'm in the process of implementing a number of digital strategies for my own business as I know that this is the way of the future and is what's going to help my business excel and reach wider markets.'

Small businesses know that the digital economy will continue to impact on their operations over the coming years, but have varying views on how this will affect them:

'see] much more video marketing/content required. Custom mobile apps for individual businesses due to ease of mobile technology use.'

'Social media is a huge one. The amount of data that Facebook collects about its users is absolutely staggering. This has opened up a whole world of opportunities for marketers. The small businesses that are able to leverage this to their advantage will succeed and the rest will likely be left behind.'

'[Businesses will be] able to outsource services around the world, good for variety and affordability, bad for local industry and employment.'

'Problems with payment gateways being hacked through credit card fraud in a global market. This has already affected our business resulting in the narrowing of payment options being offered.'

The SBDC notes that the Digital Economy Consultation Paper states that Australian businesses are not fast adopters of technology, and, based on the responses we received, the SBDC considers part of the reason for this is a lack of time available for them to understand how leveraging the digital economy can really benefit their business. While the speed of technological change can be overwhelming at times, it is beyond argument that businesses in Australia must improve their digital readiness or we as a nation will continue to fall behind the rest of the world.

The SBDC therefore agrees with the statement in the Consultation Paper that it is incredibly important for government to set an example by making it simpler, clearer and safer for people and businesses to use and take advantage of the digital economy.

As stated by the independent panel of the Service Priority Review in its interim report to the WA Government,² "the people of WA do not care which government department provides their services, they simply care about value for money, outcomes and the experience they have dealing with government." The report also notes that government can transform transaction service design and delivery by improving the public sector's harnessing of technology.

In line with this, engaging with any and all levels of government should be streamlined wherever possible, with data from different departments being integrated across shared systems.³ Consideration of how government services can be made better available online should, importantly, put the target customer at the forefront of the process — mapping how that person or business engages with government online and how things can be made easier for them (rather than for the individual department) will best inform the design of online services.

From the SBDC's perspective, this means putting the small business operator at the centre of the compliance activities of regulators (which is typically their primary contact with governments at all levels) is essential to making it easier and cheaper to comply.

Many gains in this regard have been made by governments in recent years, most notably those in Victoria and New South Wales (NSW). In December 2013, the Victorian Government released its "Digital Strategy" action plan to guide that government's online activities and interactions with Victorian customers (both citizens and businesses). Developed in consultation with government agencies and which included a review of the practices of governments worldwide, the Digital Strategy identified that better practice promotes the **digital channel** over traditional channels (such as over-the-counter and call centres) as the most viable and credible way forward for the Victorian Government.

In line with the Digital Strategy's vision, the Victorian Government's digital presence transformed from disparate, agency-centric websites and use of social media to a new customer-centric state where the digital presence is organised for and around citizens, businesses and communities. This transformation has seen agencies collaborate to provide their shared customers with a seamless, integrated experience when engaging with the government online.

The strategy argued that when customers can easily find, understand and use government information and services online, there are productivity gains for everyone. For example, the cost differential for governments providing online versus personal delivery is considerable — online delivery is 98% cheaper than the cost of face-to-face delivery, and 67% cheaper than the cost of telephone delivery. Importantly, by engaging with customers online, government activity can transform from being focused on procedures and compliance to being focused on **quality of service**.

The SBDC also commends Service NSW, which, through its 'Easy to do Business' initiative, has developed a business navigator service. This portal allows small businesses to seamlessly transact with a range of government departments and get information, approvals and licences required to open their business using a single login.

It is the SBDC's belief that the role of government in the digital economy is hence multi-faceted: it is a leader (i.e. as an early adopter and advocate for the use of digital technologies), enabler (i.e. through online compliance activities and information resource), and procurer of technology.

² Available from: https://www.dpc.wa.gov.au/ProjectsandSpecialEvents/ServicePriorityReview/Documents/SPR_Interim_Report.pdf

³ The SBDC recognises that currently different pieces of privacy legislation impede this.

Enabling and supporting the digital economy

Digital infrastructure

The Digital Economy Consultation Paper states that "Australians need access to quality, affordable and reliable communications services, as well as the underlying data, platforms and protocols that support our online activities." The SBDC is aware that connectivity in remote areas can be a significant barrier for many regional small businesses engaging in the digital economy, especially in a State as large and isolated as WA.

The SBDC is a member of the WA Government's Steering Committee for the Regional Telecommunications Project, which aims to address mobile blackspots in regional WA. Through this work, we have seen that a lot of progress has been made in improving regional and remote connectivity; however, feedback from regional businesses and chambers of commerce indicate that there is still a long way to go.

According to the Productivity Commission's initial report on 'Transitioning Regional Economies', "inadequate telecommunications infrastructure (including a lack of mobile coverage in many regions) was identified as undermining regional communities' ability to take advantage of economic opportunities. Further to this, the Deloitte report on 'Connected Small Businesses 2017'⁵ states that small to medium-sized enterprises (SMEs) in rural areas are three times more likely to have a less advanced digital strategy than their metropolitan counterparts.

(rust, confidence and security

In general, small business operators are of the opinion that further education and information is required to help them navigate their way into the digital economy. Some of the responses the SBDC received about the needs and responsibilities of the community and government included:

'Educate business owners on technology use.'

'More partnerships with other business owners who are supporting small business and can build a trusted network. I've been to a number of government run small business education events and they weren't quite "meaty" enough. They were very, very basic, I think there's opportunity for something to suit more advanced skill sets and help people progress without it having to break the bank.'

'Constantly provide information and resources. Tell us what can be done and what is being done [regarding] cyber threats.'

'All can be educated to create a culture of watching, assisting and reporting potential threats.'

'There needs to be a higher awareness of the importance of secure passwords which are frequently changed — everybody needs to take responsibility for this individually. Government and business sites should not accept low security passwords on their sites.'

Available from: <https://www.pc.gov.au/inquiries/current/transitioning-regions>
⁵ Opp. cit.

The barriers that were raised centred on small business operators understanding how to keep themselves safe in the digital economy:

'Understanding of common security measures that can be taken by website owners.'

'Knowing what product to select for what cost. How to sort through those on offer from around the globe.'

'Time and cost of constantly being on top of what's happening and how to implement.'

This accords with the experience that SBDC has from dealing with small businesses daily: often they simply do not have the level of technical knowledge or expertise nor the time to devote to things that aren't core to their operations, such as whether their websites are mobile-enabled and secure or which payment gateway is most appropriate and safest to use. Finding an independent (and low-cost) source of advice about which products best meet their needs is also a challenge.

Furthermore, where businesses have a negative experience (usually costing them substantial amounts of money) it can often put them off engaging digitally. For example, one business told us:

'We used a well-known payment gateway for credit card transactions on our site, but discovered that they do not do thorough checks and take absolutely no responsibility when fraudulent transactions get through. This happened too many times until we cancelled the service. Now we limit payments to PayPal and direct payments into our bank account.'

Similarly, Deloitte's 'Connected Small Businesses 2017' report⁷ cites data security and privacy concerns, the cost of digital tools, and lacking the time to learn to use technology as key barriers to taking advantage of digital tools.

The SBDC also hears from many small business operators who do not trust web or cloud-based applications, thinking it is safer to keep their records on personal laptops or desktop computers. We also understand that many small businesses do not back-up data on their personal devices, leaving them vulnerable to data loss or theft.

Despite there being many resources available from State and Federal departments (such as Scamwatch, StaySmart Online and the Australian Cyber Security Centre), small businesses generally have a low awareness of these and indicated to us their need for more information.

Consideration should be given to establishing a 'one-stop-shop' type website for all digital related matters, or better use of Small Business Commissioners and industry bodies to disseminate information to small business operators that is current, relevant and understandable. For example, the SBDC notes that on the back of its research into SME cybercrime,⁷ the NSW Small Business Commissioner is looking to design educational and practical tools to assist small businesses to prepare for and respond to cyber security events.

⁶ Opp. cit.

⁷ Available from: http://www.smallbusiness.nsw.gov.au/data/assets/pdf_file/0007/104857/cyber-scare-full-report.pdf

Building on our areas of competitive strength

When the SBDC asked what is holding the sector back from better engaging with the digital economy, small businesses answered:

'Money, time.'

'Business owners are too time poor or "scared" to accept this new technology as a benefit to their business. They only see it as a nuisance/barrier/frustration and a new expense, instead of viewing it as the best marketing resource to happen to them.'

'Knowing how to best use them. Ongoing Education is required.'

'I find 80% of my time dealing with clients is education. Most of them are late 40's to early 60's and are still spending far too much \$\$ on newspapers/yellow pages etc., because it's what they're comfortable with — even though they are losing money. Even attempts to hold training in bulk are met with resistance due to embarrassment and a perceived lack of time. Very frustrating when you can see the solutions for them, but can't get them to open their mind and accept the already inevitable change.'

These comments really go to the heart of why many small business operators do not engage with the digital economy. On top of the day to day responsibilities and compliance requirements of running a business, understanding and recognising the benefits and potential opportunities that the digital economy provides can be too much of a challenge for some.

However, when asked how SMEs can embrace the digital economy to delve into global supply chains or unlock their potential, other responses were more positive:

'Markets are now global across the board and there's massive opportunity for businesses to think bigger than they have been able to previously.'

'All of my business is generated online. My entire agency is virtual, I am able to work anywhere, with anyone in the world. The size of the market in this respect is massive and continually expanding.'

Like it or not, the digital economy is here to stay, with its potential only growing as more of the world gets connected and technologies advance. It essentially boils down to this: small businesses in Australia simply must embrace the digital economy or they will be left behind.

Empowering all Australians through digital skills and inclusion

Small businesses consider we have the following opportunities to equip Australians with the skills needed to operate in the digital economy:

'[The Government has] the biggest opportunity and perhaps the biggest responsibility. Again, the 40+ age group have businesses that just aren't utilising what's available for them, because they see too many (perceived) barriers. Education and training is required. Along with ongoing "hand-holding".'

'Digital [skills] should be taught in schools, and in universities. [There] is very little in any syllabus in Australia to my knowledge at present. If we taught digital safety and digital marketing in schools, kids would grow up a little savvier and not have to learn all this "on the job".'

The SBDC agrees with these sentiments, in that the teaching of digital literacy should be integrated into Australia's school curricula, starting in primary school. Children really need to have a solid understanding of how the digital world operates, as they will be constant users of technology as they grow up and become the consumers and (for many) the entrepreneurs of tomorrow.

Running a business in the digital age requires not only entrepreneurial skills like critical thinking, communication and problem solving, but also these critical digital skills.

Final comments

It is of the utmost importance to both individuals and the broader economy that Australian small businesses engage in the digital economy.

According to Deloitte's 'Connected Small Businesses 2017' report,⁸ Australian SMEs that have advanced levels of digital engagement are more than eight times more likely to be creating jobs, seven times more likely to be exporting and 14 times more likely to be innovating by offering new products or services. Clearly, improved digital engagement by the small business sector will bring about productivity benefits for the economy as a whole.

The report also asserts that SMEs still need to be convinced of the benefits and effectiveness of digital tools for their business. In the words of one small business owner:

'From a provider of digital marketing services in the local business arena, it's a shame to see so many 50+ business owners already throwing in the towel to digital because they simply don't get it...with smartphones being so multipurpose the fact that a business owner can create and broadcast videos for free to the world is astounding. My background is 36 years in media production, so I can appreciate the possibilities. Education, training and some eye opening is GREATLY called for... and very quickly.'

⁸ Opp. cit.