

OPPORTUNITY FOR ECONOMIC TRANSFORMATION

ENCOURAGING SMALL BUSINESSES ONLINE

The importance of Small Business to New Zealand

Small and Medium Enterprises¹ are a vital component of the New Zealand economy. As illustrated by outgoing Minister for Small Business, Clayton Cosgrove's statement, "the high number of SMEs makes them important to the economy, but it is their potential for growth that makes them vital to the government's economic transformation agenda."²

- 449,000 small businesses in New Zealand
- 97.1% of enterprises employ 19 or fewer people
- 89% of enterprises employ 5 or fewer people. This includes:
 - 60,000 startups (13% of the total)³
 - 12,119 registered charities
 - 97,000 non-profit institutions
- SMEs accounted for 31% of all employment
- The total number of people employed by SMEs increased by 18% between 2001 and 2007 to 594,410
- The SME sector contributes \$50billion, or 38.6% of GDP
- 37% of sole traders and 56% of 1-5 employee companies established in 2001 survived to 2007
- There was nearly 100% survivability for firms with over 500 employees

The challenge for government

- It's very difficult to communicate with SMEs
- New Zealand businesses are isolated from each other and also from global markets
- Although there are a wide range of government business support services available, many new businesses do not know that the services exist or how to access them
- Lack of technology in SMEs delays the benefits of government initiatives. For example, the GST Ratio Method of Provisional Tax Calculation is reported to have been adopted by less than 300 businesses

The challenge for business

- Compliance costs for SMEs are four times more per employee than those that apply for large businesses³
- Most SMEs are managed by owner-operators who are not business experts
- They are so busy working that administration and compliance is a tangible burden

Computer systems for small business

Computer systems have an enormous impact on the administrative processes of small business and are a key factor in the productivity, effectiveness, work-life balance and ultimate success of the small business.

Small businesses computer systems have not fundamentally changed for years. Small business IT usually consists of installed, disconnected, non-integrated solutions that are aged and poorly supported.

The small business market is very fragmented and until now has been very expensive to sell into and provide ongoing support to. This has led to suppressed innovation in the small business market.

The internet, and the Software as a Service delivery model – where small businesses can access services through an internet connection for a small monthly fee – provides cost effective access to the small business market. This fundamental change of economics has quickly seen significant investment by private sector providers into this market with a collection of rich services that are in real-time, connected and integrated. These solutions are already having a significant impact on SME productivity.

For example, online accounting software provider Xero was able to raise \$15m to develop their accounting solution. Xero connects small business to their banks automatically so they have a daily focus on cashflow, through to instant creation of a GST return, thus reducing compliance costs.

Using Xero as an example, the benefits to a small business are significant.

¹ Enterprises represent a legal entity, which may be a company, partnership, trust, estate, incorporated society, producer board, local or central government organisation, religious organisation, voluntary organisation or self-employed individual.
www.med.govt.nz/upload/63380/SMEDs_Augo8.pdf

² <http://www.beehive.govt.nz/release/smes+strong+contribution+economy+continues>. Clayton Cosgrove. 27 August, 2008. SMEs' strong contribution to economy continues

³ Business New Zealand-KPMG Compliance Cost Survey, October 2007, p.34.

⁴ Cameron, A. & Massey, C. (1999), Small and Medium-Sized Enterprises: A New Zealand Perspective. Addison Wesley Longman, Auckland, p. 5. SMEs in New Zealand: Structure and Dynamics 2008. MEDReport, August 08, P65

BENEFITS OF XERO TO SMALL BUSINESSES

	Desktop software	Online software	Business benefit	Impact on Productivity	Impact on Survivability
Cash management					
Bank reconciliation	Weekly, monthly or never	Daily	Daily view of cash position	High	High
Invoicing	Monthly in batch	When job finished	Better cashflow	Low	Medium
Financial advice					
Accountants review	GST time or EOY	As required	Identify issues early and tune the business. Less business failure	High	High
Focus	Compliance	Management	Better performing businesses	High	High
Lifestyle					
Workload	Huge effort before tax returns	Little every day	Save hours and reduce stress	High	High
Location	Tied to the software in the office	Work from anywhere	Freedom and flexibility	High	Low

If online software provides only a minor increase in productivity, and provides benefits across a large sector, the ensuing profitability to New Zealand will be enormous.

	Improvement	Value range
Better productivity from SME sector	.5% - 5%	250m - 2.5b
Less business failures	.5% - 2%	250m - 1b

In addition to improved productivity there are other benefits.

Work-life balance

Work-life balance ⁵ is about “effectively managing the juggling act between paid work and the other activities that are important to people.”

Small business owners can work from anywhere, at anytime and be connected to their key business information. This requires location independence.

Sustainability

Online technology assists greatly with sustainability

- There are no atoms shipped around the world
- It eliminates the need for site visits to see what’s going on with a particular system
- Online technology facilitates teleworking

⁵ www.dol.govt.nz/worklife/whatis.asp

Other Small Business Initiatives

Reduction in compliance costs

- Online systems can be designed to significantly reduce compliance costs
- Good solutions will incorporate compliance costs reductions into their service offering
- As information is stored centrally, data can be accessed easily
- The ability to benchmark against others in your industry creates a business case for sharing information

Reducing policy delays

Currently, it can take several years for policy to be implemented in desktop business software. Online software only needs to be changed in one place so can be implemented in weeks or months rather than years, significantly bringing forward economic benefits.

As it is comparatively easier to change, it makes it easier to try and measure new policy ideas.

Reducing the costs of Standard Business Reporting

Online technology fundamentally changes the timing and effort for Standard Business Reporting (SBR). SBR can be implemented in weeks or months rather than years.

Further, implementation of SBR in an online model facilitates benchmarking and creates direct business value for SBR participants. Small businesses may choose to opt into SBR before it is mandatory.

The online service providers already store centrally the base SBR data so will reduce the central government capital expenditure required for department independent storage.

Rather than current SBR strategy to 'fast follow' Australia, who are at significant risk of being delayed because of the desktop software incumbents, New Zealand can bring the identified \$55m - 75m benefits of SBR forward several years.

New Zealand should be the global leader in small business.

Internationalisation

Only a very small number of small businesses are currently involved in exporting or international investment. As few as 625 companies are responsible for 91% of our merchandise exports.

As businesses improve through the benefits of online business management and access to advisors, we can expect more small businesses to partake in the global economy.

Digital Strategy

Encouraging small businesses online is consistent with e-government initiatives that fall underneath the Digital Strategy. The Digital Strategy aims to make New Zealand a world leader in using information and technology.

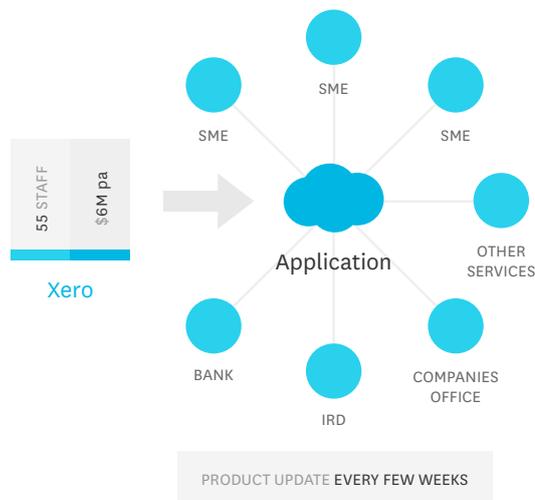
Single Business Identifier

Presently only companies, not sole traders or partnerships have a unique identifier. On the web, providing certainty of who you are facilitates trust and enables commerce.

"MYOB calls for next government to mind the pace of legislation"⁶



Xero: "Accelerated adoption of online technology in small business can increase New Zealand's GDP by 500m - 3.5b"



⁶ <http://www.voxy.co.nz/business/myob-calls-next-government-mind-pace-legislation/5/4805>

Small Business Advisory Group - Growing Competitive SMEs: Recommendation 10⁷

That the government develop a web-based business centre that provides:

- Access to commercial business system software for the better management and running of a small business
- A seamless interface with the government agencies that require information from businesses, making communications and information collection easier between government and small businesses.

Summary and Recommendations

Online technology is the biggest opportunity to dramatically improve the productivity and survivability of SMEs. A 1% improvement in the small business sector has annual benefits to New Zealand in excess of \$500m.

Xero has demonstrated how the private sector has identified a technology shift and invested to create substantial benefits to the sector and New Zealand.

The Government can accelerate this private sector investment by:

1. Educating SMEs on the benefits of being online in all agency communications.
2. Promote www.business.govt.nz as the business to government website.
3. Allow high quality New Zealand solution providers to be certified and profiled on www.business.govt.nz.
4. Encourage the Small Business Advisory Group to play a larger role in the design of the www.business.govt.nz portal so it meets the needs of small businesses on an ongoing basis.
5. Look to expose key government information as web services so that application providers can integrate government activities into the workflow of their solutions. Individual government departments do not need sophisticated transaction websites. This work is incremental and can start immediately. (For example filing of GST returns as a web service.)
6. Establish a single business identification number for all trading entities to facilitate commerce between New Zealand small businesses.
7. Work with the private sector to take a global leadership position in Standard Business Reporting.
8. Accelerate the Standard Business Reporting project, starting with an opt-in voluntary service.

Resources

- MED: SMEs in NZ Structure and Dynamics
- SBAG: Growing Competitive SMEs
- Digital Strategy 2.0
- MED: Standard Business Reporting – Business Case
- OECD Benchmarks

“SMEs’ strong contribution to economy continues” by Clayton Cosgrove, 27 August, 2008

<http://www.beehive.govt.nz/release/smes+strong+contribution+economy+continues>

Work-life balance, Department of Labour

<http://www.dol.govt.nz/worklife/benefits/for-your-business.asp>

Workplace productivity, Department of Labour

<http://www.dol.govt.nz/workplaceproductivity/productivity/drivers/index.asp#encouraging>

Network in New Zealand: e-government

<http://www.e.govt.nz/resources/research/progress/introduction.html>

Small Business Advisory Group March 08: Growing Competitive SMEs

<http://www.med.govt.nz/upload/56591/report.pdf>

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⁷ Small Business Advisory Group March 08: Growing Competitive SMEs