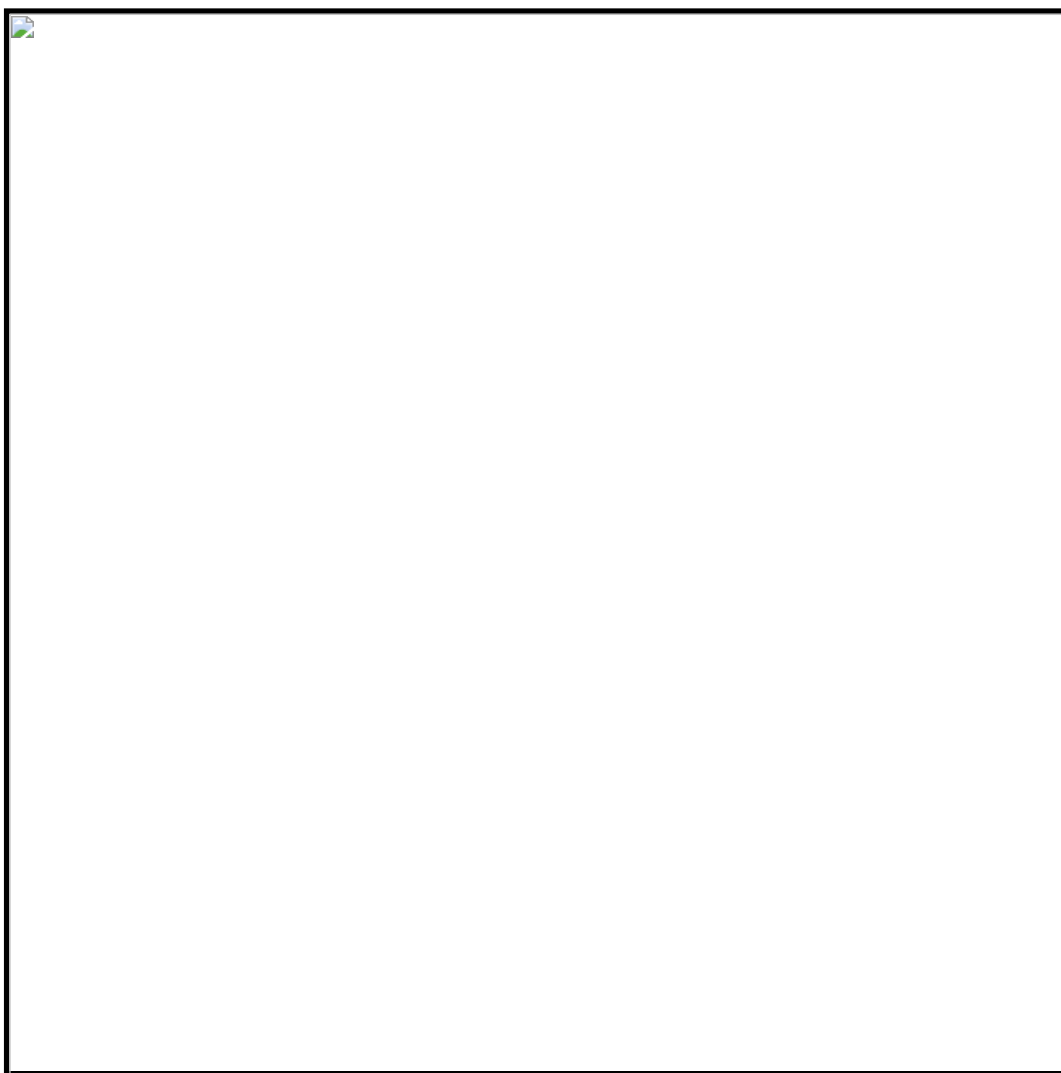




Monthly commentary Trent Innes

New report: How digital connectivity is helping Australian small businesses thrive



Extending the benefits of digital connectivity to all of Australia's 2.23 million small and medium enterprises (SMEs) should be a national priority. While high-speed Internet is now available to half the country via the National Broadband Network (NBN), and many SMEs use apps to streamline their operations, too many small businesses are still missing out. Thirty percent of businesses complete business activity statements (BAS) on paper according to the ATO. Business owners often work long nights and take few holidays because of the high number of manual, paper-based tasks they need to perform.

This report examines how changes in digital connectivity affect Australian SMEs. To understand the impact at the macro level, we examine the effect of faster high-speed broadband on SMEs. To understand it at the micro level, we analyse the take-up and impact of cloud-based apps on individual businesses.

Improved digital connectivity is driving business growth

The findings suggest that access to faster broadband and cloud-based apps support business growth and employment. Among businesses on Xero, those in mature NBN regions grew employment by one-third more (2.6 percentage points) than businesses in non-NBN regions in 2017. Businesses that subscribed to Xero in mature



NBN regions grew revenue by almost two-thirds more (3.2 percentage points) than peers in non-NBN regions. Non-NBN regions refer to areas where the NBN had not rolled out in 2016, while mature NBN areas refer to regions where the NBN had been available for an extended time and/or was available to a high percentage of premises.

A major change in activity for SMEs has been the rise of cloud-based applications, or apps, which have enabled SMEs to improve their performance. Cloud-based apps store their software and customer data on secure, enterprise-grade remote servers instead of on a business's premises. This gives businesses the freedom to access their information, updated in real time, regardless of whether they log on from home, work or via their phone. Perhaps most importantly, apps are providing large-enterprise technology such as machine learning to SMEs, and letting small businesses automate microprocesses.

The report also finds a correlation between integrated app use and better business outcomes for SMEs. Although there are many factors that affect revenue growth and increased employment, firms that connect apps to Xero have higher revenue growth than firms with no connected apps. Overall in the 2017-18 financial year, firms on Xero using apps grew revenue by 5.5 percent. That compares with revenue growth of just 3.6 percent for firms on Xero with no connected apps.

Extending the benefits of digital to more SMEs

Improvements in the productivity and performance of SMEs are essential to the economy. The 2.23m SMEs in Australia make up 99.8 percent of all businesses. SMEs employ 68 percent of Australians, or 10.9 million people.

Critically, many SMEs are not fully participating in the digital revolution. While the NBN is now available to half the country, two-thirds of SMEs were not yet connected to high-speed broadband, based on the last count by the Australian Bureau of Statistics in 2015-16. Approximately 30 percent of businesses still lodge their BAS statements in paper form, while 14 percent of small businesses use no IT in their accounting functions. Even among businesses that subscribe to Xero, many have yet to connect apps to Xero.

Helping these businesses reap the benefits of digital transition requires overcoming a set of barriers. These include lack of awareness, lack of time to investigate options, and fear of change. Businesses, governments, IT suppliers, and financial partners and advisers can help overcome these challenges and enable more SMEs to access the benefits of digital activity. We propose a plan to extend digital benefits more broadly in section 3 of this report.

See the full report on [how digital connectivity is helping Australian small businesses thrive.](#)

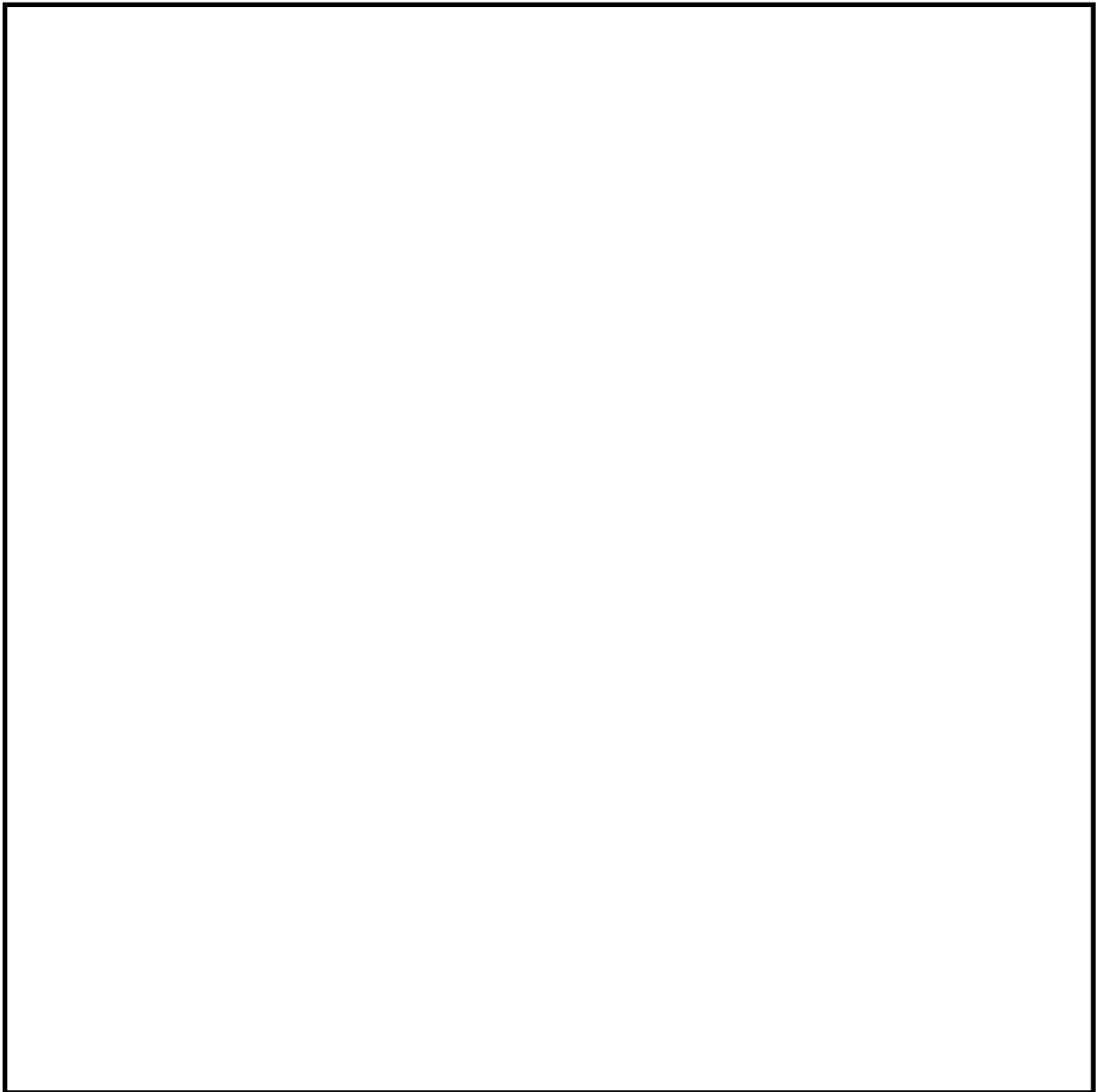


David Boyar

01

09.10.2018

What is the digitisation of business?



*David Boyar is a high impact leader and commentator on business trends and the accounting industry. He is the founder of [Sequel CFO](#) - Your Financial Mentor, a franchise system that creates new career opportunities for finance professionals looking to help business owners grow as the next phase of their career. He is the Co-Host of *From the Trenches - Real Life in the Accounting Industry* a podcast distributed to 30,000 accountants each week and one of the youngest Chartered Accountants to be accepted as a Fellow CA as well as the founding vice president of the Virtual CFO Association. David is constantly learning and believes education and training is the key to unlocking the untapped value and potential of accountants globally.*

The [Xero Small Business Insights report](#) on digital connectivity continues to add value to business owners planning their future. This edition allows us to prove the benefits of digital connectivity, the use of business apps, and the impact on businesses who think digital in their problem solving and business planning.



What is the digitization of business?

The digitization of business is either a generational opportunity embraced by businesses with a growth mindset or something else to fear in the seemingly endless changes to modern business.

Digitization effectively means finding apps or using computer processes to complete a business need.

It does away, or at least reduces, manual processes, form filling and paperwork and in doing so measures things in your business that you can then optimize. Optimize often enough, and you can then develop insights to make better business decisions, reduce your work load, or meet growing customer demands.

Do it to enough areas of the business and you have digital connectivity, resulting in more efficient, faster growing and hopefully, more profitable businesses.

For businesses embracing the changes, rewards are already showing.

These businesses often have growth mindset that sees them embrace opportunity.

They use a combination of high speed internet driven by the NBN, connected business apps that allow business owners to work less, grow faster, and work differently

For those not embracing the change it is a combination of education, awareness, fear of change and finding a return on investment, whilst meeting ever growing demands of running a business that are holding them back. Often, these businesses do not have access to the NBN.

Business are growing faster with connected business apps

Only 20% of nano businesses use business apps but this rises to 44% as a business grows its revenue. This is partly due to the lower amount of admin in smaller businesses, but the message is clear, business apps are a key to growth.

It doesn't matter what revenue a business is making, business app using business outgrow those not using them. For businesses turning over between \$100k and \$500k the revenue growth rate is a staggering 86% higher.

Digitisation is more than just saving time, it changes how business works

A typical business with employees has 50-70 tasks to service their customers (core activities) or run their back office (support activities).

63% of business apps used are for core activities. This represents a fundamental change in the way services are delivered and shows a use for business apps beyond merely finding ways to save time.

With this approach to innovation it is not surprising that these businesses grow faster than those not using business apps.

Mental Health Benefit

For many businesses, support activities like accounting, HR and general management is completed outside work hours. Often leading to extra hours worked and less holidays taken. Perhaps the greatest benefit of connected business apps is not faster growth, but the ability for business owners to replace this time with activities that support their mental health.

Australian opportunity

Australia is regularly spoken about as an early adopter of business applications but the pace of change is likely to slow down. This is mostly due to the real barriers businesses face when choosing these solutions. Issues of awareness, trust and digital skills are holding people back but perhaps the greatest reason for businesses to not embrace this opportunity is the fear of change.

The Xero Small Business Insights report has proven the upside of digitization. It not only creates awareness to the benefits of solving business problems with digital solutions, but helps businesses welcome digital change rather than resist it.

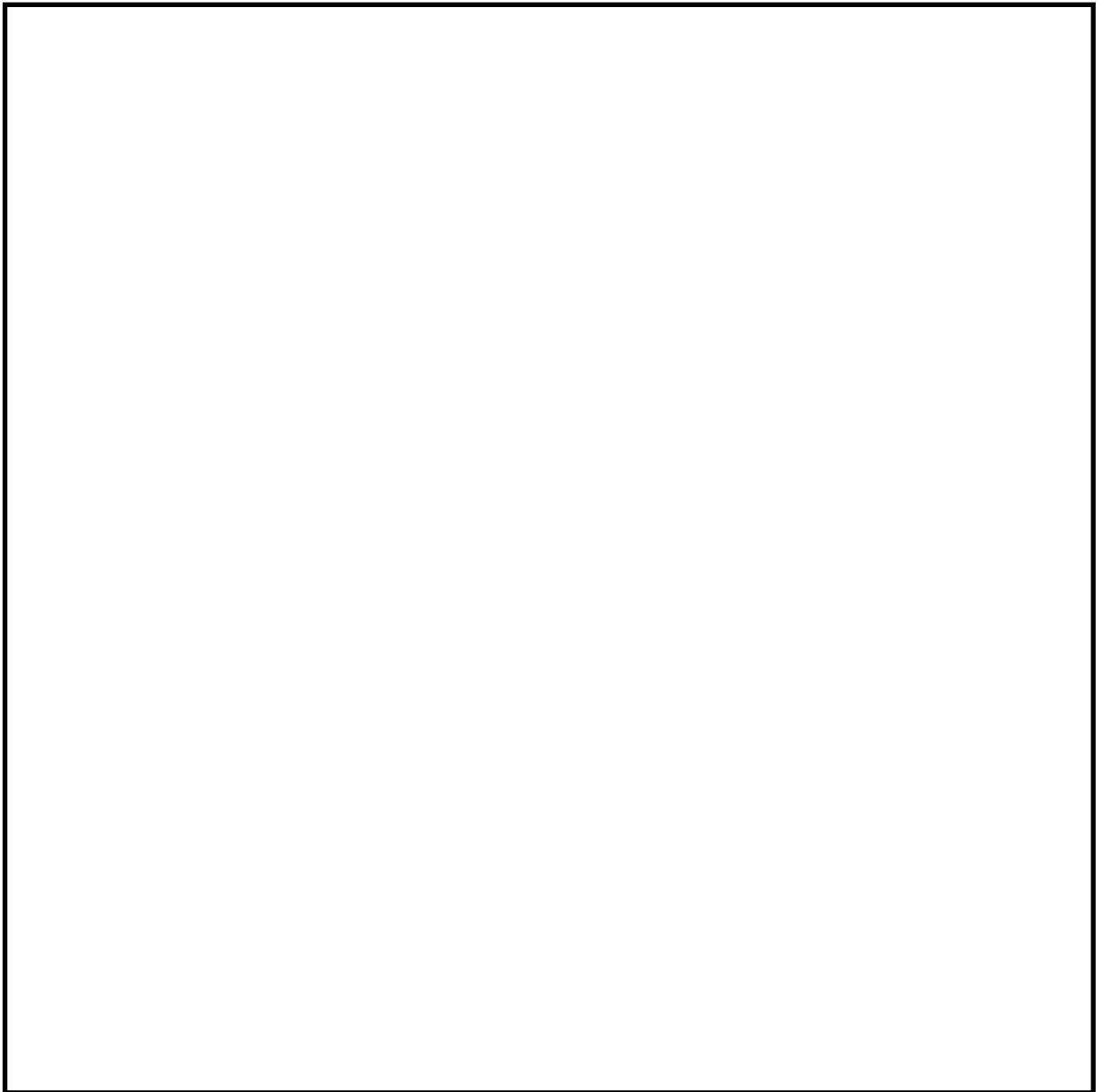


Heather Smith

02

09.10.2018

Digitally Connected Business



Heather Smith is focused on helping advisors embrace the add on market place eco system. Using her super power of 'explanation' she's educated over 1 million, via her [YouTube channel](#), her [Cloud Stories podcast](#), an online [MasterMind group](#), a curated [eco-system newsletter](#) - all available for free! Plus, she's written 9 business books including the [Xero for Dummies](#) series. As a Chartered Accountant and Xero Platinum Partner, Heather believes advisors can work from anywhere, and support clients anywhere, by honing their ability to offer services online.

Small businesses leveraging cloud-based technology, are growing in terms of revenue and employment. They're also experiencing intrinsic benefits such as shorter working hours, flexible lifestyle, and holiday breaks. Data analysis from the recently released Xero Small Business Insights



reports: [How digital connectivity is helping Australian small business thrive, supports this.](#)

'In the 2017-18 financial year, firms on Xero using apps grew revenue by 5.5 percent. That compares with revenue growth of just 3.6 percent for firms on Xero with no connected apps.'

I love this report.

It uses data driven insights to support what I've been saying for a long time, with a reliable and fast internet connection, moving a small business to the cloud, reduces manual tasks, streamlines operations, and enables the business to operate efficiently and effectively, reduces costs and naturally leads to growth and revenue opportunities.

A digitally connected business embraces apps to automate one or more of the up to 70 different tasks SME's generally undertake. The apps are connected in some way, so data can be pushed, or flow between solutions, streamlining operations. The optimal solution is the elimination of manual data entry. Extracted data pushes through connected apps, into relevant areas.

We're not just talking about online accounting solutions. There are over the 750 cloud-based Apps listed on the Xero marketplace and 76% of those App types relate to six business activities: clerical, business intelligence, job scheduling & invoicing, rostering, client account management, and POS.

The adoption rate of popular app types, broken down by industry, Figure 7, highlights that for ten out of eleven industries, the most popular type of App is Clerical. This is typically a solution, like Receipt Bank that extracts the data from receipt and bills and pushes it into the accounting solution. Rostering solutions are popular in Hospitality and Real Estate industries, while Job scheduling and invoicing solutions are popular in Construction, and Professional Scientific and Tech services.

Understandably there are challenges as to why businesses have not embraced digital connectivity. Australia is a vast country, and internet connection can be difficult, especially for those in regional areas. Once access to a fast and reliable internet service is in place, there may be other factors, around capacity to implement, awareness, knowledge, mindset, and cost implications hampering adoption. However, as awareness grows, the circle of expertise, talent and successful case studies that can be tapped into also grows. It's no longer necessary for small business to take their cloud journey alone. There's now a lot of support and resources in place to assist them.

It's also normally not as expensive as you may initially think, and there may be other money saving benefits you'd not realised. If you're able to access your business data in the cloud and are no longer reliant on a server or a printer, you may for example, be able to reduce office rent and insurance costs.

In the last decade, Australian businesses increased their expenditure on information and communications technology (ICT) hardware and software by 67 percent, and shifted much of their spending from hardware to the cloud.

The report estimates that the use of a business intelligence app, saves a Xero subscriber an average of about one hour per week.

"We estimate that a clerical app such as Receipt Bank saves a small business on Xero between 30 minutes and 90 minutes per week."

If you're a small business keen to adopt modern technology, I suggest the next step you take is to contact your accountant and bookkeeper and ask them how they can help you. They may have resources in place to help you, or they may introduce you to a specialised Cloud Integrator, who can review your current business systems, and propose an implementation plan.

Further to the example industry apps Figure 8, Xero has produced several industry specific resources, which include suggestions of common technical stacks, used within the industry. The App businesses themselves may be able to direct you to someone who can offer specialised support, however, it's beneficial to properly review the workflow, before selecting an App

Not everything needs to be done at once. It's OK to roll-out micro-improvements, embed them within the workflow, train staff, iron out issues, and then look to roll out the next App for your thriving digitally connected business.