

ThoughtLab

In conjunction with
HATCH

The Digital Journey of SMEs in Australia

How small and medium-sized enterprises
drive business and economic results
through digital innovation

Executive Summary



Small and medium-sized enterprises (SMEs) are the heart and soul of the Australian economy and community.

They generate more than half of Australia's economic growth and employ about two-thirds of the local workforce. They are the main catalyst for innovation, responsible for creating most of the country's new products, services, processes, and business approaches.

SMEs play a pivotal role in the government's plans for Australia to become a leading digital economy by 2030. Because of the need for social distancing during the pandemic, SMEs have already accelerated their use of digital technologies, from email, websites, and messaging apps to collaboration tools, the cloud, and e-commerce solutions. SMEs use these tools for both external and internal purposes: to connect and communicate with customers, employees, and suppliers; create new products and services; access new, cost-effective ways to market and sell their products; and drive operational efficiencies.

How is the adoption of digital technologies affecting the financial and business performance of SMEs? Which digital technologies and approaches deliver the best results for SMEs? And how will these results benefit the Australia economy?

Research methodology

To answer these questions, Meta commissioned ThoughtLab, a global research firm, which worked in conjunction with Hatch, a global professional services firm, to conduct a comprehensive study of how SMEs drive business and economic performance through digital transformation. The study included a survey of 1,250 SME owners and managers across regions and industries in Australia. To set our research framework, our economists synthesised viewpoints from academic and business papers into a clear definition of digital transformation: namely, the use of digital technologies to develop new business strategies, processes, products, and services to meet the needs of customers, employees, and other business stakeholders.

Based on that definition, we developed a digital maturity model to assess how stages of digital transformation influence business performance. Our maturity model consists of six performance pillars, each designed to measure a key component of digital transformation. The pillars include:

1. Digital technology usage

Measures the progress a company has made in using a range of digital technologies, such as AI, cloud, and other solutions.

2. Operations

Identifies the maturity of a firm in using digital technologies to drive performance across various parts of its business.

3. Talent and skills

Determines how far a company has developed its organisational structure, talent, and skills to drive digital transformation.

4. Customer engagement

Assesses how advanced a firm is at using digital technologies for customer communication, marketing, and analysis.

5. E-commerce

Examines the growth of sales through digital channels, selling products and services through online stores, and other digital business activities.

6. Leadership

Analyses the maturity of the business in establishing a strategy and culture that promotes digital transformation.

Business impact of digital transformation

Our research found that successful digital transformation does not come from simply using digital technology. It requires rethinking business approaches, building digital talent and skills, interacting online with customers, growing sales through digital channels, and creating a culture of ongoing innovation. Digital transformation is a journey: some small businesses are just beginning to formulate their plans, while others are early or advanced in the implementation of these plans. Still others are “digital leaders” that are far ahead of most SMEs.

To understand the full impact of digital transformation, it is valuable to analyse the strategies and results of those firms surveyed that we have classified as digital leaders, since they have made the most progress in their digital journey. The ThoughtLab team carried out econometric analysis to isolate and quantify the relationship between digital leadership and SME performance, while controlling for digital maturity, the size of the business, and the sector. The quantitative analysis found that digital leaders have superior performance relative to SMEs earlier in their digital journey.

Compared to other SMEs, digital leaders are:

- 3.5x** more likely to see improvements in **sales outside their local economy**.
- 3.4x** more likely to experience improvements in **customer acquisition**.
- 3.2x** more likely to see improvements in **sales within their local economy**.
- 3.1x** more likely to experience improvements in **employee hiring and retention**.
- 3.1x** more likely to see improvements in **profitability**.
- 3.0x** more likely to see an increase in **revenue**.
- 2.9x** more likely to experience improvements in **productivity**.
- 1.8x** more likely to see improvements in **market share**.

The value of digital transformation to SMEs is best illustrated in its impact on revenue growth, which improves for most small businesses as they digitally mature. Over the last 12 months, SMEs beginning their digital journey saw an 8% increase in revenue from the use of digital technologies; early implementers saw 15%; advancing implementers, 20%; and leaders, 26%.

If all SMEs in Australia became digital leaders, that would potentially unlock an additional \$181 billion in revenue.

Across the 2.6 million SMEs operating in Australia, ThoughtLab economists estimate that digital technologies have allowed firms to generate \$306 billion in additional revenue over the last year. If all SMEs in Australia became digital leaders, that would potentially unlock another \$181 billion in revenue.

Economic impact of digital transformation

Small and medium-sized businesses not only drive their own performance through digital technology, but they also boost the growth of the local economy. As SMEs advance in digital transformation, they engage in more activities that strengthen the local economy and community. Digital leaders support local businesses by buying their goods and services; develop new products and services that benefit the local economy; support non-profit organisations and community activities; provide employees with business training and skills to use in the local economy; and bring in money from outside their local economy.

Digital transformation also helps SMEs contribute to job creation in their local communities. Digital leaders employ more than three times the number of people as firms that are just beginning their digital journey. Specifically, leaders employ an average of 18 people, while beginners employ five.

Crucially, as SMEs move along their digital journey their revenue increases, which also contributes to the growth of the local economy. Beginners have an average revenue of \$572,500 compared to over \$3.8 million for leaders. This increased revenue translates into a larger GDP for the local economy and bigger tax gains for local governments.

As their top line grows from digital transformation, SMEs spend more money on the products and services of other local businesses. On average, SMEs spend 37% of their total costs in the local economy; on a dollar basis this amounts to an average of \$115,700 for beginners and \$684,700 for leaders. Such spending supports other SMEs and generates additional economic impacts in the local community.

Facilitating the journey

While the benefits of digital transformation are clear, SMEs face speed bumps on the road to digital leadership. SMEs often lack the skills, infrastructure, and budgets needed to succeed. They also may struggle to keep up with rapid technological change, while also coping with escalating data privacy and security risks.

Open digital platforms and apps, such as the ones offered by Meta, help SMEs vault these hurdles. These intuitive, no- or low-cost platforms provide small businesses with an effective starting point for their digital journeys. Open digital platforms enable SMEs to hone their digital skills and take digital transformation to the next level, thereby unlocking additional growth. This becomes a virtuous circle of growth not just for SMEs, but also for the local economy.

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Key Insights

Background

- **2.6 million SMEs** operate across Australia, accounting for **99% of Australian businesses**. They generate **55% of GDP** and employ 67% of the business workforce.
- **35% of SMEs are digital beginners**, starting to see the impact of digital technology on their business; **26% are early implementers**, starting to draw on digital technologies to meet the needs of customers and employees; **23% are advancers**, actively incorporating digital initiatives in their business; and **16% are digital leaders**, which fully embrace digital technology across their enterprise.

Impact on revenue and sales

- Digital technologies allowed SMEs in Australia to generate **\$306 billion** in additional revenue over the last year.
- If all SMEs fully embraced digital technology in Australia, they could unlock another **\$181 billion** in revenue.
- Digital sales channels now account for a larger share of sales than traditional channels. Over the next 12 months, SMEs expect **57% of sales to come from digital channels**.
- 78% of digital leaders say digital technology helped **increase their revenue** over the prior 12 months.
- Digital leaders earn **60% more revenue** per employee and grow **28% faster** than those with poor digital engagement.
- As SMEs mature in using digital technologies, they see an increase in revenue. On average, beginners see a **7.5% increase**; implementers, a **15.4% increase**; advancers, a **20.2% increase**; and leaders, a **25.6% increase**.

How SMEs use digital technologies

- **79% of SMEs** agree that digital technologies are important or very important for driving innovation.
- **Top five digital technologies** used by SMEs are email (67%), social media (66%), messaging apps/systems (55%), cloud platforms (53%), and payment processing systems (45%).
- **Digital marketing tools** most used by SMEs include social media platforms (57%), email (38%), mobile marketing and apps (35%), search engine optimisation (33%), website (31%), and instant messaging (29%).

- SMEs are not only adopting traditional technology to enable their operations, but **emerging technology** too: 26% use AI; 18%, blockchain; and 10% AR/VR.
- Digital leaders report many **business benefits**: easier to communicate with stakeholders (60%), increased innovation and better ideas (60%), able to scale the business (54%), easier to make decisions (54%), and able to launch products and services more quickly (53%).
- SMEs that are highly digitalised **engage more with the local community**: 54% purchase goods from other businesses, 49% create products that benefit the local economy, 47% create new jobs or other businesses, 47% provide training and apprenticeships, and 46% provide employees with skills.
- **Leaders show the way forward** for other SMEs: 70% set goals for digital activities, 69% establish metrics to monitor results, 67% encourage staff to share ideas, 65% establish budgets for digital activities, 61% compare digital progress with their peers, and 56% encourage employees to try new approaches.
- Over the next two years, SMEs in earlier stages will race to close the digital gap. Almost **four out of 10** plan to establish budgets and performance measures for digital activities and **over one-third** will create opportunities for staff to share ideas around digital business.
- Over the next two years **54% of SMEs** will use technology to **communicate with customers**, **52% to accept digital payments**, 50% to provide customer service, 48% to maintain data security and privacy, 48% to conduct business analysis, and 46% to develop products and services.

Value of Meta platforms

- **77%** of SMEs report that Meta's platforms help people learn about their business.
- **76%** report that Meta's platforms help the business build customer relationships.
- **75%** report Meta technologies enable the business to market and sell its products and services.
- **67%** of SMEs believe their business is stronger today because of Meta technologies and apps and **61%** say their performance would suffer if they lost access to Meta technologies.

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