

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.

Open digital platforms enable SMEs to hone their digital skills and take digital transformation to the next level, thereby unlocking additional growth.



Photo by J.V. on Unsplash

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.



Introduction



With small and medium-sized enterprises accounting for 99% of Australian businesses, it is no wonder that the government calls them “the engine room of the Australian economy and the hearts of the community.”¹

Small and medium-sized enterprises (SMEs) are the bedrock of the Australian economy. They generate nearly 55% of GDP and employ 67% of the business workforce.² SMEs make up 84% of innovating businesses—those that bring new or significantly improved goods, services, processes, or methods to the market.³

There are nearly 2.6 million SMEs with fewer than 250 employees in Australia. These businesses collectively employ nearly 7.9 million individuals. The three largest sectors for SMEs by employment are construction; professional, scientific, and technical services; and accommodation and food services.³ SMEs are a vital source of workforce training, employing 71% of all apprentices and trainees.⁴

With the pandemic propelling Australia into a digital-first marketplace, the government’s Digital Technology Taskforce⁵ issued a position paper underscoring the digital transformation imperative for SMEs: “To thrive in an increasingly online future, Australian businesses need to adopt and adapt digital technologies at a greater rate than ever before. Doing so can improve business productivity, ensure business continuity, and provide opportunities to enter new markets or scale up operations rapidly.”

The position paper makes clear that digitalisation isn’t just for large companies. “Small businesses have much

to gain by investing in digital tools to streamline back-end processes, increasing their online presence, and transforming how goods and services are delivered. Highly digitally engaged businesses earn 60% more revenue per employee and grow 28% faster than those with poor digital engagement.”⁶

To understand the role of SMEs in Australia’s digital economy, Meta commissioned ThoughtLab, a global research firm, which worked in conjunction with Hatch, a global professional services firm, to investigate how Australian SMEs use digital technologies to improve their business outcomes and generate benefits for their local economy. The research team developed a comprehensive survey questionnaire, which was fielded by IPSOS, a global market research firm, to 1,250 SME owners and senior managers in Australia in October of 2022. Survey respondents provided valuable information on their digital transformation efforts, including their digital strategies, processes, skills, and marketing approaches, along with their use of digital technologies and e-commerce channels.

In addition to the survey, the research team conducted in-depth, one-on-one virtual interviews with six Australian executives in SMEs across industries. The interviews provided deeper insights into the digital transformation approaches of SMEs, the challenges they face, the technologies they use, and the performance improvements they gain.

1 [ASBFEO Small Business Counts Dec 2020](#)

2 [SBFEO Small Business Counts Dec 2020](#)

3 [Microsoft Word- Contribution to Australian Employment August 2022 \(003\) \(004\).docx \(asbfeo.gov.au\)](#)

4 [Apprentices and Trainees Employed by Small Business.pdf \(asbfeo.gov.au\)](#)

5 [Towards 2030: Positioning Australia as a leading digital economy and society | Australian Government Department of Foreign Affairs and Trade \(dfat.gov.au\)](#)

6 [Towards 2030: Positioning Australia as a leading digital economy and society | Australian Government Department of Foreign Affairs and Trade \(dfat.gov.au\)](#)

Understanding the correlation between digital transformation and business performance

While our analysis establishes a correlation between digital transformation and performance, we are unable to precisely determine the causal direction—if digital transformation leads to better performance, or if better performance leads to digital transformation, or a combination of both. However, our research suggests that digital transformation does contribute to improved

performance, including by generating increased revenue and more employment, and improving customer satisfaction. For example, digital leaders more often report using digital technologies to market to customers and to provide customer service (see Figure 6) and to report that it is easier to communicate with customers and that they have more satisfied customers (see Figure 14).

The remainder of the report is organised as follows:

Section 2: Assessing digital maturity **Page 12**

Presents our definition of digital transformation and provides an overview of our methodology for assessing the digital maturity of Australian SMEs.

Section 3: Digital technology adoption **Page 16**

Describes the adoption of digital tools by SMEs.

Section 4: Organising for digital success **Page 22**

Shows how digital technologies affect how SMEs are organised and how digital leaders foster the human side of digital transformation.

Section 5: Driving business through digital channels **Page 26**

Details how SMEs are propelling business through digital channels.

Section 6: Digital impacts on SME performance **Page 32**

Describes the gains in business performance that SMEs are seeing from the adoption of digital technologies.

Section 7: The impact of SME digital transformation on local economies **Page 38**

Illustrates how SMEs not only boost their own performance through digital technology, but also the performance of the local economy.

Section 8: The challenges of digital transformation **Page 42**

Examines the challenges SMEs face in their digital journey.

Section 9: The value of digital platforms for SMEs **Page 46**

Explores how SMEs use digital platforms, products, and apps to drive digital transformation.

Section 10: Conclusion **Page 56**

Provides a concluding summary.

Section 11: Technical appendix **Page 58**

Contains a detailed discussion of the research methodology.



Section 2: Assessing digital maturity



SMEs in the Australia use digital technology to transform their business strategies, processes, and products and services.

Digital transformation is widely seen as an imperative for businesses of all sizes and across all industries. Says Jacqueline Gray, CFO of Proteomics International, a medical technology company: “Digital technology is incredibly important to all businesses. It would be difficult to find any business where it hasn’t played a significant role.”

Yet the term digital transformation often means different things to business and government leaders.

To set our research framework, we first synthesised viewpoints from academic and business papers into one full definition of digital transformation.⁷ Specifically, we define digital transformation as 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. Further, we define digital technologies as all electronic tools, systems, technologies, and devices that generate, store, or process data, including well-known examples such as social media, mobile phones, and websites.

Based on that definition of digital transformation, we developed a digital maturity model to assess how stages of digital transformation influence business performance. Maturity models are commonly used analytical tools that enable businesses to track their progress in a management area and benchmark their performance against peers.

To develop an appropriate maturity model, we again undertook an extensive review of the academic literature⁸, this time to identify the key elements of effective digital transformation of SMEs and other

businesses. From that analysis, we created a maturity model (Figure 1) consisting of six performance pillars, each designed to measure a key component of digital transformation. These pillars include:

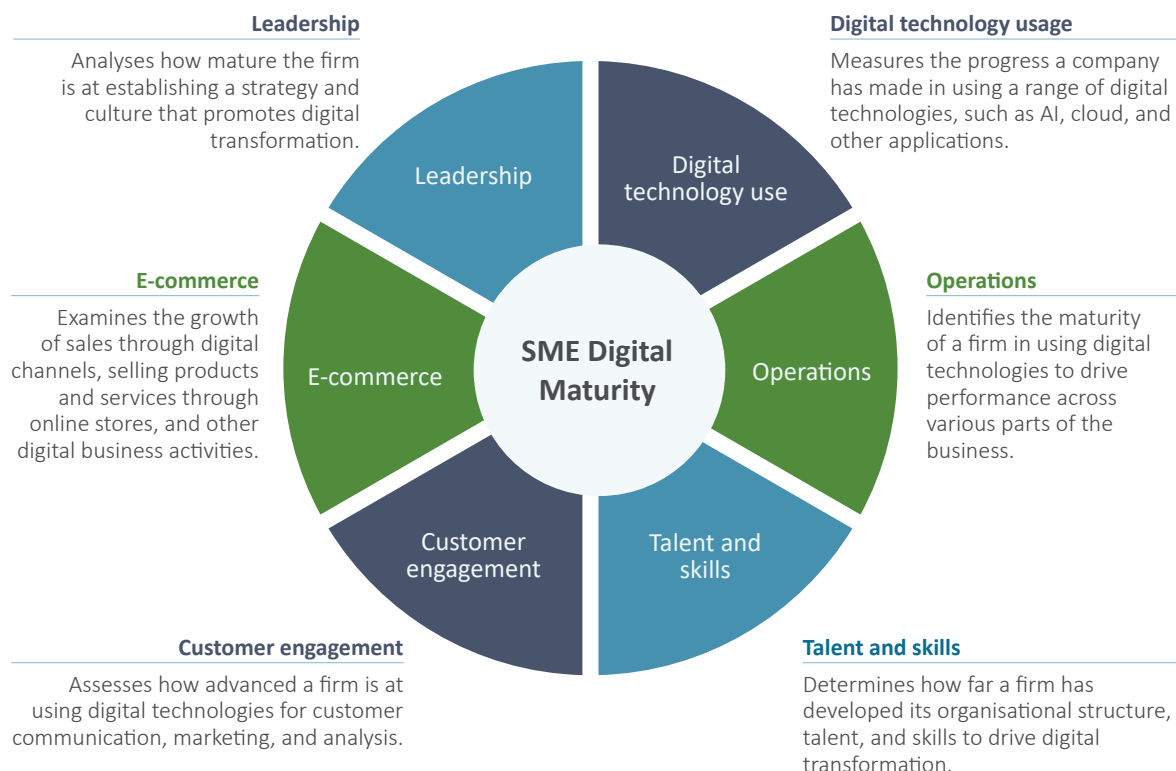
1. **Digital technology usage**- Measures the progress a company has made in using a range of digital technologies, such as AI, cloud, and other applications.
2. **Operations**- Identifies the maturity of a firm in using digital technologies to drive performance across various parts of the business.
3. **Talent and skills**- Determines how far a firm 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 how mature a firm is at establishing a strategy and culture that promotes digital transformation.

“Digital technology is incredibly important to all businesses. It would be difficult to find any business where it hasn’t played a significant role.”

Jacqueline Gray, CFO, Proteomics International

⁷ Our proposed definition of digital transformation is a synthesis of the existing literature, including, but not limited to, the following papers: Cunha and Sousa (2021); Deloitte (2018); Fitzgerald et al. (2013); Garzoni et al. (2019); Hess et al. (2006); IDC (2020); Kane et al (2015); Mhlungu et al (2019); OECD (2021); Ramdani et al (2021); Schallmo et al (2020); Steif et al (2016); Teng et al (2022); Wade (2015); Westerman et al (2011); and Xerox (2022).

⁸ Our digital maturity model was a synthesis of the existing literature, including, but not limited to, the following papers: Berman (2012); Bhardadwaj et al. (2013); Bostrom and Celik (2017); Deloitte (2018); Desmet et al. (2015); Fitzgerald et al. (2013); Hess, et al. Wiesbock (2016); IDC (2020); Kane et al. (2015); Matt et al. (2015); Mhlungu et al. (2019) ; Oswald and Kleinemier (2017); Randani et al. (2021); Schallmo et al. (2020); Sia et al. (2016); Singh and Hess (2017); Soule et al. (2015); Steif, Eidhof, and Voeth (2016); Teng et al. (2022); Wade (2015); Westerman (2011); Westerman et al. (2014) ; Xerox (2022).

Figure 1: Digital maturity model pillars

We incorporated the maturity model framework into our survey construction by creating a series of survey questions aligned with each pillar. Based on the responses to the questions, we calculated a score for each pillar.⁹ The scores for the individual pillars were normalised and weighted to arrive at an overall measure of digital maturity. Respondents were classified into one of four maturity categories: beginners, implementers, advancers, and leaders. Beginners are firms that scored in the bottom 25th percentile, leaders are those in the top 25th percentile. The middle two categories are divided at the median—implementers have a score between the bottom 25th percentile and the median and advancers have a score between the median and the top 25th percentile.

In general, the level of digital maturity correlates with the size of the business. As shown in Figure 2, less than 10% of micro businesses are leaders, compared with 22% of small businesses, and 37% of medium-sized businesses. On a weighted average basis by industry, construction, professional services, and agriculture lag in maturity, while restaurants and accommodations, transportation, and healthcare lead. Other industries are in the middle (Figure 3).

⁹ See the appendix for additional details on the maturity methodology.

Digital maturity breakdown

After weighting the data by business size, industry, and headquarters location, we estimated that **35%** of SMEs in Australia are in the **beginner** stage in digital transformation. In this initial stage, companies start to see the disruptive effect of digital technology on their organisations, along with the benefits that it can generate for their business and its employees, customers, and partners.

Next, **26%** are early **implementers**, exploring digital approaches that meet the needs of their stakeholders and developing digital skills. A smaller percentage, **23%**, are **advancers**, which actively incorporate digital initiatives into business strategies, processes, and customer and employee experiences. Finally, **16%** are **digital leaders**, which fully embrace digital innovation by setting a digital vision, mindset, and business approach, as well as redefining processes, roles, and data management, to drive business performance.

Figure 2: Digital maturity by company size (number of employees)

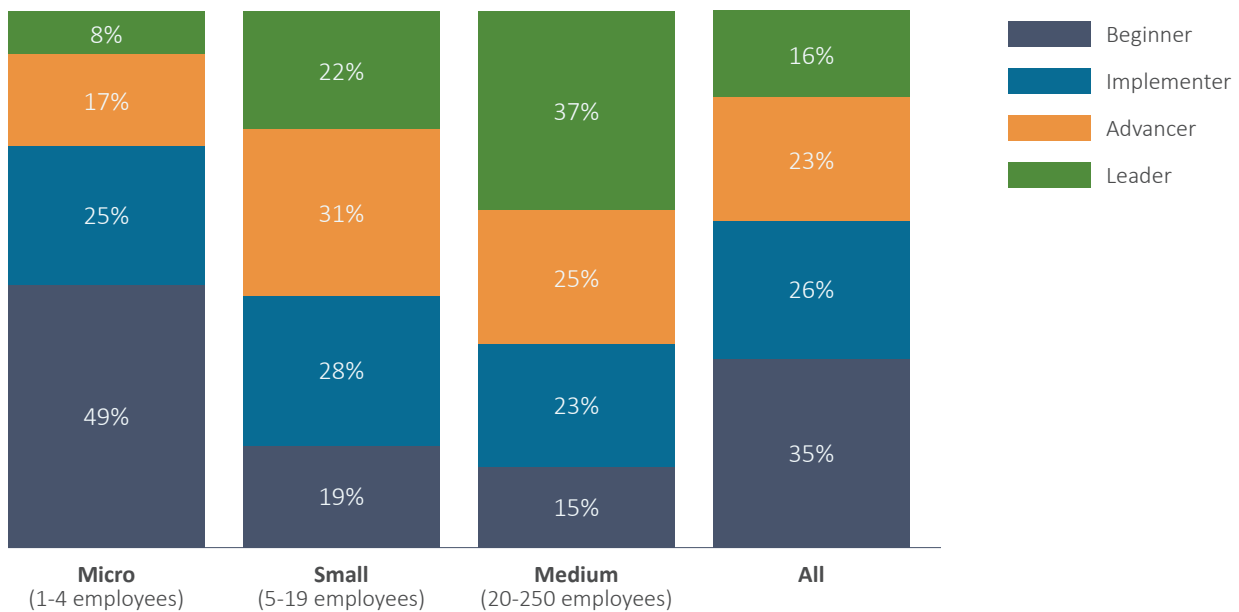
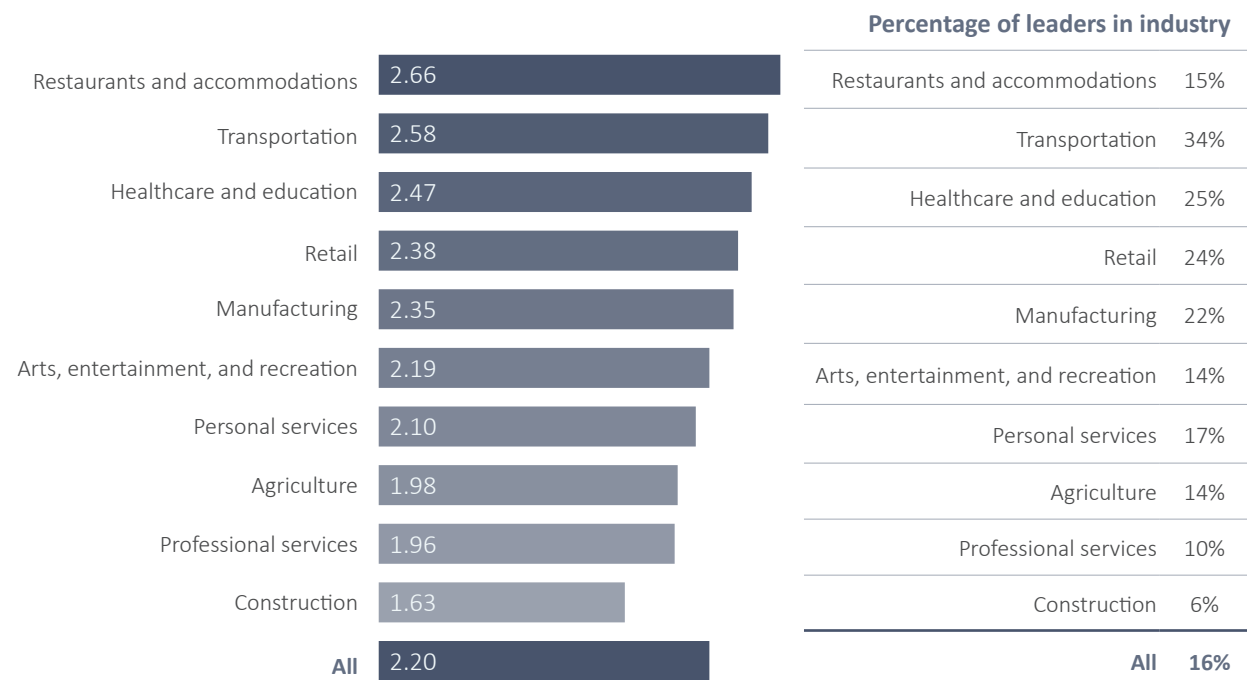


Figure 3: Digital maturity by industry (weighted average score)¹⁰



¹⁰ The weighted average score for each industry was calculated by multiplying the percentage of leaders by 4, advancers by 3, implementers by 2, and beginners by 1, then summing the results. The higher the score, the more digitally mature.



Section 3: Digital technology adoption



More than two-thirds of SMEs surveyed report a heavy reliance on communication technologies, including email and messaging services amplified by social media.

Our survey asked SMEs about their usage of a range of digital technologies, from core technologies such as email, websites, and social media, to advanced technologies such as AI, blockchain, and augmented and virtual reality (Figure 4). Today, most small businesses recognise the effectiveness and ease of using digital communication to engage with customers and find new ones.

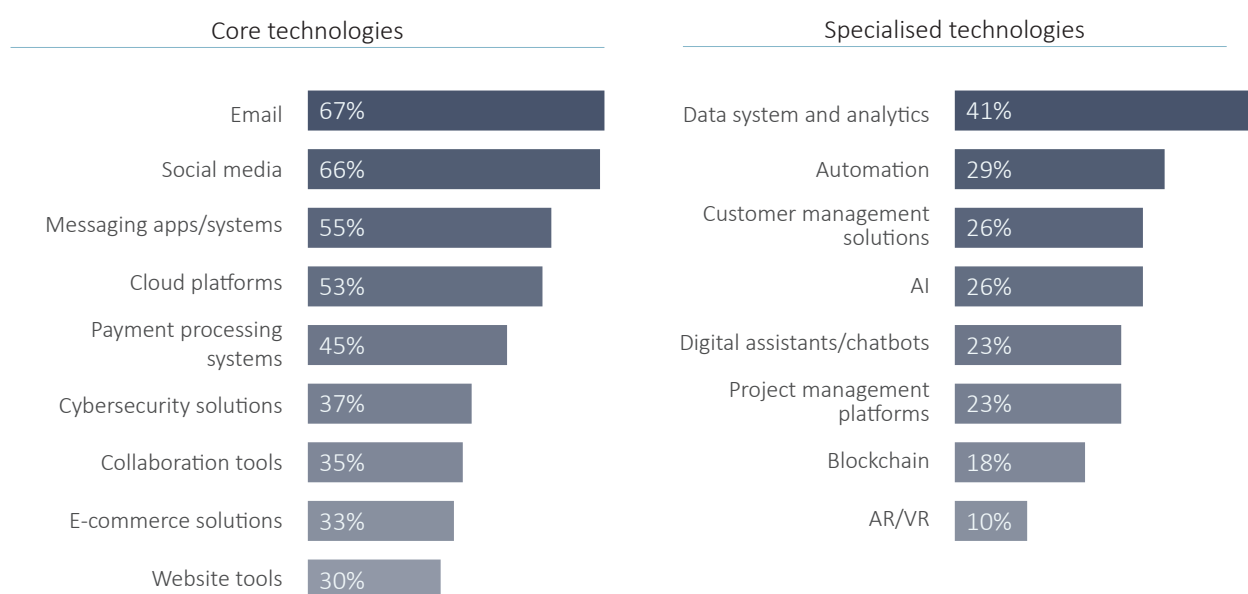
Digital technology is also valuable for internal communication and collaboration. In addition to email, many SMEs use cloud platforms, collaboration tools, and video conferencing to improve staff communication. These virtual solutions helped many companies survive during the pandemic. “We would

have been dead in the water during the pandemic had it not been for digital technology,” says Gray of Proteomics International.

A company’s degree of technological sophistication often relates to its size. For example, in-depth user knowledge and technological proficiency is typically required to incorporate data systems and analytics into everyday operations.

26% of SMEs utilise AI, 18% use blockchain, and 10% are already implementing AR/VR

Figure 4: Use of digital technologies by SMEs



QA2: Which of the following digital technologies is this business currently using?
QA3: Is this business also using any of the following digital technologies?

As illustrated in Figure 5, the use of data analytics almost triples from 22% of micro firms to 63% of medium-sized firms. Other areas of divergence include project management platforms, AI, and customer management solutions.

On the other hand, the use of email, social media, messaging apps, and other core technologies is similar across company sizes. Adoption of some highly specialised technologies, such as AI and blockchain, has been slow regardless of firm size.

Digital technologies are essential for most SMEs. For example, Bustle Studios, a co-working space and business in Sydney, relies on multiple digital tools, including email and social media as well as online booking platforms, payments systems, and accounting software. “If I didn’t have the technologies I have now, I doubt very much I would be in business. I doubt I’d be quite frankly enjoying it as much as I do and have the work life balance that I do,” says Laura Carrie, the founder of Bustle Studios. “They make it so much easier to start your own business.”

Figure 5: Use of digital technologies by size of business

	Medium	Micro	Ratio
Project management platforms	52%	15%	3.5
Customer management solutions	51%	17%	3.0
Data analytics	63%	22%	2.8
Automation	37%	17%	2.2
Collaboration tools	64%	30%	2.1
Digital assistants	27%	14%	1.9
Website tools	46%	25%	1.8
Cybersecurity solutions	56%	32%	1.7
Cloud platforms	72%	41%	1.7
AI	28%	19%	1.5
E-commerce solutions	44%	29%	1.5
Payment processing systems	58%	47%	1.3

QA2: Which of the following digital technologies is this business currently using?
QA3: Is this business also using any of the following digital technologies?

SMEs use digital technologies in about three areas of business operations on average - out of 11 key areas covered in the survey.

Several factors can hinder a company's ability to adopt digital technologies. These include cybersecurity concerns, inadequate budgets, and a lack of digital skills. Despite these impediments, SMEs on average use digital technologies in three out of the 11 key business areas covered in the survey. The areas where technologies are used most are customer marketing and communication, digital payments, customer service, and data security and privacy.

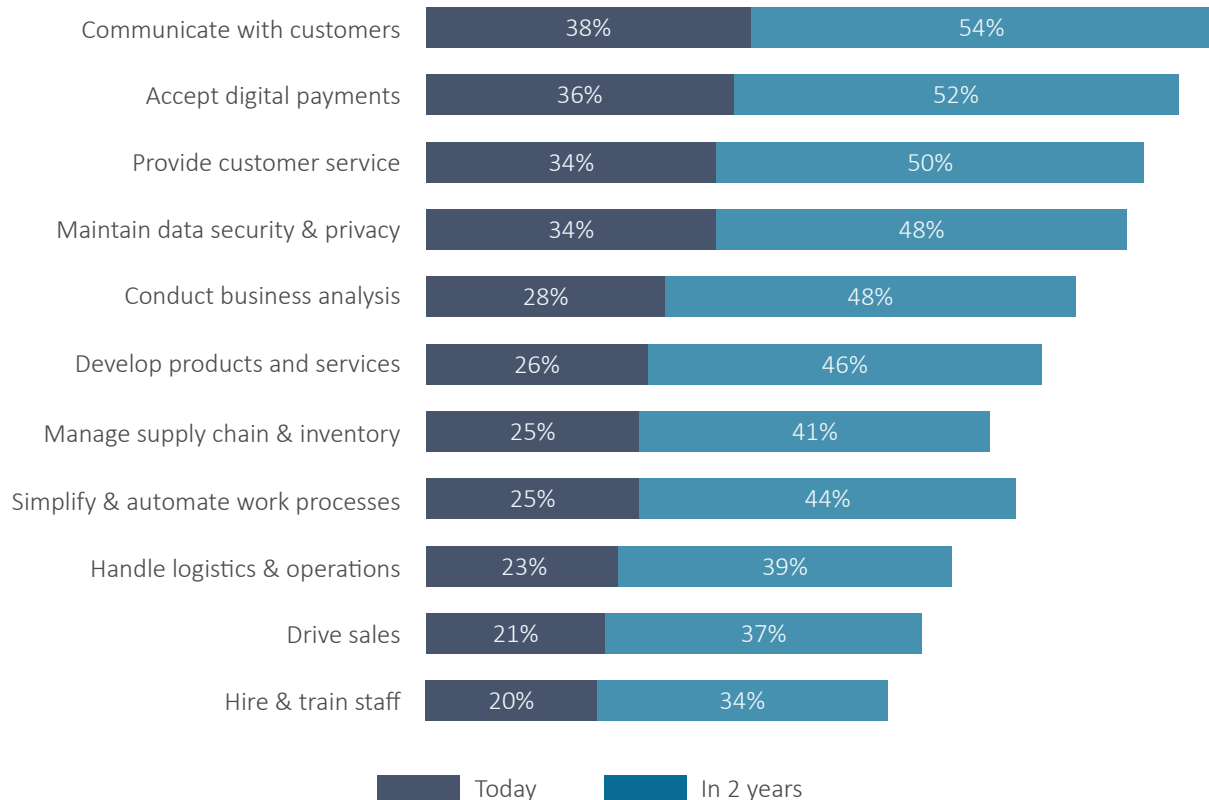
SMEs use technology more for external than internal purposes. Our research indicates that SMEs often follow an "outside-in" path to digital development. Typically, their digital journey begins with fulfilling the needs of customers, who seek online engagement and service (a trend that accelerated during the pandemic).

Bustle Studios has found social media to be a very effective platform for engaging with its customers. "I use my Facebook page the most to talk to customers," says Carrie. "For me it has been very successful in building brand awareness and engagement and also driving business."

As small businesses become more active in digitally interacting with customers, they use digital tools also to engage with employees and improve internal operations. For example, while 5% of digital beginners in our study use digital technologies to hire and train staff, 45% of digital leaders do so. Similarly, only 7% of digital beginners use digital technologies to conduct business analysis, compared with 70% of digital leaders.

Moving forward, SMEs report that they plan to invest in and incorporate more digital technologies into daily operations (Figure 6). Over the next two years, more of them will use these technologies to develop new products and services, conduct business analysis, simplify employee workflows, and hire and train staff.

Figure 6: Use of digital technologies by area



QA4: In which areas is this business currently using digital technologies?

QA5: In which areas is this business planning to use digital technologies over the next two years?

Case study

Building on digital transformation



For iBuild Building Solutions, a manufacturer of prefabricated, modular, and kit homes, digital technology has been a game-changer. It has enabled the firm, headquartered in Victoria, to lead in its field while helping the local community.

With a staff of about 20 full-time employees and 20 contractors, iBuild sees itself as the “IKEA of the building industry,” says CEO Jackson Yin. The company delivers all the necessary pre-cut materials in stages that the customer needs to assemble a fully functional home. Following its success domestically, iBuild is expanding into overseas markets with demand for lower-cost housing options, such as those in Asia, the South Pacific, and Africa. Yin says the company can make the construction of new, high-quality homes stronger, smarter, faster, and more affordable.

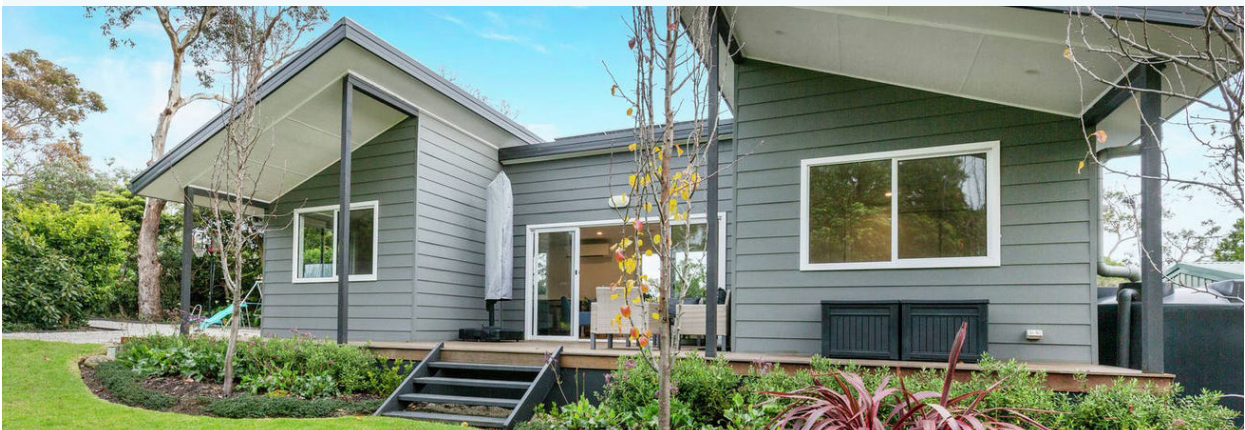
In Yin’s words, “without digital technologies, we would not be able to survive.” iBuild relies on two major digital systems—the business support system, which the company uses to communicate and interact with customers, and the operational support system, which are the tools and technologies that the company uses to run its manufacturing operations. When the company was beginning its digital transformation journey, it relied on free open-source digital tools. For communications and marketing purposes, the firm has tapped social media platforms such as Facebook, Instagram, and LinkedIn. As it matured

digitally, it began using more mid-market and bespoke tools that better met its needs.

iBuild was one of the first companies to heavily employ advanced VR and AR technology to help customers envision the scale and design of their home, which Yin says was helpful to customers during the COVID-19 lockdowns. **Yin credits the firm’s “willingness to experiment with new technologies with putting it ahead of its competitors that are far less digitally aware.”**

Another way iBuild sets itself apart is with its work with the local community. The company facilitates a competitive engineering internship program with top local university students, who receive hands-on experience in everything the company does, from design to production, including the use of digital technologies. The company also provides scholarships to university students.

iBuild also has a strong commitment to sustainability. Energy efficiency and emission reductions are incorporated into its practices and processes. The company partners with the Australian government on its “National Sustainable House Day” initiative by inviting community members into its facilities to learn more about sustainable business practices. iBuild also coordinates with local housing authorities and community development organisations to promote economic resiliency.



Photos by iBuild

Case study

How an R&D firm harnesses digital innovation



Proteomics International is a pioneering medical technology company operating at the forefront of predictive diagnostics and bio-analytical services.

The company, based in Perth, specialises in proteomics—the industrial scale study of the structure and function of proteins. The company has developed a test to determine whether an individual will develop diabetic kidney disease. It is in the process of transitioning from research and development to commercialising the tech it developed.

As a medical technology firm, Proteomics knows its way around digital technology. Digital innovation permeates many parts of its business, from how it conducts its R&D to how it communicates with investors and how it manages its business systems.

In fact, digital technology is so important for Proteomics that Jacqueline Gray, CFO, says that “it is hard to imagine how we would survive, or any business would survive, for that matter, without digital technology.”

The firm’s core asset and intellectual property is its testing and analytics platform. This versatile platform draws on sophisticated digital technologies for developing diagnostic tests based on the differences in the protein make-up of people with or without a particular disease. The algorithm that processes the test results is hosted in a secured cloud.

Operationally, Proteomics uses digital platforms, typically cloud-based, for various purposes, from purchase ordering and payments to accounting

and human resource management. “[These technologies] have been a huge win for us because people can log in from anywhere. It’s a lot easier, you save time, and they’re very efficient,” Gray says. These digital systems will continue to be important as Proteomics adjusts to a hybrid working environment.

Zoom and LinkedIn are vital tools for Proteomics. It uses them to collaborate on R&D and to disseminate the results to investors, hospitals, and doctors. The firm also uses basic tools, such as email and its website, to keep investors and other key stakeholders abreast of any new research developments.

The types of technology that Proteomics uses will evolve as the company transitions from the R&D phase to commercialisation. For instance, historically the firm did little with social media because it was a less relevant way to communicate with investors. **But as the company starts to roll out products and services from its research, social media will become a critical way for Proteomics and its partners to build consumer awareness.**

Digital innovation is now a fundamental part of the healthcare and life sciences industry. The strong technology foundation that Proteomics has built over the last 20 years will allow it to continue to be a market leader and bring medical breakthroughs to the world.



Photos by Proteomics International

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Section 4: Organising for digital success



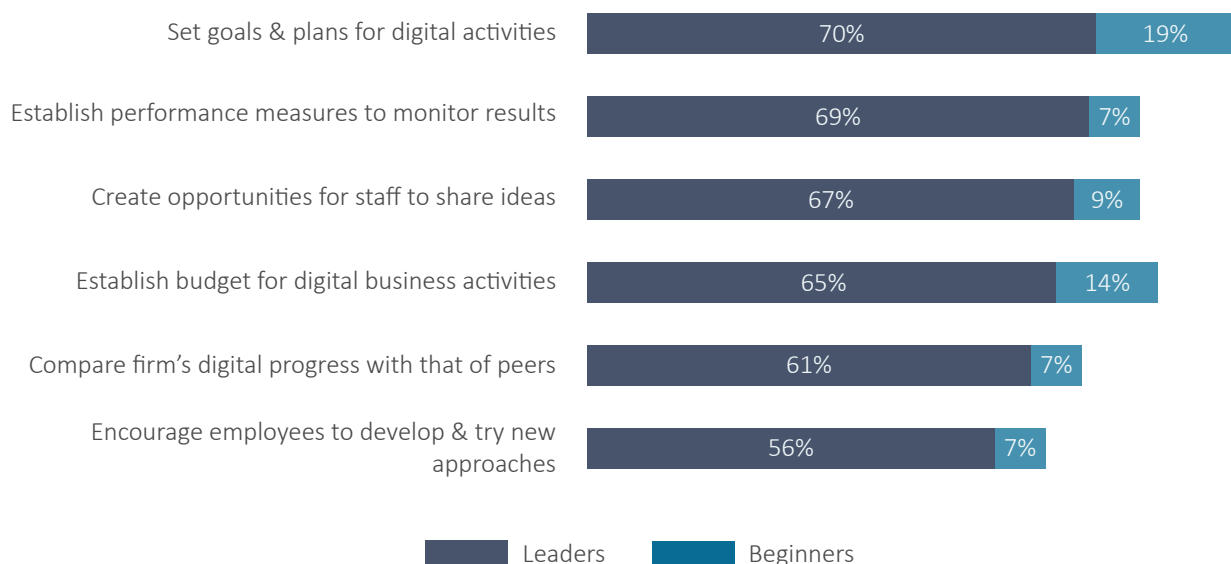
Digital transformation is as much about people as it is about technology. It requires staff to change how they work, develop new skills, and embrace innovation.

Digital transformation cannot flourish without management teams that believe in digital technology and promote a culture of innovation. In fact, it is often what separates digital leaders from other firms across industries.

As illustrated in Figure 7, far more leaders than beginners take an array of measures related to management: establish performance measures to monitor results; create opportunities for staff to share ideas; establish a budget; compare the firm's digital performance with other businesses; and encourage employees to develop and try new approaches.

Our research shows stark differences in how digital leaders foster the human side of digital transformation. Sixty-seven percent of digital leaders create opportunities for staff to share ideas around digital activities compared with just 9% of beginners.

Figure 7: Steps taken to advance digital transformation



QF11: Has this business's owners or management team taken any of the following steps?

Yet among small businesses, particularly sole proprietorships, budgets are extremely limited. For example, when setting up her marketing plans and performance metrics, Carrie of Bustle Studios drew on her prior business experience with major insurance provider, Suncorp Group. But when she worked for those firms, Carrie had big marketing budgets and could even hire a creative agency to help. “It’s very different when you’re suddenly the marketing manager of your own business. I went from spending \$2,000 a post to just doing a quick Facebook post and spending \$30 to do an AB test and 15 cents per engagement to target my message to my audience.”

Over the next two years, SMEs in earlier digital stages will race to close the gap with digital leaders. 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.

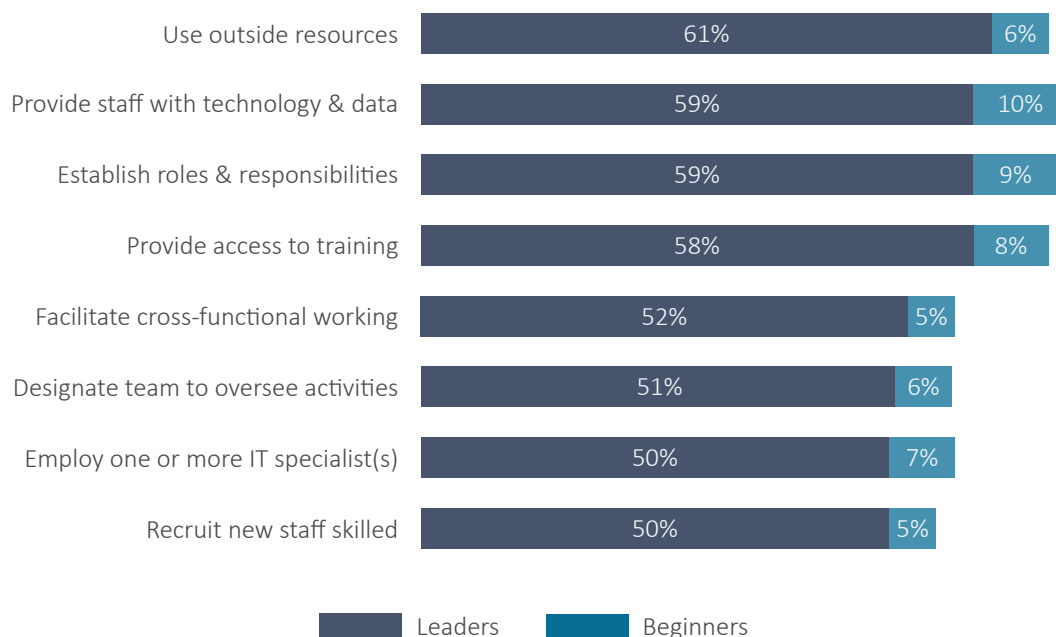
Digital leaders do a better job than beginners in preparing their staff for digital transformation (Figure 8). Six times the number of leaders provide staff with the technology, data, and digital training they need to carry out business activities (59% vs. 10%). There are similar large divergences in other organisational initiatives, such as establishing digital roles and responsibilities, providing access to training, facilitating

cross-functional working groups, designating a team to oversee digital business activities, employing IT specialists, and recruiting new staff skilled in using digital technology.

Digital technology often changes how businesses organise and set roles and responsibilities, as explained by Gray of Proteomics International. “You look at departments and different roles at one point in time and when you look at them 12 months later, what they are doing has entirely changed because of digital technology. The efficiencies through platforms and applications free up time so that you can take on more things. In my department, I often notice that the kind of responsibilities that we take on, or the things that I’m getting involved in, change because of the efficiencies we get.”

Over the next two years, SMEs in earlier digital stages will race to close the gap with digital leaders. 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.

Figure 8: Steps taken to develop digital talent and skills



QB6: Is this business currently doing any of the following to develop digital talent and skills?

Over the next two years, earlier-stage SMEs will focus more on building the organisational foundation for digital transformation. Over 20% will designate a staff member or team to oversee digital activities. Slightly fewer will set roles and responsibilities for digital activities, recruit new staff skilled in digital technology, and provide access to technology, data, and digital training.

Larger and more digitally mature SMEs realise that a robust digital staff enables their business to thrive in an evolving digital marketplace. Through careful recruitment and training initiatives, they actively cultivate a digitally minded culture and organisation. For example, 98% of medium-sized businesses take at least one step to develop digital talent and skills, compared to 60% of micro businesses.

Typically, this is centred around providing staff with the technologies and tools they need (51% of medium-sized firms vs. 24% of micro firms) and providing access to training (50% of medium-sized firms vs. 23% of

micro firms. Medium-sized firms also draw upon IT subject matter experts, with 47% employing one or more IT specialists vs. 18% of micro firms.

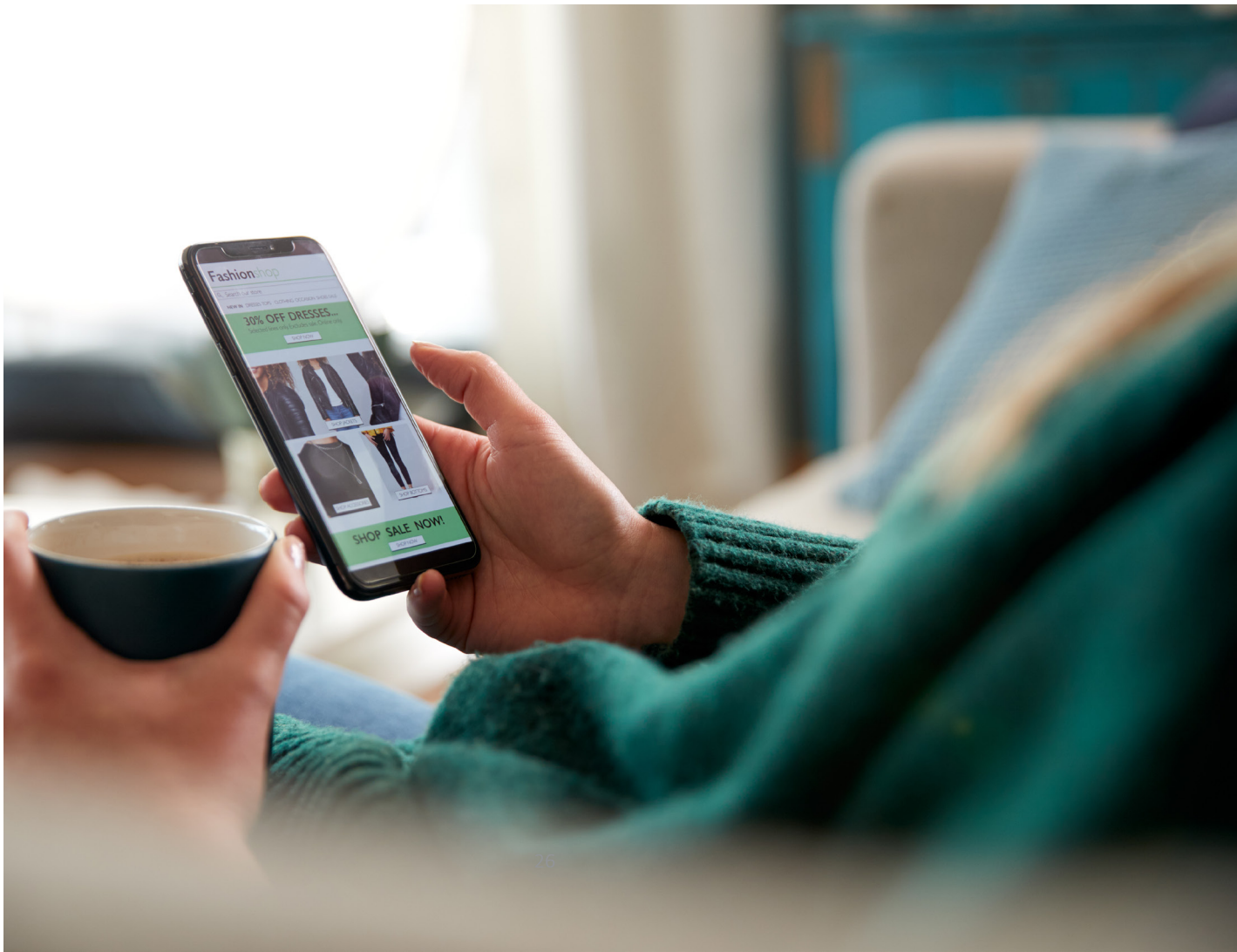
Firms also bring in experts as they become more advanced. Proteomics International employs highly sophisticated digital technology and cutting-edge systems in its lab that require very specialised expertise. “The technicians we have running the machines are highly specialised scientists,” says Gray.

Besides developing skills internally, some SMEs look to partner with academic institutions and support education and skills development in the community. iBuild Building Solutions, for example, offers scholarships and internships to 10 universities. It brings in around 100 interns a year skilled in science, technology, engineering, and math. As those students gain hands-on experience, iBuild leverages these resources for the business and learns what is being taught in leading universities.



Photo by Campaign_Creators on Unsplash

Section 5: Driving business through digital channels



Over the next two years, the use of digital technologies for customer interaction will escalate across all customer activities, as other SMEs play catch up with digital leaders.

Reflecting the importance of digital transformation to SMEs in Australia, digital sales channels now account for a larger share of sales than traditional channels (e.g., physical stores, phone sales, etc.)—52% vs. 48%—according to respondents to our survey.

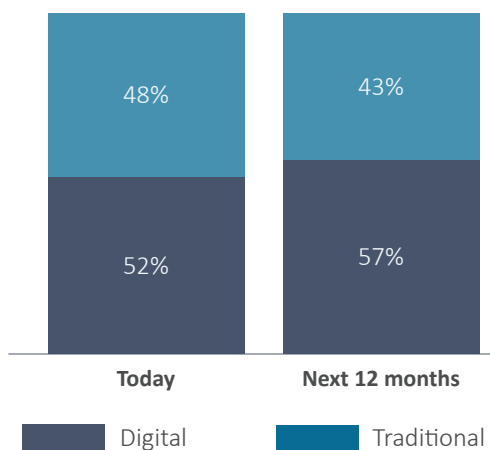
Over the next 12 months, SMEs expect 57% of their sales to come from digital channels.

Smaller SMEs are turning even more to digital channels to help them grow. Fifty-eight percent of the sales of businesses with a sole owner are through digital channels, compared to 52% of larger SMEs. While digital sales channels are important for all industries, usage varies by sector due to different customer

preferences: digital sales are highest for arts and entertainment (82%) and professional service firms (56%) and are lowest for construction (33%) and personal services (46%).

SMEs take advantage of digital marketing tools to drive both digital and non-digital sales (Figure 10). These tools include social media platforms, email campaigns, and mobile marketing. On average, 57% of SMEs use social media platforms; around 38% use email promotion, followed by mobile marketing, search engine optimisation, and websites. About eight in 10 leaders use social media and over six in ten use mobile marketing, search engine optimisation, and digital shops. Fewer firms spend money with third parties for digital marketing: less than 20% use pay-per-click or affiliate marketing.

Figure 9: Digital sales by SMEs



QC8: In the last 12 months, what percentage of sales were conducted via digital channels and traditional channels?

QC9: Thinking about the next 12 months, what percentage of sales do you expect to be conducted via digital channels and traditional channels?

Social media is a very effective platform for SMEs to build their businesses. SMEs find that it gives their brand huge exposure to current and potential customers around the world at practically no cost. Social media also allows SMEs to humanise their brands, define their market niche, personalise their messaging, engage with customers, and capitalise on viral marketing.

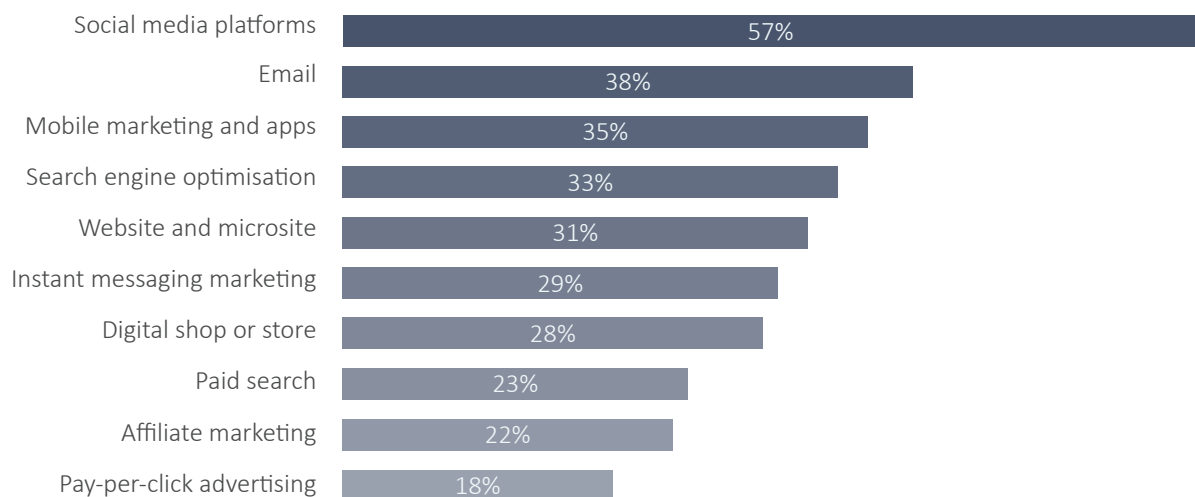
“I use my Facebook page the most to talk to customers. For me it has been very successful in building brand awareness and engagement and in driving business.”

Laura Carrie, owner, Bustle Studios

Carrie of Bustle Studios says that “I use my Facebook page the most to talk to customers. For me it has been very successful in building brand awareness and engagement and driving business.” Kirrikin, a clothing maker, relies heavily on Instagram for marketing, and on WhatsApp and Messenger to communicate with clients. “Most of our referrals come from Instagram,” notes Amanda Healy, Kirrikin’s founder.

As illustrated in Figure 10, SMEs employ digital marketing tools for a range of customer activities, such as providing communication and content; continuously testing, analysing, and improving customer activities; creating personalised customer experience; and gathering data on customer behaviours and needs. Some small businesses, such as Kirrikin, combine these activities into an integrated e-commerce and accounting approach.

Figure 10: Digital marketing tools used by SMEs



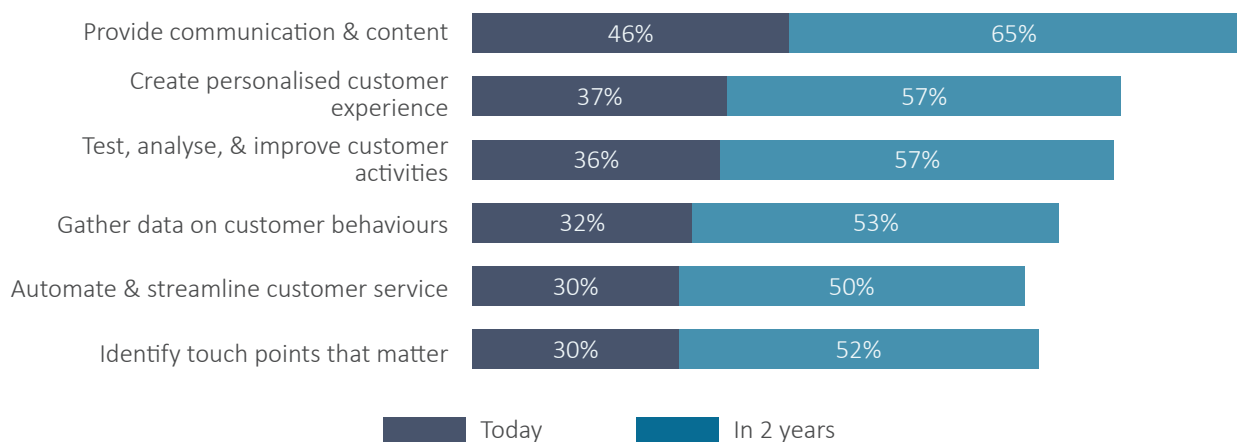
QC15: What types of digital marketing does this business currently use?



Leaders show the path for digitising customer experiences. Most use digital technologies to manage all aspects of their customer relationships. About three-quarters use digital tools to provide communication and content, and slightly fewer to test, analyse, and improve customer activities; create a personalised customer experience; and gather data on customer behaviours. Compared with other firms, more than double the number of digital leaders use technology to automate customer service and identify touch points that matter most to customers.

Over the next two years, the use of digital technologies for customer interaction will escalate across all customer activities, as other SMEs play catch up with digital leaders (Figure 11). Providing communication and content through digital technologies will become table stakes for SMEs, with 65% taking this approach.

Figure 11: Digital customer activities



QC18: Is the business using digital technologies for any of the following customer activities?

QC19: Is the business planning on using digital technologies for any of the following customer activities over the next two years?



Photo by Heidi Fin on Unsplash

Case study

Blending digital business with social good

KIRRIKIN
DISCOVER YOURSELF

Amanda Healy, the founder of Kirrikin, a South Perth-headquartered clothing company, had an unconventional start in the fashion industry.

While working in the Australian mining sector, she found herself searching for clothing that was professional enough for an engineering business but would also reflect her Indigenous Wonnarua heritage. At the urging of friends, Healy started Kirrikin—initially a maker of scarves and ties showcasing aboriginal designs. Kirrikin has since expanded into a full clothing line employing aboriginal artists, thereby fulfilling Healy’s socially minded goals.

Kirrikin employs five full-time staff and utilises the designs of eight Indigenous artists. Beyond connecting artists and consumers, Kirrikin works together with local communities. Historically, Indigenous populations in Australia have made up a disproportionate part of the prison population. As part of her community outreach, Healy works with incarcerated women, providing them with art classes and helping them access services once they are released. Healy also sits on the boards of organisations that help members of her community develop their own small businesses.

Kirrikin’s willingness to explore a variety of new digital technologies has enabled it to make impressive progress in the fashion industry. E-commerce is at the heart of Kirrikin’s operation,

but Healy admits she often feels like a beginner in that space. **Digital platforms and tools allow her to run her e-commerce processes with convenience and without extensive technical training.** By using the e-commerce platform Shopify, which connects directly to Instagram and Facebook, Kirrikin can seamlessly integrate with the order processing and accounting software she uses like Zero, a cloud-based online accounting service. And platforms like Instagram are critical for getting Kirrikin’s message out and marketing its products.

Kirrikin also relies on digital technologies for production. The company digitally scans handmade designs and screen-prints them onto fabrics that are then made into final products. Some of the younger artists at Kirrikin can now produce their designs entirely digitally, which she says reflects the change in the industry and the “beautiful range of employees” she has working with her.

To help her run her business, Healy also has employed a “virtual assistant.” Instead of a traditional personal assistant who comes to the office each day, her assistant handles all administrative duties remotely and online—including email, invoices, and the Zero software.

Kirrikin embodies the idea that, even without a background in fashion, marketing, or entrepreneurship, a community-minded operation can thrive with the help of digital technologies.



Photos by Kirrikin



Section 6: Digital impacts on SME performance



SMEs see major gains in their business performance through the adoption of digital technologies.

Several studies have highlighted the benefits to small businesses of employing technologies to boost their performance across a range of metrics and to help them better compete. A study¹¹ of 1,010 SMEs conducted in 2018, before the pandemic, by the Australian and New Zealand Banking Group (ANZ) found that the use of digital technologies enabled SMEs to generate revenue growth of 27% and an average savings of 10 hours of work a week. The analysis showed that the use of digital technologies by all Australian SMEs would unlock \$385 billion per year in revenue and save 22 million hours of work per week.

An OECD report in 2017¹² revealed that digital technologies provide SMEs around the world with new opportunities to build their businesses via better access to skills and talent, greater access to markets, more extensive access to financing, better communication and collaboration, greater access to technologies and applications, more extensive product development, and reduction in red tape. As a result, digital technologies enable SMEs to compete against larger firms by helping to level the playing field.

Our research sheds further light on how digital transformation improves business results for SMEs in Australia. Our study of 1,250 SMEs went deeper in its performance analysis of each company, taking into account the organisation's size, industry, and digital

maturity. Overall, 53% of SMEs surveyed report that the use of technology helped increase their revenue over the prior 12 months: for digital leaders the figure is higher (78%) and for beginners it is lower (28%).

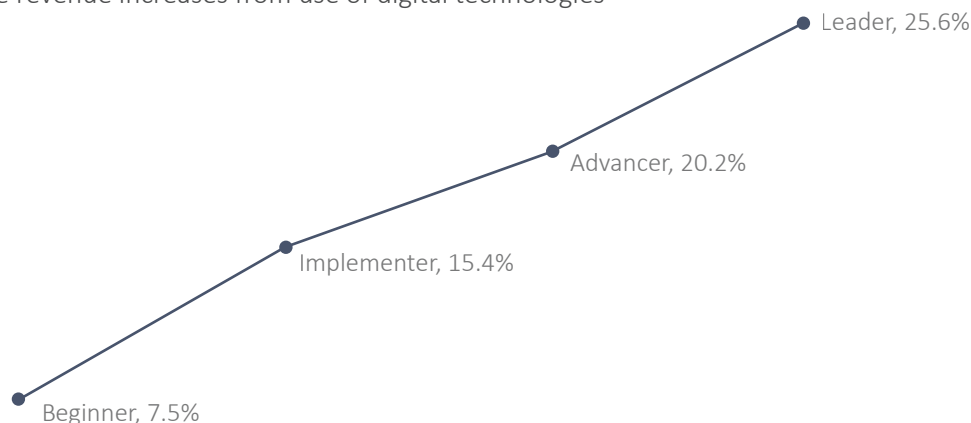
78% of digital leaders say digital technology helped increase their revenue over the prior 12 months.

We asked those respondents that experienced a revenue impact about the size of the impact. We found that the average revenue growth due to digital technology was 16% over the last 12 months, ranging from 12.5% for micro firms to 20.9% for medium-sized businesses.

The analysis shows that the degree of digital transformation influences the level of revenue growth. The average annual revenue increase from digital transformation went from 7.5% for digital beginners, to 15.4% for implementers, 20.2% for advancers, and finally 25.6% for leaders.

In absolute terms, digital leaders report four times the amount of revenue as firms just beginning their digital transformation journey. Beginners have an average revenue of \$572,500 compared to over \$3.8 million for digital leaders.

Figure 12: Average revenue increases from use of digital technologies



QF19: Can you estimate by how much your company's revenue was impacted as a result of the business's use of technology for business activities?

¹¹ [ANZ The digital economy web.pdf](#)

¹² [OECD Digital Economy Outlook 2017 | OECD iLibrary \(oecd-ilibrary.org\)](#)

However, it is important to note that the increased revenue from digital transformation does not come without costs. On average, firms saw their costs increase by 8% because of their use of digital technologies for business activities. See Figure 18 below for additional details on how the costs vary by digital maturity.

In addition to revenue, digital leaders cite improvements across other key performance metrics, including profitability, customer acquisition, sales outside and within their local economy, and employee productivity. For 87% of SMEs, digital transformation has led to improvements in at least one area of their businesses. Beginners report improvements over the prior 12 months in an average of 1.1 areas (out of the seven areas covered in the survey), with 36% reporting no improvements at all. Leaders report improvements in an average of four areas, with all leaders seeing improvements in at least one area.

Clyde McConaghy, a board member and director of several private and publicly listed SMEs in Australia, remarks that “digital tools have helped turn operational

efficiencies on their head” for the small businesses he works with. This has led to improvements in profitability and employee productivity. McConaghy also notes that digital tools can help financial departments do a better job at managing and investing money, assuming there is a commensurate broadening of their responsibilities. “If executed correctly, digital tools can help turn the finance function of an organisation from a cost centre into a new line of income.”

“If executed correctly, digital tools can help turn the finance function of an organisation from a cost centre into a new line of income.”

Clyde McConaghy, board member and director

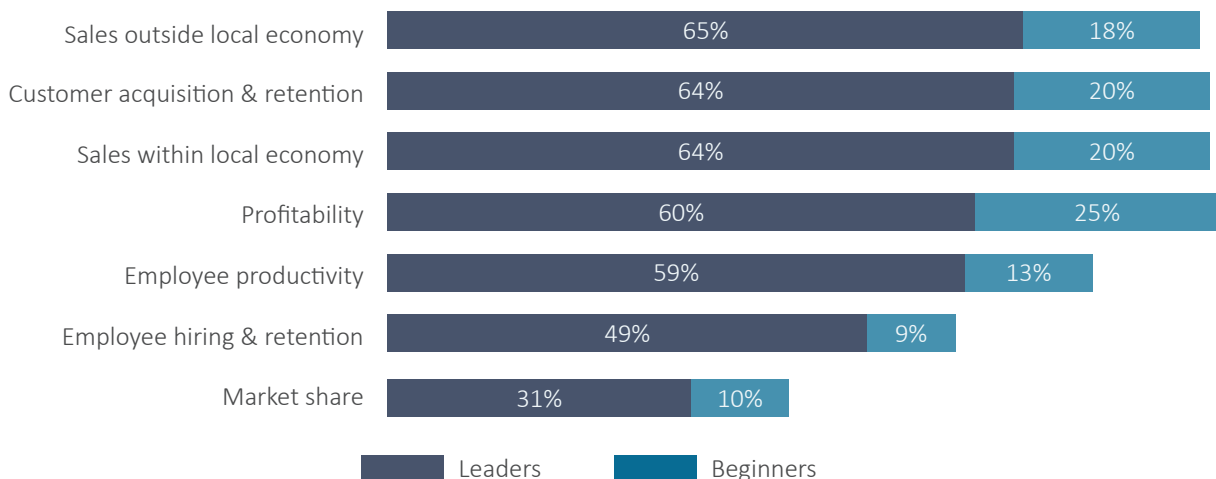
Aggregate impacts of digital transformation

The average revenue growth due to digital technology usage was 16% over the last 12 months. On a per-firm basis, this translated into an average of \$85,700 for micro firms, \$272,300 for small firms,

and \$830,750 for medium-sized ones. Across the 2.6 million SMEs in Australia, digital technologies have allowed firms to generate nearly \$306 billion in additional revenue over the last year.

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

Figure 13: Improvements in key metrics from digital use



QF14: Has the use of digital technology for business activities led to improvements in the following areas?

Where leaders outstrip others

The ThoughtLab team carried out econometric analysis to isolate and quantify the relationship between a digital leadership and performance, while controlling for digital maturity, the size of business, and the sector. The quantitative analysis found that digital leaders have superior performance relative to those SMEs that are not as far along on their digital journey.

Compared to earlier-stage 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 see 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.**

Gray of Proteomics International agrees that digital technologies can be a big win, particularly for the financial area that she runs. “The use of digital tools saves a lot of time. And it’s really efficient. I have found in my 30 odd years in business that you always have to find efficiencies to enable you to take on more and more.”

As SMEs become more digitally advanced, they see more benefits. Out of 10 potential benefits from digital technologies covered in the survey, beginners report an average of 1.5 while leaders report 5.2. As illustrated in Figure 14, digital leaders see a diverse set of benefits: customer-related benefits, such as easier communications with customers and more satisfied customers; operational benefits, such as easier planning and decision making and more engaged staff; financial-related benefits, such as ability to scale the business cost effectively and higher valuation of business; and innovation-related benefits, such as increased innovation and better ideas and ability to launch products and services more quickly.

Digital technologies also help small businesses reach more customers and build market share. For instance, thanks to search engine optimisation, iBuild attracts half a million visitors to its website a year—a large number for a business of iBuild’s size. Facebook, Instagram, and LinkedIn also drive customers to the website. This has enabled the firm not only to increase customer satisfaction, but also to gain international market share. Says CEO Yin: “I am very pleased to see we are helping our customers realise their dreams, who may not otherwise be able to afford to build a house. Also, we are competing and winning on a global stage.”

Figure 14: Benefits from digital technologies



QF16: Has the use of digital technology for business activities provided any of the following benefits to the company?

Driving innovation in small businesses

Innovation is a key performance driver for Australian SMEs as they strive to grow their business.

Over the last five years, SMEs report taking many forms of innovation: developing new ways to get work done (47%), improving marketing and sales (46%), delivering customer service (45%), introducing new products and services (43%), and enhancing processes and operations (42%).

Of the SMEs participating in our study, 79% say that introducing new business ideas and approaches was important or very important to the performance of their company. Further, respondents report a key link between digitalisation and innovation: 79% of SMEs agree that digital technologies are important or very important for driving innovation.

According to Amanda Healy, the founder of Kirrikin, a clothing business, her business “couldn’t survive without digital innovation.” For example, using digital technology, she was able to find a supplier in India with the skills to create clothing in viscose, a sustainable fabric that can feel like silk. Healy started the search for a supplier in India by visiting websites and sending emails. She found five candidates and asked each one to send a sample. “Two of them were digital printings that looked much nicer and crisper than the more traditional print screen,” says Healy. “So, of course, I went with those since part of what I am doing is replicating art.”

Working with artists in Australia, Kirrikin digitises the art that will be printed onto the fabric in a photo studio in Perth and transfers it to India for production.





Photo by Kirrikin

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Section 7: The impact of SME digital transformation on local economies



Photo by Tim Mossholder on Unsplash

Small and medium-sized businesses not only boost their own performance through digital technology, but they also bolster the performance of the local economy.

Small business owners are often community leaders—they donate to charities, participate in community events, and support local sports teams. In addition, SME help adjacent industries: a thriving commercial centre with attractive small businesses and merchants may boost tourism and transportation, for example.

SMEs also bring money into their local economy with the help of digital technologies. As companies mature in digital transformation, they tend to grow beyond local borders. For instance, 65% of leaders cite improvements in sales from outside their local economy thanks to digital technologies, compared with only 18% of beginners.

“You can easily sell your products in local stores without digital technologies, but if you want to expand beyond your local area into other parts of your region, your country, or even other countries, you can’t do that without digital technologies. Digital technologies allow you to have better communication and connection with those distant customers,” says Farhad Hashemi, owner of Oz Tea, a supplier of premium-quality herbal teas.

“If you want to expand beyond your local area into other parts of your region, your country, or even other countries, you can’t do that without digital technologies.”

Farhad Hashemi, owner, Oz Tea

As SMEs advance in digital transformation, they engage in more activities that strengthen the local economy and community. As illustrated in Figure 15, digital leaders support local businesses by buying their goods and services; develop new products and services that benefit the local economy; create new jobs or other businesses; provide employees with business training and skills to use in the local economy; and participate in local community activities.

iBuild, for example, participates in an assortment of activities to help create new jobs, provide training, and hire from the local community. It is working to diversify its workplace by proactively hiring people of colour, Aboriginal and Indigenous people, and non-English speakers. This generates benefits both for the business and the local community.

Kirrikin works closely with Aboriginal artists in what Healy, calls a “social enterprise.” Healy pays the artists on her roster on a regular basis so that they have a sustainable income and shares a percentage of her profits.

Digital leaders are also more likely to support local non-profit organisations. “We have a duty to give back,” says Carrie of Bustle Studios. “We have a program where I give a free room rental to any registered charity or not-for-profit in Australia. A lot of charities must go to places that are cheap or free and usually pretty basic when they do their meetings and training sessions. By opening the Bustle Studios spaces to charities, we enable them to host their meetings in a beautifully decorated space.”

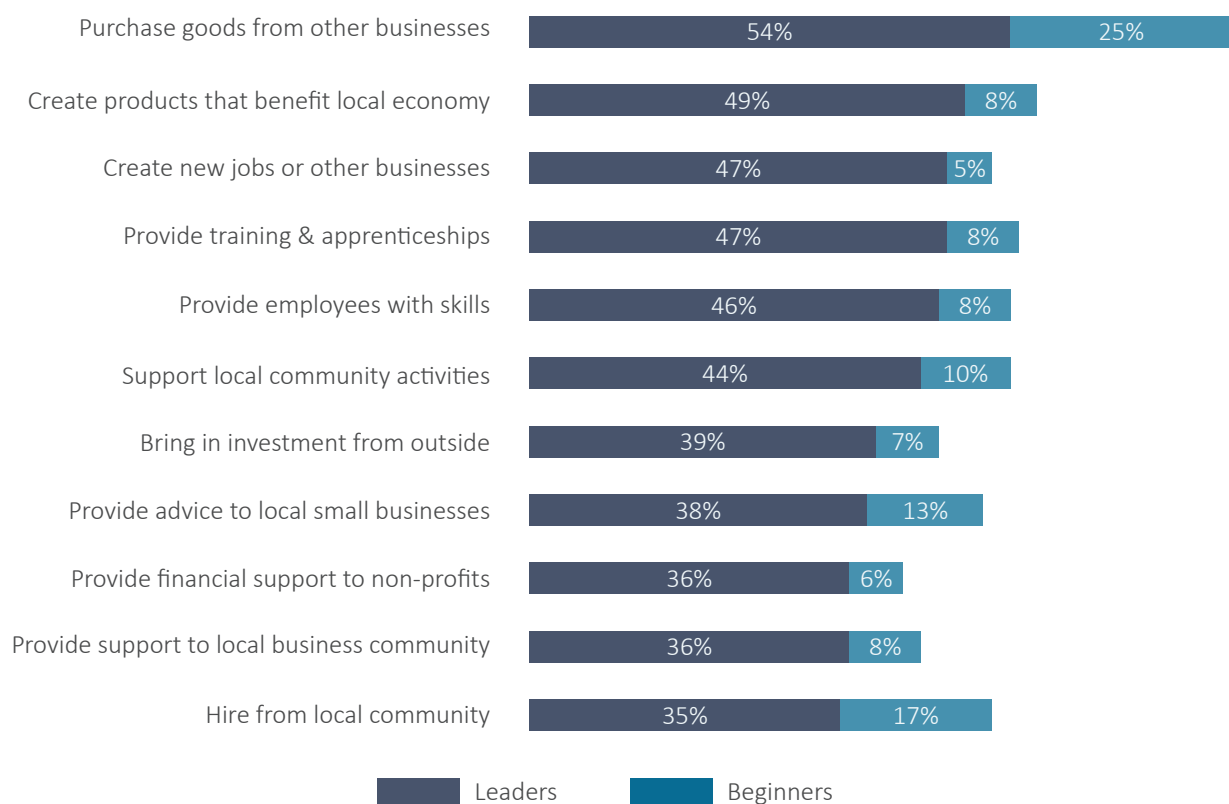
Crucially, digital leaders help to grow and transform their local economies. As discussed above, digital transformation has a multiplier effect on a firm's revenue—beginners have an average revenue of \$572,500 compared to over \$3.8 million for leaders. This increased revenue translates into larger GDP for the local economy and increased fiscal (tax) impacts for local governments.

It also has a multiplier effect as firms spend money at other local businesses. On average, SMEs spend 37% of their total costs in the local economy; on a dollar

basis this translates into an average of \$115,700 for beginners and \$684,700 for leaders. This spending supports other SMEs and generates additional economic impacts locally.

Digital transformation also helps SMEs scale up and contribute to job creation in their local communities. Digital leaders report employing more than three times the number of people as firms that are just beginning their digital journey. Specifically, beginners employ an average of four people, compared to 18 for digital leaders.

Figure 15: How SMEs engage in the local community



QE1: Does this business engage in any of the following activities in the local community?

Figure 16: Revenue and employment compared

	Leaders	Beginners
Average revenue	\$3,388,158	\$572,460
Average number of employees	18	5

QS4: Including yourself, how many employees/workers does that business have across all locations? QD5: What was the business's total revenue for the last 12 months?



Section 8: The challenges of digital transformation

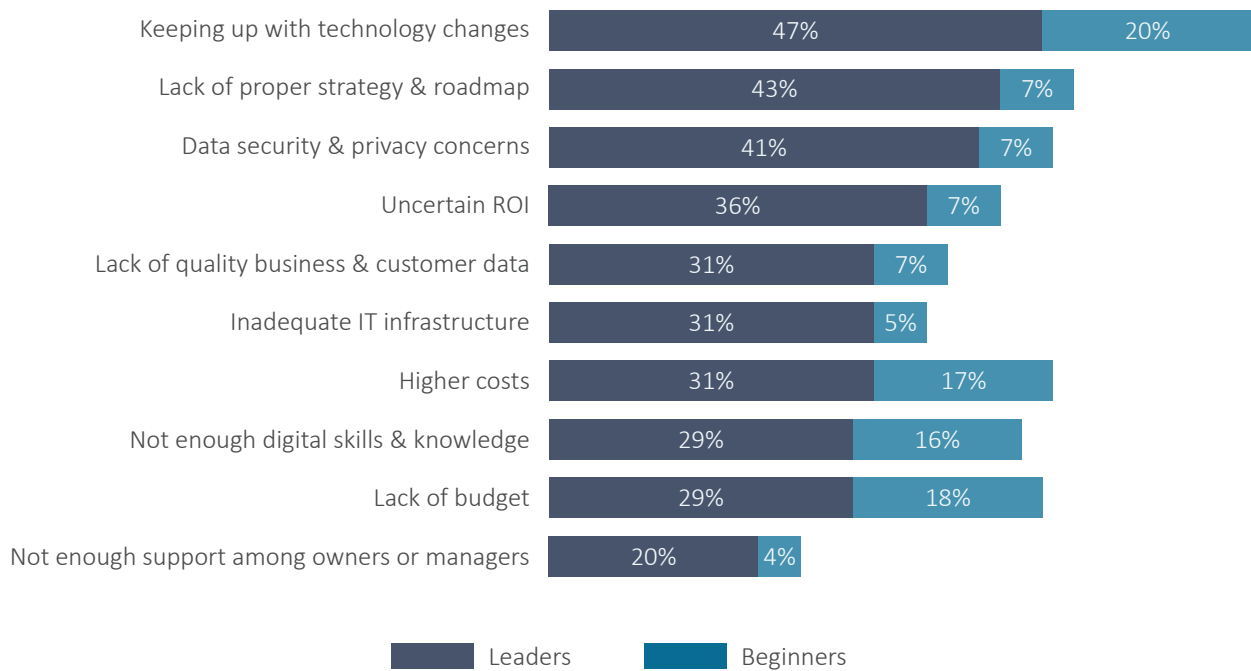


While offering many benefits, digital transformation is not always easy for small and medium-sized enterprises.

They often lack the digital skills, infrastructure, and budgets needed to succeed. Such hurdles typically grow as SMEs advance in digital transformation. Among the 10 pain points considered in the survey, SMEs starting their digital journey report an average of 1.0, while digital leaders report an average of 3.4.

The biggest trouble spot for SMEs is simply keeping up with ever-changing digital technology. While 20% of beginners find this difficult, the figure rises to 47% for leaders as they make a deeper commitment to digital innovation. Data security and privacy concerns, the second top hurdle for leaders, only loom larger as businesses embrace digital technology that may expose them to greater cyber risks if not managed correctly.

Figure 17: Digital transformation challenges



QF17: Has this business experienced any of the following challenges of digital technology for business activities?

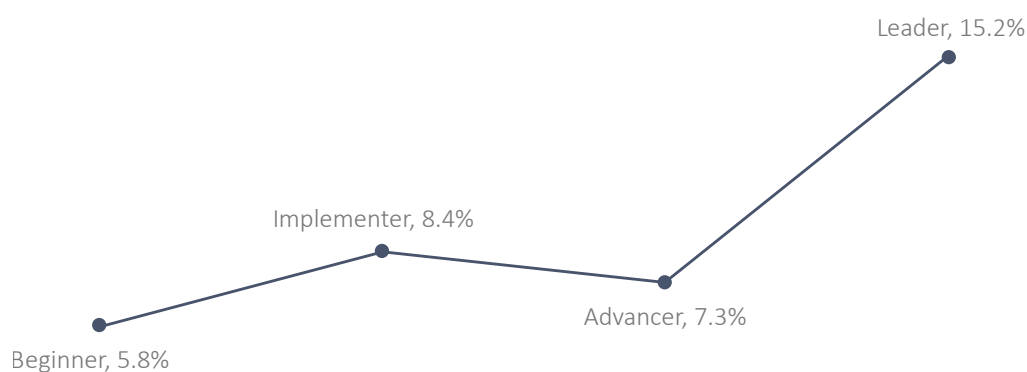
As they advance digitally, SMEs also struggle to deal with a growing number of competing platforms. Gray of Proteomics International found it very difficult to figure out which is the best platform. “You might have a project management platform that overlaps with your HR platform, which overlaps with something else. From a business point of view, you are always trying to work out which platform is best for which area because they all overlap a bit.”

Moreover, technology does not always work the way users expect. Gray found that “sometimes when choosing a platform, you get to a point where you think it is going to do what you want it to do, but then you must take a leap of faith. And sometimes you find out that it will only do 80% or 90% of what you need it to do. It is unfortunate when this happens because you need to invest a lot of time and resources to make this determination.”

The increase in costs from digital transformation is another common challenge, cited by nearly a quarter of respondents. As with other pain points, higher costs become a bigger worry as SMEs progress in digital transformation and invest more in digital technologies. Our research found that growing into a leader comes at a cost. Sixty-one percent of leaders found that digital transformation led to an increase in costs, while only 23% of beginners saw an increase. The size of the impact differs as well. Leaders report an average cost increase of 12.7% compared to 5.8% for beginners.

However, it is important to note that digital transformation does not lead to cost increases for all firms. One out of ten beginners found that digital transformation lowered costs and 51% found that it had no impact on costs. Nearly 20% of leaders report a decrease in costs associated with their digital transformation and 18% estimate that it had no impact.

Figure 18: Cost increase from digital transformation



QF21: Can you estimate by how much your company's cost impact was as a result of business's use of technology for business activities?



Section 9: The value of digital platforms for SMEs



Digital platforms—software-based digital environments with open infrastructures—allow small businesses to propel their digital transformation.

These easy-to-use, no- or low-cost platforms appeal to small businesses, which often have both limited budgets and digital know-how. Research has found that digital platforms help firms create value by supporting their digital transformation processes.¹³

Meta products offer examples of how digital platforms and apps can help small businesses. Meta’s offerings include social media platforms such as Instagram and Facebook, and messaging services such as WhatsApp and Facebook Messenger. They also include more specialised products, such as Workplace and Meta Quest, which support employee collaboration and immersive experiences.

Eighty-six percent of SMEs surveyed use at least one of Meta’s platforms or apps. They are most popular among digital leaders, which employ an average of four Meta services in their business operations, compared with 1.5 used by digital beginners. Usage of Meta services climbs with firm size: micro businesses employ an average of 2.3 products while medium-sized firms employ 3.0.

Meta’s platforms and apps are particularly helpful for SMEs starting their digital journey. Our research finds that, on average, digital beginners use between one to two of Meta services. Because these firms are often budget-constrained, they tend to rely on free Meta services as a first step in digitising their operations and reaching a broad range of potential.

This low cost of entry allows start-ups to lay the groundwork for digital transformation and for the use

of more advanced digital technologies and solutions. This progression is evident among Meta’s small business customers, which typically start with about Meta’s free services as noted above, and then invest in Meta’s more specialised business services as they become more digitally advanced.

Meta has helped many SMEs get their first start. The CEO of a manufacturing firm says that “as the founder and CEO, I started my business through Facebook. It was originally only me; it took one year until I hired my first 10 employees. Through Facebook we communicated with customers and grew our business. Thanks to Facebook, we now have over 200 employees and 7,000 loyal customers and are still growing rapidly.”

“What I like about Facebook is that it is so easy to use, which was especially helpful when I was just starting my business as a side-hustle. Anyone can use Facebook; you do not need a background in marketing. I was able to be extremely targeted in my marketing, which made it very financially doable for a company just starting up.”

Laura Carrie, owner, Bustle Studios

13 See for example Li et al., 2018; Papadopoulos et al., 2020; Sengupta, Narayanamurthy, Hota, Sarker, & Dey, 2021; Warner & Wager, 2019; Xie et al., 2022

How SMEs use Meta platforms

SMEs use open digital platforms and apps, such as those offered by Meta, to manage business activities involving different stakeholders. These activities include customer communication and marketing; employee collaboration, experience, and decision making; and supplier ordering, purchasing, and management.

During our research, many firms told us how Meta improved the performance of their business. The manager of a medium-sized manufacturing firm said that “Meta has helped with training and improved the businesses relationship with customers. It has also allowed the company to be more innovative.” The manager of a small professional services firm found that Meta has “really helped with communication between me and my colleagues, as well as communications with customers and suppliers.” And the manager of an agriculture firm found that Meta has been very useful in “increasing productivity and engagement with suppliers, employees, and customers.”

The sections below further illustrate how SMEs use digital platforms and apps like those of Meta to support their key stakeholder activities.

Customers

Meta platforms allow SMEs to better serve their customers, as shows in Figure 19. For example, 57% of the SMEs surveyed use Meta services to communicate with customers, and 44% use them to understand customer needs. Equally important, Meta’s platforms help SMEs grow their business by enabling them to provide general information about their business, acquire new customers, sell their products and services, execute targeted marketing campaigns, and place personalised ads.

Says the owner of an arts and entertainment business: “Meta apps give you an immediate plug-in to existing and potential customers. They help you create an immediate presence and stand up against other companies that are out there. They’re an instant advertiser and nexus to revenue.”

Oz Tea uses Meta services to identify the needs of its customers and provide them with information on its product line. Instagram and Facebook are essential for building awareness of the firm’s brand and communicating the value of its organic, sustainably produced teas. Oz Tea has created a community of followers on Facebook and Instagram of buyers who are interested in the health benefits of its products.

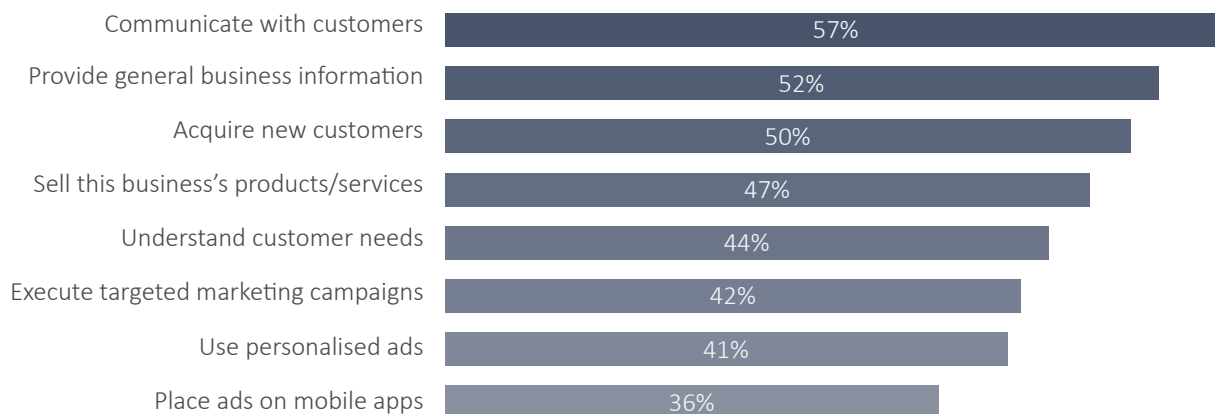
“Instagram has given us the advantage of having data to help us understand the demographics of our customers.”

Amanda Healy, founder, Kirrikin

Meta has helped other SMEs better target their marketing and customer engagement activities. The manager of a finance firm comments that “Meta technologies have majorly helped in marketing toward a specific demographic that could use our services.” Carrie of Bustle Studios also notes that Facebook and other Meta services helped her reach her target audience.

Equally important, Meta provides firms with data about their customers that they otherwise would not have been able to access. According to Healy of Kirrikin, “Instagram is critical in this regard. It has given us the advantage of having data to help us understand the demographics of our customer base.”

Figure 19: Use of Meta products for customer interactions



QG2: When it comes to this business's customers, do you use Meta technologies or apps (e.g., Facebook, Instagram, Messenger, WhatsApp) for any of the following?

Employees

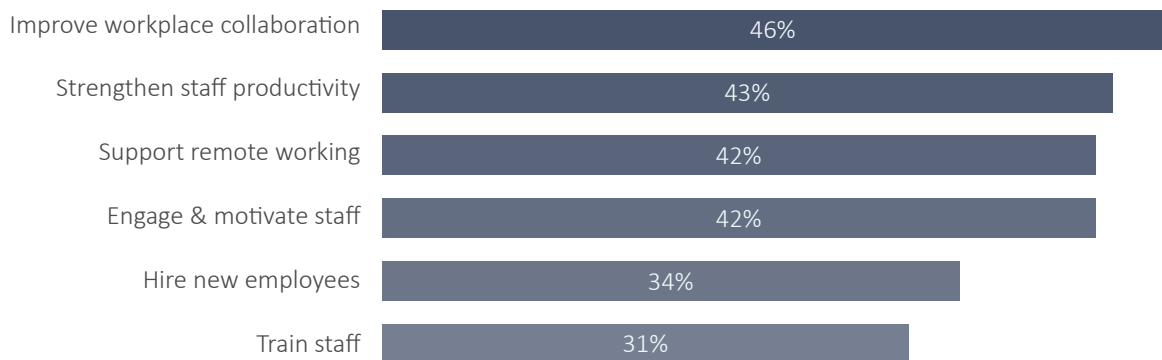
Meta platforms also help SMEs meet the needs of their employees (see Figure 20). SMEs report using Meta services across a variety of internal processes and activities to enhance the employee experience. At the top of the list is improving workplace collaboration, followed by strengthening staff productivity, engaging and motivating staff, and supporting remote working. Other uses include hiring new employees, and training staff. Our research found that SMEs typically use Meta services to support employees as they advance in digital transformation. For example, only 32% of beginners use Meta platforms for workforce activities, compared with 87% of leaders.

Carrie of Bustle Studios, who manages her co-working business remotely, finds digital apps critical for keeping in touch with her freelance employees.

“FaceTime, Messenger, and WhatsApp are crucial for communication with my staff and making sure the business is running smoothly. I can see what’s going on, what it looks like, and what needs to be fixed,” she says. Carrie also finds Meta Business Suite useful. It saves her time by managing communications from one place. “Before I had to check Instagram, Messenger, WhatsApp, as well as email. Business Suite sends notifications telling you where you have something and what to check,” she explains.

An owner of a restaurant spoke of the workforce benefits from using Meta platforms: “Meta technologies have allowed us to improve employee productivity and increase revenue.” And for an owner of a small hotel, Meta has helped to “streamline workflow for employees, saving time and increasing efficiency, while also adding value to the company.”

Figure 20: Use of Meta products with employees



QG3: When it comes to this business’s employees/workers, do you use Meta technologies or apps for any of the following?



Photo by Zoe Schaeffer on Unsplash

Suppliers

Meta apps make it easier for many SMEs to work with suppliers (Figure 21). Half of SMEs use Meta apps to communicate with suppliers and slightly fewer employ them to order and purchase from their suppliers. Meta services also help many small businesses to find new suppliers, share data and information with suppliers, and manage stock and inventory. As with employees, use of Meta platforms to manage suppliers grows with digital maturity: 40% of beginners use Meta services for supply chain management, versus 87% of leaders.

Oz Tea is an example of a small business that locates and interacts with suppliers through Meta. The tea business uses Instagram and WhatsApp to connect with its network of global and local suppliers and to communicate with other Australian businesses to learn what suppliers they are using. This has proved to be a more cost-effective way to source supplies than physically traveling to countries, such as Thailand and China, which are dominant in tea production.

Using Meta platforms, Oz Tea has been able to find large local suppliers that purchase higher volumes of tea from international sources than Oz Tea can purchase because of its small size. By sourcing from those local suppliers, the firm can then add value

by mixing the teas into special brews. “Our magic is blending those products—such as black tea, cardamon, rose, saffron, whatever—and making our unique blend,” says Farhad, the owner of Oz Tea.

“Meta offers a wide range of applications that help to streamline costs and communicate with suppliers and customers.”

CEO, manufacturing firm

We heard from multiple SMEs about the effectiveness of Meta platforms for managing suppliers. A manager with a retail business says that Meta apps provide the “convenience of being able to contact suppliers and send photos, audio and video.” The owner of another retail establishment notes that Meta tools allow it to “share materials with suppliers to make faster business decisions.” And a manager with a manufacturing firm adds that Meta “offers a wide range of applications that help to streamline costs and communicate with suppliers and customers.”

Figure 21: Use of Meta products with suppliers



QG4: When it comes to this business's suppliers, do you use Meta technologies or apps (e.g., Facebook, Instagram, Messenger, WhatsApp) for any of the following?

Case study

Growing an organic tea business online



Oz Tea, a Melbourne-based supplier of premium, organic herbal teas, demonstrates the integral role that digital platforms can play in helping a small company launch and expand, even in tough times.

In 2019, Farhad Hashemi started Oz Tea as a side project from his full-time job in technical sales. He formally launched the business in January of 2021. He uses his chemical engineering background to formulate organic, fair-trade, and sustainably sourced teas. Oz Tea has garnered national recognition and awards, and a portion of Oz Tea's sales go to charities that meet the company's commitment to its community and the environment.

Most of Oz Tea's business is currently online and limited to the Australian domestic market. Farhad plans to expand internationally and enhance revenue streams by selling Oz Tea to restaurants and increasing sales at booths during events or in public markets. Currently, staffing is limited and largely informal in nature with only Farhad and his son as permanent staff.

Getting a full grasp of Instagram's and Facebook's capabilities and establishing a consistent social media presence was essential during the early days of the COVID-19 lockdown. The pandemic had a large negative impact on Oz Tea's ability to drum up business in person. Meta's advertising services allowed Oz Tea to reach a wider audience and explain the value of its unique product line. Instagram's and Facebook's messaging capabilities were also essential, allowing the business to stay in communication with customers placing orders. Oz Tea also uses social media like Instagram to connect with its extensive network of suppliers.

Oz Tea is still in its early stages, so operations are still managed without the help of digital technology such as an accounting system. Farhad hopes to change that as he expands; he plans to incorporate customer relationship management software like Salesforce. This will function alongside Oz Tea's existing e-commerce platforms, WooCommerce and PayPal, which it uses to fulfill orders. It uses the Square app for in-person payment processing.



Photos by Oz Tea

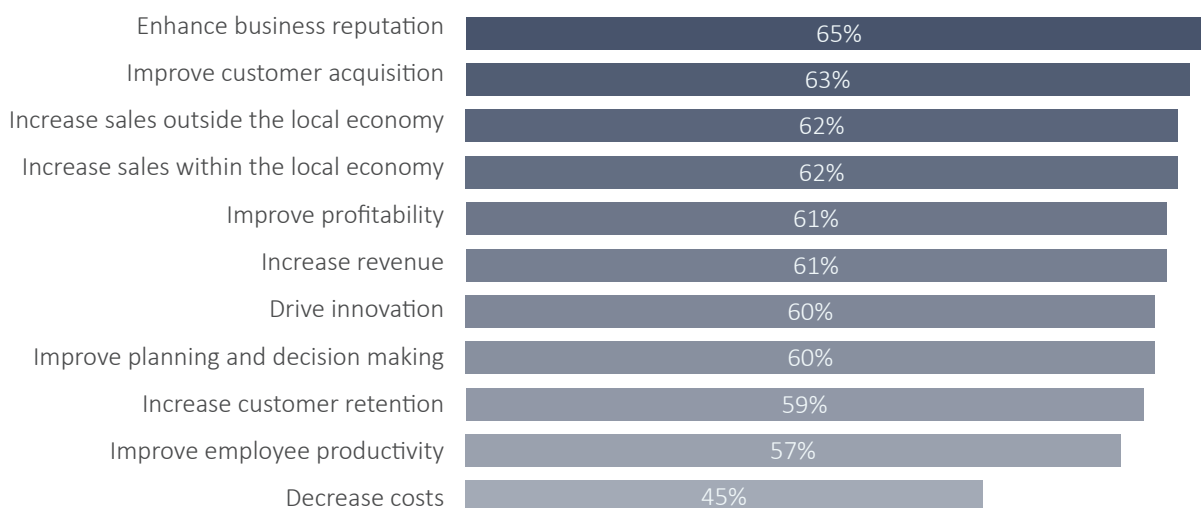
The effectiveness of Meta platforms

Meta platforms and apps offer an effective way for SMEs to boost results across their business (Figure 22). Nearly two-thirds of firms (65%) report that Meta technologies have been effective or very effective in enhancing their business reputation. Slightly fewer report the same for building customer acquisition and growing their business inside and outside local communities. Sixty-one percent say Meta technologies helped them to improve profitability and revenue, as well as drive innovation, improve decision making, and increase customer retention. Nearly half (45%) say Meta services helped them to reduce costs.

About two-thirds of SMEs surveyed credit Meta technologies with helping them start up their business.

Our research also found that Meta platforms and apps provide a foundation for small businesses to grow. About two-thirds of SMEs surveyed credit Meta technologies with helping them start up their business. More say that Meta services helped people learn about their business, build customer relations, and market and sell its services.

Figure 22: Firms finding Meta technologies and apps to be effective



QG5: How effective are Meta technologies or apps at helping this business achieve the following?

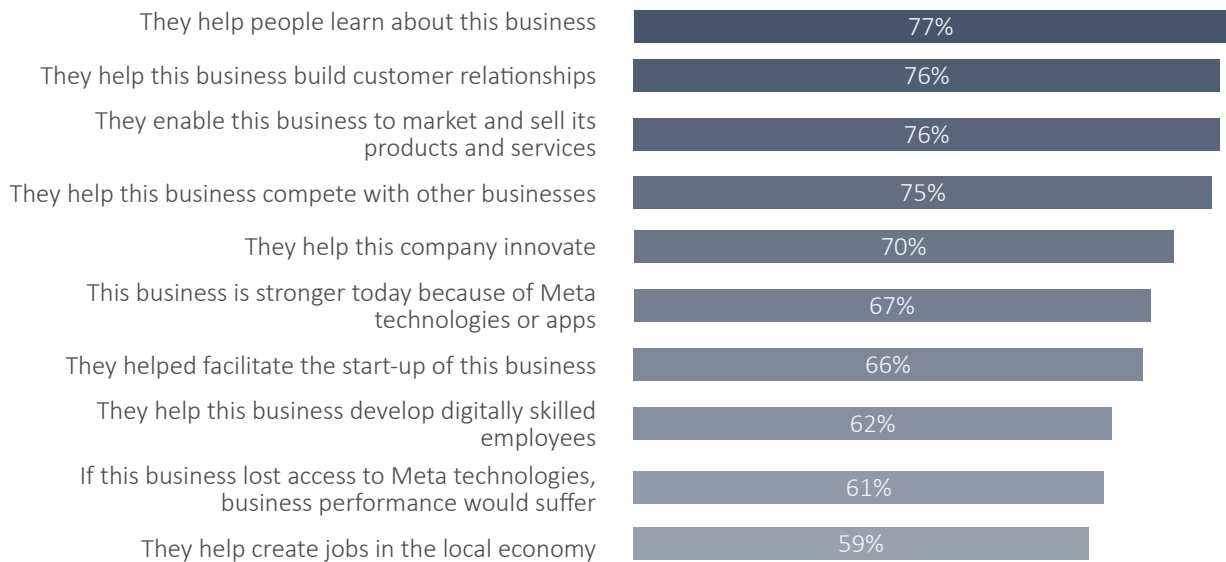
Key insights

- **Two-thirds** of firms say Meta platforms help people learn about their business, build customer relationships, sell their products and services, and compete. **70%** say they enable them to innovate.
- **Two-thirds of SMEs** credit Meta technologies with helping them start their business.
- **59% of SMEs** say Meta technologies helped them create jobs in their local economy.
- **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.
- Meta platforms allow SMEs to **better serve their customers**: 57% use Meta services to communicate with customers, and 44% use them to understand customer needs.
- Meta's platforms help SMEs **grow their business** by enabling them to provide information about their business (52%), acquire new customers (50%), sell their products and services (47%), execute targeted marketing campaigns (42%), and place personalised ads (41%).
- 65% of SMEs report that Meta technologies have been effective or very effective in **enhancing their business reputation**. A similar number say the same for building customer acquisition (63%) and growing their business inside and outside local communities (62%).
- Meta platforms help SMEs **support employees**: improve workplace collaboration (46%), strengthen staff productivity (43%), support remote working (42%), engage staff (42%), help hire new employees (34%).
- Meta platforms help SMEs **manage suppliers**: communicate with suppliers (50%), find new suppliers (46%), purchase supplies or services (45%), share information with suppliers (44%), and manage stock and inventory (43%).

Meta technologies also help SMEs stay at the forefront of their industries. As illustrated in Figure 23, nearly eight out of 10 firms surveyed report that Meta platforms help people learn about their business and three-quarters found that Meta helped their business build customer relationships, sell their products and services, and compete with other businesses. Seventy percent say that they enable them to innovate. Perhaps most telling, 67% agree that their business is stronger today because of Meta technologies and apps and 61% say that their business performance would suffer if they lost access to Meta technologies. One example is Bustle Studios, which attributes its success, even survival, to digital tools offered by Meta and others.

Examples abound among survey respondents of how SMEs use Meta technologies. The owner of a construction business notes that “Meta technologies or apps drive innovation and reduced costs.” The owner of a maintenance and repair company says “Meta orchestrates an innovation ecosystem that connects start-ups and society.” According to the owner of an IT business, Meta apps “effectively help and drive the expansion and innovation of the company’s business.” And the owner of an apparel business says that Meta technologies “improve the innovation ability of employees to launch new products for the market faster.”

Figure 23: Statements about Meta technologies or apps (% agreeing)



QG6: Do you agree or disagree with the following statements about Meta technologies or apps?

Case study

Surviving social distancing



Bustle Studios, a bespoke co-working and event space in central Sydney, would not still be in business had it not been for digital technology.

Laura Carrie founded Bustle Studios to create a welcoming space for clients with a variety of business needs, as well as to offer free studio space to non-profit and community organisations. However, social distancing during the COVID-19 pandemic compromised Bustle Studios' entire business model. Turning to Meta helped the business survive.

First, Bustle Studios received a grant from Facebook's Small Business Grant program, which served as a lifeline for the company. "There was no one else really going out and saying, 'Hey, worldwide, small businesses, can we help? We know what's going to help you right now. It's money.'" These funds allowed her to keep her business and charity work operating through the early days of the pandemic. "The Facebook grant allowed me to keep the doors open," she says.

The pandemic pushed Bustle Studios to integrate technology into the business and be more creative with its service offerings. **"I don't know how I would have done it without digital technology," Carrie notes.**

Digitisation allowed Bustle Studios to provide a "virtual business address" for customers receiving and organising their mail.

Bustle Studios also saw an uptick in bookings through effective use of Facebook advertising. According to Carrie, Facebook is often a quicker way to update and communicate with customers than conventional websites. Bustle Studios continues to lean on Facebook and WhatsApp "more than anything else." Business has improved so much that Bustle Studios' space is reaching full capacity. As this unique business takes off, Carrie says, she'll "probably start more businesses and have more Facebook pages."

Carrie says that the value of Meta's business offerings for SMEs like Bustle Studios lies primarily with its ease of use. Despite not having any formal training in marketing or technology, Carrie finds Meta services simple to use and effective in targeting and expanding her customer base. Facebook advertising is cost effective and powerful in its reach, according to Carrie, and allows Bustle Studios' staff to seamlessly integrate it with software and platforms that are "fundamental" to her business. These include Xero, a cloud-based accounting software, and Stripe, a payment processing platform for e-commerce.



Photos by Bustle Studios

Sentiment analysis

To understand the impact of open digital platforms on SMEs in Australia, our survey included an open-ended question on how Meta technologies affected their business.

We analysed the responses using sentiment analysis to gauge whether the impact is positive or negative.

Sentiment analysis, also known as opinion mining, is an emerging natural language processing (NLP) technique used to evaluate and quantify the meaning behind qualitative data and body text. The open-ended responses in the small business survey provided a unique opportunity to conduct text analysis and understand broader trends in the Australian SME landscape.

Syuzhet is a dictionary-based software package accessible through the R computer programming language that is used in text-based sentiment analysis. The dictionary assigns individual English language words to emotional categories like joy, fear, and disgust as well as quantifying each word as either positive or negative in connotation in a range from -1 to 1. The dictionary contains approximately 11,000 words and those with a negative score far exceed positive at over 7,000 compared to around 4,000 positive (Naldi, 2019).

The text analysis shows that businesses are favourable in their views of Meta services, with almost 90% of the Australian SMEs' responses using positive language. In addition, the three most highly ranked emotional categories were "trust" followed by "anticipation" and "joy," indicating that respondents are satisfied with Meta's business offerings. Some of the most reported benefits of Meta products include "efficiency," "ease-of-use," communication," and "brand development."

Notable responses

- "Meta technologies and apps have helped business activities as they have streamlined the sales process and made sales easier to receive from customers. They have made it easier to promote sales and give customers more ways to purchase products without having to call the store," says a restaurant manager.
- "Targeted ads means a higher return on ad spend as ads reach customers who are interested and actively looking for our services. Customer relationships improve as we are able to communicate with customers in more ways (Facebook Messenger, posts, etc.) and it facilitates an on-going relationship which is great for customer retention. WhatsApp provides employees with another tool to communicate internally between each other, making them more efficient," says the manager of a financial services company.
- "As an international business, we find Meta to be an invaluable marketing tool as well as being a goodwill creator. The ease of seamless communication channels makes business a pleasure and a lot of fun - crucial for both staff and customer retention," says the owner of a professional service firm.
- "Instagram has been very effective in spreading information about the business to a wider audience, especially a younger demographic. Facebook is also a very useful and highly visible platform to communicate with current and prospective clients," notes the manager of another professional service company.

QG6. How have Meta technologies or apps helped or not helped with digital business activities?

Section 10: Conclusion



The performance of small and medium-sized enterprises has long been vital to the Australian economy.

In a digital-first world, the strength and vibrancy of SMEs will hinge on their digital transformation—the use of digital technologies to develop new business strategies, processes, products, and services that meet the needs of stakeholders. The pandemic demonstrated the importance of digital transformation to small businesses in Australia, which would have struggled to survive without virtual solutions.

Today, SMEs employ an arsenal of core digital technologies and solutions, including email, social media, messaging apps, the cloud, collaboration tools, e-commerce solutions, and websites. 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.

But successful digital transformation does not just come from 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 that journey, while others are midway, and still others are leading the pack.

SMEs gain many benefits from digital transformation. They see customer benefits such as improved communication and satisfaction; operational benefits such as easier planning and decision making; financial benefits such as scaling business costs and building higher valuations; and innovation benefits such as developing better ideas and launching products and services more quickly. As SMEs advance in digital transformation, these digital dividends grow—with the percentage of firms citing various benefits often tripling as they progress from beginners to leaders.

The value of digital transformation to SMEs can be seen in its impact on revenue growth, which jumps for most small businesses as they digitally mature. Over the last 12 months, SMEs beginning their digital transformation journey saw a 7.5% increase in revenue from the use of digital technologies; early implementers saw

15%; advancers, 20%; and leaders, 26%. 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 were able to become digital leaders, that would potentially unlock another \$181 billion in revenue.

SMEs not only fuel their own performance through technology; they also spur the performance of the local economy. They donate to charities, participate in community events, and support local sports teams. Digital leaders more often support local businesses by buying their goods and services; develop new products and services that benefit the local economy; and provide employees with business training and skills to use in the local economy.

Digital leaders also help the local economy more directly. SMEs that are just beginning their digital journey have an average revenue of \$572,500 and employ five workers, while digital leaders have an average revenue of \$3,388,200 and employ an average of 18 individuals. This translates into a revenue multiplier of nearly six and an employment multiplier of almost four.

Yet, digital transformation is not always easy for SMEs, which often lack the skills, infrastructure, and budgets needed to succeed. They face challenges such as high costs, keeping up with technological change, and concerns about data privacy and security.

That is where open digital platforms and apps, such as the ones offered by Meta, can help. These easy-to-use, no- or low-cost platforms appeal to small businesses, which use them as a starting point for digital transformation. Many SMEs draw on such tools to market and sell to customers, foster staff productivity and collaboration, and find and manage suppliers. Crucially, as small businesses become more adept at using open digital platforms, they build on their experiences and take digital transformation and business growth to the next level. This becomes a virtuous circle of growth not just for SMEs, but also for the local economy.

Section 11: Technical appendix



To understand the role of SMEs in Australia’s digital economy, Meta commissioned ThoughtLab, a global research firm, which worked in conjunction with Hatch, a global professional services firm, to investigate how Australian SMEs use digital technologies to improve their business outcomes and generate benefits for their local economy.

The research team developed a comprehensive survey questionnaire. The survey asked SMEs to estimate the impact that digital transformation had on their revenue and costs, and to identify other financial, operational, and strategic benefits. These benefits included higher profitability, improved reputation, deeper employee engagement, as well as benefits for the local community, such as support for local community activities and for other small businesses.

In addition to the survey, the research team conducted in-depth, one-on-one virtual interviews with six Australian executives in SMEs across industries. The interviews provided deeper insights into the digital transformation approaches of SMEs, the challenges they face, the technologies they use, and the performance improvements they gain.

Drawing on the survey results, we conducted analysis to:

- Classify SMEs by their level of digital maturity to review results by development stage;
- Quantify the impact that digital transformation has on SME business performance and the local economy;
- Explore the digital challenges that SMEs face; and
- Show how digital platforms, products, and apps help small businesses drive digital transformation and business improvement.

The SMEs in our survey sample

IPSOS surveyed 1,250 SME owners and senior managers in Australia from October 17 to October 31, 2022. Sixty-four percent of respondents were the sole owner or one of the owners of the business and 35% were managers.

All the small businesses in our sample had at least one employee: 25% were micro businesses, with one to four employees, 35% were small businesses, with five to 19 employees, and 40% were medium-size businesses with 20 to 250 employees. After weighting respondents by firm size and employment, we classified 53% of SMEs as micro, 41% as small, and 6% as medium size.

The SMEs in our sample had an average revenue of \$4.8 million and employed 9 people on average.

The survey sample included SMEs from a range of industries, from agriculture and the arts to retail and transportation. The respondents were based in different parts of Australia. The weighted sample provides a good distribution across regions in line with the actual distribution of SMEs in Australia, according to the government’s Small Business and Family Enterprise Ombudsman.

Figure 24: Respondents by employee size

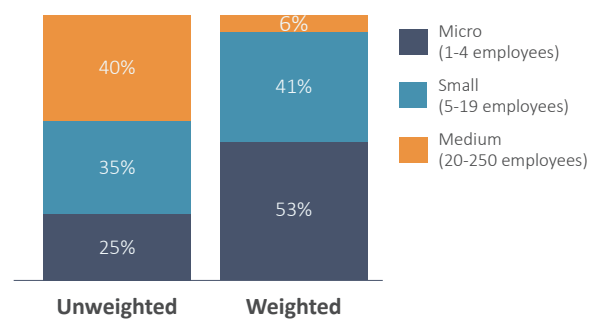


Figure 25: Respondents by region

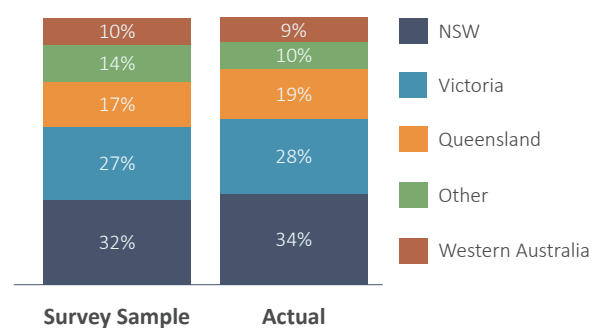
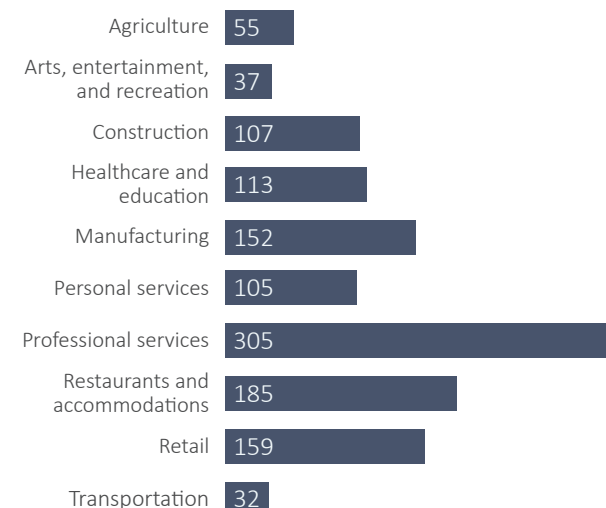


Figure 26: Respondents by industry



Maturity calculations

We incorporated the maturity model framework into our survey construction by creating a series of survey questions aligned with each of six performance pillars. Based on the responses to the questions, we calculated a score for each pillar. The scores for the individual pillars were normalised and weighted to arrive at an overall measure of digital maturity. The pillars are:

1. Digital technology usage

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

2. Operations

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

3. Talent and skills

Determines how far a firm 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 how mature a firm is at establishing a strategy and culture that promotes digital transformation.

Respondents were classified into one of four maturity categories—beginners, implementers, advancers, and leaders. Beginners are firms that scored in the bottom 25th percentile, leaders are those in the top 25th percentile. The middle two categories are divided at the median—implementers have a score between the bottom 25th percentile and the median and advancers have a score between the median and the top 25th percentile.

1. Beginners

In this initial stage, companies start to see the disruptive effect of digital technology on their organisations, along with the benefits that it can generate for their business and stakeholders. This stage includes the participation of a community of stakeholders, such as employees, customers, and partners, aimed at sharing information on the potential opportunities of digital transformation.

2. Implementers

In this second stage, firms start exploring digital approaches and technological solutions that might fit the needs of their customers, employees, and partners. During this time, companies demonstrate a stronger interest in digital transformation and become more involved in activities, such as attending working sessions, seminars, and webinars, to learn more about transformation. This stage usually involves IT or staff with digital skills.

3. Advancers

As SMEs advance in digital transformation, they incorporate digital initiatives into their business strategies and processes, setting goals and taking organisational actions, while enhancing digital experiences for employees and customers. Leadership of digital initiatives often shifts from the IT team to the management team and/or dedicated digital business teams. In this stage, SMEs encourage change and cross-functional collaboration among staff and, if appropriate, ecosystem partners.

4. Leaders

In this fourth stage, SMEs tend to develop a holistic approach to digitalisation across corporate functions and the partner ecosystem. This approach often includes a forward-looking strategic vision, change-oriented mindset, and revamped operating model; more efficient digitised business processes and greater agility; a redefinition of organisational roles, development of digital skills, and the integration of decision layers; increased data integration and data-driven decision making; and improved performance through maximisation of scale, scope, and learning opportunities in the digital ecosystem.

Performance impact methodology

The survey asked respondents about the impact that digital technologies have had on the business in the following areas:

- Revenue
- Costs
- Employee productivity
- Profitability
- Market share (i.e., performance vs. competitors)
- Customer acquisition and retention
- Employee hiring and retention
- Sales within your local economy (community / metro area)
- Sales outside your local economy (community / metro area)

The survey also asked survey respondents which of the following benefits, if any, they have experienced as result of their use of digital technologies:

- Able to launch products / services more quickly
- Able to scale the business (increase revenue faster than costs)
- Easier to plan and make business decisions
- Better reputation
- More satisfied customers
- More engaged and motivated staff
- Improved business performance
- Increased innovation / better ideas
- Less risk (e.g., business and financial risks)
- Easier to comply with laws and regulations
- Easier to communicate with customers, partners, and other stakeholders.
- Business is worth more (higher valuation)
- Better financial results
- Greater digital technology skills among workers
- Other, please specify _____

To evaluate the impact of digital maturity on a business's performance, we utilised multiple statistical techniques, including analysis of variance (ANOVA) and a series of econometric models. We used the ANOVA analysis to determine if there was a statistically significant differences between the levels of digital maturity and key business performance indicators, such as employee productivity, revenue, profit share, and market share.

We also developed a series of econometric models to quantify the relationship between digital maturity and the key performance factors. The econometric models allowed us to quantify the relationship between being a digital leader and SME performance, while controlling for digital maturity, the size of business, and the sector. The impact questions are categorical questions that resulted in either a "yes" or "no" response. For the categorical variables we utilised a logistic regression model. The logistic model estimated the probability that there is a positive impact from digital transformation on each of the key indicators identified above.

The model was estimated separately for each of the indicators identified above. To validate the models, we employed a series of statistical tests. This included tests to check for the fit of models, absence of multi-collinearity, and influential observations and other appropriate tests.

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