The SMB Landscape of Australia
Agenda

1. Australian SMBs: Key Business Trends
2. Australian SMBs: Key IT Trends
Summary: Key Business Trends

1. Massive Contribution to the Australian Economy
   - 40% contribution to GDP; 70% contribution to total employment

2. SMBs Spread Across All Major Industry Verticals
   - Retail, Professional Services¹ & Construction form ~40% of SMB revenue and employment

3. Eastern Australia Emerges as the Hub of SMB Concentration
   - New South Wales, Victoria & Queensland constitute ~80% of all SMBs

4. Export Potential of the Australian SMBs Currently Untapped
   - Increasing the SMB exports by value from 5% to 30% would generate additional ~$60B

5. Cash Flow Issues Concerning the Health of the SMBs in Australia
   - SMBs shutting down increased by 48% in 2011 in comparison to 2010

¹Professional services include scientific research, architecture, engineering, law, accountancy, advertising, MR, and consulting
SMBs Make a Massive Contribution to Australia’s Economy

- Total SMB Base: 2.1M
- Of all Australian Enterprises: 99%
- Revenue from SMBs: $530 B
- Contribution to Australia GDP: 40%
- Contribution to total Employment: 70%

Compared to US, China, and India Australia shows Very High contribution to both GDP and Employment

<table>
<thead>
<tr>
<th>Contribution to GDP</th>
<th>Australia</th>
<th>US</th>
<th>China</th>
<th>India</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very High</td>
<td>Very High</td>
<td>Medium</td>
<td>Low</td>
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<table>
<thead>
<tr>
<th>Contribution to Employment</th>
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<td>Medium</td>
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</table>

*Relative ratings

Source: Australian Government Key Statistics; Zinnov Analysis
### Australian SMB Market is Fragmented Across Verticals

<table>
<thead>
<tr>
<th>Vertical</th>
<th>% SMB Employment</th>
<th>% SMB Revenue</th>
<th>Revenue Growth (3-Year CAGR, 2010-12)</th>
<th>Contribution of SMBs in Total Sector Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retail and Wholesale</td>
<td>16%</td>
<td>14%</td>
<td>9%</td>
<td>62%</td>
</tr>
<tr>
<td>Professional Services¹</td>
<td>10%</td>
<td>13%</td>
<td>11%</td>
<td>73%</td>
</tr>
<tr>
<td>Construction</td>
<td>12%</td>
<td>13%</td>
<td>2%</td>
<td>75%</td>
</tr>
<tr>
<td>Real Estate Services</td>
<td>5%</td>
<td>9%</td>
<td>9%</td>
<td>89%</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>8%</td>
<td>9%</td>
<td>2%</td>
<td>48%</td>
</tr>
<tr>
<td>Health Care</td>
<td>8%</td>
<td>7%</td>
<td>10%</td>
<td>63%</td>
</tr>
</tbody>
</table>

1. Professional services include scientific research, architecture, engineering, law, accountancy, advertising, MR, and consulting;
2. Others include Agriculture and Mining

Retail, Professional Services & Construction make up ~40% of SMB revenue & employment

Health Care and Real Estate services are emerging rapidly

SMBs dominate enterprises in Real Estate, Construction, & Prof. Services in revenue terms

Australian SMBs dominate Services sector both in terms of revenue and employment

Source: Australian Government Key Statistics; ABS; Zinnov Analysis
New South Wales, Victoria & Queensland are Hubs of SMB Activity

**Eastern Australia — New South Wales, Victoria, and Queensland — has a majority concentration of SMBs**

**Western Australia** Top sectors
- Construction (18%), Professional Svcs. (12%), Real estate (10%), Agriculture and Retail (9%)

**South Australia** Top sectors
- Construction (15%), Agriculture (13%), Real estate (11%), Retail (10%)

**Queensland** Top sectors
- Construction (18%), Professional Services (11%), Real Estate (11%), Agriculture (10%)

**New South Wales** Top sectors
- Construction (15%), Professional Svcs (13%), Real estate and Retail (11%)

**Victoria** Top sectors
- Construction (16%), Prof. Svcs. (12%), Retail (11%), Real Estate (10%)

### No. of SMBs
- **QLD**: 0.4M
- **NSW**: 0.7M
- **Vic**: 0.6M
- **Tas**: 0.04M
- **NT**: 0.01M
- **SA**: 0.1M
- **WA**: 0.2M
- **ACT**: 0.02M

**Source:** Australian Government Key Statistics; ABS; Zinnov Analysis
Immense SMB Export Potential is Still Untapped

SMB Contribution to Exports

<table>
<thead>
<tr>
<th></th>
<th>% Businesses Exporting*</th>
<th>% Revenue from Exports</th>
<th>Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>90</td>
<td>5%</td>
<td>18:1</td>
</tr>
<tr>
<td>US</td>
<td>98</td>
<td>33%</td>
<td>3:1</td>
</tr>
</tbody>
</table>

* SMBs exporting as a % of all enterprises

Issues with Australian SMB Exports

1. Lack of skilled staff with overseas sales experience
2. Limited global reach and visibility
   SMB exports concentrated mostly in NZ, US and UK (90% of exports)
3. Transport and freight related issues
   50% SMBs feel cost of international freight to be a key problem
4. Lack of know how of potential overseas markets

SMB’s Export Value can potentially increase 6X to reach US levels

Potential revenue upside ~$60 Bn

Source: Australian Government Key Statistics; ABS; Zinnov Analysis
SMBs have a Steep Mortality Rate Triggered Primarily by Cash Flow Issues

SMBs shutting down increased by 48% since 2011

1. Tough Credit Norms leading to Cash Flow Issues
   - 30% SMBs have a business loan, and 30% need additional funds
   - 30% feel difficult to access finance (2012)
   - SMB Lending seen more risky, volatile
   - SMBs lent at a higher rate (~2% Premium) than Large businesses

2. Non-supportive Government Policies
   - More than 50% SMBs feel government policies work against or have no impact on their businesses
   - Reasons: no incentives for SMBs, level of bureaucracy, cost of doing business, tight stance of fiscal policy

3. Employment Issues and Shortage of Skilled Labor
   - SMB employment conditions on a downward trend for four years (2008-12); expected to fall further in future
   - ~30% SMBs quote availability of skilled labor as a key barrier

Source: D&B Insight; CPA Australia Report; ACCI report; NAB report; Sensis Business Index
Agenda

1. Australian SMBs: Key Business Trends
2. Australian SMBs: Key IT Trends
Summary: Key IT Trends

1. **Access to Best in Class Technology Infrastructure**
   - 92% SMBs have internet with broadband

2. **Huge Addressable Opportunity for ICT Adoption by Australian SMBs**
   - $24 billion is the Total Addressable IT Opportunity for SMBs

3. **Software & Services Related Market Expected to Grow Exponentially**
   - Investments in Mobility, Security, and SaaS is driving Software & Services

4. **Cloud Computing Emerging as Core Focus Area for SMB IT Investments**
   - Cloud based Email, Accounting, CRM, and hosted servers & storage poised to grow

5. **Non-Technical Business Influencers Starting to Play a Vital Role in IT Decision Making**
   - More than 50% of SMB IT Decision makers are Non-technical

6. **IT Vendors as Exploring Unique Strategies to Tap the Market Potential**
   - Vendors are offering easy IT financing, and partnering with telecom players & Resellers
SMBs show an Impressive Level of Infrastructure Readiness

Internet Penetration

Overall Australia: 89% (19M)
Australian SMBs: 92% (1.9M)

Broadband Penetration

Overall Australia: 45% (8M)
Australian SMBs: 95% (1.8M)

Technology Infrastructure

PC Ownership

Overall Australia: 93%
Australian SMBs: 94%

Smartphone Ownership

Overall Australia: 40%
Australian SMBs: 67%

Tablet Ownership

Overall Australia: 23%
Australian SMBs: 30%

Internet infrastructure is really strong for Australian SMBs

1.9M

Smartphone/Tablet adoption at the expense of PC sales

1Broadband penetration as a % of internet users

Source: Gartner estimates; Sensis e-Business Report on SMEs, 2012; Zinnov Analysis
Huge Addressable Opportunity for ICT Adoption by Australian SMBs

Overall Australia

- Overall ICT Spend: $76B
- IT Spend: 64% ($49B)
- Telecom Spend: 36% ($27B)

Australian SMBs

- Overall ICT Spend: $21B
- IT Spend: 48% ($10B)
- Telecom Spend: 52% ($11B)

SMB’s spending in IT would increase in future

- Telecom investments are reaching saturation
- Cloud and Mobility are driving IT investments

Addressable SMB Opportunity

- Average SMB IT Spend (2012): $11,300
- 2.1M SMBs
- SMB Total Addressable IT Opportunity: $24B
- 140% Incremental Growth over $10B

Source: Gartner estimates; Sensis e-Business Report on SMEs, 2012; Zinnov Analysis
Software & Services Related Market Expected to Grow Exponentially

**SMB IT Spend Areas**

<table>
<thead>
<tr>
<th>Current Spend</th>
<th>Future Growth</th>
</tr>
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<tbody>
<tr>
<td><strong>Software &amp; Services</strong></td>
<td>55%</td>
</tr>
<tr>
<td><strong>Hardware</strong></td>
<td>45%</td>
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### Software & Services Growth Drivers

1. **Mobile Apps important for SMBs on the go**
   - 25% can't access documents on the move
   - SMBs lose ~$20k due to poor management of mobile employees

2. **Shift from CAPEX to OPEX would drive SaaS**
   - 22% YoY growth in SMB use of SaaS

3. **Mobility/Cloud would drive spend on Security**
   - 50% SMBs say no security protocols in place

### Hardware Growth Inhibitors

1. **Shift from PCs to Mobiles and Tablets**
   - 67% SMB Smartphone penetration (17% YoY)
   - 30% SMB Tablet penetration (13% YoY)

2. **Shift from On-Premise to cost effective Cloud**
   - 28% Growth in SMB’s use of IaaS (2012)

Source: Sensis e-Business Report on SMEs, 2012; Canon Mobility Report; Symantec Information Report; Zinnov Analysis
Cloud Computing Emerging as Core Focus Area for SMB IT Investments

**Expected to increase Cloud adoption**

- Reduce CAPEX and enhance affordability
- Increase IT Reliability
- Provide accessibility in mobile environment

**Australian SMBs are expected to transition to Cloud in 2013**

- 32%

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### % SMB Cloud Adoption by Region

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<thead>
<tr>
<th>Region</th>
<th>Cloud Adoption</th>
</tr>
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<tbody>
<tr>
<td>NSW</td>
<td>15%</td>
</tr>
<tr>
<td>VIC</td>
<td>14%</td>
</tr>
<tr>
<td>QLD</td>
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<td>SA</td>
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**SMBs in Eastern Australia – New South Wales, Victoria, and Queensland – show maximum cloud usage**

- Maturity seen as key factor in driving Cloud usage in Eastern Australia

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**Maximum SMB Cloud Adoption by Sector**

- Professional Services
- Manufacturing
- Retail & Wholesale
- Real Estate Services

Source: MYOB Cloud Report, 2012; Parallels Australia Cloud Report, 2012; Zinnov Analysis
Hosted Email, Accounting, CRM and Hosted Servers & Storage are Expected to Drive Cloud Growth

**SaaS Growth Drivers**

1. Mobile SMBs to use Hosted E-mail
   - 1.3M paid hosted SMB e-mails by 2015
   - 121% growth in hosted e-mail among Medium SMBs in 2012

2. Cloud based Accounting to optimize cash flows
   - 35% Australian SMBs plan to adopt SaaS Accounting by 2015

3. Cloud based CRM for customer data on the go
   - 8% Australian SMBs plan to adopt SaaS CRM by 2015

**IaaS Growth Drivers**

1. Hosted Servers to allow shift to OPEX
   - 322k new Hosted Servers to be added by SMBs by 2015
   - 20% SMBs to increase spending till 2015

2. Growing Prominence of Security
   - 33% SMBs plan to add Security for hosted infrastructure

3. Optimization of utilization would drive Storage
   - 28% SMB storage utilization rate
   - 20% SMBs plan to add Backup for their hosted infrastructure

Source: Parallels Australia Cloud Report, 2012; Zinnov Analysis
Non-Technical Business Influencers are Starting to Play a Vital Role in SMB IT purchase

More than half IT Decisions for SMBs are made by Non-technical professionals

Consequently, professionals like Accountants and Bookkeepers expected to play a key role to influence IT purchase

Top Accounting software players in Australia – like Intuit and Reckon – are partnering with Accountants and Bookkeepers to influence and sell to SMBs

Key Professionals influencing SMBs

Accountants  Bookkeepers  Banks  Educational Institutes  Financial Advisors  NBFIs  Business Consultants

Source: Australian Government Key Statistics; Intuit website; Reckon website; Zinnov Analysis
IT Vendors as Exploring Unique Strategies to Tap the Market Potential

Aussie SMB Market

- Easy IT Financing & Leasing Options
- Partnering with Telecom Players
- Building Extensive Reseller Channels
- Offering Free-Trials to Encourage adoption
Vendors are Offering Easy IT Financing and Leasing Options to Ease Cash Flow Burden of SMBs...

Shift from Purchasing to Vendor Financing and Leasing

- SMBs can Reduce CAPEX and maintain margins
- Banks provide tougher credit terms to SMBs
- Vendors push SMBs towards product adoption
- Leasing helps SMBs update their obsolete IT infrastructure

Vendors have Stepped up Financing Incentives esp. Post Recession

- Lenovo and Dell partnered with BOQ Finance for attractive funding options
  - Helped Dell Increase its market penetration by ~20%

- IBM Financing allows low interest for both IBM and non-IBM technology
- IBM offered server financing on purchases as low as $5k

- Microsoft in 2009 offered 0% interest over 36 months to new ERP/CRM SMB customers

- In 2009, HP offered 0% lease financing offer for SMBs on deals more than $100k
  - HP generated ~$1.2B in 3-months

Source: Secondary research - ARN articles, IBM Financing Advantage website, Dell website
Vendors are Partnering with Telecom Players to Leverage their Existing Capabilities & Reach...

Why Telecom?
- Telecom commands a **significant 1/3rd** ($11B) of SMB’s ICT wallet
- Telcos have **access to 1.8M SMBs** (92%) through internet and telephony
- Telcos already have basic infrastructure in place and provide Integrated end-to-end services to SMBs

Key Telecom Players
- **Telstra** with a massive **60% market share**, is the **largest** Australian telecom player
- **Optus** with **22%** market share, is the **2nd largest** telecom player

Key IT-Telecom Partnerships are already emerging
- **Microsoft** has partnered exclusively with **Telstra** for its **Office 365** for SMBs
- **Google** partnered with **Optus** for Cloud-based **Google Apps Suite** for SMBs
- **Telstra** has similar partnerships with other biggies like **Accenture, IBM Australia and Cisco**

Source: Budde.com reports; Sensis e-Business Report on SMEs, 2012; Telstra website, Optus website; Zinnov Analysis
Vendors are Building Extensive Reseller Networks to Target SMBs...

**Resellers are Vital to Tap SMBs**

- Vendors with deficient reseller channels lose market share
- Self-help does not work for SMBs who need hand holding
- Local resellers help vendors increase their Reach of SMBs

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**Google Apps set up Reseller Channel in Australia**

- Google did not have an extensive partner network earlier
- Lost market share for SMBs
- Google started building its Australian Reseller channel from Oct 2012
- Regained 20% market share after building its reseller channel

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**SAP Extended Business Reseller Program in Australia**

- To increase SMB sales, SAP set a Master Value Added Reseller (MVAR)
- MVAR is authorized to re-sell SAP products to smaller SAP Channel Partners, who in turn sell to SMBs
- 78% of SAP's ~100,000 SMB customers are serviced by Channel Partners

**Source:** Secondary research - ARN articles, CRN articles
Vendors are Offering Free Trials to Encourage Adoption and Overcome SMB Concerns...

**Encourage SMB adoption**

**Helps to Engage SMBs**

**SMBs witness ROI benefits**

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**MYOB Atlas Web Builder**

- Generated limited revenue earlier
- **MYOB partnered with Google’s Getting Aussie Business Online**
  - Offered 1-yr free website hosting and 2-yr free domain name
  - Got ~40,000 SMBs online
  - Extensive marketing and PR for MYOB

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**Facebook Accelerator Program**

- **Facebook’s program to engage SMBs in Australia**
  - SMB Workshop on utilizing Facebook to generate business growth
  - SMBs given free FB credits and 3-month support
  - Encouraged SMBs to increase business presence on Facebook

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**Source:** Secondary research - Sydney Morning Herald (SMH) article, Startup Smart article
Conclusion: How to Win in Australian SMB Market?

1. Deepen Focus on the Mature SMBs in Eastern Australia*
2. Evangelize Cloud, Mobility and Security Solutions for SMBs
3. Identify and Engage Non-Technical Business Influencers
4. Explore Strategic Investments with Telecom players and Build Partner Capacity
5. Address Cost Concerns of SMBs by Offering Lucrative Schemes & Engagement Models

*Eastern Australia includes New South Wales, Victoria, and Queensland