



SUCCEEDING ONLINE

Melbourne IT eBiz Review 2010

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Succeeding Online: Melbourne IT eBiz Review 2010

Australia's small business sector is vital to the Australian economy. According to the most recent (2007) report from the Australian Bureau of Statistics, there were 1.96 million actively trading businesses in Australia, and of those 96% were small businesses¹. The small business sector contributes around 35% of Australia's GDP and employs around 3.8 million people².

The growth of the Internet as a business tool has been embraced by small and medium sized businesses (SMBs), with 95% of SMBs connected to the Internet and 57% having a website³. With SMBs being such an important part of the Australian business landscape, Melbourne IT set out to discover how those small companies with an online presence actually use the web to do business. How innovative are they? What are their attitudes to social media? And is cloud computing just hype?

We commissioned the inaugural *Melbourne IT eBiz Review* to find out the answers to these questions and more. The sample size of 3,404 Australian SMBs is significant, with most respondents being business owners/partners (61%), and respondents were drawn from the entire spectrum of industry, with 26 different industry sectors represented with no single sector comprising more than 8% of the total respondents.

As a result, the *Melbourne IT eBiz Review* provides an excellent insight into how SMBs are using the Internet to grow their businesses.

¹ ABS, ['Counts of Australian Businesses, Including Entries and Exits'](#), 26 February 2007

² Department of the Prime Minister and Cabinet, ['Speech to the 2009 National Small Business Summit'](#), 8 June 2009

³ Sensis, ['e-Business Report'](#), August 2009

1 EXECUTIVE SUMMARY

The *Melbourne IT eBiz Review* found commitment to the Internet as a business tool, a willingness from SMBs to innovate and try new things to succeed online, and a resolute belief that the Internet was increasingly vital to their future success.

It is important to note the findings of this study represent the views of Australian SMBs who are doing business online – not all Australian SMBs as a whole. We have used the term ‘eSMB’ throughout to act as a differentiator.

Key findings:

- 82% of eSMBs agreed or strongly agreed with the statement ‘the Internet is vital to the operation of my business’. Forty-five per cent agreed or strongly agreed with the statement ‘an increasing amount of my business’ revenues are derived online’
- For 61% of eSMBs, direct sales from their website was less than 10% of all revenues. Seventeen per cent of eSMBs made between 10% and 29% of sales online, and 19% made more than 30% of their revenues directly from their site
- 27% of eSMBs estimated they made between 10% and 29% of revenues indirectly from their website and 30% estimated they made more than 30% of their revenues indirectly off their website
- Major challenges to doing business online were the cost of maintaining their website (47%), being found in search engines (44%), understanding how to do business online effectively (35%), spam (34%) and security concerns (23%)
- The top three areas of marketing spend outside of maintaining their website was print advertising, brochures, and email marketing. Search engine marketing/optimisation (SEM/SEO) was ranked 6th
- Australian small businesses that use social media as part of their online business strategy are more likely to achieve bigger revenue returns from their websites. SMBs who make 20% or more of their revenues directly from their website are more likely to be social media users – 39% of social media SMBs fit this category, compared to only 23% of non social media SMBs
- SMBs who make 20% or more of their revenues indirectly from their website are more likely to be social media users – 53% of social media SMBs fit this category, compared to only 38% of non social media users SMBs
- 34% of eSMBs use social media, with a further 15% planning to use it in future. The tools of choice were Facebook (75%), Twitter (47%) and LinkedIn (42%)
- Other benefits reported by social media-using eSMBs: attracting new customers (57%), helps put a ‘human face’ to their business (51%), helps explain products and services in new ways (49%)
- Reasons cited by non-social media using eSMBs were: unconvinced of the benefits of social media (36%), social media is irrelevant to the business (32%), no time to maintain it (28%)
- 47% of eSMBs say they have no plans to optimise their website for mobile devices
- 23% of eSMBs are either considering developing a mobile app or already have one in development
- 46% of eSMBs understand what cloud computing means
- 74% of respondents said their business was not using cloud computing services (with 11% saying they didn’t know if they did)
- 14% of eSMBs plan to invest in cloud computing in the 2010-11 financial year
- 62% of eSMBs not planning to invest in cloud computing say they do not see the business need or benefit. Their other concerns in order of ranking were not understanding the concept (27%), cloud computing still needing to prove itself (15%), concerns about security (12%) and reliability (10%).

2 TODAY'S "ESMB"

The fortunes of today's SMB with an online presence – or 'eSMB', to simplify for this report – is increasingly tied to their ability to do business online. When asked about the importance of the Internet, 82% agreed or strongly agreed with the statement that "the Internet is vital to the operation of my business". Forty-five per cent agreed or strongly agreed with the statement that "an increasing amount of my business' revenues are derived online".

While most respondents (65%) said the ability to access a larger customer base was the primary benefit for doing business online, the smaller businesses with less employees tended to view the illusion of scale which a slick web presence can provide as one of the key benefits (see Figure 1).

Company Size (Employees)	Major benefit of website is that it makes us look bigger
1-2	37%
3-4	22%
5-9	17%
10-19	11%
20-99	9%
100-200	1%
200+	2%

Figure 1: Primary benefit of website

Making Money Online

Increasing revenues was cited as a primary driver for doing business online by half of the respondents. While three per cent of respondents were web-only traders, the amount of revenues generated directly or indirectly from websites was significant across the entire eSMB base.

For most SMBs (61%), direct sales from their site amounted to less than 10% of all revenues. Seventeen per cent of eSMBs made between 10% and 29% of sales online, and 19% made more than 30% of their revenues directly from their site.

However, the amount of revenues eSMBs estimated that were indirectly sourced from their website – ie. purchases made over the telephone / mail / in-person after customers

had used the site for research, bookings or requesting more information – was significantly higher, with 27% of eSMBs saying they made between 10% and 29% of revenues indirectly and 30% estimating they made more than 30% of their revenues indirectly off their site.

With the Australian Government's planned National Broadband Network promising to increase Internet access speeds and open up more online possibilities, eSMBs are on the whole neutral to positive on its arrival. When asked if they agreed or disagreed with the statement "our business is excited by the e-commerce possibilities that the planned Australian NBN broadband network will provide", 41% were neutral while 31% agreed or strongly agreed.

Online Challenges

There were some challenges to doing business online, however. The cost of maintaining their website was the number one challenge cited (47%) with being found in search engines the second largest challenge (44%). Despite this, when asked what their top three areas of

marketing spend was (outside of maintaining the website), search engine marketing/optimisation (SEM/SEO) did not figure and was ranked 6th – with the top three being print advertising, brochures, and email marketing (Figure 2).

Rank	Marketing Initiative	Delivery Method
1	Print advertising	Offline
2	Brochures	Offline
3	Email marketing	Online
4	PR	Offline / Online
5	Direct mail	Offline
6	SEO / SEM	Online

Figure 2: Most popular areas of eSMB marketing spend not including website

This begs the question – how can SEO/SEM still be the best kept SMB marketing secret?

Clues to the answer can be found among the business challenges cited. While spam (34%) and security concerns (23%) also featured, one of the larger issues was not a technological one. Thirty-five per cent of eSMBs said that understanding how to do business online effectively was one of the major challenges they faced.

3 GETTING SOCIAL AND INCREASING REVENUES

With Comscore estimating that 90% of Australian Internet users visited social media sites in February 2010⁴, it is no surprise that social media has become a hot area of marketing investment from large enterprises as they try to access such a large pool of potential customers. But what about small businesses?

A third of eSMBs have dived in and established a social media presence, with the social media tools of choice being used by the 34% of social media believers being Facebook (75%), Twitter (47%) and LinkedIn (42%).

Among social media users, 85% cite benefits to their business, with 57% saying they are attracting new customers via social media. Just under half (49%) said it helped them explain their products and services in new ways and just over half (51%) said it helped put a 'human face' to their business.

The success of social media using SMBs in attracting new customers must be an eye opener for those companies which are not; these results also demonstrate that the "softer" perception building elements of social media tools are not lost on savvy eSMBs.

However, our research went a step further and analysed whether there was a correlation between eSMBs using social media and revenues generated directly and indirectly from their website. The results were clear – eSMBs that used social media as part of their online business strategy were more likely to achieve bigger revenue returns from their websites.

eSMBs which made 20% or more of their revenues directly from their website were more likely to use social media, with 39% of social media SMBs achieving this revenue level compared to only 23% of non social media SMBs.

The trend was the same when looking at indirect sales from SMBs' websites – 53% of social media SMBs achieved the 20%+ revenue level while only 38% of non-social media SMBs did. Figures 3 and 4 clearly shows this trend. Social media SMBs trend consistently higher in revenues generated at the higher levels, while most non-social media SMBs are at the lower revenue levels.

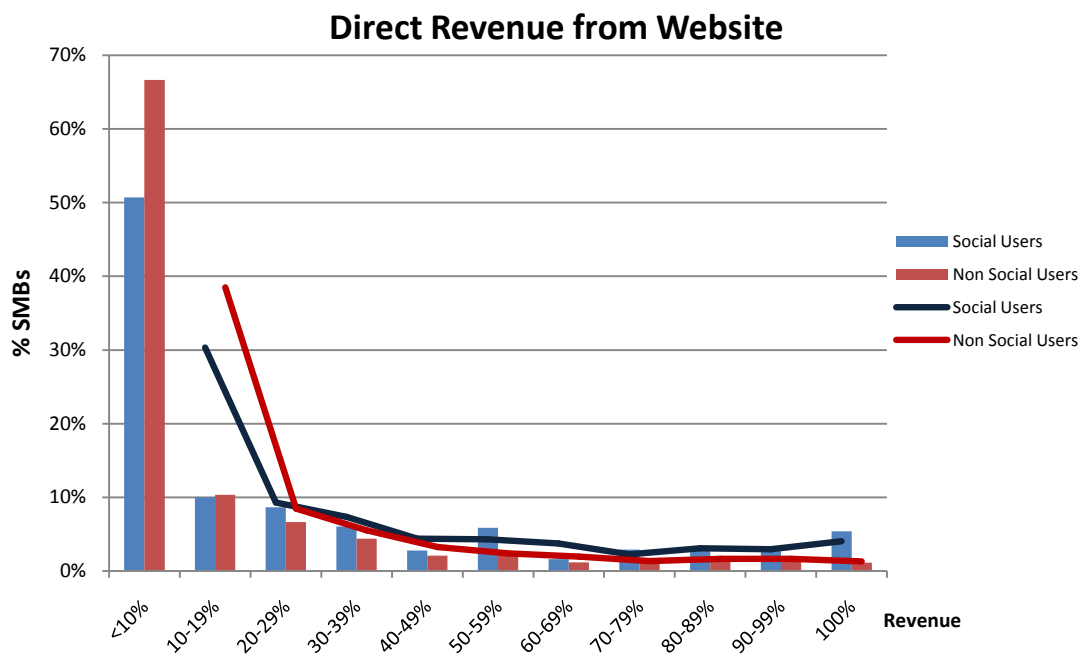


Figure 3: SMBs by revenues generated directly from website

⁴ Comscore, ['Social Networking Habits Vary Considerably Across Asia-Pacific Markets'](#), 7 April 2010

Indirect Revenue from Website

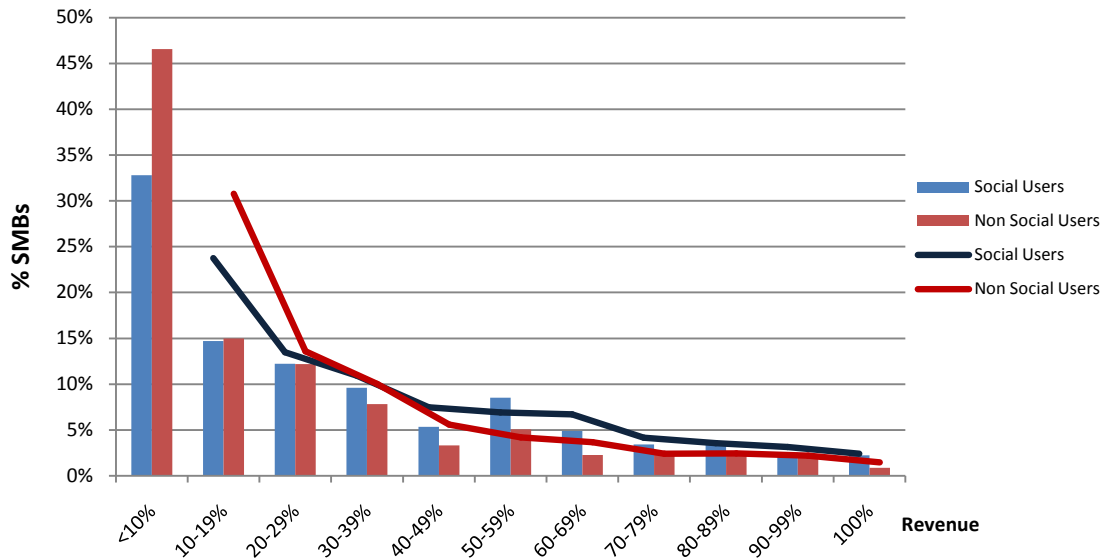


Figure 4: SMBs by revenues generated indirectly from website

While this does not definitively prove that social media tools will generate higher revenues, the study results do indicate an undeniable relationship between eSMBs using social media and higher website revenues.

While the majority of eSMBs using social media have not experienced any problems (55%), it hasn't been plain sailing for everyone. Seventeen per cent of social media-using eSMBs said they were still looking for a business use for social media, and 9% has experienced security problems. A small percentage (4%) had experienced reputational or financial damage from staff misuse and the same amount had experienced damage from competitors using social media.

Social Media	% Use
Facebook	75%
Twitter	47%
LinkedIn	42%
Blogs	37%
YouTube	30%
Myspace	7%
Other	5%
SlideShare	3%

Figure 5: Tools used by those eSMBs using social media for their business

Reasons not to engage

So what about those eSMBs on the social media sidelines – why have they not embraced social media too?

They're not convinced it works. Thirty-six per cent said they were unconvinced of the benefits of social media, with 32% saying social media was irrelevant to their business. Not having the time to maintain it was highlighted by 28% of non-users.

Understanding social media was an issue for 19% of non-users, with a same percentage saying they did not have the expertise in their business to use social media effectively. But 15% are planning to use social media in future – meaning that we will see more SMBs turning to social media in the coming year.

However, most eSMBs seem to be sticking to what they know when it comes to online advertising spend. While Facebook may have overtaken Google search in the amount of web traffic it receives⁵, only 8% of eSMBs agreed or strongly agreed with the statement “our business will spend more on Facebook advertising than Google Adwords in the next financial year”.

⁵ Experian Hitwise, [‘Facebook Reaches Top Ranking in US’](#), 15 March 2010

4 SMBS AND THE MOBILE WEB

The growth of mobile Internet access, driven by the success of Apple's iPhone, has seen companies re-evaluate their websites to suit smaller browsing windows or release mobile applications specifically to help mobile users access content in a user-friendly way. Morgan Stanley research estimates that mobile Internet users will surpass desktop Internet users globally within five years⁶.

While only 9% of eSMBs reported that they had a website optimised for mobile browsers, the signs are that small businesses are not letting this trend pass them by. Seven per cent were working on a mobile optimised version of their website, with an additional 20% considering doing the same. However, 47% said they have no plans to develop a mobile-friendly website – a potential risk, given the changing way in which the public consumes the Internet.

Given the time, cost and effort in developing a mobile application, it is no shock to learn that only 3% of eSMBs currently have a mobile app available to download. But the surprising statistic uncovered by the research was that 23% of eSMBs were either considering developing a mobile app or already had one in development.

In our view, this is a high number and shows that small businesses are willing to innovate and eager not to give up the mobile audience to larger competitors with bigger development budgets.

⁶ Morgan Stanley, ['Internet Trends'](#), 12 April 2010

5 INTO THE CLOUD

Cloud computing has been the topic du jour in the IT industry for the past 18 months, with various technology providers arguing the benefits and drawbacks of cloud in equal measure. According to the proponents of cloud computing, one of the key groups that will benefit from cloud are small businesses – but do they understand cloud, and are they embracing it?

Our study found the split of eSMBs who understood what cloud computing meant was roughly 50:50 – 46% said they understood what the term meant. But 74% of respondents said their business was not using cloud based services (with 11% saying they didn't know if they did).

Those who are using cloud computing (Figure 6) are primarily using it for email (63%) and storage (55%), with CRM (34%) and desktop office applications (22%) the next most popular uses. The majority of the current users of cloud plan to invest in the technology again this financial year, with 65% indicating they would.

Services in the Cloud - eSMBs using Cloud

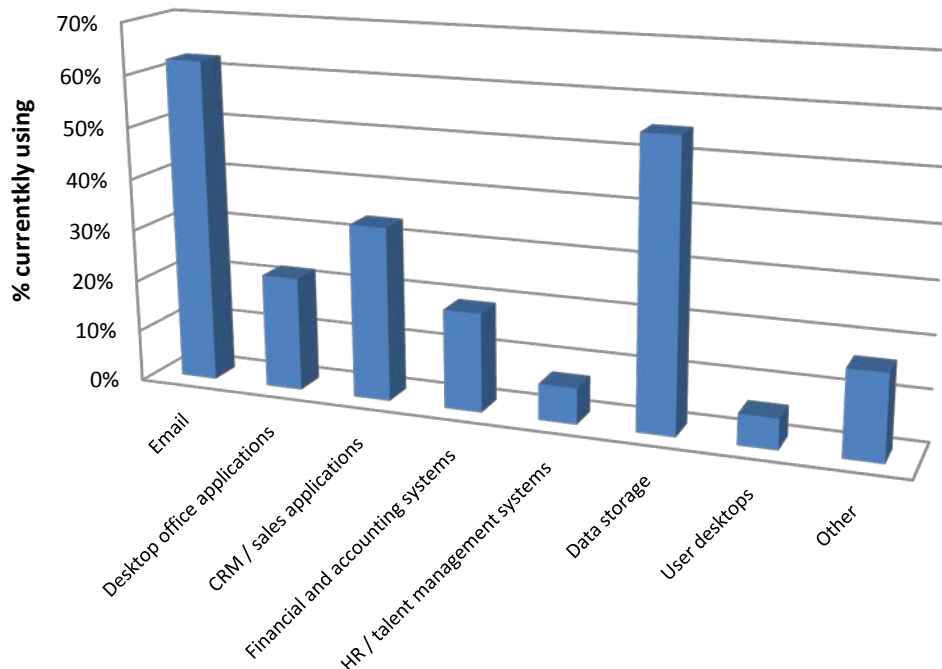


Figure 6: Cloud Computing Services used by those eSMBs currently investing in Cloud Computing

Of those who are not currently using cloud, only 6% said they would invest in the technology this financial year. What this seems to indicate is that those who do use it are embracing it further, while those who don't see no need to change their minds at this stage.

Of the total number of eSMBs planning to invest in cloud in the 2010-11 financial year – 15% – the same applications of the technology topped the list: storage, email, CRM and desktop applications. Interestingly, virtual desktop technology – which allows users to access their computer's desktop from virtually any device, anywhere there is an internet connectivity – was being considered by 16% of these companies.

eSMB Cloud Investment Intentions 2010-11

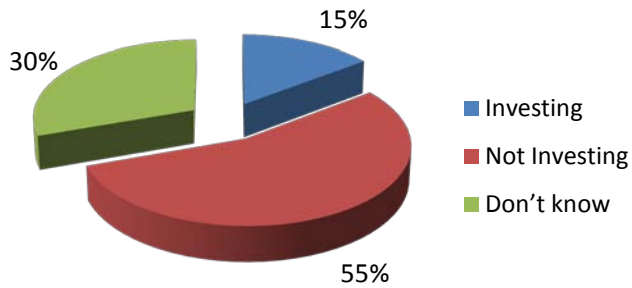


Figure 7: Cloud Computing investment intentions FY2010-11

The companies who are not planning to invest in cloud computing unanimously say they do not see the business need or benefit (62%). Their other concerns in order of ranking were not understanding the concept (27%), cloud computing still needing to prove itself (15%), concerns about security (12%) and reliability (10%).

It's clear that many small businesses are not blinded by the hype and want to see clear proof of benefits before they decide to change the way they run their IT to a cloud model.

6 INNOVATING FOR ONLINE SUCCESS – OUR VIEW

The *Melbourne IT eBiz Review* reveals a vibrant sector of small businesses operating online, willing to innovate and try new things but within the boundaries of what's going to make a bottom line impact.

When asked if they agreed or disagreed with the statement "SMBs are e-commerce innovators", 25% said they didn't know and 42% were neutral. But there is plenty of evidence of innovation among eSMBs that runs counter to this modesty; from the sizeable percentage of businesses using social media to the emerging group developing mobile applications, it shows small businesses are not being left behind by larger and more well-heeled competitors online.

The strong benefits cited by social media users in the study must serve as a clarion call to other SMBs thinking about using Facebook, Twitter or LinkedIn to take the plunge. Not only do a large percentage of social media users report that they are attracting new customers by using it, but our analysis shows they are more likely to achieve higher revenues from their online presence.

The correlation between revenues and social media use demonstrated by this study surely provides a compelling incentive for non-users to reconsider their social media strategy.

Another clear opportunity for SMBs is search engine marketing and optimisation. With only 21% naming it as one of their top three marketing investments but at the same time, 44% saying being found in search engines was one of their biggest challenges, there's a quick win here to boost their business online.

With the global eCommerce market expected to be worth \$623 billion USD in 2010 and grow to \$743 billion USD in 2011,⁷ the *Melbourne IT eBiz Review* shows Australia's online SMBs are positioning themselves well to grab their share.

There's a thirst for knowledge among SMBs that is evident in the responses. More than half the SMBs surveyed did not understand cloud computing, 19% said they didn't have social media expertise and 35% said that understanding how to do business online effectively was one of the major challenges they faced. SMBs want help to succeed online.

Cloud computing remains largely a mystery and not an area of focus for SMBs. Cloud computing can deliver significant benefits, but it has to be the right fit for the company – our experience running the vCloud Beta Program showed that some companies loved the flexible, pay-as-you-use cloud business model while others preferred the traditional hosted service approach. However, these results show SMBs want proof before they embrace cloud en masse.

Technology vendors can learn a thing or two from the results as well. SMBs want advice and consultation, not self-serve. Less hype and more hard proof around cloud computing is needed or the resolve against using it will harden.

One thing that nearly all eSMBs agree on though is that the Internet is vital to the operation of their business and will become increasingly important as more of their revenues are derived online. Indeed, 52% agreed or strongly agreed that the Internet and email were the primary marketing tools for their business.

⁷ J.P.Morgan, "Nothing but Net 2010 Internet Investment Guide", 4 January 2010

ABOUT MELBOURNE IT'S SMB EBUSINESS SOLUTIONS

Melbourne IT's SMB eBusiness Solutions helps small and medium-sized businesses across Australia and New Zealand to be successful online.

More than 350,000 customers rely on our broad range of online services and expert advice – from registering their domain names, hosting their email and websites, promoting their businesses online through to harnessing online collaboration tools and building successful eCommerce platforms.

With a network of offices across Australia and New Zealand, easy to use online tools and a large team of eBusiness Consultants, SMB eBusiness Solutions has the skills to help its SMB customers grow and the resources to support them as they successfully expand.

To find out how Melbourne IT can help your business, visit www.melbourneit.com.au

ABOUT THE STUDY

Melbourne IT surveyed 3,404 small and medium sized businesses (SMBs) in Australia during May and June 2010, with most respondents being business owners/partners (61%), IT/website managers (12%), and general managers (9%). All respondents used one or more forms of technology to do business online with email (90%), company website (86%), intranet/extranet (25%) and internet telephony (22%) being the most popular.

The SMB respondents were drawn from 26 different industry sectors with no single sector comprising more than 8% of the total respondents. The largest industry sectors represented in the survey were IT & telecommunications (8%), miscellaneous business services (8%), manufacturing (8%), retail (7%), health/fitness/community services (7%) and building and construction (6%). The largest proportion of SMBs polled had 1-2 employees (32%), followed by 3-4 employees (18%), 5-9 employees (16%), 10-19 employees (12%), 20-99 employees (14%) and 100+ employees (8%).

Melbourne IT employees executed the online survey and wrote the report.

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