

Invest to protect: Fortifying SMEs against global shocks

MYOB 2023/24 Pre-Budget Submission



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Dear Treasury,

MYOB welcomes the opportunity contribute to the 2023/24 Federal Budget Submission process.

Australia's economy is facing global shockwaves beyond our control. To ensure the resilience of our economy against these long-term challenges, we need to fortify "what we have going for us".

SMEs represent over 99% of Australian enterprises and the sector is Australia's largest employer. SMEs are our health care providers, manufacturers, job creators and skills providers. As the Government seeks to find targeted investments that will buffer the economy from inflation while stimulating growth, we urge the Government to maximise the opportunities within SMEs.

We know one in five SMEs – nearly half a million businesses – have no or very low engagement with digital tools and are at risk of falling into a significant opportunity gap. Two measures currently before Parliament – the Technology Investment Boost and Skills and Training Boost – will target Australia's digital capabilities while providing necessary support for SME dynamism.

Despite macroeconomic challenges, we have an entrepreneurial spirit that is embodied by our SME sector. To help the sector survive and succeed, we encourage the Government to extend the funding for the Technology Investment Boost and Skills and Training Boost. Despite having first been proposed in March 2022, the measures remain unlegislated. Don't let delays undermine their impact. Further, we see an opportunity for the Government to support SME viability by centralising official information and creating a single source of truth for official guidance.

We thank the Government for its ongoing commitment to improving digital skills and creating meaningful future growth opportunities for all Australians.

At MYOB we believe the skilful, confident and decisive use of digital business tools is at the crux of establishing a future-ready workforce, helping "crack the cycle" of entrenched skills disadvantage.

If you require any more information, please contact Liv Monaghan at liv.monaghan@myob.com.

Yours sincerely,



Greg Ellis
Chief Executive Officer
MYOB

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Background

MYOB has been part of the fabric of doing business in Australia and New Zealand for more than 30 years, having grown from its status as the original Australian unicorn (the first to achieve \$1b value) to now being used to pay one in five Australians. We are connected deeply to the priorities, needs and opportunities of the small and medium sized enterprise (SME) sector.

Having started life as accounting software, MYOB has taken significant steps toward becoming a cloud-based business management platform. Recently acquiring or partnering with 15 businesses, we strive to add value and meet the needs and opportunities of SMEs in Australia and New Zealand by integrating business workflows and tasks in one place.

As Treasurer Jim Chalmers recently noted, access to modern skills and building a future-ready workforce will help crack the cycle of entrenched disadvantage and steady the economy against macroeconomic pressures¹. With SMEs employing more than one in three Australians, increasing their access to future-ready skills will help make significant strides in addressing inequality while bracing the economy against global shocks.

As this submission demonstrates, investment in SME digital capabilities and improving their ability to operate in an informed and secure manner will be an important step readying the economy for future challenges.

There's a lot coming at the economy – it's time to bolster what we have going for us.

In a context of rising borrowing costs and fears of inflationary shocks, the broad fiscal support policies implemented at the height of the pandemic are being scaled back in most economies, including Australia. As the World Bank's recent 2023 Global Economic Prospects report identifies, this, combined with major central banking pivoting towards tighter policy at the fastest pace in over 40 years, has contributed to significant fiscal tightening and inflationary pressures².

As Treasurer Jim Chalmers flagged recently, “inflation will be higher than we like for longer than we like”³. To protect against this, the World Bank recommends investment in policies targeted at growth – including strategic investment in digital capabilities⁴.

The World Bank's 2023 Global Economic Prospects Report identifies that investment in digital capabilities will offer strong investment growth potential for global economies. In particular, the report calls out fiscal policies that balance private and public investment in digital capabilities as one key mechanism to reduce inequality in skills and protect against global economic pressures⁵.

The two measures currently before Parliament – the Technology Investment Boost and the Skills and Training Boost – will be essential in reducing inequality in skills and productivity by creating future-ready pathways to work. Our own modelling shows that the Boosts will generate a 25:1 return on investment (ROI) and every \$25 invested by the Government through the measures will generate \$625 in return through productivity gains, including forward employment.

¹ The Hon. Dr Jim Chalmers, Transcript – Parliament House, 16 January 2023.

² World Bank Group, World Bank Global Economic Prospects, 10 January 2023, p.27.

³ The Hon. Dr Jim Chalmers MP, Transcript – Interview, ABC News Breakfast, 17 January 2023.

⁴ World Bank Group, World Bank Global Economic Prospects, 10 January 2023, p.113.

⁵ *Ibid.*, p.113.

We see these two measures as working in tandem when it comes to adding value to Australia's skills capabilities: adept use of technology will require skills, and a future-ready economy will require access to technology. Offering the ability to access skills training while growing digital capabilities, the measures create career growth opportunities, open new pathways to employment, and support SME advancement.

Despite being first proposed in March 2022, the Technology Investment Boost and Skills and Training Boost remain unlegislated. With the Technology Investment Boost set to expire in June 2023, this delay undermines the intended impact. To ensure SMEs and the economy can have meaningful benefit from the measures, they need to be well communicated and understood by the SME community. With the current delay in implementation and shortened lifespan, uptake of the measures before June 2023 will be minimal.

We thank the Government for its commitment to supporting SME sectoral growth and lessening the opportunity gap facing the Australian workforce. Extending funding for the Boosts will provide growth stability in times of economic uncertainty.

Australian SMEs: A dynamic sector with big influence

Accounting for more than 99% of Australia's enterprises, SMEs play a crucial role at the heart of Australia's communities and in building a strong national economy⁶. Ensuring these businesses - and the 7.4 million Australians they employ - have skilled access to digital tools will be essential to building a resilient economy.

As the largest employer in Australia, and contributing over half our national GDP, the SME sector is the key to driving economic growth⁷.

The SME sector has undergone recent momentous change. Notably, we are approaching gender parity in SME ownership. Where 60% of SME owners and operators were male in 2018, in 2022 that dropped to 56%. This four-point percentage shift represents approximately an additional 100,000 women founding, owning or operating SMEs during a period of unprecedented challenge⁸.

SME owners and operators are also increasingly younger in age. While the majority (36%) of owners and operators are Baby Boomers (aged between 55 and 74), Millennials (aged 25 – 39) are close to dominating the sector (35%). With ABS data showing an increase of over 167,000 businesses in 2021-22, we can expect the demographics and profile of the SME sector to continue to shift with some dynamism⁹.

As McCrindle identifies, recent changes in the SME sector speak to the Australian spirit of independence, a DIY attitude and the courage to give things a go¹⁰. This is a sector of dynamism, enthusiasm, and impact – a sector that will maximise investment and generate greater social good¹¹.

A 2021 survey by Swinburne University, studying the attitudes and beliefs of 4,000 Australians, found SMEs to provide greater benefit to Australian society than large or multinational businesses. Australians view SMEs as transparent and trustworthy, with the highest levels of public faith in the private sector¹². They are our manufacturers, our food producers, and our healthcare providers¹³. Investing in the digital capabilities of SMEs will have benefits that reach beyond the sector.

⁶ The Hon. Julie Collins MP, 'New Year and more support for small business owners', 1 January 2023.

⁷ CSIRO, Transcript: 'SMEs are the key to driving growth in Australia', 27 June 2022.

⁸ MYOB, Australia's SMEs: A Snapshot, August 2022.

⁹ Australian Bureau of Statistics, Counts of Australian Businesses, including Entries and Exits, 25 August 2022.

¹⁰ McCrindle, 'Australia, the Small Business nation', 2022.

¹¹ *Ibid.*

¹² Swinburne University, Australian Leadership Index, August 2021.

¹³ CSIRO, Transcript: 'SMEs are the key to driving growth in Australia', 27 June 2022.

Further, in recent history, Australia has seen an increase in the number of sole traders and self-employment following recessions and periods of economic tightening¹⁴. Giving these entrepreneurs the opportunity to invest and grow their digital capabilities will help drive economic growth while building their resilience against global shocks. As Australia faces increasing global macroeconomic uncertainty, now more than ever we need to get the conditions right for SME survival and resilience.

Boosting equality in skills and opportunities

The two measures currently before Parliament – the Technology Investment Boost and Skills and Training Boost – enable SMEs and those employed by a SME to improve access to technology and professional development opportunities.

By offering an additional 20 per cent deduction on relevant expenditure by businesses with an aggregated annual turnover of less than \$50 million, the Boosts incentivise growth through a mixture of private and public investment. MYOB modelling estimates that almost half a million of Australia's SMEs – one in five – have no to low levels of digitisation. These businesses, and their employees, are on the backfoot when it comes to future growth opportunities and stand ready to benefit most from such targeted investment.

While these Boosts were first proposed by the previous Government as a Budget measure in March 2021, we welcome the Albanese Government's recognition of the impactful role of such investment in strengthening Australia's economy. However, despite reaching Exposure Draft stage in October 2022, and sustaining strong multi-partisan support, the measures have yet to pass Parliament. As such, the measures are not on a strong foot for success - both the economy and SMEs have not been able to benefit from the opportunities they provide.

With the Technology Investment Boost yet to be in effect, but due to expire on 30 June 2023, the delay in legislation and activation of the measure means it will not have the inflation protection impacts it could otherwise achieve: public and private investment in digital capabilities will not be delivered sufficiently. Additionally, the limited timeframe currently in place means Government will not be able to truly evaluate the efficacy of the investment, resulting in a resource waste.

We recognise these measures are set to have significant impact on the productivity of our economy. Our modelling demonstrates these measures would have a 25:1 return on investment (ROI) for the Australian economy; every \$25 invested by the Government would generate \$625 in benefit to the economy in productivity gains, including through forward job creation.

SMEs, and the economy, are ready to benefit from these measures. It is essential they are set up for success.

Recommendation 1

The Government extends the Technology Investment Boost and Skills and Training Boost so the success of the measures can be realised and measured. With a lifespan on less than six months on the Technology Investment Boost, the measures' success and the Government's existing investment is at risk of being undermined by delay.

At a point of global economic tightening, the Boosts will play an important role in buffering against inflation by stimulating a mix of public and private investment in digital capabilities. We want to see SMEs and the economy benefit fully from the measures, and we stand ready to help the Government track their impact.



Treasurer Jim Chalmers recently stated that notwithstanding rising global macroeconomic pressures, while Australia has a lot coming at us, we also have a lot going for us¹⁵. We believe that what we have going for us is our entrepreneurial spirit and the willingness to give things a go when it comes to starting a business. To set these businesses up for success, we need to get the foundations right.

As this submission has demonstrated, Australians have responded to global recessions and periods of economic tightening by taking the leap to being sole traders or self-employed¹⁶. While this leap speaks to the entrepreneurial spirit of Australians – that when faced with difficulty they will still have a go – it is a move of increased risk and fiscal vulnerability.

Through our engagement with the SME community, we know a key issue facing many SME owners and operators is the ability to access and process official information, which has direct impact on their ability to survive and succeed. The lack of a single window for SMEs means initial income streams are often undercut by unknown unknowns that disrupt their ability to successfully start and operate.

Across Federal Government sources alone, SME compliance obligations appear on Business.gov.au, Treasury, OAIC, ASIC, ATO, and ACCC websites. These sources all present different variations of similar guidance, each prioritising different compliance obligations. We know with that limited or opaque visibility of obligations, commitments and likely challenges, many SMEs realise quickly they have over-committed and cannot sustain the business. This creates risks for business non-compliance and impacts a business' ability to succeed.

Latest ABS data indicates that 48% of business start-ups fail within the first four years, and almost one in five (23%) do not survive the first year¹⁷. With more start-ups likely to occur in response to the global recession, this number is too big to ignore¹⁸.

MYOB notes that, at present, there is not one centralised location for SME owners and operators to find relevant, targeted information that supports starting and running a business that is compliant, secure and as financially stable as possible. Whereas Business.gov.au provides a sound single source of truth for businesses of all sizes, much of that information is not relevant to start-ups and SMEs and is presented in a way that is difficult to digest by time-and-resource-poor business operators.

Centralising SME information, and freeing the time spent on finding and translating admin, will increase business viability and give SMEs more time to focus on innovating and growing their business. It will empower those running SMEs to spend less time navigating business pressures, and more time sustaining work-life balance, which the International Labour Organization recognises as bringing essential benefits to the economy through increased productivity¹⁹.

Making it easy for SMEs to be cyber-secure

We see the lack of a single window for SME guidance as posing particular and significant risk when it comes to cyber-security. With low levels of digitisation in the sector, and a recognised opportunity for digital skills improvement, it is essential that cyber-security information is easy to find and understand.

At present, cyber-security information targeted at SMEs is available in multiple Government locations, with overlapping and often contradictory guidance. Such locations include the Australian Cyber Security Centre,

¹⁵ The Hon. Dr Jim Chalmers MP, Transcript – Parliament House, 16 January 2023.

¹⁶ Australian Bureau of Statistics, 2021 Census: Employment, self-employment, 30 November 2022.

¹⁷ Australian Bureau of Statistics, Counts of Australian Businesses, including entries and exits, 28 August 2022.

¹⁸ Australian Bureau of Statistics, 2021 Census: Employment, self-employment, 30 November 2022.

¹⁹ International Labour Organization (ILO), 'Working Time and Work-Life Balance Around the World', 6 January 2023.

Business.gov.au, Home Affairs, Australian Signals Directorate, and the Australian Small Business and Family Enterprise Ombudsman (ASBFEO).

The cyber-security guidance provided by these Departments and organisations is targeted and informative. Some, such as the digital assessment toolkit operated by ASBFEO, also offers meaningful assistance to SMEs. However, we see a risk in having multiple sources of Government information for SMEs. Complexity is the enemy of security.

Creating a single source of truth for Australia's SMEs will play an important role in supporting the secure sustainability of the SME sector. Making this administrative centralisation will have meaningful impact to Australia's SMEs and to the Government's digital compliance agenda. With over 99% of Australian enterprises being SMEs, we need to make sure they have confidence in their security.



Recommendation 2

Treasury includes a Budget outcome to support a single source of truth for official SME guidance. This SME information package could be provided as an extension to existing Business.gov.au or ASBFEO operations, or as a new function housed by one Department charged with centralising existing materials.

There is a wealth of information targeting SMEs. While this can be practical and easy to use, some is also contradictory and difficult to find. Centralising information, making it easy to understand, and offering practical tools to combat challenges such as cyber-security, will be a small change with meaningful impact.

Summary

There is a lot to celebrate about the SME sector, but there are a lot of challenges coming at it. As Australia's largest employer, it is essential the sector is set up for success if we are to build resilient economic foundations.

The World Bank identifies policies that call for a mix of public and private investment in digital capabilities as a key way to protect against inflationary pressures and global economic shocks. We commend the Government for pursuing the Technology Investment Boost and Skills and Training Boost, which we see as being an important step towards achieving this goal. However, with process delays preventing the Boosts from coming into effect and with less than six months until they start to expire, we recommend the Government extend funding for these measures.

It would be a significant waste in both resource and opportunity for the success of these measures to be undermined, and it would be at the loss of Australia's SME job creators.

Making it easier to start and scale a business not only adds value to the economy, it enriches communities. Centralising existing information so more SMEs can start with greater awareness of their obligations and potential challenges will help minimise risk for those with the entrepreneurial spirit who want to have a go. It will also make it easier for existing SMEs to operate in face of economic uncertainty.

We are energised by the Government's commitment to helping the Australian economy navigate global shocks, including through policies supporting the SME sector, and we look forward to continuing to work with the Government to offer future-ready opportunities to Australian businesses.