

Boosting SME productivity and wellbeing

AOTEAROA NEW ZEALAND
SME DIGITISATION WHITE PAPER



November 2022

myob

Summary of MYOB's Aotearoa New Zealand SME Digitisation White Paper

REALITY

To boost productivity and economic sustainability, businesses need to better engage with digital processes and grow their digital fluency.

COVID-19 and current economic challenges have had significant impact on the resilience and productivity of our local small to medium enterprises (SMEs). As Dr Ganesh Nana, Chair of the Productivity Commission, notes, the economic growth experienced by Aotearoa New Zealand's SMEs during the early stages of the COVID-19 pandemic was due to people working harder, not smarter¹. This failed to lift wellbeing and, in some places, has made it worse.

As the Government announced with the September 2022 launch of The Digital Strategy for Aotearoa, our country stands on the precipice of being a world-leader in the use of digital technologies². However, our modelling shows the NZ economy is facing a digital lag, in large part due to the lack of digital adoption among SMEs.

To ensure Aotearoa New Zealand sets the global standard for digital technology use and leads the region's digital economy, all businesses, regardless of their size, will need to be able to adapt and adopt technology.

OPPORTUNITY

MYOB recommends the Government pursue measures that support SMEs to increase their use of business-related technology. This could take the form of either technological goods or digital services.

Supporting SMEs to boost their use of technology will ensure businesses across Aotearoa New Zealand, regardless of size or location, can achieve the productivity gains that flow from digitising their work processes.

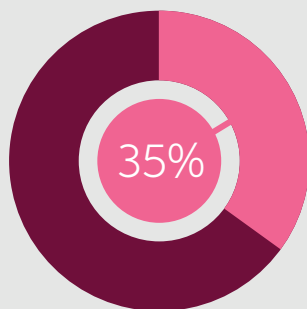
RETURN

These businesses, and their employees, are on the backfoot when it comes to future growth opportunities and stand ready to benefit most from the productivity gains flowing from timely measures targeting digitisation.

Our modelling shows introducing measures to support SME digitisation would result in a benefit of **NZD\$8.5 billion** to Aotearoa New Zealand's economy, returning 5.6% of the Gross Operating Surplus across all firms, and **2.6% of GDP**.

We also model that digitising one or two business activities would result in a benefit-cost Return on Investment (ROI) of 2.4-3.1 to 1. **For every \$100 invested** in incrementally improving SME's use of digital business tools, **they would see a return of \$240 to \$310**.

COST



COST OF INACTION: MYOB modelling shows Aotearoa New Zealand's SMEs are facing a digital lag.

Modern invoicing practices, perhaps the most crucial process to securing cashflow, are **only used by 35% of SMEs**. This has flow-on effects for the Government's digital regulatory and compliance agenda.



¹ Dr Ganesh Nana, *Presentation to Te Hana Māori Future and Tech Summit*, 2021.

² Hon Dr David Clarke, Minister's foreword: 'The Digital Strategy for Aotearoa', 15 September 2022.

Background

MYOB has been a trusted business management platform for over 30 years, providing local solutions to 1.3 million small and medium sized businesses (SMEs) in Aotearoa New Zealand (NZ) and Australia. With a core purpose of helping more businesses in Aotearoa New Zealand and Australia start, survive and succeed, MYOB provides richly connected and adaptable cloud-based business management solutions to fit the ambitions of businesses with 0-1000 FTEs.

We deeply recognise and understand the unique needs of SMEs and are seeking to deliver a single Software as a Service (SaaS) platform to help them make confident business decisions underpinned by data-driven and digital operations. Our integrated solutions allow businesses to spend less time manually taking care of their business practices and more time innovating.

As Prime Minister Ardern recently noted, keeping New Zealanders safe in the post-pandemic era extends beyond securing health, to safeguarding incomes and wellbeing³. Adopting economic measures designed to build business productivity and resilience will be essential to future-proofing the wellbeing of the more than 990,000 New Zealanders employed by SMEs⁴.

MYOB welcomes the Government's commitment to growing digital skills and engagement among Aotearoa New Zealand's business community. This extends from developing and supporting the Digital Boost platform for SMEs, to a clear focus on growing capability and opportunities on home soil through the three pillars outlined in the Digital Strategy for Aotearoa.

As the global economy becomes increasingly reliant on technology, digital fluency - the ability to use digital business tools skilfully, decisively, and confidently - is increasingly vital to the sustainability and growth of the economy and to the wellbeing of local SME owners and the people they employ. Crucial to digital fluency and supporting the existing skills agenda will be supporting SMEs' access to technology and digital tools. Building the advanced skills necessary for a truly future-ready economy will rely on an individual's ability to adapt and adopt technology.

As this paper demonstrates, while existing measures go some of the way to addressing the digital skills divide, New Zealand's SMEs continue to suffer from a digital lag. In order to support the Government's digital economy agenda, and to ensure SMEs and the more than 990,000 New Zealanders they employ are given the best chance possible to grasp future opportunities, we believe the Government can learn and benefit from policies supporting SME technology investment.

Importance of Aotearoa New Zealand's SMEs

As the 2019 New Zealand Small Business Strategy recognised, small businesses are not only the backbone of our communities, they are also crucial sources of innovation, and their contribution to the inclusive and sustainable economic growth of Aotearoa New Zealand should not be underestimated⁵.

SMEs play a significant role in sustaining Aotearoa New Zealand's economy, and in supporting the income and wellbeing of many New Zealanders. With SMEs representing over 97% of all firms in Aotearoa New Zealand, and more than a quarter of our gross domestic product (GDP), it is clear SME wellbeing directly influences our economic sustainability⁶. With almost a third of all working New Zealanders employed by small businesses, enabling the SME sector to be future-ready will ensure our workforce is equipped for future growth opportunities.

Further, with 64% of Aotearoa New Zealand's SMEs located in regional and rural areas, the importance of SMEs in generating revenue, providing employment opportunities, and fostering sustainable economic growth extends beyond the communities of our larger cities⁷. It is essential that when we grow, we grow together, and any policies designed to make build the resilience and productivity of our business sector have equal benefit regardless of where they live and work.

³ RT Hon. Jacinda Ardern, *PM Speech to China Business Summit*, 1 August 2022.

⁴ Ministry of Business, Innovation and Employment, *Factsheet: Small Businesses in 2021*, 2021. Noting there is some difference in reporting on what constitutes a medium-sized enterprise in New Zealand, this figure comprises data on the number of employees in NZ businesses with 0-49 FTE.

⁵ Small Business Council NZ, *The New Zealand Small Business Strategy: Empowering small businesses to aspire, succeed and thrive*, 2019, pp.3, 6.

⁶ Ministry of Business, Innovation and Employment, *Factsheet: Small Businesses in 2021*, 2021.

⁷ MYOB, *New Zealand's SMEs: A Snapshot*, 2022.

Importance of supporting productivity through digital fluency in Aotearoa New Zealand



Looking into a post-COVID future, SMEs stand to be key drivers of our social and economic recovery. MYOB research has shown digitally fluent SMEs are 50 percent more likely to grow revenue, eight times more likely to create jobs, and 14 times more likely to offer new products or services⁸.

Improving the digital fluency of SMEs can spur our country's economic growth in two ways.

Firstly, better integrating known technologies is faster and safer than testing new ones, and local SMEs have a large adoption gap to close. In the same way that emerging markets can grow faster than high-income markets by adopting tested technologies, SMEs can grow rapidly by adopting the proven technologies and practices of larger companies⁹.

Secondly, start-ups – a critical segment of SMEs – are important sources of innovation. Unhindered by legacy systems and outdated strategies, new market entrants are often able to rethink established practices and cut through traditional industry boundaries.¹⁰

However, when assessing the current SME landscape in Aotearoa New Zealand, a productivity gap emerges. As Dr Ganesh Nana, Chair of the Productivity Commission, notes, the economic growth experienced by Aotearoa New Zealand's during the early stages of the COVID-19 pandemic was due to people working harder, not smarter. This failed to lift wellbeing and, in some places, has made it worse¹¹.

This supports our data on SME mental health, which found SME owners and operators have seen a spike in mental health pressures, with anxiety and stress on the rise. Our Business Monitor data found that of the one third of local SME owners experiencing a mental illness, 85% have experienced stress, 71% have experienced anxiety, and 39% have had depression since starting or taking over their business¹². Over half of those surveyed (59%) also said their wellbeing was directly impacted by COVID-19 and its repercussions, and more than a quarter (29%) said workload was negatively impacting their mental wellbeing¹³.

This is supported by our most recent (September 2022) survey data on SME pressures in Australia with 73% stating that improving their business practices would ease feelings of stress.

Productivity relies on businesses and business owners having the time, energy and available resources to work smarter and central to this is the ability to grow in a way that supports and advances wellbeing. Increasingly, this requires businesses to be able to scale and access modern business tools¹⁴.

Supporting SMEs to increase their digital engagement will have flow-on benefits to wellbeing, boosting opportunities for productive growth. Adopting measures that seek to boost technology adoption will increase innovation and generate positive flow-on effects to the broader community.

⁸ MYOB, *Closing the Digital Gap*, 2021.

⁹ McKinsey, *Unlocking growth in small and medium-sized enterprises*, 2020

¹⁰ *Ibid.*

¹¹ Dr Ganesh Nana, *Presentation to Te Hana Māori Future and Tech Summit*, 2021.

¹² MYOB, *SME Mental Health Report*, June 2022.

¹³ *Ibid.*

¹⁴ Dr Ganesh Nana, *Presentation to Te Hana Māori Future and Tech Summit*, 2021.

Mapping Aotearoa New Zealand's digital divide

To fully understand the digital divide and the subsequent productivity opportunity in Aotearoa New Zealand, MYOB commissioned Infometrics to model and measure the extent to which local SMEs adapt and adopt digital business tools, and the extent to which the Government stands to benefit from introducing policies designed to support digital adoption.

Our modelling shows that, while the majority of Aotearoa New Zealand's SMEs have some engagement with digital business tools, engagement remains limited in scope and application.

Digitisation has made the greatest in-roads into invoicing and payment methods, however our modelling reveals 65% of SMEs are not using digital invoicing tools and processes. This not only impacts business' ability to secure payments and cashflow, it risks derailing the Government's eInvoicing priorities.

As the below table (Table 1) demonstrates, paying suppliers, payroll and tracking sales, revenues or expenses complete the current top five digital business activities, with more than 20% of survey respondents indicating they use one or some of these digital processes. Nevertheless, even for these tasks, the overall degree of digitisation is low. It is clear that our local SMEs are facing a digital lag.

TABLE 1

Percentage of firms reporting using an online software program for various tasks

Invoicing	35%
Taking customer payments	30%
Paying suppliers	27%
Payroll	25%
Tracking sales/revenue/expenses	22%
Managing cashflow/cash forecasts	20%
Manage Customer records	18%
Processing orders	17%
Schedule Jobs/appointments	15%
Inventory management	13%
Employee records/information	13%
Timesheets for permanent or contractor staff	12%
E-commerce	12%
Project management (incl set up)	11%
Shipping/transportation	11%
Gathering information on your market, competitors, trends	10%
Supplier quotes/RFOs	9%
Network security	9%
Rostering staff	9%

Source: MYOB and Infometrics, September 2022

Further, our research shows that some sectors face a greater digital lag than others. These sectors and demographics stand ready to benefit most – and generate the greatest return – from measures designed to support digital adoption.

To assess the sectors that stand ready to benefit most from measures targeting the digital lag, in June 2022, MYOB surveyed 2,056 SMEs across Australia and Aotearoa New Zealand to track rates of digital adoption for five business processes: invoicing, taking customer payments, paying suppliers, payroll, and tracking sales, revenue or expenses¹⁵.

This research found that in Aotearoa New Zealand, digital invoicing tools are most commonly used in administrative and support services, construction and trades, and arts and recreational services. However, also highlighted in our research was that the use of other digital tools in these sectors remains low. In construction, for example, roughly 80% of SMEs are still using manual tools for tracking payments – suggesting some sectors stand ready to benefit from digital adoption mechanisms more than others.

This data supports that compiled by CPA Australia's Asia-Pacific Small Business Survey (2022) which found SMEs in Aotearoa New Zealand are also suffering from a regional digital lag.



This study identifies these local SMEs as tracking amongst the lowest in the region for their use of digital business tools and processes, finding:



Supporting Aotearoa New Zealand's SMEs to increase their digital engagement will not only result in productivity gain to the economy – it will also ensure our businesses continue to stay connected to an increasingly digital regional economy.

¹⁵ MYOB, *The Digital Disconnection Challenge*, June 2022.

¹⁶ CPA Australia, *CPA Australia Asia-Pacific Small Business Survey 2021-2022: New Zealand Market Summary*, March 2022.

Modelling the digital opportunity

As the 2021 Better for Business 'Update on the NZ Business Index' report identifies, while there has been some increase in our business digital enablement since 2020, wide-ranging support is still needed¹⁷.

The local SME sector itself also recognises the impact of the digital lag. Half of Aotearoa New Zealand SME businesses believe they would benefit from being more digital, with 15% of these – around 85,000 businesses – strongly agreeing that this is the case¹⁸. This is also supported by MYOB's Digital Disconnection research which found that of those local businesses surveyed which had digitised, nearly 7-in-10 of those surveyed believe it made them more profitable¹⁹.

CPA Australia's Asia-Pacific Small Business Survey (2021-2022) confirms that the SME sector in Aotearoa New Zealand is ready and willing to digitise but is prevented from doing so in part due to an economy-wide lag in technological adoption, COVID-19, increasing costs, and the challenging overall economic environment²⁰.

To help accelerate economic recovery and promote job growth, improving the digital capability of small business is essential, and our studies show that SMEs can improve their digital business fluency and benefit from six core process advantages offered by digitisation.

Improving digital engagement in even one of these processes, benefits SME operations:



Revenue generation



Supplier management



Employee management



Work in Progress management



Cashflow



Compliance

Digging into the benefits of growing digitisation further, MYOB and Infometrics have modelled the economic gains that would flow to Aotearoa New Zealand from increasing the digitisation of local SMEs, including the benefits that would result from incremental increases.

The modelling shows that an incremental increase in SME digitisation would return notable economic gain. Improving SME digitisation from no to low levels, or from low to moderate – shifting the dial on just one or two business activities – would result in a benefit-cost Return on Investment (ROI) of 2.4-3.1 to 1.

This means that for every

\$100

invested in incrementally improving SME's use of digital business tools, they would see a return of

\$240-\$310

¹⁷ Better For Business Gov NZ, *The digital capability of New Zealand businesses in 2021: An update on the New Zealand Business Digital Index*, 2021, p.11.

¹⁸ *Ibid*, p.21.

¹⁹ MYOB, *The Digital Disconnection Challenge*, June 2022.

²⁰ CPA Australia, *CPA Australia Asia-Pacific Small Business Survey 2021-2022: New Zealand Market Summary and Media Release*, March 2022.

Further, our modelling also shows that improving SME digitisation would deliver a benefit of:

\$8.5bn **NZD**

to the Aotearoa New Zealand economy.



Implementing measures that enable meaningful digital engagement would return:

5.6% of the Gross Operating Surplus across all firms **AND** **2.6%** of GDP

If we were to scale back this application to look only at those who may incrementally increase their digitisation, Infometrics and MYOB modelling shows the potential gain from this to be **\$6.3 billion**, or **1.9% of GDP**²¹.

Whether incrementally or in whole, the data shows that the sector and the economy are primed to benefit from measures that support SME digitisation. In order for the Government to not miss the moment, policies supporting digitisation in a way that addresses some of the known barriers and challenges for SMEs cited in this report, need to be introduced.

REGIONAL LEARNINGS

Australia's Small Business Boosts

Recognising the growing digital and productivity divide in Australia, successive Governments in 2022 have announced measures to increase SME digital fluency.

These measures, the Small Business Technology Investment Boost and Small Business Skills and Training Boost, enable SME owners and operators to boost their ability to adopt and adapt digital business tools by offering an additional 20 percent deduction for spend relating to increasing digital adoption and operations, and for spend relating to increasing employees' skills through training opportunities.

In effect, this means that for every \$100 spent on technology or skills that support business operations across the financial year – such as a payment tile, invoicing solutions, or cloud-based business software – the business will get an additional \$20 deduction at tax time.

Considering the scope and application of these measures, our modelling for Australia shows that for every \$25 investment of tax revenue we would see a \$625 return in benefit to the economy through productivity gains, job creation, and business growth.

These two measures operate in two-step to create a future ready workforce – new skills and market practices will be increasingly reliant on an ability to use technology, and the use of technology will be necessary to build a resilient economy that creates sustainable employment opportunities.

However, we note that through existing digital skills priorities, the Government here in Aotearoa New Zealand is already ahead of the pack – leading the way with its digital agenda and a focus on becoming a truly digital economy. To ensure we continue to set the pace and add to the outcomes and success of learning platforms like Digital Boost, we need to support our SMEs to adopt the digital tools necessary to ongoing skills advancement.



\$25
tax investment

=

\$625
return to the economy

²¹ MYOB and Infometrics, Economic Gain from Digitisation, September 2022. Data available on request.



POLICY OPPORTUNITIES

To minimise the digital lag in Aotearoa New Zealand, there's an opportunity for Government to introduce additional policy measures supporting digital adoption among SMEs. Doing so will increase the productivity, wellbeing and performance of the SME sector, and ensure SMEs stand ready to advance the Government's compliance and digital regulation agenda.

It is clear there is a need and an opportunity for the Government to act, and act fast, to boost the resilience and performance of our SMEs and the people they employ.

To ensure local SMEs in Aotearoa New Zealand are not left behind their Asia-Pacific (APAC) peers, and to bolster opportunities for these businesses to easily tap into the benefits of a digital economy, we encourage looking to regional learnings and seeking consistency where possible.

Through our research we have identified three possible mechanisms the Government could explore to address the digital lag facing Aotearoa New Zealand's economy, with a focus on the SME sector.

1. Lower threshold for R&D credits and eligibility to capture more ambitious SMEs

At present, the R&D Tax Incentive (RDTI) provides a tax credit equal to 15% of eligible R&D expenditure. However, we note this is currently limited in scope and application to businesses seeking to push beyond scientific and technological barriers to create innovative practices within their fields.

In its current form, the RDTI is out of reach of many SMEs. The current spend threshold – NZD\$50,000 – is beyond the means of many small businesses, and well above the pricing of many technology goods and digital services.

We also frequently hear the criteria to meet R&D standards and adhere to the audit requirements can be burdensome on businesses. For SMEs, who often face time and cashflow constraints, having the resources necessary to meet such high regulatory standards can be difficult. To capture greater SME participation in any R&D scheme, we encourage the Government to consider a SME pathway to R&D – one with lower hurdles to participation.

To ensure the R&D and RDTI approach can benefit SMEs, we recommend the Government apply changes to make the scheme more accessible to SMEs – namely, lowering the spend threshold and lowering the administrative requirements.

However, having this scheme be managed by the Callaghan Institute, as an extension of their RDTI, would ensure the focus of the measure continues to be adopting tools and practices that support business innovation and likewise mitigates the need to establish any new systems to process an incentive.

While this approach would enable Government to rely on a trusted delivery program, it may not capture a significant portion of the industries that face the greatest digital divide, such as construction, transport, or agriculture. Relying on businesses that have the time and capacity to focus on innovation and growing their business, it risks missing delivering support targeted to where it is needed most. However, this could be a pathway through which the Government can test the viability of digital adoption support mechanisms.

2. Pilot a digital support mechanism within the Digital Facilitation Scheme (DFS)

With the DFS already in operation, and its supporting frameworks already built, one opportunity to further support digitisation could be to pilot the application of any measure supporting SME uptake of digital business tools to DFS cohorts.

We see an opportunity for a measure similar to Australia's Digital Technology Investment Boost to be offered on a trial basis to SMEs participating in the DFS. Under this approach, business intermediaries would continue to provide an industry-led mentorship role, ensuring eligible SMEs were spending on tools appropriate to their business and growth aspirations.

Applying a Boost-style measure to eligible SMEs would create an opportunity for the Government to trial the measures' success, while having a dual benefit of attracting more SMEs to the DFS if promoted.

An alternative would be to trial this with a limited number of cohorts participating in the Digital Facilitation Scheme who have demonstrated strong engagement.



3. Introduce a measure similar to the Technology Investment Boost in Australia

This measure (in final consultation stages in Australia) enables businesses to claim an additional 20% on eligible expenditure at tax time. Designed to support businesses with their technology adoption, it applies to all forms of technology that support business operations – this includes physical goods, such as payment tiles, and digital services, such as business and cyber-security software.

As outlined above, we model this approach as generating significant return to the economy. Our modelling shows that for the Australian economy, for example, every \$25 invested would generate \$625 benefit through productivity gains and job creation. We would be happy to work with Government officials to support more detailed modelling for Aotearoa New Zealand.

To support the Government in measuring the effectiveness of the Boost, and to help balance the need to create reformative support mechanisms in a challenging economic climate, the Boost is limited in scope and application. The measure is only applicable for businesses with an annual turnover of less than AUD\$50million, and a cap of \$100,000 for total expenditure is applied. Further, it is linked in application to the end of the financial year, when it is up for review.

If applied here, we would recommend an initiative like this remains open for at least 12 months to create sufficient time for businesses to use the measure and to free up the time spent in Government building and dismantling the supporting claims frameworks. However, we do support the application of limitations where reasonable to ensure the policy is tailored and targeted – giving support to where it is needed most.

Should the Government seek to apply targeted measures that boost technology investment where it is needed most, we recommend targeting sectors with the lowest levels of digital adoption, such as construction, transport or agriculture. These sectors present the greatest opportunity for productivity gains and growth.

In the design of any policy supporting SME digital adoption in Aotearoa New Zealand, the Government could also tailor its model to include economic caps and scope appropriate to the local economy.

CONCLUSION

Realising the digital opportunity for Aotearoa New Zealand

Like many other economies in our region, the last two years have created unprecedented pressures for SMEs in Aotearoa New Zealand.


As we look ahead, we want to ensure Aotearoa New Zealand SMEs are able to thrive and succeed at a rate similar to our regional counterparts. Already lagging in technology adoption levels, it's crucial we do not miss out on the future opportunities presented by the digital economy.

Facing a similar digital divide, similar economic challenges, and operating in a similar regulatory environment, we believe policy initiatives like the Small Business Boosts proposed in Australia, would build on the success of Digital Boost to help bolster Aotearoa New Zealand's SME sector and provide a necessary pathway for businesses to adopt and adapt technology.

Central to safeguarding the incomes and wellbeing of all New Zealanders as we recover from the impacts of the COVID-19 pandemic will be the ability the economy to grow in a productive, resilient and sustainable manner. As our data demonstrates, Government investment in digital adoption will be essential to address the digital lag amongst SMEs, and doing so will generate significant benefit for the wider economy.

It is crucial our businesses are able to work smarter, so that our economy can continue to grow in a sustainable and productive manner, and our workforce is future-ready. Equipping them with the skills, knowledge and access to the tools to do so, will ensure the vision for our SME sector to be the most digitally engaged in the world, becomes a reality.





About the data

The MYOB 'Economic Gain from Digitisation' modelling was conducted by Infometrics from 10th August – 8th September 2022. This research used New Zealand Government data as well as MYOB's latest (2021 – 2022) data to determine the economic impacts of low digitisation amongst New Zealand's SMEs, and the potential gain to the economy from introducing measures designed to increase digital adoption.

The MYOB Disconnection research was conducted by SoWhat Market Research from 24th March and 17th April 2022. A nationally representative sample of 2,056 sole traders, small and medium sized businesses across Australia and New Zealand took part in the survey (1,531 in Australia; 525 in New Zealand).

Figures in this report were calculated based on 2,397,886 Australian businesses with 0-200 employees (ABS data, as of July 2021) and 556,680 New Zealand businesses with 0-49 employees (Stats NZ, as of February 2021).

The research showed businesses are investing \$900 each year on digital tools. For New Zealand businesses, this equates to \$501,012,000 (\$501m). The research also showed businesses spend \$600 per year on unused digital tools. For New Zealand businesses, this equates to \$334,008,000 (\$334m).

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