

## 2020-21 Pre-Budget Submission

### A national economic imperative: SMEs will lead Australia's COVID recovery

#### Introduction

Reinvigorating the economy post-COVID presents Government with the opportunity to create structural changes that will significantly benefit Australia's largest private sector group: small business. MYOB calculates enhancing the digital capability of Australia's 2.4 million small businesses could increase SME contribution to the Australian economy by 20.8%\*, the equivalent of \$33bn (based on March 2020 GDP), and in doing so increase employment opportunities for Australians at a critical time for the country. It can also resolve existing challenges for small businesses.

The Morrison Government's assistance to small businesses through JobKeeper and JobSeeker has helped safeguard the health and livelihoods of Australians, many in small business. Now we move into the next stage of managing the economy during COVID and, as the Government launches its JobMaker plan, it is worth reflecting much future employment will not sit with the largest companies. Small and medium businesses hold the key to recruitment growth.

In November 2019, the Prime Minister announced the Government's intent to become a leading digital economy by 2030<sup>1</sup>. With what we learned through COVID, Australia can achieve this goal ahead of time by setting small business up for success and learning from what is currently world's best practice.

The digitisation of the small business sector also has benefits across the private and public sectors. Mandating digital compliance and reporting means greater oversight of SME productivity through e-Invoicing, tracking payment terms data, improving the knowledge base of setting SME tax incentive thresholds and negating the effects of the black economy. A healthy digital ecosystem also ensures the continued creation of successful and effective homegrown technology companies, servicing the needs of SMEs.

This pre-budget submission is founded on a partnership approach with Government and outlines three key policy area recommendations to kickstart the post-COVID recovery.

#### SMEs an economic priority

Small and medium sized businesses (SMEs) are often referred to as Australia's economic engine room; as a significant employer of 4.8 million Australians (44%<sup>2</sup>) and major GDP contributor (57%<sup>3</sup>). However, not only were 85% of SMEs in a state of unpreparedness for a disruption like a pandemic<sup>4</sup>, they are also most at risk of COVID-19 aftershock without structural reform. For startups in particular, a more streamlined process to starting and developing a business online is required for them to begin successfully and grow.

Anonymised MYOB customer data demonstrates SMEs (0-500 employees) are bolstered by the Government's generous stimulus program. Revenue has been less than before COVID, but steady. However, invoice creation has taken a hit at -16% decline on baseline as at 12 August<sup>5</sup>.

This shows that while the stimulus will keep SMEs in business, typical business operations are greatly reduced. If this trend continues, widespread SME closures can be anticipated once support and other measures are taken away.

#### Overcoming SMEs challenges through digital

Data demonstrates SMEs with advanced levels of digital engagement are 50% more likely to grow revenue and earn 60% more revenue per employee<sup>6</sup>.

\* Calculated against SME contribution to the GDP versus the value of additional digitisation by MYOB's Economist

## Digital adoption solves 5 key issues for SMEs:

- 1. Finding talent:** Digital recruitment tools finetune the hunt for the right skillset and digitisation removes geography as a requirement for hire. SMEs who have adopted digital are more than 8 times more likely to create jobs<sup>7</sup>. In addition, remote working productivity drives growth: almost half of the workforce will continue to work remotely after coronavirus and nearly half of fully remote employees exhibit high discretionary effort<sup>8</sup>.
- 2. Access to capital:** Cashflow has increased as digitising payment processes leads to faster payment times (For \$10 million annual turnover, a three-day late invoice can take \$115,000 out of working capital<sup>9</sup>) and fewer barriers to financial supports (e.g. MYOB customers are preapproved for loans via in-product data analysis). Further, there will be increased customer demand for digital payment solutions. Australians are embracing contactless mobile payments as a result of COVID-19, used by 10.8% - up from 7.1% a year ago<sup>10</sup>.
- 3. Efficient revenue generation and cost of servicing benefits:** Digitised SMEs are 14 times more likely to innovate by offering new products or services<sup>11</sup> as businesses have greater flexibility to adapt and lower the cost of diversification. A Salesforce Deloitte Access Economics report found small businesses using Salesforce see 32 per cent more leads and 26 per cent more deals<sup>12</sup>.
- 4. Compliance costs:** The time cost of compliance for SMEs is significant. Through automating repetitive tasks, such as multiple data entry, and improving accuracy, time spent is greatly reduced. MYOB product research demonstrates a 27% time gain for SMEs through accounting software.
- 5. Conduct e-commerce nationally and internationally:** Research shows SMEs who have embraced digitisation are seven times more likely to export<sup>13</sup> and that digital interaction with B2B customers is now twice as important as traditional channels, jumping more than 30% since pre-COVID-19<sup>14</sup>.

## Creating a thriving Australian digital ecosystem

Providing SMEs with incentives and a structured framework to adopt digital solutions in areas with profound impact on business recovery will provide the basis from which SMEs will succeed post-COVID.

By adopting legislation which mandates digital adoption in hand with the provision of incentives for uptake, in a way that favours quality, homegrown Australian technology companies, it serves to create an environment in which SMEs and a competitive Australian technology sector can thrive.

## STEP ONE: Set the right framework

MYOB has identified two key areas where policy can participate in the creation of a successful Australian digital ecosystem: the mandating of eInvoicing and the standardisation of digital identification.

### Measure one: Mandate eInvoicing

The Government has an excellent track record in introducing legislative reforms that support the small business digital transition, including Single Touch Payroll, SuperStream and the New Payments Platform. The Government has also made great steps toward the introduction of eInvoicing by enabling favourable faster payments of invoices sent electronically. Now is the time to take adoption to the next stage.

Late payments are identified as the greatest contributor to SME cashflow complications. Along with a reduction in trade, this issue could have the most significant impact on SME recovery post-COVID-19.

The current policy conversation around eInvoicing isn't optimised for SMEs and yet if just one industry, such as the 390,000-strong construction industry – identified as a major contributor to the Black Economy – moved to B2B invoicing, this would assist Government in claiming back the 2.1% GDP the Black Economy represents.

The Government will gain greater influence and SME uptake by:

- **Mandating eInvoicing** – the challenge of getting a market to adopt new systems without being compelled can't be underestimated
- **Mandating by industry** – commence with mandating for industries most impacted by the Black Economy to stagger adoption, along with segmenting by B2B and B2C
- **Linking payments to eInvoicing** – mandate standardised APIs to link the eInvoice to the business' preferred payment method – with favourable terms for electronic payment. Linking payments and eInvoicing would create new ways to help businesses when combined with data sources like open banking through real time financing approval, cashflow forecasting and insurance needs
- **Reducing cyber fraud fears** – require secure authentication for both payer and payee to alleviate security concerns for SMEs

### Why

- Directly addresses the \$50 billion Black Economy and reduces tax leakage
- Legislation leads to uptake. Single Touch Payroll was adopted by 166,604 businesses in June 2019, versus 696,420 in June 2020 (*ATO report*), resulting in gains for Government of better visibility and accuracy of information
- Digitising Single Touch Payroll enabled MYOB customers to be compliant with a single click (no time spent on this new compliance requirement) and allowed Government to effectively distribute JobKeeper to businesses in need
- eInvoicing is a growing global trend with many countries mandating its adoption to assist tax compliance
- 44% of SMEs cite cashflow as extreme or a lot of pressure<sup>15</sup>. eInvoicing can dramatically decrease payment times

### Market success: case studies

- Since 2006, Brazil has put in place a staggered introduction of B2B electronic invoicing. Mandating has taken on a gradual roll-out with an industry-by-industry focus, concentrating on the logistics sector as a primary means of strengthening the flow of goods to the country.
- Additionally, Italy has put in place a mandatory B2B eInvoicing clearing system and was the first European country to regulate B2B electronic invoicing for all businesses in the country.

### Measure two: Improve and standardise digital identification

A standardised mechanism for digital identification is critical to accurately and safely authenticating people online. Identity regulations and technology are currently more suited to traditional face to face interactions, such as in-store credit card payments, rather than online sales. Building identity technology and modernising regulations for a digital world will be an important next step for the growth of SMEs.

There are two areas of risk that standardised digital identification can address:

1. **Onboarding and access:** Regulatory requirements are limiting the digitisation of financial services for SMEs. This drives lengthy onboarding processes as providers look to minimise their risk, making it time consuming for businesses to access services.
2. **Payments:** Liability regarding the acceptance of online payments remains a significant barrier to small business. When taking payment by credit card in-store, the fraud risk is taken on by the issuing bank. For online payments, the liability predominantly remains with the business.

A digital identification system would support the protection of SMEs from fraudulent liability, giving SMEs the ability to confidently offer services to customers without risk and, through the application of

one-time identity verification, a streamlined approval experience for customers, from onboarding to point of purchase.

There are industry initiatives underway today which look to address the issues digital identification would seek to address. We support the reuse of frameworks being established by industry and Government rather than creating additional frameworks wherever possible and see two core points of intersection where existing initiatives can provide crucial value:

1. **Onboarding and access:** Government has been leading the way via the Digital Transformation Agency in developing a Trusted Digital Identity Framework. We would encourage the government to consider how this framework could be applied beyond government services to standardise digital identity across other industries, like financial services.
2. **Payments:** The card schemes have developed a global industry standard (3DS 2.0) to reduce the risk of fraud for online payments. Under this standard, liability for fraudulent transactions is moved from the small business to the issuing bank. We support this initiative and support this approach to standardisation for other payment methods, such as New Payments Platform (NPP) transactions.

Modernisation of regulations to support any identify verification frameworks that are implemented would need to be considered to drive adoption and implementation of these frameworks.

### Why

- 90% of Australian businesses were targeted by cyber fraud in 2017<sup>16</sup>
- In the US, 27% of Online Sales End Up Being Fraudulent Transactions<sup>17</sup>

## STEP TWO: Attract adoption

Once the legislative framework is set, it is then important to incentivise SMEs to digitise.

The Small Business Digital Champions<sup>18</sup> initiative found that the top three reasons Australian SMEs delayed digitising their admin processes were cost, time and complexity. However, the top three reasons for SMEs adopting technology were cost savings, consistency and free up time for staff.

An incentive to enter the digital ecosystem will help SMEs overcome the key cost barrier and allow them to concentrate on the benefits afforded by digitisation.

### Measure three: Digital Tax Incentives for SMEs

SME issues outlined are most simply addressed with a digital solution and while Instant Asset Write Off is an excellent program for physical technology assets, such as hardware and servers, with business moving to the cloud, policy adjustment to accelerate cloud transition is required.

MYOB suggests tax incentives for SMEs who do not yet have access to essential digital tools would serve benefits to both SMEs and Government: support for post-COVID recovery for SMEs and addressing the Government's goal of \$50 billion Black Economy reduction through increased digitisation of transactions.

MYOB suggests:

- A tax incentive for adoption of digital for SMEs adopting digital solutions for the first time
- Government defines the incentive as available for those digital solutions most likely to provide ROI for SMEs and that are used for productive intentions: cashflow products, business management products (such as accounting software), recruitment products and eCommerce

- Recommended focus on the incentives supporting Australian-grown businesses to encourage local innovation
- Potential cost: for \$150 to be allocated to each SME per year to aid their adoption of new digital solutions that create ROI for their business. In the case of accounting software where 41% of SMEs don't have accounting software (984,000 of Australia's 2.4million SMEs), with 30% takeup of this incentive, the total cost would be \$44 million

### Why

- Government is aware through anecdotal evidence from the Australian Small Business and Family Enterprise Ombudsman that SMEs are not adopting digital due to data security and cyber concerns, along with cost of investment in IT security and training
- Evidence indicates clear opportunities for improvements to drive productivity and growth:
  - 26% of SMEs have no online presence<sup>19</sup>
  - 19% of SMEs expect their investment in IT systems and processes to decline in the next 12 months<sup>19</sup>
  - 16% of SMEs expect their investment in the sale of products and services online to decline in the next 12 months<sup>19</sup>
  - 41% of SMEs have no accounting software and 24% have no accounting solution at all<sup>20</sup>

### Market success: case study

#### **Singapore's Digital Resilience Bonus**

Singapore has created a bonus of up to \$10,000 to help food and retail SMEs boost digital capabilities post COVID. The categories the grant is eligible to cover focus on payments, accounting, HR and marketing functions as areas that can easily be digitalised and run more effectively.

Three categories of bonus available:

1. \$2500 for digital solutions in accounting, HR/payroll, digital ordering (dine in, takeaway), inventory management
2. \$2500 for online shopfront, online food delivery or e-procurement platform purchases
3. \$5000 for data mining and analytics solutions

## References

<sup>1</sup>Prime Minister Scott Morrison, Speech to Business Council of Australia Annual Dinner, 21 November 2019.

<sup>2</sup>44% = 4.8mill people, @ 30th June 2017, Small Business Sector Contribution to the Australian Economy, Parliamentary Library

<sup>3</sup>Contribute 57% of GDP, according to NAB 2017

<sup>4</sup>Business Monitor – COVID Edition June 2020

<sup>5</sup>MYOB Small Business Health Index

<sup>6</sup>Deloitte 2017 – Connected Small Business

<sup>7</sup>Deloitte 2017 – Connected Small Business

<sup>8</sup>Gartner – April 2020

<sup>9</sup><https://www.scottishpacific.com/news-articles/the-true-cost-of-late-payment/>

<sup>10</sup>Roy Morgan May 2020

<sup>11</sup>Deloitte 2017 – Connected Small Business

<sup>12</sup><https://www2.deloitte.com/au/en/pages/economics/articles/salesforce-digital-smbs.html>

<sup>13</sup>Deloitte 2017 – Connected Small Business

<sup>14</sup>McKinsey – April 2020

<sup>15</sup>MYOB Business Monitor June 2020

<sup>16</sup>MGI Fraud Review

<sup>17</sup>American Express Digital Payments Survey 2019

<sup>18</sup>Small Business Digital Champions

<sup>19</sup>MYOB Business Monitor June 2020

<sup>20</sup>MYOB Brand Monitor March 2019-2020 n=1200