
THE STATE OF THE NEW ZEALAND DIGITAL ECONOMY



 October 2012

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EXECUTIVE SUMMARY

With 86% of New Zealanders using the internet every day¹ and 80% searching online first before buying a product or service², the online space is becoming more important than ever for the New Zealand economy.

However, New Zealand businesses have been relatively slow to take advantage of the opportunities presented by the internet. Just 35% of businesses in New Zealand have their own website, and only 14% of businesses are making use of cloud solutions or applications.³

At MYOB, we work closely with more than 170,000 small businesses right throughout New Zealand. Through regular and in-depth research, we have developed a first hand understanding of their needs and what drives their use of technology. This gives us a unique insight into why there has not been a greater movement towards the online space, and what can be done to encourage more New Zealand businesses to take advantage of the potential of the digital economy.

This paper examines the economic potential of the online space, and the reasons more New Zealand businesses are not taking advantage of these possibilities.

EXPANDING THE DIGITAL ECONOMY

Research shows very clearly that there are significant macroeconomic benefits to unlocking the potential of the digital economy. The wide range of benefits associated with having a dedicated business website, and making use of cloud solutions, reinforce that expanding access to these resources would help to increase the productivity of the New Zealand economy, while helping to make our businesses more competitive and more profitable.

Yet much of the potential of the digital economy has yet to be unlocked, because of our nation's low rate of adoption of these technologies. With just 14% of businesses using cloud solutions and just 35% of businesses having their own dedicated website, the large majority of businesses are not taking full advantage of the opportunities a more connected economy would afford them.⁴

What this suggests is that New Zealand, and especially its technology providers, is not yet making a clear, compelling and relevant case to businesses highlighting the significant value of making greater use of the online space.

Part of this is clearly a lack of education: large numbers of businesses are interested in using cloud solutions, but feel they do not know enough about the technology to make the right decision for their business.

What this research also indicates is that there has been a fundamental disconnect between the way online solutions are promoted, and the business owners who could be using them.

Only 18% of New Zealand's business owners consider themselves early adopters of technology.⁵ The vast majority do not choose technology, (or even access information about it), driven by the latest trend or newest innovation.

Instead, the vast majority of New Zealand business owners are 'mid-adopters' (45%), who make decisions about changes to their business practices based on a clear cost-benefit analysis. For these businesses, which make up the mass market, not enough is being done to communicate the direct business benefits of the online space, showing them how their business could be improved by adopting these practices.

The research also shows us that if New Zealand is to achieve proper mass-market adoption of these productivity-boosting technologies, it must be done in a way that makes it easy for businesses. Our research into website adoption and barriers reveals that many businesses would like to make better use of the online space, but they simply have other priorities and do not feel they can spare the time or effort they think they would need to get online. Similarly, many businesses do not feel they have the technical expertise required to properly make sense of these solutions.⁶

It is clear then, that if we want more business owners to use the online space, we need to make it easier and simpler for them to get online and use cloud solutions. Convincing those business owners who do see the benefit of the online space, but might not feel they have the resources available, means producing online solutions that are easier to use, more familiar, and less intimidating for business owners who do not see themselves as tech-savvy.

For New Zealand's technology providers, this is a change management challenge. If we want to get more businesses to take advantage of the benefits of cloud solutions, we need to find ways to help business owners take the uncertainty out of adopting the cloud, either by incorporating cloud connectivity into solutions they are already comfortable using, or by providing information to reassure business owners who have concerns about data security or data sovereignty.

Providing online solutions to the mass-market will mean that a technology-driven approach will not be effective. What business owners are looking for is concrete, easy to understand benefits of changing their business practices. Introducing new technologies represents a cost, both in terms of money, effort and time, and business owners need to be presented with a clear understanding of the rewards they will receive for this investment.

At MYOB, we have always specialised in taking new, productivity-boosting technologies and make them understandable and appealing to the mass market. By doing this with online solutions, and helping more businesses to embrace the benefits of the online space, we expect to see a significant benefit not only for our customers, but also for the wider New Zealand economy.



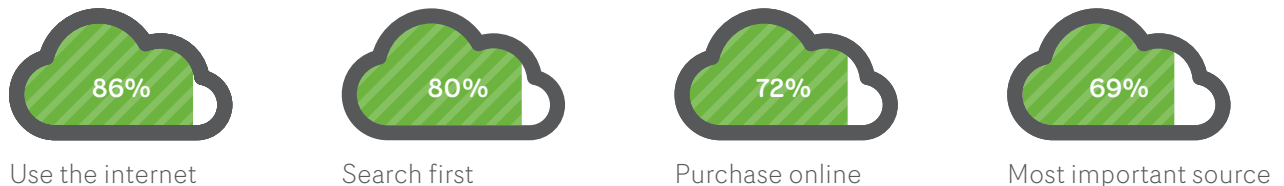
Julian Smith
General Manager
MYOB New Zealand

THE PROMISE OF THE DIGITAL ECONOMY

The growth of the internet represents a major opportunity for the New Zealand economy, by providing businesses with access to new markets and resources, allowing them to operate more efficiently, and providing new ways for them to communicate with their customers.

In New Zealand, the consumer market has already made a significant shift to the internet – consumers search, connect and share online more than ever before.

The growing importance of the internet.



The World Internet Project New Zealand, which surveyed over 1200 New Zealanders, found that 86% are using the internet and 72% make purchases online. 59% of New Zealanders said they used the internet daily, and 69% rate it as more important source of information than television, newspapers or radio⁷. The Consumer Commerce Barometer found that 80% of New Zealanders search online first before buying a product or service.⁸

As the internet becomes a more important tool for consumers, it also becomes more important than ever for businesses to be active in the online space. The results of the latest MYOB Business Monitor, a regular survey of over 1000 small to medium enterprises, underscores that an online presence represents a significant competitive advantage for businesses, particularly given how few New Zealand business owners currently have a website.

Those organisations that had a business website consistently outperformed those that did not.

The benefits of a business website.



With so many New Zealanders using the internet to research products and services, it's no surprise that businesses with an online presence received more attention from customers. 34% of businesses with an online presence said they had seen more customer interactions and 43% said it had resulted in more customer leads. Businesses with a website were also 31% more likely to be able to convert those leads into sales.

Having access to the online space, and the benefits that come with it, also proved to be a real competitive advantage. 29% of businesses that had a business website said it had made them more competitive – a significant factor given that 64% of businesses reported competitive activity as one of the key pressures on their business over the last twelve months.

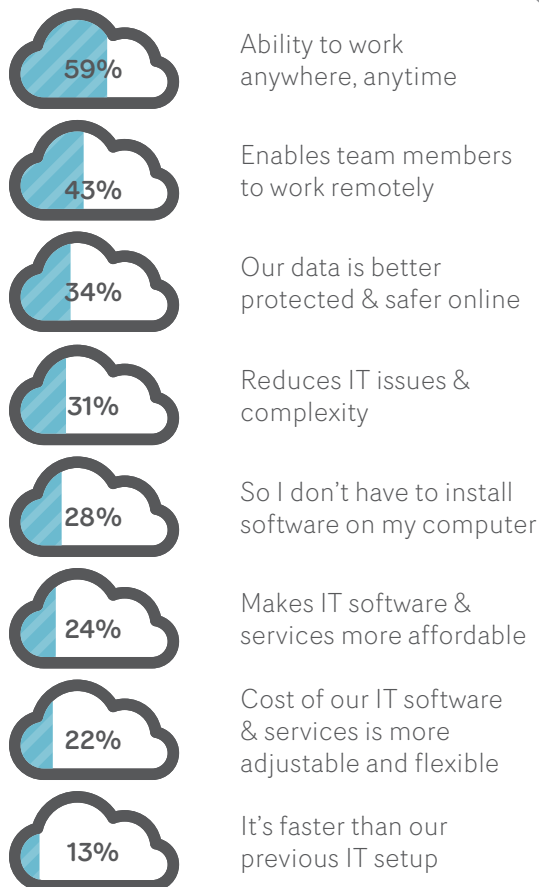
Not only is the online space making it easier for businesses to communicate with New Zealanders, it also allows businesses to grow beyond their geographical limitations by providing access to national and global markets. 22% of businesses with their own website said it had allowed them access to new markets and business that they could not have reached otherwise.

CLOUD COMPUTING: The benefit of new technologies

The last few years have also seen a range of new opportunities for businesses in the online space, with the rise of cloud applications and the widespread adoption of mobile technology.

Cloud applications, which allow users to access computing power, infrastructure and storage space remotely through their internet connection, can help reduce the amount of money that businesses need to spend on their IT infrastructure, while also helping to make businesses more mobile and more flexible.

The Appeal of Cloud Solutions.



Cloud applications are scalable, on-demand solutions that provide access to business information from anywhere, at anytime – empowering businesses to work in more productive and efficient ways.

According to the MYOB Business Monitor⁹, 59% of businesses that use cloud solutions said it gave them the ability to become more mobile. 43% said using cloud services had given their team members the ability to work remotely.

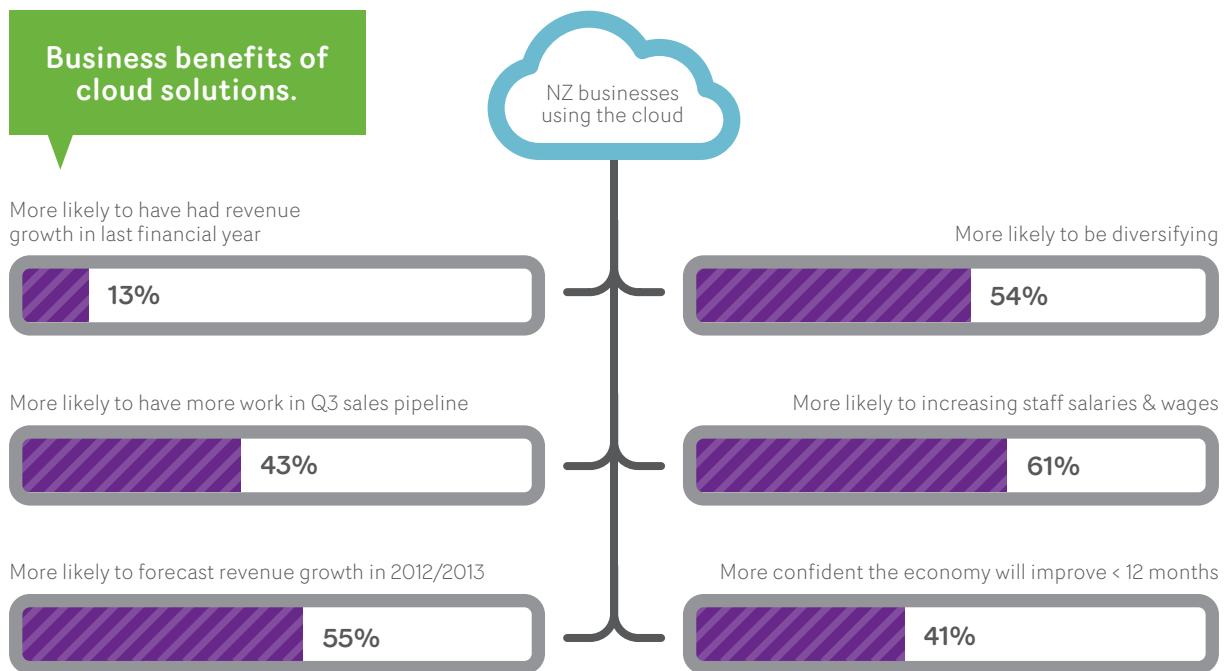
Not only does cloud computing make businesses more mobile, it can also eliminate much of the cost and complexity involved with managing IT infrastructure or databases. 31% of businesses said that cloud solutions had enabled them to reduce the amount of IT issues they had.

For 24% of businesses, the clouds' subscription cost structuring meant that they were also able to reduce the amount of money their business had to spend on IT, freeing up those funds for use elsewhere. Because the subscription model also enables businesses to easily change the solutions, computing power, storage, and infrastructure that they have access to, 24% of businesses using the cloud said it had made the cost of their IT infrastructure more adjustable.

These results also reflect the increased likelihood for New Zealand consumers to benefit from increased use of the cloud. 29% of businesses surveyed in the MYOB Business Monitor said they would pass any administrative savings they could make in their business directly on to customers. This suggests that not only can cloud solutions help to make businesses more profitable and competitive, they can help to make products and services more affordable for consumers.

Not surprisingly, these benefits translate into real advantages for businesses making use of the technology.

According to the MYOB Business Monitor, businesses using cloud solutions – like those with a business website – consistently out performed the businesses that did not.



For example, businesses who used cloud solutions were 13% more likely to have had revenue growth over the last 12 months, 43% more likely to have more work or sales in the pipeline for the next quarter, and 54% more likely to be able to be diversifying their business and product offerings.

Similarly, businesses using cloud applications also enjoyed higher revenue expectations and a more positive outlook on future growth. Businesses using cloud solutions were 55% more likely to forecast revenue growth over the next 12 months and 41% more positive that the economy would improve over the next twelve months.

Notably, businesses making use of cloud solutions were also able to pass the benefits along to their staff, being 61% more likely to be planning to increase their staff's wages and salaries over the coming year.

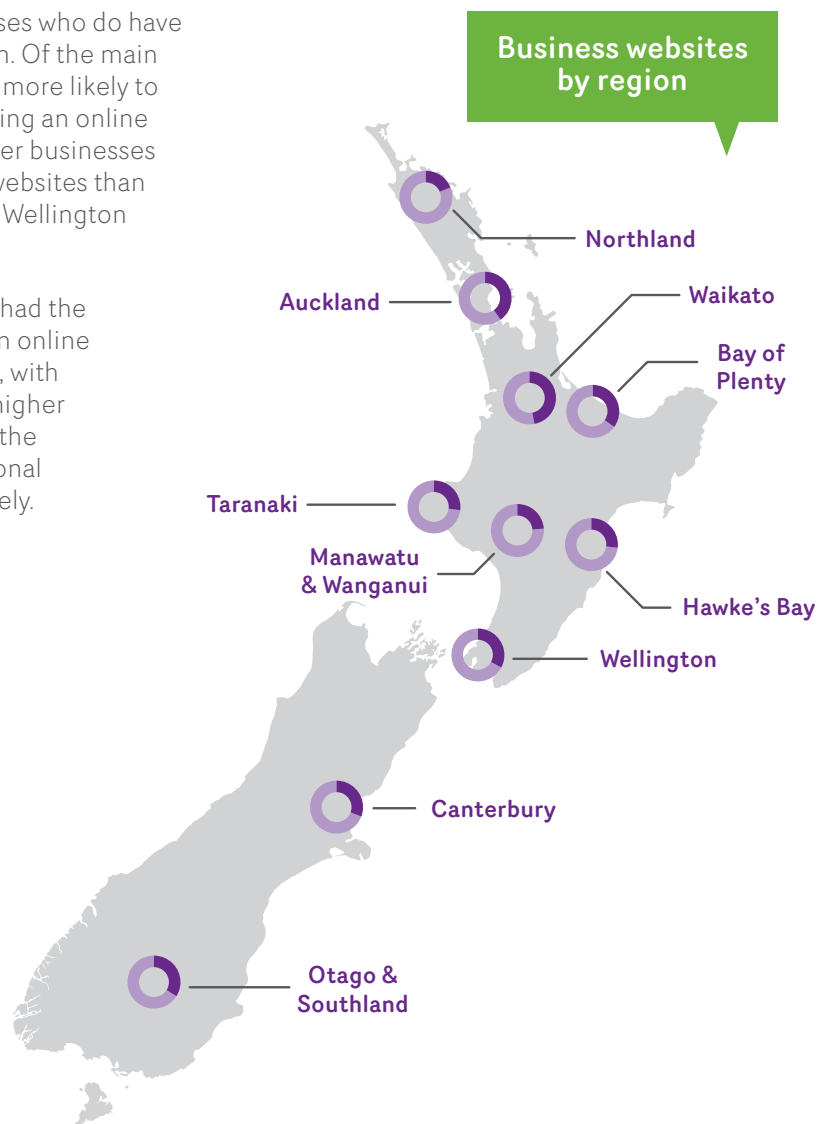
NEW ZEALAND BUSINESS' LOW USE OF THE ONLINE SPACE

New Zealanders are heavy users of the internet. As a nation, we are 9th in the world for internet usage (UK=15th, Australia=21st, USA=23rd). But as business owners, the vast majority have yet to realise all the benefits that the research¹⁰ shows comes from being more connected and making greater use of new tools like cloud solutions. According to the latest MYOB Business Monitor, only 35% of New Zealand businesses have their own website and only 14% use some form of cloud application.

Interestingly, the numbers of businesses who do have a website varies significantly by region. Of the main centres, businesses in Auckland were more likely to have their own website, with 40% having an online presence. By contrast, there were fewer businesses in Wellington and Christchurch with websites than the national average, with just 33% in Wellington and 31% in Christchurch.

Outside of the main centres, Waikato had the greatest number of businesses with an online presence of any region in the country, with a full 47% operating a website – 12% higher than the national average. Otago and the Bay of Plenty were both near the regional average, with 34% and 35% respectively.

However, many of New Zealand's other regions were lagging behind the rest of the country, with only 27% of Hawke's Bay and Taranaki businesses having their own website and only 24% in the Manawatu. Northland was the least connected region in the country, with just 19% of businesses in the region having their own website.



¹⁰The State of Broadband 2012, Broadband Commission.

Business websites by sector



Business/Professional/
Property 33%



Finance/
Insurance 42%



Construction/
Trade 25%



Transport/Postal/
Warehousing 22%



Retail/
Hospitality 49%



Manufacturing/
Wholesale 65%



Ag/Forestry/
Fishing 16%

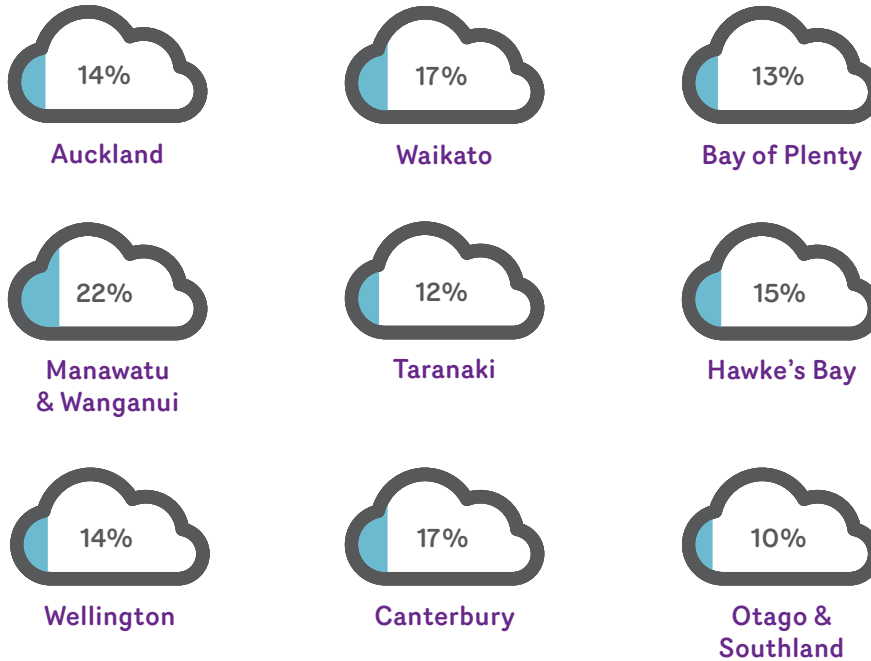
There were also large variations by sector, with 65% of manufacturing and wholesale businesses, and 49% of businesses in the retail and hospitality sector having their own website. The finance and insurance industry was also above the national average with 42%. By contrast, only 16% of agriculture and fisheries businesses had their own website and only 25% of construction and trade businesses did so.

Size of business is also a factor in the level of online engagement, with smaller businesses substantially less likely to have a website than larger ones. Amongst sole traders, only 27% of businesses had their own website, whereas 40% of businesses with between one and four employees did so.

Larger businesses were even more likely to have their own business website, with a full 70% of businesses with 6 to 19 employees and 84% of businesses with between 20 and 199 having their own business website.

These results underscore that, if New Zealand seeks to drive productivity and increase business adoption of internet technologies, very small businesses and sole traders – which make up almost 70% of all New Zealand enterprises – should be a key focus. With many smaller businesses feeling they do not have the time or the resources necessary to establish an online presence, attention must be given to reducing both the barriers of cost and complexity to increase the online engagement of this group.

Cloud solutions by region



When it came to use of cloud solutions, there were also noticeable variations amongst businesses from different regions. In the main centres, while Christchurch had the smallest online presence, it did have the highest rate of use of cloud applications, with 17% compared to 14% in both Auckland and Wellington.

In the regions, cloud computing was somewhat less popular, albeit with some noticeable exceptions. Most regions had slightly lower rates of cloud use than the main centres, with only 12% Bay of Plenty and Taranaki businesses using the cloud and only 10% of businesses in Otago and Southland.

There were however, some regions in which cloud computing was more widespread than in the main centres, suggesting that for some rural businesses, the mobility and flexibility benefits of cloud solutions were even more appealing than they were to businesses in the cities. For example, 22% of businesses in the Manawatu-Wanganui region used some form of cloud solution, 8% higher than the national average. Similarly, 17% of businesses in the Waikato were using the cloud, 3% higher than the national average.

Cloud solutions by sector

Do you use 'cloud computing' for



Business/Professional/
Property 19%



Finance/
Insurance 13%



Construction/
Trade 8%



Transport/Postal/
Warehousing 5%



Retail/
Hospitality 13%



Manufacturing/
Wholesale 11%



Ag/Forestry/
Fishing 8%

Use of cloud solutions also varied noticeably between different sectors of the economy.

The businesses and professional services sector were the most likely to have embraced cloud solutions, with 19% using some form of cloud application. However, many other sectors were lagging behind the national average, with 13% of both finance and insurance and retail and hospitality businesses using cloud solutions. Even less likely to use the cloud were businesses in the construction and trade and warehousing and transport sectors, with just 8% and 5% respectively. New Zealand's manufacturing and warehousing sector, despite being by far the most likely sector to have a business website, saw only 11% of its members adopting cloud solutions.

Much as they did when it came to having a business website, larger businesses had a significant lead over smaller ones when it came to use of cloud solutions. Only 14% of sole traders, and 12% of businesses with between 1 and 5 employees were using the cloud. By contrast, 19% of businesses with between 6 and 19 employees were doing so and 21% of businesses with between 20 and 199 employees. Much like having a business website, many smaller businesses do not believe they have the expertise or resources to adopt cloud solutions, and stand out as a key area for improvement if we are to move towards a more connected economy.

The age of the business owner is also a factor in businesses use of cloud solutions, with younger business owners more likely to adopt the technology. Generation X were much more likely to use cloud solutions – even compared to the 'digital natives' in Generation Y – with 18% business owners aged between 30 and 44 using the cloud, and only 14% of businesses owners aged between 19 and 29. However, only 6% of business owners aged 60 and above used cloud solutions.

BARRIERS TO A MORE CONNECTED ECONOMY

As the research shows, more widespread adoption of cloud computing and business websites would lead to a more connected economy and improved business productivity and performance. However, according to the MYOB Business Monitor, there are still a number of key barriers preventing New Zealand's business owners from more fully embracing the online space, which result in the low levels of adoption currently seen in this country.



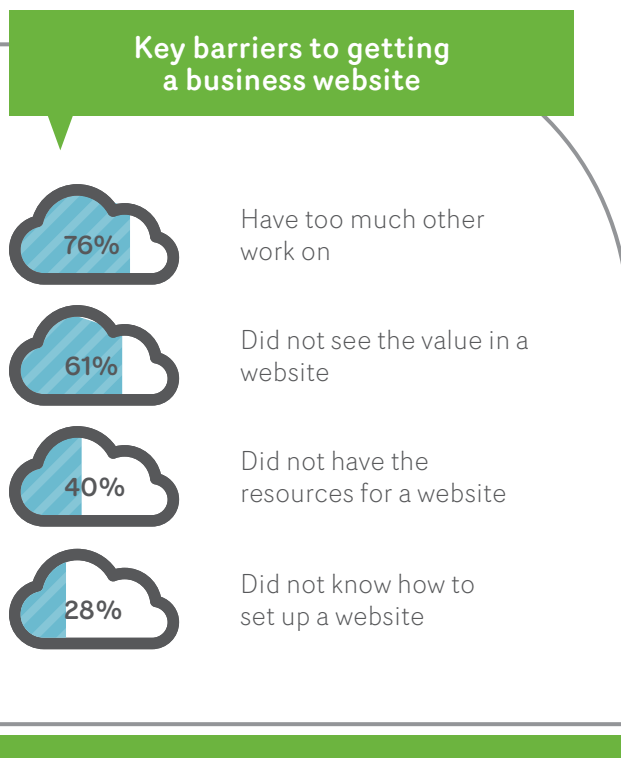
For example, when it comes to cloud computing, many business did not feel they understood enough about the technology or it's implications for their business to be able to make the right decision. 31% of businesses said the key thing holding them back was a lack of knowledge about the cloud.

Similarly, 19% of business owners said they had not adopted cloud solutions because they were not tech-savvy and don't have access to enough information to evaluate if cloud solutions were right for them. This problem was most serious amongst smaller businesses where 40% of businesses with between 1 and 5 employees, said they did not feel they knew enough about cloud solutions to make an effective business decision.

Another 19% of business owners said they were not using the cloud because they had concerns about data security, and were uncomfortable with storing their data on more than one computer, while 17% said they were unsure if their data would be as secure in the cloud, as it would be if they kept it on-site. Interestingly, this is despite greater data security being reported as one of the key benefits enjoyed by businesses that were using the cloud.

Reflecting the range of pressures business owners face – particularly in a sluggish economic environment – many survey respondents did express an interest in the cloud, but said that it was just not their highest priority at the moment. 18% of businesses said they were looking at cloud computing, but said they had other important business priorities to take care of first.

Finally, businesses also expressed concern over issues of data sovereignty, with 12% of businesses saying they were reluctant to embrace cloud solutions because they were unsure who owned their data once it was in the cloud.



When it came to their reasons for not having a business website, businesses expressed similar reasons for not having an online presence.

Many businesses said they did not have the time available to establish an online presence. For example, 76% of businesses that did not have a website said it was because they had too much work on, and it was not a priority at this time. 61% said it was because they did not see the value in having a dedicated website for their business and 40% said it was because they did not presently have the resources to establish and maintain a website.

Just like cloud computing, many businesses said they did not feel they had the technical knowledge needed to establish their own website, with 28% of businesses saying they would not know where to start in setting up their own business website.

About the Study

The MYOB Business Monitor is designed to research key areas of business performance, including profitability, cashflow and pipeline work, as well as business confidence and satisfaction in the support of Government.

This report presents the summary findings for key indicators from the MYOB Business Monitor comprising a national sample of **1,005** business owners, managers and directors (operators), conducted in May and compiled in June 2012.

The businesses participating in the online survey are defined as both non-employing and employing businesses with zero employees ('sole traders'), 1-4 employees ('micro-businesses'), 5-19 employees ('small businesses') and 20-199 employees ('medium businesses'). Industries have been grouped for the purposes of providing meaningful results based upon sample segments of reasonable size, and with a lower margin of error.

(The business weightings in this report are in line with Statistics New Zealand: New Zealand Business Demography Statistics: At February 2010: ISSN 1174-1988.)

This research report was prepared by Gundabluey Research and fieldwork was completed by Colmar Brunton (a Millward Brown Company) for Julian Smith, General Manager – New Zealand, MYOB NZ Limited julian.smith@myob.com | www.myob.co.nz

Industry, Location and Business Size Sample Segments

The sample segments in this MYOB Business Monitor have been reweighted to reflect their actual proportions of all GST registered businesses in New Zealand.

Industry	Weighting	05/12	03/12	09/11
Agriculture	15%	82	87	110
Manufacturing and Wholesale	8%	68	101	72
Construction and Trades	11%	140	168	139
Transport and Warehousing*	3%	45	39	34
Finance and Insurance*	6%	31	30	48
Professional and Business Services	34%	291	276	272
Retail and Hospitality	9%	119	106	113
Other Industries** (included in total results)	14%	229	193	216
Total	100%	1,005	1,000	1,004

(* Caveat: There is high margin of error of +/-15% @ 20% on this small base. Also note that the Finance & Insurance sectors and the Professional & Business Services sectors usually have very similar responses to questions.)

(**Other Industries, which have been combined to minimise their margin of error, include these sectors: Communication Services; Cultural & Recreational Services; Education; Electricity, Gas & Water Supply Services; Health & Community Services; Mining; and Personal & Other Services.)

The results of the responses from each of the areas of New Zealand have been reweighted to match population by location.

Location	Weighting	05/12	03/12	09/11
Auckland	31%	394	375	353
Wellington	10%	106	88	103
Canterbury	13%	93	118	110
Rest of New Zealand	46%	412	419	438
Total	100%	1,005	1,000	1,004

The segments by business size (number of employees in the business) have been reweighted to their exact present proportions of all GST registered businesses in New Zealand, as below:

Number of Employees/Business Type	Weighting	05/12	03/12	09/11
0 Employees/Sole Traders	69%	617	599	596
1-4 Employees/Micro Business	21%	246	257	270
5-19 Employees/Small Business	7%	92	116	102
20-199 Employees/Medium Business	3%	50	28*	36
0-199 Employees/ Sole, Micro, Small, Medium Businesses	100%	1,005	1,000	1,004

(* Caveat: There is high margin of error of +/-15% @ 20% on this small base in 2012. For this reason, results for medium businesses are only reported as significant if they are above or below this margin of error in relation to other businesses by size.)



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