



Bruce Akhurst Speech to AMCHAM

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INTRODUCTION: A GLOBAL TRANSFORMATION

Thank you Graeme.

As you know, I'm keen to talk today about how Sensis is using digital media to create new opportunities for our customers.

But, things move quickly in the world today. And, given recent events, I'd also like to spend some time discussing another issue: how can we help Australia's small and medium enterprises prosper? And how can SMEs help all of us build Australia's future?

Small and medium enterprises are critical to Sensis – as they are to Australia as a whole. Every year, we help hundreds of thousands of SMEs find customers – the lifeblood of their businesses – by connecting them with millions of potential buyers.

As I'll discuss shortly, the SME sector is now going through one of its darkest days.

This is not only a concern for our current economic and employment base. It also hampers our ability as a nation to create a sustainable future for ourselves. Right when planning for our future has become more important than ever.

We stand today on the edge of a global transformation unlike any in our lifetimes.

The challenges we face are huge. Right now, the world is in a dangerous place economically. But even this immediate challenge is overshadowed by longer term societal, economic and political shifts.

Principal among these challenges is the decline of the west's manufacturing base. I read an article recently by Hugh White, who is Professor of Strategic Studies at ANU¹.

He wrote:

"It is possible that we are witnessing not one but two remarkable national transformations, as America stumbles while China ascends. If so, that will make the shifting power balance between them much faster, more destabilising and more risky than we thought."

He also said the American industrial base is decaying rapidly.

¹ "America is rotting at its core", Sydney Morning Herald, August 16, 2011.
<http://www.smh.com.au/opinion/contributors/america-is-rotting-at-its-core-20110815-1iunv.html>

“Thirty years ago 20 million Americans worked in the sector. Today only 12 million do, and that number is falling by 50,000 a month.”

But this job loss isn't being countered by the knowledge industries such as Finance and IT. These industries, he claims, supply high-paying jobs for a few, rather than well-paying jobs for many.

As such, Professor White calls into question the ability of the US to bounce back, as many assume it will.

The concern is that the contagion infecting the US city of Detroit may spread. Detroit was once a centre of the industrial world. But the population of Detroit city has declined by 25% in just a decade². And it has an unemployment rate of 20%³.

In his aptly titled series – ‘Civilisation: is the west history’, Harvard Professor Niall Ferguson takes this a step further.

He shows how, 600 years ago, China was far and away the most advanced civilisation on Earth. One look at ‘Chinese inventions’ on Wikipedia⁴ shows just how many great innovations came out of the Ming Dynasty.

Did you know that the Chinese were responsible for paper, printing, the banknote, gunpowder, bombs, the compass and soccer?

And imagine you're hungry and looking for something to eat. The Chinese created the fishing reel and the cultivation of millet, rice and soy. They invented noodles, tofu and sake.

To save you getting your fingers dirty, the Chinese – believe it or not – invented the fork.

And, when you've finished eating, the thoughtful Chinese even invented the bristle toothbrush and toilet paper!

But after the death of the Ming Emperor Yongle, China came to believe it didn't need to expand and closed itself off.

Meanwhile, competition among the emerging countries of Europe kick-started centuries of trade, innovation and change in the west.

² “Vanishing City: the story behind Detroit's shocking population decline”, Time NewsFeed, <http://newsfeed.time.com/2011/03/24/vanishing-city-the-story-behind-detroit%E2%80%99s-shocking-population-decline/>

³ Wikipedia, <http://en.wikipedia.org/wiki/Detroit>

⁴ http://en.wikipedia.org/wiki/Chinese_inventions

According to Professor Ferguson, these two simultaneous events are a key reason why the west – not the east – has led the world for the last few hundred years.

This history now poses an obvious question. Are we now seeing the same pattern in reverse?

AUSTRALIA IS FACING MANY CHALLENGES

In Australia, the current debate about manufacturing is only just starting to heat up: largely driven by the recent job losses at Bluescope Steel and CSR.

But the trends have been there for years, and the common view is they're now accelerating.

According to the AIG/PWC Performance of Manufacturing Index for August, manufacturing has been largely contracting for a year. Right now, it's contracting faster than at any time since June 2009⁵.

And, in real terms, manufacturing employment has declined by 3.3% in five years – and more before that. In relative terms, manufacturing represented only 8.7% of our employment base in 2010 – down from 10.2% five years ago and 14% in 1990⁶.

According to the Federal Government's 'Australian Jobs 2011' publication, that share will drop again to 7.6% by 2015/16. Although under the current circumstances, many might see this as optimistic.

Over the last ten years, this decline in manufacturing jobs has been balanced mainly by growth in construction and the public sector. But there are signs that these sectors will struggle to maintain jobs growth.

In construction, for example, CSR cited "the further deterioration in commercial construction (down ~20%) and residential construction (down ~15%)" as key reasons for the restructure of their Viridian glass business⁷.

In the face of this shift, you can't help but detect a feeling of helplessness. As Reserve Bank Governor, Glenn Stevens, said a few days ago⁸:

⁵ Australian Industry Group/PWC Performance of Manufacturing Index, August 2011, page 1

⁶ Australian Government Department of Education, Employment and Workplace Relations, "Australian Jobs 2011", <http://www.deewr.gov.au/Employment/ResearchStatistics/Documents/AustralianJobs.pdf>

⁷ CSR, News Release, "Restructure of Viridian glass business and trading update", 1 September 2011, <http://www.csr.com.au/Investor-Centre-and-News/News-Releases/Pages/Restructure-of-Viridian-glass-business-and-trading-update.aspx>

⁸ m.news.com.au, "I'm sorry, but job losses are just the reality: RBA boss", 28 August 2011, <http://m.news.com.au/TopStories/pg/0/fi805889.htm>



“Some parts of the economy will shrink while others will grow. I wish I could say we had a way of avoiding that; I don’t think we do.”

Nevertheless, we feel comforted by the fact that mining will help us through this decline. But how realistic is that?

Mining is doing a great job of supporting Australia’s GDP and is absolutely vital to our way of life. Although its success has been a driver of our high dollar, which is playing havoc with rest of the economy.

The problem is that mining accounts for only 1.8% of employment⁹. It would have to explode to overcome the employment impacts of any significant manufacturing shock.

Now, I’m not criticising the growth of mining here. Far from it. As I said, mining is vital to our welfare today and into the future.

But we need to ask will mining replace the declines in other sectors, like manufacturing. And, if not, what will?

Of course, the decline of manufacturing isn’t the only big shift we’re facing. One issue that’s particularly dear to me is the health of Australia’s small and medium enterprises.

We’ve just released the latest Sensis Business Index results, and, to be blunt, they’re shocking.

The SME confidence index has fallen from +44% in February to +15% in August. This is the third lowest level of SME confidence on record.

Sales were at -22%: also one of the lowest results on record.

The profitability Index has been in negative territory of almost four years straight. In August, it was -27%, which is the lowest result on record.

And the critical lead indicator of SME sector capital expenditure was at -14%, which, again, is the lowest on record. This is in stark contrast to the recent ABS findings that capex for the economy as a whole has grown¹⁰.

It’s like the GFC never ended for Australia’s SMEs and, right now, things are only getting worse.

⁹ Australian Government Department of Education, Employment and Workplace Relations, “Australian Jobs 2011”, <http://www.deewr.gov.au/Employment/ResearchStatistics/Documents/AustralianJobs.pdf>

¹⁰ Australian Bureau of Statistics, “5625.0 - Private New Capital Expenditure and Expected Expenditure, Australia, June 2011”, <http://abs.gov.au/AUSSTATS/abs@.nsf/Lookup/5625.0Main+Features1June%202011?OpenDocument>

Another challenging shift is the aging of western populations. Australia's over 65 population is forecast to grow from 3 million today to over 8 million in the 2050s. This will stretch our social and economic capacity to its limits¹¹.

And we're facing massive environmental and energy challenges. Few doubt the importance of shifting to a clean energy future. But it's hard to believe that shift won't come without a considerable amount of pain.

THE INTERNET IS CHANGING THE WAY WE LIVE OUR LIVES

I would add a fifth major shift to this list, although its impacts aren't as evident yet.

The Internet.

The Internet is revolutionising the way we lead our lives.

Every minute of every day, 48 hours of video is uploaded to YouTube. Think about that for a moment. A hundred years – a century! – of video is uploaded to YouTube every thirteen days¹².

In that same minute, there's about 3 million searches on the world's four major search engines¹³.

Half a million comments made on Facebook.

97,000 tweets on Twitter.

And 154 iPhones, 50 iPods and 70 iPads are sold¹⁴.

All this is happening, on average, every minute of every day.

Staggering!

This Internet revolution will bring huge benefits. We're already beginning to experience its positive impacts on health, education, communication, social inclusion, convenience and business efficiencies.

¹¹ Australian Bureau of Statistics, "3222.0 - Population Projections, Australia, 2006 to 2101", <http://www.abs.gov.au/Ausstats/abs@.nsf/mf/3222.0>

¹² YouTube blog, "Thanks, YouTube community, for two BIG gifts on our sixth birthday!", <http://youtube-global.blogspot.com/2011/05/thanks-youtube-community-for-two-big.html>

¹³ Comscore, "ComScore Reports Global Search Market Growth of 46 Percent in 2009", http://www.comscore.com/Press_Events/Press_Releases/2010/1/Global_Search_Market_Grows_46_Percent_in_2009

¹⁴ Apple Inc, "iPhone Sales Grow 142 Percent; iPad Sales Grow 183 Percent", <http://www.apple.com/pr/library/2011/07/19Apple-Reports-Third-Quarter-Results.html>

But these benefits won't come without challenges.

A big one is globalisation.

A recent report forecasts that US retail e-commerce will grow to \$188bn this year. It's then forecasted to exceed Australia's total retail trade by about 2015¹⁵.

On top of this, 7.1% of US online retail expenditure came from international customers – like us – in 2010. That's up from 5.9% in 2008.

Of even more direct relevance to us is the recent Frost & Sullivan Australian and New Zealand Online Shopping Market report. It suggests that a whopping 44% of our online expenditure is going to overseas sites¹⁶.

This is the beginning of globalisation in the retail sector.

How many of you now buy music or movies online? How many of you are buying from overseas suppliers? And how many of you don't visit music or video stores as much as you used to?

It's shifts like this that are changing the nature of business worldwide.

They're the reason why Apple's iTunes is now the largest music store in the world¹⁷.

And why a large number of Australian retailers are now openly concerned about the growth of e-commerce.

Clearly, we have some serious challenges ahead of us. But it's not the first time we've been challenged.

Australia has stood up through two world wars and many other global conflicts. We've survived the depression and weathered droughts, floods, cyclones and everything else nature could throw at us.

And I have an inherent belief we will not only survive, but flourish in the future. We'll do this by:

- Thinking forward, not backwards;
- Taking personal responsibility for the future;

¹⁵ Stephanie Reese, eMarketer, Thursday, August 11, 2011, "Quick Stat: US Online Sales to Reach \$188.1 Billion This Year", 11 August 2011, <http://www.emarketer.com/blog/index.php/quick-stat-online-sales-reach-1881-billion-year/>

¹⁶ Frost & Sullivan/PWC, "Digital Media Research 2011. Australian and New Zealand Online Shopping Market"

¹⁷ John Paczkowski, All Things D, "25 Million iPads, 14 Billion Apps: WWDC 2011 by the Numbers", June 7 2011, <http://allthingsd.com/20110607/25-million-ipads-1-billion-tweets-wwdc-2011-by-the-numbers/>

- Cultivating and putting our faith in the ingenuity and skills of our people;
- And rewarding successes when we have them.

THE TRANSFORMATION OF SENSIS

In many ways, this is the view we now share at Sensis.

Imagine our experience. We are a hundred year print business that is now being challenged by the new world of digital media. We've had to ask ourselves:

- How can we be useful in this new world;
- And how do we need to change to take advantage of it.

I'd like to share some thoughts on how we're doing that.

As you may know, Sensis is in the business of helping Australians find, buy and sell.

Our information services – like Yellow Pages, White Pages, Whereis and 1234 – help consumers find and choose local suppliers.

By doing that, we help generate sales enquiries – real leads from real potential customers – for the hundreds of thousands of Australian businesses who advertise with us every year.

In many ways, local search companies such as Sensis are at the forefront of this digital revolution. The rapid growth of digital has re-shaped our industry in many different ways:

- Like an explosion of usage. Thanks to digital media, Australians can now obtain massive amounts of information about products and suppliers without leaving their chairs. They can compare offerings with the click of a mouse. They can view videos and search and locate businesses on the go using mobile mapping and satellite navigation. They can converse with businesses and each other using social media.
- Also, local advertising is becoming a digital powerhouse. In fact, BIA/Kelsey has forecast that 70% of all US mobile advertising will be local by 2015.
- At the same time, there's been rapid competition growth in the local search sector. Consumers can choose from literally hundreds of search services today.
- And the sector has, to a degree, globalised, with many overseas companies entering the Australian market

This shift in the industry has created opportunities and challenges for Australian businesses.



On the plus side, it has given business many powerful new ways to engage potential customers.

But on the flip side, it has made the job of advertising incredibly complex.

To advertise effectively in this world, businesses need to manage campaigns across dozens of different sites and apps. They may also need to deal with armies of vendors and wade through mountains of performance reports.

Let me give you an example of what I mean.

One of our largest customers has been metering their own ads for some time now. That means they place unique telephone numbers on different ads. Then they count the number of phone calls they receive from each ad.

It's one of the few ways we have to measure the real impact of advertising on our bottom lines.

This customer has found that about half of their calls are coming from our print directories, with the other half coming from digital.

Who said print doesn't work!

In essence, this means that half their calls are coming from one portfolio of ads in Yellow Pages print. That's pretty easy to manage.

While the other half come from a huge, fragmented array of different online and mobile sites and apps. For most businesses – especially small ones – managing all these channels, vendors and so on is a nightmare.

This is what we call the digital dilemma.

To help our customers meet this challenge and benefit from the new advertising landscape, it was vital for us to transform Yellow Pages.

To find a way our customers could maximise their base of customer leads from right across the digital spectrum – plus print and voice. And to do it in a way that was both simple and measurable.

So we spent three years and \$300m transforming our underlying systems. This has flicked the switch on digital capabilities we never had before.

We dramatically expanded our network of products and services to grow our customers' digital reach.



Since we launched the new Yellow Pages operating model in March, we've announced something like 30 new products and services: about one a week on average.

These include a partnership with Yelp – one of the largest ratings and reviews sites in the world. This relationship will provide another new channel for our advertisers as well as a feed of consumer ratings and reviews to Yellow Pages.

They also include the new Yellow Pages-powered Whereis iPhone app with sat nav capabilities. Downloads of the Whereis iPhone app eclipsed 100,000 in its first ten days and the comments from AppStore users have incredibly positive.

Every single one of these 30-odd products or services – including Yelp and the Whereis app – will add new value to Yellow Pages advertisers. They either extend Yellow Pages advertiser reach or give our customers access to new forms of advertising.

Now, you'd normally expect such an influx of new products to make the purchase decision more complex for our customers.

But the reverse is true. We syndicated Yellow Pages advertiser listings to a wide range of different services, created simple value packages and enabled cross-platform ROI reporting. In doing so, we've made advertising with Yellow Pages easier and more accountable than ever.

What we've effectively done is change the DNA of Yellow Pages – new channels, new partnerships, new systems, new products and services, new ways to buy and new levels of accountability.

All designed to deliver on a simple promise: Marketing Made Easy. You concentrate on managing your business. We'll do the hard work growing the effectiveness of your advertising.

It's taken years to get where we are today and there's a lot more to do. In fact this transformation will take another 2-3 years to fully play out.

And, even then, we won't stop evolving. That's the way of the world today. The pace of change is fast and getting faster. The worst mistake any business – or country for that matter – can make is to limit their focus to the short term.

OUR OPPORTUNITY FOR THE FUTURE

What we're aiming for at Sensis is a business that can lead our customers into the future. A company with the technology, skills, knowledge, services and scalability that will help drive prosperity for everyone we serve.

And, if I take off my Sensis hat for the moment, that's exactly what I'd hope for Australia as well.

In a recent article, The Economist said¹⁸:

"Australians must now decide what sort of country they want their children to live in. They can enjoy their prosperity, squander what they do not consume and wait to see what the future brings; or they can actively set about creating the sort of society that other nations envy and want to emulate."

As I said, we have a great record of creating prosperity and facing challenges.

But we've also been very fortunate. We call ourselves the lucky country. For 240 years, we've prospered on the back of our natural resources: the sheep's back and the mining boom.

But we can't bet our children's future on happy coincidences. We can no longer afford to say she'll be right mate. Because, one day, she won't.

As thousands of years of world history has shown us, comfort and complacency are the enemies of a prosperous future.

Let me pose a couple of questions to you.

First up, how often do you hear someone say Australia *will* be great: a world leader and the most wonderful place on earth to live.

Not could, but *will* be great.

If you're like me, not often. Instead, we keep hearing how bad things are and how bad they'll get.

We need to turn this negativity into self-belief. We need to believe we are a nation of people who can do anything.

Then we need to get on and do it.

Which leads me to my second question. What is your vision for the future: for yourself, your family, your business, employees and customers and for our nation?

And what are you prepared to do to bring that vision to life?

¹⁸ The Economist, Australia's promise – the next golden state", May 26 2011, <http://www.economist.com/node/18744197>

We need to start really thinking and talking about the future: the long term, not just the short term.

Maybe our future isn't in large scale manufacturing. But we have everything we need to make Australia a truly great nation of innovators and entrepreneurs.

Thanks to our natural resources, we have a strong economy to begin with: something few others enjoy.

We have the people; the smarts; the society and the international links to become a true creation nation: a leader in finding better ways for the world to do things.

And we already have an incredible track record of punching above our innovation weight. In technology, education, medicine, industrial process and many other areas.

This small country has been responsible for Penicillin, the pacemaker, the cochlear implant, humidicribs, the bionic ear, permaculture, the combine harvester, the electric drill, the notepad, refrigeration, WiFi and many, many more globally significant innovations. Even Google Maps was created in Australia.

And we've taken our culture to the world through inventions like AFL, the surf ski, the ute and, of course, speedos, zinc cream and the Esky.

If we can harness this innovative energy while making sure that Australian innovation stays Australian, we can create a great future that will stand the test of time.

Taking this step will require an enormous commitment from everyone. We will need to review our education, investment, infrastructure, regulation and legal systems.

OUR SUPPORT FOR SMEs IS CRITICAL

And, in my view, we will also need to completely re-think our support for small and medium businesses.

History tells us that the future is created on frontiers. Like the expeditions of Blaxland, Lawson, Leichardt, Burke and Wills.

Or the new frontiers. The garages and dorm rooms of Silicon Valley that gave birth to the likes of Microsoft, Google, Facebook and, of course, Apple.

And the largest, most important, but most undervalued, frontier of them all – small and medium enterprise. The people who risk everything on an idea and create massive benefits for the country as a result.



The commitment of these entrepreneurs accounts for 58% of private sector production and 70% of our employment. SME prosperity – or weakness – will resonate across society far more than any other sector.

And, just as importantly, SMEs are the architects of innovation. They have the drive, capability, agility and entrepreneurial spirit to drive generational change.

To create future prosperity for all of us.

CONCLUSION

In the end, the Australia that our children inherit will be created by us right now.

If we want that future to be truly great, we're left with a very simple choice.

Get visionary, get busy, or get out of the way.

The days of the black and white TV, horse and cart and LPs have gone. We can learn lessons from the past, but there's no point being nostalgic.

We need to look forward and I'm confident we will.

By continuing to reform our taxation and regulation rules so that they encourage innovation and reward risk.

By creating truly world class education systems.

By fostering a strong, innovative SME sector.

And by recognising that every single one of us is responsible for the future.

We can't rely on China, mining, governments or the person sitting next to you. And we can't simply make excuses.

We are smart, adaptable inventive and strong.

And it's these truly Australian characteristics that will help us build a great Australia.

Together.