August 2005

Sensis® *e-Business Report*

The Online Experience of Small and Medium Enterprises

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Introduction

The Sensis® *e-Business Report* is a special report primarily based on findings from the Sensis® *Business Index.*

The Sensis® *Business Index* is an ongoing series of surveys tracking confidence and behaviour of Australia's small and medium enterprises (SMEs).

The primary objectives of the Sensis® *Business Index* are to track small and medium business activity over the past three months; expectations over both the current three and 12-month periods; and to measure overall confidence among SMEs. In addition the Sensis® *Business Index* provides an independent, objective assessment of proprietors' experiences and attitudes on key issues.

The May 2005 Sensis® *Business Index* included questions on technology usage and electronic commerce (e-commerce). These questions formed the basis of the 2005 Sensis® *e-Business Report*. The survey investigated levels of understanding and interest by small and medium businesses in what e-commerce has to offer. Over the past seven years, the Sensis® *e-Business Report* has examined the experiences of small business with electronic technology and a benchmark e-commerce study was conducted in February 1998. The trends identified from these studies are reported where applicable.

This year, the Sensis® *e-Business Report* also contains data collected as part of the June 2005 Sensis® *Consumer Report*. The Sensis® *Consumer Report* is a survey designed to measure the confidence and behaviour of Australian consumers. This year's *e-Business Report* captures information around consumer behaviour and attitudes towards their e-Business activities. This enables the results of consumers to be juxtaposed against those of business owners to ascertain any important issues, similarities or differences.

The primary objectives of the Sensis® *Consumer Report* are to measure consumer confidence and expectations for the next 12 months. A second purpose is to provide an independent, objective assessment of consumers' experiences and attitudes on key issues.

The Sensis® *Business Index,* the Sensis® *Consumer Report* and the Sensis® *e-Business Report* are initiatives of Sensis as part of the company's commitment to increase understanding of the Australian business and social environments. Surveying is conducted by Sweeney Research.

About the surveys

The information in this report was primarily sourced from the May 2005 Sensis® *Business Index* and is based on telephone interviews conducted with 1,800 small and medium business proprietors.

Businesses interviewed for the Sensis® *e-Business Report* were drawn from all metropolitan and major non-metropolitan regions within Australia. Quotas were set on geographical location and type of business in order to produce the standard sample structure shown opposite. Note that the sample excludes businesses in the agricultural sector. Where replacement businesses are recruited, this sample structure is maintained.

At the analysis stage, results were weighted by selected ANZSIC divisions within the metropolitan and non-metropolitan region of each state and territory, to help ensure the sample reflected the actual small and medium business population distribution. The Australian Bureau of Statistics (ABS) Business Register, as at June 1998, was used to help weight the sample to be representative of the total business population.

Interviewing was conducted over the period 18 April to 13 May 2005. All results in this Sensis® *e-Business Report* are based on the responses of businesses surveyed.

Location of business

	Total	Metro	Non-metro
New South Wales	300	240	60
Victoria	300	240	60
Queensland	300	165	135
South Australia	225	195	30
Western Australia	225	195	30
Tasmania	150	90	60
Northern Territory	150	90	60
Australian Capital Territory	150	150	-
Total	1800	1365	435

Division

Manufacturing	200
Building/Construction	250
Wholesale Trade	150
Retail Trade	250
Accommodation, Cafes and Restaurants	100
Transport/Storage	150
Finance and Insurance	100
Communication, Property and Business Services	300
Health and Community Services	150
Cultural, Recreational and Personal Services	150
Total	1800

Size of business
Number of full time employees

1 – 2 Employees	753
3 – 4 Employees	297
5 – 9 Employees	276
10 – 19 Employees	153
Total Small	**1479**
20 – 99 Employees	283
100 – 200 Employees	39
Total Medium	**322**

The results in this report relating to consumer behaviour are based on a survey of 1,500 Australians conducted over the period 22nd April 2005 to 15th May 2005.

To ensure a good cross representation across the states and territories and by demographics, quotas were set on age, gender and location as detailed in the charts on the right.

The results have been weighted according to the latest Australian Bureau of Statistics (ABS) population figures (2001 Census) so that results more closely reflect the population distribution within each state and territory.

Sample structure - demographics

	Total	**Male**	**Female**
14 – 17 years	100	50	50
18 – 19 years	100	50	50
20 – 29 years	250	125	125
30 – 39 years	250	125	125
40 – 49 years	250	125	125
50 – 64 years	300	150	150
Over 64 years	250	125	125
Total	**1500**	**750**	**750**

Sample structure - location

	Total	**Metro**	**Non-Metro**
New South Wales	250	200	50
Victoria	250	200	50
Queensland	250	140	110
South Australia	190	160	30
Western Australia	190	160	30
Tasmania	125	75	50
Northern Territory	125	75	50
Australian Capital Territory	120	120	0
Total	1500	1130	370

Executive summary

This special report examines small and medium sized enterprises (SMEs) and their attitudes towards, and experiences with, e-business. Research with 1,800 SMEs was undertaken across a range of online technologies, including the internet and email. The research was undertaken in May 2005. Results in this report also include data on Australian consumers, which was collected concurrently through the Sensis® *Consumer Report* survey of 1,500 consumers.

While the findings of the research are outlined in detail throughout the report, below is an overview of the key findings.

Computer equipment

There was a further marginal rise in computer ownership among SMEs during the year, with a rise from 94 per cent to 95 per cent. This was broken down between a 95 per cent ownership level for small businesses and 100 per cent ownership for medium businesses. The most significant increase in ownership was in notebook computers, with 44 per cent of SMEs now owning a notebook computer, an increase of three percentage points from 41 per cent last year.

The internet

The rate of internet connectivity among small and medium businesses continued to grow during the year at an increased level from the previous year. This is illustrated in the rise in internet connectivity among small businesses increasing from 86 per cent to 88 per cent, a rise of two percentage points. This compares to an increase in internet connection levels among small businesses of five percentage points last year.

While 88 per cent of all SMEs currently have internet access, a further three per cent expect to connect within the next twelve months and the remaining nine per cent do not expect to be connected within the year. Almost two in three (63 per cent) of SMEs now have broadband internet access.

The single most important reason for use of the internet (as identified by 94 per cent of all internet-connected SMEs) remains email (to communicate with clients, customers and suppliers). The second most important use of the internet was to get reference information or research data (89 per cent), while the third highest usage was to look for information about products and services (88 per cent).

Australians use of technology

The uptake of technology in Australian households was lower than was the case for SMEs. Some 83 per cent of households reported having a computer of some description, with 72 per cent of households being internet enabled and 31 per cent having broadband connections. Overall, 42 per cent of Australians had made purchases online.

Web sites

The proportion of small businesses with a web site increased significantly over the past year from 45 per cent to 47 per cent. A further 14 per cent of small businesses indicated an intention to get one within the next 12 months. Web site penetration also increased for medium businesses, rising from 80 per cent in 2004 to 81 per cent in 2005. A further 10 per cent of medium businesses indicated they expected to get a web site within the next 12 months.

In terms of web site effectiveness, a majority of businesses (62 per cent) have indicated that their web site increased their business effectiveness. The reason most SMEs believed their web site had increased their effectiveness was that the web site had produced an increase in enquiries for their businesses.

Use of the internet for procurement

The past year has seen some softening in the use of the internet for procurement purposes. This is reflected in the fall from 56 per cent to 53 per cent in the proportion of SMEs that are now placing orders for products and services online over the past year.

In terms of the importance of online orders placed by SMEs as a share of their total purchasing activities, there was continued growth from last year. In fact, the proportion of e-commerce businesses that indicated their online purchases represented more than five per cent of their total purchasing activities increased from 60 per cent to 66 per cent. At the top end of the spectrum, 15 per cent of SMEs who bought online reported that the majority of their procurement was conducted online.

In terms of paying for products and services online, there was a faster rate of adoption over the year than purchasing trends. This was reflected in the rise among SMEs from 59 per cent to 62 per cent for payments made online.

The most common online purchase made by SMEs during the year was airline bookings, followed by computer software, stock and merchandise and equipment.

Use of the internet to sell

Despite the softening in online purchases, the trend in online selling continued to grow. The percentage of SMEs taking orders online has increased from 39 per cent to 41 per cent during 2005.

Online selling as a share of total sales activities, in line with purchasing activities, also saw improvement over the course of the year among e-commerce oriented businesses. For example, the proportion of online businesses that indicated they took more than five per cent of their total sales orders online increased over the year from 51 per cent in 2004 to 59 per cent in 2005. Some 13 per cent of SMEs who used e-commerce to sell made the majority of their sales online.

The number of SMEs receiving payments online for sales made over the internet grew at a faster rate than SMEs who took orders over the internet but did not receive an online payment. Similarly, purchasing behaviour changed at the some rate. This was reflected in the proportion of SMEs that received payments for sales over the internet increasing from 44 per cent to 50 per cent in the past year.

A critical factor in the decision of SMEs to commit to an e-commerce strategy (or any other business strategy) was the timeframe for them to recover their investment. A majority of e-commerce businesses (61 per cent) indicated they had already recovered their investment in e-commerce. This result increased by two percentage points from last year.

This year was the third year that a question has been asked of respondents concerning the magnitude of the return on investment for those businesses that have recovered their initial investment. Some 20 per cent of these businesses indicated that the return on investment from their e-commerce strategy had exceeded 50 per cent.

While 47 per cent of online businesses use e-commerce and a further 12 per cent have indicated that they thought they could use it, 41 per cent of online SMEs believed they could not use e-commerce. The number one SME concern in relation to e-commerce was once again security and the ability of people to hack into their systems.

ICT Production

The study found that SMEs not only use technology, a significant number are also active producers of technology. Some 17 per cent of SMEs reported producing information and communications technology (ICT) based goods and services, ranging from ICT production for sale or internal use to embedding ICT in other products or services for sale to software production. Some 85 per cent of ICT production occurred outside the traditional ICT sector.

Levels of computerisation

Introduction

The Sensis® *e-Business Report* has monitored the penetration of computer technology into the small business sector since 1994 and for medium-sized businesses since 1998. This section provides an overview of the extent that computer technology has entered the work places of small and medium-sized businesses.

Equipment ownership

The 2005 Sensis® *e-Business Report* found that 95 per cent of all small and medium enterprises (SMEs) reported owning a computer of some description. Desktop computers were the most common, with 94 per cent of all SMEs reported owning at least one desktop computer. Some 44 per cent of all SMEs owned at least one notebook computer (42 per cent of small businesses and 84 per cent of medium businesses).

Computer ownership was marginally higher in metropolitan regions with 96 per cent of businesses reporting computer ownership compared to 94 per cent for regional businesses.

A continued difference was noticed in computer ownership among businesses in different states and territories. The highest levels of computer ownership were in New South Wales, Queensland and the Northern Territory (97 per cent each), while the lowest was once again in Tasmania (86 per cent).

Levels of computer ownership also varied quite noticeably across the various industry sectors. For example, the finance and insurance sector again recorded a 100 per cent computer ownership result. This compares to the accommodation, café and restaurant sector, which recorded a result of 88 per cent of businesses owning a computer of some description.

Computer ownership
by industry sector

	Desktop Computer	Notebook Computer	Any Computer
All Business	**94%**	**44%**	**95%**
Manufacturing	92%	40%	94%
Building/Construction	94%	36%	95%
Wholesale Trade	95%	44%	95%
Retail Trade	93%	33%	94%
Transport/Storage	98%	40%	98%
Communication, Property & Business Services	99%	60%	99%
Finance and Insurance	98%	63%	100%
Health and Community Services	92%	41%	92%
Cultural, Recreational & Personal Services	88%	36%	88%
Accommodation, Cafes and Restaurants	90%	48%	92%

SOURCE: Sensis® *Business Index*
Sweeney Research - May 2005

Computer ownership
by business size and location

	Desktop Computer	Notebook Computer	Any Computer
All Businesses	**94%**	**44%**	**95%**
1-2 Employees	91%	36%	92%
3-4 Employees	97%	52%	98%
5-9 Employees	98%	41%	98%
10-19 Employees	99%	57%	99%
20-99 Employees	100%	84%	100%
100-200 Employees	100%	87%	100%
Total Small (1-19)	**94%**	**42%**	**95%**
Total Medium (20+)	**100%**	**84%**	**100%**
Total Metropolitan	95%	44%	96%
Total Rural	93%	45%	94%

SOURCE: Sensis® *Business Index*
Sweeney Research - May 2005

In terms of telecommunication equipment ownership, the big increase during the past year was in the proportion of businesses with a broadband connection. Some 54 per cent of SMEs now report having a broadband internet connection. This has increased by 17 percentage points over the past year.

In total, 44 per cent of businesses reported that they had a LAN network supporting their business. Overall, some 32 per cent of SMEs indicated that they had a WAP enabled mobile phone, and 22 per cent of businesses indicated that they had an advanced telephony system supporting their business.

Whilst there has been considerable growth in the proportion of SMEs with a broadband internet connection over the past year, there has been a sharp drop in the proportion with non-broadband internet connections. This has fallen by 10 percentage points over the past year to be at 21 per cent of all SMEs.

Telecommunication equipment ownership

	All SMEs	Small Business	Medium Business
An upgraded telecommunications line to run your on-line requirements which doesn't involve broadband connection	**21%**	20%	38%
An upgraded telecommunications line involving broadband connection	**54%**	53%	81%
A WAP (or Internet) enabled mobile phone	**32%**	31%	45%
A LAN network supporting your business	**44%**	42%	84%
An advanced telephony system (such as a PABX or IVR)	**22%**	20%	74%

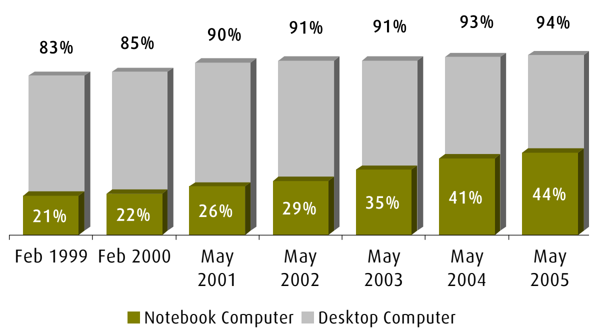
SOURCE: Sensis® *Business Index*
Sweeney Research - May 2005

Computer ownership trends

The proportion of small businesses that owned a desktop computer rose by one percentage point to 94 per cent. However, growth in notebook ownership continued amongst small businesses with an increase from 39 per cent to 42 per cent over the past year. There was similar growth amongst notebook ownership amongst medium businesses, which saw an increase during the year from 81 per cent to 84 per cent.

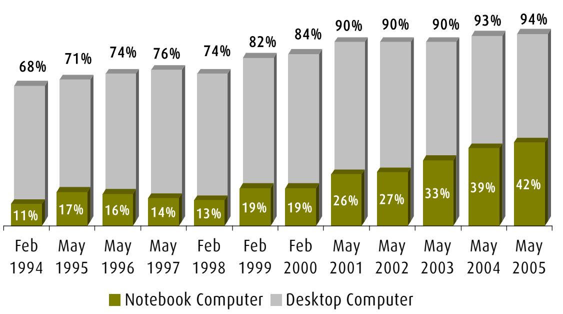
In the space of three years, notebook computer ownership among SMEs has increased from 29 per cent to 44 per cent, a growth of 15 percentage points. With a total SME penetration of 44 per cent, there is still plenty of room for further growth in this market in future years. This compares to a growth of three percentage points in the ownership of desktop computers by SMEs over the same time period.

Equipment ownership trends
Small and medium business



Base = All Businesses
SOURCE: Sensis® *Business Index*
Sweeney Research - May 2005

Longer term ownership trends
Small business



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SOURCE: Sensis® *Business Index*
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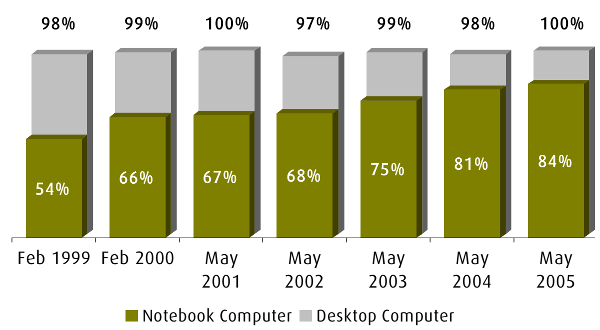
Equipment ownership trends
Medium business



Base = Medium Businesses
SOURCE: Sensis® *Business Index*
Sweeney Research - May 2005

Expenditure in 2004 calendar year

Total expenditure on computer hardware and software for all SMEs in 2004 was $9,500. This was a decrease of $1,900 over the past two years from a level of $11,400 in 2002.

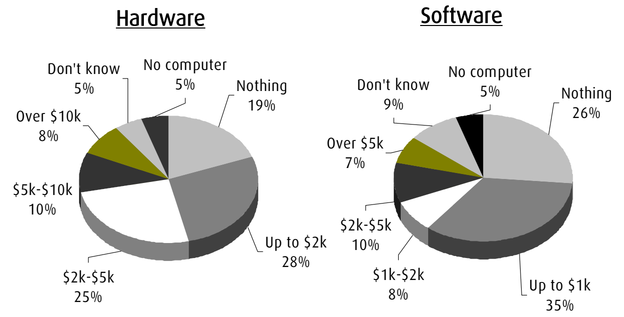
The average level of expenditure on computer hardware during 2004 by all SMEs was approximately $6,200. This represents a decrease of $1,700 over the past two years. However, there was a great degree of difference in the average spend between small and medium businesses. While the average spend for small businesses on computer hardware in 2004 was approximately $4,400, for medium businesses the corresponding spend on hardware was $42,300.

Whilst the average hardware spend for small businesses was $4,400, the vast majority of small businesses spent far less than this. Almost one in four small businesses last year recorded no spend on computer hardware, with over half spending up to $5,000. Only eight per cent of small businesses reported spending over $10,000 on computer hardware in 2004. This compares to almost three-quarters of medium businesses who reported spending over $10,000 on hardware in 2004.

Looking at software, the average spend for SMEs was $3,300. This represents a decrease of $200 over the past two years. Once again this varied significantly between small and medium businesses, with the average spend for small businesses being $1,900 compared to $31,600 for medium businesses.

As was the case with hardware, most small businesses reported spending far less than the average spend on computer software. More than 30 per cent of small businesses reported no spend on software in 2004, and more than one third reported a software spend of up to $1,000. Only seven per cent reported spending more than $5,000 on software in 2004. This compares with 58 per cent of medium businesses that reported spending in excess of $5,000 on computer software in 2004.

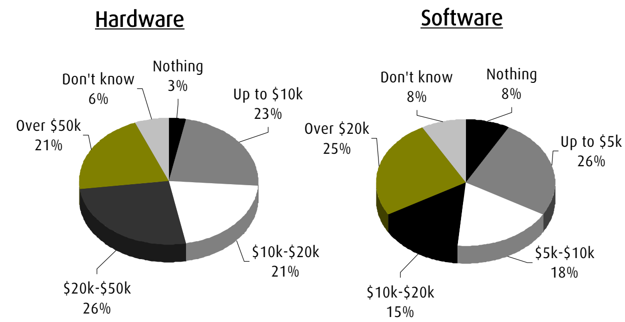
Expenditure in 2004 calendar year
Small business



Base = Small Businesses

SOURCE: Sensis® *Business Index*
Sweeney Research - May 2005

Expenditure in 2004 calendar year
Medium business



Base = Medium Businesses

SOURCE: Sensis® *Business Index*
Sweeney Research - May 2005

Trends in mean expenditure

	1998	1999	2000	2001	2002	2004
Small Business						
Software	$900	$1,500	$1,800	$1,400	$2,100	$1,900
Hardware	$4,000	$4,100	$5,700	$3,900	$5,100	$4,400
Medium Business						
Software	$30,100	$44,100	$25,500	$23,200	$28,000	$31,600
Hardware	$47,000	$80,100	$49,100	$41,600	$59,200	$42,300

Base = All Businesses

SOURCE: Sensis® *Business Index*
Sweeney Research - May 2005

Expected expenditure in 2005 calendar year

Overall, SMEs were expecting to spend even less on computer hardware and software in 2005 than they did in 2004.

Total average expenditure on computer hardware and software for all SMEs in 2005 was expected to be $7,100. This was a decrease of $2,400 from the total spend of $9,500 that SMEs reported spending on hardware and software in 2004.

Of this, small businesses were expecting to spend $4,900, with medium businesses expecting to spend $52,000 on computer hardware and software in 2005.

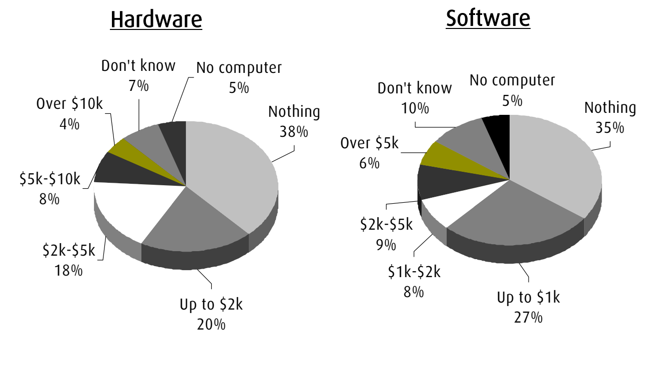
In terms of expenditure on computer hardware, SMEs were expecting to spend significantly less in 2005 than they did in 2004. The average expected spend across all SMEs was $4,100, considerably less than the $6,200 spent in 2004. Comparitively, small businesses were expecting to spend $2,900, down from the spend of $4,400 in 2004.

Overall, SMEs were also expecting to spend less on computer software in 2005. The average expected spend across all SMEs was $2,900, again less than the $3,300 spend in 2004. However, small businesses were expecting to spend $2,000, up from the spend of $1,900 reported in 2004.

Overwhelmingly, the major software applications that SMEs had bought over the past year or were planning on buying in the year ahead were accounting packages, a response given by 42 per cent of SMEs. Accounting software was more likely to be reported by SMEs in regional areas and by businesses in the accommodation, cafes and restaurant sector and the manufacturing sector.

Whilst other software applications were reported at considerably lower levels, other favourites included software for day to day business operations, graphics and design packages and databases.

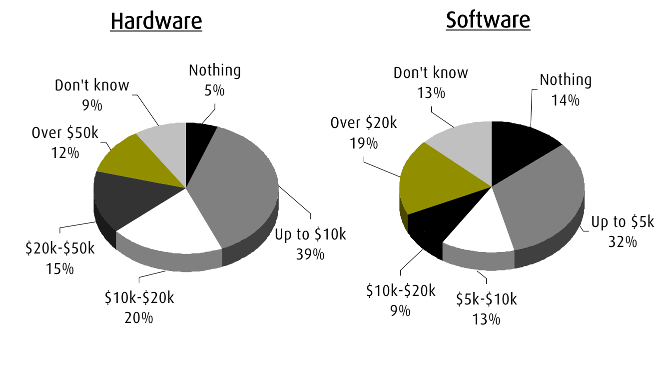
Expected expenditure in 2005 calendar year
Small business



Base = Small Businesses

SOURCE: Sensis® *Business Index*
Sweeney Research - May 2005

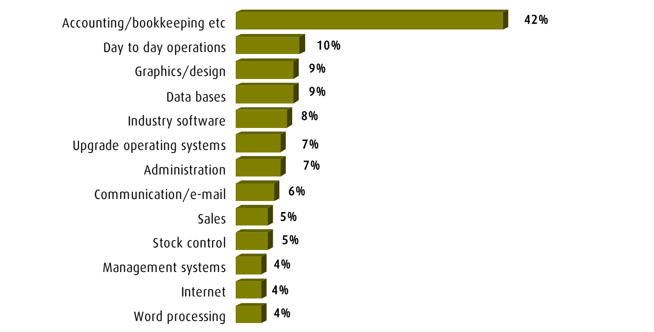
Expected expenditure in 2005 calendar year
Medium business



Base = Medium Businesses

SOURCE: Sensis® *Business Index*
Sweeney Research - May 2005

New software applications



Base = All businesses who have spent on software in 2004 or expect to spend in 2005

SOURCE: Sensis® *Business Index*
Sweeney Research - May 2005

Getting connected

Connection levels

The proportion of all small and medium enterprises connected to the internet rose during the year from 86 per cent to 88 per cent. This reflected a rise in small businesses internet-connectivity from 86 per cent to 87 per cent, but a small fall for medium businesses from 99 per cent to 97 per cent. Of the 12 per cent of small businesses that are not connected to the internet, seven per cent had not connected their computers to the internet, while the remaining five per cent did not own a computer.

The finance and insurance sector had the highest rate of internet-connectivity at 99 per cent, closely followed by the communication, property and business services sector at 97 per cent. The lowest level of connectivity was again in the retail trade sector, of which 80 per cent of SMEs reported having an internet connection, an increase of three percentage points in the past year.

Metropolitan businesses reported a rate of 89 per cent internet penetration which was higher than the comparable result for regional businesses at 86 per cent. However, the proportion of metropolitan businesses that were connected to the internet was unchanged in the past year, whereas the proportion of regional businesses connected to the internet has increased by five percentage points over the same period.

It is worthwhile revisiting recent historical trends in order to fully appreciate just how significant the internet has become as a business tool. Since 1998, the proportion of small businesses that are connected to the internet has risen from 34 per cent to 87 per cent. Over this time the trend among medium businesses has been nearly as impressive, rising from 65 per cent to 97 per cent. Examining the trends around these figures shows that while there is still scope for new connections, mainly among small businesses, the internet has now become part of the standard toolkit for any business. Indeed, over the past year, the growth in internet connections has been entirely in regional areas of Australia, where an additional five per cent of businesses are now connected than was the case a year ago. SMEs in regional Australia are now almost as likely to be connected to the internet as their metropolitan counterparts.

Internet connections
by business size and location

	No Computers	Use Internet	Do Not Use
All Businesses	**5%**	**88%**	**7%**
1-2 Employees	8%	82%	10%
3-4 Employees	2%	93%	5%
5-9 Employees	2%	94%	4%
10-19 Employees	1%	97%	2%
20-99 Employees	0%	97%	2%
100-200 Employees	0%	92%	8%
Total Small (1-19)	**5%**	**87%**	**7%**
Total Medium (20+)	**0%**	**97%**	**3%**
Total Metropolitan	4%	89%	7%
Total Rural	6%	86%	7%

Base = All Businesses

SOURCE: Sensis® *Business Index*
Sweeney Research - May 2005

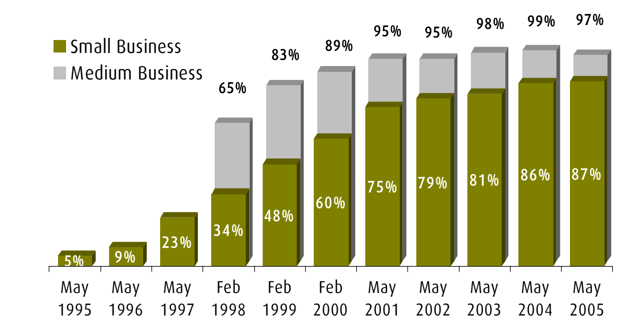
Internet connections
by industry sector

	No Computers	Use Internet	Do Not Use
Manufacturing	6%	84%	9%
Building/Construction	5%	82%	12%
Wholesale Trade	5%	94%	1%
Retail Trade	6%	80%	14%
Transport/Storage	2%	94%	5%
Business Services	1%	97%	2%
Finance and Insurance	0%	99%	1%
Health/Community Services	8%	81%	11%
Personal Services	12%	87%	2%
Hospitality	8%	84%	8%

Base = All Businesses

SOURCE: Sensis® *Business Index*
Sweeney Research - May 2005

Trends in internet connections



SOURCE: Sensis® *Business Index*
Sweeney Research - May 2005

Reasons for connecting

The most common reason for SMEs connecting their businesses to the internet was again to provide better service to their customers. Some 70 per cent of SMEs that are connected to the internet identified the provision of better service to customers as the major reason for having introduced the internet into their business, a decrease from the 72 per cent of SMEs that identified this as their main reason last year. Some 74 per cent of medium businesses connected to the internet identified this issue, while a lower 70 per cent of internet-connected small businesses gave this response. The strongest industry sector response in terms of providing better customer service was again the communications, property and business services sector with an 84 per cent response rate, a decrease from 85 per cent for this sector last year. This was the most popular response for every industry sector, with the exception of the building and construction sector, for which the most important reason was to make their business transactions cheaper.

The second most important reason for internet-connectivity was to promote the company more effectively, with a response rate of 54 per cent. This has increased from being the fourth top response last year at 47 per cent. The cultural, recreational and personal services sector and the accommodation, restaurant and cafe sector, both with a response rate of 73 per cent had the highest industry sector responses in terms of SMEs using the internet to promote their company more effectively. This reason, along with improving cash flow, saw the greatest increase in the proportion of SMEs nominating it in the past year.

The next highest response in terms of reasons for connecting to the internet was to help businesses improve their delivery of goods and services (with a response rate of 53 per cent). This was also the third top response last year, and has increased from 49 per cent over the past year. The industry sector that was most likely to nominate the importance of the internet to improve the delivery of goods and services was the finance and insurance sector.

Reasons for connecting to the internet by business size

	All SMEs	Small Business	Medium Business
To provide better service to our customers.	70%	70%	74%
To promote the company more effectively.	54%	50%	64%
To help us improve our delivery of goods or services	53%	52%	60%
To make our business transactions cheaper.	51%	51%	55%
To give us or maintain an advantage over our competitors	47%	46%	57%
To distinguish our company as a provider of unique goods or services.	40%	39%	45%
To improve our cash flow	36%	36%	32%
To increase our market share	34%	34%	34%
To enable us to deliver a 24 x 7 service to our customers	33%	34%	31%
Because our customers requested it.	31%	31%	39%
To reduce our advertising costs.	26%	24%	29%
Because of requests from our suppliers.	25%	25%	33%
Because our competitors introduced these applications.	25%	25%	29%
Due to advice/support from my accountant/financial institution	12%	12%	18%
Due to Government e-commerce initiatives	10%	10%	17%

*Q. Which of the following would you say are **major reasons** why you introduced the internet or electronic commerce into your business*

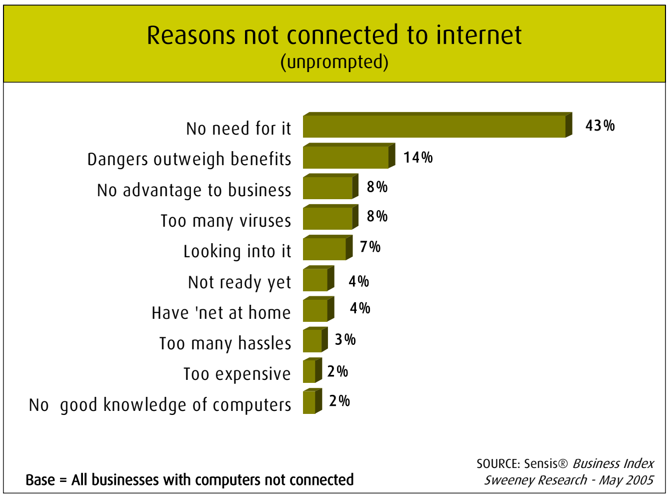
Base = All businesses with internet

SOURCE: Sensis® *Business Index*
Sweeney Research - May 2005

Reasons for not connecting

The most important reason why SMEs were not connected to the internet was a view that they had no need for it (43 per cent, an increase from 22 per cent last year). The industry sectors that were most likely to feel that they had no need to be connected to the internet were the construction and retail sectors. Regional businesses were again more likely to express the view that they had no need for the internet compared to metropolitan businesses.

The next most frequent response was that connecting to the internet was that the dangers would outweigh the benefits, which was given by 14 per cent of those SMEs with computers not connected to the internet. This response has increased from four per cent last year. Businesses in the health and community services sector were most likely to provide such a response.



Expectations for internet connection

While 88 per cent of SMEs are already connected to the internet, this leaves some 12 per cent of businesses that are not. Of those businesses, three per cent believe they will connect their businesses to the internet within the next 12 months. However, the remaining nine per cent of businesses do not expect to do so in the next 12 months.

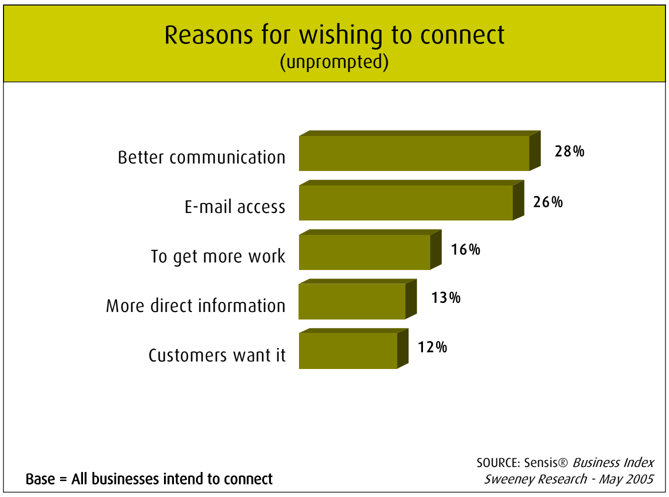
The strongest resistance to future internet connectivity, by business size, again came among those businesses that employ between one to two employees, with 13 per cent stating that they were not expecting to connect to the internet in the next twelve months. The industry sector least likely to be planning to connect was the retail trade sector.

For businesses expecting to connect to the internet for the first time within the next 12 months, the number one reason was for better communication. This was closely followed by the related reason of wanting email access. Other key reasons included the desire to get more work, obtaining more direct information and because their customers wanted it.

Expectations for internet connection
by business size and location

	Use Internet	Expect to Connect	*Do Not Expect
All Businesses	**88%**	**3%**	**9%**
1-2 Employees	82%	5%	13%
3-4 Employees	93%	2%	5%
5-9 Employees	94%	2%	5%
10-19 Employees	97%	0%	3%
20-99 Employees	97%	1%	2%
100-200 Employees	92%	8%	0%
Total Small (1-19)	**87%**	**4%**	**9%**
Total Medium (20+)	**97%**	**2%**	**1%**
Total Metropolitan	89%	3%	8%
Total Rural	86%	4%	10%

Base = All Businesses
*Includes "Not sure"
SOURCE: Sensis® *Business Index*
Sweeney Research - May 2005



How the internet is accessed

The majority of SMEs (38 per cent) that accessed the internet used a dial-up modem. However, there was a noticeable difference in the importance of this form of internet access between small and medium businesses, with 40 per cent of small businesses identifying this form of internet access compared to only 16 per cent of medium businesses. The level of dial-up access among SMEs has dropped significantly from 55 per cent using this method last year.

In terms of industry sector trends, the health and community services sector had the greatest reliance on dial-up modem for internet access. The lowest reliance again occurred in the finance and insurance sector. Also, regional businesses had a greater reliance on dial-up modems relative to metropolitan businesses.

The next most important method of internet access was through a cable modem, cited by 26 per cent of businesses, an increase from 14 per cent last year. Cable modems were the main method of accessing the internet for medium businesses (26 per cent).

In terms of having broadband access, some 63 per cent of internet connected businesses currently reported that they have broadband access. This has increased sharply from 43 per cent last year. Fewer businesses (36 per cent) this year indicated that they did not have broadband access while the remaining one per cent of businesses was not sure. The proportion of SMEs reporting they have broadband access to the internet has risen by 20 percentage points over the past year, and 33 percentage points over the past two years.

Medium businesses were more likely to have broadband access than small businesses, with comparative penetration rates at 87 per cent for medium businesses, compared to 61 per cent for small businesses. Of those SMEs that did have broadband access, 78 per cent felt that it had a positive impact on their business.

In terms of why SMEs have introduced broadband access, the major reason was due to the speed of access. For the second successive year, 69 per cent of businesses with broadband access identified this factor. The industry sector that identified this as the most important reason, relative to other sectors, was the finance and insurance sector. The next most important reasons for having broadband access involved increased efficiency (15 per cent) and frequency of access (11 per cent).

Accessing the internet

	Total	Small Business	Medium Business
How do you currently access the Internet?			
Dial-up modem	38%	40%	16%
Cable modem	26%	26%	26%
Broadband	14%	14%	16%
ADSL	11%	11%	11%
ISDN	8%	7%	25%
Digital subscriber line	3%	3%	7%
Wireless connection	2%	2%	5%
Can't say	3%	3%	5%
Do you currently have broadband access to the Internet?			
Yes	63%	61%	87%
No	36%	37%	13%
Can't say	1%	1%	0%

Base = Connected to Internet

SOURCE: Sensis® *Business Index*
Sweeney Research - May 2005

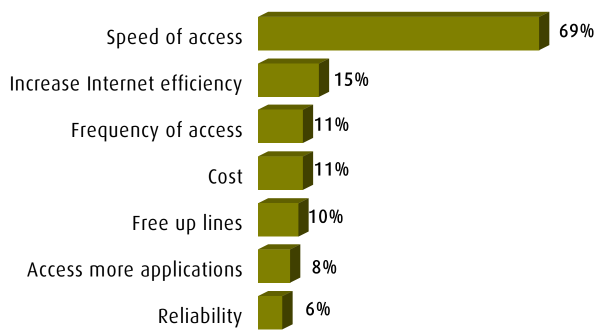
Broadband access

	Total	Small Business	Medium Business
How long has your business had broadband access?			
Over 12 months	63%	62%	77%
6 to 12 months	18%	18%	13%
3 to 6 months	10%	11%	8%
Less than three months	7%	7%	2%
Has the introduction of broadband access had a positive impact, a negative impact or no real impact on your business?			
Positive	78%	77%	84%
Negative	1%	1%	0%
No real impact	21%	22%	16%

Base =Have broadband access

SOURCE: Sensis® *Business Index*
Sweeney Research - May 2005

Reasons for broadband connection
(unprompted)



Base = All businesses with broadband

SOURCE: Sensis® *Business Index*
Sweeney Research - May 2005

How the internet is used – current and expected usage

The number one use of the internet by SMEs was again communicating via email, being identified by 94 per cent of internet connected businesses. Given the high level of penetration that exists among internet-connected businesses, only a further two per cent of businesses expect to take up this application in the next year. Current use of this application has remained stable over the past year.

The second most important application of the internet involved accessing reference information or research data. This is currently used by 89 per cent of businesses that are connected to the internet, marginally down from 90 per cent last year. This was also the second highest ranking application last year.

The third most important application of the internet by SMEs was looking for information about products and services. This was identified as an application currently used by 88 per cent of internet connected businesses. This has been stable since last year with a further four per cent of internet connected businesses expecting to use this application for the first time within the next 12 months.

With many of the top applications remaining relatively stable at high levels of usage over the past year, it is interesting to look at which online applications are still expecting significant growth. The strongest projected rises of any internet applications for the year ahead was the use of web sites to promote their business, the use of the internet to take orders for goods and services through e-commerce and to promote their business through email marketing. A further 12 per cent of businesses expect to have started to use these applications within the next year.

Current and expected uses of the internet - summary

	Currently Use	Expect to use	Total
To communicate via email	94%	2%	96%
To get reference information or research data	89%	3%	92%
To look for information about products and services	88%	4%	92%
Internet banking	80%	3%	83%
To access directories such as the Yellow Pages®	73%	6%	79%
To pay for products and services	71%	3%	74%
To access and use online catalogues	69%	7%	76%
To streamline communications with customers and staff	66%	8%	74%
To place orders for products and services	60%	9%	69%
To receive payments for products and services	57%	6%	63%
To use a website to promote business	54%	12%	66%
To take orders for your products and services	47%	12%	59%
To monitor your markets or the competition	38%	8%	46%
To promote the business using e-mail marketing	26%	12%	38%

Base = All businesses with internet

SOURCE: Sensis® *Business Index*
Sweeney Research - May 2005

Current usage by business size

It is worthwhile noting that the uses of the internet again varied by size of business as well as by industry sector.

Looking at the most used internet application, communication via email, usage by small and medium businesses differed by firm size (94 per cent versus 98 per cent). This involved the usage among small businesses having increased over the past year, with the usage among medium businesses having fallen marginally over the past year. This resulted in the usage gap between small and medium businesses having fallen from six percentage points last year to four percentage points this year.

With regard to the second most important internet application, looking for reference information or research data, there was also a difference in its usage between medium businesses (96 per cent) and small businesses (88 per cent). However, while the usage gap between small and medium businesses is larger for this application at eight per cent, it has remained unchanged over the past year, with usage by both small and medium businesses having fallen marginally by one percentage point.

The internet application that demonstrated the greatest variation between small and medium business usage was using a web site to promote their business. Some 81 per cent of medium businesses with the internet identified this, compared to 52 per cent of small businesses with the internet. This gap of 29 percentage points was the highest for any internet application.

On an industry basis, the largest gaps in terms of internet applications between any two industry sectors, was using a web site to advertise or promote a business. Overall, 80 per cent of businesses in the accommodation, café and restaurant sector reported using this application compared to only 25 per cent of building and construction businesses.

Current uses of the internet by business size

	All SME's	Small Business	Medium Business
To communicate via email	94%	94%	98%
To get reference information or research data	89%	88%	96%
To look for information about products and services	88%	87%	95%
Internet banking	80%	80%	85%
To access directories such as the Yellow Pages®	73%	72%	89%
To pay for products and services	71%	71%	74%
To access and use online catalogues	69%	69%	83%
To streamline communications with customers and staff	66%	65%	86%
To place orders for products and services	60%	59%	74%
To receive payments for products and services	57%	57%	61%
To use a website to promote business	54%	52%	81%
To take orders for your products and services	47%	47%	53%
To monitor your markets or the competition	38%	37%	53%
To promote the business using e-mail marketing	26%	25%	37%

Base = All businesses with internet

SOURCE: Sensis® *Business Index*
Sweeney Research - May 2005

Trends in usage

In terms of trends in usage of various internet applications, the largest rise during the year was again recorded in receiving payment for goods and services and streamlining communication with customers and staff. Both of these applications rose by six percentage points in the last year. Some 50 per cent of all SMEs now report receiving payments online. The greatest usage of the internet to pay for goods and services by an industry sector was the wholesale trade sector (66 per cent). Overall 58 per cent of SMEs reported the use of the internet to streamline their communications, with usage highest in the finance and insurance sector (80 per cent).

The next most significant rises in internet applications was split between another two related applications which recorded increases of three percentage points over the year. These were paying for products and services (up from 59 per cent to 62 per cent); and internet banking (up from 67 per cent to 70 per cent).

The industry sector with the highest usage of online payment was the communication, property and business services sector, where 81 per cent of SMEs made payments online. SMEs in the manufacturing and accommodation, café and restaurant sectors were most likely to use internet banking, at 86 per cent usage.

Usage of some applications had remained stable or diminished. Applications that had recorded no growth in their overall usage by SMEs were monitoring markets or competitors and accessing online catalogues. Applications that recorded falls in usage were placing orders online and using email marketing to promote their business.

Trends in current uses of the internet – based on **all businesses**

	2004	2005	Increase
To receive payments for products and services	44%	50%	6%
To streamline communications with customers and staff	52%	58%	6%
To pay for products and services	59%	62%	3%
Internet banking	67%	70%	3%
To take orders for your products and services	39%	41%	2%
To access directories such as the Yellow Pages®	62%	64%	2%
To communicate via email	81%	83%	2%
To look for information about products and services	76%	77%	1%
To get reference information or research data	77%	78%	1%
To monitor your markets or the competition	33%	33%	0%
To access and use online catalogues	61%	61%	0%
To place orders for products and services	56%	53%	(3%)
To promote the business using email marketing	27%	23%	(4%)

Base = All businesses

SOURCE: Sensis® *Business Index*
Sweeney Research - May 2005

What are the essential applications?

The most essential application of the internet in terms of SME usage was again email. This was identified by 81 per cent of businesses as an essential application, up from 77 per cent last year. Metropolitan businesses were more likely to identify email as an essential application compared to regional businesses (83 per cent versus 79 per cent).

The next most important applications that were identified as essential activities were internet banking (68 per cent, up from 66 per cent); finding reference information or research data (62 per cent, up from 58 per cent); and looking for information about products and services that businesses might buy (57 per cent, up from 55 per cent). Once again, these applications along with email, were the only four internet applications that were identified by a majority of internet based businesses as essential business applications, which has consistently been the case in recent years.

Of all industry sectors, SMEs in the cultural, recreational and personal services sector and the retail sector identified internet banking as an essential internet application of all industry sectors (75 per cent). This contrasts with SMEs in the building and construction sector who were again least likely to regard it as an essential application (59 per cent, up from 48 per cent last year).

The greatest increase in the percentage of internet-connected SMEs regarding an application as essential was to receive payment for products and services, which increased from 34 per cent last year to 41 per cent this year, an increase of seven percentage points. The only application which recorded a decrease in the percentage of SMEs that regarded it as essential was accessing online catalogues, which dropped by five percentage points over the past year.

What are the essential applications?

	All SME's	Small Business	Medium Business
To communicate via email	81%	81%	88%
Internet banking	68%	69%	66%
To get reference information or research data	62%	63%	67%
To look for information about products and services	57%	56%	65%
To pay for products and services	48%	48%	51%
To streamline communications with customers and staff	46%	45%	58%
To access directories such as the Yellow Pages®	45%	45%	52%
To receive payments for products and services	41%	41%	45%
To place orders for products and services	38%	38%	48%
To access and use online catalogues	37%	37%	47%
To use a website to promote business	37%	36%	48%
To take orders for your products and services	35%	34%	38%
To monitor your markets or the competition	24%	23%	39%
To promote the business using email marketing	17%	17%	23%

Base = All businesses with Internet

SOURCE: Sensis® *Business Index*
Sweeney Research - May 2005

Technology in Australian households

Introduction

Whilst this report focuses on the online journey of Australia's SMEs, it is interesting to also look at the demand side of the economy – Australian households – to see where they are on the online journey compared to Australian businesses.

Equipment ownership and internet usage

Overall, Australian consumers had a lower level of computer ownership, internet connectivity and usage than Australian SMEs.

The percentage of Australian households with a computer of some description was 83 per cent in 2005. Some 78 per cent had a desktop computer, with notebook ownership currently at 28 per cent. This compares with 94 per cent of SMEs having a desktop computer, 44 per cent having a laptop computer and 95 per cent having a computer of some description.

In terms of internet connections, some 72 per cent of households were internet-enabled, compared with 88 per cent of SMEs. Some 46 per cent of households had a dial-up internet connection and 31 per cent had a broadband connection.

Providing evidence for the "digital divide", only 52 per cent of Australians with a household income of up to $35,000 were connected to the internet. This compared to 86 per cent of households with an income of over $85,000.

In total, some 83 per cent of Australians had used the internet in the past 12 months. Males had a higher propensity to have used the internet, and the younger the person, the more likely they were to have used the internet in the past year. Full-time employees and business owners were most likely to have used the internet.

Australians used the internet for a wide range of activities, however tended to display lower usage levels than SMEs did. For example, some 42 per cent of Australians reported having ordered goods and services online, compared to 53 per cent of SMEs. Overall, 45 per cent of Australians reported making payments online, compared to 62 per cent of SMEs.

Online banking also showed a considerable difference in the behaviour of consumers and businesses. While some 54 per cent of Australians reported using online banking, this compared to 70 per cent of businesses that reported using online banking.

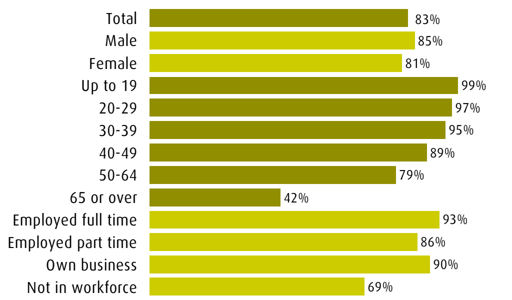
Computerisation in the home

	Households Currently have[1]	Expect to get in next 12 months[1]	Businesses currently have[2]
A desk top computer or PC	78%	14%	94%
A notebook computer	28%	10%	44%
Total computer	**83%**	**21%**	**95%**
Dial-up internet	46%	4%	34%
Broadband internet	31%	18%	55%
Total internet enabled	**72%**	**21%**	**88%**

Q. Which of the following items do you currently own?
Which do you intend to get in the coming 12 months either for the first time, in addition to what you now have, or as a replacement?

SOURCE: [1]Sensis® *Consumer Report :Sweeney Research - May 2005*
[2]Sensis® *Business Index :Sweeney Research - May 2005*

Internet usage in the last 12 months



Q. Have you, personally, used the internet in the last twelve months, either at home, work or another location?

SOURCE: Sensis® *Consumer Report*
Sweeney Research - May 2005

Internet usage in the last 12 months

	Internet users last 12 months	All Australians
Ordered goods/services	50%	42%
Made bookings	56%	47%
Paid for purchases or bills with credit card or other means	54%	45%
Internet banking	54%	45%

Q. In the last twelve months have you undertaken any of the following via the internet?

SOURCE: Sensis® *Consumer Report*
Sweeney Research - May 2005

Using web sites

Introduction

For some businesses, design and construction of a web site is the next step after connecting to, and using, the internet. This section examines small and medium business attitudes to web sites and their status in terms of having one.

Web site ownership

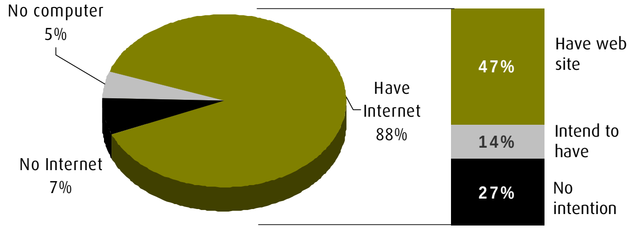
The percentage of small businesses with a web site increased during the year from 45 per cent to 47 per cent in total. Another 14 per cent of small businesses indicated that they intend to get a web site within the next 12 months. The remaining 27 per cent of small businesses indicated that they had no intention of getting a web site this year.

The percentage of internet-connected medium businesses with a web site increased during the year from 80 per cent to 84 per cent. Of those medium businesses with an internet connection (97 per cent) 84 per cent reported that they had a web site. A further 10 per cent of internet-connected medium businesses expected to get a web site within the next twelve months. The remaining six per cent of internet-connected medium businesses have no intention of getting a web site.

The highest rate of web site penetration by industry sector was the cultural, recreational and personal services sector at 64 per cent of all businesses in the sector. At the other end of the spectrum was the building and construction sector, which reported a web site penetration rate of 20 per cent of all businesses in the sector, the lowest of any industry.

Metropolitan businesses reported a higher incidence of web sites with a 54 per cent rate of adoption compared to 37 per cent for regional businesses. Also, non-family based businesses had web site penetration at 61 per cent compared to 43 per cent for all family based businesses. Other business types that were more likely to have a web site were those businesses that were members of an industry association (55 per cent web site penetration) and businesses that were tourism-based (70 per cent web site penetration), and businesses that exported (80 per cent web site penetration).

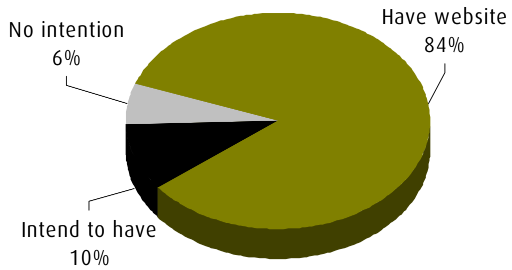
Web site
Small businesses



Base = Small Businesses

SOURCE: Sensis® *Business Index*
Sweeney Research - May 2005

Web site
Medium businesses



Base = Medium Businesses with Internet (97%)

SOURCE: Sensis® *Business Index*
Sweeney Research - May 2005

Web site use and intention
by business size

	2005 Have Web Site	2005 Intend to Have	Cf. 2004 Have Web Site
All Businesses	48%	13%	46%
1-2 Employees	38%	15%	35%
3-4 Employees	54%	13%	52%
5-9 Employees	61%	12%	55%
10-19 Employees	72%	9%	67%
20-99 Employees	80%	11%	79%
100-200 Employees	89%	3%	85%
Total Small (1-19)	47%	14%	45%
Total Medium (20+)	81%	10%	80%

Base = All businesses

SOURCE: Sensis® *Business Index*
Sweeney Research - May 2005

Benefits of the site

Sixty-two per cent of businesses stated that having a web site improved the effectiveness of their business, an increase from 53 per cent last year. This response was the same for metropolitan and regional SMEs, as it was for small and medium businesses.

In terms of web site effectiveness the strongest industry response was again received from the accomodation, cafes and restaurant sector with a response of 86 per cent in terms of web site effectiveness, up from 73 per cent last year. The weakest response came from the finance and insurance sector at 35 per cent. Growth-oriented businesses were more likely to feel that their web site had increased the effectiveness of their business than those businesses that were not aiming for growth (76 per cent compared to 56 per cent).

In terms of the reasons why businesses believed that their web site improved their business effectiveness, the top factor was that it had resulted in more enquiries. This response was given by 29 per cent of SMEs who believed that their web site had led to increased business effectiveness, up from 26 per cent last year.

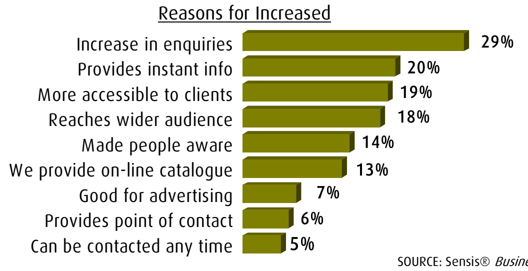
Other key reasons for businesses finding their web site beneficial were: that it provided instant information on their business (20 per cent); that it made their business more accessible (19 per cent); and, that it enabled them to reach a wider audience (18 per cent).

The main benefits of having an internet web site again varied by industry sector. While the increase of enquiries was key in the manufacturing, construction, communications, property and business services and health and community services sectors, SMEs in other sectors had different reasons for believing their web site had increased their business effectiveness.

Businesses in the finance and insurance and accommodation, cafes and restaurant sectors were more likely to feel that providing instant information on their business was the key factor. The retail and transport and storage sectors were more likely to nominate that is had made them more accessible to their customers. The cultural, recreational and personal services sector reported that web sites had helped them to reach a wider audience, including overseas markets, and the wholesale trade believed that having online catalogues had helped to increase their effectiveness.

Has the web site increased business effectiveness?

	All SMEs	Small Business	Medium Business
Yes - increased	62%	62%	62%
No – not increased	38%	38%	38%



Base = All Businesses with Web Site

SOURCE: Sensis® *Business Index*
Sweeney Research - May 2005

Electronic commerce and small and medium businesses

Introduction

This section examines key elements and trends of e-commerce usage and experience of small and medium enterprises (SMEs).

Use of the internet for procurement

During the past year there was some softening in the proportion of SMEs that were using the internet for some stages of the procurement process, following stronger growth in 2004.

While increases had been recorded for internet connections, and the proportion of SMEs using the internet to look for information, there was a small decrease in the proportion using it to place orders. The proportion of SMEs that had placed orders for products and services over the internet fell from 56 per cent in 2004 to 53 per cent in 2005, a decrease of three percentage points. However, there had been an increase in the proportion paying online.

There was considerable variation by industry sector as to whether businesses used the internet to place orders for goods and services. SMEs in the finance and insurance sector were the most likely to place orders for products and services on the internet (72 per cent), while those SMEs in the building and construction sectors were the least likely to place an order online (34 per cent).

The proportion of SMEs that reported using the internet to pay for products and services increased from 59 per cent in 2004 to 62 per cent in 2005, an increase of three percentage points.

For the third year in a row, the proportion of small businesses using the internet to pay for goods and services has exceeded the proportion that place orders on line, with the differential increasing by a further eight percentage points over the past year.

For small businesses, the area of the procurement process that experienced the greatest growth in internet penetration was payment, where there was a growth of four percentage points. For medium businesses there were marginal reductions in all areas of online procurement.

SMEs that were located in metropolitan areas showed a significantly higher propensity to place orders online (56 per cent of those SMEs in metropolitan areas, compared to 45 per cent for regional SMEs). SMEs in the Northern Territory were the most likely to

Buying over the internet
by business size

	Connected to internet	Look for information	Place Orders	Pay
All Businesses	**88%**	**77%**	**53%**	**62%**
1-2 Employees	82%	71%	44%	55%
3-4 Employees	93%	83%	62%	73%
5-9 Employees	94%	79%	55%	62%
10-19 Employees	97%	89%	62%	78%
20-99 Employees	97%	92%	71%	72%
100-200 Employees	92%	92%	75%	67%
Total Small (1-19)	**87%**	**76%**	**51%**	**62%**
Total Medium (20+)	**97%**	**92%**	**72%**	**72%**

Base = All Businesses

SOURCE: Sensis® *Business Index*
Sweeney Research - May 2005

Buying over the internet
Trends – small business

	2000	2001	2002	2003	2004	2005
Connected to Internet	60%	75%	79%	81%	86%	87%
Look for information on products or services	46%	51%	64%	67%	75%	76%
Place orders for products or services	17%	26%	41%	45%	55%	51%
Pay for products or services	11%	23%	40%	47%	58%	62%

Base = All Businesses

SOURCE: Sensis® *Business Index*
Sweeney Research - May 2005

Buying over the internet
Trends – medium business

	2000	2001	2002	2003	2004	2005
Connected to Internet	89%	95%	94%	98%	99%	97%
Look for information on products or services	65%	79%	82%	91%	94%	92%
Place orders for products or services	28%	49%	61%	64%	74%	72%
Pay for products or services	17%	39%	55%	66%	73%	72%

Base = All Businesses

SOURCE: Sensis® *Business Index*
Sweeney Research - May 2005

place orders online, with those in South Australia again the least likely.

In addition, SMEs that were aiming for growth were again more likely to report having placed orders online than their counterparts that were not aiming for growth.

Although there has been a slight fall in the proportion of SMEs that place orders online, there has been an upward movement in the relative importance of these orders. Looking at the relative importance of online orders as a proportion of total procurement activity, the most frequent response was that it formed over 10 per cent of total procurement activity. These latest results reflect an increase in online ordering over the past year. In 2004, 60 per cent of SMEs that ordered online reported that online orders made up more than five per cent of their total procurement activity. This has increased to 66 per cent in 2005, an increase of six percentage points. At the top end of the online procurement spectrum, some 15 per cent of SMEs that ordered online reported that their online purchases made up more than half of their total procurement activity, up from 12 per cent last year.

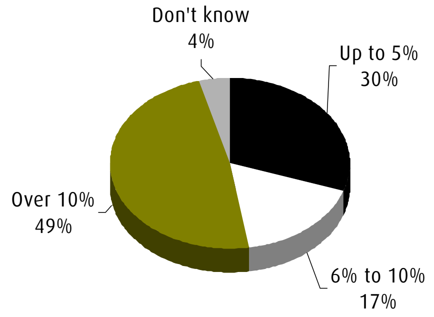
Buying over the internet
by industry sector

	Connected to Internet	Look for information	Place Orders	Pay
All Businesses	**88%**	**77%**	**53%**	**62%**
Manufacturing	84%	74%	48%	63%
Building/Construction	82%	74%	34%	53%
Wholesale Trade	94%	81%	65%	71%
Retail Trade	80%	72%	46%	54%
Transport/Storage	94%	76%	63%	69%
Business Services	97%	87%	63%	79%
Finance and Insurance	99%	80%	72%	57%
Health/Community Services	81%	66%	45%	45%
Personal Services	87%	76%	54%	56%
Hospitality	84%	73%	41%	63%

Base = All Businesses

SOURCE: Sensis® *Business Index*
Sweeney Research - May 2005

Proportion of orders placed over the internet
by businesses which place orders over the net (53%)



Base = Have placed orders

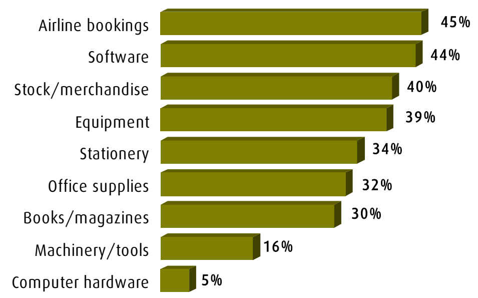
SOURCE: Sensis® *Business Index*
Sweeney Research - May 2005

What businesses buy

The most common use for online purchasing by SMEs during the year was for airline bookings, with 45 per cent of online businesses identifying this form of purchase. The highest experience in this area was the communications, property and business services sector with 59 per cent identifying computer-software related purchases. Airline bookings have become the item purchased online by most businesses after being in second spot last year.

The next most important online purchases included, software (44 per cent), stock/merchandise (40 per cent), equipment (39 per cent), stationery (34 per cent); office supplies (32 per cent) and books and magazines (30 per cent). All of these items increased significantly over the past year, with the exception of books and magazines, which remained stable.

Items bought



Base = Have purchased

SOURCE: Sensis® *Business Index*
Sweeney Research - May 2005

SME use of the internet to sell

Whilst the proportion of SMEs procuring online showed some softening over the past year, there was still growth in the number of SMEs that were using e-commerce to sell goods and services. This is illustrated by the increase from 39 per cent of all SMEs that take orders online in 2004 to 41 per cent for this year. Once again, this trend was reinforced by the rise of businesses that receive payments online from 44 per cent to 50 per cent. Once again, the rate of penetration of receiving payments online outpaced hat of taking orders online during the year (six percentage points rise versus two percentage points).

In terms of taking orders online, small businesses recorded a marginally larger increase than was the case for medium businesses. Small businesses recorded a rise during the year from 39 per cent to 41 per cent for taking orders online. This is comparable to medium businesses, which recorded a rise from 50 per cent to 51 per cent.

The wholesale trade sector recorded the strongest proportion of SMEs that reported taking orders online with 63 per cent of businesses in the sector reporting this experience. This is in contrast to the building and construction sector, where only 22 per cent of firms reported that they received payments online.

Other business types that were particularly likely to sell using e-commerce included tourism-based businesses (with 60 per cent reporting that they took orders online) and exporters (with 70 per cent reporting that they took orders online).

With regard to receiving payments online, small businesses recorded a rise from 44 per cent to 50 per cent, an increase of six percentage points. This compares to the situation for medium business, which recorded a marginal fall in the proportion of SMEs that received payments online, decreasing from 60 per cent to 59 per cent. This followed a fall of three percentage points last year.

In terms of receiving payments online, firms in the wholesale trade sector were most likely to report that they had received payments online, at 62 per cent. At the other end of the spectrum, SMEs in the health and community services sector were least likely to report having received payments online, at 28 per cent.

Selling over the internet
by business size

	Connected to internet	Take Orders	Receive payment
All Businesses	**88%**	**41%**	**50%**
1-2 Employees	82%	34%	44%
3-4 Employees	93%	49%	57%
5-9 Employees	94%	44%	54%
10-19 Employees	97%	62%	66%
20-99 Employees	97%	51%	59%
100-200 Employees	92%	52%	61%
Total Small (1-19)	**87%**	**41%**	**50%**
Total Medium (20+)	**97%**	**51%**	**59%**

Base = All Businesses

SOURCE: Sensis® *Business Index*
Sweeney Research - May 2005

Selling over the internet
Trends – small business

	2000	2001	2002	2003	2004	2005
Connected to Internet	60%	75%	79%	81%	86%	87%
Take orders	14%	19%	29%	32%	39%	41%
Receive payments	7%	13%	26%	32%	44%	50%

Base = All Businesses

SOURCE: Sensis® *Business Index*
Sweeney Research - May 2005

Selling over the internet
Trends – medium business

	2000	2001	2002	2003	2004	2005
Connected to Internet	89%	95%	94%	98%	99%	97%
Take orders	23%	35%	47%	49%	50%	51%
Receive payments	15%	29%	50%	63%	60%	59%

Base = All Businesses

SOURCE: Sensis® *Business Index*
Sweeney Research - May 2005

In terms of evolving an internet strategy from basic internet connectivity to a comprehensive e-commerce strategy involving receiving payments online, a comparison was made between industry sectors. The largest gap between any industry sector in terms of internet penetration relative to receiving payments online was again the finance and insurance sector. This reflected a noticeable gap of almost 60 percentage points between internet connectivity and receiving payments online (99 per cent versus 40 per cent). This sector displayed the largest gap for the last two years, however the gap decreased marginally this year from the 60 percentage points recorded last year. The narrowest gap was again in the retail trade sector at 29 percentage points (80 per cent versus 51 per cent). This gap has increased by three percentage points in the last year due to an increase in the level of internet connectivity within the sector, but no corresponding increase in the proportion of businesses receiving payments online.

There was also an increase in the relative importance of online orders for those businesses selling through e-commerce. In terms of using the internet to take sales orders as a share of total sales activities, 39 per cent of SMEs who took orders over the internet reported that internet orders accounted for up to five per cent of their total orders. This was down from 47 per cent of SMEs last year, and reflects a further upward movement in the amount of orders being placed online. This year saw the proportion of SMEs that made over 10 per cent of their sales online increase from 39 per cent to 42 per cent.

At the upper end, 13 per cent of SMEs who took orders over the internet reported that online orders made up more than half of their total orders, an increase from the eight per cent recorded last year. SMEs in the communications, property and business services sector were most likely to report that online orders made up the majority or their orders, with the health and community services sector least likely to report receiving the majority of their orders online.

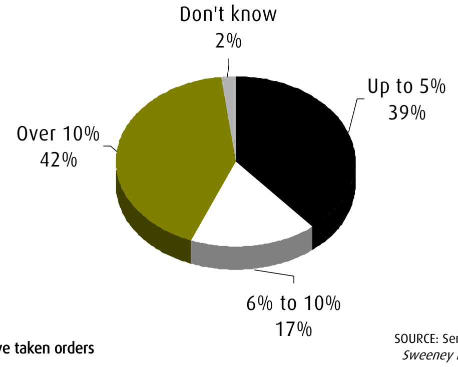
Selling over the internet
by industry sector

	Connected to Internet	Take Orders	Receive Payment
All Businesses	**88%**	**41%**	**50%**
Manufacturing	84%	41%	50%
Building/Construction	82%	22%	48%
Wholesale Trade	94%	63%	62%
Retail Trade	80%	36%	51%
Transport/Storage	94%	61%	55%
Business Services	97%	51%	60%
Finance and Insurance	99%	42%	40%
Health/Community Services	81%	21%	28%
Personal Services	87%	41%	43%
Hospitality	84%	55%	39%

Base = All Businesses

SOURCE: Sensis® *Business Index*
Sweeney Research - May 2005

Proportion of orders taken over the internet
by businesses which take orders over the net (41%)



Base = Have taken orders

SOURCE: Sensis® *Business Index*
Sweeney Research - May 2005

Who businesses sell to online

With e-commerce offering SMEs the opportunity to reach a potentially global market, it is interesting to note that most sales made using e-commerce are relatively close to home. In most cases the further a customer was, the less likely it was that a SME would make a sale to them.

This can be seen by looking at the type of customers that businesses sell to over the internet, with local customers in the same city or town being again the most frequent response. This reflected 83 per cent of SMEs that sell to local customers and 61 per cent of businesses that mainly sell to local customers. Over the past year the proportion of SMEs that make sales to local customers has dropped from 85 per cent to 83 per cent, however there was a marginal rise of one percentage point in the proportion of SMEs that mainly sell in their local area.

Customers that were interstate or elsewhere in their state was the next most frequent responses, with 56 per cent of SMEs selling to customers interstate and 55 per cent selling to customers outside their town but elsewhere in the state.

In terms of overseas customers, eight per cent of SMEs identified such customers as the main e-commerce customer group for their business. This reflected an increase from last year's level of five per cent of SMEs that used e-commerce to sell mainly to overseas customers. However, the total scope for exporting through e-commerce was more significant, with 34 per cent of SMEs who made sales through e-commerce having made at least some sales to overseas customer. This figure has dropped some two percentage points in the past year.

SMEs in regional areas that used e-commerce were less likely to make sales in their local area than their metropolitan counterparts, reflecting in part their smaller local market. However, this result was counterbalanced by the fact they were more likely to make sales interstate or overseas than their metropolitan counterparts.

Types of customers sold to

	All SMEs		Total Sell To	
	Mainly Sell To	Total Sell To	Small Business	Medium Business
Local – same city or town	61%	83%	84%	80%
Elsewhere in State	9%	55%	54%	61%
Interstate	18%	56%	55%	61%
Overseas	8%	34%	35%	26%

Base = Use e-commerce

SOURCE: Sensis® *Business Index*
Sweeney Research - May 2005

Return on investment

For the fourth year now, the Sensis® *e-Business Report* has been tracking the time that SMEs have been taking to recover their investment in e-commerce. These results have been remarkably consistent, with the latest results showing 61 per cent of SMEs reporting that they had recovered their investment in e-commerce. A further 10 per cent of those SMEs who have invested in an e-commerce strategy report that they are expecting to recover their investment in the next year.

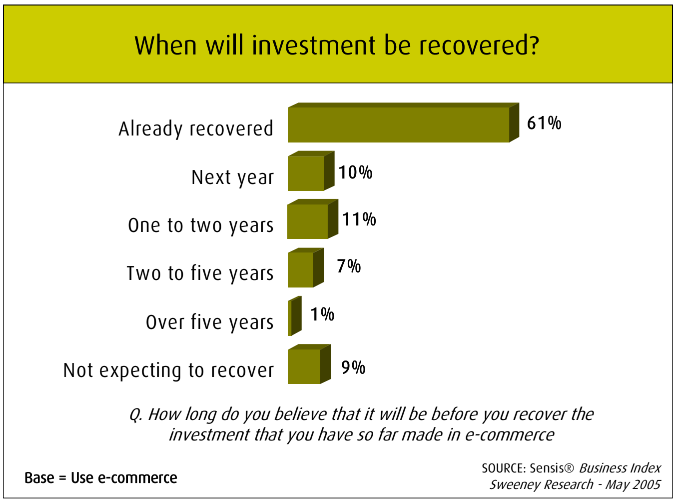
The latest results show a steady increase in the proportion of SMEs that are reporting having recovered their investment, which has increased by a further two percentage points from 59 per cent. For each of the two previous years, some 56 per cent of SMEs reported having already recovered their investment.

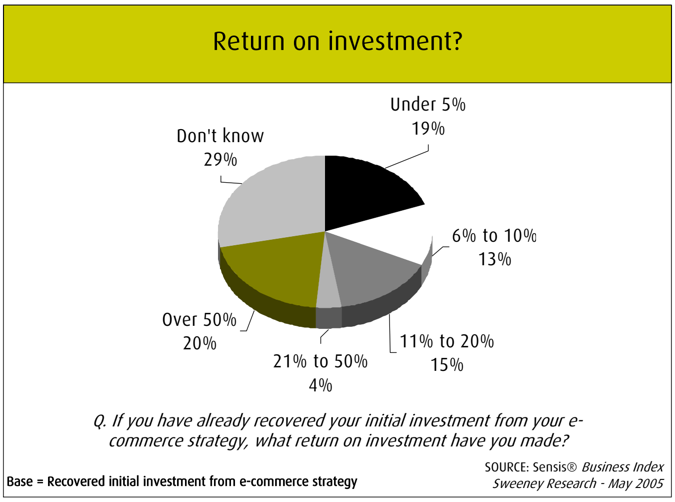
From a business investment perspective, what is even more compelling than the payback period is the return on that investment. In terms of the return on investment, the most frequent response by 20 per cent of businesses who had recovered their investment was that their return had been in excess of 50 per cent. However, this was closely followed by the 19 per cent of SMEs who had recovered their investment and reported that they had made a return on investment of less than five per cent.

The proportion of SMEs who had recovered their investment and reported a return in excess of 50 per cent has fallen by seven percentage points from 27 per cent last year. While there has been a small decrease at this level, there was also a large decrease in the proportion of SMEs reporting relatively low returns. The proportion of SMEs reporting a return on investment of less than five per cent has fallen 12 percentage points over the past year.

This year some 29 per cent of SMEs reported that they did not know what their return on investment from e-commerce had been. While this is an increase from the seven per cent reporting that they did not know last year, it is significantly lower than the 43 per cent of those who had recovered their investment and did not know what the return on that investment was two years ago.

SMEs in the Northern Territory were the most likely to report a return on investment of greater than 50 per cent, with those in South Australia the least likely.





Degree of interest in engaging in e-commerce

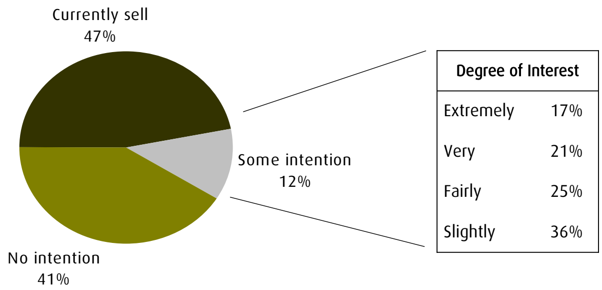
Looking at those firms that are connected to the internet, some 47 per cent currently make sales using e-commerce, with 41 per cent reporting that they currently had no intention of introducing e-commerce to their business.

Of the 12 per cent of businesses that felt they could use e-commerce, some 38 per cent of businesses indicated that they were either extremely interested or very interested in using e-commerce within their businesses, a decrease from 45 per cent last year. This was divided between 17 per cent that were extremely interested (down from 31 per cent) and 21 per cent that were very interested (up from 14 per cent). Some 36 per cent stated they were only slightly interested, which was unchanged from last year. The communications, property and business services sector again recorded the highest industry sector response in terms of being extremely interested in using e-commerce (44 per cent of SMEs in the sector that do not currently use e-commerce)

In terms of the expected timescale for implementing an e-commerce strategy, the majority response (57 per cent) was within the next year. This was up on the comparable result last year where 54 per cent stated within the next year. In addition a further 17 per cent responded that they were looking at introducing e-commerce immediately. These two responses combine to a total of 74 per cent of SMEs that are relatively interested in introducing e-commerce into their businesses in the near future.

The second highest response level was within two to five years, with 26 per cent reporting this response.

Degree of interest in e-commerce

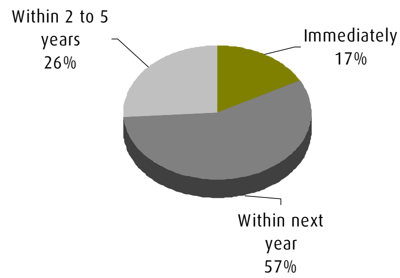


Q. Overall, how strong an interest do you have in using electronic commerce in the future - that is selling over the Internet?

Base = All businesses with Internet

SOURCE: Sensis® *Business Index*
Sweeney Research - May 2005

Timescale for decision on implementation



Q. And on what sort of timescale would you like to move towards electronic commerce?

Base = Extremely/very/fairly interested in e-commerce

SOURCE: Sensis® *Business Index*
Sweeney Research - May 2005

The barriers and difficulties of engaging in e-commerce

From a range of prompted options, security concerns relating to hacking was again the number one concern for SMEs. Some 40 per cent of online businesses identified this as a major concern, an increase of two percentage points. A further 28 per cent identified this as a minor concern.

The second most important concern again involved a lack of expertise and knowledge. This was identified by 19 per cent as a major concern, with a further 34 per cent identifying this as a minor concern. The next most important concerns included a lack of personal contact (identified by 16 per cent as a major concern), the cost of hardware and software (identified by 13 per cent), and the cost and time to introduce e-commerce (identified by 12 per cent).

The issue that was the least likely to be identified as a major concern among businesses, of all the prompted responses, was incompatability with their existing systems. Only five per cent identified this as a major concern and 17 per cent as a minor concern. The second lowest concern involved customers being able to more easily compare products.

Compared to last year's results the biggest drop in major concerns involved the cost of hardware and software, perceptions of incompatability with existing systems and the cost and time to introduce e-commerce. The proportion of SMEs with potential to use e-commerce that rated these concerns as major concerns had dropped by five percentage points over the past year.

Overall, the extent to which issues were considered major concerns only increased across two areas in the past year, and these were both issues pertaining to beliefs held about customers. The issue which had the largest increase as a major concern was the belief that customers were not prepared to transact on the internet, which increased by three percentage points from nine per cent in 2004 to 12 per cent this year. The only other issue to increase as a major concern was a feeling that customers were not yet ready to transact on the internet, which increased by one percentage point over the past year.

The largest concern small businesses identified relative to medium businesses involved concerns about hacking. With 46 per cent of small businesses identifying this issue, compared to 40 per cent for medium businesses. While the most significant concern of medium businesses relative to small businesses, involved the cost and time to introduce

Concerns about e-commerce (Prompted)

	Major Concern	Minor Concern	No Concern
People being able to hack into your computer system	40%	28%	32%
Your lack of expertise and knowledge in computers	19%	34%	47%
Lack of personal contact with the customer	16%	34%	49%
The cost of hardware and software	13%	33%	54%
Cost and time with introducing new technologies	12%	38%	50%
Customers not being prepared to carry out financial transactions over the Internet	12%	31%	57%
A feeling that most of your customers aren't yet ready	12%	27%	62%
Customers can more easily compare your product offer with that of your competitors	9%	25%	66%
Incompatibility with your existing systems	5%	17%	78%

Base = All businesses with internet

SOURCE: Sensis® *Business Index*
Sweeney Research - May 2005

Concerns about e-commerce Trends

Rate as Major Concern	Feb 2000	May 2001	May 2002	May 2003	May 2004	May 2005
A feeling that most of your customers aren't ready for e-commerce	33%	33%	31%	27%	11%	12%
Cost of hardware and software	26%	19%	24%	20%	18%	13%
Lack of expertise and knowledge	37%	28%	30%	28%	19%	19%
Customers can more easily compare your product	N/A	N/A	N/A	11%	9%	9%
Incompatibility with existing systems	N/A	N/A	N/A	8%	10%	5%
Cost and time to introduce	10%	10%	9%	4%	17%	12%
Lack of personal contact	47%	39%	36%	27%	17%	16%
People able to hack into system	34%	34%	42%	41%	43%	40%
Customers not prepared to transact on net	38%	34%	23%	23%	9%	12%

Base = All businesses with internet

SOURCE: Sensis® *Business Index*
Sweeney Research - May 2005

Concerns about e-commerce by business size

Rate as Major Concern	All SMEs	Small Business	Medium Business
People able to hack into your computer system	46%	46%	40%
Lack of expertise and knowledge in computers	22%	22%	18%
The cost of hardware and software	21%	21%	26%
Lack of personal contact with the customer	22%	22%	24%
Cost and time with introducing new technologies	20%	19%	28%
Customers not being prepared to carry out financial transactions over the Internet	16%	16%	14%
A feeling that most of your customers aren't yet ready	16%	16%	20%
Incompatibility with your existing systems	10%	10%	13%
Customers can more easily compare your product offer with that of your competitors	10%	10%	14%

Base = All businesses with internet

SOURCE: Sensis® *Business Index*
Sweeney Research - May 2005

new technologies.

Production of technology by Australian SMEs

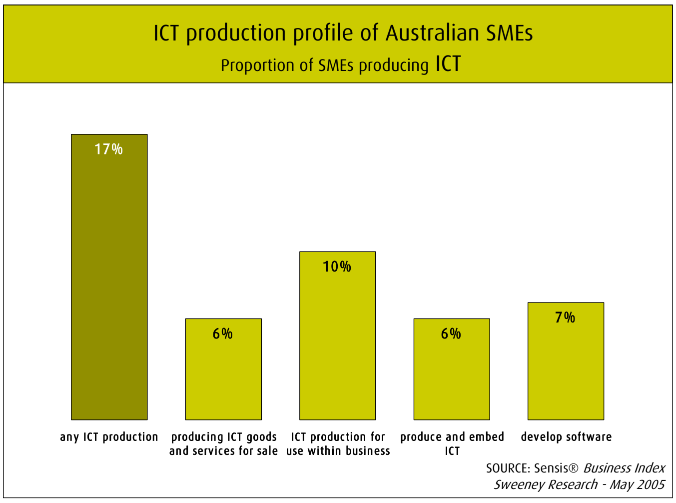
Apart from a high level of usage of new technologies, a significant proportion of Australian SMEs are also involved in the production of information and communications technologies (ICT). This section looks at the extent of ICT production among Australian SMEs.

The extent of ICT production amongst Australian SMEs

Overall some 17 per cent of SMEs were involved in some form of production of information and communication technology (ICT) goods or services.

This included:

- those firms that produced ICT goods and services for sale (six per cent of all SMEs);
- those firms that produced these technologies for use within their business (10 per cent of all SMEs);
- those firms that produced information and communications technology that was then embedded in other goods and services that they sold (six per cent of all SMEs); and
- those firms that developed software in the last two years (seven per cent of all SMEs).



Again, there was some overlap between these four categories, with some SMEs being involved in all of these facets of technological production, while other SMEs were only involved in one area of production, but in total, 17 per cent of all SMEs reported at least some involvement in some facet of ICT production.

Traditionally, the production of ICT goods and services was thought to take place amongst firms in a relatively narrowly-defined group of industry classifications, generally referred to as the ICT sector. What is particularly fascinating about these results is that it shows that whilst the concentration of ICT production within those firms is high, the majority of ICT production actually takes place outside the traditional ICT sector, in all industry classifications.

Of the ICT production that was found to occur in this survey, only 15 per cent of production occurred in firms within the ICT sector, with the vast majority, of 85 per cent of production occurring in firms outside the ICT sector.

Technology is now an integral part of the Australian SME environment. It is used by businesses of all types, and it is also produced by businesses of all types. Technology is no longer the domain of a few, specialist businesses, but is available to be harnessed by all businesses as a fundamental tool in their business strategies.

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- Innovation – March 2001
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- Attitudes to Changes in FBT – July 1999
- Workers Compensation and Workplace Safety – November 1998
- The Paper Work Burden on Small Business – October 1996
- Women in Business – July 1994 and February 1996
- Attitudes to Government – October 1994 and November 1995

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