

July 2006

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 2006 Sensis® *Business Index* included questions on technology usage and electronic commerce (e-commerce). These questions formed the basis of the 2006 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 12 years, Sensis® has examined the experiences of small business with electronic technology with the first benchmarking report on technology and small businesses collected in February 1994. The trends identified from earlier studies are reported where applicable.

The Sensis® *e-Business Report* also contains data collected as part of the June 2006 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 2006 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 19 April to 31 May 2006. The results relating to businesses 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	610
3 – 4 Employees	283
5 – 9 Employees	249
10 – 19 Employees	168
Total Small	1310
20 – 99 Employees	435
100 – 200 Employees	55
Total Medium	490

The results in this report relating to consumer behaviour are based on a survey of 1,500 Australians conducted over the period 19th April 2006 to 15th May 2006.

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 2006. 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 marginal rise in computer ownership among SMEs during the year, with a rise from 95 per cent to 96 per cent. This comprised of a 96 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 50 per cent of SMEs now owning a notebook computer, an increase of six percentage points from 44 per cent last year.

The internet

The rate of internet connectivity among small and medium businesses continued to grow during the year. As illustrated by the rise in internet connectivity among small businesses increasing from 88 per cent to 90 per cent, a rise of two percentage points. This increase was equivalent to the increase recorded last year.

While 90 per cent of all SMEs currently have internet access, a further three per cent expect to connect within the next 12 months and the remaining seven per cent do not expect to be connected within the year. Some 80 per cent of SMEs now have broadband internet access, having almost doubled in the past two years.

The single most important reason for use of the internet (as identified by 97 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 look for information about products and services (91 per cent), while the third highest usage was to get reference information or research data (89 per cent).

Australians use of technology

The uptake of technology in Australian households was lower than was the case for SMEs. Some 82 per cent of households reported having a computer of some description, with 74 per cent of households being internet enabled and 49 per cent having broadband connections. Overall, 49 per cent of Australians had made purchases online.

Websites

The proportion of small businesses with a website continued to increase over the past year from 47 per cent to 48 per cent. A further 12 per cent of small businesses indicated an intention to have one within the next 12 months. Website penetration declined marginally for medium businesses, falling from 81 per cent in 2005 to 80 per cent in 2006. A further 11 per cent of medium businesses indicated they expected to get a website within the next 12 months.

In terms of website effectiveness, a majority of businesses (67 per cent) have indicated that their website increased their business effectiveness. The reason most SMEs provided was that the website allowed people to obtain information on their business easily.

Use of the internet for procurement

The past year has seen solid growth in the use of the internet for procurement purposes. This is reflected in the rise from 53 per cent to 60 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 some softening from last year. The proportion of e-commerce businesses that indicated their online purchases represented more than five per cent of their total purchasing activities decreased from 66 per cent to 61 per cent. At the top end of the spectrum, 12 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 continued growth in adoption over the year, but at a slower rate than purchasing trends. This was reflected in the rise among SMEs from 62 per cent to 66 per cent for payments made online.

The most common online purchases made by SMEs during the year were airline bookings, stock and merchandise. These were followed by computer software, equipment and stationery.

Use of the internet to sell

The trend in online selling continued to grow during the past year. The percentage of SMEs taking orders online has increased from 41 per cent in 2005 to 47 per cent in 2006.

Online selling as a share of total sales activities, in line with purchasing activities, saw some softening 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 decreased over the year from 59 per cent in 2005 to 50 per cent in 2006. Some 12 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 also recorded growth, albeit at a slower rate than SMEs who took orders over the internet. This was reflected in the proportion of SMEs that received payments for sales over the internet increasing from 50 per cent to 53 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 (57 per cent) indicated they had already recovered their investment in e-commerce. This result decreased by four percentage points from last year.

This year was the fourth 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 19 per cent of these businesses indicated that the return on investment from their e-commerce strategy had exceeded 50 per cent, down marginally from 20 per cent last year.

While 52 per cent of online businesses use e-commerce and a further nine per cent have indicated that they thought they could use it, some 39 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.

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 been taken up in the work places of small and medium-sized businesses.

Equipment ownership

The 2006 Sensis® e-Business Report found that 96 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. Growth in mobile computing was reported, with some 50 per cent of all SMEs owning at least one notebook computer (48 per cent of small businesses and 83 per cent of medium businesses).

Computer ownership was slightly higher in metropolitan regions with 97 per cent of businesses reporting computer ownership compared to 93 per cent for regional businesses.

While there was a continued difference in computer ownership among businesses in different states and territories, the overall difference narrowed in the past year. The highest levels of computer ownership were in Victoria, Queensland, the Northern Territory and the Australian Capital Territory (97 per cent each), while the lowest was once again in Tasmania (91 per cent).

Levels of computer ownership also varied quite noticeably across the various industry sectors. At the high end of the scale, the finance and insurance sector again recorded a 100 per cent computer ownership result. By comparison, the building and construction sector recorded a result of 89 per cent of businesses owning a computer of some description.

Computer ownership by industry sector			
	Desktop computer	Notebook computer	Any computer
All Business	94%	50%	96%
Manufacturing	93%	51%	93%
Building/Construction	89%	39%	89%
Wholesale Trade	95%	57%	97%
Retail Trade	98%	41%	98%
Transport/Storage	91%	45%	92%
Communication, Property & Business Services	96%	63%	99%
Finance and Insurance	90%	71%	100%
Health and Community Services	93%	49%	98%
Cultural, Recreational & Personal Services	90%	34%	91%
Accommodation, Cafes and Restaurants	97%	57%	98%

SOURCE: Sensis® Business Index
Sweeney Research - May 2006

Computer ownership by business size and location			
	Desktop computer	Notebook computer	Any computer
All Businesses	94%	50%	96%
1-2 Employees	90%	40%	94%
3-4 Employees	97%	54%	97%
5-9 Employees	97%	61%	99%
10-19 Employees	100%	73%	100%
20-99 Employees	100%	83%	100%
100-200 Employees	98%	89%	98%
Total Small (1-19)	94%	48%	96%
Total Medium (20+)	99%	83%	100%
Total Metropolitan	95%	54%	97%
Total Rural	93%	43%	93%

SOURCE: Sensis® Business Index
Sweeney Research - May 2006

In terms of telecommunication equipment ownership, the greatest increase during the past year was in the proportion of businesses with a broadband connection. Some 71 per cent of SMEs now report having a broadband internet connection. This has increased by 17 percentage points over the past year, for the second successive year.

In total, 49 per cent of businesses reported that they had a LAN network supporting their business. Overall, some 29 per cent of SMEs indicated that they had a WAP enabled mobile phone, and 26 per cent of businesses indicated that they had an advanced telephony system supporting their business.

For the first time, significant numbers of SMEs are reporting using wireless technologies for location and navigation and wireless e-mail. Some 12 per cent of SMEs reported having some form of satellite navigation device, either in-car or hand-held, with seven per cent reporting having either a mobile e-mail device.

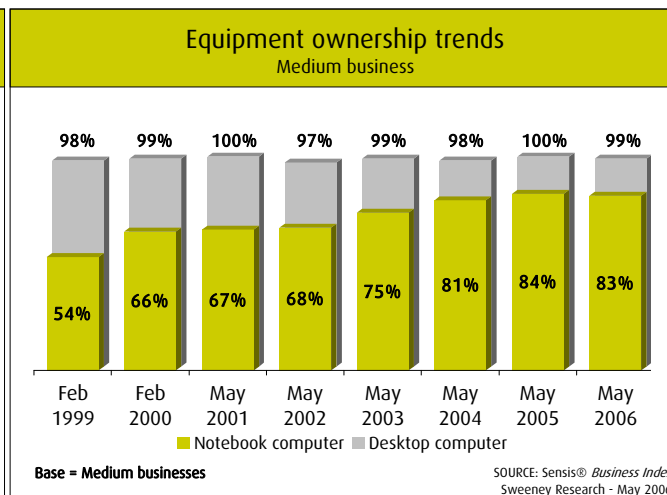
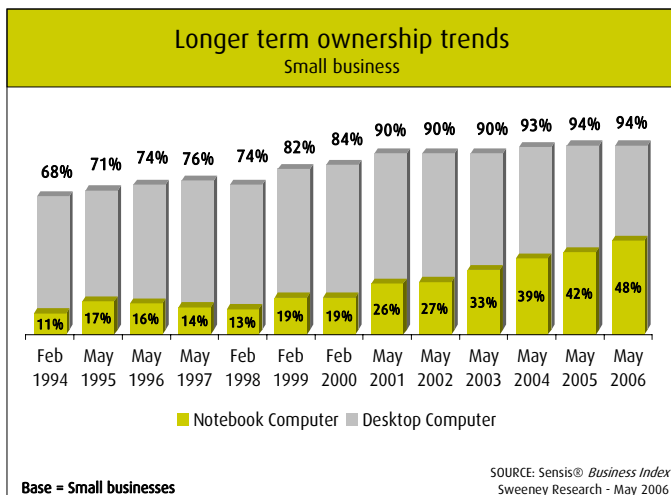
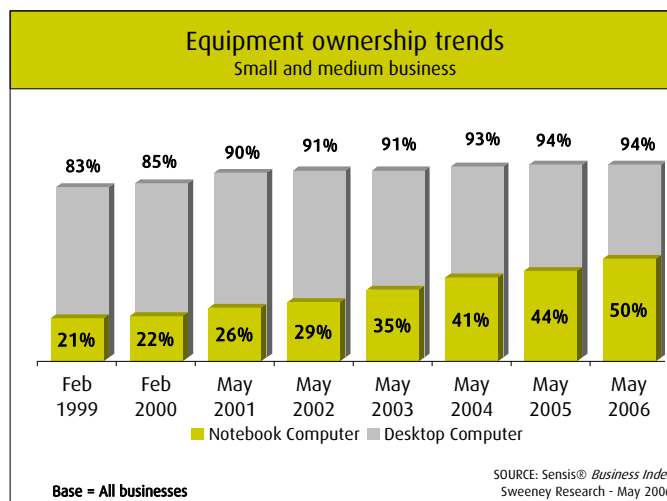
Telecommunication equipment ownership			
	All SMEs	Small Business	Medium Business
An upgraded telecommunications line to run your on-line requirements which doesn't involve broadband connection	18%	18%	27%
An upgraded telecommunications line involving broadband connection	71%	71%	89%
A WAP (or internet) enabled mobile phone	29%	27%	50%
A LAN network supporting your business	49%	48%	82%
An advanced telephony system (such as a PABX or IVR)	26%	24%	70%
3G mobile telephone (with internet access)	18%	17%	29%
Standard mobile telephone (without internet access)	84%	83%	96%
Satellite navigation system (in-car or hand-held)	12%	11%	32%
Mobile email	7%	6%	25%

SOURCE: Sensis® Business Index
Sweeney Research - May 2006

Computer ownership trends

The proportion of small businesses that owned a desktop computer was unchanged at 94 per cent. Growth in notebook ownership continued among small businesses with an increase from 42 per cent to 50 per cent over the past year.

In the space of five years, notebook computer ownership among SMEs has almost doubled, increasing from 26 per cent to 50 per cent. This compares to a growth of four percentage points in the ownership of desktop computers among SMEs during the same time period. The main market opportunity for continued notebook growth is primarily among small businesses, with growth among medium businesses having reached a plateau.



Expenditure in 2005 calendar year

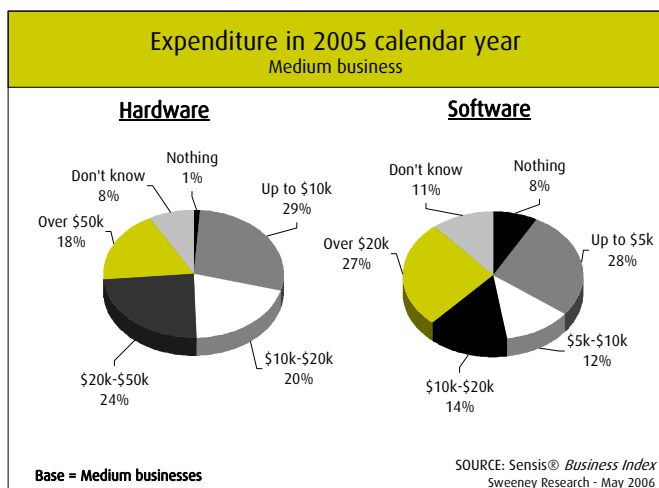
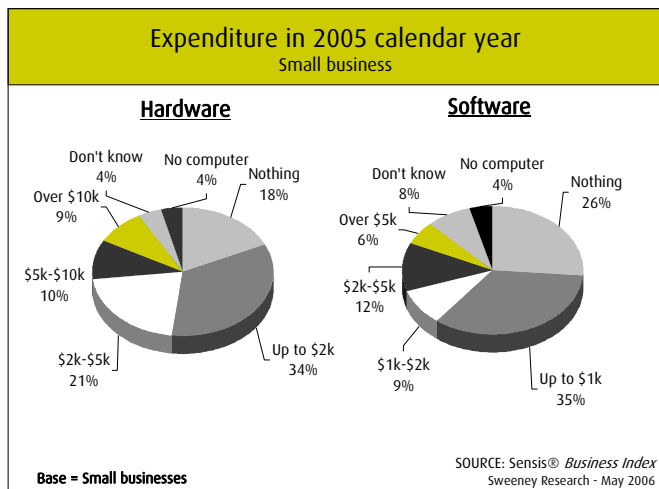
Total expenditure on computer hardware and software for all SMEs in 2005 was \$8,600. This was a decrease of \$900 during the past year from \$9,500 in 2004.

The average level of expenditure on computer hardware during 2005 by all SMEs was approximately \$5,800. This represents a decrease of \$400 during the past year. The average spend of small business differed greatly from that of medium businesses. While the average spend for small businesses on computer hardware in 2005 was approximately \$3,900, for medium businesses the corresponding spend on hardware was \$43,200. In comparison to the previous year, expenditure among small businesses decreased. In contrast, medium businesses increased the average amount they spent.

The average hardware spend for small businesses was \$3,900, but the vast majority of small businesses spent far less than this. More than one in five small businesses last year recorded no spend on computer hardware, with more than half spending up to \$5,000. Only nine per cent of small businesses reported spending more than \$10,000 on computer hardware in 2005. This compares to almost two-thirds of medium businesses which reported spending more than \$10,000 on hardware in 2005.

The average expenditure on software for SMEs was \$3,400. This represents an increase of \$100 over the past year. Again, this varied significantly between small and medium businesses, with the average spend for small businesses being \$1,800 (a decrease of \$100 over the past year) compared to \$35,800 for medium businesses (an increase of \$4,200 over the past year).

As was the case with hardware, most small businesses reported spending far less than the average spend on computer software. Some 30 per cent of small businesses reported no spend on software in 2005, and an additional 35 per cent reported a software spend of up to \$1,000. Only six per cent reported spending more than \$5,000 on software in 2005. This compares with 53 per cent of medium businesses which reported spending in excess of \$5,000 on computer software over the same period.



Trends in mean expenditure

	1998	1999	2000	2001	2002	2004	2005
Small Business							
Software	\$900	\$1,500	\$1,800	\$1,400	\$2,100	\$1,900	\$1,800
Hardware	\$4,000	\$4,100	\$5,700	\$3,900	\$5,100	\$4,400	\$3,900
Medium Business							
Software	\$30,100	\$44,100	\$25,500	\$23,200	\$28,000	\$31,600	\$35,800
Hardware	\$47,000	\$80,100	\$49,100	\$41,600	\$59,200	\$42,300	\$43,200

Base = All businesses

SOURCE: Sensis® Business Index
Sweeney Research - May 2006

Expected expenditure in 2006 calendar year

Overall, SMEs were expecting to spend even less on computer hardware and software in 2006 than they did in 2005.

Total average expenditure on computer hardware and software for all SMEs in 2006 was expected to be \$7,300. This would represent a decrease of \$1,300 from the total spend of \$8,600 that SMEs reported spending on hardware and software in 2005.

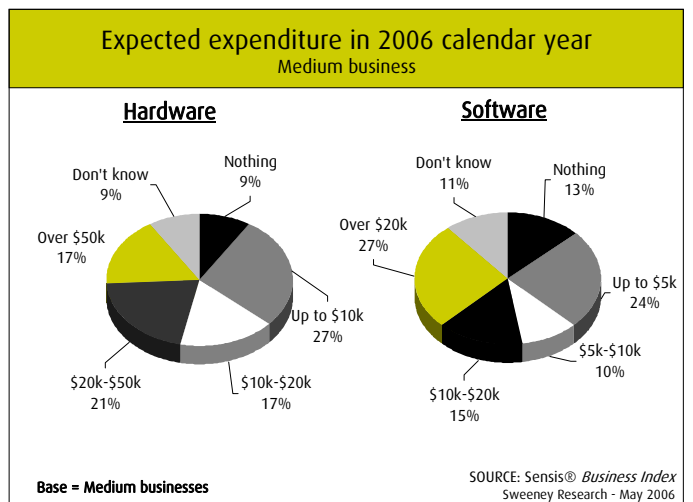
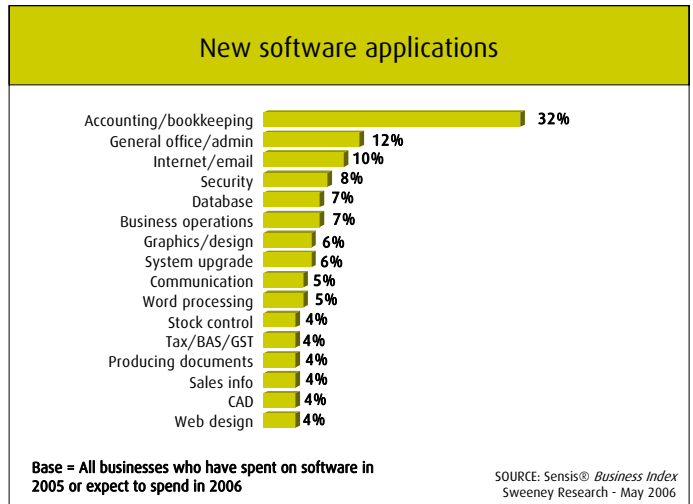
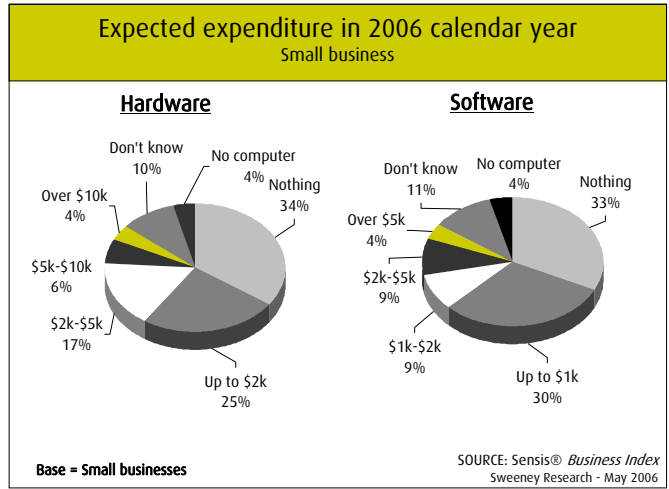
On average, small businesses were expecting to spend \$3,900, with medium businesses expecting to spend \$74,000 on computer hardware and software in 2006.

In terms of expenditure on computer hardware, SMEs were expecting to spend significantly less in 2006 than they did in 2005. The average expected spend across all SMEs was \$4,800, considerably less than the \$5,800 spent in 2005. Comparatively, small businesses were expecting to spend \$2,700, down from the spend of \$3,900 in 2005.

SMEs were expecting to drop their hardware spend during 2006, but were expecting to increase their spend on computer software. The average expected spend across all SMEs was \$3,400, which if realised, would be equivalent to the average spend recorded this year. However, small businesses were expecting to spend \$1,600, down from the spend of \$1,800 reported in 2005. The overall increases recorded were for medium businesses, which expect to increase their average software spend from \$35,800 in 2005 to \$36,700 in 2006.

Overwhelmingly, the major software applications that SMEs had bought over the past year or were planning on buying in the year ahead were again accounting packages, a response given by 32 per cent of SMEs. Despite this being the most popular response, it had dropped considerably from the 42 per cent reported last year.

Other popular software purchases by SMEs in the past year included general office software and internet/e-mail software. One area in particular that recorded considerable increase in the past year was security software. It had risen from negligible levels last year to eight per cent this year and is now the fourth most popular software purchase by SMEs.



Getting connected

Connection levels

The proportion of all small and medium enterprises connected to the internet rose during the year from 88 per cent to 90 per cent. This reflected a rise in small businesses internet-connectivity from 87 per cent to 90 per cent, and a rise for medium businesses from 97 per cent to 99 per cent. Of the 10 per cent of small businesses that are not connected to the internet, six per cent owned a computer but had not connected to the internet, while the remaining four per cent did not own a computer.

The finance and insurance sector again recorded the highest rate of internet-connectivity at 100 per cent, closely followed by the communication, property and business services sector at 97 per cent. The lowest level of connectivity was in the building and construction sector, of which 81 per cent of SMEs reported having an internet connection, a marginal fall of one percentage point in the past year.

Metropolitan businesses reported a rate of 92 per cent internet penetration which was higher than the comparable result for regional businesses at 88 per cent. It is interesting to note that these figures relate to all SMEs, regardless of whether they have a computer or not. When looking at those SMEs that have a computer, connection levels are identical in metropolitan and regional areas, the main difference being that SME in metropolitan areas are more likely to own a computer.

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 90 per cent. Over this time the trend among medium businesses has been nearly as impressive, rising from 65 per cent to 99 per cent. Examining the trends around these figures shows that there is now only limited scope for new connections, mainly among small businesses, and the internet is now part of the standard toolkit for any business.

Internet connections by business size and location			
	No computers	Use internet	Do not use
All Businesses	4%	90%	6%
1-2 Employees	6%	86%	7%
3-4 Employees	3%	92%	5%
5-9 Employees	1%	96%	3%
10-19 Employees	0%	96%	4%
20-99 Employees	0%	100%	0%
100-200 Employees	2%	98%	0%
Total Small (1-19)	4%	90%	6%
Total Medium (20+)	0%	99%	0%
Total Metropolitan	3%	92%	6%
Total Rural	7%	88%	5%

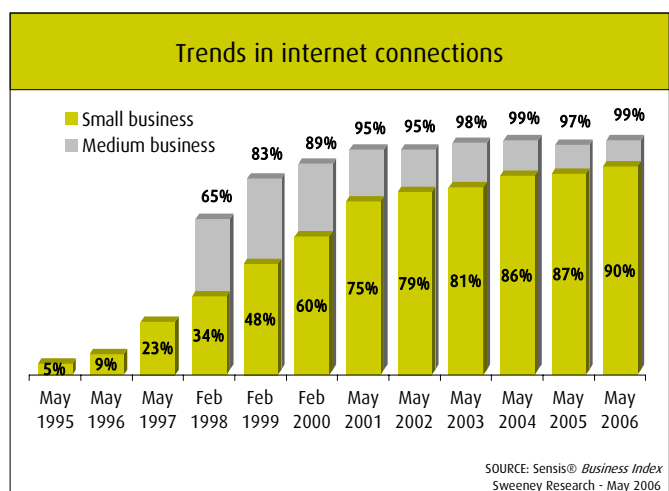
Base = All businesses

SOURCE: Sensis® Business Index
Sweeney Research - May 2006

Internet connections by industry sector			
	No computers	Use internet	Do not use
Manufacturing	7%	88%	5%
Building/Construction	11%	81%	8%
Wholesale Trade	3%	94%	3%
Retail Trade	2%	86%	12%
Transport/Storage	8%	87%	5%
Communications, Property & Business Services	1%	97%	2%
Finance and Insurance	0%	100%	0%
Health/Community Services	2%	92%	6%
Personal Services	9%	88%	3%
Hospitality	2%	94%	4%

Base = All businesses

SOURCE: Sensis® Business Index
Sweeney Research - May 2006



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 80 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, an increase from the 70 per cent of SMEs that identified this as their main reason last year. Some 86 per cent of medium businesses connected to the internet identified this issue, while a lower 79 per cent of internet-connected small businesses gave this response. The strongest industry sector response in terms of providing better customer service was the transport and storage sector with a 93 per cent response rate, an increase from 68 per cent for this sector last year. This was the most popular response for every industry sector, with the exception of the accommodation, cafés and restaurants sector, for which the most important reason was to promote their company more effectively.

The second most important reason overall for internet connectivity was to promote the company more effectively, with a response rate of 57 per cent. This has increased by three percentage points over the past year. The accommodation, cafés and restaurants sector, with a response rate of 77 per cent, had the highest industry sector response in terms of SMEs using the internet to promote their company more effectively.

The next highest response in terms of reasons for connecting to the internet was to make business transactions cheaper (with a response rate of 57 per cent). This response has risen to the third highest response, from fourth position last year, and has increased from 51 per cent over the past year.

The response that recorded the greatest increase over the past year was introducing the internet because of requests from suppliers. This response was reported by some 36 per cent of SMEs, an increase of 11 percentage points from 25 per cent last year.

Reasons for connecting to the internet by business size

	All SMEs	Small Business	Medium Business
To provide better service to our customers	80%	79%	86%
To promote the company more effectively	57%	57%	62%
To make our business transactions cheaper	57%	56%	60%
To help us improve our delivery of goods or services	56%	56%	62%
To give us or maintain an advantage over our competitors	49%	48%	60%
To improve our cash flow	40%	40%	38%
To increase our market share	39%	39%	40%
To distinguish our company as a provider of unique goods or services.	38%	38%	41%
Because our customers requested it	37%	36%	46%
Because of requests from our suppliers	36%	36%	40%
To enable us to deliver a 24 x 7 service to our customers	32%	32%	31%
To reduce our advertising costs	32%	32%	29%
Because our competitors introduced these applications	25%	25%	28%
Due to advice/support from my accountant/financial institution	13%	13%	15%
Due to Government e-commerce initiatives	8%	8%	12%

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

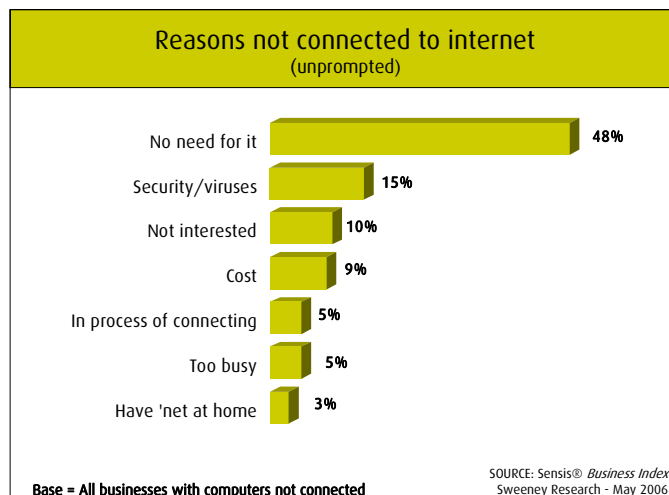
Base = All businesses with internet

SOURCE: Sensis® Business Index
Sweeney Research - May 2006

Reasons for not connecting

Among the dwindling number of businesses that had computers but were not connected to the internet, the most important reason why SMEs were not connected to the internet was a view that they had no need for it (48 per cent, an increase from 43 per cent last year). The industry sector that felt they had no need to be connected to the internet more than others was the wholesale trade sector. This year, metropolitan businesses were more likely to express the view that they had no need for the internet compared to regional businesses.

The next most frequent response for not connecting to the internet was a concern for security and viruses, which was given by 15 per cent of those SMEs with computers not connected to the internet. Businesses in the cultural, recreational and personal services sector were most likely to provide this response.



Expectations for internet connection

While 90 per cent of SMEs are already connected to the internet, this leaves some 10 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 seven per cent of businesses do not expect to do so in the next 12 months. This level of expectation is unchanged from last year, when three per cent also expected to connect, and two per cent realised this expectation.

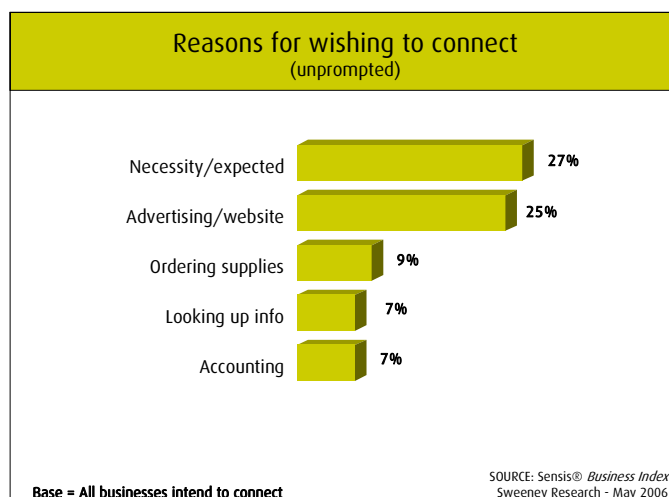
The strongest resistance to future internet connectivity, by business size, again came among those businesses that employ between one to two employees. Ten per cent of these businesses stated they were not expecting to connect to the internet in the next 12 months.

For businesses expecting to connect to the internet for the first time within the next 12 months, the number one reason was that they considered that it was now a necessity. This was closely followed by wanting to use the internet for advertising and a website. Other key reasons included ordering supplies, looking up information and assisting with their accounting.

	Use internet	Expect to connect	*Do not expect
All Businesses	90%	3%	7%
1-2 Employees	86%	4%	10%
3-4 Employees	92%	2%	6%
5-9 Employees	96%	1%	3%
10-19 Employees	96%	4%	0%
20-99 Employees	100%	0%	0%
100-200 Employees	98%	0%	0%
Total Small (1-19)	90%	3%	7%
Total Medium (20+)	99%	0%	1%
Total Metropolitan	92%	2%	6%
Total Rural	88%	4%	8%

Base = All businesses
*Includes "Not sure"

SOURCE: Sensis® Business Index
Sweeney Research - May 2006



How the internet is accessed

There was a distinct change in how SMEs accessed the internet over the past year. For the first time, the most popular method for SMEs to connect to the internet was a cable modem – this method increased from 26 per cent last year to 39 per cent this year, an increase of 13 percentage points.

In terms of industry sector trends, the building and construction and transport and storage sectors had the greatest reliance on cable modems for internet access. The lowest reliance occurred in the accommodation, cafes and restaurants sector. Also, metropolitan businesses had a greater reliance on cable modems relative to regional businesses.

The next most important method of internet access was through a dial-up modem. However, only 20 per cent of SMEs reported using a dial-up modem to connect to the internet. Last year dial-up modems were the most popular method of connection at 38 per cent, with this figure almost halving in the past year. Indeed, only two years ago some 55 per cent of SMEs access the internet through a dial-up modem.

Eighty per cent of internet connected businesses reported they have broadband access. This has continued its strong increase from 63 per cent last year and 43 per cent two years ago. Fewer businesses (19 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 17 percentage points over the past year and almost doubled over the past two years.

Medium businesses were more likely to have broadband access than small businesses, with comparative penetration rates at 92 per cent for medium businesses, compared to 79 per cent for small businesses. Of those SMEs that did have broadband access, 76 per cent felt that it had a positive impact on their business, with no businesses reporting a negative impact.

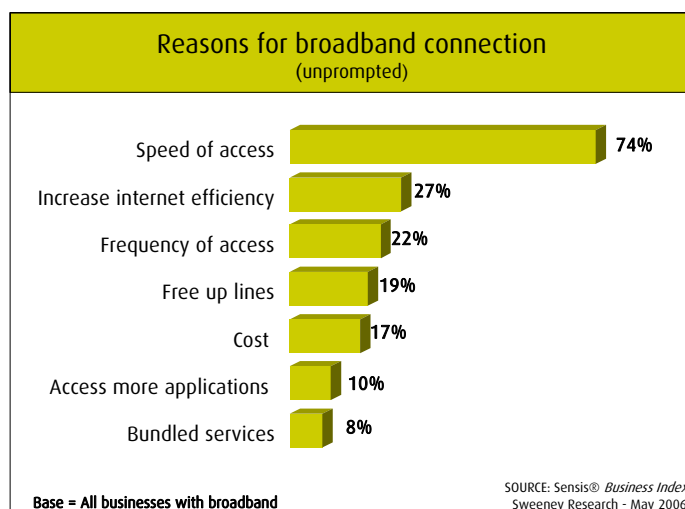
The main reason SMEs identified why they have introduced broadband access was due to the speed of access. Overall, 74 per cent of businesses with broadband access identified this factor. The next most important reasons for having broadband access involved increased efficiency (27 per cent) and frequency of access (22 per cent).

Accessing the internet			
	Total	Small Business	Medium Business
<i>How do you currently access the internet?</i>			
Cable modem	39%	39%	35%
Dial-up modem	20%	21%	11%
Broadband	19%	19%	24%
ISDN	12%	11%	20%
ADSL	7%	7%	9%
Wireless connection	4%	3%	7%
Digital subscriber line	3%	3%	3%
Can't say	1%	1%	6%
<i>Do you currently have broadband access to the internet?</i>			
Yes	80%	79%	92%
No	19%	20%	6%
Can't say	1%	1%	1%
Base = Connected to internet			

SOURCE: Sensis® Business Index
Sweeney Research - May 2006

Broadband access			
	Total	Small Business	Medium Business
<i>How long has your business had broadband access?</i>			
Over 12 months	5%	5%	1%
6 to 12 months	5%	5%	2%
3 to 6 months	13%	13%	8%
Less than three months	77%	76%	89%
<i>Has the introduction of broadband access had a positive impact, a negative impact or no real impact on your business?</i>			
Positive	76%	76%	87%
Negative	0%	0%	0%
No real impact	24%	24%	13%
Base = Have broadband access			

SOURCE: Sensis® Business Index
Sweeney Research - May 2006



How the internet is used – current and expected usage

The number one use of the internet by SMEs was again communicating via email, identified by 97 per cent of internet connected businesses. Given the high level of penetration that exists among internet-connected businesses, only a further one per cent of businesses expect to take up this application in the next year. Usage of this application has increased by three percentage points over the past year.

The second most important application of the internet was to look for information about products and services. This is a current use for 91 per cent of businesses that are connected to the internet, up three percentage points from 88 per cent last year. This has risen to second position from being the third highest ranking application last year.

The third most important application of the internet reported by SMEs was getting reference information or research data. This application was identified by 89 per cent of internet-connected businesses, remaining stable since last year. A further four per cent of internet-connected businesses were 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 rise in use of any internet applications for the year ahead was tied three ways: using a website to promote the business, taking orders for products and services; and, promoting the business using e-mail marketing. A further 12 per cent of businesses expect to have started using these applications within the next year.

Current and expected uses of the internet - summary

	Currently use	Expect to use	Total
To communicate via email	97%	1%	98%
To look for information about products and services	91%	3%	94%
To get reference information or research data	89%	4%	93%
To access directories such as the Yellow Pages®	80%	4%	85%
Internet banking	82%	2%	84%
To access and use online catalogues	73%	5%	78%
To pay for products and services	73%	2%	75%
To place orders for products and services	67%	7%	74%
To streamline communications with customers and staff	67%	6%	73%
To use a website to promote business	56%	13%	69%
To receive payments for products and services	58%	5%	63%
To take orders for your products and services	52%	9%	61%
To monitor your markets or the competition	43%	7%	50%
To promote the business using e-mail marketing	30%	13%	43%
Advertise your business on other websites	19%	9%	28%
Use online auction sites	18%	8%	26%

Base = All businesses with internet

SOURCE: Sensis® Business Index
Sweeney Research – May 2006

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.

There were a number of differences in usage of the most used internet application, communication via email. Usage by small and medium businesses differed by firm size (97 per cent versus 100 per cent). Usage among small businesses has increased over the past year by three percentage points, while usage among medium businesses has increased by two percentage points over the past year. This has resulted in the usage gap between small and medium businesses decreasing from four percentage points last year to three percentage points this year.

The second most important internet application was looking for information about products and services. There was a small difference in the use of this application between medium businesses (93 per cent) and small businesses (91 per cent). The gap between small and medium business usage fell from eight to two percentage points this year, due to strong growth in small business usage.

The internet application that demonstrated the greatest variation between small and medium business usage was again using a website to promote their business. Some 80 per cent of medium businesses with the internet identified this, compared to 54 per cent of small businesses with the internet. This gap of 26 percentage points was the highest for any internet application, but has fallen from 29 percentage points last year. The only internet usage to be used by more small businesses than medium businesses was online auction sites, which 19 per cent of small businesses reported using, compared to 12 per cent of medium businesses.

On an industry basis, the largest gaps in terms of internet applications between any two industry sectors, was again using a website to advertise or promote a business. Overall, 79 per cent of businesses in the accommodation, cafés and restaurants sector reported using this application compared to only 26 per cent of building and construction businesses.

Current uses of the internet by business size			
	Small business	Medium business	All SMEs
To communicate via email	97%	100%	97%
To look for information about products and services	91%	93%	91%
To get reference information or research data	89%	93%	89%
Internet banking	82%	88%	82%
To access directories such as the Yellow Pages®	80%	91%	80%
To access and use online catalogues	73%	77%	73%
To pay for products and services	72%	81%	73%
To place orders for products and services	66%	75%	67%
To streamline communications with customers and staff	66%	86%	67%
To receive payments for products and services	58%	64%	58%
To use a website to promote business	54%	80%	56%
To take orders for your products and services	52%	54%	52%
To monitor your markets or the competition	42%	57%	43%
To promote the business using e-mail marketing	30%	40%	30%
Use online auction sites	19%	12%	18%
Advertise your business on other websites	18%	23%	19%

Base = All businesses with internet

SOURCE: Sensis® Business Index
Sweeney Research - May 2006

Trends in usage

In terms of trends in usage of various internet applications, the largest rise during the year was split between accessing directories such as the Yellow Pages® *OnLine* site and placing orders for products and services. Both of these applications rose by eight percentage points in the last year. Overall, 72 per cent of SMEs reported accessing directories on the internet, with the greatest usage being among SMEs in the communication, property and business services sector (85 per cent). Some 61 per cent of all SMEs now report placing orders online. The greatest usage of the internet to place orders by an industry sector was the transport and storage sector (79 per cent).

The next most significant rises in internet applications were also split between another two applications which recorded increases of six percentage points over the year. These were taking orders for products and services (up from 41 per cent to 47 per cent); and monitoring markets or competition (up from 33 per cent to 39 per cent).

The industry sector with the highest usage of taking orders online was the transport and storage sector, where 69 per cent of SMEs reported taking orders online. SMEs in the cultural, recreational and personal services sector were most likely to use the internet to monitor their markets or competition, at 62 per cent usage.

This year saw all current uses of the internet record increases in the overall numbers of SMEs that reported using them. The uses that recorded the lowest levels of increase were getting reference information for products or services and receiving payments for products and services. Both of these uses only rose by two percentage points in the past year.

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

	2005	2006	Increase/ (Decrease)
To access directories such as the Yellow Pages®	64%	72%	8%
To place orders for products and services	53%	61%	8%
To take orders for your products and services	41%	47%	6%
To monitor your markets or the competition	33%	39%	6%
To look for information about products and services	77%	82%	5%
To access and use online catalogues	61%	66%	5%
To communicate via email	83%	88%	5%
To promote the business using email marketing	23%	27%	4%
Internet banking	70%	74%	4%
To pay for products and services	62%	66%	4%
To streamline communications with customers and staff	58%	61%	3%
To get reference information or research data	78%	80%	2%
To receive payments for products and services	50%	52%	2%
Use online auction sites	N/A	16%	N/A
Advertise your business on other websites	N/A	17%	NA

Base = All businesses

SOURCE: Sensis® *Business Index*
Sweeney Research - May 2006

What are the essential applications?

The most essential application of the internet in terms of SME usage was again email. This was identified by 83 per cent of businesses as an essential application, up from 81 per cent last year. Metropolitan businesses were more likely to identify email as an essential application compared to regional businesses (85 per cent versus 80 per cent).

The next most important applications that were identified as essential activities were: internet banking (72 per cent, up from 68 per cent); finding reference information or research data (65 per cent, up from 62 per cent); and, looking for information about products and services that businesses might buy (64 per cent, up from 57 per cent). Whereas last year these were the only four applications to be mentioned by at least 50 per cent of SMEs, this year another three applications have risen to be considered essential by the majority of SMEs: paying

for products and services (51 per cent, up from 48 per cent); streamlining communications (50 per cent, up from 46 per cent); and accessing directories such as the Yellow Pages® (50 per cent, up from 45 per cent).

Of all industry sectors, SMEs in the accommodation, cafés and restaurants sector were most likely to identify internet banking as an essential internet application (84 per cent). This contrasts with SMEs in the finance and insurance sector which were again least likely to regard it as an essential application (59 per cent).

The greatest increase in the percentage of internet-connected SMEs regarding an application as essential was split between looking for information on products and services and placing orders for products and services, which both increased by seven percentage points this year. No applications recorded a decrease over the past year.

What are the essential applications?			
	All SMEs	Small Business	Medium Business
To communicate via email	83%	83%	93%
Internet banking	72%	71%	77%
To get reference information or research data	65%	65%	70%
To look for information about products and services	64%	64%	65%
To pay for products and services	51%	51%	53%
To streamline communications with customers and staff	50%	49%	68%
To access directories such as the Yellow Pages®	50%	50%	53%
To receive payments for products and services	46%	46%	49%
To place orders for products and services	45%	44%	47%
To access and use online catalogues	43%	43%	41%
To use a website to promote business	39%	38%	51%
To take orders for your products and services	36%	36%	38%
To monitor your markets or the competition	26%	26%	34%
To promote the business using email marketing	20%	19%	26%
Advertise your business on other websites	8%	8%	6%
Use online auction sites	7%	8%	2%

Base = All businesses with internet

SOURCE: Sensis® Business Index
Sweeney Research - May 2006

Technology in Australian households

Introduction

While 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 82 per cent in 2006, a marginal fall of one percentage point over the past year. Some 75 per cent had a desktop computer (down three percentage points), with notebook ownership currently at 33 per cent (up five percentage points). This compares with 94 per cent of SMEs having a desktop computer, 50 per cent having a laptop computer and 96 per cent having a computer of some description.

In terms of internet connections, some 74 per cent of households were internet-enabled (up two percentage points in the past year), compared with 90 per cent of SMEs. Some 30 per cent of households had a dial-up internet connection (down from 46 per cent); and 49 per cent had a broadband connection (up from 31 per cent).

Providing evidence for the “digital divide”, only 59 per cent of Australians with a household income of up to \$35,000 were connected to the internet. This compared to 99 per cent of households with an income of over \$85,000.

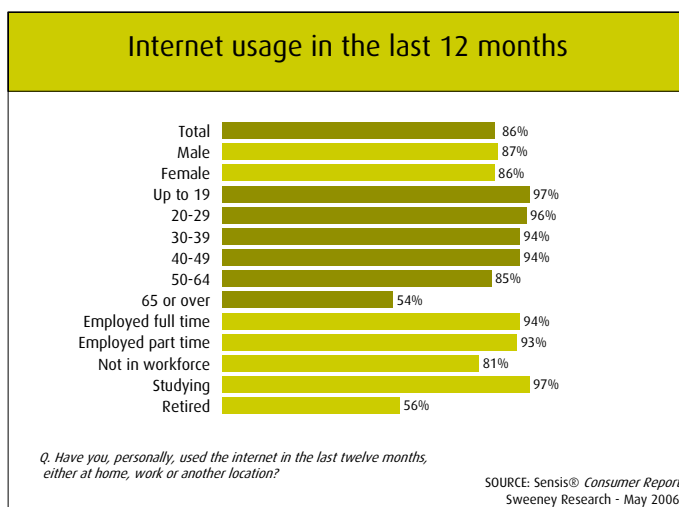
In total, some 86 per cent of Australians had used the internet in the past 12 months, an increase of three percentage points from last year. Males had a marginally higher propensity to have used the internet, and the younger the person, the more likely they were to have used the internet in the past year. Students and either full or part-time employees were most likely to have used the internet.

Australians used the internet for a wide range of activities, but tended to display lower usage levels than SMEs did. For example, some 49 per cent of Australians reported having ordered goods and services online, compared to 61 per cent of SMEs. Overall, 64 per cent of Australians reported making payments online, compared to 66 per cent of SMEs.

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	75%	12%	94%
A notebook computer	33%	9%	50%
Total computer	82%	19%	96%
Dial-up internet	30%	1%	18%
Broadband internet	49%	12%	72%
Total internet enabled	74%	13%	90%

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: ¹Sensis® Consumer Report: Sweeney Research - May 2006
²Sensis® Business Index: Sweeney Research - May 2006



Internet applications in the last 12 months		
	Internet users last 12 months	All Australians
Ordered goods/services	57%	49%
Made bookings	63%	54%
Paid for purchases or bills with credit card or other means	64%	55%
Internet banking	59%	51%
Supply personal information online	37%	32%
Bought through online auction site	25%	22%
Use Internet to make telephone calls	14%	12%
Read a blog	28%	24%
Written a blog	6%	5%

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

SOURCE: Sensis® Consumer Report
Sweeney Research - May 2006

Using websites

Introduction

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

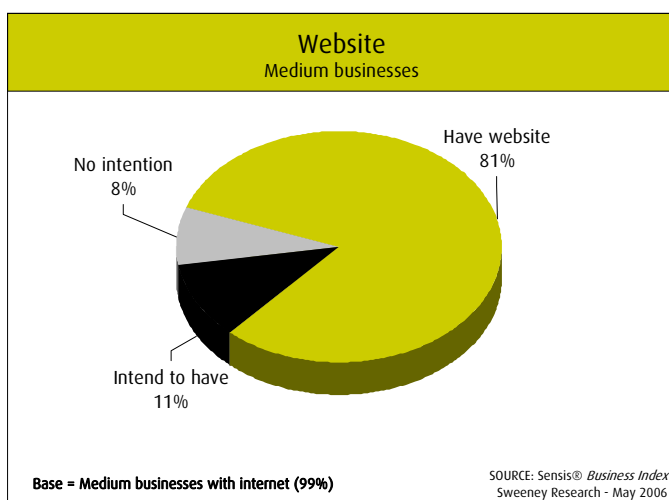
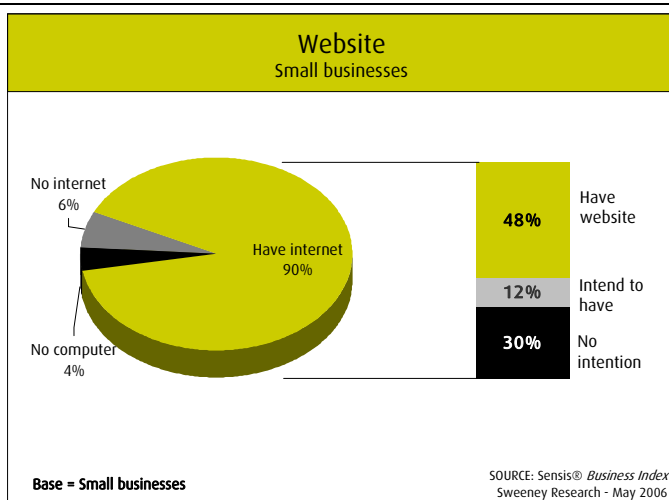
Website ownership

The percentage of small businesses with a website increased marginally during the year from 47 per cent to 48 per cent in total. Another 12 per cent of small businesses indicated that they intend to get a website within the next 12 months. The remaining 30 per cent of small businesses indicated that they had no intention of getting a website this year.

Going against this trend, the percentage of internet-connected medium businesses with a website decreased during the year from 84 per cent to 81 per cent. Of those medium businesses with an internet connection (99 per cent) 81 per cent reported that they had a website. A further 11 per cent of internet-connected medium businesses expect to get a website within the next 12 months. The remaining eight per cent of internet-connected medium businesses have no intention of getting a website.

The highest rate of website penetration by industry sector was the accommodation, cafés and restaurants sector at 72 per cent of all businesses in the sector. At the other end of the spectrum was the building and construction sector, which reported a website penetration rate of 21 per cent of all businesses in the sector, the lowest of any industry.

Metropolitan businesses reported a much higher incidence of websites with a 56 per cent rate of adoption compared to 36 per cent for regional businesses. Also, businesses that were operated predominantly by females had higher website penetration at 52 per cent. Other business types that were more likely to have a website were those businesses that were aiming for significant growth (74 per cent); members of an industry association (53 per cent website penetration); businesses that were tourism-based (71 per cent website penetration), and businesses that exported (85 per cent website penetration).



Website use and intention by business size

	2006		Cf. 2005
	Have website	Intend to have	Have website
All Businesses	49%	12%	48%
1-2 Employees	36%	13%	38%
3-4 Employees	56%	13%	54%
5-9 Employees	64%	12%	61%
10-19 Employees	78%	7%	72%
20-99 Employees	79%	12%	80%
100-200 Employees	95%	3%	89%
Total Small (1-19)	48%	12%	47%
Total Medium (20+)	80%	11%	81%

Base = All businesses
SOURCE: Sensis® Business Index Sweeney Research - May 2006

Benefits of the site

Sixty-seven per cent of businesses stated that having a website improved the effectiveness of their business, an increase from 62 per cent last year. Regional businesses were much more likely to report that their website had increased the effectiveness of their business (75 per cent), as were small businesses (67 per cent).

The industry sector to respond most strongly that the presence of a website had increased business effectiveness was the cultural, recreational and personal services sector. Eighty-seven per cent of this sector per cent responded favourably, up from 69 per cent last year. The weakest response came from the retail sector at 45 per cent.

In terms of the reasons why businesses believed that their website improved their business effectiveness, the most cited reason was that it had enabled people to get information about their business. This response was given by 26 per cent of SMEs who believed that their website had led to increased business effectiveness.

Other key reasons for businesses finding their website beneficial were: more enquiries for their business (22 per cent); more exposure for their business (17 per cent); and, generating more business (14 per cent).

The main benefits of having an internet website varied by industry sector. While allowing people to get better information about their business was the main reason for increased effectiveness in the wholesale trade, communication, property and business services, and accomodation, cafes and restaurants sectors, SMEs in other sectors had different reasons for believing their website had increased their effectiveness.

SMEs in the building and construction, transport and storage, finance and insurance, and health and community services sectors were most likely to believe that they had experienced an increase in enquiries because of their website. SMEs in the retail and cultural, recreational and personal services sectors were more likely to believe that the increased exposure their business had enjoyed from their website had increased the effectiveness of their business. Businesses in the manufacturing sector were most likely to feel that their website gave better access to their business.



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 growth in the proportion of SMEs that were using the internet for all stages of the procurement process.

Growth was seen in the proportion of SMEs connected to the internet, in the proportion using it to look for information, and also in the proportion of SMEs that had placed orders for products and services over the internet. The proportion of SMEs using the internet to make payments rose from 53 per cent in 2005 to 60 per cent in 2006, an increase of seven percentage points.

There was considerable variation by industry sector as to whether businesses used the internet to place orders for goods and services. SMEs in the transport and storage sector were the most likely to place orders for products and services on the internet (79 per cent), while those SMEs in the building and construction sectors were the least likely to place an order online (51 per cent).

The proportion of SMEs that reported using the internet to pay for products and services increased from 62 per cent in 2005 to 66 per cent in 2006, an increase of four percentage points.

For the fourth 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. However, with solid growth in the proportion of SMEs using the internet to place orders, the gap has narrowed to six percentage points.

For small businesses, the area of the procurement process that experienced the greatest growth in internet penetration was placing orders for goods and services, where there was a growth of nine percentage points. For medium businesses the greatest growth over the past year was for making payments.

Metropolitan businesses were only slightly more likely to use the internet to place orders online than regional businesses (61 per cent compared to 58 per cent). In essence, this difference was caused by regional businesses being slightly less likely to have a computer, as the proportion of metropolitan and

Buying over the internet by business size				
	Connected to internet	Look for information	Place orders	Pay
All Businesses	90%	83%	60%	66%
1-2 Employees	86%	78%	53%	61%
3-4 Employees	92%	85%	64%	72%
5-9 Employees	96%	89%	69%	67%
10-19 Employees	96%	90%	76%	70%
20-99 Employees	100%	93%	74%	81%
100-200 Employees	98%	85%	83%	74%
Total Small (1-19)	90%	92%	60%	65%
Total Medium (20+)	99%	93%	75%	80%

Base = All businesses

SOURCE: Sensis® Business Index
Sweeney Research - May 2006

Buying over the internet Trends – small business							
	2000	2001	2002	2003	2004	2005	2006
Connected to internet	60%	75%	79%	81%	86%	87%	90%
Look for information on products or services	46%	51%	64%	67%	75%	76%	82%
Place orders for products or services	17%	26%	41%	45%	55%	51%	60%
Pay for products or services	11%	23%	40%	47%	58%	62%	65%

Base = Small businesses

SOURCE: Sensis® Business Index
Sweeney Research - May 2006

Buying over the internet Trends – medium business							
	2000	2001	2002	2003	2004	2005	2006
Connected to internet	89%	95%	94%	98%	99%	97%	99%
Look for information on products or services	65%	79%	82%	91%	94%	92%	93%
Place orders for products or services	28%	49%	61%	64%	74%	72%	75%
Pay for products or services	17%	39%	55%	66%	73%	72%	80%

Base = Medium businesses

SOURCE: Sensis® Business Index
Sweeney Research - May 2006

regional businesses that were online that used the internet to place orders for goods and services was identical. Once again, SMEs in the Northern Territory were the most likely to place orders online, with those in South Australia again the least likely.

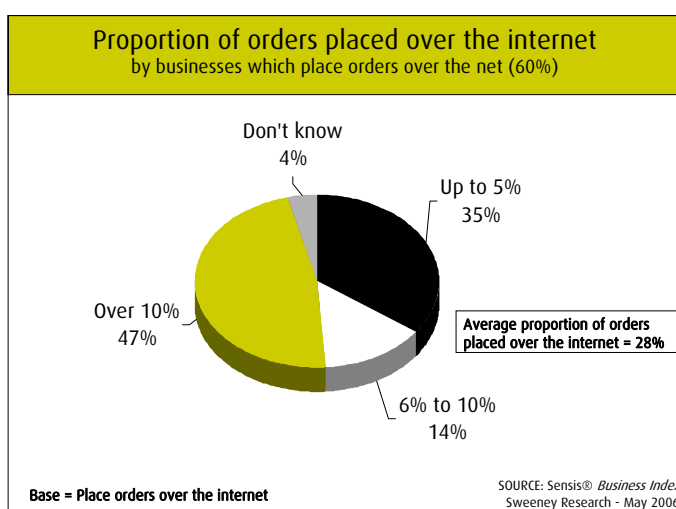
In addition, SMEs that were aiming for growth were again far more likely to report having placed orders online than their counterparts that were not aiming for growth.

The average proportion of total SME procurement made online has fallen this year, despite the number of SMEs who are procuring online having increased. This result reflects the considerable number of SMEs starting to purchase online this year, but at lower levels than their more experienced counterparts. This result is likely to change as they become more comfortable with the online environment. 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 2005, 66 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 decreased to 61 per cent in 2006, a fall of five percentage points. At the higher end of the online procurement spectrum, some 12 per cent of SMEs that ordered online reported that their online purchases made up more than half of their total procurement activity. This is a decline from 15 per cent last year.

Buying over the internet by industry sector				
	Connected to internet	Look for information	Place orders	Pay
All Businesses	90%	83%	60%	66%
Manufacturing	88%	79%	58%	65%
Building/Construction	81%	74%	42%	62%
Wholesale Trade	94%	87%	61%	61%
Retail Trade	86%	81%	65%	63%
Transport/Storage	87%	79%	68%	72%
Communications/Property/ Business Services	97%	90%	72%	80%
Finance and Insurance	100%	84%	52%	45%
Health/Community Services	92%	80%	52%	54%
Personal Services	88%	83%	54%	63%
Hospitality	94%	86%	66%	71%

Base = All businesses

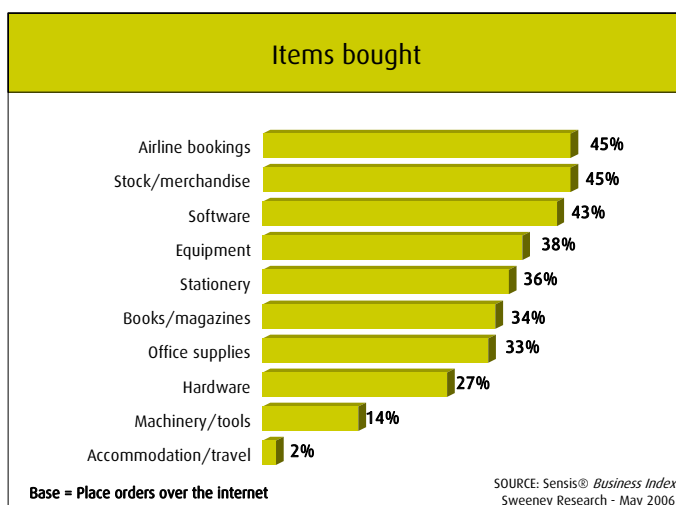
SOURCE: Sensis® Business Index
Sweeney Research - May 2006



What businesses buy

The most common use for online procurement by SMEs during the year was for airfares and to purchase stock or merchandise, with 45 per cent of online businesses identifying each of these purchases. While the proportion of SMEs that reported making airline bookings online was unchanged since last year, the proportion that reported having purchased their stock or merchandise online has increased five percentage points.

The next most frequent online purchases included: software (43 per cent); equipment (38 per cent); stationery (36 per cent); books and magazines (34 per cent); and, office supplies (33 per cent). There were only marginal movements recorded for each of these items over the past year.



SME use of the internet to sell

In line with increases in online purchases, there was also considerable growth in the number of SMEs that were using e-commerce to sell goods and services. This is illustrated by the increase from 41 per cent of all SMEs that take orders online in 2005 to 47 per cent for this year. Once again, this trend was reinforced by the rise of businesses that receive payments online from 50 per cent to 53 per cent. The greatest growth was recorded in taking orders online, which increased by six percentage points over the year, compared to three percentage points growth in taking payments online.

Once again, a greater proportion of small businesses recorded taking orders online than medium businesses. The number of small businesses reporting taking orders online rose during the year from 41 per cent to 46 per cent. This is comparable to medium businesses, which recorded a rise from 51 per cent to 54 per cent.

The wholesale trade sector recorded the strongest proportion of SMEs that reported taking orders online with 61 per cent of businesses in the sector reporting this experience. This is in contrast to the finance and insurance sector, where only 23 per cent of firms reported that they took orders online.

Other business types that were particularly likely to sell using e-commerce included tourism-based businesses (with 68 per cent reporting that they took orders online) and exporters (with 69 per cent reporting that they took orders online).

The proportion of small businesses receiving payments online rose from 50 per cent to 52 per cent, an increase of two percentage points. In comparison, medium businesses recorded stronger growth in the proportion of SMEs that received payments online, increasing from 59 per cent to 63 per cent.

In terms of receiving payments online, firms in the wholesale trade sector were most likely to report that they had received payments online, at 61 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 30 per cent.

Selling over the internet by business size			
	Connected to internet	Take orders	Receive payments
All Businesses	90%	47%	53%
1-2 Employees	86%	42%	46%
3-4 Employees	92%	54%	57%
5-9 Employees	96%	48%	62%
10-19 Employees	96%	53%	63%
20-99 Employees	100%	53%	65%
100-200 Employees	98%	61%	48%
Total Small (1-19)	90%	46%	52%
Total Medium (20+)	99%	54%	63%

Base = All businesses

SOURCE: Sensis® Business Index
Sweeney Research - May 2006

Selling over the internet Trends – small business							
	2000	2001	2002	2003	2004	2005	2006
Connected to internet	60%	75%	79%	81%	86%	87%	90%
Take orders	14%	19%	29%	32%	39%	41%	46%
Receive payments	7%	13%	26%	32%	44%	50%	52%

Base = Small businesses

SOURCE: Sensis® Business Index
Sweeney Research - May 2006

Selling over the internet Trends – medium business							
	2000	2001	2002	2003	2004	2005	2006
Connected to internet	89%	95%	94%	98%	99%	97%	99%
Take orders	23%	35%	47%	49%	50%	51%	54%
Receive payments	15%	29%	50%	63%	60%	59%	63%

Base = Medium businesses

SOURCE: Sensis® Business Index
Sweeney Research - May 2006

The Sensis® e-Business Report has compared the rate at which industry sectors have evolved their internet strategies from basic internet connectivity to a comprehensive e-commerce strategy involving receiving payments online.

The largest gap between any industry sector in terms of internet penetration relative to receiving payments online was the health and community services sector. This sector recorded a gap of almost 62 percentage points between internet connectivity and receiving payments online (92 per cent versus 30 per cent).

The narrowest gap was in the building and construction sector at 23 percentage points (81 per cent versus 58 per cent). This gap has decreased by 11 percentage points in the last year due to a marginal decrease in the level of internet connectivity within the sector, coupled with a strong increase in the proportion of businesses receiving payments online.

While the numbers of SMEs that were taking orders online increased, the proportion of total online activity that these orders represented fell. This result reflected the number of new users reporting relatively low levels of online sales. As a share of total sales activities, using the internet to take sales orders is increasing. Forty-seven 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 has increased from 39 per cent of SMEs last year and reflects a large volume of newer online businesses starting to receive small volumes of online activity. In conjunction with this result, the proportion of SMEs that made over 10 per cent of their sales online decreased from 42 per cent to 37 per cent.

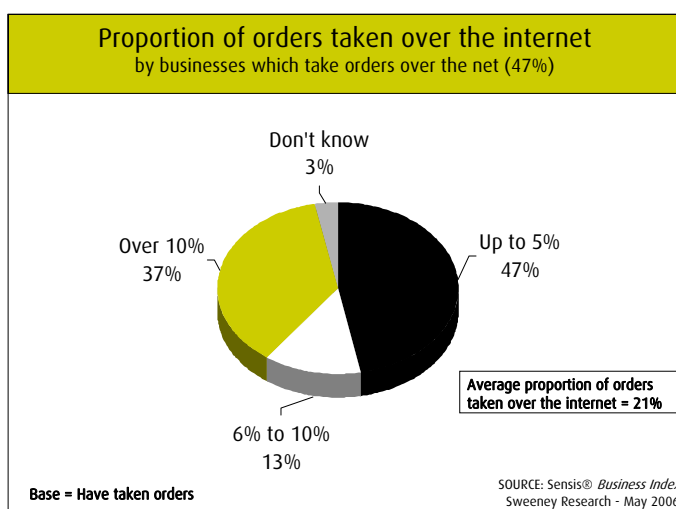
At the upper end, 12 per cent of SMEs who took orders over the internet reported that online orders made up more than half of their total orders, a marginal decrease from the 13 per cent recorded last year. SMEs in the communications, property and business services sector were most likely to report that online orders made up the majority of their orders, with the building and construction sector least likely to report receiving the majority of their orders online.

Around the nation, of those SMEs that took orders over the internet, SMEs in the Australian Capital Territory were the most likely to report taking the majority of their orders online, with those in New South Wales least likely.

Selling over the internet by industry sector			
	Connected to internet	Take orders	Receive payments
All Businesses	90%	47%	53%
Manufacturing	88%	56%	57%
Building/Construction	81%	33%	58%
Wholesale Trade	94%	61%	61%
Retail Trade	86%	47%	52%
Transport/Storage	87%	60%	51%
Communications/Property/ Business Services	97%	53%	60%
Finance and Insurance	100%	23%	51%
Health/Community Services	92%	26%	30%
Personal Services	88%	53%	44%
Hospitality	94%	57%	40%

Base = All businesses

SOURCE: Sensis® Business Index
Sweeney Research - May 2006



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 still relatively close to home. In most cases the further distance a customer was located, 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 87 per cent of SMEs that make any sales to local customers and 60 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 increased from 83 per cent to 87 per cent. However, there was a marginal fall 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 were the next most frequent responses, with 52 per cent of SMEs selling to customers interstate and 60 per cent selling to customers outside their town but elsewhere in the state.

Overseas customers were identified by four per cent of SMEs as the main e-commerce customer group for their business. This reflected a drop from last year’s level of eight 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 35 per cent of SMEs who made sales through e-commerce having made at least some sales to overseas customers. This figure has risen by one percentage point 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, SMEs in regional areas were much more likely to mainly sell elsewhere in the state, reflecting sales to customers in their capital cities. SMEs in regional areas were also marginally more likely to mainly sell to customers overseas than metropolitan SMEs.

Types of customers sold to				
	Mainly sell to	Total sell to	Total sell to	
			Small business	Medium business
Local – same city or town	60%	87%	87%	83%
Elsewhere in State	12%	60%	59%	61%
Interstate	18%	52%	52%	61%
Overseas	4%	35%	34%	42%

Base = Take orders over the internet

SOURCE: Sensis® Business Index
Sweeney Research - May 2006

Return on investment

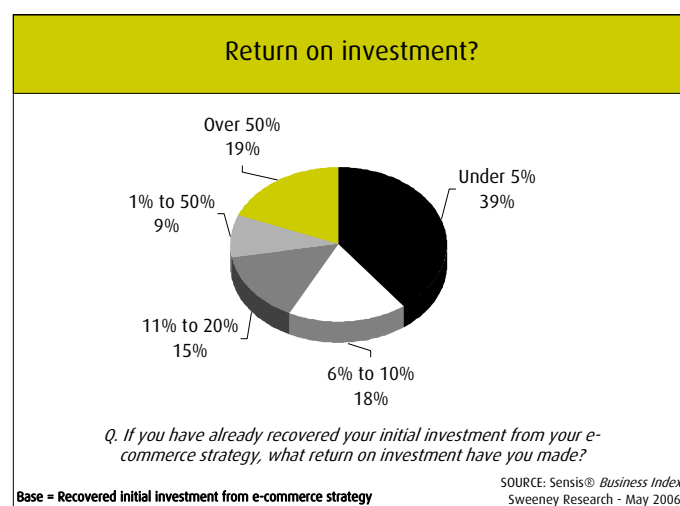
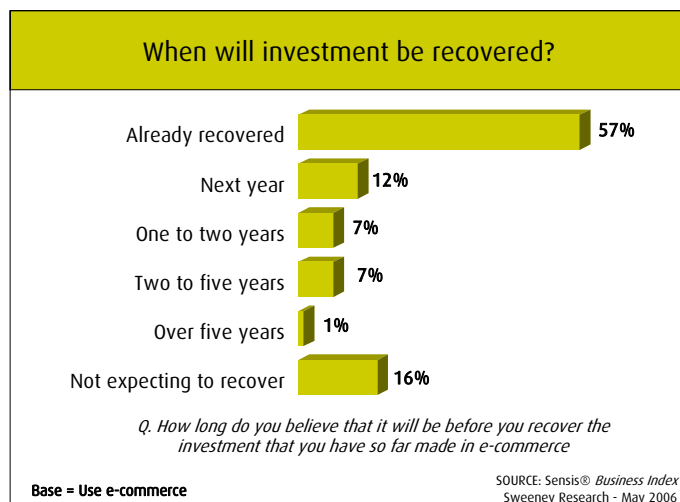
For the fifth year now, the Sensis® e-Business Report has been tracking the time that SMEs have been taking to recover their investment in e-commerce. The latest results found that some 57 per cent of SMEs reported that they had recovered their investment in e-commerce. A further 12 per cent of those SMEs who have invested in an e-commerce strategy said that they are expecting to recover their investment in the next year.

The latest results show some decline in the proportion of SMEs reporting they have recovered their investment, which has decreased by four percentage points from 61 per cent. This result is still greater than the results of the two previous years, where some 56 per cent of SMEs reported having already recovered their investment.

From a business investment perspective, it is important when forming a business case for e-commerce investments to look at the likely return on that investment. In terms of the return on investment, the most frequent response among SMEs who had recovered their investment was that their return had been less than five per cent. This was followed 19 per cent of SMEs who had recovered their investment reporting that they had recovered in excess of 50 per cent of their return on investment.

The proportion of SMEs who had recovered their investment and reported a return in excess of 50 per cent has fallen by a marginal one percentage point from 20 per cent last year. While there has been a small decrease at this level, there was also a large increase 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 risen 20 percentage points over the past year.

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



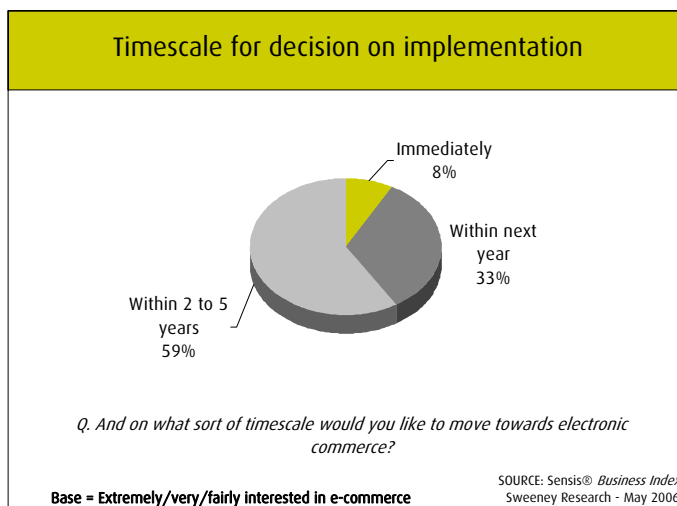
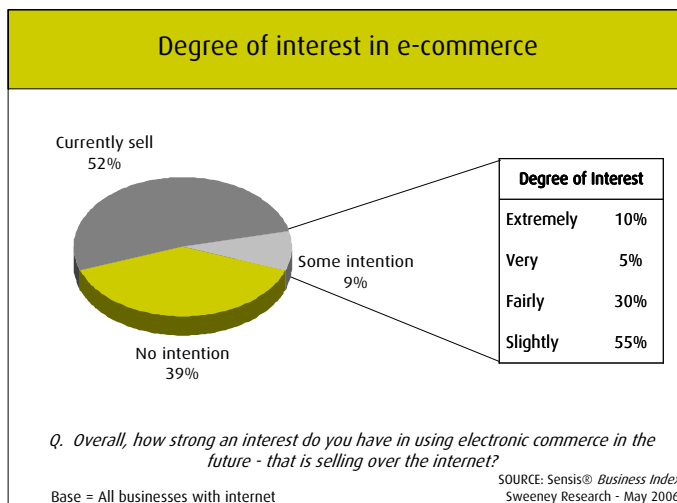
Degree of interest in engaging in e-commerce

The level of interest of introducing e-commerce among SMEs that were online but not already using e-commerce to sell seems to have dropped significantly. This is despite the number of SMEs using technology and e-commerce having risen during the past year. This trend is reinforced by the finding that SMEs relatively interested in introducing e-commerce anticipate they would implement e-commerce in the longer term rather than immediately.

Among those firms that are connected to the internet, some 52 per cent currently make sales using e-commerce, with 39 per cent reporting that they currently had no intention of introducing e-commerce to their business.

Of the remaining nine per cent of online businesses that felt they could use e-commerce, only 15 per cent of businesses indicated that they were either extremely interested or very interested in using e-commerce within their businesses, a decrease from 38 per cent last year. This was divided between 10 per cent that were extremely interested (down from 17 per cent) and five per cent that were very interested (down from 21 per cent). Some 55 per cent stated they were only slightly interested, which had risen from 36 per cent last year. The communications, property and business services sector again recorded the greatest proportion of SMEs of any industry sector being extremely interested in using e-commerce (32 per cent of SMEs in the sector do not currently use e-commerce).

In terms of the expected timescale for implementing an e-commerce strategy, the majority response (59 per cent) was within two to five years. This an increase on the comparable result last year where 26 per cent expected to implement an e-commerce strategy within the next two to five years. The next most likely timescale was within the next year, with a further 33 per cent giving this response, a decrease from 57 per cent last year. Only eight per cent gave the response this year that they were looking at introducing e-commerce immediately, down from 17 per cent last year.



The barriers and difficulties of engaging in e-commerce

When SMEs were asked what concerned them about e-commerce from a range of prompted options, security concerns relating to hacking was again the number one concern for SMEs. Some 49 per cent of online businesses identified this as a major concern, an increase of nine percentage points. A further 29 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 28 per cent as a major concern, with a further 37 per cent identifying this as a minor concern. The next most important concerns included a lack of personal contact (identified by 22 per cent as a major concern); the cost and time to introduce new technologies (also identified by 22 per cent); and, the cost of hardware and software (identified by 19 per cent).

The issue that was the least likely to be identified as a major concern among businesses, of all the prompted responses, was the concern that their customers could more easily compare their products with their competitors'. Only 12 per cent identified this as a major concern and 25 per cent as a minor concern. The second lowest concern was a feeling that their customers were not ready for e-commerce.

While recent years had seen most levels of concern, with the exception of security, drop significantly, this year saw rises across all concerns. Compared to last year's results the biggest rise in major concerns involved perceptions of incompatibility with existing systems. The proportion of SMEs with potential to use e-commerce that rated this concern as major has risen by 11 percentage points over the past year.

The issue which had the smallest increase as a major concern was the belief that customers were not ready for e-commerce, which only increased by two percentage points from 12 per cent in 2005 to 14 per cent this year.

The largest concern small businesses identified relative to medium businesses involved concerns about hacking. Overall, 49 per cent of small businesses identified this issue, compared to 45 per cent of medium businesses. The most significant concern of medium businesses compared to small businesses were the cost and time to introduce new technologies, and a feeling that their customers were not ready for e-commerce.

Concerns about e-commerce (Prompted)			
	Major concern	Minor concern	No concern
People being able to hack into your computer system	49%	29%	23%
Your lack of expertise and knowledge in computers	28%	37%	35%
Lack of personal contact with the customer	22%	29%	49%
Cost and time with introducing new technologies	22%	38%	41%
The cost of hardware and software	19%	35%	46%
Customers not being prepared to carry out financial transactions over the internet	18%	38%	44%
Incompatibility with your existing systems	16%	31%	54%
A feeling that most of your customers aren't yet ready	14%	29%	57%
Customers can more easily compare your product offer with that of your competitors	12%	25%	63%

Base = All businesses with internet

SOURCE: Sensis® Business Index
Sweeney Research - May 2006

Concerns about e-commerce trends							
Rate as major concern	Feb 2000	May 2001	May 2002	May 2003	May 2004	May 2005	May 2006
A feeling that most of your customers aren't ready for e-commerce	33%	33%	31%	27%	11%	12%	14%
Cost of hardware and software	26%	19%	24%	20%	18%	13%	19%
Lack of expertise and knowledge	37%	28%	30%	28%	19%	19%	28%
Customers can more easily compare your product	N/A	N/A	N/A	11%	9%	9%	12%
Incompatibility with existing systems	N/A	N/A	N/A	8%	10%	5%	16%
Cost and time to introduce	10%	10%	9%	4%	17%	12%	22%
Lack of personal contact	47%	39%	36%	27%	17%	16%	22%
People able to hack into system	34%	34%	42%	41%	43%	40%	49%
Customers not prepared to transact on net	38%	34%	23%	23%	9%	12%	18%

Base = All businesses with internet

SOURCE: Sensis® Business Index
Sweeney Research - May 2006

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	49%	49%	45%
Lack of expertise and knowledge in computers	28%	21%	21%
Lack of personal contact with the customer	22%	22%	23%
Cost and time with introducing new technologies	22%	21%	24%
The cost of hardware and software	19%	19%	19%
Customers not being prepared to carry out financial transactions over the internet	18%	18%	16%
Incompatibility with your existing systems	16%	16%	15%
A feeling that most of your customers aren't yet ready	14%	13%	16%
Customers can more easily compare your product offer with that of your competitors	12%	13%	11%

Base = All businesses with internet

SOURCE: Sensis® Business Index
Sweeney Research - May 2006

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- 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

Sensis® undertakes commissioned research for corporate and government organisations on a variety of SME based issues.

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