August 2007

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 2007 Sensis® *Business Index* included questions on technology usage and electronic commerce (e-commerce). These questions formed the basis of the 2007 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 2007 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 about 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 2007 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 24 April to 31 May 2007. 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 30 April to 28 May 2007.

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 2007. 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

Computer ownership among SMEs during the year was unchanged, with 96 per cent of SMEs owning a computer of some description. This comprised of a 96 per cent ownership level for small businesses and 99 per cent ownership for medium businesses. While ownership of desktop computers was unchanged overall, there was a marginal increase in the ownership of notebook computers, with 51 per cent of SMEs now owning a notebook computer. This was an increase of one percentage point from 50 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 90 per cent to 92 per cent, a rise of two percentage points. This increase was equivalent to the increase recorded for the past two years.

While 92 per cent of all SMEs currently have internet access, only a further one per cent expects to connect within the next 12 months and the remaining seven per cent do not expect to be connected within the year. Some 91 per cent of SMEs now have broadband internet access, having risen from 43 per cent three years ago.

The single most important reason for use of the internet (as identified by 96 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 (87 per cent), while the third highest usage was to look for information about products and services (85 per cent).

Australians use of technology

The uptake of technology in Australian households was lower than was the case for SMEs. Some 86 per cent of households reported having a computer of some description, with 78 per cent of households being internet enabled and 62 per cent having broadband connections. Overall, 58 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 48 per cent to 51 per cent. A further 12 per cent of small businesses indicated an intention to have one within the next 12 months. Website penetration also increased for medium businesses, rising from 80 per cent in 2006 to 88 per cent in 2007. A further three 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 (65 per cent) have indicated that their website increased their business effectiveness. The reason most SMEs provided was that the website had generated additional sales, orders, bookings and customers.

Use of the internet for procurement

The past year has seen relatively little change in the use of the internet for procurement purposes. This is reflected in the marginal fall from 60 per cent to 59 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 improvement 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 increased from 61 per cent to 64 per cent. At the top end of the spectrum, 19 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 incremental growth in adoption over the year. This was reflected in the rise among SMEs from 65 per cent to 66 per cent for payments made online.

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

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 47 per cent in 2006 to 48 per cent in 2007.

Online selling as a share of total sales activities saw solid 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 50 per cent in 2006 to 59 per cent in 2007. Some 14 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, with the proportion of SMEs that received payments for sales over the internet increasing from 53 per cent to 55 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. Over two-thirds of e-commerce businesses (68 per cent) indicated they had already recovered their investment in e-commerce. This result increased by 11 percentage points from last year.

This year was the fifth 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 26 per cent of these businesses indicated that the return on investment from their e-commerce strategy had exceeded 50 per cent, up solidly from 19 per cent last year.

While 51 per cent of online businesses use e-commerce and a further 10 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. Positively, however, the ten per cent that are looking to introduce e-commerce are much more interested and expecting to introduce it much sooner than in previous year. 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 2007 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. Marginal growth in mobile computing was reported, with some 51 per cent of all SMEs owning at least one notebook computer (50 per cent of small businesses and 82 per cent of medium businesses).

Computer ownership was marginally higher in metropolitan regions with 97 per cent of businesses reporting computer ownership compared to 95 per cent for regional businesses. All the growth in this indicator over the past year has been for businesses located in regional Australia, with the proportion of SMEs in metropolitan areas unchanged.

Whilst historically there has been some difference in computer ownership among businesses in different states and territories, the overall difference narrowed further in the past year. The highest levels of computer ownership was in the Australian Capital Territory (99 per cent), while the lowest was in the Northern Territory (94 per cent), making an overall gap in computer ownership of five percentage points, down from a gap of six percentage points last year.

Levels of computer ownership varied more noticeably across the various industry sectors. At the high end of the scale, the wholesale trade and finance and insurance sectors recorded a 100 per cent computer ownership result. By comparison, the manufacturing sector recorded a result of 91 per cent of businesses owning a computer of some description.

Computer ownership
by industry sector

	Desktop computer	Notebook computer	Any computer
All Business	**94%**	**51%**	**96%**
Manufacturing	88%	49%	91%
Building/Construction	90%	39%	92%
Wholesale Trade	95%	58%	100%
Retail Trade	92%	45%	95%
Transport/Storage	96%	58%	98%
Communication, Property & Business Services	99%	59%	99%
Finance and Insurance	94%	51%	100%
Health and Community Services	97%	51%	99%
Cultural, Recreational & Personal Services	93%	57%	95%
Accommodation, Cafes and Restaurants	90%	47%	95%

SOURCE: Sensis® *Business Index*
Sweeney Research - May 2007

Computer ownership
by business size and location

	Desktop computer	Notebook computer	Any computer
All Businesses	**94%**	**51%**	**96%**
1-2 Employees	92%	45%	95%
3-4 Employees	95%	52%	97%
5-9 Employees	97%	56%	99%
10-19 Employees	94%	63%	95%
20-99 Employees	99%	82%	99%
100-200 Employees	100%	77%	100%
Total Small (1-19)	**94%**	**50%**	**96%**
Total Medium (20+)	**99%**	**82%**	**99%**
Total Metropolitan	95%	51%	97%
Total Rural	92%	52%	95%

SOURCE: Sensis® *Business Index*
Sweeney Research - May 2007

In terms of telecommunication equipment ownership, the greatest increase during the past year was in the proportion of businesses with an internet enabled mobile telephone, which has doubled in the past year to 36 per cent of all SMEs.

In total, 51 per cent of businesses reported that they had a LAN network supporting their business, with 27 per cent of businesses indicated that they had an advanced telephony system supporting their business. Both of these items saw only marginal increases in uptake over the past year.

Continued growth was also seen in the numbers of SMEs reporting using wireless technologies for location and navigation and wireless e-mail. Some 17 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, an increase of five percentage points over the past year.

Telecommunication equipment ownership

	All SMEs	Small Business	Medium Business
Fixed line telephone (landline)	96%	96%	100%
Standard mobile telephone (without internet access)	81%	80%	94%
A LAN network supporting your business	51%	49%	88%
3G mobile telephone (with internet access)	36%	36%	47%
An advanced telephony system (eg. PABX or IVR)	27%	25%	74%
Satellite navigation system (in-car or hand-held)	19%	18%	38%
VOIP (Voice over internet protocol)	17%	16%	27%
Blackberry/mobile e-mail	11%	10%	35%

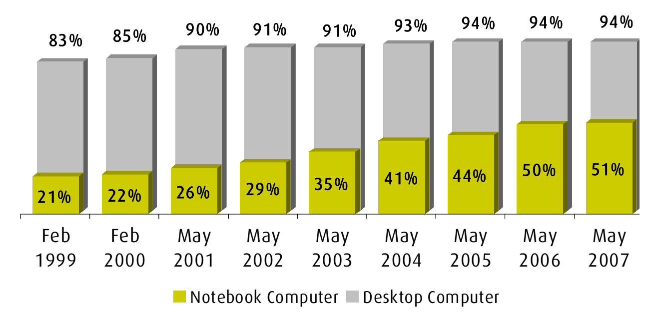
SOURCE: Sensis® *Business Index*
Sweeney Research - May 2007

Computer ownership trends

The proportion of SMEs that owned a desktop computer was remained at 94 per cent for the third successive year. Growth in notebook ownership continued at marginal levels among SMEs with an increase from 50 per cent to 51 per cent over the past year.

Following strong growth in previous years in notebook computer ownership among SMEs, this year's marginal rise indicates a potential plateau. For medium businesses the level of notebook ownership actually decreased by one percentage point. However, with only half of the small business sector having a notebook computer, there is still considerable potential to increase ownership.

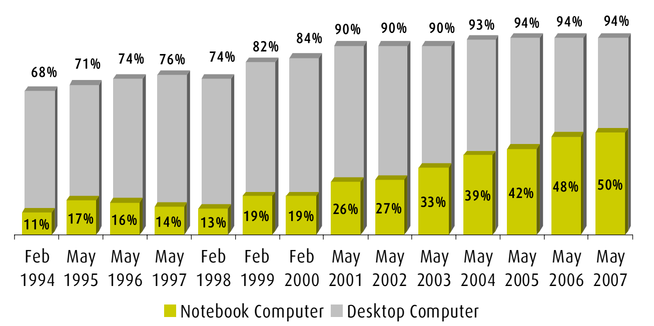
Equipment ownership trends
Small and medium business



Base = All businesses

SOURCE: Sensis® *Business Index*
Sweeney Research - May 2007

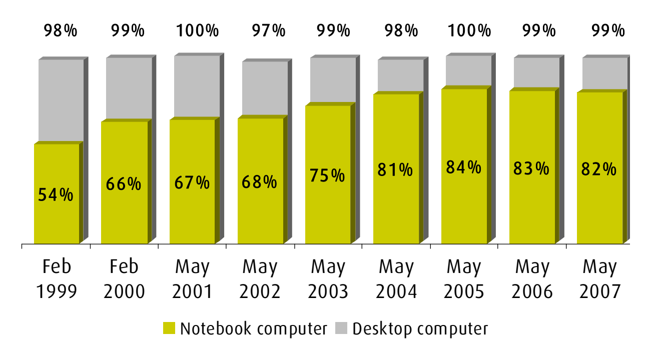
Longer term ownership trends
Small business



Base = Small businesses

SOURCE: Sensis® *Business Index*
Sweeney Research - May 2007

Equipment ownership trends
Medium business



Base = Medium businesses

SOURCE: Sensis® *Business Index*
Sweeney Research - May 2007

Expenditure in 2006 calendar year

Overall average expenditure on computer hardware and software for all SMEs in 2006 was $10,900. This was an increase of $2,300 during the past year from $8,600 in 2005.

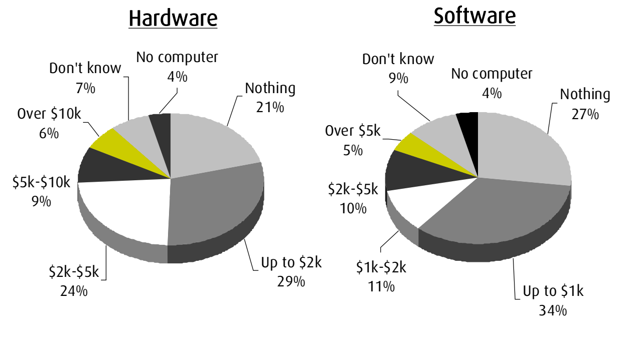
The average level of expenditure on computer hardware during 2006 by all SMEs was approximately $7,200. This represents an increase of $1,400 during the past year. The average spend of small business differed greatly from that of medium businesses. While the average spend for small businesses on computer hardware in 2006 was unchanged at approximately $3,900, for medium businesses the corresponding spend on hardware was $75,500. This represented a large increase for medium businesses of $32,200 on average, or approximately 75 per cent over the past year.

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 half spending up to $2,000. Only six per cent of small businesses reported spending more than $10,000 on computer hardware in 2006. This compares to almost two-thirds of medium businesses which reported spending more than $10,000 on hardware in 2006.

The average expenditure on software for SMEs was $3,700. This represents an increase of $300 over the past year. Again, this varied significantly between small and medium businesses, with the average spend for small businesses being unchanged at $1,800, compared to $43,900 for medium businesses (an increase of $8,100 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 27 per cent of small businesses reported no spend on software in 2006, and an additional 34 per cent reported a software spend of up to $1,000. Only five per cent reported spending more than $5,000 on software in 2006. This compares with 58 per cent of medium businesses which reported spending in excess of $5,000 on computer software over the same period.

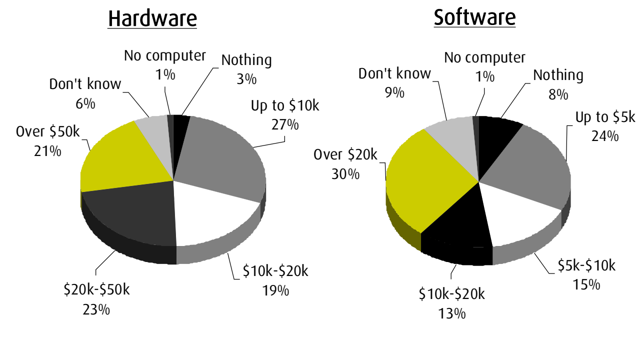
Expenditure in 2006 calendar year
Small business



Base = Small businesses

SOURCE: Sensis® *Business Index*
Sweeney Research - May 2007

Expenditure in 2006 calendar year
Medium business



Base = Medium businesses

SOURCE: Sensis® *Business Index*
Sweeney Research - May 2007

Trends in mean expenditure

	1998	1999	2000	2001	2002	2004	2005	2006
Small Business								
Software	$900	$1,500	$1,800	$1,400	$2,100	$1,900	$1,800	$1,800
Hardware	$4,000	$4,100	$5,700	$3,900	$5,100	$4,400	$3,900	$3,900
Medium Business								
Software	$30,100	$44,100	$25,500	$23,200	$28,000	$31,600	$35,800	$43,900
Hardware	$47,000	$80,100	$49,100	$41,600	$59,200	$42,300	$43,200	$75,500

Base = All businesses

SOURCE: Sensis® *Business Index*
Sweeney Research - May 2007

Expected expenditure in 2007 calendar year

Overall, following strong increases in 2006, SMEs were expecting to spend less on computer hardware and software in 2007.

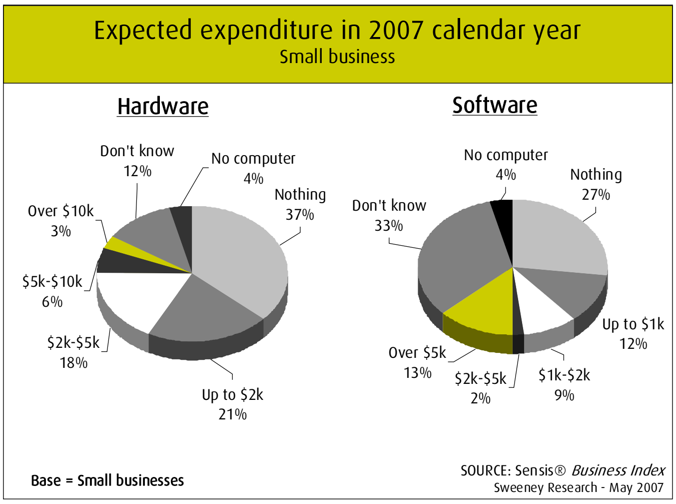
Total average expenditure on computer hardware and software for all SMEs in 2007 was expected to be $9,400. This would represent a decrease of $1,500 from the total spend of $10,900 that SMEs reported spending on hardware and software in 2006.

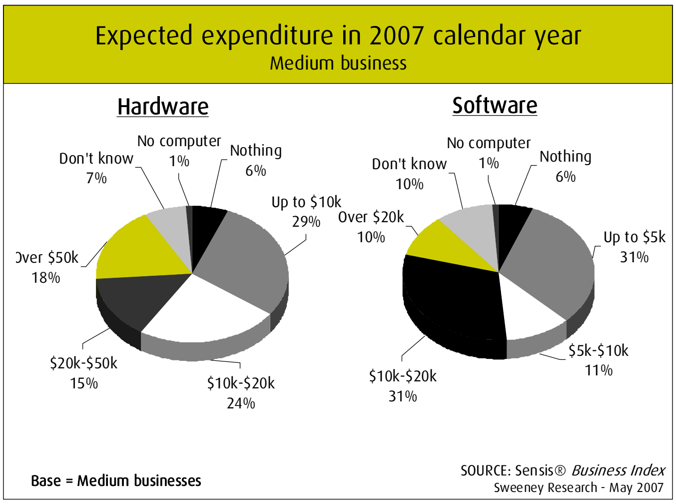
On average, small businesses were expecting to spend $4,500, with medium businesses expecting to spend 108,000 on computer hardware and software in 2007.

In terms of expenditure on computer hardware, SMEs were expecting to spend significantly less in 2007 than they did in 2006. The average expected spend across all SMEs was $5,600, considerably less than the $7,200 spent in 2006. Falls in spending on hardware were expected in businesses of all sizes. Small businesses were expecting to spend $2,900, down from the spend of $3,900 in 2006. Medium businesses were expecting to spend $59,300, also down from the $75,500 that they reported spending in 2006.

However, while SMEs were expecting to drop their hardware spend during 2007, they were expecting to increase their spend on computer software. The average expected spend across all SMEs was $3,800, which if realised, would be an increase of $100 per business on the levels recorded this year. However, small businesses were expecting to spend $1,600, down from the spend of $1,800 reported in 2006. The overall increases recorded were for medium businesses, which expect to increase their average software spend from $43,900 in 2006 to $48,700 in 2007.

It is interesting to note that while SMEs are expecting to spend less on IT in 2007 than they did in 2006, this was also the case last year, with expectations over-realised significantly. Last year the overall expectation for SME total hardware and software spend was $7,300, which, when compared to the reported actual figures of $10,900 for 2006, was over-realised by $3,600 on average per business.





Getting connected

Connection levels

The proportion of all small and medium enterprises connected to the internet rose during the year from 90 per cent to 92 per cent. This reflected a rise in small businesses internet-connectivity from 90 per cent to 92 per cent, and no change for medium businesses at 99 per cent. Of the eight per cent of small businesses that are not connected to the internet, four 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 98 per cent. The lowest level of connectivity was in the health and community services sector, of which 85 per cent of SMEs reported having an internet connection, a fall of seven percentage points over the past year, with 14 per cent of SMEs in this sector having computers that are not connected to the internet, the highest of any sector.

Metropolitan businesses reported a rate of 94 per cent internet penetration which was higher than the comparable result for regional businesses at 89 per cent. The connection levels amongst metropolitan SMEs has risen by two percentage points in the past year, compared to an increase of one percentage point for SMEs in regional areas.

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 92 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 in specific sectors and regional areas, and the internet is part of the standard toolkit for any business.

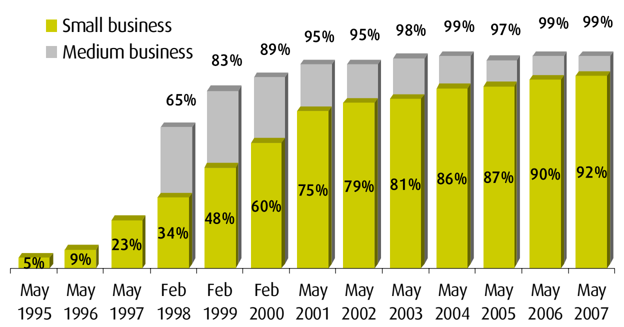
Internet connections
by business size and location

	No computers	Use internet	Do not use
All Businesses	**4%**	**92%**	**4%**
1-2 Employees	5%	91%	4%
3-4 Employees	3%	91%	6%
5-9 Employees	1%	97%	2%
10-19 Employees	5%	91%	4%
20-99 Employees	1%	98%	0%
100-200 Employees	0%	100%	0%
Total Small (1-19)	**4%**	**92%**	**4%**
Total Medium (20+)	**1%**	**99%**	**0%**
Total Metropolitan	3%	94%	3%
Total Rural	5%	89%	5%

Base = All businesses

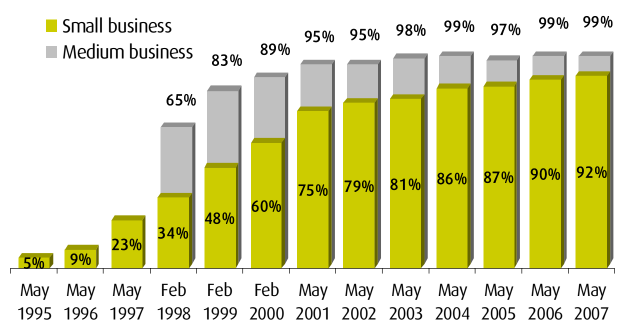
SOURCE: Sensis® *Business Index*
Sweeney Research - May 2007

Trends in internet connections



SOURCE: Sensis® *Business Index*
Sweeney Research - May 2007

Trends in internet connections



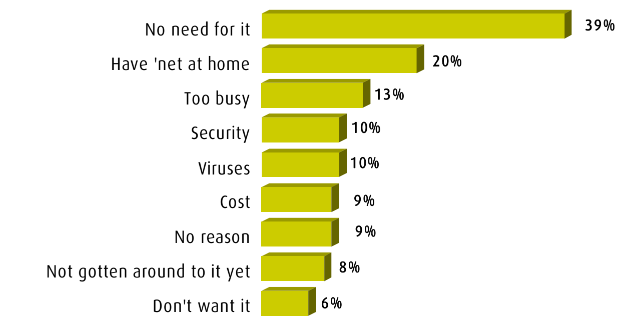
SOURCE: Sensis® *Business Index*
Sweeney Research - May 2007

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 (39 per cent, down from 48 per cent last year). The industry sector that felt they had no need to be connected to the internet more than others was the transport and storage sector. Metropolitan businesses were more likely than regional businesses to express the view that they had no need for the internet.

The next most frequent response for not connecting to the internet was that they had the internet at home, which was given by 20 per cent of those SMEs with computers not connected to the internet. Businesses in the transport and storage sector were also most likely to provide this response. Overall, 91 per cent of SMEs reported being connected to the internet at home.

Reasons not connected to internet
(unprompted)



Base = All businesses with computers not connected

SOURCE: Sensis® *Business Index*
Sweeney Research - May 2007

Expectations for internet connection

While 92 per cent of SMEs are already connected to the internet, this leaves some eight per cent of businesses that are not. Of those businesses, only an additional one per cent believes they will connect their businesses to the internet within the next 12 months. The remaining seven per cent of businesses do not expect to do so in the next 12 months. This level of expectation is lower than last year, when three per cent 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 three to four employees and 10 to 19 employees. Eight per cent of these businesses stated they were not expecting to connect to the internet in the next 12 months, however this was only marginally above average.

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 online purchasing. Other key reasons included keeping in touch with head offices and for e-mail.

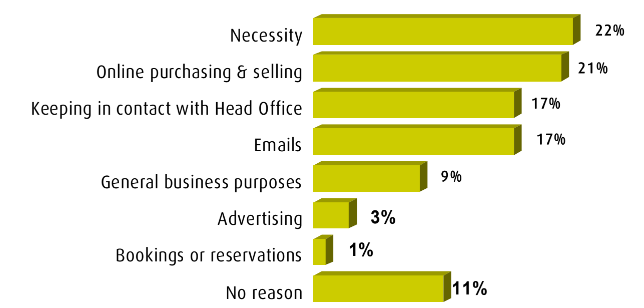
Expectations for internet connection
by business size and location

	Use internet	Expect to connect	*Do not expect
All Businesses	**92%**	**1%**	**7%**
1-2 Employees	91%	2%	7%
3-4 Employees	91%	1%	8%
5-9 Employees	97%	0%	2%
10-19 Employees	91%	1%	8%
20-99 Employees	98%	0%	1%
100-200 Employees	100%	0%	0%
Total Small (1-19)	**92%**	**1%**	**7%**
Total Medium (20+)	**99%**	**0%**	**1%**
Total Metropolitan	94%	1%	5%
Total Rural	89%	1%	9%

Base = All businesses
*Includes "Not sure"

SOURCE: Sensis® *Business Index*
Sweeney Research - May 2007

Reasons for wishing to connect
(unprompted)



Base = All businesses intend to connect

SOURCE: Sensis® *Business Index*
Sweeney Research - May 2007

Broadband connections

SMEs continued their shift to broadband over the past year. Some 91 per cent of SMEs currently reported having broadband access to the internet, up from 80 per cent last year, with broadband being the almost universal standard for internet in Australian businesses.

ADSL was the most popular form of broadband connection amongst businesses, being the choice of 61 per cent of those with broadband access to the internet, followed by 18 per cent with a cable connection and 10 per cent with a wireless connection. Over two-thirds of SMEs were unaware of the speed of their internet connection.

Of those SMEs that did not currently have a broadband connection to the internet, almost half (48 per cent) reported that there were intending to get one, with 38 per cent intending to have broadband sometime in the next 12 months.

Broadband connections were only marginally higher in metropolitan SMEs (92 per cent compared to 89 per cent for regional SMEs). The level of broadband connection was highest amongst SMEs in Victoria (93 per cent) and lowest in South Australia (86 per cent).

In terms of industry sector trends, the finance and insurance sector had the greatest proportion of businesses with broadband connections at 98 per cent. The lowest level of broadband connection occurred in the health and community services sector.

Broadband was almost universal amongst those businesses that were aiming for significant growth, with a take-up rate of 97 per cent, compared to 86 per cent for those SMEs that were not intending to grow their business.

The main reason SMEs identified why they have introduced broadband access was due to the speed of access. Overall, 58 per cent of businesses with broadband access identified this factor. The next most important reasons for having broadband access involved increased efficiency (19 per cent) and being able to access more applications (14 per cent). Overall, some 80 per cent of SMEs reported feeling satisfied with their broadband internet connection.

Accessing the internet

Do you currently have broadband access to the internet?

	Total	Small Business	Medium Business
Yes – have broadband	91%	90%	97%
No – do not have broadband	9%	9%	2%
Don't know	0%	0%	0%

How do you currently access the internet?
(Amongst those with broadband access)

	Total	Small Business	Medium Business
DSL/ADSL	61%	61%	65%
Cable	18%	18%	13%
Wireless	10%	10%	9%
Satellite	2%	2%	1%
Don't know	10%	10%	12%

SOURCE: Sensis® *Business Index*
Sweeney Research - May 2007

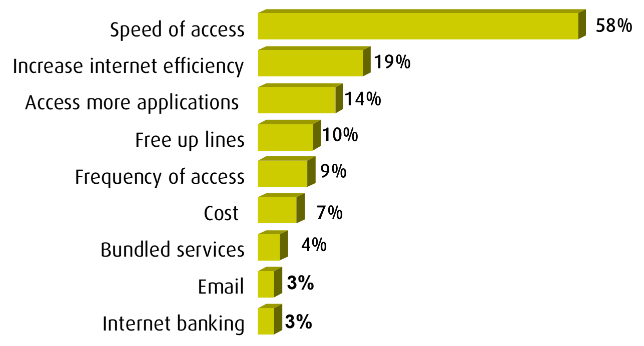
Broadband access

	Total	Small Business	Medium Business
How long has your business had broadband access?			
Over 12 months	86%	85%	97%
6 to 12 months	8%	8%	2%
3 to 6 months	4%	4%	0%
Less than three months	3%	3%	1%
Has the introduction of broadband access had a positive impact, a negative impact or no real impact on your business?			
Positive	76%	75%	90%
Negative	1%	1%	0%
No real impact	24%	24%	10%

Base = Have broadband access

SOURCE: Sensis® *Business Index*
Sweeney Research - May 2007

Reasons for broadband connection
(unprompted)



Base = All businesses with broadband

SOURCE: Sensis® *Business Index*
Sweeney Research - May 2007

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 96 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. Usage of this application has decreased by one percentage point over the past year.

The second most important application of the internet reported by SMEs was getting reference information or research data. This application was identified by 87 per cent of internet-connected businesses, a marginal fall of two percentage points since last year. A further six per cent of internet-connected businesses were expecting to use this application for the first time within the next 12 months. This has risen to second position from being the third highest ranking application last year.

The third most important application of the internet was to look for information about products and services. This is a current use for 85 per cent of businesses that are connected to the internet, down six percentage points from 91 per cent last year.

With many of the top applications having reached relative saturation points, there has not been significant growth across these applications. However, 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 using a website to promote the business, which was nominated by 12 per cent of SMEs. This was closely followed by promoting the business with e-mail marketing, which was nominated by 11 per cent and taking orders for products and services, nominated by 10 per cent of SMEs.

Current and expected uses of the internet - summary

	Currently use	Expect to use	Total
To communicate via email	96%	2%	98%
To get reference information or research data	87%	6%	93%
To look for information about products and services	85%	8%	93%
Internet banking	80%	4%	84%
To access directories such as the Yellow Pages	76%	7%	83%
To pay for products and services	72%	5%	77%
To access and use Online catalogues	68%	6%	73%
To streamline communications with customers and staff	67%	7%	73%
To place orders for products and services	64%	8%	71%
To receive payments for products and services	59%	9%	68%
To use a website to advertise or promote business	57%	12%	68%
To take orders for your products and services	51%	10%	61%
To monitor your markets or the competition	42%	6%	48%
To promote the business using email marketing	27%	11%	38%
To advertise your business on other websites	17%	8%	25%
To use online auction sites to sell goods or services	13%	8%	20%

Base = All businesses with internet

SOURCE: Sensis® *Business Index*
Sweeney Research – May 2007

Current usage by business size

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 (95 per cent versus 99 per cent). Usage among small businesses has decreased over the past year by two percentage points, while usage among medium businesses has decreased by one percentage point over the past year. This has resulted in the usage gap between small and medium businesses increasing from three percentage points last year to four percentage points this year.

The second most important internet application was getting reference information or research data. There was some difference in the use of this application between medium businesses (97 per cent) and small businesses (87 per cent). This gap has widened from four percentage points last year, mainly due to a reported fall in usage of two percentage points from small businesses. Medium businesses increased their usage of this application by four percentage points over the last year.

The internet application that demonstrated the greatest variation between small and medium business usage was again using a website to promote their business. Some 82 per cent of medium businesses with the internet identified this, compared to 56 per cent of small businesses with the internet. This gap of 26 percentage points was the highest for any internet application, and has remained stable in the past year. Despite no change in the size of the gap, both small and medium businesses increased their use of websites to promote their businesses by two percentage points. There were no internet applications that were more likely to be used by small businesses than 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, 78 per cent of businesses in the cultural, recreational and personal services sector reported using this application compared to only 23 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	95%	99%	96%
To get reference information or research data	87%	97%	87%
To look for information about products and services	84%	94%	85%
Internet banking	80%	92%	80%
To access directories such as the Yellow Pages	75%	94%	76%
To pay for products and services	72%	78%	72%
To access and use Online catalogues	67%	75%	68%
To streamline communications with customers and staff	66%	84%	67%
To place orders for products and services	63%	73%	64%
To receive payments for products and services	59%	63%	59%
To use a website to advertise or promote business	56%	82%	57%
To take orders for your products and services	51%	55%	51%
To monitor your markets or the competition	41%	61%	42%
To promote the business using email marketing	27%	33%	27%
To advertise your business on other websites	17%	25%	17%
To use online auction sites to sell goods or services	13%	15%	13%

Base = All businesses with internet

SOURCE: Sensis® *Business Index*
Sweeney Research - May 2007

Trends in usage

Overall, the latest usage of applications showed only relatively small changes over the past year, reflecting more of a consolidation in usage. In terms of trends in usage of various internet applications, the largest rise during the year was split between using a website to advertise or promote their business and receiving payments for products and services. Both of these applications rose by three percentage points in the last year. Overall, 53 per cent of SMEs reported using a website to advertise or promote their business, with the greatest usage being among SMEs in the cultural, recreational and personal services sector (78 per cent). Some 55 per cent of all SMEs now report that they receive payments for products and services online. The greatest usage of the internet to receive payments by an industry sector was the transport and storage sector (75 per cent).

The only other internet applications to increase their level of usage by SMEs in the past year were: taking orders for products and services; paying for products and services; streamlining communications with customers and staff; and getting reference information or research data. Each of these applications increased their usage by a marginal one percentage point in the past year.

The industry sector with the highest usage of the internet for taking orders online was the wholesale trade sector, where 74 per cent of SMEs reported taking orders online. SMEs in the transport and storage sector were most likely to use the internet to pay for goods and services, at 85 per cent usage.

The sector most likely to use the internet to streamline communications with customers and staff was the communications, property and business services and cultural recreational and personal services sectors (100 per cent each). Finally, the industry most likely to use the internet to get reference information or research data was the communications, property and business services sector at 95 per cent.

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

	2005	2006	2007	Change 2006 to 2007
To use a website to advertise or promote business	N/A	50%	53%	3%
To receive payments for products and services	50%	52%	55%	3%
To take orders for your products and services	41%	47%	48%	1%
To pay for products and services	62%	66%	67%	1%
To streamline communications with customers and staff	58%	61%	62%	1%
To get reference information or research data	78%	80%	81%	1%
To communicate via email	83%	88%	88%	0%
Internet banking	70%	74%	74%	0%
To monitor your markets or the competition	33%	39%	38%	-1%
Advertise your business on other websites	N/A	17%	16%	-1%
To access directories such as the Yellow Pages®	64%	72%	70%	-2%
To place orders for products and services	53%	61%	59%	-2%
To promote the business using email marketing	23%	27%	25%	-2%
To look for information about products and services	77%	82%	78%	-4%
To access and use online catalogues	61%	66%	62%	-4%
Use online auction sites	N/A	16%	12%	-4%

Base = All businesses

SOURCE: Sensis® *Business Index*
Sweeney Research - May 2007

What are the essential applications?

The most essential application of the internet in terms of SME usage was again email. This was identified by 87 per cent of businesses as an essential application, up from 83 per cent last year. Metropolitan businesses were more likely to identify email as an essential application compared to regional businesses (88 per cent versus 85 per cent), however both figures represented an increase.

The next most important applications that were identified as essential activities were: internet banking (71 per cent, down from 72 per cent). Of all industry sectors, SMEs in the accommodation, cafés and restaurants sector were again most likely to identify internet banking as an essential internet application (80 per cent). This contrasts with SMEs in the building and construction sector which were least likely to regard it as an essential application (60 per cent).

There were four other applications that were considered essential by the majority of SMEs: finding reference information or research data (65 per cent, up from 62 per cent); looking for information about products and services that businesses might buy (63 per cent, down from 64 per cent); streamlining communications with customers and staff (53 per cent); and paying for products and services (50 per cent).

The greatest increase in the percentage of internet-connected SMEs regarding an application as essential was split three ways between taking orders for products and services; using a website to advertise and promote the business; and to communicate via e-mail. All of these applications increased by four percentage points over the past year.

What are the essential applications?

	All SMEs	Small Business	Medium Business
To communicate via email	87%	87%	95%
Internet banking	71%	70%	82%
To get reference information or research data	63%	63%	74%
To look for information about products and services	61%	61%	68%
To streamline communications with customers and staff	53%	52%	69%
To pay for products and services	50%	50%	52%
To access directories such as the Yellow Pages	49%	48%	59%
To receive payments for products and services	48%	48%	51%
To place orders for products and services	44%	44%	49%
To use a website to advertise or promote business	43%	42%	57%
To access and use Online catalogues	42%	42%	45%
To take orders for your products and services	40%	40%	40%
To monitor your markets or the competition	24%	24%	35%
To promote the business using email marketing	18%	18%	18%
To advertise your business on other websites	10%	10%	12%
To use online auction sites to sell goods or services	4%	4%	6%

Base = All businesses with internet

SOURCE: Sensis® *Business Index*
Sweeney Research - May 2007

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 reported 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 86 per cent in 2007, a rise of four percentage points over the past year. Some 76 per cent had a desktop computer (up one percentage point), with notebook ownership currently at 40 per cent (up seven percentage points). This compares with 94 per cent of SMEs having a desktop computer, 51 per cent having a laptop computer and 96 per cent having a computer of some description.

In terms of internet connections, some 78 per cent of households were internet-enabled (up four percentage points in the past year), compared with 92 per cent of SMEs. Some 21 per cent of households had a dial-up internet connection (down from 30 per cent); and 62 per cent had a broadband connection (up from 49 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, unchanged over the past year. This compared to 95 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, unchanged over the past year. The groups most likely to report below average usage were those aged 65 and above, retirees and, to a lesser extent, those that were not in the workforce.

Australians used the internet for a wide range of activities, but tended to display lower usage levels than SMEs did. For example, some 50 per cent of Australians reported having ordered goods and services online, compared to 59 per cent of SMEs. Overall, 57 per cent of Australians reported making payments online, compared to 67 per cent of SMEs. Paying for purchases or bills was the most common application that Australians used the internet for.

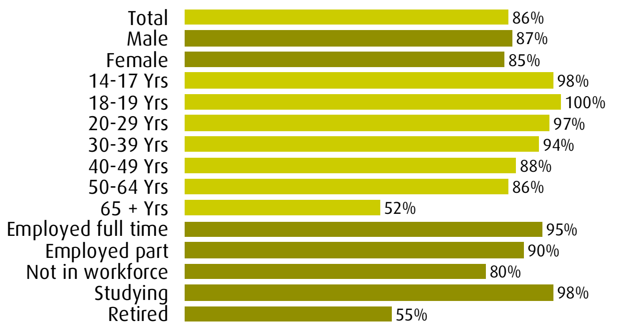
Computerisation in the home

	Households currently have[1]	Expect to get in next 12 months[1]	Businesses currently have[2]
A desk top computer or PC	76%	10%	94%
A notebook computer	40%	11%	51%
Total computer	**86%**	**19%**	**96%**
Dial-up internet	21%	2%	12%
Broadband internet	62%	13%	84%
Total internet enabled	**78%**	**14%**	**92%**

Q. Which of the following items do you currently own?
Q. 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 2007
[2]Sensis® *Business Index:* Sweeney Research - May 2007

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 2007

Internet applications in the last 12 months

	Internet users last 12 months	All Australians
Paid for purchases or bills	66%	57%
Made bookings	64%	55%
Undertaken banking	63%	54%
Ordered goods/services	58%	50%
Supplied personal information online	39%	34%
Read a blog	37%	32%
Bought through an online auction site	30%	26%
Used the internet to make phone calls	16%	14%
Sold through an online auction site	14%	12%
Written a blog	12%	10%
None of these	10%	9%

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

SOURCE: Sensis® *Consumer Report*
Sweeney Research - May 2007

Mobile e-mail

Phones or devices which allow you to access and respond to e-mail are starting to gain momentum.. Mobile e-mail devices and BlackBerry® devices are becoming familiar devices, with five per cent of the population overall now owning the technology to allow them to access their e-mail almost anywhere. In addition, another four per cent of Australians are expecting to gain this technology in the coming year, so in a year's time on this basis approximately one in ten Australians will have the capacity to access their e-mail remotely.

At the moment, usage is marginally higher amongst males than females, and highest amongst those Australians in their 20s and 30s, with eight per cent of these age-groups currently using mobile e-mail. The strongest expectations to get mobile e-mail in the next year was from younger Australians aged under 20. Usage was much stronger in metropolitan areas (six per cent) compared to regional areas (two per cent).

Despite still being in its adoption phase, the impact of mobile e-mail in the lives of Australians is certainly a topic of discussion. Those Australians that use mobile e-mail reported, however, that it was a useful tool in helping them balance their work and personal lives. Whilst the largest proportion of mobile e-mail users reported using it mainly for work purposes (38 per cent), an almost equal proportion (36 per cent) reported that it was primarily for their personal use, with just over one-quarter reporting that it was equally for work and personal use.

Perhaps related to the relatively high amount of personal use, just over one-half (51 per cent) reported that they never turned their BlackBerry® off. Only one-third turned it off over the weekend, and four out of 10 reported that they used it to respond to work-related e-mails in their personal time. Mobile e-mail was seen to be a useful tool, allowing people to respond to e-mail quickly and work away from the office, as well as assisting in work-life balance. The greatest negative impact reported of BlackBerry® devices was that they intruded into people's personal lives (20 per cent). However, on balance, Australians were not willing to let go of their BlackBerry® devices, with 30 per cent reporting that they would definitely not even consider giving it up.

BlackBerry® ownership

	Currently have	Expect to get in next twelve months
Total	**5%**	**4%**
Male	6%	5%
Female	4%	4%
Up to 19 years	5%	8%
20 – 29 years	8%	6%
30 – 39 years	8%	5%
40 – 49 years	2%	6%
50 – 64 years	4%	2%
Over 64 years	1%	1%

Q. Which of the following do you currently have? (BlackBerry®/mobile e-mail)

SOURCE: Sensis® *Consumer Report*
Sweeney Research - May 2007

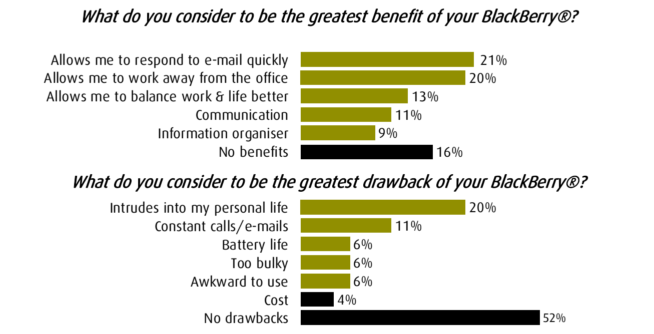
BlackBerry® usage

Do you primarily use your BlackBerry® or mobile e-mail for work or personal use?	
Mostly work	38%
Mostly personal	36%
About equal	26%
Do you ever turn your BlackBerry® off?	
Yes	49%
No	51%
Do you have it on over the weekend?	
Yes	68%
No	32%
Do you respond to work-related e-mails received on your BlackBerry® outside office hours?	
Always/most of the time	41%
Sometimes/rarely	15%
Never	42%

Base: Have a BlackBerry® (78 per cent)

SOURCE: Sensis® *Consumer Report*
Sweeney Research - May 2007

Benefits and drawbacks of mobile e-mail



Base: Have a BlackBerry®

SOURCE: Sensis® *Consumer Report*
Sweeney Research - May 2007

BlackBerry® is a registered trade mark of Research in Motion – used by permission.

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

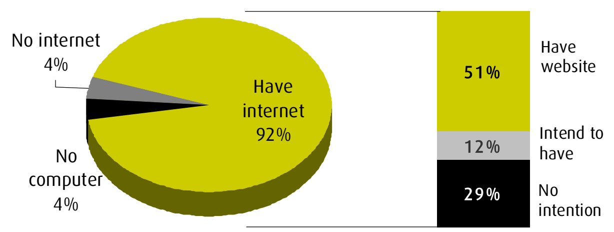
After incremental growth in recent years, the percentage of small businesses with a website increased more significantly during the year from 48 per cent to 51 per cent in total. Another 12 per cent of small businesses indicated that they intend to get a website within the next 12 months. The remaining 29 per cent of small businesses indicated that they had no intention of getting a website this year.

There was also growth with medium businesses: the percentage of internet-connected medium businesses with a website increased during the year from 81 per cent to 88 per cent. While some 99 per cent of medium businesses had an internet connection, 88 per cent reported that they had a website. A further three per cent of internet-connected medium businesses expect to get a website within the next 12 months. The remaining nine per cent of internet-connected medium businesses either had no computer or had no intention of getting a website.

The highest rate of website penetration by industry sector was the cultural, recreational and personal services 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 20 per cent of all businesses in the sector, the lowest of any industry.

Metropolitan businesses reported a much higher incidence of websites with a 57 per cent rate of adoption compared to 43 per cent for regional businesses. However, while metropolitan businesses had higher website penetration, it had only increased by one percentage point over the past year, compared to a seven percentage point increase for businesses in regional areas. Other business types that were more likely to have a website were those businesses that were aiming for significant growth (77 per cent); members of an industry association (60 per cent website penetration); businesses that were tourism-based (66 per cent website penetration), and businesses that exported (81 per cent website penetration).

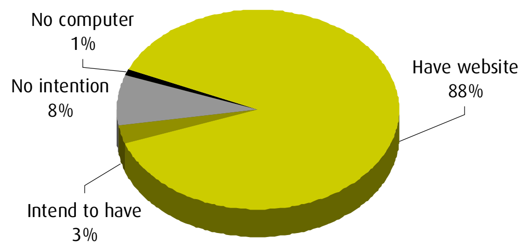
Website
Small businesses



Base = Small businesses

SOURCE: Sensis® *Business Index* Sweeney Research - May 2007

Website
Medium businesses



Base = Medium businesses

SOURCE: Sensis® *Business Index* Sweeney Research - May 2007

Website use and intention
by business size

	2007 Have website	2007 Intend to have	Cf. 2006 Have website
All Businesses	52%	12%	49%
1-2 Employees	41%	13%	36%
3-4 Employees	57%	11%	56%
5-9 Employees	69%	13%	64%
10-19 Employees	66%	8%	78%
20-99 Employees	85%	4%	79%
100-200 Employees	98%	2%	95%
Total Small (1-19)	51%	12%	48%
Total Medium (20+)	87%	3%	80%

Base = All businesses

SOURCE: Sensis® *Business Index* Sweeney Research - May 2007

Benefits of the site

Sixty-five per cent of businesses stated that having a website improved the effectiveness of their business. Regional businesses were slightly more likely to report that their website had increased the effectiveness of their business (67 per cent) than businesses in metropolitan areas (65 per cent). Small businesses were also more likely to feel that their website had improved the efficiency of their business (66 per cent) than medium businesses (58 per cent).

The industry sector to respond most strongly that the presence of a website had increased business effectiveness was the accomodation, café and restaurant sector. Ninety-two per cent of this sector per cent responded favourably, up from 84 per cent last year. The weakest response came from the finance and insurance sector at 42 per cent.

It is particularly interesting to look at the reasons why businesses felt that their website had increased their efficiency. In previous years businesses were most likely to say that it had enabled people to get information about their businesses more easily. This year the most cited reason was that it had enabled additional sales, orders, bookings and customers for their business. This response was given by 16 per cent of SMEs who believed that their website had led to increased business effectiveness, up from 14 per cent last year.

Other key reasons for businesses finding their website beneficial were: exposire to a broader market (13 per cent); increased enquiries (13 per cent); and people being able to get information about their businesses (12 per cent).

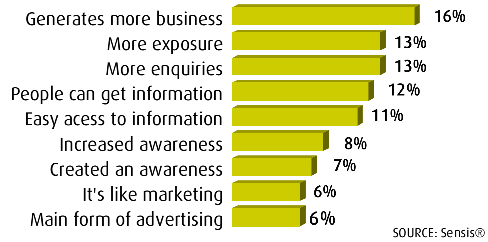
The main benefits of having an internet website varied by industry sector. For the accomodation, café and restaurant sector, which were most likely to feel that their websites had increased their efficiency, the main reasons were that it provided people with information about their businesses and enabled them to see what they did, their website helped promote and advertise their business and it was important for them to have a visbile presence on the web.

Generation of additional sales was the most likely reason that SMEs in the manufacturing, retail and transport and storage sectors felt that their websites had improved their efficiency. For businesses in the cultural, recreational and personal services sector, exposure to a wider audience was the main reason cited for increased efficiency from their website.

Has the website increased business effectiveness?

	All SMEs	Small business	Medium business
Yes - increased	65%	66%	58%
No – not increased	35%	34%	42%

Reasons for increased business effectiveness



Base = All businesses with website

SOURCE: Sensis® *Business Index*
Sweeney Research - May 2007

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, SMEs use of the internet for procurement was relatively unchanged, with the main change being a drop in the proportion of SMEs that were looking for information about products and services.

As we have already seen, there was continued small growth was seen in the proportion of SMEs connected to the internet. Despite this growth, there was a considerable fall in the proportion of SMEs that used the internet to look for information about products and services, with 78 per cent of SMEs reporting having done this activity, down five percentage points in the past year. There was also a marginal fall of one percentage point in the proportion of SMEs that had placed orders over the internet (59 per cent).

There was considerable variation by industry sector as to whether businesses used the internet to place orders for goods and services. SMEs in the cultural, recreational and personal services sector were the most likely to place orders for products and services on the internet (69 per cent), while those SMEs in the building and construction sectors were again the least likely to place an order online (37 per cent).

The proportion of SMEs that reported using the internet to pay for products and services increased marginally from 66 per cent in 2006 to 67 per cent in 2007, an increase of one percentage point.

For small businesses, paying for products and services online was the only part of the procurement process that recorded growth. For medium businesses, the proportion using the internet to look for information about products and services remained stable, with falls in the proportion placing orders and paying online.

Metropolitan businesses were slightly more likely to use the internet to place orders online than regional businesses (60 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 regional businesses that were online that used the internet to place orders for goods and services was actually marginally

Buying over the internet
by business size

	Connected to internet	Look for information	Place orders	Pay
All Businesses	**92%**	**78%**	**59%**	**67%**
1-2 Employees	91%	75%	53%	60%
3-4 Employees	91%	77%	61%	72%
5-9 Employees	97%	86%	72%	74%
10-19 Employees	91%	86%	66%	80%
20-99 Employees	98%	94%	71%	77%
100-200 Employees	100%	87%	76%	75%
Total Small (1-19)	**92%**	**78%**	**58%**	**66%**
Total Medium (20+)	**99%**	**93%**	**72%**	**77%**

Base = All businesses

SOURCE: Sensis® *Business Index*
Sweeney Research - May 2007

Buying over the internet
Trends – small business

	2000	2001	2002	2003	2004	2005	2006	2007
Connected to internet	60%	75%	79%	81%	86%	87%	90%	92%
Look for information on products or services	46%	51%	64%	67%	75%	76%	82%	78%
Place orders for products or services	17%	26%	41%	45%	55%	51%	60%	58%
Pay for products or services	11%	23%	40%	47%	58%	62%	65%	66%

Base = Small businesses

SOURCE: Sensis® *Business Index*
Sweeney Research - May 2007

Buying over the internet
Trends – medium business

	2000	2001	2002	2003	2004	2005	2006	2007
Connected to internet	89%	95%	94%	98%	99%	97%	99%	99%
Look for information on products or services	65%	79%	82%	91%	94%	92%	93%	93%
Place orders for products or services	28%	49%	61%	64%	74%	72%	75%	72%
Pay for products or services	17%	39%	55%	66%	73%	72%	80%	77%

Base = Medium businesses

SOURCE: Sensis® *Business Index*
Sweeney Research - May 2007

higher than for metropolitan businesses (64 per cent compared to 63 per cent). SMEs in the Australian Capital Territory were the most likely to place orders online, with those in Victoria and New South Wales the least likely.

In addition, SMEs that were aiming for significant growth were far more likely to report having placed orders online (85 per cent) than their counterparts that were not aiming for growth (44 per cent).

The average proportion of total SME procurement made online has risen this year, despite the number of SMEs who are procuring online having decreased marginally. Last year there was a significant proportion of businesses that had recently started purchasing online. This year, the proportion of businesses placing up to five per cent of their purchases online has fallen by two percentage points, while all the other proportions have increased. This result reflects SMEs becoming more comfortable with the online environment.

This finding is reinforced by the strong increases in the proportion of SMEs that are now making the majority of their purchases online. In 2006, 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 year the proportion of SMEs doing over half of their procurement inline has risen by seven percentage points to 19 per cent.

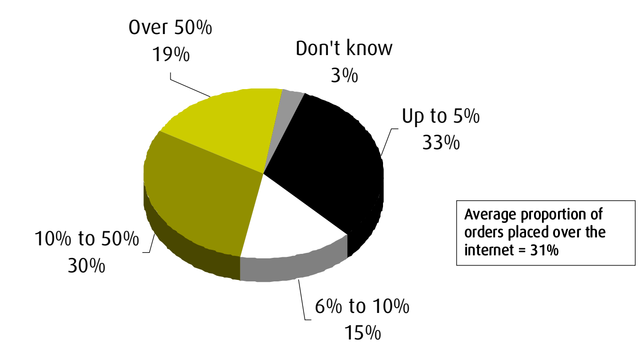
Buying over the internet
by industry sector

	Connected to internet	Look for information	Place orders	Pay
All Businesses	**88%**	**78%**	**59%**	**67%**
Manufacturing	90%	81%	55%	64%
Building/Construction	97%	73%	37%	48%
Wholesale Trade	89%	83%	66%	73%
Retail Trade	91%	73%	58%	64%
Transport/Storage	98%	83%	68%	77%
Communications/Property/ Business Services	100%	82%	66%	75%
Finance and Insurance	85%	82%	49%	58%
Health/Community Services	93%	77%	57%	60%
Personal Services	94%	78%	69%	78%
Hospitality	88%	77%	63%	66%

Base = All businesses

SOURCE: Sensis® *Business Index*
Sweeney Research - May 2007

Proportion of orders placed over the internet
by businesses which place orders over the net (59%)



Base = Place orders over the internet

SOURCE: Sensis® *Business Index*
Sweeney Research - May 2007

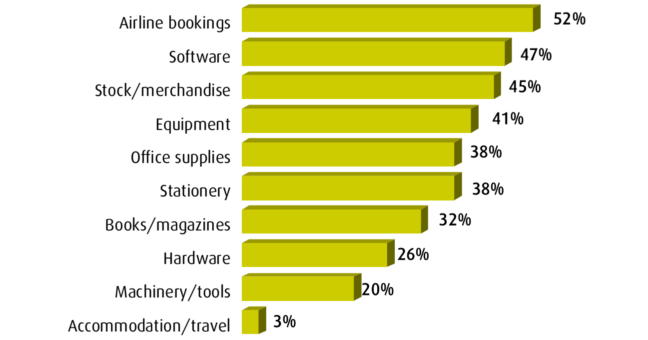
What businesses buy

The most common use for online procurement by SMEs during the year was for airfares, with over half (52 per cent) of all businesses that made purchases online making airline bookngs. The proportion of SMEs that reported making airline bookings online was up by seven percentage points since last year.

Having increased by four percentage points over the past year, software purchases were the second most popular purchases by SMEs (47 per cent). Purchasing stock and merchandise was the third most popular online purchase, unchanged over the past year.

Airline bookings showed the strongest growth over the past year, up seven percentage points. Whilst most items showed solid growth, small falls were recorded in books and magazines and computer hardware.

Items bought



Q. What products or services have you bought over the Internet for your business?

Base = Place orders over the internet

SOURCE: Sensis® *Business Index*
Sweeney Research - May 2007

SME use of the internet to sell

The last year saw continued incremental growth in the number of SMEs that were using e-commerce to sell goods and services. This is refelcted in the increase from 47 per cent of all SMEs that take orders online in 2006 to 48 per cent for this year. This trend was also reinforced by the rise of businesses that receive payments online from 53 per cent to 55 per cent.

Once again, a greater proportion of medium businesses recorded taking orders online than small businesses. The number of small businesses reporting taking orders online rose during the year from 46 per cent to 47 per cent. There was no growth in the proportion of medium businesses that reported taking orders online in the past year, remaining unchanged at 54 per cent.

The wholesale trade sector again recorded the strongest proportion of SMEs that reported taking orders online with 72 per cent of businesses in the sector reporting this experience, a rise of 11 percentage points over the past year. This is in contrast to the health and community services sector, where only 25 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 67 per cent reporting that they took orders online) and exporters (with 74 per cent reporting that they took orders online). SMEs in metropolitan areas were more likely to report having taken orders online (49 per cent) than those in regional areas (45 per cent).

The proportion of small businesses receiving payments online rose from 52 per cent to 54 per cent, an increase of two percentage points. In comparison, medium businesses recorded a marginal fall in the proportion of SMEs that received payments online, decreasing from 63 per cent to 62 per cent.

In terms of receiving payments online, firms in the wholesale trade and transport and storage sectors were most likely to report that they had received payments online, at 68 per cent each. 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, unchanged in the past year.

Selling over the internet
by business size

	Connected to internet	Take orders	Receive payments
All Businesses	**92%**	**48%**	**55%**
1-2 Employees	91%	45%	49%
3-4 Employees	91%	46%	65%
5-9 Employees	97%	53%	53%
10-19 Employees	91%	58%	67%
20-99 Employees	98%	53%	61%
100-200 Employees	100%	59%	70%
Total Small (1-19)	**92%**	**47%**	**54%**
Total Medium (20+)	**99%**	**54%**	**62%**

Base = All businesses

SOURCE: Sensis® *Business Index*
Sweeney Research - May 2007

Selling over the internet
Trends – small business

	2000	2001	2002	2003	2004	2005	2006	2007
Connected to internet	60%	75%	79%	81%	86%	87%	90%	92%
Take orders	14%	19%	29%	32%	39%	41%	46%	47%
Receive payments	7%	13%	26%	32%	44%	50%	52%	54%

Base = Small businesses

SOURCE: Sensis® *Business Index*
Sweeney Research - May 2007

Selling over the internet
Trends – medium business

	2000	2001	2002	2003	2004	2005	2006	2007
Connected to internet	89%	95%	94%	98%	99%	97%	99%	99%
Take orders	23%	35%	47%	49%	50%	51%	54%	54%
Receive payments	15%	29%	50%	63%	60%	59%	63%	62%

Base = Small businesses

SOURCE: Sensis® *Business Index*
Sweeney Research - May 2007

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 taking orders online.

The largest gap between any industry sector in terms of internet penetration relative to taking orders online was tied between the building and construction sector and the health and community services sector. These sectors both recorded a gap of 69 percentage points between internet connectivity and taking orders online.

The narrowest gap was in the wholesale trade sector at 17 percentage points (89 per cent versus 72 per cent). This gap has narrowed by 16 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 taking orders online.

Along with the increase in the proportion of SMEs that were taking orders online, the proportion of total online activity that these orders represented also rose significantly. Thirty-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 decreased from 47 per cent of SMEs last year and reflects growth in the proportion of SMEs receiving increasing levels of their total orders online. In conjunction with this result, the proportion of SMEs that made over 10 per cent of their sales online increased from 37 per cent to 46 per cent.

At the upper end, 14 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 12 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.

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

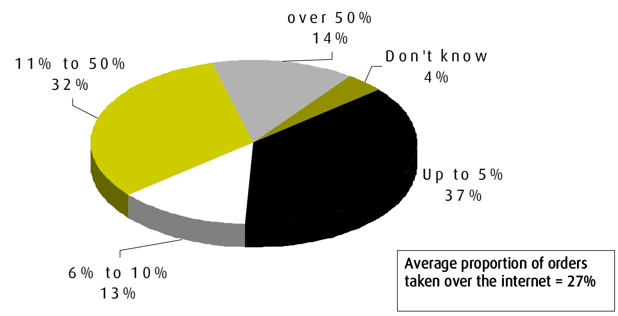
Selling over the internet
by industry sector

	Connected to internet	Take orders	Receive payments
All Businesses	**88%**	**48%**	**55%**
Manufacturing	90%	55%	63%
Building/Construction	97%	28%	53%
Wholesale Trade	89%	72%	68%
Retail Trade	91%	41%	54%
Transport/Storage	98%	62%	68%
Communications/Property/ Business Services	100%	49%	56%
Finance and Insurance	85%	51%	36%
Health/Community Services	93%	24%	30%
Personal Services	94%	61%	60%
Hospitality	88%	59%	47%

Base = All businesses

SOURCE: Sensis® *Business Index*
Sweeney Research - May 2007

Proportion of orders taken over the internet
by businesses which take orders over the net (48%)



Base = Have taken orders

SOURCE: Sensis® *Business Index*
Sweeney Research - May 2007

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 85 per cent of SMEs that make any sales to local customers and 64 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 decreased marginally from 87 per cent to 85 per cent. However, there was an increase of four percentage points 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 56 per cent of SMEs selling to customers interstate and 58 per cent selling to customers outside their town but elsewhere in the state.

Overseas customers were identified by six per cent of SMEs as the main e-commerce customer group for their business. This reflected an increase from last year's level of four 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 was unchanged 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 less 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	Total sell to: Medium business
Local – same city or town	64%	85%	85%	88%
Elsewhere in State	10%	58%	57%	69%
Interstate	18%	56%	56%	62%
Overseas	6%	35%	35%	26%

Base = Take orders over the internet

SOURCE: Sensis® *Business Index*
Sweeney Research - May 2007

Return on investment

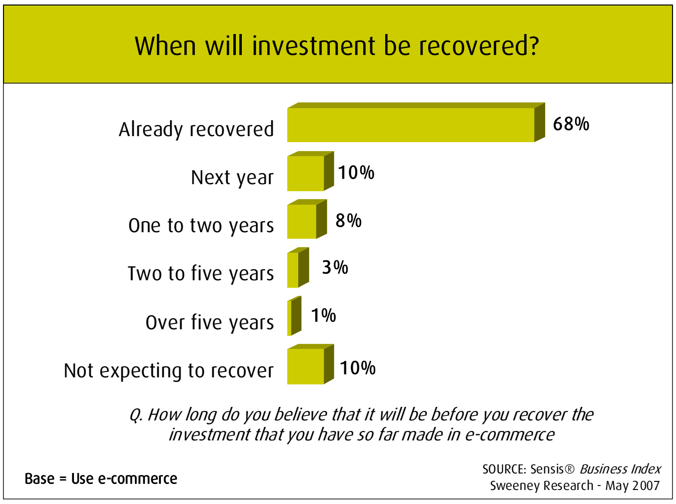
For the sixth year now, the Sensis® *e-Business Report* has been tracking the time that SMEs have been taking to recover their investment in e-commerce. The latest results found that some 68 per cent of SMEs reported that they had recovered their investment in e-commerce. A further 10 per cent of those SMEs who have invested in an e-commerce strategy said that they are expecting to recover their investment in the next year.

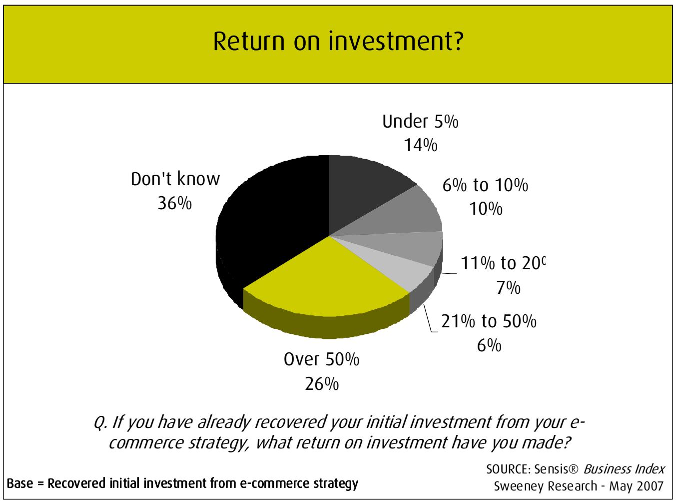
The latest results show a significant increase in the proportion of SMEs reporting they have recovered their investment, which has increased by 11 percentage points from 57 per cent.

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 they did not know. This was followed by 26 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 recovered their investment and reported a return in excess of 50 per cent has shown solid growth during the last year, rising by seven percentage points. While there has been an increase at this level, there was also a 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 from 39 percentage points last year to 14 per cent this year.

SMEs in Victoria were the most likely to report a return on investment of greater than 50 per cent, with those in the Northern Territory the least likely. SMEs in metropolitan areas were more likely to report a return on investment of over 50 per cent. Small businesses were also more likely than medium businesses to report a return on investment of over 50 per cent.





Degree of interest in engaging in e-commerce

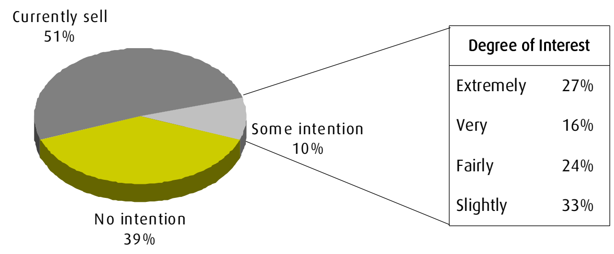
The proportion of SMEs that were online and intending to introduce e-commerce into their businesses rose only marginally over the past year, however, of those that were intending to introduce it, the degree of interest has increased strongly, and they are much more likely to be looking to include it sooner.

The intention to introduce e-commerce among SMEs that were online but not already using e-commerce to sell increased marginally over the past year by one percentage point to ten per cent. Among those firms that are connected to the internet,some 51 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 ten per cent of online businesses that felt they could use e-commerce, 43 per cent of businesses indicated that they were either extremely interested or very interested in using e-commerce within their businesses, a strong increase from 15 per cent last year. This was divided between 27 per cent that were extremely interested (up from 10 per cent) and 15 per cent that were very interested (up from five per cent). Some 33 per cent stated they were only slightly interested, which has fallen from 55 per cent last year. The transport and storage sector again recorded the greatest proportion of SMEs of any industry sector being extremely interested in using e-commerce (42 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 (56 per cent) was within the next year. This was a significant increase on the comparable result last year where 33 per cent expected to implement an e-commerce strategy within the next year. In addition to this, some 17 per cent reported that they were interested in introducing e-commerce "immediately" into their businesses, up from eight per cent last year. These results represent a significant increase from last year in the level of enthusiasm amongst those SMEs that have decided to implement e-commerce in their businesses. Last year some 59 per cent reported that they intended to introduce e-commerce in time frames greater than one year, which this year has reduced to 27 per cent. Whereas this year, actual take-up rates have been relatively incremental, this increased enthusiasm points towards increased growth over the next year.

Degree of interest in e-commerce

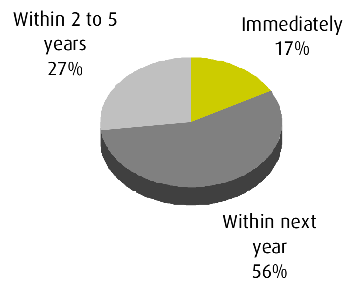


Q. Overall, how strong an interest do you have in using electronic commerce in the future - that is selling over the internet?

Base = All businesses with internet

SOURCE: Sensis® *Business Index* Sweeney Research - May 2007

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 2007

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, however at a lower rate than last year. Some 42 per cent of online businesses identified this as a major concern, a decrease of seven percentage points. A further 30 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 24 per cent as a major concern (down from 28 per cent last year), with a further 36 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, unchanged from last year); the cost of hardware and software (down three percentage points to 16 per cent); and the cost and time to introduce new technologies (down seven percentage points to 15 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 would not be prepared to transact on the internet. Only nine per cent identified this as a major concern and 26 per cent as a minor concern.

This year saw all concerns lessen amongst SMEs, with the exception that e-commerce would result in a lack of personal contact, which was unchanged.

The issues which had the largest decreases as a major concern were the concern that people would be able to hack into their systems and the cost and time taken to introduce e-commerce, both of which recorded falls of seven percentage points.

The largest concern small businesses identified relative to medium businesses involved a perceived lack of expertise and knowledge of computers. Overall, 24 per cent of small businesses identified this issue, compared to 15 per cent of medium businesses, a cap of nine percentage points. The most significant concerns of medium businesses compared to small businesses were the cost and time to introduce new technologies, with four percentage points more medium businesses identifying this a a major concern than small businesses.

Concerns about e-commerce (Prompted)

	Major concern	Minor concern	No concern
People being able to hack into your computer system	42%	30%	28%
Your lack of expertise and knowledge in computers	24%	36%	40%
Lack of personal contact with the customer	22%	29%	48%
The cost of hardware and software	16%	33%	51%
Cost and time with introducing new technologies	15%	42%	43%
Incompatibility with your existing systems	15%	29%	56%
Customers not being prepared to carry out financial transactions over the internet	12%	38%	49%
A feeling that most of your customers aren't yet ready	12%	28%	60%
Customers can more easily compare your product offer with that of your competitors	9%	26%	65%

Base = All businesses with internet

SOURCE: Sensis® *Business Index* Sweeney Research - May 2007

Concerns about e-commerce
trends

Rate as major concern	Feb 2000	May 2001	May 2002	May 2003	May 2004	May 2005	May 2006	May 2007
A feeling that most of your customers aren't ready for e-commerce	33%	33%	31%	27%	11%	12%	14%	12%
Cost of hardware and software	26%	19%	24%	20%	18%	13%	19%	16%
Lack of expertise and knowledge	37%	28%	30%	28%	19%	19%	28%	24%
Customers can more easily compare your product	N/A	N/A	N/A	11%	9%	9%	12%	9%
Incompatibility with existing systems	N/A	N/A	N/A	8%	10%	5%	16%	15%
Cost and time to introduce	10%	10%	9%	4%	17%	12%	22%	15%
Lack of personal contact	47%	39%	36%	27%	17%	16%	22%	22%
People able to hack into system	34%	34%	42%	41%	43%	40%	49%	42%
Customers not prepared to transact on net	38%	34%	23%	23%	9%	12%	18%	12%

Base = All businesses with internet

SOURCE: Sensis® *Business Index* Sweeney Research - May 2007

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	42%	42%	39%
Lack of expertise and knowledge in computers	24%	24%	15%
Lack of personal contact with the customer	22%	22%	21%
The cost of hardware and software	16%	16%	14%
Cost and time with introducing new technologies	15%	15%	17%
Incompatibility with your existing systems	15%	15%	19%
Customers not being prepared to carry out financial transactions over the internet	12%	12%	15%
A feeling that most of your customers aren't yet ready	12%	12%	14%
Customers can more easily compare your product offer with that of your competitors	9%	9%	6%

Base = All businesses with internet

SOURCE: Sensis® *Business Index* Sweeney Research - May 2007

How to obtain a copy of the Sensis® *e- Business Report*

Internet

The Sensis® *e-Business Report* can be downloaded from the Sensis internet site at: www.about.sensis.com.au.

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- e-Business: - The online experience of Australian SMEs – Annually 1995 to July 2007
- Innovation – March 2001
- Finance & Banking Issues – August 1993, August 1995 and November 1999
- 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

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

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