

SAGE SME BUSINESS SENTIMENT INDEX 2011



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This report

As the business world emerges from the ravages of the Global Financial Crisis (GFC), Australian business owners are now turning their attention to the future and considering what this holds for them and their businesses.

Following recent years of dire economic news and gloomy market conditions, many firms are now moving from a more protective to a more proactive frame of mind in anticipation of better times ahead.

In Australia, the combination of low unemployment and a healthy resources sector is serving to sow the seeds of greater confidence for 2011 and beyond. Across the country, many businesses are now starting to brush themselves off.

This report, commissioned by business management software specialist, Sage, is the first in a regular series. As a leading provider of software to SMEs, the company is committed to having a deep understanding of the needs and issues facing its customers. Sage lives and breathes business, and this report is an important part of this vision.

This report shines a definitive light on what is happening across the Australian business landscape. It checks the pulse of businesses to determine the strength of recovery and general sentiment around what has happened over recent times and, critically, what is to come.

Based on a comprehensive market research programme involving over 600 business owners and decision makers and multiple in-depth interviews with business owners, decision makers and business experts across all business sizes and industries, the report highlights business feeling about:

- current business confidence levels
- the real impact of the GFC
- the business challenges faced in the past 12 months and those that lie ahead during the next 12 months
- attitudes towards a range of issues including labour, business planning and management, and key business investment priorities.

As part of the research, respondents were also quizzed about their attitudes toward business information technology. The objective being to gain an understanding of how vital a role IT and more broadly technology is playing and how recent technical developments are being evaluated and adopted.

The picture that has emerged is both compelling and complex.

Sage believes insights from this report will assist businesses in determining how they can best move forward in a post-GFC world. By better understanding the challenges and issues, they can be better prepared for what lies ahead.

Executive summary

While many people believe Australia managed to escape the harshest ravages of the GFC, the economic turmoil that reverberated around the world still had a significant impact in this country.

Stilted revenue growth, increased competition and cash flow problems have resulted in many businesses reducing investment and curtailing marketing activities. Three-quarters (75%) of businesses state that their costs have increased since the GFC, but that revenues haven't grown by the same margin.

While Australian businesses believe they are now performing better than they did during 2010, in 'big picture' terms they don't feel the economy is completely recovering. As a result, confidence levels are only marginally positive for the year ahead.

When it comes to challenges, rising costs was ranked as the number one concern in 2010. Businesses surveyed believe this issue will continue to top the list during 2011.

Other challenges being faced over the next year include managing cash flow, accessing new markets and attracting new customers. These are exacerbated by admitted 'planning gaps' within many businesses. They understand the challenges they face but state they do not have clear plans with which to tackle them.

Rounding out the list of challenges is the growing shortage of skilled staff. Indeed, 6 in every 10 businesses report they are struggling to fill internal vacancies.

On the technology front, businesses reported investment in this area would be the number one priority during the next one to two years, once more funding was found.

Interestingly, more than half of those surveyed said they were planning to increase their use of online software or services and identified better usage of mobile and handheld devices as a priority for the future. Furthermore, integrated business software was preferred by almost two-thirds of businesses compared with standalone business software. However, two-thirds of businesses state they still do not currently have any integration of their business software at all.

With regards to the internet, 7 in 10 businesses recognise that having an online presence is essential to the future success of their organisation, however 40% see developing such a presence as being too complex or expensive. The research also found that while more than 80% of businesses think a website of some sort is relevant to their operations, only 6 in 10 have actually established a site of their own, highlighting the lack of optimisation of the internet as both a communication and sales channel.

Overall, the research has provided a valuable insight into trends and issues facing Australian SMEs, an indication of how positive they are feeling about the future, and evidence of the plans they are putting into place.

The research

The research underpinning the report was gathered through a three-stage process and uses input from more than 600 SME businesses across Australia.

Stage One involved a series of qualitative in-depth interviews conducted with business owners across a range of different industry sectors, using the Australian and New Zealand Standard Industrial Classification (ANZSIC). This stage was designed to gain in-depth insight into the issues faced by business owners during 2010 and provide material that could be compared to results found later in the research process.

Stage Two comprised hypothesis research and involved a series of qualitative in-depth interviews with a range of business experts. These included a number of leading academics, journalists and business specialists. The objective of this step was to glean an understanding of the medium and long-term business challenges for Australian businesses.

Stage Three was a nationwide quantitative study comprising telephone interviews with 613 business owners and decision makers covering all Australian business sizes, states and ANZSIC industry categories, conducted across February and March 2011. Results were weighted by employee size, state and industry back to current ABS statistics. This step was designed to validate the issues being faced by business both now and into the future.

Questions used during the research were grouped into four sections, each designed to illicit an accurate picture of business sentiment and future plans.

Section 1 examined current business confidence levels compared with the previous 12 months, whether businesses felt they were recovering and the biggest challenges being faced.

Section 2 looked at business attitudes since the GFC and how these have changed. Topics covered included labour and staff, business planning and attitudes towards investment in business technology.

Section 3 covered opinions on business software including what systems were currently being used, plans for upgrades and major concerns regarding IT infrastructure.

Section 4 was used to gather classification information such as the size of each business, their industry sector and details about the respondents themselves.

Information gleaned using these four sections during the three-stage process forms the basis for the findings of this report.

Introduction

Accurately gauging business sentiment is no easy task. While media reports and anecdotal evidence provide some insight into what is occurring, the only way to elicit an accurate picture is to speak directly with businesses across the country.

This interview process was used to generate the content of this report. The result is a unique insight into how positive Australian businesses are feeling now, their recent activity and their plans for investment and expansion during the next 12 months.

The research comes at an important juncture, as the national economy continues to be influenced by significant macro-economic forces affecting countries throughout the world. While the Australian economy has fared better than most, it has not been completely immune from the fallout of bank collapses, sovereign debt crises and foreign fiscal stimulus programs. Furthermore, the spate of recent local and international natural disasters have only served to compound the lack of clarity around where the economy is really headed.

As a result, businesses are facing significant challenges as they cope with changing market conditions.

The challenges include:

- **Limited revenue growth**
Softer economic conditions combined with increased competition have led to a reduction in real growth for many businesses. As a result, many have reacted by reducing business investment and cutting back on promotional spending
- **Rising costs**
Despite a strong Australian dollar, businesses report that costs continue to be their number one challenge for 2011. Factors such as wages pressure, rising materials prices and increases in power and water charges are all taking their toll
- **Staff shortages**
Of those businesses in expansion mode, many are reporting difficulties in finding appropriately skilled staff. Three-quarters (76%) also admit they have not put in place reviews and career plans for every employee during the past 12 months

- **Underutilisation of the web**

While recognising the importance of information technology, some 40% of businesses believe establishing an online presence is too complex or expensive. While 82% see a website as being relevant to their operations, only 63% actually have one in place

- **Poor software integration**

Integrated business software is the preferred option for two-thirds of those surveyed. However, interestingly, two-thirds of all businesses still do not have any integration of business software at all.

Such results paint a mixed picture for Australian business. On one hand, as is clearly illustrated within this report, businesses believe their operation is performing better compared to this time last year. On the other hand, there are still significant challenges that clearly need to be addressed.

This report provides detail on these challenges and offers insight into some of the steps Australian businesses are taking to address them.

Business insights

The research uncovered a range of key insights which serve to create a clear picture of the mood and activity of Australian businesses. They cover a range of areas from overall confidence and optimism through to attitudes towards planning, staffing and investment.

Australian businesses feel they are now performing better than in 2010, but in 'big picture' terms they don't believe the economy is recovering to the same degree.

Insight 01

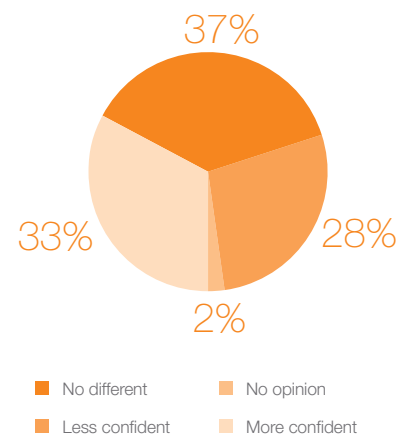
Business confidence levels marginally improving

Overall, Australian businesses feel they are performing better now than they did in 2010, buoyed by relatively stable economic conditions and a gradually improving macro-economic climate. Indeed, 38% of those surveyed reported better performance this year with just 17% saying things had become worse.

However, when it comes to the Australian economy as a whole, 31% said they believed things were recovering, compared with 30% who felt it was continuing to decline. This represented a 1% improvement when compared with the previous 12 months, showing a negligible incline rate.

Looking ahead, 33% of those surveyed reported feeling more confident about the year ahead while 28% said they were less confident than they had been in the previous 12 months. This represented a net 5% improvement from the previous 12-month period. By business size the picture differed quite considerably, with micro businesses less confident overall but small, medium and large businesses conversely feeling more bullish about the next 12 months compared to this time last year.

Total confidence for business in year ahead compared to this time last year by business size



Confidence for business in year ahead compared to this time last year by business size

%	Micro businesses	Small businesses	Medium businesses	Large businesses
More confident	30	51	48	49
No different	39	25	28	23
Less confident	29	23	23	27
No opinion	2	1	1	1

The GFC had a significant impact on business in Australia. Many have reacted by reducing reinvestment and cutting back on advertising and marketing.

Insight 02

The GFC is still biting

Despite significant fiscal stimulus activity by the Australian Federal Government, the country has not been immune to the challenges created by the GFC.

While Australia has not witnessed the financial and property sector meltdowns that have occurred in other countries, businesses here have still felt the chill winds of economic turmoil.

Of those surveyed, 75% of businesses said their costs had increased since the GFC, however revenues had failed to keep pace over the same period.

To make matters worse, 6 in 10 (62%) businesses report customers have been demanding lower prices for the same goods or services since the GFC, putting an even greater squeeze on profit margins. This, in turn, has led to 60% of businesses reporting they're experiencing greater cash flow issues than in pre-GFC conditions.

Soberingly, 43% of businesses report they have not reinvested as much money back into their businesses as in the previous 12 months, while 42% say they have reduced their spending on advertising and promotional activities.

Since the GFC

75% said costs increased, but revenues hadn't by the same margin

62% report customers demanding lower prices

60% report greater cash flow issues than before

So, while economic conditions appear to have stabilised more recently, the effects of the GFC continue to be felt by Australian businesses.

Furthermore, when breaking down the data by state (as detailed in the table below), the effects of the GFC appear to have been felt more by businesses in the state of Queensland, but relatively less so by those in Victoria/Tasmania.

Reported issues compared to pre-GFC by state

% Who agree	Total	NSW/ACT	VIC/TAS	QLD	SA/NT	WA
Costs have increased since GFC, but revenues haven't by the same margin	75	78	64	84	67	85
Customers demanding lower prices for same product or service	62	62	51	76	55	62
Had more cash flow issues than before the GFC	60	60	44	83	60	59
Haven't reinvested as much money back into the business since GFC	43	53	32	42	26	55
Reduced advertising and other promotional spend to save money since the GFC	42	40	33	42	70	53

Margin pressure seems to be everywhere as the rising cost of energy, commodities and other inputs hit manufacturers, as frugal customers and price deflation put a squeeze on retail margins and as the strong Australian dollar hampered just about everyone else.

Victoria Tait, Online Stocks Editor, Morningstar (7th March 2011).

Insight 03

Rising costs not being countered by business planning

When it comes to operating costs, 47% of survey respondents identified it as the biggest business challenge of 2010 while 39% said it remained top of the list in 2011, ranking it equal first alongside gaining new customers.

However, while acknowledging that rising costs represent a significant challenge, only a third (33%) of Australian businesses say they have documented plans in place to deal with this issue.

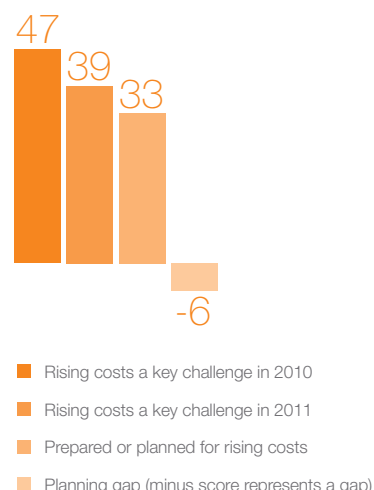
It therefore comes as somewhat of a surprise that such a significant 'planning gap' exists for the majority of businesses. It is likely that this gap

will have a compounding effect on profits if revenues are not realised this year.

Furthermore, the table below highlights how gender and state differs around this issue of rising costs. Of particular note is:

- the degree to which rising costs are an issue in the resource rich states of Queensland, Western Australia and also for female business owners
- how much of the planning gap comes from Queensland (and to some degree from New South Wales/Australian Capital Territory), but not Western Australia, Victoria, South Australia or Northern Territory.

Total rising costs in 2010, 2011, planned for and planning gap (%)



Rising costs by gender and state

% Who said	Male business owners	Female business owners	NSW/ACT	VIC/TAS	QLD	SA/NT	WA
Rising costs a key challenge in 2010	43	58	42	48	52	38	63
Rising costs a key challenge in 2011	37	46	34	33	52	36	51
Prepared or planned for rising costs	31	38	29	36	25	38	54
Planning gap (minus score represents a gap)	-6	-8	-5	+3	-27	+2	+3

Insight 04

Gaining new customers and managing cash flow key focus for 2011

As businesses continue to grapple with a range of ongoing challenges, the way in which those challenges are ranked is changing over time.

Of those surveyed, 39% identified gaining new customers and rising costs as the key challenges they will face over the next year. This was followed by managing cash flow (34%) and maintaining or growing revenue (33%).

When compared with the previous 12-month period, gaining new customers and cash flow have increased as challenges (up 4% and 3% respectively), possibly in response to the rising costs they faced in 2010. Furthermore, businesses appear to have planned for gaining new customers and managing cash flow.

For the next year

39% identified new customers and rising costs as key challenges

34% identified cash flow as a key business challenge

However, for key business issues such as recruiting employees and lack of funding, businesses report having gaps in their planning.

Clearly, businesses are struggling to find solutions to staff shortages and the ongoing lack of credit available.

Key business challenges for Australia – past year, next year and planned for	Past year %	Next year %	Change %	Clear plans in place for %	Planning gap %
Rising costs	47	39	-8	33	-6
Maintaining or growing revenue	37	33	-4	41	+8
Gaining new customers/accessing markets	35	39	+4	39	0
Managing cash flow	31	34	+3	44	+10
Recruiting employees	25	25	0	22	-3
Lack of funding/access to capital	25	24	-1	17	-7
Increased competition	17	14	-3	22	+8
Investing in technology	10	10	0	23	+13
Investing in innovative products and services	6	9	+3	18	+9
None of these	5	6	+1	28	+22

Business planning... we haven't sat down and evaluated and planned the business. We don't have time to look at how to 'work the business' and how to work it better.

Construction SME.

Insight 05

Business planning seen as critical but underutilised

Proper planning is fundamental to business success, ensuring an organisation has a clear picture of where it is headed and what needs to be done to get it there. Indeed, three-quarters (76%) of Australian businesses surveyed for this report said they believed formal written business planning was critical to the future success of their business.

But despite this awareness, more than half (53%) of participants said they didn't have the time needed to develop regular formal business plans each year. Indeed, only 40% had managed to implement a business plan during the past 12 months.

To exacerbate this situation, just 1 in 5 (20%) of businesses said they had consulted a business expert or consultant to help with the planning process and only 36% had conducted any sort of formal research to better understand what their customers needed in the past 12 months.

Such results are of considerable concern as a lack of proper planning leads to inefficiencies and lost productivity.

However, a group who emerged as being more likely to conduct regular formal business plans were technology focused business owners. In particular, they were more likely to see formal written business planning as essential to the future success of their business and were more likely to have implemented a business plan during the past 12 months.

I have had one guy approach me ‘can I have a wage increase’ and you don’t want to say ‘no’. You don’t want to refuse them because you don’t want them to walk because it is so hard to get staff.

Manufacturing SME.

60% struggle to find skilled staff

31% report existing staff demand wage increases

47% have increased pay during the last 12 months

Insight 06

Staff shortages evident and retention measures lacking

Across Australia, the research found the majority of businesses (60%) are struggling to find sufficient numbers of skilled staff to meet their requirements, an issue that unsurprisingly increases for larger businesses.

This trend is being exacerbated by the fact that 3 in 10 (31%) of businesses report existing staff are beginning to make demands for wage increases. As a result, almost half (47%) say they have increased pay levels during the past 12 months. Again, this issue becomes more pronounced as business size increases.

But, while businesses clearly understand the importance of retaining existing staff, surprisingly few have structures in place to help this occur. Although 58% of businesses state that yearly staff reviews are a critical part of keeping staff engaged, only 24% have undertaken and implemented reviews and career development plans for every employee in the past 12 months. Furthermore, whilst larger businesses are more likely to carry out these HR related tasks, the gap is clearly evident at all business levels.

These results show a clear gap between what is required and what is actually happening within many businesses. Should this gap not be addressed, the challenges of finding and retaining quality staff will be further exacerbated in the future.

Staff issues by business size

% Who agree	Total	Micro businesses	Small businesses	Medium businesses	Large businesses
Struggling to find skilled staff	60	58	75	76	80
Staff beginning to make more wage demands	31	29	38	48	54
Have increased pay levels in the past 12 months	47	44	56	68	77
Yearly written reviews and career development plans are essential to keep staff engaged	58	55	69	85	92
Written and implemented clear reviews and development plans for every employee in past 12 months	24	22	30	41	57

Key differences are seen by size in terms of attitudes regarding business priorities, if budget is available. Employee training is the number one issue for small, medium and large businesses.

Insight 07

Different business size = different priorities

Although discretionary spending is clearly constrained due to ongoing challenges and economic conditions, Australian businesses still have a clear picture of where extra funds would be spent if and when they become available.

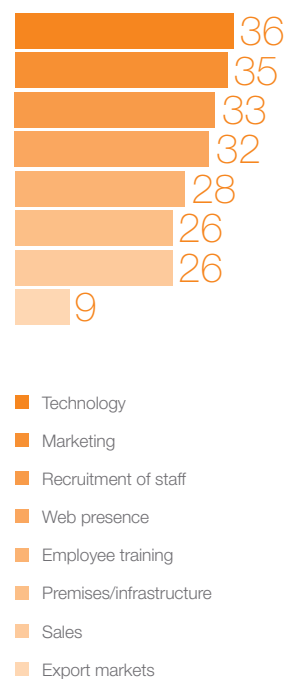
While, understandably, priorities vary depending on the size of the business (micro, small, medium and large), certain consistencies emerged from the research.

When asked to nominate the key priorities for investment should more budget become available, information technology was nominated by more than a third (36%) of all businesses, closely followed by marketing (35%) and staff recruitment (33%).

Interestingly, the area of employee training (nominated by 28% of all businesses) increases in importance as the size of the business grows. It was nominated by 45% of small businesses and 52% of large businesses as a key priority.

Information technology followed a similar pattern, being nominated by 28% of small businesses but by 51% of large businesses. The results clearly show how attitudes to business priorities change as businesses grow.

Key priority for greater investment, if more budget available (%)





Technology insights

The research conducted for this report also uncovered some interesting insights into attitudes and plans concerning information technology. A key ingredient in modern business, IT plays a vital role within organisations of all sizes.

Clearly, as business assets, technology and the web are now regarded by business decision makers as being critical.

#1

technology seen as number 1 priority for greater investment

54%

plan to increase online software and services

women
business
owners

are more predisposed towards technology

Insight 08

Technology a key investment priority

When it comes to technology within businesses, owners clearly regard information technology as crucial to business success. As shown earlier, 36% said technology was a key priority for greater investment over the next one to two years, if they had more budget for business development. This topped other priorities such as marketing (35%) staff recruitment (nominated by 33% of businesses), employee training (28%) and also sales (26%).

Furthermore, more than half of all businesses (54%) said they were planning to increase their use of online software and services in the

next 12 months. Allied to this, 60% said they believed it would be critical for employees to have access to this software from mobile devices.

In terms of the internet as a business tool, businesses clearly see continued investment in a web presence for their operation as critical. It was ranked 4th as a key priority behind technology, marketing and staff recruitment, if budget was available.

These results clearly reiterate the essential role that business owners see IT and technology now playing in day-to-day business operations. Interestingly, as seen below, women

business owners appear to be more predisposed towards technology, the use of online software and services and having a web presence compared to their male counterparts. Possibly a function of their greater involvement with retail and related businesses, it clearly demonstrates the heightened awareness women have for the opportunities for technological and IT related business solutions.

Technology use by gender

% Who said	Total	Male business owners	Female business owners
See investing in technology as a key priority for investment, if more budget available	36	31	48
Plan to increase use of online software and services in next 12 months	54	51	62
See investing in web presence as a key priority for investment, if more budget available	32	28	43

Until recently we had two systems that were not integrated, one for payroll and one for job costing. It was so frustrating and time consuming.

Distribution and logistics SME.

63% agreed that integrated software would help efficiency

67% said they don't have integrated software

Insight 09

Integrated business software preferred but not used

As organisations grow, they often support that expansion through the adoption of business software. These are frequently selected to perform a particular task and are purchased at varying times from different vendors. However, such purchases are often made without an overriding software integration plan which can make it more difficult to share communal business data, help streamline workflows and thus create greater efficiencies.

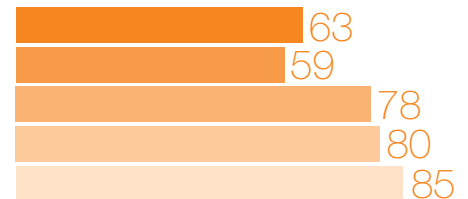
For this reason, almost two-thirds (63%) of all surveyed businesses agreed that integrated (rather than standalone) software would help them to operate more efficiently.

But despite this acknowledgement, 67% of businesses said they did not currently have any integrated software in place. Indeed, only 17% currently had an integrated HR/payroll and ERP/accounting software platform, and only 14% had integrated their ERP/accounting and CRM software. Furthermore, 4 in 10 large businesses stated they did not currently have any integrated software in their business, a surprisingly high score.

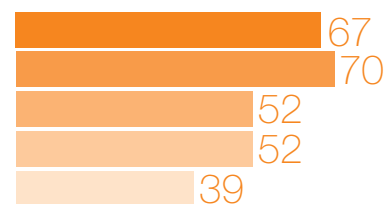
There is clearly a disparity between the acknowledged benefits of integrated software and its level of usage across all Australian businesses.

Integration attitudes and behaviour by business size (%)

Integrated rather than standalone business software really helps businesses run more efficiently



Proportion who do not currently have integrated software at all



- Total
- Micro businesses
- Small businesses
- Medium businesses
- Large businesses

Many businesses see online solutions as critical to their future, however costs and complexity are hampering uptake. The online channel is not being optimally used by businesses to help sell or market their business.

82% said having a website would be relevant

63% said they have a website in place

Insight 10

Online presence seen as critical to success of organisation

With the internet becoming an increasingly important business tool, Australian companies are developing a strong understanding of how it can be used as part of their operations.

As well as an efficient communications conduit, they see the ways in which IT can be put to work as a mechanism for improving customer awareness and driving sales revenue for their operations.

Of those surveyed, almost 7 in 10 (68%) of businesses nominated having an online presence as critical to the success of their operation.

Yet, 40% also believed that creating an online presence would be too expensive or complex for them to consider. Furthermore, consistent with women's greater current predisposition towards technology and web presence, more women business owners and decision makers tended to see having an online presence as critical to the future of their business.

When it comes to having a website in place, more than half of all surveyed (51%) said having a site with details of their products and services would be of benefit, yet

only 34% actually had such a site in place. Additionally, having a site which allowed customers to purchase goods and services online was seen as being of potential benefit by 31% of respondents, however only 20% actually had such a site up and running.

Clearly there are significant local (and global) opportunities being lost by Australian businesses through the lack of adoption of online technologies. Addressing this shortfall could potentially have a demonstrable impact on many business's bottom lines.

Online presence by gender

% Who said	Total	Male business owners	Female business owners
Having an online presence is critical to the future success of our business	68	66	73
Developing an online business solution too expensive or complex to consider	40	39	43
Way in which web is more relevant to business			
Having a website with products/services shown but customers can't order or buy from	51	51	51
Having a website with products/services shown where customers can order or buy from	31	29	35
Neither of these	18	20	14
Current web presence			
Do not have a website	37	35	41
Have a website that just features contact details	10	10	10
Have website with products/services shown, but customers can't order from	34	37	25
Have website with products/services shown, where customers can also order from	20	18	24
Have a website – total	63	65	59

The main concerns for business when it comes to IT infrastructure are maintenance, security, backup and recovery and overall costs.

Insight 11

Maintenance, security and backup seen as essential

While having an IT infrastructure in place is one thing, ensuring it continues to reliably support business activity is another.

When asked to spontaneously nominate their chief concerns regarding their business's IT infrastructure, 29% mentioned maintenance, 24% security, and 20% pointed to backup and recovery. By subgroup, maintenance emerges as the biggest issue for micro businesses, but drops away for the larger businesses, with security becoming the most critical issue for them.

Overall costs were mentioned by just 19% of those questioned, but was more of an issue for small businesses particularly.

Of the issues much further down the priority list, 8% named the ability to maximise return from IT infrastructure and compliance, 4% deployment, 3% vendor relationships and 2% data leakage.

The results show maintenance and security are clearly the most pressing IT issues for business. This goes hand in hand with the critical role that an IT infrastructure plays in business core activities.

Main IT infrastructure concerns by business size and gender

% Main business concerns regarding business's IT infrastructure (spontaneous response)	Total	Micro businesses	Small businesses	Medium businesses	Large businesses	Male business owners	Female business owners
Maintenance	29	31	21	18	21	27	35
Security	24	22	37	30	35	24	26
Backup and recovery	20	19	25	27	33	24	11
Overall costs	19	18	26	17	12	15	29
Capacity to maximise IT infrastructure potential	8	8	11	15	16	7	13
Compliance	8	7	14	11	13	6	12
Deployment	4	4	3	2	9	5	2
Vendor relationship	3	2	9	5	3	3	3
Data leakage	2	2	6	8	10	2	3
None of these	26	27	21	15	11	25	28

Larger businesses clearly see the potential benefits of web access for employees to business software.

Insight 12

Accessibility of software via the web important for larger businesses

When asked about staff accessibility to software via the internet, an impressive 7 in 10 (69%) believed it was important that they could access CRM systems via this channel. Whilst this statistic is derived from those businesses that use such software, the findings are consistent across all business sizes.

Additionally, almost one-third (32%) suggested HR/payroll software, one-quarter (25%) suggested ERP/accounts software and 1 in 9 (11%) suggested payroll only software was important to access via the web. The major differences for these software types comes when looking at medium and larger businesses, who were much more predisposed to the potential of accessing this software via the web. This clearly highlights the quite differentiated needs that businesses have towards the varying software types.

Insight 13

Upgrading* software high on the priority list

When it comes to undertaking software upgrades, ensuring that this software is current is high on the priority list for many businesses.

The software area most likely to have been recently refreshed is the Customer Relationship Management (CRM) system. 53% said they had undertaken a major CRM upgrade during the past 12 months while a further 35% said they had done so sometime within the past one to four years. Just 11% admitted that it had been more than four years since a CRM upgrade had been undertaken.

During the past 12 months, the majority of businesses sampled had also upgraded their payroll (51%) or HR and payroll (50%) systems. ERP and accounting systems had been upgraded by 48% of respondents in the past 12 months.

Importance of web access to business software by business size

% Who see access to business software via web as important	Total	Micro businesses	Small businesses	Medium businesses	Large businesses
CRM software	69	69	66	77	79
HR/payroll software	32	31	16	44	75
ERP/accounting software	25	22	25	50	62
Payroll only software	11	10	14	25	48

* upgrading software was described to respondents as where a business had either paid for a new version or changed their software entirely.

Most businesses ideally prefer to buy their own software, however large businesses are significantly more likely to prefer to rent, compared to the total. Most businesses prefer to have their software installed on their own infrastructure, and this does not differ for large businesses.

Insight 14

Owning software currently the preferred option

While topics such as cloud computing and Software-as-a-Service (SaaS) are capturing significant attention within the IT sector, when asked, the majority of businesses still prefer to purchase their own applications as opposed to renting them from their software supplier.

When questioned whether they would prefer to buy or rent their payroll application, 95% of all businesses opted to buy. This remained at 88% for ERP and accounts packages, 84% for HR and payroll and 73% for CRM software.

That said, large businesses are considerably more likely to prefer to rent software compared with the total who prefer to rent.

Given the option of running the packages on their own infrastructure or opting for a hosting partner, the results were similarly skewed. Asked whether they would prefer using their installed infrastructure, 91% said yes when it came to ERP and accounts, 89% for Payroll, 83% for HR and payroll and 80% for CRM.

The results changed slightly for larger businesses, but the trend of purchasing software and running it internally remains very strong.

The clear implication is that while the future of IT and technology is obviously gearing towards processes such as cloud and SaaS, Australian businesses appear to be treading cautiously. The reasons for this are perhaps a result of a current lack of awareness or knowledge around how it will work in practice, underpinned by the current main IT concerns identified earlier around maintenance (will it still work smoothly if I do this) and security (is it as safe as how we currently do it). Until these concerns are demonstrably addressed, businesses will remain circumspect.

Australia versus the World

While research for this report provides insights into the challenges faced in 2010 and going forward into 2011 within Australia, it's also interesting to contrast some of these findings with other countries.

Sage conducted a similar global market research programme* to Australia's study across a number of countries, including the USA, UK, Germany, France and Canada. A snapshot of the challenges facing businesses across the developed world in 2010 and 2011 is included on the next couple of pages and serves at a broad level to illustrate the similarities and differences across some core developed economies.

* The Sage global research programme was conducted as an online self completion study amongst customers of the Sage business in each country. Replicated questions from this global study were used where appropriate in the Australian research programme to ensure comparable findings. The sample sizes in each country were: UK (1510), US (663), Canada (584), France (2096), Germany (1602). The research was conducted in November and December 2010.

Insight 01

Consistency across developed countries regarding top four challenges facing business in 2010

When it comes to the key issues that faced businesses in 2010, there was a remarkable consistency across the globe in terms of the rank order of the issues that they faced last year. Despite being in economies in different stages of recovery, it appears as though the majority of businesses shared similar challenges, highlighting some common pressing issues facing businesses across the world.

For example, the challenge of dealing with rising costs ranked top of business lists in Australia, the USA, Canada and the UK. In Germany it ranked at number two while in France it was number three.

Understandably, growing revenue ranked as the number two concern in Australia, the USA, Canada, but topped the list in France and Germany. In the UK it was listed at number three.

Comparison of the issues between countries is interesting as it brings home the point that many business concerns are shared by businesses despite being in very different geographic locations and the results also tend to underpin the commonly accepted concept of the 'global economy'.

% Who state issue as a key challenge last year	AUS		USA		CAN		UK		FRA		GER	
	%	Rank	%	Rank	%	Rank	%	Rank	%	Rank	%	Rank
Rising costs	47	1	50	1	53	1	51	1	35	3	45	2
Maintaining or growing revenue	37	2	45	2	39	2	38	3	52	1	48	1
Gaining new customers/ accessing markets	35	3	38	3	30	3	37	4	28	4	34	4
Managing cash flow	31	4	34	4	29	4	51	2	47	2	38	3
Recruiting employees	25	5	12	7	27	5	12	7	24	6	23	6
Lack of funding/ access to capital	25	6	20	5	17	6	20	5	16	7	11	7
Increased competition	17	7	16	6	16	7	19	6	26	5	26	5
Investing in technology	10	8	8	8	7	8	6	8	9	8	8	8
Investing in innovative products and services	6	9	5	9	4	9	4	9	8	9	8	9

Insight 02

Consistency continues into 2011, but European countries differ somewhat

Looking at 2011, there is again broad consistency when it comes to listing the top four key business challenges across the surveyed countries.

Inflationary pressures around rising costs continues to top the list in Australia, the USA, Canada and the UK with French businesses putting it at number four and German firms at number three.

Other issues that made the top of the lists in each surveyed country included gaining new customers, managing cash flow and maintaining or growing revenues.

% Who state issue as a key challenge next year	AUS		USA		CAN		UK		FRA		GER	
	%	Rank	%	Rank	%	Rank	%	Rank	%	Rank	%	Rank
Rising costs	39	1	53	1	49	1	50	1	29	4	36	3
Gaining new customers/ accessing markets	39	2	40	3	33	3	42	4	36	3	45	2
Managing cash flow	34	3	32	4	25	4	45	3	40	2	35	4
Maintaining or growing revenue	33	4	47	2	48	2	48	2	61	1	59	1
Recruiting employees	25	5	13	7	23	5	10	7	22	6	23	6
Lack of funding/ access to capital	24	6	19	5	14	7	19	5	10	9	5	9
Increased competition	14	7	17	6	19	6	18	6	23	5	25	5
Investing in technology	10	8	7	8	10	8	7	8	11	8	8	8
Investing in innovative products and services	9	9	4	9	5	9	6	9	13	7	13	7

Conclusion

The results drawn from the research provide compelling insights into current attitudes and behaviours among Australian businesses and how they are reacting to and changing as a result of recent conditions.

While there is evidence that Australia escaped the worst of the GFC, it remains clear that businesses in this country did not avoid its effects entirely.

Encouragingly, confidence levels that sagged during 2009 and 2010 have risen, but still lag the levels enjoyed prior to the global crisis. Individual businesses say they are feeling more positive, but that they don't believe the broader national economy has fully recovered.

When it comes to current challenges, continually rising costs remain at the top of the list for large numbers of businesses. This is understandable as services such as power and water as well as component materials continue to increase in price.

Across the country, businesses are also concerned with finding new customers, managing cash flow and attracting sufficiently skilled staff. A key concern here is that many admit they don't have comprehensive plans in place to tackle these challenges, leaving them exposed should market conditions toughen in the year ahead.

On the technology front, businesses understand the important role IT infrastructure plays in their operations, but also realise more needs to be done. While maintenance and security rank high on priority lists, many are also keen to make better use of the internet as a business tool.

There is also interest in the emerging areas of Software as a Service (SaaS) and hosting platforms as ways to glean more value from IT investments. However, the research shows that adoption of these technologies is still relatively low.

Overall, the research paints a picture of a business community that is increasingly positive, but also realises there are significant challenges that still remain in the year ahead. These challenges will be examined in the next Sage Business Sentiment Index Survey report scheduled for 2012.

Appendix

The research

This report is based on interviews with 613 businesses across Australia. Results were weighted to ABS statistics to ensure accurate representation of states, industries and business size.

Sample sizes and weighting approach

State	Sample size	Business population size
NSW/ACT	211	704,814
VIC/TAS	184	554,184
QLD	85	419,401
SA/NT	70	158,300
WA	63	213,446
Total	613	2,051,085

No of Employees	Sample size	Business population size
Up to 4 employees	160	1,727,380
5-19 employees	177	233,957
20-199 employees	196	89,748
200-999 employees	80	
Total	613	2,051,085

Industry weighting approach

Industry	Sample size	Business population size
Agriculture, Forestry, Fishing, Mining	51	211,762
Manufacturing	84	91,840
Electricity, Gas, Water	3	5,570
Construction	76	341,622
Wholesale Trade	31	76,300
Retail Trade	72	139,611
Accommodation, Cafes, Restaurants	28	77,107
Transport and Storage	28	133,265
Communication Services	9	17,988
Finance and Insurance	15	149,643
Property, Business, Professional and Technical Services	68	448,922
Government, Admin and Education	55	108,168
Health and Community	58	92,389
Arts, Recreation and Other Services	35	112,966
Total	613	2,007,153





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