

The Sage logo is positioned in the top right corner of the cover. It consists of the word "sage" in a white, lowercase, sans-serif font. The background of the cover is a solid teal color, with a large, abstract graphic on the left side composed of several overlapping, rounded shapes in various shades of green and yellow, creating a sense of depth and movement.

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SAGE  
BUSINESS  
INDEX  
2012

AUSTRALIA

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# Introduction

The business environment in Australia continues to suffer at the hands of global uncertainty. Across the nation, organisations face numerous macroeconomic challenges including a competitive global economy, European sovereign debt issues, a potential slowdown in Chinese growth, a strong Australian dollar, a two-speed economy and lacklustre retail and manufacturing sectors.

Despite the positive sentiments highlighted by the inaugural Sage Business Index one year ago and the prospect of brighter times ahead, the current sombre economic conditions appear to be curtailing investment and growth, polarising businesses and weakening overall sentiment. Even with Australian unemployment figures at lower levels than those of almost all comparative countries and a relatively healthy economy and low debt, there is a definite sense of unease and caution among businesses throughout the country.

This report focuses on what is happening across the Australian business landscape in 2012 and how this has changed since the last report. It conducts a health check on businesses to assess general sentiment about what has happened and critically, what is likely to come.

Based on a comprehensive market research programme involving interviews with more than 500 business owners and decision makers, this report highlights current business feeling about a range of subjects including:

- current and predicted business confidence levels
- the level of concern around economic issues and the resulting impact on business decision making
- challenges faced during the past 12 months and those that lie ahead during the next 12 months and
- attitudes towards a range of issues including staffing, business investment priorities and social media.

As part of the research, respondents were also questioned about their attitudes towards information technology. The objective was to gain an understanding of the role technology continues to play in businesses and how recent technological developments are being evaluated and adopted.

The portrait of Australian business that has emerged is both intriguing and enlightening.

# Executive summary

While Australia's economic fundamentals are strong, the business sector remains cautious and watchful.

While media reports and anecdotal evidence provides some insight into what is occurring within Australian businesses in 2012, the only effective way to gain a clear understanding is to speak directly with businesses themselves.

The Australian economy continues to be influenced by significant macro-economic forces affecting countries throughout the world. Even though Australia is showing remarkable resilience in the face of tough conditions, challenges still abound. These include the ongoing European sovereign debt crisis, potential slowing of growth in China, a continuing strong Australian dollar, a two-speed economy, the carbon tax introduction and a lacklustre retail sector. These challenges come at a time when businesses are also facing other structural challenges as they cope with changing market conditions and ongoing technological advancements.

The key findings in this report include:

- **Business confidence is polarised and there is concern about business growth.** Almost 4 in 10 (37%) businesses suggest they are less confident about the year ahead, compared with just 3 in 10 (28%) last year. Furthermore, a staggering 9 in 10 businesses are concerned about their growth prospects as a result of global economic issues, with many businesses deferring significant investment decisions as a result.
- **Rising cost issues grow significantly in 2012.** Rising costs were identified as a key challenge for half of all businesses in 2011. This rose to two-thirds of all businesses in 2012. The 2011 report found businesses had not planned adequately for this and the 2012 findings reconfirm it.
- **Sales and marketing has become a greater focus for businesses.** As a result of widespread business confidence issues, increasing costs and concern about poor growth, businesses are planning to bunker down and focus their spending on marketing. As a result, emphasis on technology and web presence as relative priorities has declined when compared with last year.
- **Women are driving social networking as a credible business generation channel.** Despite the fact that almost 6 in 10 businesses believe those that use social networking to engage customers will be more successful than those that don't, business use and penetration of Facebook and Twitter is still in its infancy. However, female business owners are embracing Facebook and Twitter far more than their male counterparts. This supports findings within the 2011 study.
- **Mobile technology is the number one planned technology priority in 2012.** Businesses clearly recognise the need to prioritise mobile technology as a core area of focus.
- **Cloud is still an enigma for many businesses.** Only half the businesses surveyed had prior awareness of the IT term 'Cloud'. Of those that were aware, only 4 in 10 stated they completely or mostly understood what the term means in practice. Uptake of Cloud-based business software is still in its infancy among most businesses, however almost half state they'd be interested in implementing Cloud in their operations. This suggests potential opportunity for providers as long as a clear educational roadmap is provided that highlights the risks, benefits and opportunities on offer.

## The research

The research underpinning this report was gathered through a comprehensive, independent process and uses input from more than 500 businesses across Australia. It also makes key comparisons with the Sage Business Index 2011.

Throughout February and March 2012, Sage conducted an independent, nationwide, quantitative study comprising telephone interviews with 503 business owners and decision makers covering all Australian business sizes, states and ANZSIC industry categories. Results were weighted by employee size, state and industry, using current ABS statistics. Research questions were broadly grouped into three sections, each designed to build an accurate picture of current business sentiment and future plans.

- **Section 1** examined current business confidence levels compared with the previous 12 months, the biggest challenges faced in the past year and going forward, the level of concern around recent economic issues and their impact on decision making, staffing issues and attitudes towards social media.
- **Section 2** covered opinions on technology investment.
- **Section 3** gathered a profile of each business, including its size and industry sector as well as details of the respondent.



## Business insights

The research uncovered a range of key insights which serve to create a clear picture of the mood and priorities of Australian businesses in 2012.

# INSIGHT 01

## Confidence among Australian businesses is polarised, with many feeling pessimistic about the nation's economic recovery.

Overall, Australian businesses feel more confident now than they did in 2011, however there is still significant pessimism about what will happen during the next 12 months.

The research found 36% of Australian businesses believe they are performing better now than at the same time last year. This is similar to the findings of the 2011 Index where 4 in 10 (38%) businesses believed they were performing better than the previous year. However, one-fifth (21%) of businesses believe they are performing worse now compared with this time last year, versus just 1 in 6 (17%) in 2011.

In 2012, there appears to be a greater pessimism regarding Australia's economic recovery. The research found just one-fifth (21%) of businesses believe the Australian economy is recovering, compared with almost one-third (31%) who felt that way last year. Furthermore, over 4 in 10 (45%) said the Australian economy is declining, compared with only 3 in 10 (30%) who last year said it was declining.

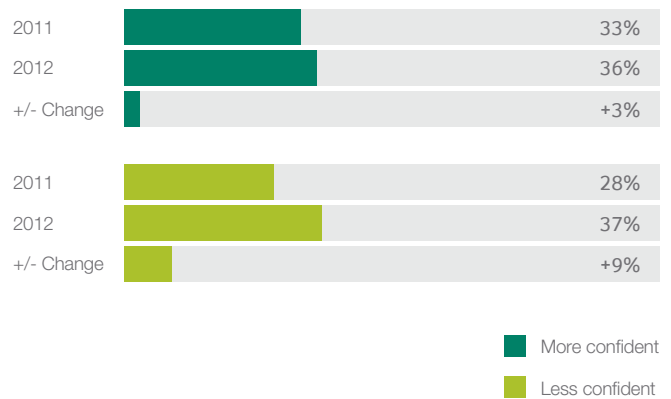
This gloomy macro outlook is clearly having an impact on business confidence for the year ahead, with *more businesses feeling less confident overall in 2012* than in 2011.

The research reveals a noticeably more polarised business community when it comes to confidence.

Confidence differs markedly depending on business size, with small and medium-sized businesses emerging as being less confident than they were in the 2011 survey. At the same time, the results clearly demonstrate that larger Australian businesses are feeling more bullish about the next 12 months compared with last year.

“This gloomy macro outlook is clearly having an impact on business’ confidence for the year ahead.”

### Total business confidence for the year ahead compared to this time last year



### Total business confidence for the year ahead compared to this time last year by business size and gender

Confidence comparison	Total %	Micro businesses	Small businesses	Medium businesses	Large businesses	Male	Female
More confident 2011	33	30	51	48	49	36	26
More confident 2012	36	36	32	35	58	35	39
+/- Change 2011 to 2012	+3	+6	-19	-13	+9	-1	+13
Less confident 2011	28	29	23	23	27	29	25
Less confident 2012	37	39	28	24	20	42	21
+/- 2011 to 2012	+9	+10	+5	+1	-7	+13	-4

# INSIGHT 02

## Current economic issues are causing significant concerns about future growth and deferment of key business decisions.

Overall, there is clearly greater pessimism among businesses when it comes to the Australian economy in 2012 with almost all businesses believing it will have a detrimental effect on their future growth. The research shows 9 in 10 (89%) businesses are concerned about their growth prospects, with half (49%) stating they are *very or quite concerned* about growth prospects in light of recent economic issues.

As a result, large numbers of businesses are deferring significant business decisions, with a likely knock-on impact on business performance. More than half (53%) of all businesses have deferred some significant business investments, decisions or changes as a result of the economic issues and critically, one-quarter (23%) of all businesses have deferred most or all of their significant business decisions.

Plant/machinery, marketing and business development spend are the areas respondents stated as being deferred the most. Almost 4 in 10 (36%) of all businesses say they have deferred upgrading plant and machinery. At the same time, 3 in 10 (31%) say they have deferred marketing and advertising spend, 3 in 10 (28%) have deferred developing new areas of business, and 3 in 10 (28%) have not reduced business debt levels. HR-related activities are also seeing a pronounced delay, with one-quarter (25%) of all businesses stating they have deferred hiring new staff and a further one-quarter (27%) stating they have deferred pay rises. Furthermore, 1 in 5 reported they had deferred IT software and IT hardware investments (in any capacity). The results all point to a cautious and wary business operator who has recognised the need to pause spending as a result of the precarious situation they believe they face in 2012.

However, when examined by key market verticals, the research reveals some interesting differences.

While all businesses appear to be concerned and have deferred decisions, larger businesses – in line with their more confident business outlook evidenced earlier – are much less likely to have deferred most or all decisions, suggesting its more business as usual for these organisations. Similarly, females are much less likely to have deferred business decisions and have exhibited lower deferment across most business areas.

By industry vertical, 7 in 10 retail businesses have deferred significant decisions compared with half of all businesses, reflecting the particularly tough environment this sector faces.

### Concern around business growth prospects as result of recent economic issues



### Deferment of significant decisions as a result of recent economic issues



### Business spending deferral

Top areas of deferred business spending	%
Upgrading plant/machinery	36
Marketing spending	31
Developing new business areas	28
Reducing debt levels	28
Pay rises	27
Hiring new staff	25
IT software spending (any)	19
IT hardware spending (any)	19
Building/revamping your website/online presence	18
Employee training/education spending	16
Opening a new store/office/franchise	13
Moving premises	10

\*Note: 'Top areas of deferred business spending' has been re-proportioned back to represent a percentage of all businesses.



## Business growth concern and spending deferral by business size, gender and key industries

	Total %	Micro businesses	Small businesses	Medium businesses	Large businesses	Male	Female	Retail	Manufacturing
<b>Business growth concern as a result of economic issues</b>									
Concerned in any way	89	91	82	85	88	90	87	91	86
Very/quite concerned	49	49	47	48	41	53	35	58	46
<b>Deferment of significant business decisions</b>									
Deferred significant decisions at some level	53	53	54	40	51	59	34	69	47
Deferred most/all decisions	23	25	14	14	4	26	14	32	10
Deferred no decisions	47	47	46	60	49	41	66	31	53
<b>Top areas of deferred business spending</b>									
Upgrading plant/machinery	36	38	29	23	19	40	25	49	37
Marketing spending	31	32	26	19	25	36	16	43	13
Developing new business areas	28	30	21	23	14	30	23	31	31
Reducing debt levels	28	30	23	15	19	32	17	33	19
Pay rises	27	28	19	20	24	29	22	36	27
Hiring new staff	25	26	21	18	27	25	26	31	28
IT software spending (any)	19	19	18	18	12	20	17	18	20
IT hardware spending (any)	19	19	14	18	12	21	11	21	11
Building/revamping your website/online presence	18	18	17	9	24	22	5	22	13
Employee training/education spending	16	16	14	15	21	19	8	17	5
Opening a new store/office/franchise	13	13	12	14	29	16	5	30	10
Moving premises	10	10	15	11	10	13	1	19	4

“The results all point to a cautious and wary business operator who has recognised the need to pause spending.”

## Rising costs emerge as the number one challenge faced in the last 12 months.

Rising costs again emerged as the number one challenge businesses faced in the last 12 months, echoing the 2011 survey results. Critically, this year two-thirds (67%) of businesses state that rising costs was one of the biggest challenges they had faced over the previous 12 months, up from just under half (47%) in 2011. The challenge of rising costs is being felt by businesses of all sizes. In line with significant media coverage around the issue, the 2012 Index highlights the overall penetration and growth of rising costs as an issue across the Australian business landscape compared with last year.

Maintaining or growing revenue was the number two challenge businesses faced, holding its position from 2011. The number of businesses facing this challenge remains consistent, with 37% stating it was a challenge in the 2011 Index and 36% stating it was a challenge in the 2012 Index.

Managing cash flow as a challenge has increased from 31% in the 2011 Index to 34% in the 2012 Index, placing it third in the list of challenges faced by businesses over the past 12 months. An increased awareness of cash flow may firstly be a response to a tightening economy but could also be a result of rising costs. Increasing expenditure that is not matched with increasing revenue leads to cash flow challenges.

Lack of funding grew as a stated challenge from one-quarter (25%) of all businesses in 2011 to 3 in 10 (30%) in 2012. Interestingly, this increase is being driven by micro and small businesses and proportionally is not a challenge faced by as many large businesses. This indicates that banks are freeing up funding to medium and larger businesses that have more stability, but are still wary of lending to micro and small businesses. This is typical of the recovery stage of the economic cycle and demonstrates a glimmer of hope for the future for micro and small businesses.

The other major change in challenges experienced between 2011 and 2012 – recruiting new employees – dropped as a business challenge from 25% to 20%, in line with the tepid jobs market. Yet this only tells part of the story as medium-sized businesses and those in the retail sector report staff recruitment is a larger issue than last year. This again highlights how different issues have an impact on different business segments over time.

### Businesses who faced rising cost in the previous 12 months, 2012 vs. 2011



### Challenges experienced by Australian businesses

	Experienced in the 12 months to 2011	Experienced in the 12 months to 2012	+/- Change %
Rising costs	47	67	+20
Maintaining or growing revenue	37	36	-1
Managing cash flow	31	34	+3
Gaining new customers or accessing new markets	35	33	-2
Recruiting employees	25	20	-5
Lack of funding/access to capital	25	30	+5
Increased competition	17	20	+3
Investing in technology	10	11	+1
Investing in innovative products and services	6	4	-2

# INSIGHT 04

## Businesses were slow to spot the issue of rising costs in 2011.

The Sage Business Index 2011 painted a clear picture of Australian business' lack of planning around rising costs. The 2012 Index confirms that businesses were simply not as prepared as they could have been to cope with this issue.

This oversight has put more pressure on businesses to operate in survival rather than growth mode. The resulting differences between what businesses *anticipated* and what they *experienced* last year clearly highlights how businesses overall were simply not ready for the rising costs, the lack of funding or the increased competition they experienced during the year. However on the upside, businesses found that recruiting staff was less of a challenge than they had anticipated.

Poor foresight around rising costs was mainly experienced by micro businesses and the retail and manufacturing sectors. However, large businesses, female business owners and the retail sector poorly anticipated the increase in competition they would come to face last year.

“Businesses overall were simply not ready for the rising costs, the lack of funding or the increased competition they experienced during the year.”

**67%**  
of businesses experienced rising costs in the last year

**85%**  
of manufacturing businesses experienced rising costs in the last year

### Challenges anticipated in 2011 vs. challenges experienced in 2011

	%
Businesses that anticipated rising costs in 2011	39
Businesses that experienced rising costs in 2011	67
+/- Change	+27
Businesses that anticipated lack of funding in 2011	24
Businesses that experienced lack of funding in 2011	30
+/- Change	+7
Businesses that anticipated increased competition in 2011	14
Businesses that experienced increased competition in 2011	20
+/- Change	+7
Businesses that anticipated challenges recruiting staff in 2011	25
Businesses that experienced challenges recruiting staff in 2011	20
+/- Change	-5

# INSIGHT 05

## Businesses anticipate rising costs, gaining new customers and managing cash flow will be key challenges during 2012.

The research found businesses clearly see rising costs as the number one issue they face.

Other key and growing challenges nominated included gaining new customers, managing cash flow and maintaining or growing revenue. Interestingly, the issue of access to funding appears set to drop marginally in 2012.

Growing the business via new customers and managing cash flow will become greater focuses for businesses, alongside coping with their anticipated ongoing rising costs.

“Growing the business via new customers and managing cash flow will become greater focuses for businesses, alongside coping with their anticipated ongoing rising costs.”

**59%**

of businesses expect to face the challenge of rising costs in the next 12 months

**37%**

of businesses expect to face challenges managing their cash flow in the next 12 months

### Key challenges for Australian businesses, experienced in 2011 vs. anticipated in 2012

	2011 experienced challenges	2012 anticipated challenges	+/- Change %
Rising costs	67	59	-8
Gaining new customers or accessing new markets	33	37	+4
Managing cash flow	34	37	+3
Maintaining or growing revenue	36	33	-3
Lack of funding/access to capital	30	25	-5
Increased competition	20	23	+3
Recruiting employees	20	22	+2
Investing in technology	11	14	+3
Investing in innovative products and services	4	5	+1
None of these	1	2	+1

# INSIGHT 06

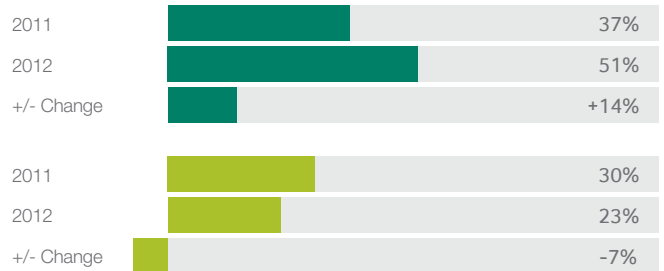
## As a result of increased competition and rising business costs, marketing and sales are set to dramatically increase in priority during 2012.

As a result of lower business confidence, rising costs and broad concerns about the economy, the 2012 Index results suggest businesses appear to be bunkering down and focusing on marketing and sales. In particular:

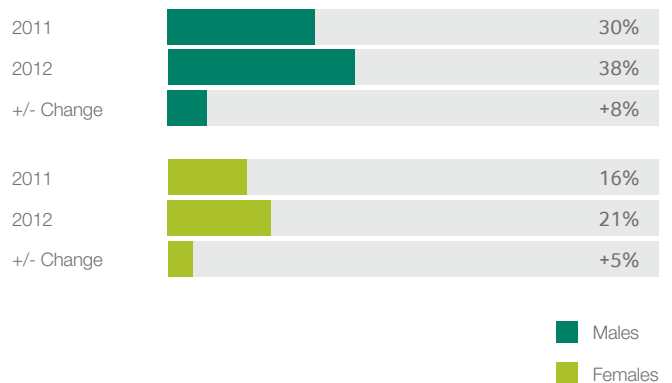
- marketing as a priority has grown from number two (35%) last year to number one (44%) this year
- the related area of sales has increased dramatically from number five priority to number two priority, probably as a consequence of the rising costs experienced by businesses detailed earlier
- both technology spending and spending on web presence dropped as priorities as budgets become focused on revenue generation. As competition increases and growth slows, businesses look for more urgent and active ways to grow sales than simply relying on web
- employee focus (training and staff recruitment) also took a back seat in priority terms, in line with the tepid jobs market evidenced earlier.

In summary, technology and staff-related areas appear to be more likely to be compromised in terms of budgetary focus during 2012. Female business owners in particular view technology and web as areas of decreased priority. Marketing has grown as a priority across all business sizes except medium-sized businesses; and particularly for male business owners.

### Key priority: Marketing



### Key priority: Sales



■ Males  
■ Females

### Key priorities for investment should more budget become available, 2011 vs. 2012

	2011	2012	+/- Change %
Marketing	35	44	+9
Sales	26	34	+8
Premises or infrastructure	26	32	+6
Export markets	9	8	-1
Employee training	28	25	-3
Recruitment of staff	33	26	-6
Web presence	32	25	-7
Technology	36	27	-9
None of these	7	8	+1

# INSIGHT 07

## The lukewarm economic outlook drives caution around staff hiring and pay rises in 2012.

As was the case in 2011, relatively low levels of unemployment and continued growth in certain industry sectors are causing issues relating to skilled staff recruitment. Similar proportions of businesses are still struggling to find appropriately skilled staff in 2012 (59%) as they did in 2011 (60%). Moreover, when asked whether they have a formal business plan to enable them to manage staffing issues, an encouraging half (49%) of all businesses state they do. In an effort to address this issue, 4 in 10 (38%) businesses have used more contractors or part-time staff during the past 12 months and one-third (34%) are actively considering employing older staff, reflecting a desire by many businesses to explore flexible options around staffing.

However, as a result of economic conditions, a significant proportion of businesses appear to be limiting pay rises while at the same time exhibiting caution around hiring new staff or conducting employee training. One-quarter of all businesses state they have deferred hiring new staff (25%) and pay rises (27%) recently. Furthermore, one-quarter of businesses (24%) state they have reduced their workforce in the past 12 months, compared with 1 in 5 (21%) the year before. In addition, fewer businesses state they will prioritise staff recruitment or employee training this year, compared with last. In summary, against a backdrop of rapidly rising business costs, it is clear employers are deferring their staff-related investments in order to recoup some of the margins they have lost. Critically, should employment conditions improve in the short to medium term, staffing issues will require much closer attention.

When looking at staff recruitment issues by business size, it can be seen that medium and large businesses have experienced more issues around finding skilled staff during the past 12 months. These businesses are also more likely to have a formal staff plan in place to deal with staffing issues and are also more likely to be actively considering the recruitment of older staff. However they are less likely to be using more contractors or part-time staff over the last year than previously.

Interestingly, compared with last year's Index, difficulty in finding skilled staff has significantly diminished as an issue for female business owners. Furthermore, the Index suggests this group appears to be more organised with putting formal staff plans in place and has been less likely to draw on contractors, part timers or older staff to fill gaps.

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“Should employment conditions improve in the short to medium term, staffing issues will require much closer attention.”

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27%

of businesses have deferred pay rises in the past 12 months as a result of current economic issues

25%

of businesses have deferred hiring new staff in the past 12 months as a result of current economic issues

## Key HR attitudes and priorities in 2011 vs. 2012 by business size and gender

	Total %	Micro businesses	Small businesses	Medium businesses	Large businesses	Male	Female
<b>Experience with finding skilled staff</b>							
Struggled to find skilled staff in the past 12 months 2011	60	58	75	76	80	60	60
Struggled to find skilled staff in the past 12 months 2012	59	56	72	84	84	64	45
+/- Change	-1	-1	-3	+7	+4	+4	-15
<b>Attitudes to staff recruitment and staff planning</b>							
Formal staff plan in place to deal with staffing issues	49	46	56	79	85	46	57
Used more contractors/part-time staff in past 12 months to fill roles than previously	38	38	39	32	23	44	20
Actively considering using older staff to help with staffing issues	34	31	52	45	55	37	25
<b>Have deferred staff-related business investment as a result of current economic issues</b>							
Pay rises deferred	27	28	19	20	24	29	22
Hiring new staff deferred	25	26	21	18	27	25	26
<b>Would prioritise employee training if there was more budget</b>							
Employee training 2011	28	24	45	51	52	25	35
Employee training 2012	25	22	38	51	52	23	31
+/- Change	-3	-2	-8	0	0	-2	-4
<b>Would prioritise recruitment of staff if there was more budget</b>							
Recruitment of staff 2011	33	32	35	40	50	31	36
Recruitment of staff 2012	26	25	28	48	44	26	26
+/- Change	-6	-7	-7	+7	-6	-5	-9
<b>Stated reduction in workforce 2011 vs. 2012</b>							
Reduced workforce in the past 12 months 2011	21	20	26	28	31	22	20
Reduced workforce in the past 12 months 2012	24	23	30	28	31	25	22
+/- Change	+3	+2	+4	0	0	+3	+2

# INSIGHT 08

## Social networking is still in its infancy as a business tool, but is seen as a credible communication channel.

Social networking has become a buzz word for individuals in recent times and the 2012 Index clearly shows businesses believe it will significantly contribute to their future success.

Social networking is seen by businesses as a strong means for generating demand. Almost 6 in 10 (54%) felt businesses that use social networking to engage customers will be more successful than those that don't. Just one-quarter (28%) disagree with this sentiment.

But despite their positive feelings towards social networking, many businesses recognise they don't yet know how it can be put to use. Just over half (51%) agree that they don't understand how to effectively use social networks to promote their businesses, suggesting they need education. However, almost 4 in 10 (39%) disagree, suggesting there's a broad proportion of the business population already comfortable with using social networking for promotional purposes.

Interestingly, about one-quarter (24%) of businesses say they have a business-related Facebook page or fan page and 1 in 6 (16%) confirm they actively communicate with customers via Facebook. This shows that two-thirds (68%) of businesses who have a Facebook presence actively use it as a business communication tool.

At the same time, just 1 in 9 (11%) businesses say they have a Twitter account and only 1 in 12 (8%) say they actively communicate with their customers via Twitter. This means that two-thirds (68%) of businesses that have a business Twitter account actively use it as a communication medium.

Attitudes towards social networking differ by subgroups, with two groups particularly standing out: females and younger business owners. This demonstrates that Facebook and Twitter thought leadership and use within businesses will be driven by younger and female business leaders.

“Facebook and Twitter thought leadership and use within businesses will be driven by younger and female business leaders.”

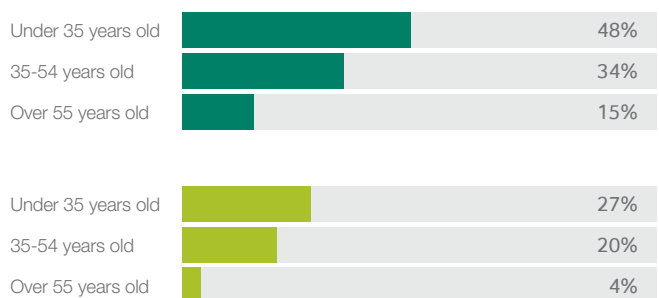
4%

of business owners or managers over 55 years old have a business Twitter account

27%

of business owners or managers under 35 years old have a business Twitter account

### Social media penetration by age



■ I have a business Facebook account/fan page

■ I have a business Twitter account



## Core social media attitudes, use and penetration by gender and age

	Total %	Male	Female	Under 35 years old	35-54 years old	Over 55 years old
<b>Attitudes towards Facebook/Twitter</b>						
I agree that businesses that use Facebook/Twitter to engage customers in next few years will be more successful than businesses that don't	54	52	60	77	59	49
I don't really understand how to effectively use Facebook/Twitter to promote my business	51	60	24	41	47	55
<b>Facebook business penetration</b>						
I have a business Facebook account/fan page	24	15	49	48	34	15
I actively communicate with customers via Facebook	16	7	45	38	20	12
Proportion of businesses that have a Facebook/fan page and actively communicate with customers via Facebook	68	43	92	78	60	79
<b>Twitter business penetration</b>						
I have a business Twitter account	11	5	28	27	20	4
I actively communicate with customers via Twitter	8	3	21	23	16	<1
Proportion of businesses that have a Twitter business account and actively communicate with customers via Twitter	68	56	75	84	81	9



## Technology insights

The research also revealed some interesting insights into attitudes towards information technology in 2012.

# INSIGHT 09

## Mobile technology and computer hardware will be core technology focus areas for businesses during the next 24 months.

Among Australian businesses, mobile technology and computer hardware represent the greatest priorities for technology investment during the next two years. With smart phones now outselling PCs (*IDC report February 2012*), it is clear businesses are prioritising mobile technology as an area of critical focus.

Furthermore, as predicted in the Sage Business Index 2011, website development and upgrades are also seen as essential to future success. This is despite the fact that web activity appears to be currently taking somewhat of a back seat to other revenue generation activities (see Insight 6) for many organisations.

At this stage, public and private Cloud technology are still only seen as priorities by a minority of businesses. This is reflected in a general lack of awareness and practical understanding of this technology area.

It is clear mobile technology and website development are priorities across the board, with all business sizes nominating these within their top three priorities.

The breakdowns by business size, gender and industry indicate some interesting differences.

The research shows clear differences in technology needs by both gender and industry group. Females appear to have quite different technology priorities for the next one to two years, with computer hardware number one, website development number two and accounting software and social media joint third priority. Interestingly, mobile technology is not yet a technology priority for female business owners. When considered by industry, retail appears to have the same technology priorities as the total market, while manufacturing is much more likely to prioritise website development, computer hardware and IT infrastructure technology.

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“It is clear businesses are prioritising mobile technology as an area of critical focus.”

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**53%**

of businesses will invest in mobile technology/devices if more technology budget becomes available

**52%**

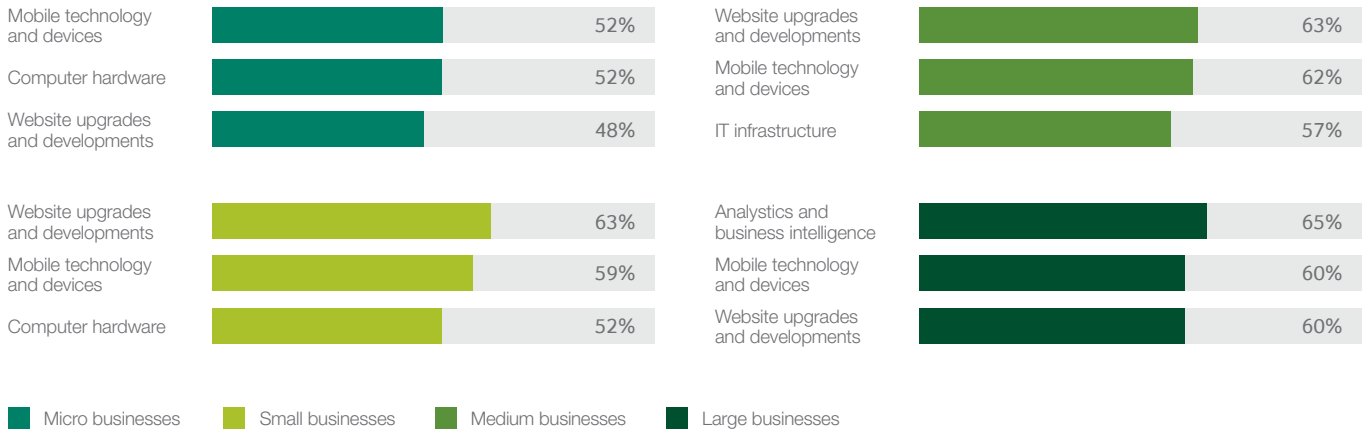
of businesses will invest in computer hardware such as desktop computers and office printers if more technology budget becomes available

## Mobile technology and computer hardware will be core technology focus areas for businesses during the next 24 months. (cont...)

### Top technology priorities over the next one to two years if more budget becomes available by gender and key industries

	Total %	Male	Female	Retail	Manufacturing
Mobile technology/devices (e.g. smart phones, tablets)	53	62	28	50	19
Computer hardware (e.g. desktop computers, standard office printers)	52	54	45	53	45
Website development and upgrades	50	55	36	49	59
Desktop/personal productivity software (e.g. Microsoft and Adobe programs)	32	37	17	11	10
Accounting software (excluding payroll)	31	31	33	16	32
IT infrastructure (e.g. servers, switches, cabling, virtualisation)	30	31	28	18	48
IT data security (e.g. protecting data from viruses, hackers or being accessed by unauthorised sources)	28	28	27	26	26
Social media (e.g. Facebook, Twitter, Google +1)	27	25	33	29	15
Customer relationship management (CRM) software	26	32	12	40	42
Backup and recovery solutions	26	27	21	32	23
IT management (e.g. internal IT staff, contractors)	19	19	19	18	11
Analytics and business intelligence (technology that helps analyse data about specific businesses and industries)	19	22	11	13	12
Collaboration technologies (workflow technologies, programs like SharePoint that help teams share resources)	14	12	18	9	10
Private Cloud (building customised systems for staff and customers to access over the internet)	13	11	18	14	15
Public Cloud for business management (accessing standard business software and services over internet)	11	11	12	12	2
Enterprise resource planning (ERP) software	11	13	4	7	11
HR/payroll software	9	9	8	9	15

**Top three technology priorities for businesses over the next one to two years if more budget becomes available**



When looking at the responses concerning business software connectivity via handheld mobiles and tablet computers, some interesting results emerge. Firstly, medium and large businesses are, attitudinally speaking, much more positively predisposed towards the idea of connectivity than their smaller counterparts.

Moreover, when we then compare the attitudes towards connectivity against the behaviour of giving staff mobile access to business software over the last 12 months we can clearly see that larger businesses are already at the implementation stage (i.e. their attitude generally matches their behaviour), whereas medium businesses are at the growth stage (i.e. their behaviour lags their attitude).

**Attitudes towards business software connectivity from mobile devices by business size**

	Total %	Micro businesses	Small businesses	Medium businesses	Large businesses
It's going to become more and more important in the next one to two years that our employees have connectivity to our business software and systems via handheld mobile devices and tablet computers	52	51	47	80	84
We have enabled our staff to access our business software by their handheld mobile devices or tablet computers in the past 12 months	12	5	39	53	86

# INSIGHT 10

## The Cloud remains an enigma for many businesses.

While it's clear technology and IT professionals are embracing the concept of Cloud computing, Cloud remains an enigma for many business owners. Tellingly, only half (53%) of businesses had ever heard the term Cloud, with almost half (47%) stating they were not aware of the IT term Cloud prior to the survey.

In the main, businesses are unsure of both what the term Cloud really means and what benefits it might offer. Of those who had heard the term, just 4 in 10 (39%) said they mostly/completely understood what it means in practice suggesting that overall just 1 in 5 (21%) of all Australian businesses mostly/completely understand what Cloud means in practice.

After a detailed Cloud description was read out, businesses who had previously identified they understood Cloud were still mainly unsure of the benefits of implementing Cloud. Only 13% of this informed group currently sees significant benefits of implementing Cloud in their business with half (50%) stating they see limited or no benefit.

Furthermore, of this informed group, 6 in 10 (62%) said they are unsure how to go about implementing Cloud in their business and half (48%) suggest their business isn't the sort that could make use of Cloud. However, almost half of this informed group (48%) said they would be really interested in implementing Cloud in their business. This suggests there are opportunities for Cloud as long as education is provided to help businesses see the benefits.

When we look at attitudes towards Cloud in more detail, the Index uncovers further illuminating statistics.

Regarding the perceived issue of security, hacking or data breaches, less than half (47%) of the Cloud-informed group agree that they are genuinely worried that their business' data or information will be more exposed when using a Cloud service, while 6 in 10 (58%) agreed that they would be comfortable having their data stored electronically outside their office but somewhere in Australia. Under half (45%) believe their IT costs would increase if they implemented Cloud but, more compellingly, more than 7 in 10 (71%) agreed that they were unclear as to what real savings Cloud would provide their businesses.

In summary, the attitudes presented here reiterate that Cloud has real opportunity if its benefits can be clearly demonstrated to businesses.

The research results clearly demonstrate that current penetration of Cloud is limited, with only 1 in 12 (8%) businesses using public Cloud for their business software and 1 in 16 (6%) using private Cloud. However, growth in Cloud is quite significant, with almost 6 in 10 (57%) of all public Cloud implementations occurring in the past 12 months along with three-quarters (76%) of private Cloud implementations. So while penetration remains low, uptake is increasing.

21%

of businesses mostly or completely understand what Cloud means in practice

47%

of businesses were not aware of the IT term Cloud prior to the survey

### Business attitudes towards Cloud

	Total %
<b>Cloud attitudes of those who are aware of Cloud and understand what it means</b>	
I am genuinely worried that our business' data will be more exposed to security hacking and data breaches	47
If I implemented Cloud I believe our business' IT costs would increase	45
I am happy to have my/our business' electronic data e.g. accounts or customer details stored electronically somewhere else in Australia than on our premises' IT systems	58
I'm unclear as to what real savings Cloud would provide my/our business	71

Awareness and understanding of Cloud clearly differs by business size, with larger business owners understandably much more aware of the concept prior to the survey. Additionally, medium and large businesses appear to be more likely (28%) than the total (13%) to see significant benefits in Cloud, probably as a result of their greater exposure to its uses and potential benefits.

However, somewhat surprisingly, almost half (48%) of larger businesses who are aware and understand what Cloud means are still unsure how to go about implementing it, suggesting that they are not as familiar as one would expect. Also, interest in implementing Cloud appears quite consistent across different business sizes, suggesting that potential opportunities exist across the spectrum.

Female business owners also demonstrate some quite different opinions regarding Cloud. Whilst they are less aware overall than their male counterparts, of those that are aware they are much more likely to mostly or completely understand what it means, suggesting a core group of female business owners have educated themselves about this new technology.

#### Awareness and understanding of Cloud by business size, gender and key industries

	Total %	Micro businesses	Small businesses	Medium businesses	Large businesses	Male	Female	Retail	Manufacturing
<b>Cloud awareness and understanding</b>									
Aware of the IT term 'Cloud' (prior to survey)	53	51	58	79	81	56	44	58	74
Mostly/completely understand what Cloud means in practice (of those aware)	39	37	51	51	37	34	60	26	38
Mostly/completely understand what Cloud means in practice (of all businesses)	21	19	30	40	30	19	26	15	28
<b>Of those who are aware of Cloud and understand what Cloud means</b>									
See limited/no benefits in implementing Cloud	50	53	36	43	42	60	14	76	79
See some benefits of implementing Cloud	37	35	53	34	31	30	64	20	8
See significant benefits of implementing Cloud	13	12	11	24	28	10	22	4	13
Unsure about how to go about implementing Cloud in their business	62	66	48	35	48	60	71	36	54
Interested in implementing Cloud in their business	48	47	56	47	48	40	79	22	40

# Females vs. males

**Females are more positive and confident and much more likely to use social media and understand the Cloud.**

The Sage Business Index 2012 research reveals some interesting insights into attitudes and priorities among female managers and business owners.

Despite the overall atmosphere of caution and concern that is permeating the business sector, women are feeling generally more positive about the future. Of those surveyed, 39% said they felt more confident now than they did at the same time last year – an increase of 13% on 2011. Over the same time period, confidence among male business owners decreased 1%.

At the same time the number who said they were feeling less confident dropped from 25% in 2011 to 21% in 2012. This is particularly interesting when compared with male respondents. In that group, 42% said they were feeling less confident now than in 2011 – an increase of 13%.

When asked to nominate priority areas for spending if more budget became available, female respondents appear less inclined to spend on marketing in 2012 compared with 12 months ago. At that time 30% indicated it was a priority, however this has dropped to 23% in 2012. Male respondents however appear much more marketing-focused, with 51% nominating marketing as a priority, a 4% increase on 2011. At the same time extra spending on sales was nominated by 21% of female respondents, up from 16% in 2011. This still falls significantly behind the 38% of male respondents who would like to spend more on sales in 2012.

On the topic of information technology, the research found 60% of females mostly or completely understand the concept of Cloud computing and 64% see some benefit in using it within their business. Their understanding of Cloud far outstrips their male counterparts – only 34% of males claim to mostly or completely understand Cloud and only 30% see benefits in it for their business.

64%

of women see some benefit of using Cloud within their business

30%

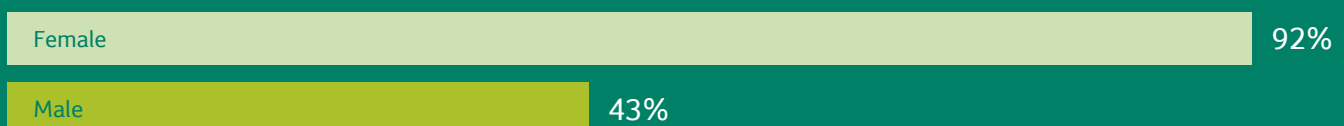
of men see some benefit of using Cloud within their business

When it comes to IT spending, 45% of female respondents nominated computer hardware as a priority, should more budget become available. Mobile technology and devices didn't even make the female top three, while for males mobile technology was the highest priority for spending, at 62%.

Female business owners are far more engaged with social networking, using it as a business tool on a number of different levels. They are much more likely to believe social networking can be used for business generation and much more likely to understand how to effectively use it to promote their businesses. Furthermore, almost half (49%) of female business owners have a business Facebook page, twice as many as all businesses, with active communication with customers standing out at a staggering 92% of those with a business Facebook page. Once again the females are outstripping the males – this time by almost double. Just 43% of male respondents confirmed their organisation had a Facebook presence that is being used to communicate with customers.

For Twitter use, the statistics are almost as impressive. Female business owners are two-and-a-half times more likely to own a Twitter account (28% vs. 11% across all businesses), with 75% of those with an account stating they have active communication with customers. Female business owners are clearly embracing this new technology with verve and predict that it will help their business grow.

**Proportion of businesses that have a Facebook/fan page and actively communicate with customers via Facebook**





# INSIGHT 11

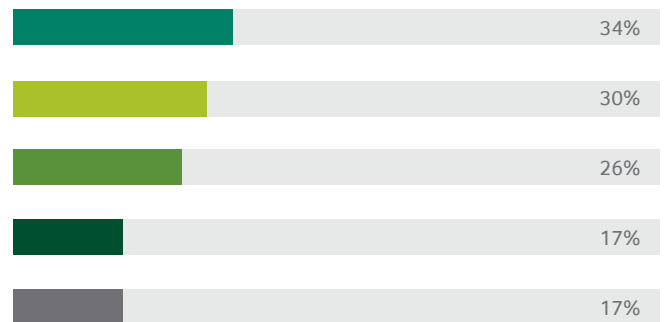
## Hardware and IT infrastructure failures and broadband outages were the dominant IT issues faced during the past 12 months.

More than three-quarters of businesses state they have experienced an IT issue of some sort in the past 12 months. Only one-quarter (25%) of businesses state they have experienced no IT issues in the last 12 months.

The key IT issues experienced were hardware failures, broadband/internet outages and IT infrastructure failures. One-third (34%) experienced hardware failure (e.g. laptop/desktop/printer damaged or broken), while 3 in 10 (30%) experienced a broadband/internet outage lasting 12 hours or more. About 1 in 5 (26%) businesses experienced an IT infrastructure failure (e.g. server crash, network failure, wireless network failure), while about 1 in 6 (17%) experienced a virus (e.g. a virus that affects a single machine or isolated small number of machines) and 1 in 6 (17%) experienced slow/non-response to an issue by their IT vendor/support contractor.

“Key IT issues faced were hardware failures, broadband/internet outages and IT infrastructure failures.”

### Top five IT issues faced by businesses in the last 12 months



- Hardware failure (e.g. laptop/desktop/printer is physically damaged or broken)
- Broadband/internet outage lasting 12 hours or more
- IT infrastructure failure (e.g. server crash/network failure/wireless network failure)
- Slow/non-response to an issue by your IT vendor/support contractor
- Virus (e.g. a virus that affects a single machine or isolated small number of machines)

## Hardware and IT infrastructure failures and broadband outages were the dominant IT issues faced during the past 12 months. (cont...)

### IT Issues faced in the last 12 months by business size, gender and key industries

	Total %	Micro businesses	Small businesses	Medium businesses	Large businesses	Male	Female	Retail	Manufacturing
Hardware failure (e.g. laptop/desktop/ printer is physically damaged or broken)	34	33	39	39	42	39	21	35	28
Broadband/internet outage lasting 12 hours or more	30	30	35	23	11	32	24	18	4
IT infrastructure failure (e.g. server crash, network failure, wireless network failure)	26	24	37	33	38	28	22	11	17
Slow/non-response to an issue by your IT vendor/support contractor	17	16	19	29	34	20	8	9	11
Virus (e.g. a virus that affects a single machine or isolated small number of machines)	17	16	18	18	32	20	9	21	20
Data loss (e.g. deletion of data, failure of back-up systems)	15	16	12	10	8	19	5	11	24
Significant software crash (e.g. can't access software programs needed for daily business use)	15	13	22	20	12	16	10	14	18
Security attack (e.g. sensitive business or client information had been compromised or accessed by an unauthorised source)	9	9	12	8	12	11	3	4	22
Slow/non-response to an issue by our reseller	8	6	14	22	29	9	5	3	1
IT vendor no longer supports our legacy software version	6	6	7	9	17	7	3	1	7
IT vendor was acquired some time back and is now too expensive	5	5	5	4	14	6	2	9	0
Staff shortages/inability to recruit and retain staff in your internal IT department	4	2	11	10	16	2	8	2	1
Reseller went into liquidation and we can no longer get upgrades and service for existing software systems	2	2	5	0	2	2	5	2	0
IT vendor was acquired by a larger company and we no longer get the support we once had	2	1	5	4	1	2	1	3	1
I/we have had no IT issues at all in the last 12 months	25	26	16	27	11	18	44	22	16
None of these	9	10	6	3	9	10	7	16	16

# INSIGHT 12

## While organisations broadly see their current business management software as optimal, there is still room for improvement.

The research found 6 in 10 (58%) businesses believe their organisation has the optimal business management software (BMS) in place to support their operations. Furthermore, two-thirds (64%) said their BMS performs in the way they expected while more than 6 in 10 (63%) said they did not use their BMS to its full potential.

Interestingly, large businesses are less likely to believe they have the optimal business software in place, most probably reflecting the inherent complexity of BMS in larger scale organisations. The more complex the business, the higher its needs are and the lower its overall satisfaction. Furthermore, only 4 in 10 (37%) large businesses believe their BMS performs in the way it was sold to them and three-quarters (75%) suggest they do not use their BMS to its full potential. The results from this group clearly suggest that larger businesses have more issues with their business management software than smaller operations.

“Larger businesses have more issues with their business management software than smaller operations.”

75%

of large businesses believe they do not use their business management software to its full potential

30%

of large businesses believe they have the optimal business management software in place

### Business management software attitudes by business size, gender and key industries

	Total %	Micro businesses	Small businesses	Medium businesses	Large businesses	Male	Female	Retail	Manufacturing
Our business has the optimal business management software in place	58	58	59	52	30	54	68	51	50
Our business management software performs compared to what it was sold to us as being able to do	64	64	69	64	37	65	62	53	64
We do not use our business management software to its full potential	63	63	61	64	75	60	71	53	62

# Conclusion

While Australia's economic conditions are more positive than those in many other parts of the world, domestic business confidence remains fragile. The Sage Business Index 2012 reveals a business environment that is concerned, cautious and currently reluctant to invest for the future.

The issues playing on the mind of businesses are diverse. They range from future growth prospects and rising operational costs to staff recruitment and IT security.

The macro issues identified in the introduction, such as the ongoing European debt crisis, the strong Australian dollar, the slow-down in Chinese growth and the two-speed economy are all impacting on confidence and outlook. It is feared that factors such as these – which are effectively out of the control of the Australian government – will have a negative impact on the business environment for at least the remainder of this year.

Concerns over rising costs are also significant and identified as a key challenge by two-thirds of all businesses surveyed.

Yet despite these concerns, it is encouraging to see that businesses are not sitting on their hands. While most are very cautious when it comes to making significant investments, the majority are taking steps to improve and fortify their operations so they will be well placed to capitalise on growth when it returns. It is also very comforting to see that large businesses have actually grown in confidence since 2011, have been less likely to defer business decisions as a result of the recent economic issues and are seeing lack of funding diminish as an issue. Hopefully the relatively brighter outlook for this key business vertical will trickle down to benefit medium, small and micro businesses later this year and into 2013.

Sales and marketing activities were highlighted by many businesses as an area of focus, along with new promotional channels such as social networking. An encouraging proportion of businesses appear to understand the potential of social networks and are already taking steps to engage with their customers in this way. The particularly strong adoption of this technological medium by women is a wonderful example of them embracing new systems and tools to further develop their businesses.

On the technology front, mobile technology has emerged as the number one priority among businesses in 2012. This has been spurred by the rapid growth of the smart phone and tablet markets and a realisation that they can become powerful business tools, helping to increase productivity and thus drive down the costs of doing business.

When it comes to the subject of Cloud computing, however, understanding of the concept and recognition of the benefits it affords are relatively low within many businesses. This shows there is considerable work to be done by Cloud service providers before they can expect widespread uptake of their offerings.

Overall, the research reveals an Australian business sector that is cautious about the future but ready to invest and innovate once they believe conditions are improving. These attitudes will be examined again in the next Sage Business Index scheduled for 2013.



While this report provides insights into the challenges faced by Australian businesses, it is also interesting to explore business sentiment in other parts of the world. The Sage Group has recently released its first global Sage Business Index of 2012, now its third global measure of confidence across small and medium-sized businesses in the US, Canada, UK, Germany, Austria, France, Spain, South Africa, Malaysia and Singapore. You can find out more about the global index at:

[businessindex.sage.com](http://businessindex.sage.com)

# Appendix

This report is based on interviews with 503 businesses across Australia. Results were weighted to ABS statistics to ensure accurate representation of states, industries and business sizes.

## Sample size and weighting approach

State	Population	Sample
NSW/ACT	704814	152
VIC/TAS	554184	152
QLD	419401	78
SA/NT	158300	64
WA	213446	57
<b>TOTAL</b>	<b>2050145</b>	<b>503</b>

Employee Size	Population	Sample
Up to 4 employees (micro)	1727380	125
5 to 19 employees (small)	233957	119
20-199 employees (medium)	89748	195
200+ employees (large)		64
<b>TOTAL</b>	<b>2051085</b>	<b>503</b>

## Industry weighting approach

Industry	Population	Sample
A Agriculture, Forestry and Fishing	203814	15
B Mining	7948	12
C Manufacturing	91840	56
D Electricity, Gas, Water and Waste Services	5570	2
E Construction	341622	44
F Wholesale Trade	76300	35
G Retail Trade	139611	77
H Accommodation and Food Services	77107	24
I Transport, Postal and Warehousing	133265	21
J Information Media and Telecommunications	17988	3
K Financial and Insurance Services	149643	15
L Rental, Hiring and Real Estate Services	217459	13
M Professional, Scientific and Technical Services	231463	41
N Administrative and Support Services	76563	11
O Public Administration and Safety	8050	18
P Education and Training	23555	29
Q Health Care and Social Assistance	92389	68
R Arts and Recreation Services	27495	15
S Other Services	85471	4
<b>TOTAL</b>	<b>2007153</b>	<b>503</b>



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