

**House of Representatives Communications, Information Technology and the
Arts Committee**

Inquiry into the Structure of Telstra

**SUBMISSION BY THE SMALL ENTERPRISE TELECOMMUNICATIONS
CENTRE LIMITED (SETEL)**

1. Background

The Small Enterprise Telecommunications Centre Limited (SETEL) is a not-for-profit public company limited by guarantee. Membership comprises industry associations, with members predominantly from the Small Business sector, & businesses as users of telecommunications services. Sector coverage exceeds 600,000 small businesses.

SETEL is active in a wide variety of telecommunications industry fora, supported by the Commonwealth Government's 'Grants to Fund Telecommunications Consumer Representation' program of the Department of Communications, Information Technology and the Arts. In terms of grant funding, SETEL's primary role is to advance the interests of Small Businesses as users of telecommunications services.

SETEL liaises extensively with industry, government and regulators on telecommunications matters affecting Small Business and has substantial involvement in the Australian Communications Industry Forum (ACIF) consumer code/guideline development processes. SETEL maintains active input into the Australian Competition and Consumer Commission (ACCC), the Australian Communications Authority (ACA) and the Department of Communications, Information Technology and the Arts in response to discussion papers and inquiries on telecommunications matters. A significant level of involvement is maintained with the TIO Council.

Small Business sector support for SETEL continues through the direct involvement of ACCI, the Small Business Coalition and Australian Business Limited in particular. SETEL co-hosts a website for the Small Business Coalition. SETEL also provides administrative and technical support for the Small Business Coalition E-commerce and Telecommunications Advisory Group (ETAG). The telecommunications needs of home-based and micro businesses are also covered.

SETEL seeks to raise the levels of awareness of telecommunications issues, products and services in the Small Business sector, achieved via Newsbriefs and publication of material on a website, which also features relevant material from Government and industry sites.

SETEL seeks to assist small businesses to make 'informed' decisions about telecommunications and, in the 2002/2003 financial year, will focus on the extent and quality of supply of telecommunications services to small businesses in non-metropolitan, rural and remote regions of Australia, particularly in areas where competition is either non-existent or not adequately developed.

SETEL remains dissatisfied with the level of communications services provided to SMEs in urban areas, particularly in relation to provisioning of extra lines, mobile 'black spots', availability of non-standard telephone services and internet access speeds.

SETEL's Objectives

Advance and represent the interests of Small Business in telecommunications:

To Governments

To the Federal Public Service (in particular the Department of Communications, Information Technology and the Arts)

To the Australian Communications Authority and the ACCC

To the telecommunications industry

To other government-related areas impacting on the Small Business sector.

Actively participate in ACIF code development programs and other ACIF activities, which have a bearing on Small Business.

Raise awareness of telecommunications issues in the Small Business sector.

Promote developments in telecommunications to the Small Business sector to increase the level of understanding of telecommunications issues and policy development and to foster greater input into policy debates on such matters.

Provide briefing on telecommunications to the Small Business sector, mainly through industry and member associations.

Seek to raise the level of participation by the Small Business sector in telecommunications industry fora.

Provide a forum and co-ordinating role for Small Business in relation to the widespread adoption of electronic commerce.

Continue liaison with consumer and user group bodies and representatives in the telecommunications sector and other industry associations involved in the telecommunications industry.

Seek to recognise and promote the needs of different size related categories of small business - home-based and non-employing businesses, micro businesses (5 or less staff), larger small businesses (including rural businesses) and medium size businesses which make up the SME sector.

Seek to raise small business awareness of how telecommunications can be used as a driver of business success, particularly through involvement in e-commerce activities.

Seek to determine and address solutions for the adoption of e-commerce by associations and their members and the implementation of outcomes from an E-commerce Roundtable/Forum for SME's.

Address SETEL's capacity to serve the interests of small business in domain name administration and to facilitate access to reliable internet connections at speeds sufficient to encourage the uptake of productive new web-based development tools.

Activities

SETEL seeks to continue its range of activities, including:

- fostering awareness of telecommunications issues throughout the small business sector,
- representing the interests of small businesses (as consumers of telecommunications services) in the development of Government and industry policy in relation to telecommunications,
- facilitating discussion of and research into telecommunications issues, and
- informing and educating small businesses and small business associations on telecommunications issues.

An integral part of this project involves efforts to improve the self-management of telecommunications issues and services by small businesses.

SETEL contends that it is necessary to address the business or value proposition in seeking to interest small businesses in telecommunications issues. In so doing it is considered essential to include information on related matters such as e-commerce, security, privacy and domain names.

SETEL adopts both a pro-active as well as a re-active stance in relation to telecommunications policy and market developments, recognising that small businesses in general prefer to operate in a competitive environment.

Inquiry Terms of Reference

That the Committee inquire into and report on the economic and social impact of structurally separating Telstra's core network from its other businesses and reducing the Commonwealth's current shareholding in Telstra's non-network businesses.

In conducting its inquiry, the Committee should consider the impacts of such a proposal on:

- The efficient provision of services to end-users, including businesses and residential customers in regional, rural and remote Australia;
- Telstra's ability to continue to provide a full array of telecommunications and advanced data services;
- Ongoing investment in new network infrastructure;
- The wider telecommunications industry;
- The telecommunications regulatory regime;
- Telstra's shareholder value and its shareholders; and
- The Commonwealth Budget.

SETEL Response to Specific Terms of Reference

- The efficient provision of services to end-users, including businesses and residential customers in regional, rural and remote Australia;

Competition in the telecommunications market may have resulted in significant improvement in services and new technologies to larger businesses and government customers but small business and residential consumers have not benefited to a noticeable degree from new services, faster technologies or a significant number of competitive suppliers. There have been price-related benefits in the International market (due mainly to significant competition) and in the long Distance market (due to a combination of competition and price capping). Most new suppliers to these market segments have adopted a resale process and have not sought to install new infrastructure.

The introduction of emerging technologies has been hindered by the slowness of the monopoly supplier to replace older services with services subject to greater competitive pressure. Services such as ISDN were "reborn" when competition, through ACCC intervention, was introduced for an alternative service (ADSL). The take-up of ADSL services has been slow to date.

Industry experts maintain there is an enormous oversupply of communications capacity. This is generally not being made available to small businesses and residential consumers. New providers cannot breach the 'last mile' bottleneck, gain substantial numbers of smaller volume users as customers and thus cannot achieve economies of scale. The uptake of faster communications services and the creation of innovative applications is being hindered by the incumbent carrier's reliance on legacy systems and the maintenance of outmoded, but exploitative, charging regimes.

- Telstra's ability to continue to provide a full array of telecommunications and advanced data services;

The market may already have been excessively diluted so that few carriers (other than Telstra) can achieve efficiencies of supply in most market segments. Telstra will face massive competition in the more advanced technology markets and will therefore require cross-subsidisation to be able to deliver even basic services, let alone newer/faster services, in areas deemed non-productive to other carriers. In short there may be too many carriers in existence for a country of this size and the plethora of low volume users. A higher-level USO, such as SETEL's national bandwidth plan, is designed to stimulate demand for faster services and to create growth in the market, thus raising the lower usage benchmark and bringing more of the competitors within the reach of a large market segment.

Normal commercial market operations in the telecommunications sector will not deliver a full suite of services on a ubiquitous basis throughout Australia. Supply, under these circumstances, to non-profitable areas will not be provided unless subsidies are offered. Normal commercial pressures (such as the need to constrain costs and to maintain shareholder returns) can restrict Telstra's decisions to invest or maintain ageing services in non-viable areas.

- Ongoing investment in new network infrastructure;

Investment by those carriers (other than Telstra) willing/seeking to supply the residential and small business markets has been diminishing in Australia.

There is plenty of evidence that new carriers will not invest in infrastructure where viable operations cannot be guaranteed. Even Government subsidy programs such as contested local call zones have not been successful. One carrier recently threatened to withdraw from the local call market if it did not get equitable access to certain products in the Pay-TV market. If the high-speed market is in significant oversupply mode and promised advances in mobile technology (3G) are slow to deliver market gains, there is little incentive to continue to invest. Many users are not becoming customers of services using newer technologies because of cost and lack of suitable applications.

The exception is remediation of the copper network, with infrastructure investment taking place at exchange level, but the problems of access to the end user still apply. Potential customers, responding to marketplace advertisements, are still being disappointed by the inability of service providers to connect the required service in a large number of areas. Some of these areas have been serviced by 'standby technologies' (such as RIM/Pair Gain) that restrict the supply of faster speed internet services. Alternative technologies often are not affordable or unsuitable in terms of flexibility of use.

The uncertainty surrounding the telecommunications market, in relation to the Government's proposals for future action on the ownership of Telstra, is not conducive to fostering investment decisions. An understanding of the regulatory mechanisms applicable to a fully privatised Telstra would be necessary before investment in infrastructure was contemplated. A structurally separated Telstra may offer opportunities for different forms of investment.

Even Telstra seems to have applied a discretionary element towards investment in Australia, preferring to expend large sums on overseas ventures. The present telecommunications environment, in which revenue growth is difficult, encourages telcos to concentrate on managing (reduce) costs and maintain market share, particularly with the most productive customer bases. Assets such as customer bases can be readily acquired from the regular supply of failing junior telcos.

- The wider telecommunications industry;

Global experience reveals ongoing contraction as the excesses of the dot-com bubble are worked out. Convergent technologies such, as broadcasting and datacasting, need to be factored into the telecommunications debate. An additional problem arises with the relatively unfettered and uncontrolled growth of internet-based services that are not subject to the controls imposed on the telecommunications industry. A key factor is the difference in the pricing regimes adopted by the two 'industries' – one based on volume of data and the other based on a complex mix of access charges, time-based charges and usage charges. Yet there are expectations of seamless transmission of services so that users can continue to benefit from end-to-end services regardless of the technologies used.

The telecommunications industry is dynamic and can offer substantial benefits to users of internet services through new products, faster service speeds and high levels of reliability, similar to that available with the standard telephone service. Users have the same expectations of data based services as they do with basic voice services although the former are supplied on a 'best endeavours' basis. The rate of introduction of new services and products is far slower than the promises made by the industry mainly because demand expectations are not met, as a consequence of restrictions on supply. These restrictions are often caused by lack of access by suppliers to network services or excessive prices paid for licences.

- The telecommunications regulatory regime;

Significant consumer safeguards must be maintained. Adequate supply of improved voice and data services will not be provided throughout the country without Government intervention. Internet services currently do not have to meet the same stringent criteria applicable to telecommunications services.

There is merit in maintaining a public basic telecommunications service carrier that acts in the public interest. In fact Australia's geography virtually makes this a necessity.

- Telstra's shareholder value and its shareholders;

Shareholder value has been discounted considerably since the floats of the first two tranches of Telstra shares. T1 shares are currently at a discount of approximately 22% and the T2 discount is approximately 39%. It is unlikely that the share price of Telstra will reach the level of the T2 issue price thus leading to substantial long-term consumer/shareholder dissatisfaction. Reasonable dividend yields will not balance the significant capital losses incurred by most investors.

Telstra is rapidly being accepted as a 'utility' rather than a telecommunications carrier. This means little revenue growth but a steady and good dividend stream.

The Government can 'dictate' the level of its own dividend whereas ordinary shareholders are required to accept the dividend rate set by the Board.

The concept of shareholder value with a telecommunications carrier embodies a strong element of risk, particularly when that company seeks to operate outside the borders of its own country. Globally the communications industry is not showing signs of recovery from the dot-com crash. In Australia, Telstra has a short-term advantage in its domination of the fixed network, particularly in relation to basic telecommunications services. However the copper network is reputedly becoming outmoded as higher speed cable and wireless networks offer the potential to draw significant revenue from increased use of non-voice services.

Since full competition was introduced into the telecommunications market the majority of new entrants have sought market share in the mobile telephony and data segments. These new entrants have primarily avoided providing infrastructure on a widespread basis, tending to concentrate their services on the larger corporate and government markets. Thus small business and residential users tend to miss out.

A corporate entity faces pressure to consider the needs of investors and shareholders and this is further reflected through stockmarket pressure to continue to perform, maintain share price levels and return a viable dividend stream. Concern about public issues too often is relegated to corporate image advertising considerations. Expenditure in this area diminishes in lean times and is not generally undertaken by utilities.

Structural separation may improve shareholder value (for future shareholders) as the entity remaining in private hands would cover all retail operations in the customer access network plus some wholesale supply components. If Telstra's arguments about the access deficit are accurate this new entity would not be burdened with a loss making facility nor would it continue to bear the burden of a USO.

- The Commonwealth Budget.

A cancellation of the proposal to sell the remainder of the Commonwealth's stake in Telstra will reduce the opportunities for the Government to retire national debt and to finance regional projects/infrastructure, in the short term. However the benefits are likely to include the lesser focus on inefficient short-term application of Government funding, the possible maintenance of an ongoing revenue stream from network operations and the opportunity to focus on longer-term projects that would deliver accountable returns to a larger proportion of the Australian public.

SETEL Comments on Structural Separation

Many questions need to be answered. What is involved in this process? Does it involve selling off all Telstra's non-core infrastructure, including Mobile telephony? Will components of the Fixed Network be retained? Will the new Telstra retain control or responsibility for the exchanges?

How to get there? 49.9% is already sold. Will a buy-back be necessary?

Can you keep shareholders happy? This may involve a corporate restructure – an issue further down the track and not a subject for this inquiry.

If a government-owned basic infrastructure monopoly is created (again), will it be subject to controls such as those exercised by the ACCC? Will the Government 'compete against itself' to provide access to competitors?

Labour seems to want to sell-off Telstra's non-core assets in order to buy back the 49.9% in private hands. Is this the 'cleanest' way of accomplishing structural separation? Who gains? Will existing smaller private shareholders suffer big losses?

Will this mean that every Telstra fixed line customer will have to seek a new supplier? What might happen to bundling of services from different markets?

SETEL believes that the Customer Access Network should be maintained in public ownership and operated with a pricing structure sufficient to sustain ongoing maintenance, essential upgrading and short-term expansion commensurate with customer requirements for a higher-level basic service. Additional injections of

Government funding may be necessary to achieve major technical improvements and to keep pace with technological developments. The voice market should be covered by this public asset plus sufficient infrastructure capacity to enable affordable supply of data services up to 64K bps throughout the country. The competitive environment would then operate to supply value added and faster speed services to users.

It may be appropriate for this entity to be operated under licence by Telstra. This would minimise transfer costs to a new entity.

It is important that the concept of an Access Deficit disappears as a 'burden' borne by Commonwealth and be subsumed into a concept of maintaining a basic access infrastructure. This fosters the 'value add' concept in modern communications supply.

SETEL believes in the need for the establishment of a Customer Access Network Board to administer developments to ensure that end users are able to benefit from new technologies and services offered by competitors.

SETEL General Comments

SETEL contends that the majority of government policies affecting consumers of telecommunications services relate to outmoded forms of communications – the standard telephone service. A voice-grade service rated at 2400 bps and now a higher-level data service (through the Internet Access Program) of 19,200 bps is unlikely to cause any joy to non-metropolitan users of data services, particularly time-poor SMEs. These slow services are not compatible with the next generation of applications that will encourage SMEs to utilise electronic communications more effectively and efficiently in their businesses.

In SETEL's submission to the Telecommunications Service Inquiry last year we advocated social policy funding of a national higher bandwidth service obligation in the belief that provision of ubiquitous services at a speed of at least 64 Kbps would meet most of the needs of the majority of residential and small business users. We believe that reliance on normal commercial practices will not result in the provision of the desired levels of bandwidth or choice of services in the majority of non-metropolitan services. There is a need to stimulate demand and to broaden the number of viable applications available to both business and residential users in all areas so that economies of scale can be reached in the supply of higher speed 'basic' services. This in turn should contribute to greater elective demand for even higher speed/premium services.

SETEL believes that government leadership is integral to the provision of higher bandwidth services throughout the nation. Governments at all three levels are seeking to implement programs utilising higher speed communications services but there appears to be little co-ordination of their respective efforts so that critical efficiencies are lost. We believe that similar lack of co-ordination is detrimentally affecting the implementation of important Government and industry IT initiatives.

There is a vital need for high level Government support and leadership for programs to foster faster take-up of digital data services. It is notable that Broadband rollout,

and eventual take-up, in the UK did not gain significant momentum until key support was provided by the Minister for Small Business - in the belief that the economy as a whole could benefit. SETEL wants to see real support being provided to the small business sector in relation to access to suitable high bandwidth communications services. At present they lack the skills and knowledge to assimilate such services into their business operations. However we believe that all Australians can be better served if these higher bandwidth communications services are made available to all users thus creating both opportunities and economies in the delivery of a far wider range of services.

SETEL has regularly commented on the impact of continued Government 'ownership' of Telstra in so far as it seems to impede proper application of economic policy in the telecommunications industry. The 'false state of play' restricts introduction and rollout of new technologies and enables the dominant incumbent carrier to take advantage of the current 'light touch' regulatory regime in telecommunications. We believe this 'ownership' factor needs to be addressed before we can see major progress in gaining more competition and thus more choice. In recent times the combination of 'light touch' regulation and the perceived need to attain a satisfactory 'strike price' for future sale(s) of the Government stake in Telstra has resulted in the dominant carrier being able to increase prices of services to consumers with what appears to be a high degree of impunity. There is a limit to how much pricing increase consumers can bear before seeing some gains, either in terms of lower usage charges or the introduction of efficient new technologies. Public belief in a strong national carrier is no longer sufficient.

We recognise that competition in a range of telecommunications markets appears to exist in many areas within Australia but we are still concerned that this does not translate into real choice for most residential and small business users. The elements of complexity of services and bundling of services come into play. For most SMEs it is simply too much trouble to try to gain an understanding of the complex array of services on offer, the real relevance to their businesses and the extent to which one or more of those services can contribute to their business. Generally it is easier to take a bundled package and few competitors of Telstra seem to be able to provide the full range or flexibility of such packages of products and services.

Of greater relevance is the need for the technology to deliver services that can be used for a range of applications. A good example is the so-called suitability of a satellite connection for a mobile service. Its utility is restricted once a single user operates it in a mobile mode, thus denying access to others who may have other uses such as internet connection. Digital fixed-line services generally allow for multiple simultaneous uses. Cost is an important element in these circumstances. Even the current mobile satellite service subsidy (up to a maximum of \$1,000) results in a service far more expensive than that available to mobile users in the range of the wireless networks.

In essence there are far too few applications available for the majority of users to satisfy the value proposition in relation to the acquisition and use of these newer high cost services. They may be 'readily' available but are generally not affordable.

SETEL is attracted to the concept of structural separation as a solution to the future role of Telstra but fears that the cost and time delay factors (particularly gaining political acceptance) would rapidly dissipate any benefits. The major beneficiaries would be the financiers, with the costs being eventually being borne by consumers.

If the sale of the remainder of Telstra is inevitable then a far wider range of consumer safeguards must be put in place. And these safeguards must no longer be essentially restricted to the Standard Telephone Service. In this country we have a self-regulatory regime that appears to have worked well to facilitate industry co-operation in relation to network and inter-carrier operations but there are serious concerns that reliance on self-regulatory measures has served consumers in a satisfactory manner.

A return to a true national Government vision for communications, such as a modern version of the original USO concept, is needed to serve the real interests of consumers, particularly those in non-metropolitan areas. Current programs provide a patchwork approach to the communications problems (not even needs) of users in non-metropolitan areas. More co-ordination, vision and resolve is required if the digital chasm is to be filled in and users in regional and rural areas given access, at affordable rates, to services generically available in metropolitan areas. There is little chance that new infrastructure providers will be willing or able to deliver affordable national access to the majority of small business and residential users in Australia.

SETEL's vision, if a future sale of Telstra is to proceed, is for the establishment of a social telecommunications fund to provide suitable levels of communications access at affordable rates to all Australians regardless of where they reside or carry on a business. A benchmark data speed of 64Kbps is the starting point as we envisage market forces being largely responsible for stimulating the development of new services and applications thus further stimulating demand thus leading to requirements for even faster service and more applications.

Assessments of broadband capacity in Australia reveal an oversupply but that supply is prevented by 'last mile' and '2nd last mile' (barriers to service providers) bottlenecks from being utilised to provide the 'wished for' levels of service to consumers. A visionary approach to access is essential. The current regulatory regime and activities by relevant regulators do not seem to be delivering the required solutions and certainly not at a rate sufficient to enable competitors to be able to achieve adequate market share (and the profitability necessary to stimulate further investment). SETEL does not want to see an inefficient duplication of full infrastructure but the stimulation of investment in services that can access a (publicly owned) national medium-band (64Kbps) capacity network.

Differences in technology should largely be transparent to most users – they will be more concerned with the uses and applications to which those technologies can be put, their costs of access and the benefits that can be measured, easily.

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Appendix 'A'

Extracts from SETEL Submission to Telecommunications Service Inquiry

This extract relating to e-commerce services and USO funding remains relevant.

Element concerned with Telecommunications Needs of all Australians

- 4. In assessing the adequacy or otherwise of telecommunications services, the inquiry shall consider the extent to which Telstra and other carriers and service providers are addressing both the basic and advanced telecommunications needs of all Australians, regardless of where they live.**

As noted above, SETEL is of the view that this Term of Reference may need to be broadened to encompass, or be interpreted as encompassing, the extent to which Telstra and other carriers and service providers are addressing advanced telecommunications needs of all Australians, regardless of where they carry on business.

World Class Infrastructure for the Information Economy

In its report on *A Strategic Framework for the Information Economy*ⁱ to the Australian people, the Federal Government explained the context requiring the building a world-class infrastructure for the information economy in the following terms:

To be competitive in the global information economy, and to ensure the creative contribution of all Australians, Australia must develop its world class telecommunications infrastructure so that it is highly competitive, characterised by high bandwidth at low cost, and readily available virtually anywhere in the country.

An effective infrastructure strategy must be based on the right mix of market freedoms, an appropriate regulatory environment, and targeted government assistance. It must be technology-neutral, that is, it must not discriminate between different forms of technology used in infrastructure and service provision.

In this context the Government explained its objectives in January 1999:ⁱⁱ

The objectives are to promote:

- High communications bandwidth, widely available in a cost effective way, and able to support advanced applications for the information economy.
- Access by all Australians to this capability wherever they live or carry on business.
- The availability of a wide range of services and applications which meet the needs of the general public, the business community and groups with special needs such as the education sector, the cultural community and people with disabilities.

These objectives are to be highly commended, but the specified timeframes and benchmarks appear to be set at too high a level so as to be able to measure or judge their success. SETEL notes that the Government's *Second Progress Report: Strategic Framework for the Information Economy Action Plans*, May 2000ⁱⁱⁱ notes that a priority area for action is the Government's response to the *National Bandwidth Inquiry Report*. In this *Second Progress Report* the Government has added the priority area of the regional information economy.

Whilst these other objectives are admirable, they are unlikely in themselves to lead to the establishment of a world-class telecommunications infrastructure of a kind that will enable all Australian small businesses, particularly those in rural and regional areas to gain benefits from this infrastructure.

SETEL believes there are a number of considerations and specific proposals that need to be addressed, amongst others, if the object of a *world class telecommunications infrastructure that is highly competitive, characterised by high bandwidth at low cost, and readily available virtually anywhere in the country* is to be achieved within a reasonable period of time.

USO Funding

SETEL believes that cognisance needs to be taken of the extensive involvement in, and potential contributions to, the USO by Commonwealth, State and local governments, in particular in relation to the benefits to regional development programs and delivery mechanisms for government services to the public (including business). This will enable alternative approaches to the funding of the USO and DDSO (rather than directly by carriers and carriage service providers) to be considered.

Increasingly State and local governments are seeking to deliver community services (and require access to their own services) electronically, to maximise dissemination and to gain from cost efficiencies. These services can play a major role in invigorating regional communities, enabling them to gain access to a wide range of information and services previously restricted mainly to metropolitan residents.

SETEL believes that principal responsibility for 'funding' the USO should not necessarily rest with participants in the telecommunications industry as many others (State and local government bodies included) have a vested interest in seeking to remove the "old economy" tag, now burdening Australia in the global marketplace, by enabling increased participation in the nations' commerce by residential and small business consumers in non-metropolitan areas.

In SETEL's view Budget funding for the USO is considered superior to other options as it:

- is likely to promote a more competitive and efficient industry, more responsive to the needs of Australian telecommunications users, notably small business people;
- provides measures of transparency, accountability and equity, absent under current funding arrangements;

- ensures competitive neutrality between USO providers;
- provides scope for the management and targeting of the USO subsidy to those who meet "eligibility" criteria;
- should lead to an increase in Budget revenues;
- ensures that USO subsidies (one form of welfare and assistance funding) are subject to annual review, and competitive Budget processes against other programs thus leading to a more equitable distribution of such funding in general and USO funding in particular; and
- minimises regulatory intervention, market distortions and regulatory costs.

Inhibitors to Electronic Commerce

The Treasury's Economic Roundup Summer 2000 reported on *Drivers and inhibitors to consumer uptake of electronic commerce*,^{iv} making the following comment about the Internet, electronic commerce and telecommunications:

A barrier to the uptake of electronic commerce may be the cost of access to the Internet, which requires outlays on access devices and telecommunications services. Currently, the only common access device is a personal computer. With current prices of between \$1,500-\$2,500, this remains a relatively expensive purchase for many people. Other less expensive access devices may emerge which would improve cost of access and ease of use. Nevertheless, Internet access in Australia is continuing to increase ...

Deregulation of the telecommunications market and increased competition among providers will be an important factor in reducing the cost of Internet access for both consumers and businesses.^v Rapid introduction of new technologies that will increase the availability of high bandwidth Internet connections will also be important to many digitised products (such as video).

SETEL's views are in general accord with the Treasury's assessment stated above.

Appendix 'B'

Broadband – related Issues (part of SETEL Submission to BAG Inquiry)

The recent report compiled by SETEL on the barriers to uptake of e-commerce by SMEs emphasised the need to concentrate on 'skilling-up' SMEs in most, if not all, aspects of e-commerce. Focus was placed on the key elements of Simplification, Demystification, Promotion and Leadership. There has been, and continues to be, an industry attitude that it is the technology that is important for users and potential users of higher speed communications. The SME E-commerce Report reinforces the fact that it is the benefits or outcomes from utilising that technology that is important.

An issue not thoroughly explored during the SME E-commerce Forum process was the current lack of applications applicable to SMEs. In many respects it was considered too early to address this perceived problem as emphasis needed to be placed on more basic elements such as awareness (Tier 1) and Leadership & Promotion/Education & Training (Tier2).

A recent series of seminars conducted in Australia by Marconi UK, drawing on experiences of the UK Government's Broadband Stakeholder Group, revealed that adoption of broadband in the UK was via the narrowband journey and that early broadband pricing policies had the effect of significantly restricting demand. Faster uptake was only achieved after regulatory intervention to 'force' the major carrier to decrease wholesale access rates and to reduce prices in the marketplace.

In Australia the economic approach is to consider whether there has been any market failure before regulatory intervention occurs. SETEL contends that the market has not developed sufficiently in broadband for any consideration of possible failure. Regulatory activity ostensibly has fostered the roll out of broadband to the extent that we probably have a surplus of broadband infrastructure available to very few potential and actual users. The "last mile" and "second-last mile" problems, as well as conservative pricing policies, have hindered significant uptake of broadband services by users other than major corporates and those businesses having a specific need for the data speeds the technology can deliver.

SETEL contends that the slow rate of uptake of broadband is primarily due to Policy failure. That is the failure of the Commonwealth Government to promote the importance of broadband services and their usage to the community in general and to ensure that all users have access to ubiquitous, affordable broadband services. Too much emphasis is placed on 'normal marketplace' mechanisms to foster infrastructure rollout. We may have adequate, if not superfluous, broadband infrastructure but we do not have adequate broadband connectivity.

With a substantial number of licensed carriers offering broadband services there are still few who offer connectivity, at affordable rates, to the vast majority of consumers. SETEL has proposed a National Bandwidth Plan to provide ubiquitous access to bandwidth of at least 64 kbps. In the short-term that lower speed limit should be sufficient to provide users with a vastly improved range of services, generate significant economies for the delivery of government services (at all levels) and stimulate demand both in terms of usage and the provision of new applications.

The availability of new applications is crucial to the SME decision to make greater use of higher speed communications services as the resultant "savings" are seen to contribute to the very important value proposition.

SETEL considers that a new Government policy is necessary to stimulate the availability of suitable bandwidth, at affordable rates, throughout the nation. An appropriate vehicle for delivery of such a policy would be to adopt the SETEL proposal for funding a national Universal Bandwidth Obligation through social policy means with contributions from all tiers of government. Commonwealth, State and local Governments can accrue benefits from more effective delivery, and utilisation, of their services to the public in general and specifically to businesses. G2B and G2C services are likely to be the 'killer applications' of higher bandwidth in the short to medium term until a wider range of applications becomes available to further stimulate demand. For business, games and video-on-demand are unlikely to be key attractors. In a residential environment, coupled with improved information and entertainment services, they can generate a need for faster access speeds.

Combined services will achieve economies of scale at a faster rate. At present there is too much 'cherry picking' in market segments and suppliers rarely achieve a critical mass for the effective delivery of service. Care needs to be taken to ensure that too many service providers do not spread or share the nascent market before economies of scale can be reached. At present there appears to be an oversupply of broadband infrastructure and services but a significant undersupply of destinations or end users. Application of regulatory policy is steadily addressing this issue but not at a rate so as to provide a satisfactory number of competitors.

Acceptance of broadband services will only reach reasonable levels if adequate choice is offered to end-users. This is certainly not the case at present.

SETEL contends that substantial effort needs to be put into education and training programs for SMEs before most can even consider themselves to be in a position to exercise choice. These training and education programs are precursors to SMEs seeking access to resources such as NOIE guides and Broadband xChange information.

E-commerce Uptake by SMEs

SETEL, with support from small business, Telstra and Pacific Access established an SME E-commerce Roundtable/Forum process to make recommendations in relation to accelerating the uptake of e-commerce by SMEs. SETEL chaired a Task Force to progress the outcomes from the Forum and the recommendations have just been published.

In response to the Telecommunications Service Inquiry Report SETEL advocated the need for a new consumer service to raise awareness and understanding of telecommunications products and services.

A key challenge will be to derive increased focus on the telecommunications service situations facing small businesses in non-metropolitan areas to determine whether there are serious inequities in terms of service delivery.

Appendix 'C' Extracts SME E-commerce Taskforce Report Executive Summary

Both the SME E-Commerce Thinktank and Forum processes recognised the dynamism of commercial activities in all industry sectors seeking to service the SME market in relation to its e-commerce needs. Despite these activities and Government statements about the importance of SMEs to the economy (and the further benefits flowing from increased participation by SMEs in e-commerce), SETEL formed the view in 2000 that the rate of uptake of e-commerce by SMEs was not commensurate with expectations. A lack of co-ordination of relevant information was deemed to be contributing to low levels of awareness and adoption of e-commerce, related services and programs by SMEs.

SETEL advanced a number (32) of hypotheses as potential inhibitors to the up-take of e-commerce by SMEs. A series of Issues and Background papers assisted in the consideration of these issues by the Thinktank participants.

Following presentations from a range of perspectives the Thinktank participants selected the top ten issues for further consideration at the Forum involving a wider representation from organisations and people interested in e-commerce and the SME sector. Those issues identified for the Thinktank, but not selected for consideration at the Forum, remain relevant and point to potential impediments to the up-take of e-commerce by SMEs. They also need to be addressed.

A substantial body of knowledge was created and made available to all Thinktank and Forum participants and invitees and is now publicly accessible on the SETEL website.

<http://www.setel.com.au/smeforum2002>

The Forum program involved panel presentations from a range of interested parties to stimulate debate and foster the development of recommendations to address the issues selected by the Thinktank group. A Taskforce was formed to progress and develop the outcomes from the Forum and to formulate recommendations. These form the focus of this report.

HIERARCHY OF NEEDS – E-COMMERCE ENABLEMENT OF SMEs

TIER 4 Mastery, Expansion & Innovation	Higher level Government Programs
TIER 3 Implementation & Progression	Resource Material, Access & Affordability Applications – Value Proposition Broadband facilities & services
TIER 2 Leadership & Promotion Education & Training	Main focus of recommendations

TIER 1 Awareness	Largely accomplished. Simplification & Demystification still required.
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A tiered approach to addressing issues was considered to be most appropriate. A number of current government programs seem to be concentrating on the preparation of resource material yet the Taskforce believes that the focus needs to be lower down the hierarchy. This means some work at Tier 1 on awareness is needed, the bulk of the immediate efforts should be directed at Tier 2 and significant preparatory work done in relation to Tier 3.

The Taskforce's recommendations place significant emphasis on a need for extensive co-ordination of activities in the context of a greater need for awareness by industry, the education sector and Government to meet the specific needs of the SME sector. Adoption of e-commerce by most SMEs involves significant distraction from core activities, and in some circumstances may involve not insignificant costs and risks. The need to establish a solid business or value proposition – involving a balance of benefits, costs and risk – was also highlighted. Participants in both processes noted the considerable commercial activity in the IT marketplace but formed the opinion that much of it was “missing the mark” with SMEs.

One solution is to “skill up” SME proprietors, managers and employees so that each will be better able to make an informed choice about progressing through the various levels of e-enablement. It was recognised that SMEs had vastly differing requirements in relation to e-commerce and that there was a significant need to initially migrate a large number from fax-based communications to other electronic methods that do not involve error-inducing re-keying processes. Hence there is heavy emphasis in the recommendations on education and training – in both technology and business practices.

It was also recognised that Government intervention, at all levels, could play a major role in accelerating the up-take of e-commerce by SMEs. A major component was seen to be strong leadership, with Government incentives being applied to encourage greater leadership and promotional efforts by associations. A key message is that SMEs need to be lead into the faster adoption of electronic technologies for business activities. They need support, assistance and, above all, leadership with peer group influence playing a major role.

The technology associated with e-commerce was seen to be too complex for many SMEs hence the need for simplification and demystification. Issues such as security, electronic identifiers, authentication, digital signatures and passwords were considered to be outside the domain of most SMEs. However, at the stage of integrating e-commerce in to their businesses, SME people need to have confidence in higher-level processes (not within the business domain) being adopted to look after their interests and those of their customers. The majority of SMEs cannot afford the time and money required to become ‘overnight experts’ in the technology associated with electronic commerce. But training programs can address any deficiencies over time, given the right incentives for SMEs to become involved.

It was recognised that a wide range of valuable and relevant training programs and support resources already exist, but that marketing and promotion activities were not necessarily achieving the desired result – certainly not the challenge accepted by the Forum – to have the majority of SMEs e-enabled within three to four years.

The Taskforce recommendations in this report seek greater co-ordination of training and education activities, greater co-ordination of government initiatives in IT areas and more focussed provision of information in an effort to reach more SMEs, more effectively.

The Taskforce recommendations are framed and directed to Governments, the education sector, and industry and business associations. All sectors have a role to play in seeking to expand SME participation in e-commerce activities, thus contributing to the sophistication of individual businesses, national productivity, economic growth and welfare.

In the early stages the delivery of government services to both the residential and business communities may in fact be the 'killer application'. As SMEs become more aware of the benefits of doing more of their business transactions electronically, the rate of uptake will increase and will foster the development of additional applications that will contribute to the 'value proposition'. These recommendations form the basis of activities that can provide the necessary catalyst for this process.

On behalf of the Taskforce I commend these recommendations to governments, the education sector, industry and business associations in the expectation that the needs and interests of the SME sector in relation to e-commerce will be addressed as a matter of increasing importance.

This report concludes a substantial undertaking to assess the 'current state of play' in relation to the up-take of e-commerce in the SME sector, to identify the impediments, to identify any gaps and to formulate solutions (by way of recommendations) to the key issues. A significant amount of voluntary input was involved in this process with contributions coming from a wide variety of sources. The combined processes enabled all parties having a common interest in SME involvement in e-commerce to assemble and discuss ideas and to grasp the opportunity to suggest measures to achieve an improvement in the rate of uptake of e-commerce by SMEs. I trust that all participants have benefited from the activity and that their collective efforts and recommendations will be recognised as a valuable contribution to the increased efficiency and profitability of a vital section of the Australian economy.

The extensive participation in this process by such a diversity of interested parties ensured that the outcomes reflected an accurate perception of the issues affecting SMEs in relation to e-commerce.

Without the support of Telstra and Pacific Access, the key goals of assembling such a valuable body of knowledge and the engagement of a large number of stakeholders would not have been achieved. The pace of development of e-commerce activities in the SME sector will continue, and now may be accelerated, with this report acting as the prime catalyst.

I would encourage the formation of a review process, commencing within twelve months from the date of this report, to assess the degree to which these recommendations have been adopted or implemented and to seek to measure the impact on the rate of uptake of e-commerce by SMEs.

Ewan Brown (SME E-commerce Forum Taskforce Co-chair.)

THE SME E-COMMERCE FORUM TASKFORCE RECOMMENDS:

- 1. The establishment of a representative Task Force to oversight an e-commerce implementation agenda, facilitated by the National Office for the Information Economy (NOIE), featuring a multi-tiered program for encouraging the faster uptake of e-commerce by SMEs using industry associations, service clubs and “demand-side” channels to market:**

the establishment of national e-commerce awards;

the establishment of an e-commerce logo to identify products and services that meet global e-commerce specifications;

the facilitation and promotion of greater standardisation of software and hardware requirements for SME e-commerce.

the facilitation and promotion of practical interoperability as an essential part of total supply chain management; and

a charter to complete its task by 30 June 2004.

- 2. The Federal Government to undertake an education campaign to increase awareness of e-commerce education, training and advisory programs available to SMEs and to facilitate distribution of relevant training resource material. Information compiled by the SME E-Commerce Thinktank should be incorporated into range of SME Information Seminars.**

There needs to be greater use of existing ‘case study’ information, such as those produced by NOIE, by industry, trade, commerce and professional associations in communicating the benefits of e-commerce to their own members.

There needs to be greater use made of associations to communicate messages on the benefits, costs and risks of e-commerce. One example is for accountants to advise SME clients.

There is a need to define e-commerce from a SME perspective – including what it means for different sectors. (Pacific Access to share with Task Force & Forum members results of efforts to define e-commerce – this has been incorporated into the e-commerce survey questionnaire that Pacific Access currently has in the field.)

Pacific Access to make the findings (including the findings on the Return on Investment and payback periods for e-commerce investment) available from the Yellow Pages Business Index report for SME awareness raising purposes.

- 3. The Federal Industry Department’s Office of Small Business, in partnership with NOIE, to develop a program to adapt and/or enhance existing e-commerce training and education packages targeted at industry and small business advisors. This is a pre-requisite to the introduction of a program targeted at SMEs with the aim of seeking to achieve greater efficiencies. The intention is to educate training managers and those in leadership roles first about e-commerce.**
- 4. The Office of Small Business, in partnership with NOIE, to fund development of an “on-line template” training and/or education program or package, complete with Australian National Training Authority (ANTA) accreditation**

and training guidelines, that identifies key stages in the implementation of e-commerce by SMEs, and that can be adopted and/or adapted by individual associations, and a diversity of public institutions and private training providers.

This recommendation is directed to three audiences:

Governments for the development of a standard e-commerce training and/or education template.

Industry and business advisors dealing with SMEs on a day-to-day basis, who require an upgrade of their skills to enable e-commerce in SME businesses. This is a KEY issue for the accounting profession, which is a primary provider of business advice to SMEs and is well placed to provide business guidance and advice on e-commerce).

SME proprietors and managers seeking a broader understanding of e-commerce, what it means and how it can benefit them both personally and their businesses.

This training program should:

(a) cover:

What exactly is e-commerce?

What are the benefits to my business and me – and how do I evaluate them?

How can I use it more effectively in my business?

How can I remain current with the advent/introduction of new technology (i.e. a specific and ongoing strategy)?

How much will it cost me?

Who can I go to when I need further assistance?

(This program may also cover the soft infrastructure issues – security, legal, authentication, digital signatures, privacy, trust, etc. – keeping in mind that one size does not fit all!)

(b) place more focus on industry (sector specific) knowledge within technology training programs.

(c) collate existing training available before embarking on developing new training to avoid duplication.

5. Develop a program to encourage SMEs to undertake more planning and analysis of the impact of electronic technologies on their businesses, resulting in a higher proportion of them focusing on e-commerce opportunities.

Use lessons and/or case studies from e-commerce practitioners and success stories.

Use graphical mapping of business processes to aid in a greater understanding of the business case.

6. Establishment of a joint Federal Government - Industry program to prepare and disseminate information to SMEs on how to effectively engage in on-line trading and payment activities. (This program to run in conjunction with

appropriate training and education programs for SMEs in relation to both the business and technology aspects of e-commerce.)

Ongoing monitoring of NOIE projects to define the mechanics of interoperability and to identify the most common (to SMEs) elements of the supply chain.

Ongoing monitoring of the work of the Internet engineering taskforce on standards for e-commerce.

Development of a template for SMEs identifying resource materials and sources of advice in relation to the components of on-line trading for both the B2B and B2C aspects of e-commerce.

- 7. Utilise the Small Business Enterprise Culture Program (SBEC program) to raise awareness and understanding of e-commerce amongst business mentors and within business training programs.**
- 8. Integrate technology subjects into the education process from early stages (need to train/develop teachers first in all education sectors) to benefit all types and sizes of business. Technology units should be included in relevant Tertiary education and TAFE courses to improve understanding and thus increase uptake of e-commerce.**
- 9. Greater integration of Federal, State, Territory and Local Government (eg Western Sydney IT cluster) information initiatives is essential to promote e-commerce across government, industry, SME industry sectors and regions.**

There is scope for existing initiatives to be better coordinated. They are all competing in the same market and trying to gain an advantage. Collaborative efforts will reduce costs and make SMEs more competitive internationally, even if domestic competitors do not gain a significant shift in market share.

Document and co-ordinate all Federal and State government current initiatives to determine the best and most efficient channel for funds.

Collate empirical research to determine efficiency gains, cost savings and business benefits of broadband adoption.

Promote benefits to business to create a demand-pull effect.

- 10. The development and marketing of a national catalogue/directory of software solution providers relevant to the SME sector.**

Software Engineering Australia and CPA Australia are currently engaged (separately) in this task.

- 11. Establish a program or series of programs (including the SPAN Broadband Xchange project) to encourage associations to communicate this information to SMEs to assist the understanding and take up of broadband and e-commerce by SMEs.**
- 12. Develop tools and guidelines to enable appropriate comparisons of e-commerce technology and applications by SMEs.**

- 13. Promote use of the Internet Assistance Program to demystify issues surrounding hardware, software, access and speed of the Internet for SMEs.**
- 14. Identify an appropriate authority to develop and implement a communications strategy to raise the awareness of SMEs to the benefits, costs and risks of digital certificates for a diversity of services.**
- 15. Develop a common standard for PINs/passwords for banks to give SME merchants more confidence. NOIE has a role in this.**
- 16. Promote a culture of security awareness among SMEs to:**

ensure that they are aware of any threats; and

to provide mechanisms to enable them to develop levels of security commensurate with their needs, with particular reference to the "Trusting the Internet" publication.

Repeated expression of security concerns relating to the Internet e-commerce has led (and will continue to lead) to the current level of paranoia unique to Australia that is inhibiting e-commerce adoption rates. New technologies create new risks – but they also resolve old ones. SMEs therefore need to focus on incremental risk. Potential e-commerce participants should not abandon the benefits for fear of the cost and risks. Businesses need to take a businesslike approach to e-commerce by assessing and weighing the benefits, cost and risks before acting, and then taking reasonable steps for security protection.

- 17. Implement a campaign to encourage associations to develop processes, guidelines and training for SMEs, to adapt the National Privacy Principles for use by their SME members to allay customers' concerns about privacy and to assist them in adopting business best practice in this regard.**

Leverage off progress achieved by the Australian Retailers Association in providing a privacy pack, comprising practical examples of how to maximise business outcomes while minimising exposure.

Australian Business Limited's Privacy Toolkit CD ROM, with input from the business operator, can be used to generate internal policies to address the privacy concerns of customers.

- 18. Establish easily accessible information programs through the ATO, to address the needs of SMEs for up-to-date tax rulings, and clear and simple guidelines about the tax implications for SMEs engaging in e-commerce.**

Include information on:

Sales tax differences, which can cause confusion in international transactions.

Tax treatment of expenditure on websites needs to be clearly expressed to assist in understanding by SMEs.

electronic recordkeeping and management to ensure compliance obligations are met under taxation laws when SMEs engage in e-commerce as a supplier and buyer.

- 19. As part of the business analysis process it is important that further research be undertaken on understanding how, or even whether, SMEs incorporate key financial calculations into their investment decision-making processes (i.e. ROI, NPV, Payback periods, etc.) and whether this has implications for e-commerce adoption by SMEs.**

This may involve introducing SMEs to entirely new concepts – generally ones in which they will see no obvious benefit. However, these concepts are common to larger businesses seeking to engage SMEs in their e-commerce supply chains.

- 20. Provision for expanded and ongoing support for specific SME research programs in the e-commerce and IT arena, in particular projects those funded through the Information Technology On-Line (ITOL) program.**
- 21. Establish an ongoing process of ensuring that successful initiatives emanating from these programs are then commercialised within the wider business community.**
- 22. Establish a process to ensure that information and knowledge gained through these projects is shared widely to provide the greatest return on public expenditure, not isolated to one-off projects.**
- 23. Establish a new national benchmark for consumer right to access to High Speed Internet anywhere in Australia.**
- 24. State and Local Governments associated with each State's Capital City to subsidise broadband rollout and encourage industry competition.**

Establish a program with the Brisbane City Council to create a "testing ground" for how broadband could be rolled-out throughout cities and regional communities in Australia.
- 25. SETEL, with support from other sources, to develop a series of templates for promotion and distribution to SMEs seeking to raise levels of awareness and understanding of the product and service components of higher bandwidth and broadband access in support of e-commerce.**
- 26. Establish a program to promote Government (covers all tiers of government) demand aggregation and infrastructure development initiatives in regional and rural areas and to encourage greater participation by industry and regional action groups in support of e-commerce.**
- 27. Establish a program to encourage large industry associations to aggregate product and service demand of members to increase purchasing power and market attractiveness in support of e-commerce.**
- 28. In terms of more effectively incorporating issues of e-commerce into SME business analysis and planning, there is an important role that the major accounting bodies can play (CPAs, ICAA, NIA, NTAA) in helping**

accountants to assist their clients by providing direction and relevant information to the SME community about e-commerce.

29. Policy objectives for specific industry sectors or business types should be delivered through direct assistance.

30. Industry associations, and programs such as the SPAN Broadband Xchange, seeking to inform SMEs on Broadband issues, should be provided with resourcing and assistance for awareness raising activities in the SME sector.

Appendix 'D'. Covering letter to SME E-commerce Forum Taskforce Report

The above report includes a number of recommendations addressing the perceived barriers to up-take of e-commerce by SMEs. The need for an SME e-commerce forum was based on the perception that a significant number of SMEs, & the majority of micro businesses, were "failing" to adopt e-commerce.

The SME E-commerce Forum project involved an initial Roundtable followed by a broader forum in which the priority issues identified by the Roundtable were explored in detail. A Taskforce then devised recommendations and action steps to counter the perceived impediments to faster uptake of e-commerce by SMEs in Australia.

The forum recognised the existence of a dynamic IT industry. But did not consider the IT industry to be sufficiently co-ordinated in relation to addressing the needs of SMEs in e-commerce. A similar lack of co-ordination was noted in relation to many government initiatives.

The forum identified four key elements in seeking to determine what was necessary to achieve faster uptake of e-commerce by SMEs. These were De-mystification, Simplification, Leadership and Promotion.

Key findings in the report were:

- E-commerce for most SMEs should be an extension of their existing business methods (not a replacement).
- The SME sector needs substantial encouragement to become productively involved in e-commerce at all but the basic levels, such as e-mail.
- Efforts to adopt e-commerce should not erode the core business activities of an SME.
- Associations can play a role in facilitating the uptake of e-commerce by SMEs via education and training and peer influence.
- Suppliers must contribute to the simplification of products and services offered to SMEs.
- Governments & industry have a role in de-mystifying e-commerce for SMEs.
- SMEs need to accept more responsibility for the adoption of e-commerce within their businesses if they want individually tailored solutions.
- Training (in both technology & management) is the most significant component of this element.

Outcomes from the taskforce report:

- Significant emphasis was placed on education and training – in both technology & business practices – for SMEs.

- Focus on a self-help scenario recognizing the preference for SMEs to do it their own way (and in their own time!).
- Focus on skilling-up SMEs with a balance between seeking SMEs to be highly proficient and relying totally on 'shrink-wrapped' or 'plug & play' solutions.
- Emphasis was placed (heavily) on the concept of a "value proposition". Commonly referred to as the "what's in it for me?" Syndrome.
- SMEs need leadership & assistance.
- There is significant value to be gained from far greater co-ordination of government initiatives and reporting of those initiatives so that more can benefit from the outcomes.
- Similarly significant value can be gained from co-ordination (and reporting) of industry initiatives.
- "encouragement" of industry associations to play a greater role was important in the light of the successes of association involvement in Y2K and GST introduction programs.

Specific SME needs noted in the report were:

- Not to be distracted from core business activities – (there is a greater likelihood of faster e-commerce uptake in a successful business mode).
- Scaled-down 'big-business' solutions generally do not work – they do not translate into projected savings and economies, as elements such as scale, capital outlay and unit cost are vastly different.
- The value proposition must appeal to SMEs as well as big partners in supply chain – the benefits must be realizable by both partners.
- A preference to "do it their way" (to the extent possible). A typical SME response is that any change must be specific to their business - which is unlike all others!
- As SMEs can't be 'herded', but can be lead, peer influence is a very important factor.
- SMEs will participate in training and education - when the timing and venue of programs is suitable.
- SMEs will respond to incentives relating to e-commerce particularly if trusted advisers so counsel.
- SMEs are not averse to new technologies and procedures provided they can see the benefit (and such benefits need not always be financial).

Results from the Yellow Pages 2002 E-business Report indicate improvement in statistics concerning all stages of e-commerce uptake by SMEs. We can see high levels of computer ownership and usage of e-mail, a reasonable level of internet connection – mainly dial-up - and about one third of SMEs have websites. Broadband access does not equate with the ‘value proposition’ concept for most SMEs.

- Procurement – substantial rise, but still only 41%
- Payments – up substantially, but still only 40%
- Selling – good increase, but low at 29% (may not apply to many smaller businesses)
- Receipt of payments – good increase, but low at 26%

Conclusions

Further acceleration of e-commerce uptake by SMEs is desirable. Particular emphasis needs to be placed on training & knowledge – including the need for skilled staff – by SMEs. However much more work needs to be done if SMEs are to be encouraged to embrace e-commerce in a more substantial way and thus realize their stated potential in contributing to the economy on a greater scale.

The recommendations contained in the SME taskforce report (to accelerate uptake of e-commerce by SMEs) need to be heeded by all parties if future survey results are to show a major rate of improvement in the uptake of e-commerce by these businesses.

I therefore request that you assist in “creating a choir of voices” in seeking to persuade all interested parties including Governments, industry and associations to implement the recommendations embodied in this report.

Ewan Brown (Executive Director – SETEL)

- i Commonwealth of Australia, *A Strategic Framework for the Information Economy – Identifying Priorities for Action*, January 1999, Department of Communications, Technology and the Arts, http://www.noie.gov.au/projects/information_economy/strategic_framework/dec98_strategic.htm (Accessed 3 June 2000)
- ii Ibid
- iii Commonwealth of Australia, *Second Progress Report: Strategic Framework for the Information Economy Action Plans*, May 2000, http://www.noie.gov.au/projects/information_economy/strategic_framework/April2000_update.htm (Accessed 3 June 2000)
- iv Department of the Treasury, *Drivers and Inhibitors to Consumer Uptake of Electronic Commerce*, http://www.treasury.gov.au/publications/EconomicPublications/EconomicRoundUp/2000_Summer/round4.asp (Accessed 3 June 2000)
- v OECD, *The OECD Observer*, No.208, October/November 1997, p.