

South Australia Digital disruption Digital opportunities

A co-production between Deloitte and the
Office of the Chief Information Officer





SHORT-TERM

BIG BANG

TWO-THIRDS OF SOUTH AUSTRALIA'S
ECONOMY FACES A 'BIG BANG' SCENARIO

WORLD

WORLD

2/3

SHORT FUSE
BIG BANG

LONG FUSE
BIG BANG

SHORT FUSE
SMALL BANG

LONG FUSE
SMALL BANG

SOUTH AUSTRALIAN ECONOMY

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Two-thirds of SA businesses face major digital disruption

Digital disruption is about a fast transformation of our existing way of life due to the advancement of digital technologies. It is a threat to old ways of doing things but an opportunity for innovation; a better way of doing all things, including to work, play, shop, and entertain.

It is important to understand digital disruption is a neutral term and does not spell doom and gloom for existing businesses. Understanding and awareness can help businesses fend off disruptions or indeed take advantage themselves. As with any kind of change, it brings opportunities as well as challenges.

Deloitte predicts that two-thirds of South Australian businesses will face a significant change to their business operations as a direct result of digital disruption over the next five years. Furthermore for almost a third of all businesses in the state, these effects will be felt within the next three years; a sobering thought.

As there is a growing industry and government interest in digital advancement, the Office of the Chief Information Officer and Deloitte has taken this opportunity to combine their data and analytical capabilities to co-produce this document; providing analysis and insights beneficial to all South Australians, including citizens, businesses, industry associations and all levels of government.

This document explains digital disruption and how it manifests itself in a South Australian context, making suggestions on how organisations may respond and harness the opportunities it presents.

This document outlines the current South Australian digital economy from a lens of digital readiness, disruption and opportunities. It provides useful recommendations to small and medium businesses in order to deal with and take advantage of the digital disruption, and get ahead of the curve by harnessing new digital innovation.

This document starts by mapping the eighteen ANZSIC (Australian and New Zealand Standard Industry Classification) industries¹, to demonstrate how quickly each industry may be impacted and the resulting size of that potential impact. The analogy used to demonstrate this is the length of the fuse (for the time) and the size of the bang (for the amount of residual disruption).

Businesses can ascertain from this map how much they will be individually impacted, and how and when it is appropriate to respond. We also demonstrate the opportunities this presents to organised and progressive businesses. We demonstrate that small and medium enterprises (SMEs) with high digital engagement have better growth prospects and a larger customer base.

The analysis in this report illustrates a strong correlation between how well a business manages its digital channel and the economic outcomes it can expect. For instance, there is a revenue-per-employee differential of \$100,000 between the least and the most sophisticated users of the digital channel.

Apart from what businesses can do to respond, industry groups can also play a part, through understanding disruption in their industries, and the development of an industry response. We also comment on how governments at all levels can drive policy change to support and accelerate the economic growth enabled by digital advancement.

If South Australia can harness digital disruption as a state, it will be able to reap significant economic benefits for all. However everyone needs to play their part. Government needs to develop a response, and drive policy to support business and industry groups to understand their position on the disruption map. Industry forums and groups need to understand how they can support their members; and each and every business needs to understand how to harness disruption for themselves.

This will require government, industry groups and organisations to embrace and usher in change. To adopt new ways of working, new business models, and open up new markets. If this is done, the economic impacts will be substantial.

1. Reference: Ref -1292.0 – Australian and New Zealand Standard Industrial Classification (ANZSIC), www.abs.gov.au/AUSSTATS/abs@.nsf/66f306f503e529a5ca25697e0017661f/6741FC1736A81AEFCA25697E0018FB59?opendocument.

Part I

Introduction

The key questions for South Australia's business leaders are: How is digital disruption affecting their organisation? And how well are they responding to minimise the threats and maximise the opportunities presented by this change?

In 2012, Deloitte Access Economics issued a paper titled *Digital Disruption 'Short fuse – big bang'*. The premise of this research was that all industries would at some time face digital disruption. Digital disruption refers to technological changes that affect the way we do business, the way we think, and the way we interact locally as well as globally. Businesses and individuals that respond positively to digital disruption are likely to benefit, while others are left in their wake. Digital disruption is best assessed by identifying the time needed to respond, and the size of the potential impact. To illustrate, time is considered as the length of the 'fuse', while the potential impact is the 'bang'. Taking an industry view, two thirds of the South Australian economy sits in the big bang quadrants. Almost fifty percent of these face imminent and substantial impact as they sit in the 'short fuse, big bang' quadrant.

Also, In 2013, Deloitte released the *Connected Small and Medium Businesses* report. Small and Medium Enterprises (SMEs) characterise the South Australian business landscape well, making this research particularly relevant to South Australia. This research showed that there is a strong correlation between how well SMEs manage their digital channel and the strength of their economic outlook. For instance, median revenue per employee for small businesses with **very low** digital engagement was \$87,500 while those with a **high** level of digital engagement generated \$187,500.²

Considering this, Deloitte and the Office of the Chief Information Officer believe that if South Australian businesses can successfully navigate digital disruption, and exploit the digital channel more effectively, there is an opportunity to have a meaningful impact on the South Australian economy. As a result, Deloitte and the Office of the Chief Information Officer have partnered to create this document, *Digital Opportunities*, to inform SA Government agencies, industry bodies and South Australian businesses of both the threats and opportunities of digital disruption. We stress the importance of each organisation looking at the issues raised in its own context, before developing specific, pragmatic and proportionate responses.

Additionally, embracing digital disruption opens up unprecedented possibilities. These innovations are changing markets, influencing economies and reinventing relationships between organisations, suppliers and customers. They are changing society. Whether you're delivering goods or services online, recruiting new talent via LinkedIn, developing a mobile app, or overhauling your records retention department, you're already experiencing the upside of digital disruption.

2. Source: Deloitte Access Economics – Connected Small Businesses Report pg 4.

In some ways, today's innovations – broadband, smartphones, the cloud, crowdsourcing, the ability to analyse complex data sets, social media and other tools – make it possible to 'digitise' business processes. These are just extensions of the computing and online advances of the past few decades. It is a mistake to see the digital revolution as a function of technology, rather than one of business evolution. Even as extensions of existing technologies, these innovations are powerful, pervasive and have multiple indirect impacts. Digital opportunities open doors previously blocked by barriers to entry and inflexible business category boundaries, allowing a new generation of entrepreneurs and innovators to compete flexibly and inexpensively. Incumbent market leaders will face substantial pressures to reduce cost and increase service potential to maintain market position.

We refer to changes, both positive and negative, as 'digital disruption' – a neutral term. For some, digital disruption will be explosive and immediate – a force that rocks the foundations of their business. For the less vulnerable, the changes will be slower and more subtle. Disruption will show itself as changes in the operating environment, in new competition, or as changing expectations of their existing customer base.

Jack Welch, former CEO of GE, once quoted "If the rate of change on the outside exceeds the rate of change on the inside, the end is near..." Digital disruption has sped up the outside world beyond recognition, and businesses and governments the world over are struggling to keep up, or worse, are simply not aware of the pace of the outside world.

Disruption will show itself as changes in the operating environment, in new competition, or as changing expectations of their existing customer base

Part II

2.1 Digital disruption Short fuse – big bang?

South Australia's business and government leaders can see the new wave of digital disruption heading its way. But it is already here, transforming the way businesses and agencies operate and how they engage with their customers.

In this paper, we have taken a South Australian centric view of our industry mix, the economy, and the way we are being disrupted by digital innovation and what the future holds.

Benefitting from digital disruption depends on the ability to successfully navigate change in the years to come, and how a business can realise its potential across a spectrum of opportunities by building on the way it uses digital technologies and organises business processes.

At a national level, sectors such as finance, retail, media, and information and communications technology face a short fuse, big bang disruption; while miners and manufacturers have longer fuses and face less disruption to their business.

When viewed through the South Australian lens and considering the importance of each sector at an economic level, one starts to see what digital disruption means to the state. South Australia can then position itself to take advantage of, or defend against those changes that are happening.

Taking a local view of digital disruption

There is no debate that innovative digital disruption – including advances in computing, networks, devices, cloud computing and data analytics – are a profound force in our economy.

The digital economy isn't just about speeding up communication across borders or changing the skills workers need; it's about changing the very nature of consumption, competition and how markets work.

More profoundly, digital disruption is driving a significant shift in the balance of power between organisations and individuals. The explosion in connectivity and the availability of information is putting today's consumers, employees, citizens, patients and other individuals squarely in the driver's seat.

Australians are amongst the highest users of smartphone technology in the world. This adoption is driving user expectation about how we consume services and communicate in personal and business settings. This needs to be recognised and addressed by businesses to be competitive.

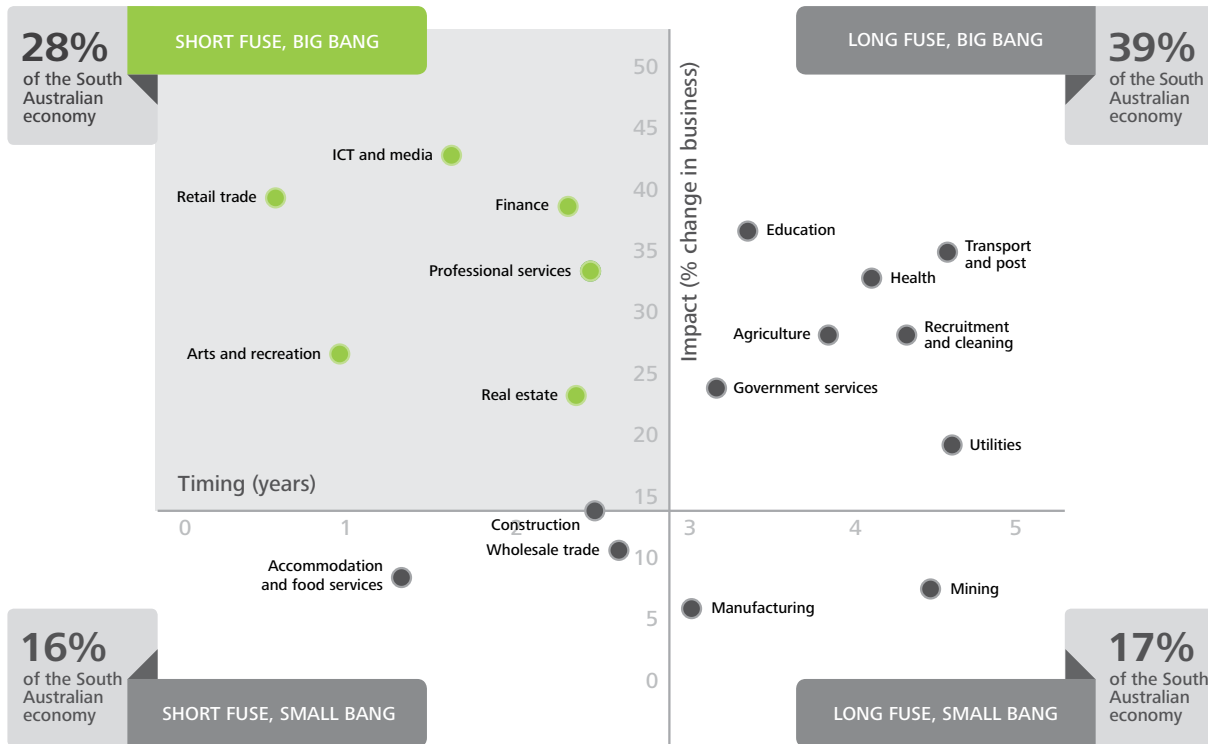
Geographic isolation demands that Australians use technology intelligently to minimise the impact or disadvantage of distance to get the most out of people and our unique assets like resources, farmland and tourism. South Australia must do the same.

By harnessing the power of breakthrough technology – including broadband, mobile and e-commerce systems – it is possible to buy and sell in new ways, increase automation, and gather and analyse unprecedented amounts of data.

But digital disruption isn't just about the latest Internet service or mobile device. It also describes a business's core modus operandi. In this new world, the shopfront can be efficiently and effectively projected to a global audience through displaying pictures of merchandise on flexible websites that are coupled with freight logistics and payment systems familiar to customers, making it easier to find new routes to market.

The digital channel is disrupting existing supply chains where links in the chain not adding value face probable extinction. South Australian businesses can take advantage of this to use digital disruption to access new markets and supply products and services with greater efficiency and profitability.

South Australian disruption map



Deloitte's Digital Disruption Map

In our Digital Disruption Map we look across eighteen industries and compare their vulnerability to disruption from two perspectives: the size of the impact and the imminence of change. The resulting map illustrates the extent to which digital disruption will affect specific industries, plus the timing of that disruption.

To assess the degree of digital disruption for each industry, we considered factors including:

- The physical delivery of products and services
- The propensity of customers to use digital channels
- The importance of broadband and computing infrastructure in business operations
- How mobile a business's customers and workforce are, and their average age
- The significance of social media and innovations like cloud computing
- How digital innovation might be inhibited by government regulations or other factors.

This provides a ranking of how different industries will be more or less affected, and whether sooner or later. Businesses that stand to experience significant digital disruption within the next three years are said to be on a 'short fuse'. Those that can expect major change in four to ten years are on a 'long fuse'.

The size of the impact, or 'bang', is described as the expected percentage change across a range of key business metrics. Businesses that can expect to see a fifteen to fifty per cent change in their revenue and expense metrics will experience a 'big bang'. Below fifteen per cent, businesses will feel a smaller 'bang'.

The following section serves to demonstrate the relevance of digital engagement and how the level of an organisation's digital sophistication has a direct correlation to its revenue, growth and ability to insulate itself from future disruption.

2.2 The small business report

Digital Engagement; what does it mean and why should you care?

Digital engagement is described by a range of activities and behaviours that define an organisation's level of digital sophistication. The low end of the spectrum is characterised by the use of email as a communication tool and at the other end the use of social media and search engine marketing to drive customers to both their online and offline channels.

Historically, businesses have viewed the Internet as a peripheral channel – a concept that is out-dated. If an organisation that is deemed to be facing a 'big bang' chooses to do nothing, then they are likely to be at the mercy of new technologies, increased competition, changing markets, and consumer expectations, which all serve to erode profitability, and reduce the likelihood of success.

In 2013 Google commissioned Deloitte to explore the relationship between digital engagement and outcomes for SMEs. The *Connected Small and Medium Businesses* report identified the importance of digital engagement as a driver of better outcomes for small business. These benefits include increased levels of revenue, growth and propensity to employ.

This is particularly important to South Australia with 52,000 registered businesses that are characterised as employing between 1–199 people. As a result, there is a significant opportunity to make a positive impact on the state's economy by moving small business along the continuum of digital engagement.

In order for a business to take the next step toward high digital engagement, it must understand where it is currently positioned. The following table outlines the key criteria used within the *Connected Small and Medium Businesses* report to categorise each level.

The following key findings from the *Connected Small and Medium Businesses* report should make taking action a compulsion rather than a consideration. Of the businesses surveyed in the report, about a third were profiled as having a very low level of digital engagement, typically only using email – essentially not using the Internet at all. Many small businesses are using the Internet to support business functions such as to communicate internally and to market or advertise. Only sixteen percent of small businesses have a high level of digital engagement, typically using the Internet for search engine optimisation and search engine marketing.

The levels of digital engagement

		Very low	Low	Medium	High
Digital presence	A business email address	● ● ● ●	● ● ● ●	● ● ● ●	● ● ● ●
	A website		● ● ● ●	● ● ● ●	● ● ● ●
	A presence on social networks		●	● ●	● ● ● ●
Use of the internet	To communicate internally	●	● ●	● ●	● ● ● ●
	To market or advertise the business		●	● ● ● ●	● ● ● ●
	To reach new customers in existing markets			● ● ● ●	● ● ● ●
	To reach new customers in local market			● ● ● ●	● ● ● ●
Use of digital marketing	Search engine marketing (paid search ads)				● ● ● ●
	Search engine optimisation				● ● ● ●
	Display advertising online			●	● ● ● ●

Few small businesses ● Some small businesses ● ● Most small businesses ● ● ●

The above table illustrates the typical business profile used to describe each level of digital engagement. The number of dots reflects volume of businesses displaying that characteristic within each level.

Source: Deloitte Access Economics – Connected Small Businesses Report pg 12

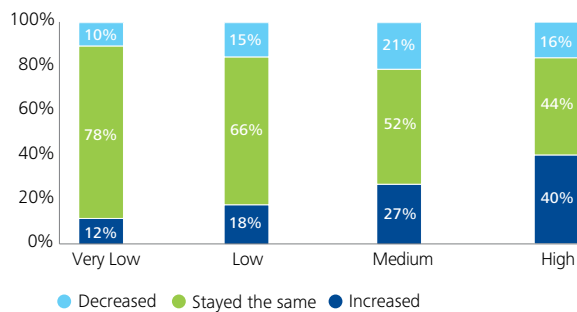
Revenue is often less stable for small businesses. This makes revenue diversification especially important for small business (Connolly, Norman & West, 2012). Small businesses with high digital engagement have better growth prospects, more diversified sources of revenue and a bigger customer base.

The report also concluded that small businesses must consider online strategies if they are to navigate the current and future effects of digital disruption. The cost to small business tends to be an inhibitor especially when implementing digital strategies. However, once implemented, it is shown that the biggest long-term impacts are on diversification and revenue growth.

Finally, from an employment perspective, small business in South Australia plays an important role, accounting for close to 150,000 jobs across the state. Hence any change across the small business sector will make a significant impact. Small businesses with a high level of digital engagement were almost four times more likely to have increased their staff numbers than small businesses with very low digital engagement.

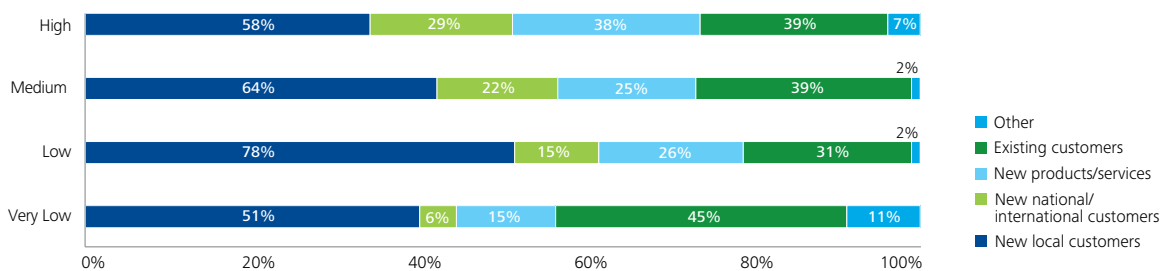
In order for a business to take the next step toward high digital engagement, it must understand where it is currently positioned

Growth in employment over the last few years – by digital engagement level



Source: Deloitte Access Economics – Connected Small Businesses Report page 7

Sources of revenue – by digital engagement level



Source: Deloitte Access Economics – Connected Small Businesses Report page 10

MEDIAN REVENUE PER
EMPLOYEE FOR A SMALL
BUSINESS WITH VERY LOW
DIGITAL ENGAGEMENT WAS
\$87,500. A HIGH LEVEL
OF DIGITAL ENGAGEMENT
GENERATED \$187,500

Source: Deloitte Access Economics – Connected Small Businesses
Report pg 4

HIGH
\$187,500
Level of digital engagement



VERY LOW
\$87,500
Level of digital engagement

Part III

A South Australian perspective

Almost two-thirds of South Australia's gross state product, employment and small to medium enterprises are based in industries most impacted by digital disruption

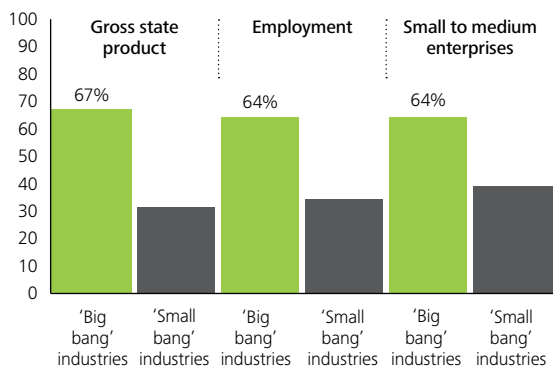
The 2013 *Economic Statement* released by the state government identified that "Technological progress and industry innovation leads to sustained economic growth and productivity."³

The *Digital Disruption: Short fuse, big bang?* report highlighted that sixty-five per cent of the Australian economy was based in industries expected to be facing a 'big bang' scenario over the next five years. For South Australia, this figure increases to sixty-seven per cent.

Digital disruption will not only affect the bottom-line of South Australia's economy, but will impact on the growth of jobs and the viability of small to medium sized enterprises:

- 430,000 South Australians, or sixty-four per cent, are employed in a 'big bang' industry
- 31,000 small to medium enterprises (SMEs) in South Australia, or sixty-four per cent, operate in a 'big bang' industry.

Digital disruption of the South Australian economy



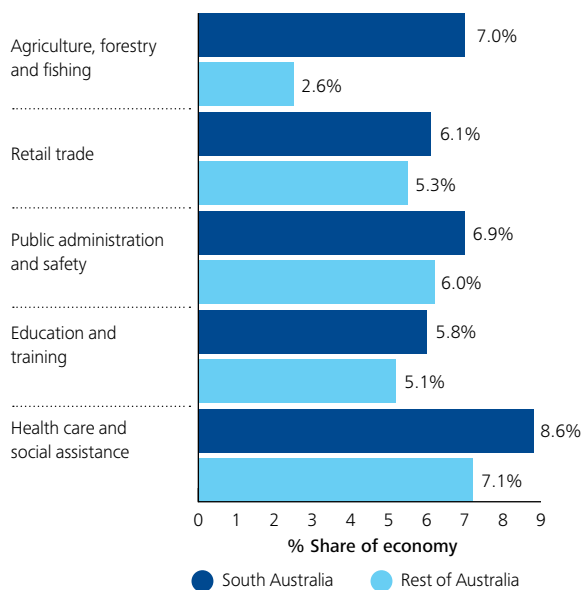
Source: ABS Cat No 522.0, Cat No 6291.0.55.001 & Cat No 8165.0

South Australian industries in focus

There are several 'big bang' industries that play a greater role in the state's economy than they do nationally – including agriculture, retail trade, education, public administration and health.

These five industries, are both vital to South Australia's economy and face imminent digital disruption, and so have been explored in more detail. Descriptions of South Australian business and institutions have been included to illustrate how industry is benefitting from digital innovation today.

Share of economy, selected industries



Source: ABS Cat No 5220.0 Australian National Accounts: State Accounts, 2012–13

3. Economic Statement by Government of South Australia, 2013. www.premier.sa.gov.au/ecostat/Economic_Statement_web.pdf.

Agriculture has historically been a driver for the South Australian economy. It accounts for 6.8 per cent of South Australia's GSP but represents just 2.5 per cent of GDP for the rest of Australia. Wheat is the state's largest export product, delivering \$1.3 billion in 2012.⁴ Despite outperforming the rest of the state's economy during the past decade in dollar terms, agriculture is one of only a few industries to experience a loss of jobs over the same period.

South Australian farmers are utilising technology to help overcome some of the everyday challenges involved in operating a farm. By using simple mobile phone technology to monitor water points and pumps, farmers are able to reduce equipment replacement costs and as an additional benefit, remove the need to physically check the equipment every day.

The **retail trade** sector, which is considered to have the shortest 'fuse' and biggest 'bang', employs more South Australians (14.6%) than any other industry and accounts for a large share of the state's SMEs (10.8%). Local retailers are now competing with interstate and overseas online retailers in a once geographically limited marketplace.

Public administration and safety relates to many of the activities performed by local, state and federal governments. The sector is responsible for the setting of public policy and delivery of essential services not provided by the private sector. The digital disruption here will be dissimilar to other sectors, but will be significant in delivering new ways to operate efficiently and improve services to citizens.

All levels of government are recognising the opportunities that digital presents. Strategies such as *SA Connected* and *Connect Adelaide* have articulated how government is harnessing new technologies to change the way they serve the community.

4. Ref: Recent Economic Indicators for South Australia produced by the Department of Foreign Affairs and Trade, www.dfat.gov.au/geo/fs/sa.pdf Based on DFAT STARS database and ABS catalogues 3101.0, 5220.0, 5368.0, 5368.0.55.003 and 6291.0.55.001.

5. Recent Economic Indicators for South Australia produced by the Department of Foreign Affairs and Trade, www.dfat.gov.au/geo/fs/sa.pdf.

6. Reference: 3101.0 – Australian Demographic Statistics by Australian Bureau of Statistics, Jun 2013.

The **education** sector employs 24,000 South Australians and contributes \$4.3 billion (5.8%) to the economy annually. Like the rest of the nation, South Australia's economy has benefited from increased levels of international students arriving to attend some of the world's best educational institutions.

In 2012 education exports were valued at \$852 million and while this is down on previous years, the industry is the state's fifth largest export.⁵

South Australian universities are taking full advantage of the latest digital technology to connect their classrooms to the world. Institutions are utilising broadband video capabilities to deliver content to students interstate and overseas – as well as having the brightest minds teach students locally.

The **health** industry has experienced significant growth in South Australia – it now accounts for (8.3%) of Gross State Product (GSP) and (10.8%) of employment. South Australia has the nation's second oldest population per capita⁶ with expenditure on health accounting for almost a third of the state government budget.

South Australian food retailers are using social media sites such as Facebook to raise brand awareness and connect with new customers. The ability to promote events spontaneously and at almost zero cost has resulted in real business growth

Part IV

Responding to digital disruption

This section contains the three primary responses South Australian business can implement to minimise threats posed by digital disruption and to maximise their organisation's digital potential.

1. **Developing a digital presence** – making sure that you exploit the economic benefits of effectively managing a digital channel and social media profile effectively
2. **Recalibrating cost structures** – making changes in terms of people, supply chain, and overheads to better control costs and compete with digitally sophisticated, low-cost competition
3. **Replenishing revenue streams** – building new sources of revenue across segments, geographies, and business models as legacy streams dry up in the wake of digital disruption.

Develop a digital presence

Having an appropriate and stable digital presence as a foundation for a business was until fairly recently considered competitive advantage; however the reality is that for businesses of all sizes, from the one-man-band up to large corporates, it is becoming increasingly difficult to remain competitive without one.

The web has become the ubiquitous access point of discovery for virtually all products and services. Even those businesses traditionally founded on relationships are seeing their customer base eroded by competitors whose products and services are readily discoverable on the Internet, and spread by word of mouth over social media. Traditional shops and malls are seeing a drop in foot fall traffic, and those impulse shopping buys are more commonly happening in the comfort of people's home on their computer, or more frequently on their mobile device.

Those businesses without a solid digital presence are rapidly running the risk of becoming less relevant in our always on, always connected world.

Getting on the web

Many micro, small and family businesses do not have a website – instead relying on more traditional forms of advertising such as newspaper ads, yellow pages, or word of mouth. However, as noted in Part 2.2, there is a significant correlation between digital engagement, and business prosperity for SMEs. At the two extremes, there is a difference of \$100,000 revenue per employee between businesses with low and high digital engagement.

Businesses which do not have an existing website should get online quickly. Companies like godaddy.com have pioneered low cost quick setup website and hosting deals, and there are a large number of extremely cost effective ways to get online.

To learn more about how to develop an online presence, the Australian Government has developed an informative and easy to follow website www.digitalbusiness.gov.au. It is intended for small business and community organisations, or individuals thinking about setting up a business or community organisation to maximise the benefits of the digital economy.

An important consideration is how to reach new customers using the web, as well as service customers in new geographies.

Search Engine Optimisation (SEO) is very important in order to be discovered. US based search targeted advertising and research company 'Chitika's recent research shows that less than 92% of 'googlers' will move to the second page of results. However, Google informs us that the average number of words in a search phrase is going up, so one needs to carefully consider the search terms targeted. It would be very difficult to get to a number one ranking in Google for the term 'painter & decorator', however by adding a location, such as 'Adelaide Hills' you become locally relevant.

The web has become the ubiquitous access point of discovery for virtually all products and services. Even those businesses traditionally founded on relationships are seeing their customer base eroded by competitors whose products and services are readily discoverable on the Internet, and spread by word of mouth over social media

The costs of Search Engine Marketing (SEM) has risen steadily over the past few years, and although this can still have a good return on investment, it's important to understand the way this works in detail to maximise one's investment.

Australia has the 5th largest penetration of smartphones in the world, at an incredible 74% of the population.⁷ Increasingly Australians are reaching for their smartphone to find the information sought after, so ensuring one's website is mobile ready is also important.

Social media presence

A social media presence is valuable. Although it has to date had varying success as a selling tool, social media is great for understanding customer's needs, and is the modern equivalent of 'word of mouth'.

Facebook and Twitter are the mainstays of social media, and due to the numbers of participants are good choices; however, it's also worth considering industry vertical offerings. For instance smooth.com is one of several choices for the wine industry.

The trick to social media is having an authentic voice. Pushing product, or just marketing, impacts followers resulting in a fairly quickly drop off, or disengagement.

7. Source: Nielsen. The Australian Online Consumer Landscape, March 2012, page 2.

Local leaders

Udder delights – Handorf, SA



The Adelaide Hills business Udder Delights was established in 1999 and focuses on the manufacturing of premium cheese for the local and national markets. This highly successful business has diversified to include a Cheese Cellar and provedore in the main street of Handorf as well as offering cheese making courses throughout the year.

Their success in part is tied to the strength of the Udder Delights brand and the dialogue they maintain with their customers. This dialogue is underpinned by the organisations use of social media, primarily via Facebook. In late 2010 Sheree and Saul Sullivan (owners) decided they would set up a Facebook page with a view to it helping market their products. After a tentative beginning they have seen exponential growth year on year with now close to 5000 Facebook fans who regularly interact with the brand.

A great example of the power of social media is evident in the success of the now famous cheese giveaways which started out as a posting on Facebook in a response to oversupply of early ripening cheese. These cheese giveaways have now turned into highly anticipated event on the local Foodie calendar and represent a significant boost to revenue through their provedore store whenever they are scheduled.

“The reason we chose to get on Facebook was to engage with customers and build a relationship with our Brand”

Business owner Sheree Sullivan

Recalibrate your cost structure

One of the most profound business challenges posed by digital disruption is that new digital attackers or digitally savvy competitors often have substantially lower cost structures than incumbents. A recent study of Australia's retail environment, for example, found that online prices were between 19 per cent and 64 per cent lower than those charged in stores.

In this environment, being a large scale operation can switch from being an advantage to a disadvantage. As new digital players are often well placed to offer superior levels of variety and convenience. To remain competitive, incumbents must recalibrate their cost structures by dramatically rethinking their approach to the three principal drivers of cost: the cost of goods sold through the supply chain; staff costs; and administrative overheads.

The greater the amount of digital disruption in a sector, the more extensive and immediate are the required changes. Fortunately, the problem can often become the solution given that digital innovations themselves present new ways to cut costs.

Enhance recruitment

The Internet has transformed recruitment in multiple ways. Online job search engines such as Seek and MyCareer have made it quicker and easier to post positions, and for candidates to search for roles.

More recently, the growth of social media networks such as Facebook, LinkedIn and Twitter has increased the ability of businesses to promote their employment propositions and find quality people.

Deloitte, for instance, uses these three networks extensively to tap the high-quality networks of its staff and alumni to find candidates. This has reduced the money spent on conventional recruitment techniques by 80 per cent between FY2008 and FY2012, and candidates sourced through this network-driven approach join more quickly, are more engaged and stay longer.

More broadly, digital HR has shifted the boundaries of the job market. Finding the right person for a job is now less limited by geography, culture or working hours. Smaller organisations are now also better equipped to compete for talent as the cost of promoting roles and reaching prospects falls. But there are risks that need to be managed. LinkedIn, for instance, provides recruiters and competitors with a powerful tool for searching through the talent within organisations.

Increase flexibility and worker mobility

Digital innovations offer opportunities to improve staff retention by providing more flexible working arrangements and allowing teams to use their own devices, such as smartphones, tablets and home computers. Businesses can in turn reduce office space and travel needs, tap into new models – such as using shared office facilities in locations where they have small teams – and explore ways to give staff more autonomy.

As of the 2006 census, only 6% of Australian workers reported teleworking arrangements with their employer

The Australian Government's objective is to double the number of teleworking arrangements to 12 per cent by 2020. Estimates from Deloitte Access Economics suggest that if 10 per cent of Australian employees were to telework half of the time, the total annual gains from teleworking would be in the order of \$1.4 billion to \$1.9 billion per year.⁸

The new mindset is that organisations need to provide core systems that can be accessed by staff, suppliers and others via a wide range of computing devices. While there are security and data cost challenges to navigate, this is often a win-win situation. The business is free to concentrate on providing systems, while staff can use their preferred devices. This approach can be taken a step further by the business itself moving core systems to the cloud, as discussed later in this report.

8. Source: Access Economics, Impacts of Teleworking under the NBN, July 2010, page iii.

Supply chain

Digital innovations make it possible to dramatically lower the total cost of delivering goods and services by reinventing supply chains. Indeed, the key source of advantage for many new entrants is their ability to cut costs and accelerate time to market, while increasing intelligence and transparency within their supply chains.

Improve quality and reliability

Businesses can use innovations such as real-time monitoring and data analytics to improve the reliability of supply chains, delivery performance and inventory management. A key benefit is that digital tools can be used to collect massive amounts of sensor, telemetry and web data to fuel predictive analytics, which heuristically find patterns behind stock shortages, geographic demand variances and maintenance needs, and help resolve other complex problems.

Here in Australia, the 1000 store retail chain Just Group has simplified and accelerated its stocktake process using a world-first, Bluetooth-enabled technology system. This enables it to complete its twice-yearly stocktake faster, reducing the time it needs to keep stores closed. Called RapidStocktake, the solution won Logistics & Materials Handling magazine's 2011 Information Management Award.

Offload costs to partners and customers

Digital innovations make it easier to offload – or at least share – costs with others in your supply chain. There are now many more ways to increase self service options for customers and to extend this concept to suppliers and other business partners.

On the customer side, business and government organisations are cutting costs and improving convenience through websites and mobile apps.

Innovative crowd source platforms such as lithium can have customers answering other customer service enquiries, reducing the cost to serve.

Many are also using social media channels such as Facebook and Twitter to enhance customer service.

At the business-to-business level, businesses are taking an 'outside-in' approach and opening up their technology systems and data to suppliers and other partners. While this isn't new, digital principles are allowing retailers to partner with financial services providers and logistics businesses to offer a seamless retail, payment and delivery experience. The result is much lower transaction costs.

Reconsider transport and facilities

New approaches to moving and storing goods have evolved with the digital economy, including advanced just-in-time inventory models. Products can be made when ordered, reducing warehouse costs. For example, Harvey Norman orders beds to be constructed after they are purchased.

Occupancy costs are also dramatically lower for 'e tailers' compared with traditional 'bricks and mortar' retailers.

While online-only businesses can have rental cost-to-sales ratios of less than 2%, traditional retailers can face ratios around 19%

These trends are leading businesses throughout the supply chain to reshape their logistics and facilities requirements.

Source globally

The sourcing of low-cost products from cheaper locations has been turbocharged by e-commerce. In one study, US-based businesses indicated they cut costs by 19% by sourcing products and materials from cheaper markets.

This process has been made far easier – and more transparent – in recent years with the emergence of online services such as Alibaba.com, which connects businesses and suppliers worldwide.

Leverage cloud computing

Cloud computing is joined at the hip to a digital business. As business functions are better defined, and aligned to processes and data rather than with enterprise systems, they can be enabled by a wider range of services which don't necessarily reside within the enterprise.

Digital services delivered through 'the cloud' usually start with niche functions, such as expense management, and quickly extend through HR, finance and marketing. They also allow organisations to change the way they work by offering greater flexibility and mobility to workers, making it easier for teams to access services and files through any Internet-connected device.

Cloud-based services make IT more flexible, allowing users to store information, software and shared resources in data centres that are accessible via the Internet.

Cloud services allow businesses to reduce the computing infrastructure they directly own and, in turn, the size of the teams required to manage it.

This approach also removes some of the biggest risks associated with businesses building their own IT systems: whether they will work, upfront costs, and obsolescence.

In effect, computing infrastructure is moving from being something that organisations own and manage to being an external utility. In the same way that one now uses taps connected to water networks instead of digging wells, cloud computing offers a step-change in how business technology is accessed. This means that only paying for the level for service required is likely to become a new *modus operandi*.

Use open source software

Businesses should explore whether they can reduce costs by using open source software solutions, especially where they are 'hosted' externally as a cloud-based service. An example is Drupal Gardens, which is a cost-effective, open source based website publishing system delivered online.

Open source software is typically less expensive because it is developed by communities instead of being 'owned' by a commercial entity, and some applications have become very robust and well supported in the market. However, most use it selectively as it can create additional management requirements for organisations.

Cut marketing costs

When it comes to marketing, digital technologies enable many ways for organisations to reduce marketing and advertising expenses and move towards more measurable marketing channels that can be scaled in line with campaigns and business imperatives.

Instead of large upfront investments in traditional advertising, organisations are launching a wide range of smaller and relatively low-cost digital campaigns through search engines, social media and other digital channels.

Aggregation and analysis of market and customer data is revolutionising the product development process, enabling goods and services to be tailored to the needs of individual consumers and organisations. Data analysis is now enabling granular market segmentation and precision targeting as never before; delivering on the long held promise of the 'market of one'.

With the Chief Marketing Officer in some categories spending more on technology than the Chief Information Officer, the centre of marketing gravity is shifting, and cost optimisation through technology and data literacy have now joined strategic thinking and creativity as prerequisites for marketing success.

In the following section, we examine the opportunities that the increasing trend of personalisation presents.

Local leaders

Bathe Wines – Adelaide, SA



Local leaders

Bathe Wines – Adelaide, SA

The Bathe Wines label is the brainchild of John Harvey, which saw its beginnings during the recent downturn in the fortunes of the wine industry. At its core, Bathe Wines is a disrupter of the traditional business model, bringing together winemakers and grape growers under a label that is distributed direct to consumers and hospitality establishments.

What underpins this business is a sense, equity which recognises where the value is created and contributors to the end product are subsequently recognised for their efforts. Since its inception, Bathe Wines has been a sophisticated user of digital technology. This includes an ecommerce driven website supported by Facebook and Twitter which amplify the marketing message and number of interactions a small business operator can have with its customers.

Bathe Wines has been designed to minimise overheads and the absence of a cellar door is prime example of this. Notwithstanding the set up costs involved, a cellar door would introduce ongoing fixed costs and due to the fixed location it would have limited reach. The alternative being the use of direct face to face marketing supported by use of the digital channel to continue the conversation and geographic reach the margins on offer are considerably healthier.

“New media and the increasing trend of consumers buying online has provided the opportunity to develop something distinct”

John Harvey – Bathe Wines

Replenish your revenue streams

The agility and cost advantage of digital competitors can threaten incumbents' traditional revenue streams.

However, digital innovations also open up opportunities to generate new sources of income. The key challenge is to replace the lost legacy revenue streams as they disappear, thus avoiding a performance gap.

The more exposed an organisation – the shorter its fuse and the bigger its bang on our Digital Disruption Map – the more quickly such gaps will open up and the more market pressure it will feel. By opening up new avenues for business improvement, digital innovations allow organisations to target new customer segments and product areas. Businesses can also reach new geographic markets interstate and overseas, and can even introduce radically different offerings under entirely new business models.

An important principle here is to allow customers and employees to take organisations to new and perhaps unexpected places. For example, with the arrival of services like Napster, consumers showed a desire to download music. While incumbents sought to stop this completely through litigation, Apple saw it as an area of unmet demand and developed legally acceptable products through its iPod and iTunes businesses.

This type of change should be expected in many sectors, including those that seem impervious. For instance, a seemingly innocuous innovation such as online services that make it easier for individuals to share cars – or travel together – may come to challenge the traditional place of the taxi and shuttle bus industry.

New segments

One of the great benefits of the Internet and other digital innovations is that they make it easier to move into adjacent product and customer segments. For many businesses, a particularly compelling opportunity is the ability to offer new products to current customers more readily.

The sale of niche products like obscure books and specialised music is a good example of this trend. Whereas traditional retailers might have been limited in their potential to reach customers, search engines and highly targeted, low-cost online advertising have made new segments accessible.

These tools will only become more powerful. As people become more comfortable with the use of the data, businesses will increasingly use data collected by functions such as map searches and email to deliver more relevant information and advertising to potential customers. Mobile phone network operators are also offering businesses more opportunities to capitalise on information about consumers' locations.

The following strategies can help businesses reach new customers and sell more products to existing ones.

Personalise product and service offerings

Digital connectivity has disrupted the way buying decisions are informed, when they are made, and how they are transacted. Global accessibility, peer-to-peer learning, self-education, and comparison shopping are all easily-available to consumers. A confronting trend for retailers is watching customers using their smartphones to search for competitive prices while standing inside their stores.

In response, leading organisations are allowing consumers to connect, design and configure products to their unique personal preferences. At face value, this can be intimidating and even frightening, leading to ever-multiplying product stock-keeping units, diseconomies of scale and supply-chain chaos.

On closer consideration, personalisation is in effect a more sophisticated employment of marketing's traditional 'Four Ps':

- The placement of products within the right physical and digital channels to best connect with consumers
- The presentation of products in a manner that highlights the attributes most relevant to a customer's needs
- The promotion of products at the right time and in a style of conversation that best appeals to a customer's emotions and desires
- The pricing of products according to their attributes and those of customers.

The application of advanced data analytics translates each customer interaction into a story of customer behaviour that can be used to hone product, sales, marketing and service strategies.

Leverage social media

Social media services are powerful tools for developing online communities that can help to reinforce and grow a business. The reach and power of brands is also amplified when customers use these networks to discuss products or share their buying and service experiences.

By its nature, the environment of social media is a difficult one in which to sell products too overtly, or even to deliver advertising in an effective way. However, it allows organisations to foster conversations between staff and customers, between customers themselves, and between both groups and prospects.

The art of using social media to grow revenue lies in fostering exchanges that directly support sales, or that deliver value back to customers in terms of information, service or the ability to shape future products and services. As the new 'word of mouth', the aim is to support and grow advocates.

Telstra, for instance, has capitalised on this by creating its CrowdSupport service. This is a subsection of its website where customers can post queries about the telecommunications company's products and services and have them answered by both Telstra staff and other customers

Messages and offers can also be targeted to particular demographics, or to specific Internet users based on their browsing habits. This allows for far more granular segmentation than marketers have traditionally enjoyed.

The challenge with social media is not whether businesses should seek to leverage it, but rather how to do so to the greatest effect. The 'ticket to play' is having in place the right listening mechanisms at an operational level to manage customer service issues, and brand reputation risk, and equally to recognise positive feedback for improved customer retention and revenue protection.

More advanced organisations are going one step further and undertaking rich social media analytics to lift these listening insights to a strategic level, informing new product design, product optimisation, channel optimisation and even identifying new and niche markets for incremental revenue growth.

New geographies

The reach of the Internet, and its ability to be used for targeting specific customers, make it a unique and powerful platform for advertising, selling and delivering goods and services well beyond traditional markets and geographies.

One of the key changes for many businesses today is that the notion that 'where' business is done is shifting. For retailers, it's shifting from the physical world of shops in specific locations to serving customers nationally and internationally using online channels.

Business leaders must also recognise that much of the growth in global markets for goods and services is shifting from the traditional Western economies led by Europe and North America to emerging markets. According to one leading forecaster, annual consumption in emerging markets – including Africa, Brazil, China, India and Indonesia – will rise from US\$12 trillion in 2010 to US\$30 trillion in 2025.⁹ Put another way, the number of people in the world with enough discretionary spending power to be regarded as 'consumers' will rise from 2.4 billion today to 4.2 billion. The vast majority of those new consumers will be in markets that are today regarded as 'developing'. Moreover, those future consumers are mainly young people who are growing up with digital technologies.

If South Australian businesses are to remain relevant and competitive in this changing global landscape, it will be critical to be competent in digital innovation and active in seeking new markets, both in terms of virtual network environments and physical geographies.

New business models

Digital offers the potential to create business models built around capabilities that may not have existed even a decade ago. Some of the digital innovations explored below are enabling entirely new business models and in turn opening up new revenue streams. Not surprisingly, many of these centre on the powerful combination of mobile devices and broadband data services.

Leverage mobile devices

Businesses can reach customers in new ways using applications that appear on their mobile devices, such as the apps offered by Coles and Woolworths to help grocery shoppers, or niche loyalty applications such as eCoffeeCard for capturing coffee purchases at cafes and storing them in a customer's mobile phone.

In addition, payment systems are migrating to mobile phones and other portable computing devices. 'Virtual wallets' that allow users to swipe their mobile phone to make a payment in a shop, or get on a bus, offer a high level of convenience for customers.

Whether businesses have an existing e-commerce platform or are starting from scratch, it is important to develop online assets that will work effectively across computer, tablet and smartphone platforms. Leaders should also step back and look at their business models; simply replicating an existing business on a mobile platform may mean missing larger opportunities to review the entire value chain and identify the real underlying capabilities of a business.

Exploit location awareness

Thanks to Global Positioning Systems and the way cellular networks function, smartphone users can now pinpoint their location.

So too can their carriers and, with the appropriate permissions, other businesses. This is opening up a subsection of its website where customers can post dramatic new business possibilities to drive revenue and launch new business ideas.

Location-based services (LBSs) use a set of computing capabilities to deliver content and functions that are relevant to the user's location. The most popular examples in use today are social media platforms such as Foursquare, and mapping functionalities that enable the user to find the nearest ATM or restaurant.

In context LBSs can be used to deliver functionality and content in a more relevant and useful format to consumers.

9. 25 Yuval Atsmon, Peter Child, Richard Dobbs, Laxman Narasimhan, 'Winning the \$30 trillion decathlon: Going for gold in emerging markets', Executive Summary, McKinsey & Company, 2012, p. 6.

Leaders should also step back and look at their business models; simply replicating an existing business on a mobile platform may mean missing larger opportunities to review the entire value chain and identify the real underlying capabilities of a business

Expand your capacity to innovate

Australia has historically been very good at certain aspects of innovation. However, we tend to do our best technological innovation from within organisations but fail to recognise its greater value or see it as irrelevant to the core business. Further, we often suffer a lack of scale to pursue conventional venture capital models.

While many Australian businesses define themselves as ‘fast followers’, our lack of rapid and scalable innovation makes it more challenging to keep up when external disruptive innovation reaches our shores. Digital offers a solution here by allowing individual pieces of value to be more easily spun out, and expanding innovation and funding options for organisations.

Online systems are enhancing organisations’ ability to accelerate innovation internally, and to gain input from external experts. For instance, firms are using wikis and other knowledge-sharing and collaboration tools to accelerate discussions and develop ideas.

Externally, organisations are seeking ideas and even funding from ‘the crowd’ – outside and typically unknown experts, including customers and partners – by asking questions in relatively public environments.

For example, pharmaceutical groups can post challenging questions on the InnoCentive online service. If a person provides a solution, the business rewards them with cash. Entrepreneurs are also increasingly able to post ideas for new business ventures online and receive funding from potentially large numbers of supporters and investors. In Australia, these include crowd-funding sites such as Possible, iPledg and Kickstarter, which are challenging traditional funding models and regulations.

Local leaders

Heat²O – Adelaide, SA



Jonathen is a licensed plumber who worked across the UK and Europe in the sustainable energy sector and hydronic heating. When he moved to Adelaide for personal family reasons he decided to offer his services in niche areas of hydronic heating. Heat²O is an excellent example of a business's ability to manage their digital presence, reduce costs and increase revenues.

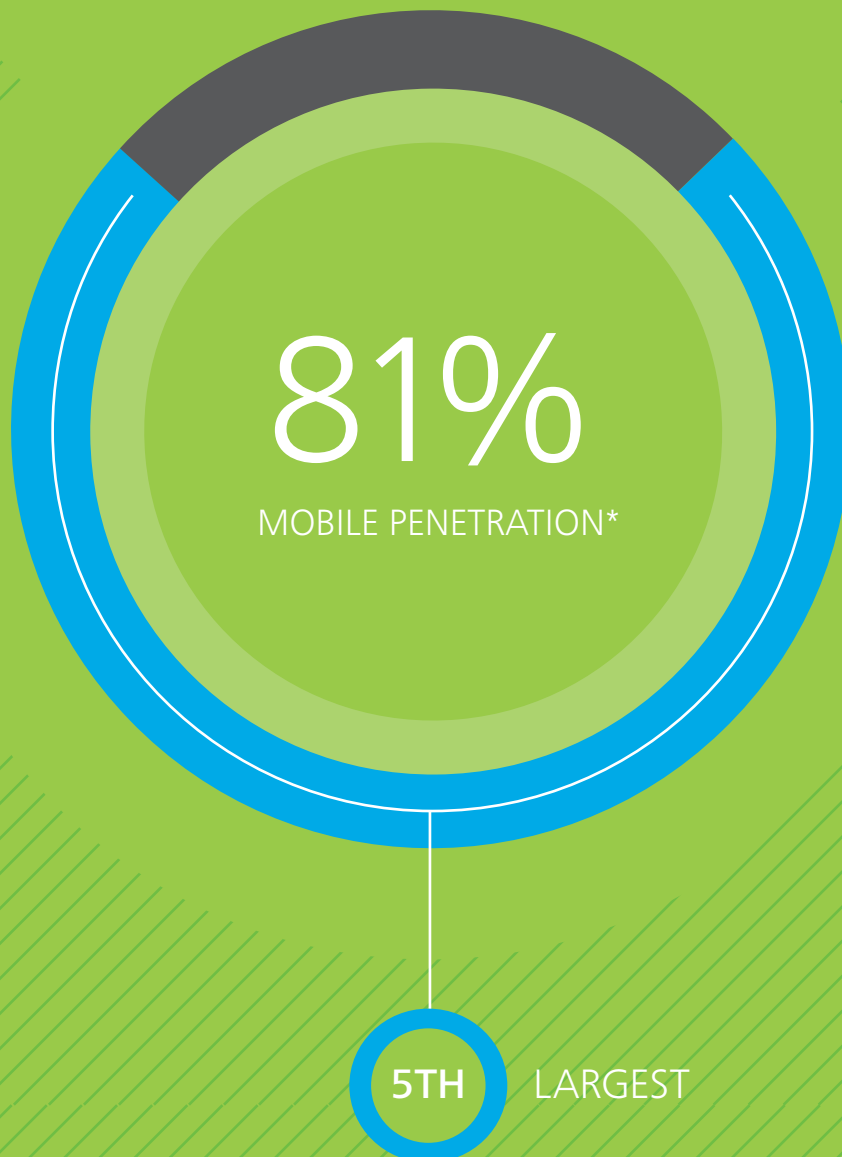
As a sole service provider, scale is difficult to achieve; however, Jonathan has managed to increase his earning capacity through the innovative deployment of technology. The Heat²O website is search engine optimised in order to increase discoverability by new customers. In addition, the provision of an online quote form has shortened the sales cycle, enabling Jonathan to do preliminary work before visiting a potential customer's premise.

An additional reduction in overheads has been achieved through the use of cloud based accounting software Xero, which means managing the back office has never been so cost effective. This has simplified the tracking of cost against revenue with the added benefit of being able to share his accounts with the accountant minimising the number of face to face visits required.

An additional reduction in overheads has been achieved through the use of cloud based accounting software Xero which means managing the back office has never been so cost effective

AUSTRALIA HAS THE FIFTH LARGEST PENETRATION OF SMARTPHONES IN THE WORLD

Source: Nielsen. The Australian Online Consumer Landscape,
March 2012, page 2



*Source: Deloitte Media Consumer Survey 2014 of 2300 Australians

Part V

5.1 Government's role

The challenge for government as a major player in two of the five 'big bang' industries is not just how it responds to digital disruption itself, but how it becomes a catalyst for change in the wider business community

All levels of government, including local, state and federal, play a major part in this state. Two of the five most significant economic 'big bang' industries, 'Healthcare and Social Assistance' and 'Public Administration and Safety', although sitting within the 'long fuse' quadrant, play a major role in the South Australian economy.

The governments within our state are already starting to respond to digital disruption through activities and initiatives. For example, the SA Government's efforts to take advantage of the digital opportunities include the establishment of a Digital Economy Strategy Group, initiatives on Open Government and Open Data, and its new ICT strategy *SA Connected*. Further, the opportunity exists for all levels of government to leverage the insights from this research and align current initiatives to better respond to digital disruption. Many of the responses documented herein are also tangible responses for government to adopt.

However, the more pressing issue for government is what role it plays in supporting the business community, and how it becomes a catalyst for economic growth in the digital environment. As such, there are three levels of response from the government in South Australia.

Firstly as a **facilitator**, to play a role in assisting SMEs to acquire the skills and capabilities that they need to retain and grow their businesses.

Secondly, to be a **catalyst** to prepare the economy for 'big bang industries' (including agriculture, retail trade, education, government services, and health) in South Australia to compete nationally and abroad, leveraging digital technology to give them an advantage, regardless of their current size.

Thirdly, to be a **responder** to disruption itself, given that it is a major player in two of the five 'big bang' industries.

Government as a facilitator

What role can all levels of government play as a facilitator of the transformation of South Australian industries in order to make a meaningful impact on the state's economy? Here are some examples:

Local

Local Councils' Digital Hub and Digital Enterprise Programs:

<http://goo.gl/WbAQaC>

State

SA Government's Small Business Website:

<http://goo.gl/aRrM6G>

Ebiz Initiative:

<http://goo.gl/bu8uUO>

ForwardIT initiative:

<http://goo.gl/GlvA8N>

Federal

Australian Government

Digital Hub and Digital Business kits Programme:

<http://goo.gl/2g17Ew>

Digital Business Initiative:

<http://goo.gl/9J3yQe>

Government may also consider the role of grants or funds to support the implementation of digital improvements that the business community need to compete and survive in a digital economy.

Government can continue to help and facilitate SMEs (and 'big bang' industries) to develop export opportunities to emerging markets.

Government as a catalyst

Government can assist by being a catalyst within the 'big bang' industries, to assist in harnessing opportunities that exist. Here are some examples:

Nurture the environment of value creation in the digital economy. Consider creating a forum for industry groups to work together to determine and fund joint capabilities that focus on value creation to circumvent competition from other parts of the world.

Promote the importance of responding to digital disruption through this paper, and other forums.

Follow through with further research for each of the five 'big bang' industries we identified as being the most significant impact to the economy.

Review the capabilities and existence of industry groups, and their adequacy to support their industries within the state. (For example, there is inadequate industry support for retailers in South Australia, and no local chapter of the Retailers Association).

Support and invest in the digital infrastructure for big bang industries in regional areas (e.g. agriculture).

Make a call to action for industry groups to respond and to help develop export opportunities to emerging markets.

Industries characterised by a larger number of smaller organisations, may need to leverage government or other industry players to build the capabilities they need to compete in global markets.

Government as a responder to digital disruption itself

How will the government survive and flourish in an increasingly digital environment? Governments can continue to use advanced digital tools, systems and avenues to provide better public services to all South Australians and to promote smart, sustainable and innovative government.

The evidence from around the world suggests that governments can better respond by focusing on the following three elements of its business:

Enable seamless government services for all South Australians. Provide access to services from anywhere, anytime and on any device, regardless of location. Provision of government services can be enhanced by engagement with the public to understand the demand, and include co-design, enabling greater take-up and the ability for 'self service'. Activities such as the National Broadband Network and the increase in mobile device data access will act as a catalyst to achieve this.

Enable efficient, effective and innovative government by constant use of digital advancement to reduce the administrative burden, improve organisational processes and promote a sustainable digital economy. The digital environment also presents new supply models, where industry engagement can achieve co-production; government working with industry to achieve service outcomes. The government's role is to:

- Create the necessary environment, key enablers and pre-conditions to make things happen
- Establish the necessary legal and technical preconditions.

Empower citizens and businesses and meet their expectations by producing government services designed around users' needs and developed in collaboration with appropriate third parties, as well as by increased access to public information, strengthened transparency and effective means for involvement of stakeholders in the policy process. In summary the government can focus on:

- Improving citizen engagement and collaboration
- Improving citizens' involvement in the policy making process
- Strengthening information access and transparency.

5.2 Industry's role

The key question for South Australian industry representatives is do they understand the impact and wider implications for their own industries, and how to support their members?

There is a role for all industry bodies in South Australia to play in responding to digital disruption.

As a general approach, each industry association or body should be considering the role it plays in supporting its industry members, based on the findings of this research, and the resultant economic impacts. Many industry groups offer training and industry-specific advice and support, and as a general consideration, they should be formulating advice specific to managing digital disruption in their industry.

The five 'big bang' industry sectors are made up of a larger number of sub groups, many of which have their own industry associations. For instance, Retail consists of sub groups as wide as auto makers, through to food and clothing retailers.

Given this disparity, it would seem prudent for industry groups to collaborate for the good of their industry in general, to pool their resources to be able to make a greater impact. For instance, under agriculture, food and fisheries, how does the myriad of industry associations (for example South Australian Dairy Farmers Association, South Australian Wine Industry Association, South East Trawl Fishing Industry Association) collaborate to make sure that they understand the micro and macro impacts of digital disruption, and set a plan for how their industry may respond, to benefit their members?

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