



# How online retail channels boost Australia's small and medium businesses

*Prepared by Mandala*

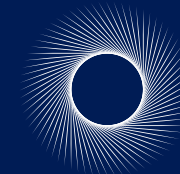
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6 November 2024

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Note: All dollar figures are Australian dollars unless indicated otherwise.

# Executive summary

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Small and medium businesses (SMBs) power Australia's economy, but they haven't reached their full potential. These businesses - defined as having fewer than 200 employees - employ 66 per cent of our workforce and generate 56 per cent of GDP. However, the productivity rate of SMBs, defined as revenue per worker, is 33 per cent lower than large businesses.

Mandala research shows that SMBs that adopt online retail channels earn 2.2 times more revenue and are 45 per cent more productive than their offline peers. Nonetheless, only 12 per cent of all SMBs currently use online retail channels. Because SMBs represent such a large share of the economy, even a small increase in productivity would have big impacts. For example, if SMBs were to increase their adoption rate of online retail channels from 12 per cent to 15 per cent, Australia's GDP would increase by \$1.6B, equivalent to \$154 per household each year.

## **SMBs form the backbone of Australia's economy, but they have not reached their full productive potential**

Over 2.5 million SMBs operate across Australia, according to the Australian Bureau of Statistics (ABS). Yet they lag large businesses in productivity. Compared to large businesses, SMBs produce only two-thirds of the revenue per worker, held back by

factors like economies of scale, access to finance and skill gaps. Given their key role as substantial employers and economic drivers, closing this productivity gap is a big opportunity for the Australian economy.

## **Online retail channels are amplifying the contribution of SMBs to Australia's economy**

To measure the impact of online retail channels, we built two new datasets. One dataset (the Treatment Group) was a sample of thousands of Australian SMBs that use online retail channels. The other dataset (the Control Group) was a sample of thousands of additional businesses that were similar to the Treatment Group (in terms of their location, the type of business and what they sell) but with one difference: they don't use online retail channels. Comparing the two groups allowed us to isolate the impact of online retail channels.

We found that SMBs using online retail channels typically earn more than double the revenue of similar non-adopters. This boost partially comes from reaching more customers. For example, 37 per cent of SMBs using online retail channels sell to overseas customers, compared to 2 per cent of non-adopters.

Additionally, online retail channels lift SMBs' productivity by 45 per cent through various mechanisms. Real-time inventory systems reduce order errors, streamline stock management and automate processes, saving both time and resources.

Beyond these operational gains, 35 per cent of SMBs using online retail channels say it improved their responsiveness to customer needs. Also, 11 per cent of SMBs using online retail channels say it helped them introduce new products.

## **Addressing barriers to online retail channels for SMBs could generate additional benefits**

Only 12 per cent of all SMBs currently use online retail channels. Many are unaware of how to use these technologies and the benefits they could get from using them. These barriers stop them from capturing the full benefits of online retail channels, limiting their economic contribution.

Solving these challenges matters for Australia's prosperity. We modelled the GDP impact of increasing the SMB adoption rate under two scenarios. First, increasing the adoption rate from 12 to 15 per cent could add \$1.6 billion to GDP, equivalent to \$154 per household each year. In the second scenario, increasing the adoption rate to 18 per cent could contribute \$3 billion to GDP, or \$309 per household each year.

In the last decade, productivity growth in Australia was the lowest it has been in more than half a century. Getting more SMBs to adopt technologies like online retail channels is critical to improving productivity in Australia, which will mean higher living standards for the next generation.



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# SMBs are crucial to Australia's economy, accounting for 56% of GDP and 66% of employment

Australian SMBs are crucial to our economy. These businesses (both with and without online retail) contribute:

- \$1 trillion to Gross Domestic Product (GDP), representing 56 per cent of total GDP.
- Employ 9 million workers, comprising 66 per cent of the workforce.

## Exhibit 1: SMBs contribution to the Australian economy

Gross Domestic Product (% of GDP)<sup>1</sup>; FTE jobs (% of employment), 2023

■ SMBs ■ Large businesses

### Gross Domestic Product

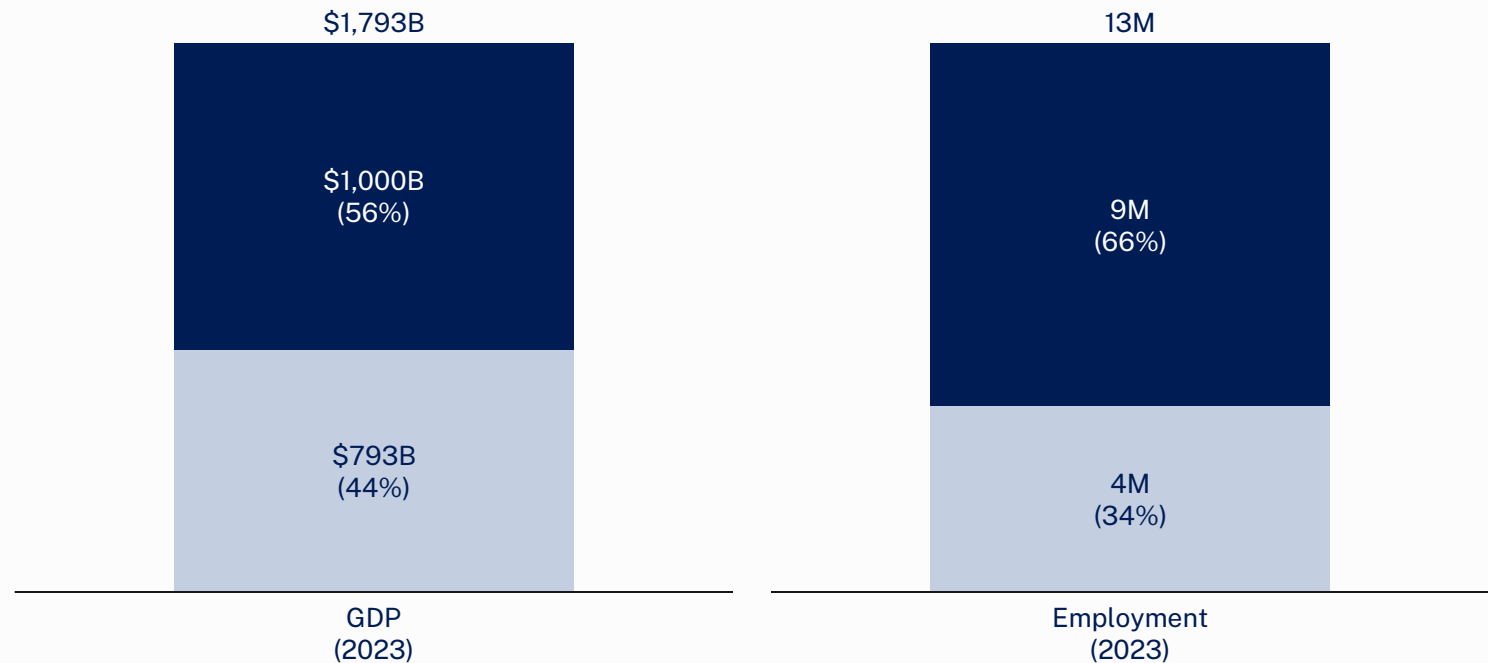


SMBs' share of GDP has slightly increased from 55% in 2014 to 56% in 2023.

### Employment



SMBs' share of employment has slightly decreased from 68% in 2014 to 66% in 2023.



<sup>1</sup> GDP figure in ABS (2024) *Australian Industry* does not tally to Australia's total GDP due to measurement gaps.

Source: ABS (2024) *Australian Industry*; Mandala analysis.

# SMBs could play a major role in increasing productivity and growing Australia's economy

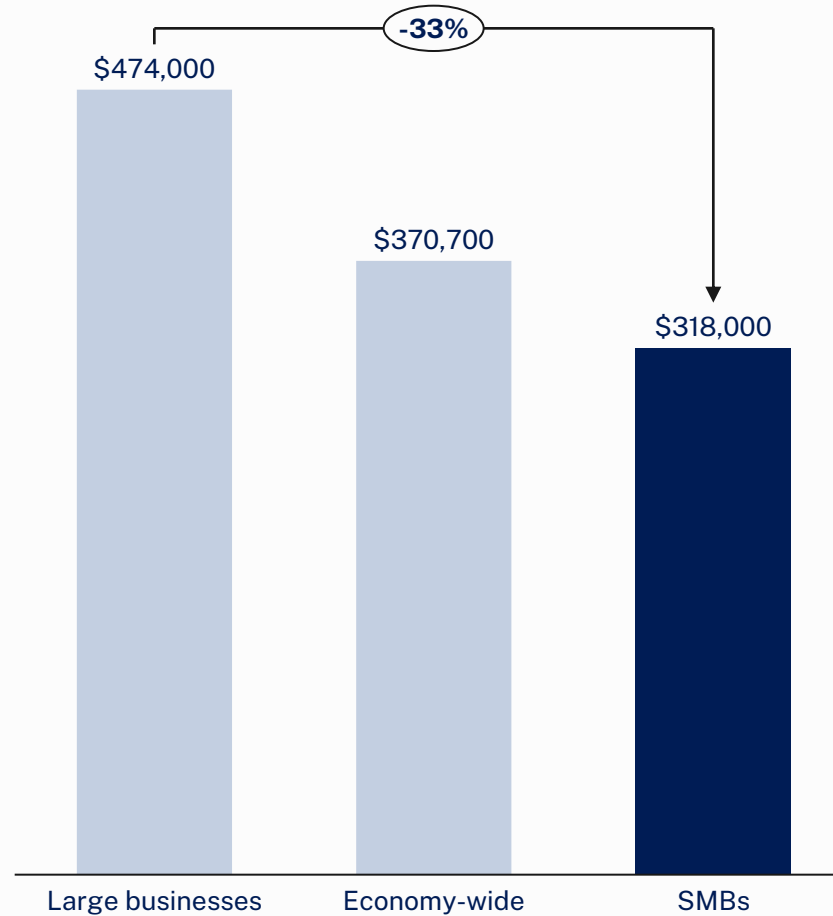
SMBs lag larger businesses in productivity. This gap is significant, with SMBs generating, on average, 33 per cent less revenue per worker than their larger counterparts.

The productivity gap narrows slightly as businesses grow, with medium-sized businesses coming closer to matching large businesses, while small and micro businesses lag further behind. However, size alone doesn't explain this difference. Much of the productivity gap is due to other factors, such as access to technology, skills and customer reach.

Closing the productivity gap between SMBs and large businesses by even a small amount could generate substantial benefits to the Australian economy. Increasing SMB adoption of online retail channels is one key way Australia can overcome its productivity challenge.

Exhibit 2: Productivity of Australian businesses by size<sup>1</sup>

Revenue per worker, 2023



 Raising SMBs productivity to match the productivity of large businesses would **permanently and substantially increase Australia's GDP.**

<sup>1</sup> Productivity in this report is defined as revenue per worker.  
Source: ABS (2024) *Australian Industry*; ABS (2024) *Australian National Accounts*; Mandala analysis.



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# Online retail channels empower SMBs to expand their reach, boost productivity, raise engagement and drive innovation

Exhibit 3: Online retail channels generate four key economic benefits for small and medium businesses



## Customer reach

- Online retail channels break down geographical barriers, allowing SMBs to reach customers beyond their local area, including global customers.
- SMBs enhance their customer reach by using online retail channels, making them discoverable across search, comparison and recommendation sites.
- This expanded reach leads to a higher sales potential.



## Productivity

- Online retail channels provide tools for SMBs to streamline operations, from inventory management to customer service.
- This includes systems that allow for real-time tracking and updates, reducing order errors and saving time.
- This enables SMBs to lower their operational costs, which could be passed on in savings to customers.



## Customer engagement

- Online retail channels enable SMBs to gather and respond to customer feedback rapidly.
- Online retail channels automate data collection and synthesise key metrics such as customer communications, sales data and reviews.
- This accelerates SMBs ability to address customer needs and improve their products.



## Innovation

- Online retail channels allow SMBs to test new product ideas quickly and cost-effectively.
- At the click of a button, SMBs can test and tailor product listings for different geographies, trial sales in different quantities and gauge demand through pre-orders.
- This approach to innovation has helped online SMBs to adapt more quickly to customer trends and create new, successful products.



# Our analysis of comparable SMBs through firm-level data demonstrates that using online retail channels boosts exports, productivity and innovation

## Exhibit 4: Overview of methodology and key results



**We used firm-level data to identify the impact online retail channels have on Australian SMBs.**

1. To compare like-for-like, online retail adopters and non-adopters are matched on observable characteristics such as industry, location, type of entity and number of employees.
2. After matching, key metrics such as revenue, export participation and productivity can be accurately compared.
3. When data limitations were encountered, national surveys were leveraged to supplement insights.

 **Customer reach**

**37% of SMBs use online retail channels to sell to overseas customers, compared to 2% of non-adopters.**

 **Productivity**

**SMBs using online retail channels are 45% more productive than non-adopters.**

 **Customer engagement**

**35% of SMBs using online retail channels say it improved their responsiveness to customer needs.**

 **Innovation**

**11% of SMBs using online retail channels say it helped them introduce new products.**



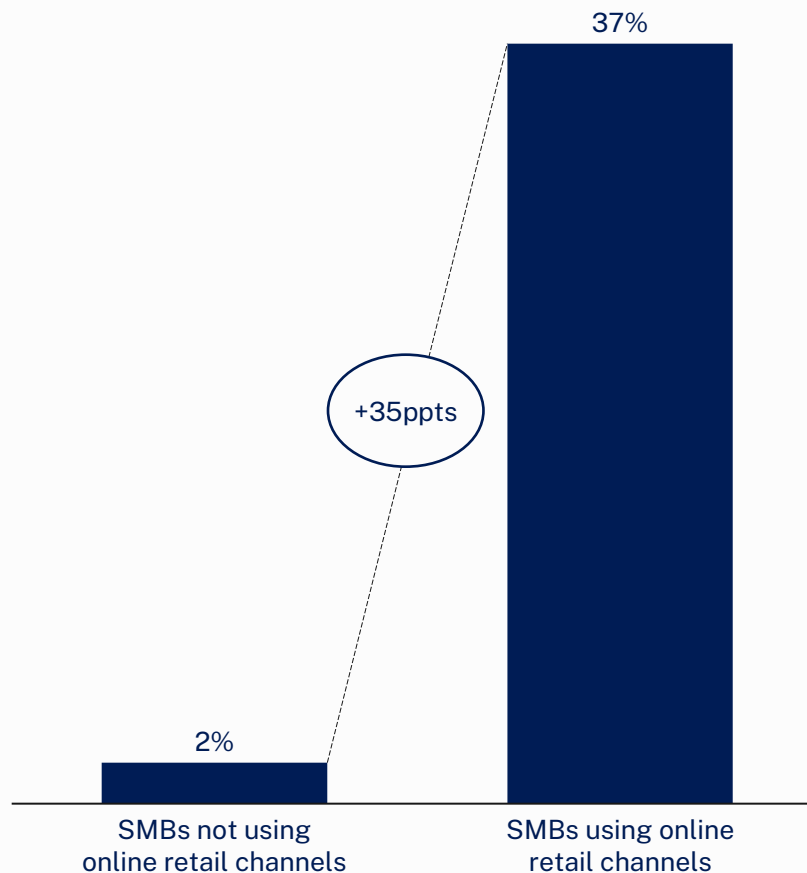
# 37% of SMBs use online retail channels to sell to overseas customers, expanding their customer reach

Online retail channels are leveling the playing field for SMBs, allowing them to compete globally. These channels give even the smallest businesses the chance to reach global customers. Online retail channels support the export efforts of SMBs by:

- Making SMBs discoverable across search, comparison and recommendation sites.
- Simplifying the logistics of selling overseas.
- Managing cross-border payments and taxation.
- Assisting with marketing across different countries.

Exhibit 5: Export participation rate of SMBs

Per cent, 2024



### Export participation

- Online retail channels break geographical barriers, turning local businesses into global competitors.
- This shift allows local businesses to scale their operations, diversify their customer base and compete alongside established international brands, all from their own home base.

Note: Export participation comparison of a matched sample of SMBs not using online retail channels and SMBs using online retail channels.

Source: ABS (2023) *Characteristics of Australian Business*; Purpose Bureau, Mandala analysis.



# memobottle has used online retail channels to expand its customer reach beyond Melbourne and compete globally

## memobottle™

Founded in Victoria in 2014, memobottle transformed from a local brand to a global player through online retail channels. Initially selling flat water bottles at Melbourne markets, the company now reaches customers worldwide. memobottle’s aim is to change public perceptions of single-use water bottle consumption and encourage a more reusable lifestyle by providing stylish and convenient solutions.

### Embracing e-commerce dramatically expanded memobottle's reach:

- Online sales have increased by 1,600% since 2020.
- International sales now constitute 75% of total revenue.
- Product lines for sale on Amazon have increased from 10 to 80.

Source: memobottle, Mandala analysis.



“Online retail channels leveled the playing field for us. We’re competing with major brands globally, all from our office in Victoria. It’s not just about selling more - we’re reaching environmentally conscious consumers worldwide, amplifying our impact in reducing plastic waste.

For memobottle, online retail provided a gateway to unprecedented growth and global market access.”

— **Jesse Leeworthy**  
FOUNDER

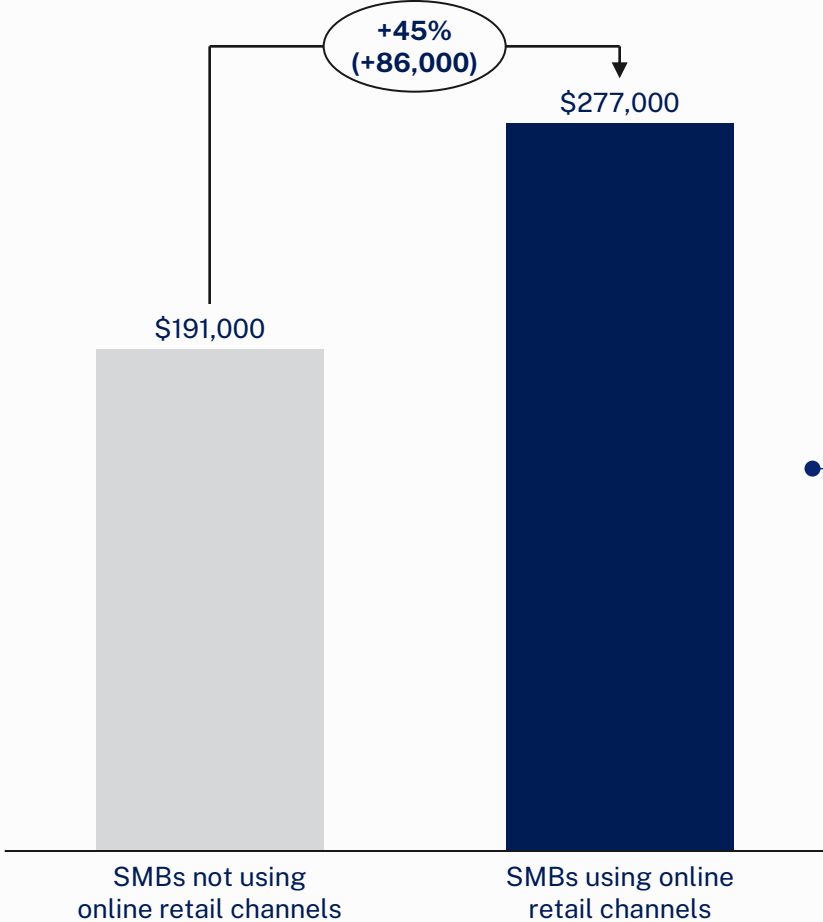
# SMBs using online retail channels are 45% more productive than non-adopters

SMBs with online retail channels are 45 per cent more productive than their non-adopting counterparts, generating an additional \$86,000 in revenue per worker.

This productivity boost due to online retail channels stems from several factors. For example, real-time inventory systems reduce order errors, streamline stock management and automate processes, saving both time and resources. Additionally, greater customer reach through online retail channels increases sales potential, enabling businesses to serve more customers and, if needed, expand their workforce.

Exhibit 6: Productivity of Australian SMBs by use of online retail channels

Revenue per worker, 2024



### Output per worker

- Output per worker measures labour productivity and is a key indicator of efficiency. This indicates how much revenue or value each employee generates.
- Higher output per worker indicates that businesses are utilising resources – time, technology and labour – more efficiently.

Note: Revenue per worker comparison of a matched sample of SMBs not using online retail channels and SMBs using online retail channels.  
Source: Purpose Bureau; Mandala analysis.

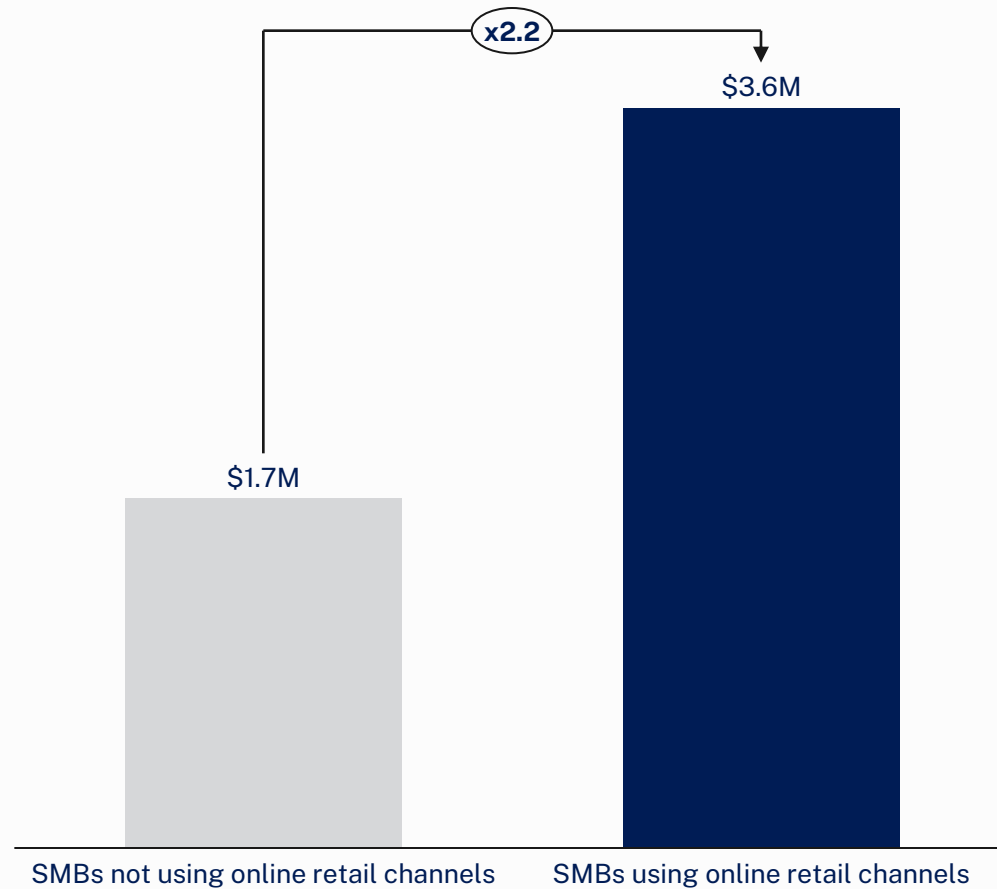
# SMBs using online retail channels generate more than double the revenue of non-adopters

On average, SMBs without online retail channels generate \$1.7 million in revenue, while those with online retail earn 2.2 times more, at \$3.6 million. This gap highlights the significant advantage that online retail channels provide SMBs. By reaching more customers and boosting productivity, online retail channels help SMBs compete more effectively with larger businesses, creating a more level playing field.

Online retail channels are also benefiting Australian households. A recent Mandala report, "Surf, Shop, Save" found that Australian households saved nearly \$3,500 on average between 2019 and 2023 due to online retail channels.

Exhibit 7: Average revenue of Australian SMBs by use of online retail channels

Revenue, 2024



Note: Revenue comparison of a matched sample of SMBs not using online retail channels and SMBs using online retail channels.  
Source: Purpose Bureau; Mandala analysis.

# Online retail channels enhance SMBs ability to respond to customer needs

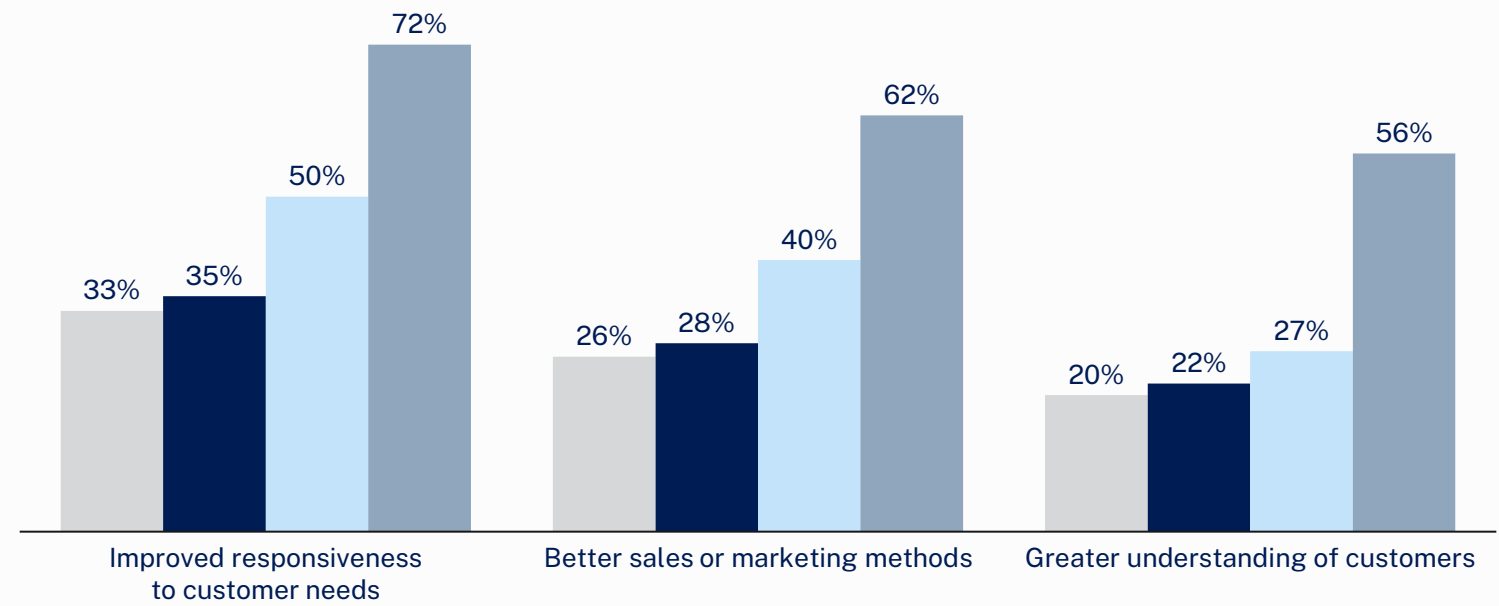
Online retail channels are enhancing how Australian SMBs manage their customer engagement. Using information communication technology (ICT) adoption as a proxy for online retail adoption, reported benefits include improved responsiveness to customer needs (35 per cent), better sales and marketing methods (28 per cent), and greater customer understanding (22 per cent).


Online retail channels support SMBs to achieve this through features that:


- Enhance responsiveness: Tools like FAQs on product listings and integrated communication channels allow businesses to respond to consumers quickly.
- Better sales methods: SMBs benefit from online retail channels' advertising through sales events such as Black Friday and elevating "Most Frequently Bought" products.
- Greater understanding of customers: Online retail channels integrate data collection and analysis seamlessly, which can help SMBs to pinpoint where their growing customer bases are.


**Exhibit 8: Customer engagement benefits realised by Australian SMBs from using ICT tools<sup>1,2</sup>**

Australian SMBs surveyed, 2022 Micro Weighted average Small Medium



 Online retail channels integrate customer relationship management ("CRM") systems.

 Online retail channels invest in sales events and spotlight products through recommendations.

 Online retail channels uncover consumer demographics and preferences for SMBs.

<sup>1</sup> Information and Communication Technology (ICT) serves as a proxy for online retail channel adoption. Key ICT tools include digital and CRM platforms, cloud computing and cybersecurity.  
<sup>2</sup> Analysis is confined to industries most relevant for online retailing. SMBs defined as micro = 0-4 employees, small = 5-19 employees and medium = 20-199 employees.  
 Source: ABS (2023) *Characteristics of Australian Business*; Mandala analysis.

# Curious Columbus ensures premium product quality by leveraging customer insights from online retail channels



Curious Columbus, a premium children’s toy company based on the Sunshine Coast, has built a reputation for high-quality products by leveraging the power of online retail channels. Founded in 2014, the company has enhanced its product testing and development processes, utilising data from e-commerce to refine and optimise its offerings.

**Embracing e-commerce has significantly improved Curious Columbus's operational output:**

- 100% of new product releases incorporate insights from online brand loyalists and reviews of existing products.
- Sales page photography and messaging optimised through six-week split testing cycles for all products.
- Product iteration cycle shortened from six months to six weeks.
- Average customer service response time reduced from eight days to less than 24 hours.

Source: Curious Columbus; Mandala analysis.



“At Curious Columbus, we proudly develop our products end-to-end from design and illustrations to packaging. Online retail channels offer us rapid, global insights that help maintain our high standards and guide new product iterations.

In an industry where safety and quality are paramount, these channels have been key to establishing us as a trusted global brand for children and families around the world.”

— Clare & Stuart  
FOUNDING PARTNERS

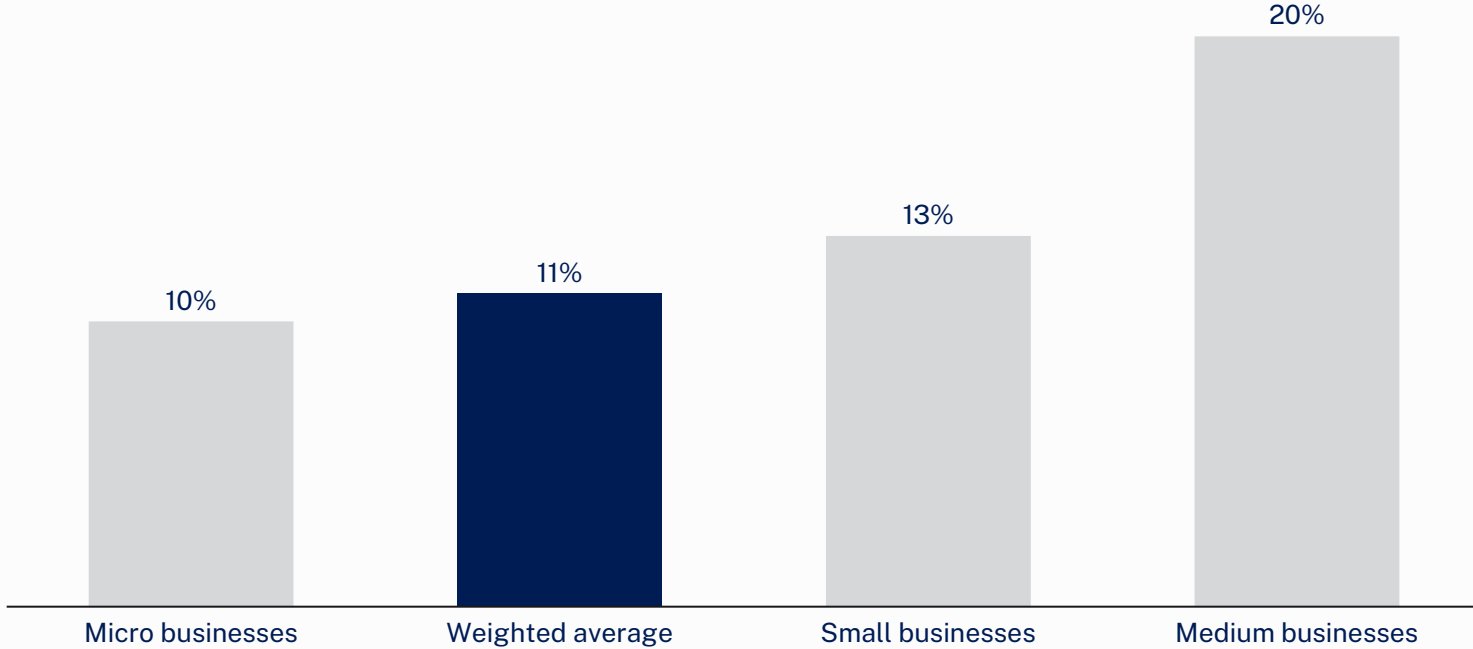


# Online retail channels support SMBs to innovate and create new products

Online retail gives SMBs powerful digital tools to innovate. Through these channels, 11 per cent of SMBs report that it helped them introduce new goods and services, with 20 per cent of medium-sized businesses experiencing similar benefits. For instance, SMBs can utilise online retail channels to offer products that rely on ICT, such as e-books with preview options, software with trial periods and services like express delivery. These tools enable SMBs to expand their offerings and reach customers in new ways, creating opportunities for growth and competitive differentiation that would be challenging to achieve through traditional retail alone.

**Exhibit 9: Introduction of new goods and services due to adoption of ICT tools<sup>1,2</sup>**

Australian SMBs surveyed, 2022



 Online retail channels facilitate the sale of ICT-enabled products like e-books and software, offering previews, trials and services such as express delivery or subscription models.

<sup>1</sup> Information and Communication Technology (ICT) serves as a proxy for online retail channel adoption. Key ICT tools include digital and CRM platforms, cloud computing and cybersecurity.  
<sup>2</sup> Analysis is confined to industries most relevant for online retailing. SMBs defined as micro = 0-4 employees, small = 5-19 employees and medium = 20-199 employees.  
 Source: ABS (2023) *Characteristics of Australian business*; Mandala analysis.





## Sneaker Laundry has used online retail channels to shorten its product launch cycle and invest more in R&D

### Sneaker Laundry™

Sneaker Laundry, a sneaker care brand operating in Victoria and New South Wales, dramatically accelerated its innovation process through online retail channels. Founded in 2017, the company initially relied on in-store feedback for product development.

#### Adopting e-commerce supercharged Sneaker Laundry's innovation:

- New product development cycle reduced from 12 months to three months.
- Successfully launched six new products in one year, up from one per year.
- Customer-suggested features incorporated in 75% of new products.
- R&D costs decreased by 60% through efficient online testing.

Source: Sneaker Laundry; Mandala analysis.



“Online retail channels like Amazon have turned our customers into innovation partners. We can now test ideas rapidly, gather instant feedback, and refine products in real-time. This agility has allowed us to stay ahead in a fast-moving environment and continuously surprise our customers with innovative solutions.

For Sneaker Laundry, online retail channels transformed innovation from a slow, resource-intensive process into a rapid, customer-driven engine for growth and differentiation.”

— Eugene Cheng  
CO-FOUNDER



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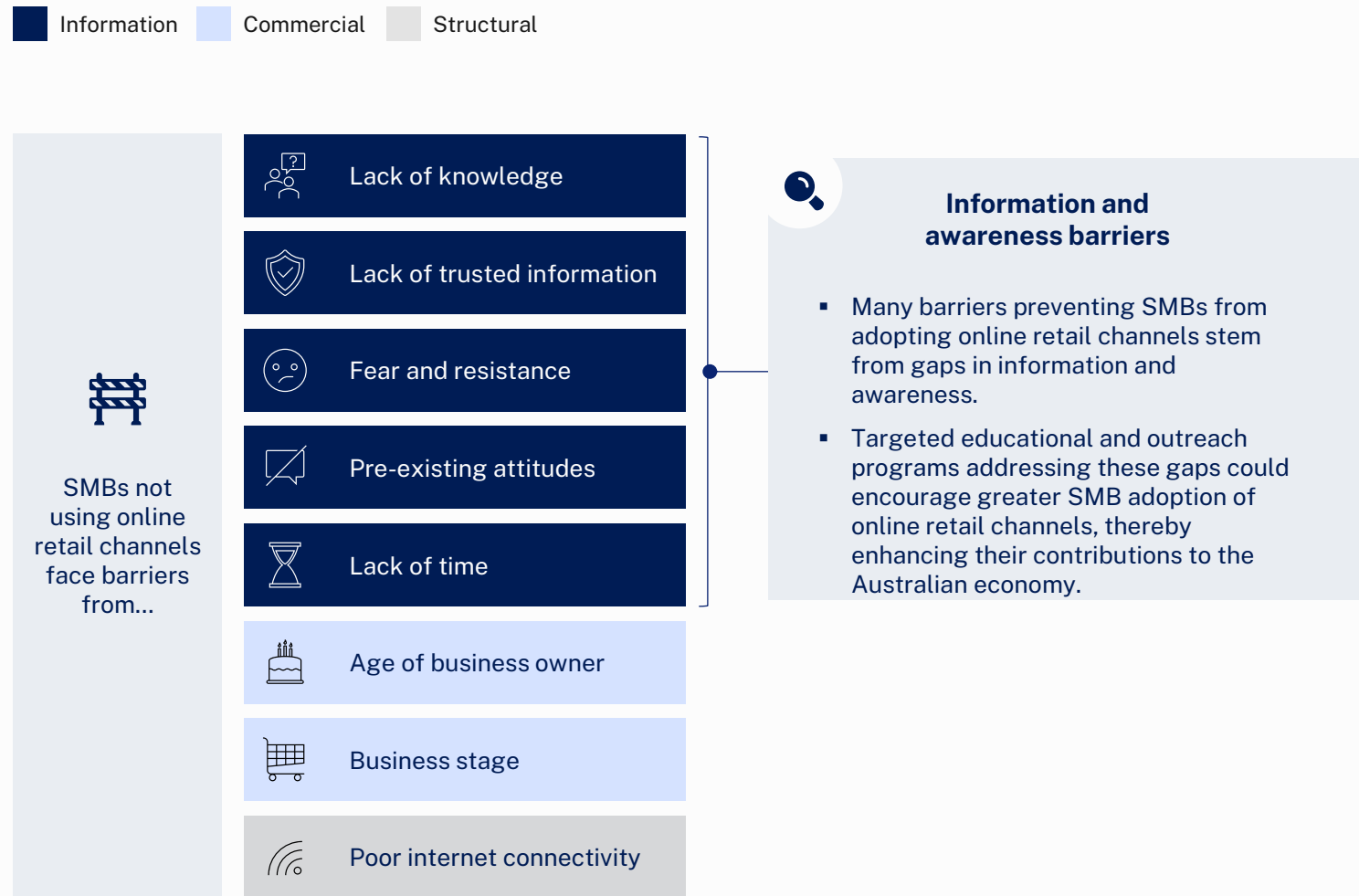
# A critical barrier to adopting online retail channels is a lack of information and awareness

A significant barrier to having more SMBs using online retail channels is a lack of awareness around these channels. This includes:

- A lack of awareness of how these channels work.
- A lack of awareness of how they can use these channels.
- A lack of awareness of the benefits they would receive from using these channels.

These views – from a recent survey by Lonergan Research – are consistent with other studies and highlight long-standing barriers stemming from a lack of knowledge. The Small Business Digital Taskforce, for example, found that common barriers for SMBs to selling through online retail channels arose primarily from a lack of information, knowledge and prevailing attitudes of fear and resistance to change.

Exhibit 10: Common barriers for SMBs to selling through online retail channels



Source: Australian Government (2018) *Small business digital taskforce: Report to Government*; Lonergan Research Business Sellers survey; Mandala analysis.

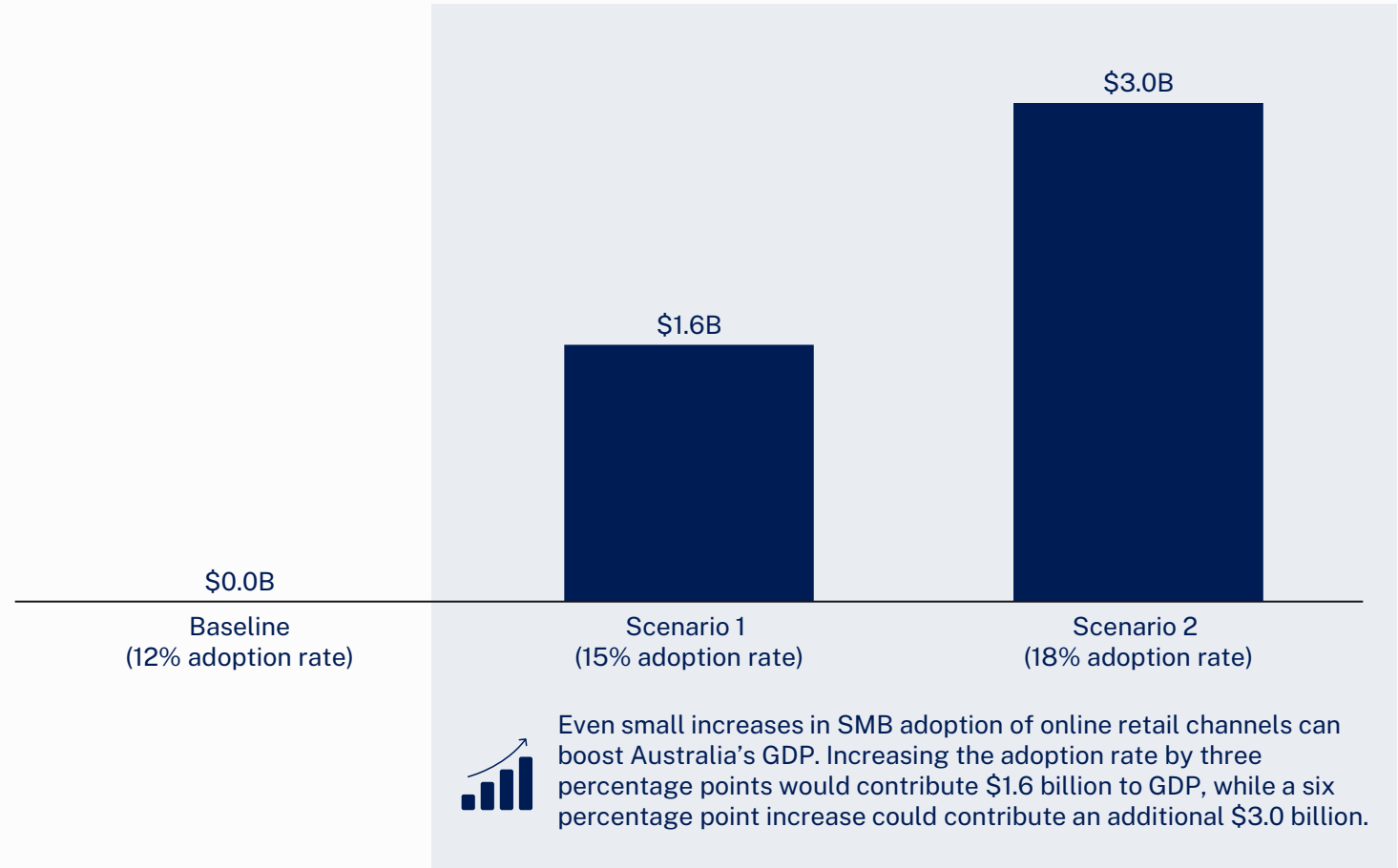
# Only 12% of SMBs use online retail channels. Raising the rate to 15% could add \$1.6 billion to GDP

Online retail channels boost productivity. However, adoption remains low among SMBs. Only 12 per cent of SMBs have adopted online retail channels. Increasing this adoption rate from 12 to 15 per cent could add \$1.6 billion to GDP, equivalent to \$154 per household each year. A rise to 18 per cent adoption could contribute \$3 billion to GDP, or \$309 per household.

This potential is especially relevant for sectors well-suited to online retail, where SMB productivity often lags that of larger businesses. For example, fewer than one in five SMBs in retail trade use online retail channels, with adoption rates at 13 per cent in information media and 11 per cent in manufacturing, particularly in subsectors such as food, textiles and furniture manufacturing. These industries could achieve substantial productivity gains through greater adoption of online retail channels.

Exhibit 11: Uplift to Australia’s GDP relative to baseline<sup>1</sup>

GDP uplift, 2024



<sup>1</sup> This is calculated using the Mandala G-Cubed Model (v169) – a dynamic stochastic general equilibrium model – in which we simulate a three and six percentage point increase in the SMB adoption rate of online retail channels.

Source: ABS (2024) *Australian Industry*; ABS (2023) *Characteristics of Australian Business*, Mandala analysis.



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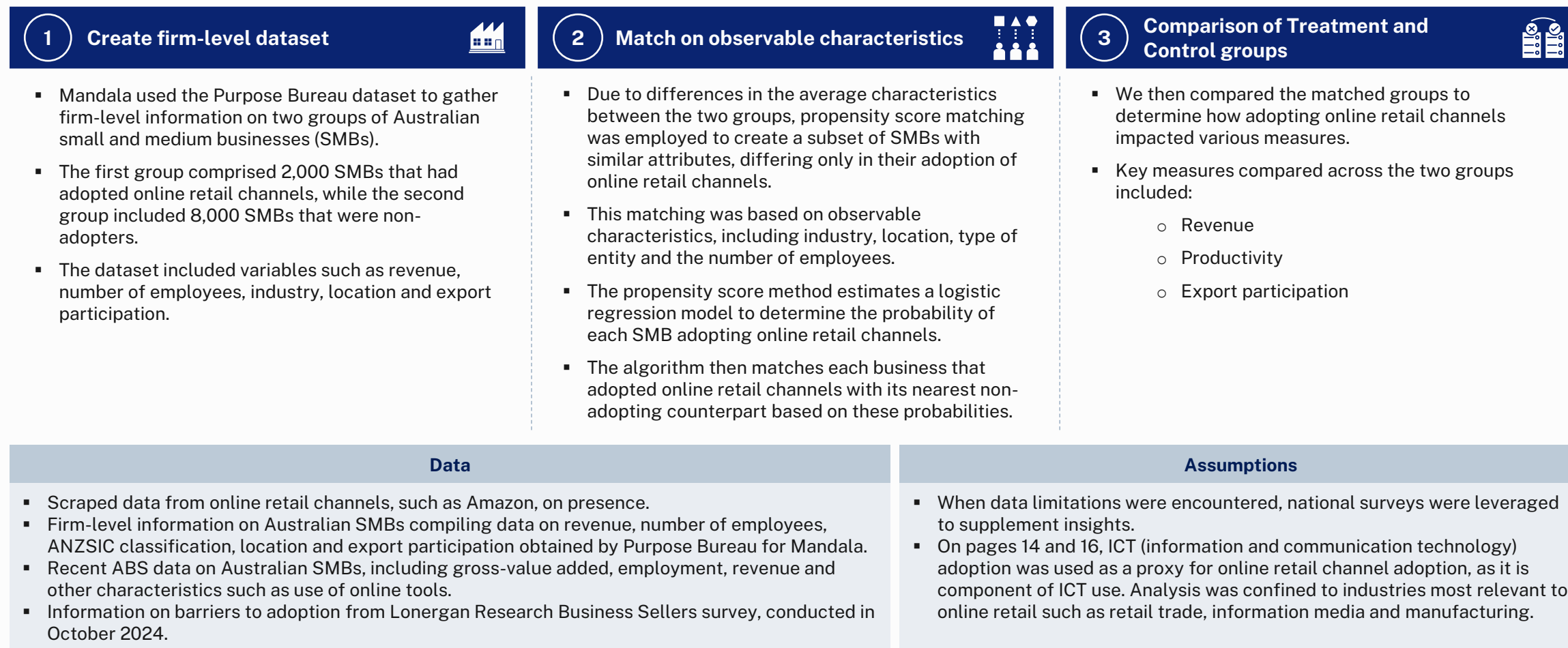
**Appendix**

**A: Methodology**

B: References

# To estimate the impact of online retail channels on Australian SMBs, we constructed a firm-level dataset that compared a Treatment and a Control group

## Exhibit A1: Methodology for matching SMB adopters and non-adopters of online retail channels





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A: Methodology

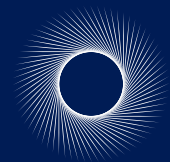
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