Building a skilled and adaptable workforce

15 September 2025

External(np)

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Productivity Commission
Ngunnawal country
4 National Circuit
Barton ACT 2600, Australia

BY EMAIL: 5pillars@pc.gov.au

To Productivity Commission,

XERO SUBMISSION TO THE BUILDING A SKILLED AND ADAPTABLE WORKFORCE PILLAR

Xero welcomes the opportunity to provide feedback on the Productivity Commission's interim report Building a skilled and adaptable workforce. With 1.9 million Australian subscribers—including small businesses and their advisors—we are committed to supporting SME productivity, digital adoption, and capability growth.

We agree with the Commission that training and advisory services are essential, but training alone will not deliver the productivity gains Australia needs. Skills development must be paired with access to digital tools, targeted incentives, and delivery through trusted networks.

Our submission sets out a four-part package of recommendations to address the persistent barriers of cost, capability, and time:

- A curated marketplace of small business software solutions with co-funding vouchers.
- Targeted incentives for new business software.
- An online digital assessment and benchmarking tool.
- Industry-specific digital skills and advice networks.

Together, these measures complement the Commission's work and can be delivered in a fiscally disciplined way to build workforce adaptability and long-term productivity growth.

Yours sincerely,

[redacted]

Grace Gown
Head of Global Public Policy
Xero

External(np)

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Xero Submission

Sep 15, 2025

1. Overview

Xero is a global small business platform with 4.4 million subscribers, including 1.9 million in Australia. We help customers supercharge their business by bringing together the most important small business tools — including accounting, payroll, and payments — on one platform. By automating routine tasks, providing timely insights, and connecting small businesses with their data, their apps, and their trusted advisors, Xero helps small businesses focus on what really matters. Trusted by millions of small businesses and their accountants and bookkeepers globally, Xero's platform makes life better for small business owners, their advisors, and the communities they serve.

Through this work, we see first-hand the barriers small businesses face in adopting digital tools and building new skills. Drawing on our research and international evidence, we believe a targeted, practical package of measures is needed to overcome those barriers. This submission sets out a **four-part package of recommendations** to complement the Productivity Commission's focus on training and ensure SMEs can adopt the tools, skills, and support they need to lift productivity. These recommendations include:

1. Establishing a **curated marketplace** of small business software solutions, supported by **co-funding voucher**s.
2. Introducing **targeted incentives** for new business software.
3. Developing an **online digital assessment** and benchmarking tool.
4. Funding industry-specific **digital skills and advice networks**.

1.1. Making the case

The Productivity Commission's Building a skilled and adaptable workforce interim report has rightly highlighted the role of training in lifting SME capability. But cost, time, and knowledge barriers mean that training alone is not enough. Small businesses frequently report being overwhelmed by the complexity of digital choices, unsure how to evaluate return on investment, and reluctant to take time away from day-to-day operations. Our research shows:

- **Cost is persistent:** 39% of SMEs cite expense as a key barrier to adopting new technologies.
- **Time and knowledge gaps are acute:** 44% of SMEs say there is too much confusing information about technology solutions, while many lack the in-house expertise to assess options.
- **Capability constraints compound:** micro businesses (under 10 employees) are least likely to invest on their own, yet have the most to gain in productivity terms.

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Without targeted support, many SMEs remain locked in manual processes, limiting their capacity to apply new skills or benefit from training programs. Digital tools are therefore not an optional add-on, but a foundation for capability building and productivity growth.

1.2. Other policy levers

Incentives are a direct and effective way to influence SME behaviour, but they are not the only lever available to government. A holistic approach should also acknowledge the role of:

- **Digital infrastructure:** ensuring affordable, reliable connectivity and secure digital ID systems to reduce access barriers, particularly for regional and remote businesses. This includes the foundational networks, platforms, and systems — such as broadband, cloud services, and digital identity — that enable small businesses to adopt and use technology effectively.
- **Digital government:** undertaking government's own digital transformation — such as digitalising tax administration and expanding APIs — to model best practice and make interactions with government simpler for SMEs.
- **Regulatory settings:** using proportionate standards or sandboxes to create certainty and encourage uptake, while avoiding unnecessary compliance burdens.

Together, these levers create an enabling environment in which the recommended incentives can be most effective.

2. Recommendations

The Productivity Commission's Building a skilled and adaptable workforce interim report has underscored the importance of training and advisory services in strengthening SME capability. We support this emphasis. At the same time, experience shows that training on its own cannot deliver the step-change in productivity that is required. For skills development to be effective, it must be coupled with access to the right digital tools, straightforward adoption pathways, and trusted advice networks.

Our research shows that small businesses face three persistent barriers to digital adoption: **cost**, **capability, and time**. Overcoming these requires a package of mutually reinforcing measures. By addressing the financial barriers to adoption, reducing the complexity of choice, and embedding training in trusted networks, government can create a virtuous cycle: digital tools enable new skills to be applied, and training ensures those tools are used effectively, driving lasting productivity improvements.

We therefore recommend a four-part package of reforms to support SME digital adoption and workforce capability:

1. **Establish or commission a curated marketplace with co-funding vouchers** to reduce both cost and complexity for micro-businesses.
2. **Introduce targeted incentives for new business software** so SMEs (10–49 employees) can invest in productivity-enhancing tools with confidence.
3. **Develop a digital assessment and benchmarking tool** to help businesses understand their processes, benchmark digital maturity, and identify skills gaps.
4. **Fund industry-specific digital skills and business advice networks** to deliver training through trusted intermediaries and advisors, ensuring uptake where it is most needed.

Together, these measures form a coherent package. They target different segments of the SME community, address multiple barriers in parallel, and create reinforcing pathways between digital adoption, training, and productivity growth.

2.1. Establish or Commission a Curated Marketplace with Co-funding Vouchers

Xero believes that one of the most effective ways to lift SME digital adoption and workforce capability is to **establish or commission a curated marketplace of tailored small business software solutions** — including accounting, HR, payroll, and sector-specific tools — **with business owners receiving co-funding vouchers** valued between $500 and $5,000 to subsidise adoption costs.

Why this matters

The Productivity Commission in its Building a skilled and adaptable workforce interim report has highlighted the role of training in lifting SME capability. Our research indicates that while cost is a significant barrier, it is not the only one. SMEs are often time-poor and lack the specialist resources to navigate a complex and confusing technology market. They face significant search costs in identifying appropriate digital tools and are exposed to the risk of investing in solutions that are not fit-for-purpose. A simple financial incentive, such as a tax credit, does not address this information gap or de-risk the investment for the business owner.

Crucially, access to digital tools is itself a core part of building workforce capability. When SMEs adopt new technologies, they are required to embed new processes and develop new skills, creating a direct link between adoption and training. Ensuring that businesses have affordable, high-quality tools in place means that subsequent training investments are applied in practice, reinforcing the development of lasting skills and productivity gains. In this way, a marketplace plus vouchers does not sit apart from the training agenda but makes it more effective.

How the model works

This model combines two reinforcing mechanisms:

- **Trusted marketplace:** A government-endorsed, curated set of pre-qualified digital solutions helps SMEs cut through noise, compare options, and invest with confidence. Products would be vetted for security, interoperability, and quality, but in a way that remains open to innovation and does not exclude smaller or niche providers.
- **Voucher-based subsidies:** Co-funding vouchers between $500 and $5,000 directly reduce the upfront cost of investment. This range, consistent with comparable OECD small business voucher schemes, is large enough to shift behaviour while capped to limit misuse. Co-payment requirements ensure businesses retain skin-in-the-game.
- **Targeting micro-businesses:** Firms with fewer than 10 employees, including sole traders, stand to benefit most. They are least likely to make digital investments on their own, yet have the most to gain from productivity uplifts.

International precedent: Singapore's SMEs Go Digital

This model has been successfully implemented internationally. Singapore's SMEs Go Digital programme provides a clear precedent. It offers SMEs access to an online portal of pre-approved, sector-specific technology solutions and provides a Productivity Solutions Grant to subsidise adoption.

- More than 80,000 SMEs have participated to date.
- Firms receiving support recorded measurable productivity gains, with an average increase in value-added per worker of around 3.0 per cent.
- The impact has been most pronounced among micro businesses, where the combination of a trusted marketplace and direct subsidies lowered barriers that would otherwise have prevented adoption.
- Evaluations also show that firms engaged in the programme were more likely to pursue follow-on digital training, demonstrating the reinforcing link between access to tools and workforce skills development.

Design considerations for Australia

For Australia, such a scheme could be delivered directly by the government or commissioned in partnership with private firms, leveraging industry expertise and distribution networks. Program design should balance quality assurance with accessibility: vetting criteria must ensure product integrity without excluding innovative solutions that SMEs may find most useful.

As the Productivity Commission has emphasised, embedding evaluation from the outset is critical. The marketplace model lends itself to this — voucher take-up rates, product categories chosen, and follow-on training engagement can all be tracked. This evidence base would allow the government to refine the scheme and demonstrate cost-effectiveness in lifting digital adoption and associated workforce skills.

2.2. Introduce Targeted Incentives for New Business Software

Xero also recommends the introduction of incentives for small and medium-sized businesses investing in new business software technologies that help them run their operations more efficiently and productively. These incentives should complement existing innovation programs and provide businesses with the certainty and confidence to invest. The measure should lower the cost of new technologies during the early stages of adoption — before they are firmly embedded in business processes and generating measurable productivity gains. To maintain fiscal discipline while encouraging uptake, support should be capped per business and offered on a time-limited basis (for example, covering one year of subscription costs).

Why this matters

The Productivity Commission in its Building a skilled and adaptable workforce interim report has highlighted financial incentives for training as a way to lift SME capability. We strongly support this direction. At the same time, training alone cannot unlock productivity gains if businesses lack the tools to apply new skills. Our research shows that many small firms remain reliant on manual processes, with staff time consumed by bookkeeping, invoicing, and compliance tasks.

Access to modern business software helps address this capability gap. Tools such as accounting, payroll, HR, invoicing, and compliance platforms streamline day-to-day operations, reduce administrative burden, and provide SMEs with real-time insights into their business. By lowering the barrier to adoption through targeted incentives, the Australian Government can ensure that training investments are reinforced by the digital infrastructure businesses need to translate new skills into productivity improvements.

Our research also shows that:

- **Cost is a persistent barrier:** SMEs hesitate to commit to recurring software subscriptions until returns are proven. Incentives reduce this hurdle and encourage earlier adoption.
- **Tax incentives can rapidly shift behaviour:** They deliver immediate relief through familiar systems. R&D tax incentives have consistently stimulated business investment in innovation across OECD countries — similar mechanisms can be applied to software adoption.
- **Trusted advisers are essential:** Accountants and bookkeepers are central to SME technology decisions. Their involvement in co-design, implementation, and promotion will be critical to ensuring take-up.

Case study: Australia's Technology Investment Boost

Australia's Technology Investment Boost in 2022 offered an additional 20 per cent tax deduction on eligible digital expenses up to $100,000. While administratively simple, the design limited its effectiveness:

- It was retrospective, with many SMEs claiming through accountants after the fact, rather than driving new adoption.
- The scope was too broad, covering general IT costs such as phone bills rather than focusing on business software.
- A change of government meant the scheme was not well promoted, limiting awareness and uptake.

Uptake was therefore modest. But the initiative still demonstrated that tax-based mechanisms can work, provided they are designed prospectively, tightly scoped, and communicated effectively through trusted adviser channels.

Good practice example: Queensland's Tourism Business Digital Adaption Program

State-based initiatives also demonstrate how well-targeted incentives can drive adoption. For example, the Queensland Government's Tourism Business Digital Adaption Program provided grants to help tourism operators adopt digital tools, delivered in partnership with the Queensland Tourism Industry Council (QTIC). The program showed that when incentives are straightforward, sector-specific, and promoted through trusted intermediaries, they can achieve strong engagement among small businesses.

Design considerations for Australia

A tax-based mechanism is the most practical and fiscally sustainable model for Australia. Both a bonus tax deduction and a tax credit are viable, each with different trade-offs:

- **Bonus tax deduction:** Familiar to SMEs and advisers, simple to administer, and less costly to government. Well-suited to SMEs with 10–49 employees, who are more likely to be profitable and able to benefit.
- **Tax credit:** Provides a clearer benefit (particularly for lower-margin or loss-making firms), but comes at higher fiscal cost. Could be considered in future, or applied selectively to particular SME cohorts.

Key features should include:

- **Time-limited:** Offered for a defined period (e.g. one year of subscription costs) to create urgency and encourage early adoption.

- **Capped:** A maximum claimable amount per business to maintain fiscal discipline while still meaningful for SMEs.
- **Targeted scope**: Focused on business software that directly enhances productivity — such as accounting, HR, payroll, invoicing, and cybersecurity — not general IT running costs.
- **Advisor-led promotion:** Accountants and bookkeepers should be embedded in co-design and promotion to ensure awareness and uptake.

2.3. Develop a Digital Assessment and Benchmarking Tool

We recommend the creation of an online digital assessment and benchmarking tool that helps small businesses understand their processes, evaluate their current level of digital capability, and identify areas for improvement. The tool would provide SMEs with tailored recommendations on technologies and skills needs, helping them prioritise investment and training.

Why this matters

As technology continues to evolve rapidly — from cloud platforms to AI and automation — many small businesses struggle to know where to start. For micro businesses in particular (under 10 employees), the most immediate barrier is not cost but capability: they lack the time and expertise to map their processes, assess where technology could help, and identify the skills they need to build.

Without this understanding, training programs risk being generic and adoption decisions can feel overwhelming. A digital assessment tool can close this gap by:

- **Helping SMEs to articulate and understand their business processes**, which is a prerequisite for automation and AI-driven change.
- **Providing a benchmark of current digital maturity**, so firms can see where they stand relative to peers.
- **Generating tailored recommendations for digital tools and training**, giving business owners confidence in where to focus first.

In this way, the tool directly complements training incentives: it equips businesses with the insight they need to identify relevant skills and ensures training translates into meaningful productivity gains.

Case study: Canada's Productivity Benchmarking Tool

The Business Development Bank of Canada (BDC) launched a Productivity Benchmarking Tool in 2016 to give SMEs fast insights into their performance, usually only available to large firms hiring consultants.

- The tool was based on tax data from over 600,000 businesses, with the algorithm developed by Statistics Canada.

- Users received a customised report benchmarking them against peers on five productivity variables, plus practical advice and links to support services.
- More than 45,000 SMEs used the tool. Of these, 2,500 businesses subsequently took up an additional CA$450 million in BDC financing services and CA$3 million in advisory services.

The model showed how a low-cost (under CA$50,000) digital tool could generate high uptake, connect SMEs to government and advisory programs, and create measurable follow-on benefits.

What worked:

- Clear government partnership (Statistics Canada) for credibility.
- Direct integration with advisory and financing services, showing SMEs a clear next step.
- Robust data foundation, providing meaningful benchmarks and improvement pathways.

Design considerations for Australia

Self-assessment and benchmarking tools have proven to be highly effective mechanisms for capability development because they require critical self-reflection and provide immediate feedback. Australia could build on the Canadian model by leveraging the existing Business.gov.au portal as the platform for deployment.

Key design features could include:

- Simple self-assessment: A short online survey producing a tailored report on digital capability.
- Benchmarking data: Comparing firms against peers in their industry, which has been shown to motivate adoption and encourage systematic technology decisions.
- Linkages to support: Integration with other programs such as marketplace vouchers (Rec 1), software incentives (Rec 2), and training initiatives (Rec 4), ensuring clear next steps.
- Cost-effective and scalable: Drawing on existing business data sets to minimise cost, as demonstrated by Canada.
- Future-focused: Over time, the tool could incorporate AI-driven guidance, but evidence suggests this is most effective when complemented with traditional capability-building support.

2.4. Fund Industry-Specific Digital Skills and Business Advice Networks

We recommend that the Australian Government partner with and fund industry associations to provide sector-specific digital skills training in industries with low levels of digital adoption. Programs should combine practical technical training on relevant software (e.g. HR systems, accounting platforms, payroll tools) with broader training in change management, digital transformation, and leadership. Small businesses consistently report that while learning to use new tools is valuable, it is often the organisational and leadership side of digital transformation that is hardest to prioritise. This training should also target trusted advisors, such as accountants and bookkeepers, whose one-to-many reach creates powerful ripple effects across the SME sector.

Why this matters

The Productivity Commission's Building a skilled and adaptable workforce interim report highlights the potential of financial incentives and advisory services to lift SME capability. Evidence shows that training delivered through trusted intermediaries — such as industry associations and professional bodies — is highly effective because it leverages existing relationships and credibility. SMEs are more likely to engage with training that comes via a known and trusted source, rather than a centralised government portal.

Industry-specific support is particularly important in sectors with low digital adoption, such as construction, hospitality, and agriculture, where skills gaps are a major barrier. For example, 32% of construction businesses report a lack of digital skills as a key barrier to adoption. Addressing these gaps requires programs that integrate both tool-specific training and the leadership/organisational skills needed for long-term change.

Targeting trusted advisors amplifies this effect. When accountants, bookkeepers, or association leaders are equipped with digital transformation skills, they can guide dozens of SMEs in their networks — creating outsized impact through a ripple effect that cascades across the small business community.

International precedent: California's CalOSBA model

California's Office of the Small Business Advocate (CalOSBA) provides a compelling model. Its Technical Assistance Program channels funding through more than 100 intermediary organisations — including Small Business Development Centres, Women's Business Centres, chambers of commerce, and rural networks — rather than expecting SMEs to apply directly.

- **Scale and reach:** Over 560,000 businesses were served between 2018–22, with services offered in 30+ languages.
- **Economic impact:** The program helped start 5,000 new businesses, create more than 35,000 jobs, and deliver US$4.5 billion in capital infusion.
- **What worked:** Leveraging trusted intermediaries; reducing application burdens for SMEs; tailoring delivery to community needs; and ensuring equity outcomes.

This demonstrates how partnerships with established networks can amplify government investment and ensure programs reach the businesses most in need.

Design considerations for Australia

An effective Australian approach should draw directly on both domestic and international lessons:

- **Leverage trusted intermediaries:** Partner with industry associations, accountants, bookkeepers, and regional bodies that already have credibility and reach with SMEs.
- **Tailor by sector and region:** Focus on industries with persistently low digital adoption and ensure delivery models are relevant for regional and remote businesses.
- **Blend technical and organisational skills:** Provide training not only in using digital tools, but also in leadership, change management, and transformation capability — areas that SMEs often struggle to dedicate time to.
- **Amplify through advisors:** Target trusted advisors whose guidance can create one-to-many ripple effects across SME networks.
- **Keep participation simple:** Minimise applications or reporting burdens by funding intermediaries directly.
- **Acknowledge barriers:** Time-poor SMEs may still struggle to attend training, and both technical and cultural barriers to adoption must be addressed in program design.