

ARA & American Express Small Retail Index

JULY 2023



Australian
Retailers
Association

&



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Foreword

I cannot recall a period of more significant challenge for our retail community – with our small retailers disproportionately affected by ongoing revenue and resource pressures.

As we commence the 2024 financial year, the ARA is pleased to support our vital and vulnerable small retail community with this ongoing retail insights series in partnership with our principal partner American Express.

This research is the first Australian index to focus exclusively on SMB retailers. This important data will be used to inform ARA and government decision making as well as helping SMB retailers to benchmark their own performance.

2023 ushered in the perfect storm for retail – a spending slowdown, coupled with the rising cost of doing business, all taking place alongside the largest set of government reforms in decades and a retail crime wave that is impacting the wellbeing of workers and the bottom line of companies.

This occurs whilst retailers are grappling to stay competitive on e-commerce and distribution and invest and innovate in areas such as sustainability. Labour and skills shortages remain a key challenge.

At the start of 2023, retailers were focused on the labour crisis. Whilst this has eased, it is still a core challenge with more than 36,000 retail vacancies remaining. Unfortunately, SMBs can be disproportionately affected by the war for talent, often competing with the opportunities offered by larger businesses.

Looking ahead, inflation and cost of living increases have created a retail spending slowdown that is likely to continue into the new financial year. There is typically a lag effect with consumers with more pronounced impacts likely to come.

However, as has been acknowledged by government, the RBA and many economists, this is a unique period in our economic history and on that basis, it is very hard to make predictions.

This is also a year of reckoning for leasing costs - with many landlords not only rapidly increasing pricing to align with CPI, but also locking in long-term pricing and calling in debts from the pandemic period.

Small retailers have remained remarkably resilient in the face of years of ongoing challenge and we have great faith in this community to continue to turn challenge into opportunity.

Yet we are mindful of the toll these pressures are taking. The ARA continues to advocate powerfully for SMB retailers with government.

We are grateful for the ongoing support and investment in small retail by American Express and we look forward to sharing ongoing insights with you as part of this important series.



Paul Zahra
Chief Executive Officer,
Australian Retailers Association

Foreword

The retail industry has long served as a cornerstone of Australia's economy. Built by some of our nation's most inspiring business owners, this sector's contribution is not just economic. Through the 1.3 million Australians it employs, Australian retail plays an inextricable role in cultivating the diversity and vibrancy of our local communities.

Following years of consumer uncertainty, supply chain constraints and economic pressures, this research jointly commissioned by the Australian Retailers Association (ARA) and American Express paints a picture of an industry that is bracing for more challenges in the year to come.

Despite this, history has shown that no industry is more resilient and better positioned to emerge from adversity. And there are bright spots that inspire confidence. At American Express, we continue to see strong spend across travel and entertainment and our Card Members placing high value on premium experiences and service.

Retailers that adapt how they build, market and sell their products to meet new consumer behaviours will be best placed to acquire new customers, secure their loyalty and navigate the challenges ahead.

As an organisation committed to backing the success of Australia's small retailers, we are proud to stand side by side with the ARA to arm the industry with insights, support and tools to help them be successful.

Initiatives like American Express Shop Small – returning this November for its 11th year – and American Express delicious. Month Out reflect this time-honoured commitment to invigorating small business.

Also critical to supporting small business is arming them with knowledge and inspiration. That's why American Express' [Business Class](#) insights hub has been designed to promote resilience and growth by providing business owners with simple, timely and actionable information.

Now more than ever, Australia's small retailers need industry, government and community to rally behind them to show support, remove obstacles and pave the way forward. This report serves as a vital barometer of the wellbeing of Australia's small retail sector and prompts us all to work collaboratively towards a brighter future.



Emily Roberts

Vice President & General Manager,
Consumer & Commercial Services
at American Express

About this Research

This inaugural "ARA & American Express Small Retail Index" survey was conducted online nationally during May - June 2023. We commenced the survey immediately following the May Federal Budget.

385 retailers were surveyed, with retail turnovers below \$50m. Most of the survey participants (68%) had retail turnovers below \$5m.

The insights in the report also draw from [ARA's member research](#) throughout 2022 - 2023 supported by additional commentary from American Express.

Australian Retail Performance Snapshot



\$400b

value of retail economy

Source: ABS



1.3m

Australians work in retail

Source: ABS



\$35.5b

retail spend May 23 **+4.2%**
year-on-year growth

Source: ABS



9.4m

households shopped
online in 2022

Source: Australia Post



73.9

Consumer Confidence
June 23 **-2.9pts** on May 23

Source: Roy Morgan



5.6%

inflation

Source: RBA



32,200

retail job vacancies **-13%**
compared to February 2022

Source: ABS



~40%

of Australian retailers have
made net-zero commitments

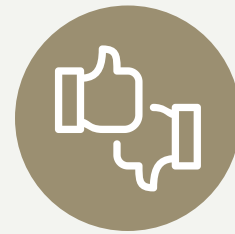
Source: AFR

Executive Summary of Small Retail Index



41%

of SMBs say they are performing below their financial forecasts



34%

of SMBs feel confident about their business performance for FY24. However, an equal number feel concerned



top concerns

the consumer spending slow down and rising wage costs are the most pressing SMB concerns



top priorities

acquiring new customers and increasing customer loyalty are top SMB priorities



35%

of SMBs reduced margins or found business savings to address cost concerns



32%

of SMBs experienced cost increases above 10% (above the level of inflation)



19%

of SMBs have reduced their staff and business hours to address cost concerns



24%

of SMBs have passed on higher costs to customers

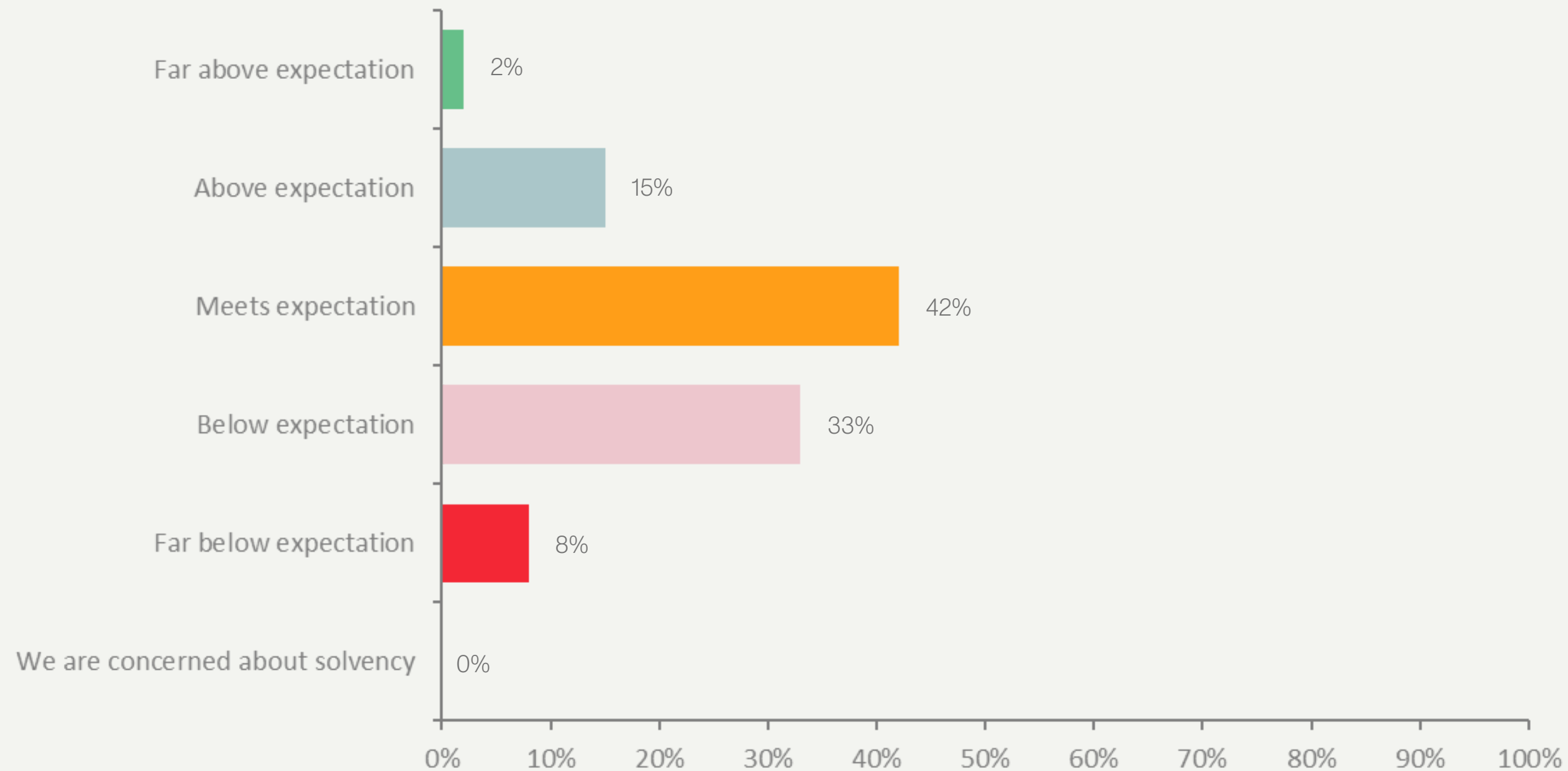
Executive Summary of Small Retail Index

- There is some cause for optimism with 17% of SMBs saying their business has performed above or far above expectation for FY23, However, most are simply meeting expectations (42%) or are performing below or far below their FY23 financial forecasts (41%).
- When it comes to the financial year ahead, 34% of SMBs feel somewhat confident or very confident. However an equal number feel somewhat or very concerned (34%). A further 32% of SMBs are feeling uncertain about the financial year ahead, which will impact growth, employment and investment decisions.
- The consumer spending slowdown and rising wage costs are the most pressing concerns for SMBs in the year ahead.
- Customer growth (24%) and retention (19%) is a strong future focus for SMBs, and 11% are seeking to strengthen or expand the staff team. However only 8% prioritised expanding or opening new stores.
- The rising cost of doing business is a reoccurring theme for SMBs with key cost pressures coming from wage rises, the rising cost of goods and services and leasing costs.
- Unsurprisingly, 91% of SMBs have seen cost increases in their business, with around one-third (32%) saying their costs have increased more than 10% - well above the level of inflation.
- SMBs are absorbing cost increases by reducing margin and looking for cost savings in their business (35%) with 24% of SMBs passing higher costs onto customers. Further, 12% have reduced staff and 6% have reduced stores or store hours.
- SMBs say the relief measures they would most like to see from government include: tax breaks, utilities reduction, lease cost reduction, wage cost reduction, and reduced inflation.

Survey Results

SMB Performance

How is your business performing in this current financial year, compared to your forecasts?



Key Findings:

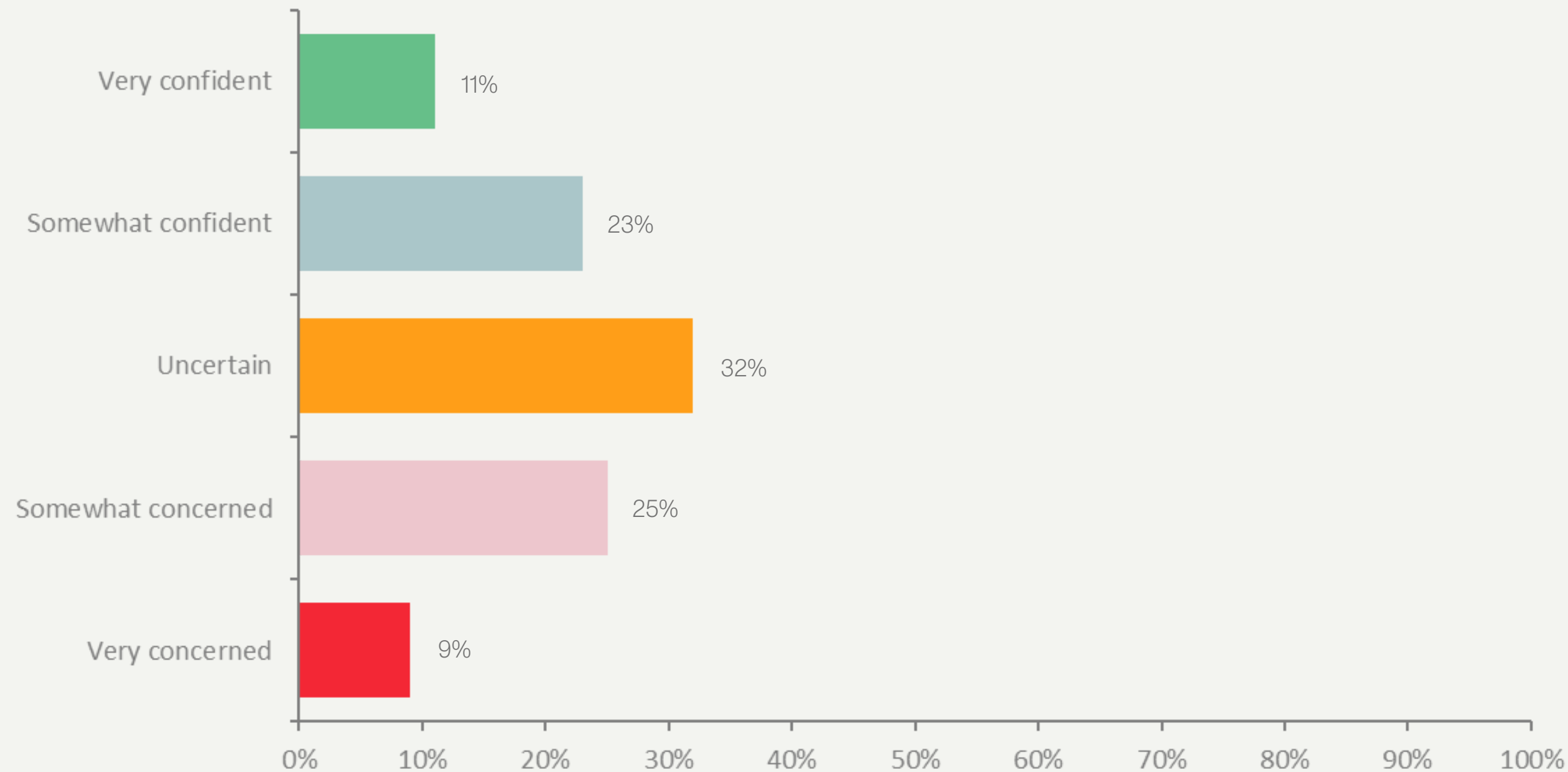
Whilst there was some optimism with 17% saying their business was performing above or far above expectation, most were simply meeting expectations (42%) or below / far below expectation (41%).

Allowing for the fact that some SMBs would have adjusted their budgets through each quarter, this is a concerning result.

Survey Results

SMB Confidence

How confident are you feeling about your business performance for the next financial year?



Key Findings:

An equal number of businesses were feeling somewhat confident or very confident (34%) to those who were somewhat or very concerned (34%).

Uncertainty was a key sentiment with 32% of SMBs saying they were uncertain about the year ahead.

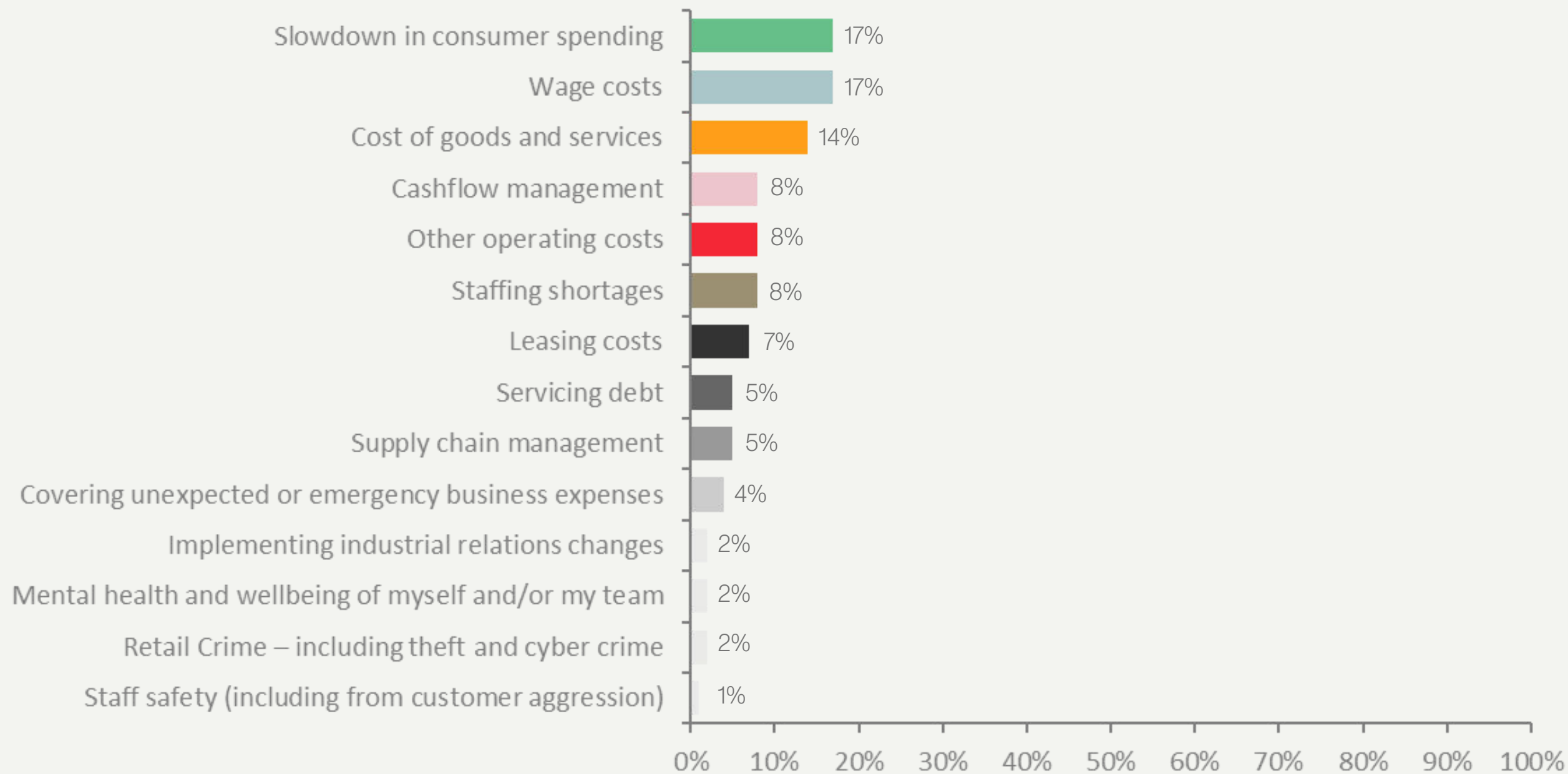
American Express Insights:

There is much we can learn from the more than one-third of small retailers that report a more positive outlook for the financial year ahead. Among them are businesses that look beyond the products they're selling to prioritise service and premium experiences.

Survey Results

SMB Top Concerns

Select the top three concerns for your business for the next 6-12 months



Key Findings:

The consumer spending slowdown and rising wage costs are the most pressing concerns for SMBs in the year ahead.

Overall the rising cost of doing business is a reoccurring theme - from the cost of goods and services and leasing costs.

American Express Insights:

Optimising cash flow can be an effective strategy Australia's small retailers can deploy to place their businesses in a better position to manage rising costs, currency fluctuations and variable consumer demand.

Survey Results

SMB Top Priorities

Select the top three priorities for your business for the next 6-12 months



Key Findings:

Customer growth (24%) and retention (19%) is a strong future focus for SMBs, and 11% are seeking to strengthen or expand the staff team. However, only 8% prioritised expanding or opening new stores. Supply chain concerns have fallen in priority post-pandemic with only 7% identifying this as a top concern.

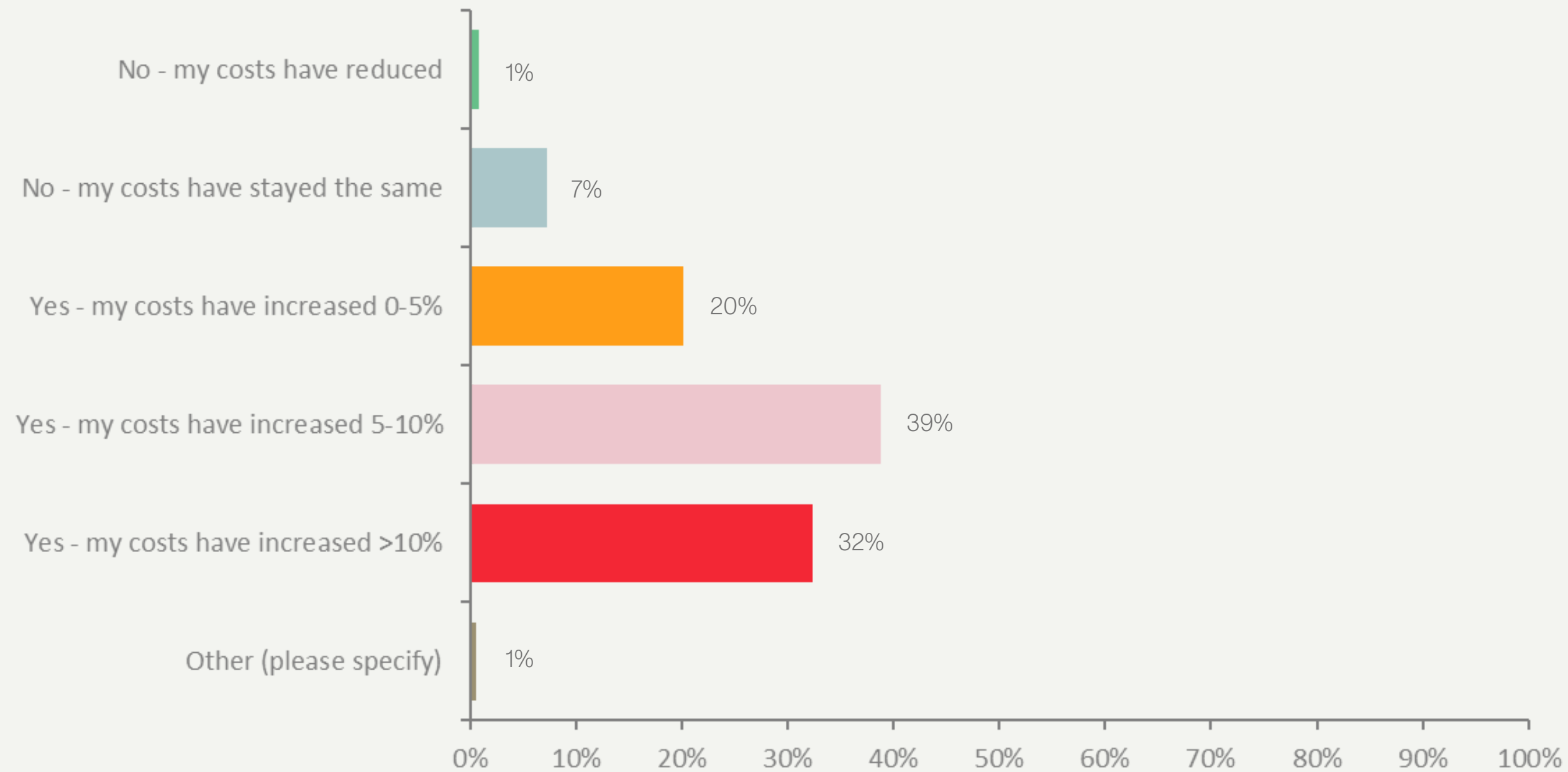
American Express Insights:

We know that loyal customers help businesses grow by spending more and spending often. Rewarding your customers is a great way to encourage customer loyalty and attract lifelong fans of your business.

Survey Results

Costs

Have you incurred higher costs in the past 12 months?



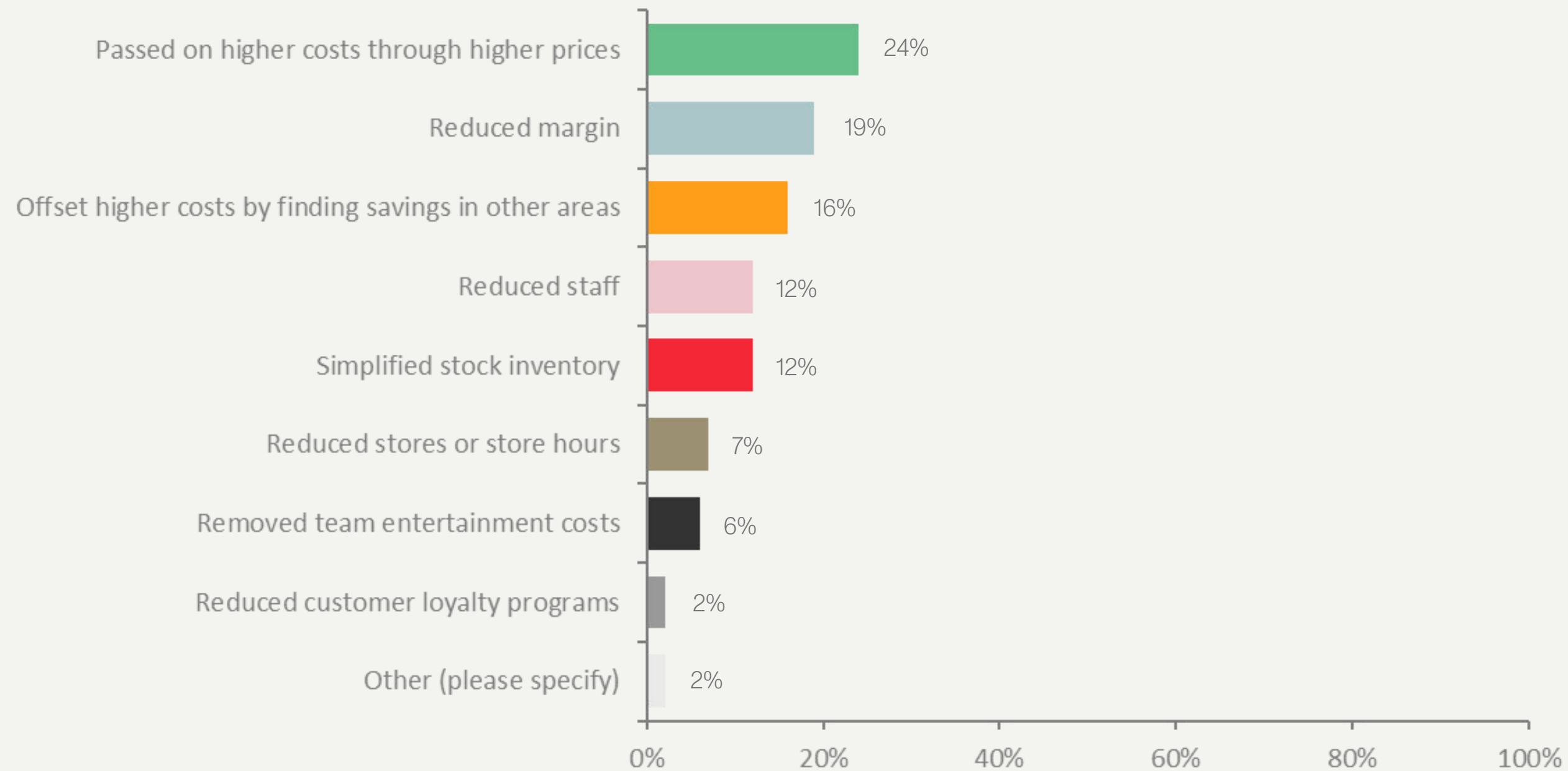
Key Findings:

Unsurprisingly, 91% of SMBs have seen cost increases in their business. However, around one-third of SMBs say their costs have increased more than 10% - which is above the level of inflation.

Survey Results

Higher Cost Actions

If you have incurred higher costs, what actions have you taken? (select all that apply)



Key Findings:

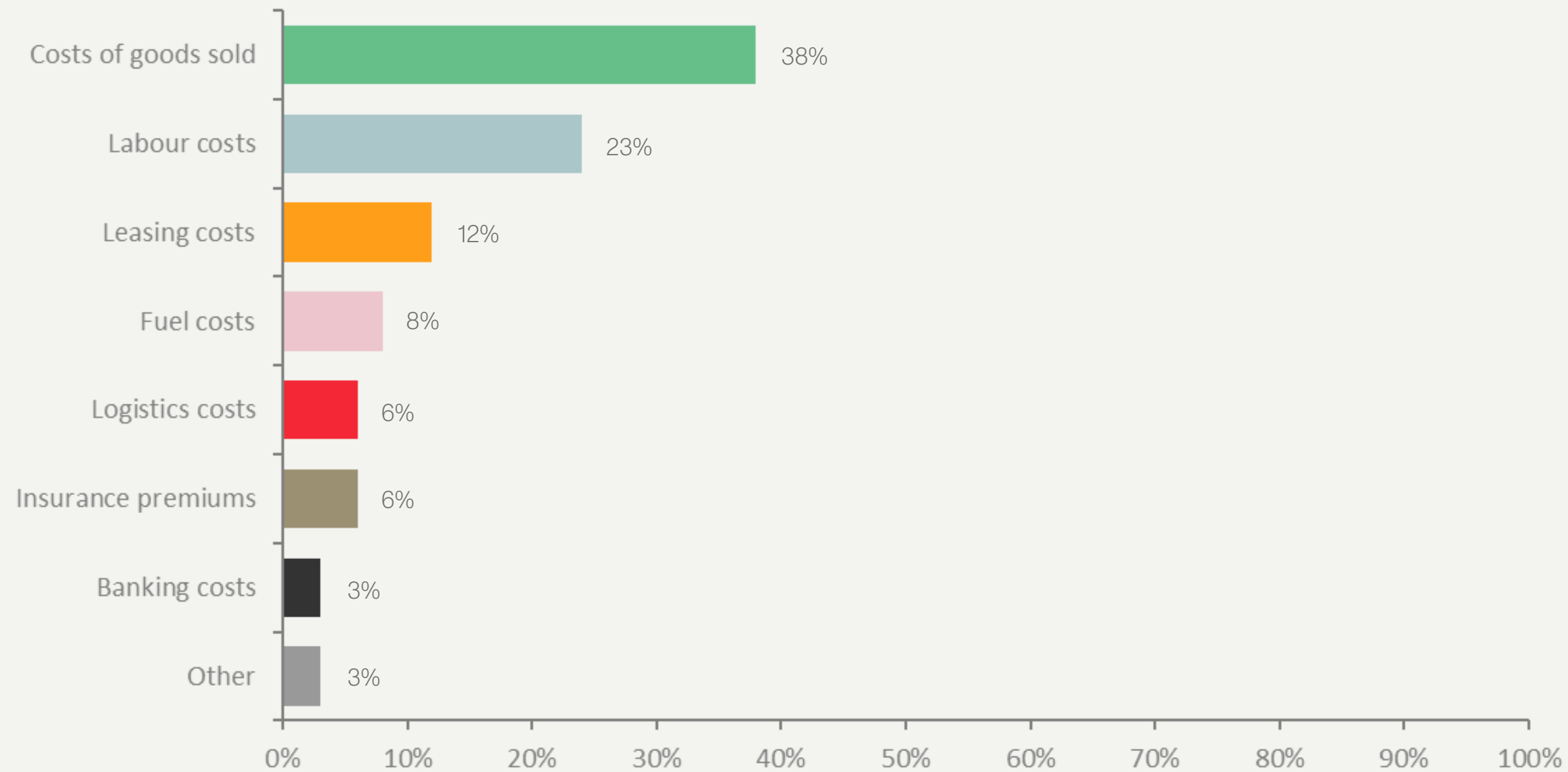
SMBs are absorbing cost increases by reducing margin or finding savings in other areas, with 24% of SMBs passing higher costs onto their customers.

19% of retailers have reduced staff and stores or store hours to compensate for the increased cost of doing business.

Survey Results

Cost Contributors

What has been the largest contributor to your increased costs this financial year?



Key Findings:

Costs continue to rise across the board for retailers with the cost of goods, labour costs and leasing costs driving the greatest increases.

Survey Results

Current Conditions

Would you please share some general comments about conditions for your business this year?

Struggling with cost of doing business

- "This has been my toughest year in business. It is hard to cover expenses."
- "I have cut back staff hours & had to put more time in myself whilst some weeks going without pay or very little."
- "There is difficulty passing on the full input costs increases to customers."

Impacted by customer spending reduction

- "Fewer customers into store, high customer expectations regarding reduced pricing."
- "Consumer spending has dropped and the cost of running my business has increased considerably."
- "Clients are still coming in, but spending far less."

Feeling uncertain

- "Very uncertain as sales have been yo-yoing."
- "In business over 30 years with variance and business is now erratic unpredictable and no longer enjoyable."
- "The never-ending increases in essential business expenses bring into question the viability of owning your own small family based business."

Steady but conscious of conditions

- "It has been good until now, but we can feel it tightening up considerably."
- "Stable but under pressure."
- "Healthy, but very conscious of rising expenses."

Survey Results

Desired Implementations

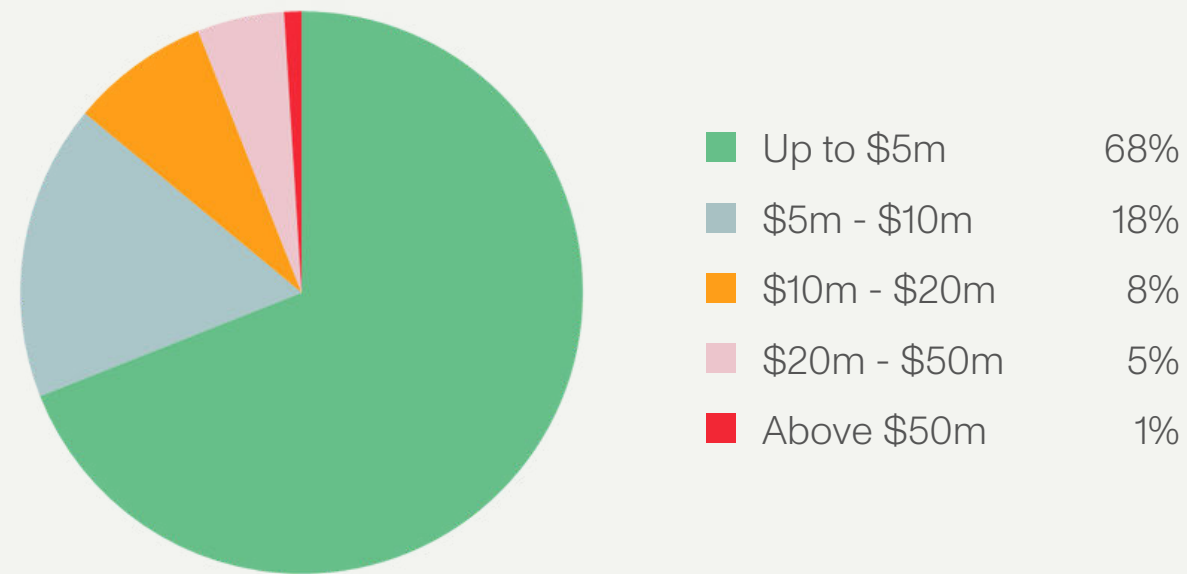
What is the one thing if implemented by the Government today that would have the biggest positive impact on your business?

-  1. Tax cuts / breaks / reduction
-  2. Interest rate reduction / freeze
-  3. Utilities cost reduction
-  4. Lease reduction
-  5. Wage costs
-  6. Reducing inflation
-  7. Funding & incentives for businesses

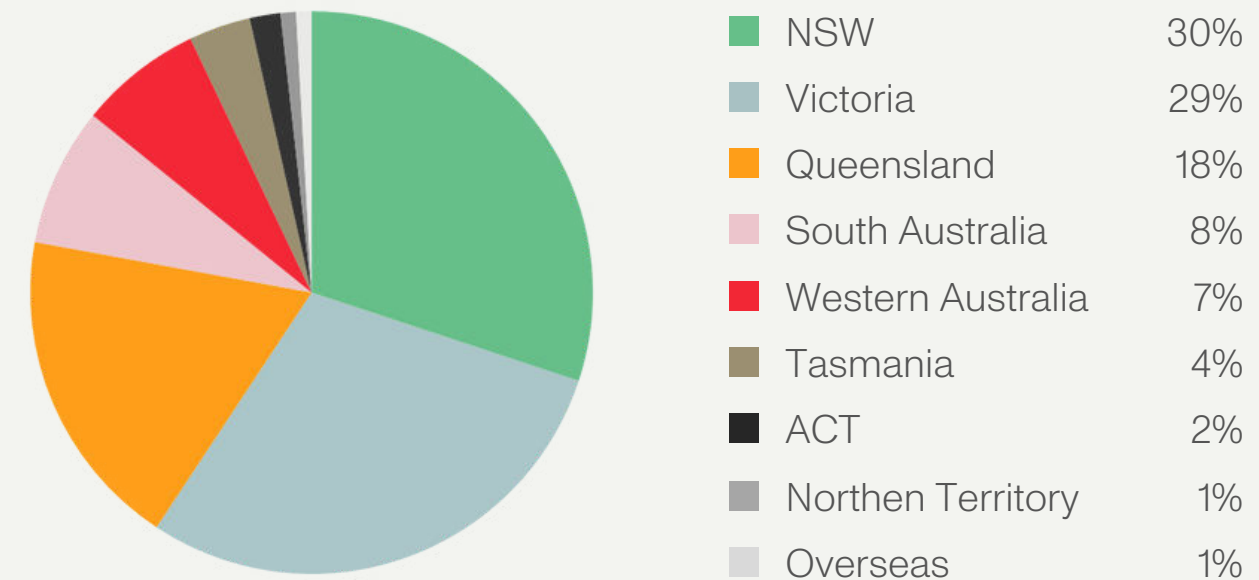
-  8. Prioritising support for small businesses
-  9. Systematic change within Government
-  10. Freight & fuel cost reduction
-  11. Increased staff
-  12. Cost of doing business reduction
-  13. Climate change plan

Survey Respondent Information

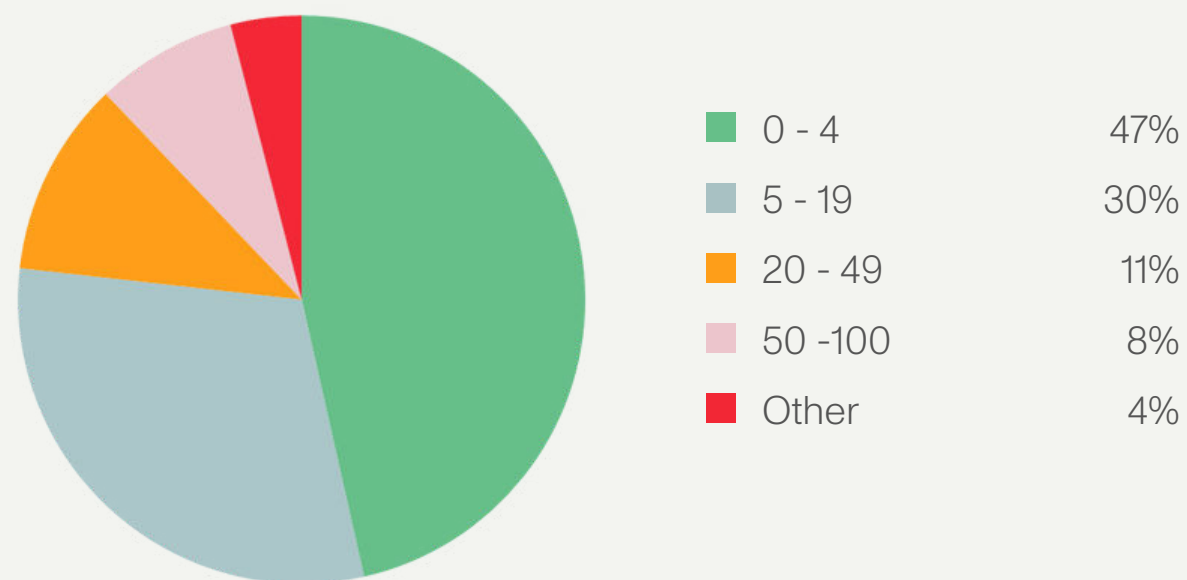
What has been the average revenue (AUD) of your business over the past three years?



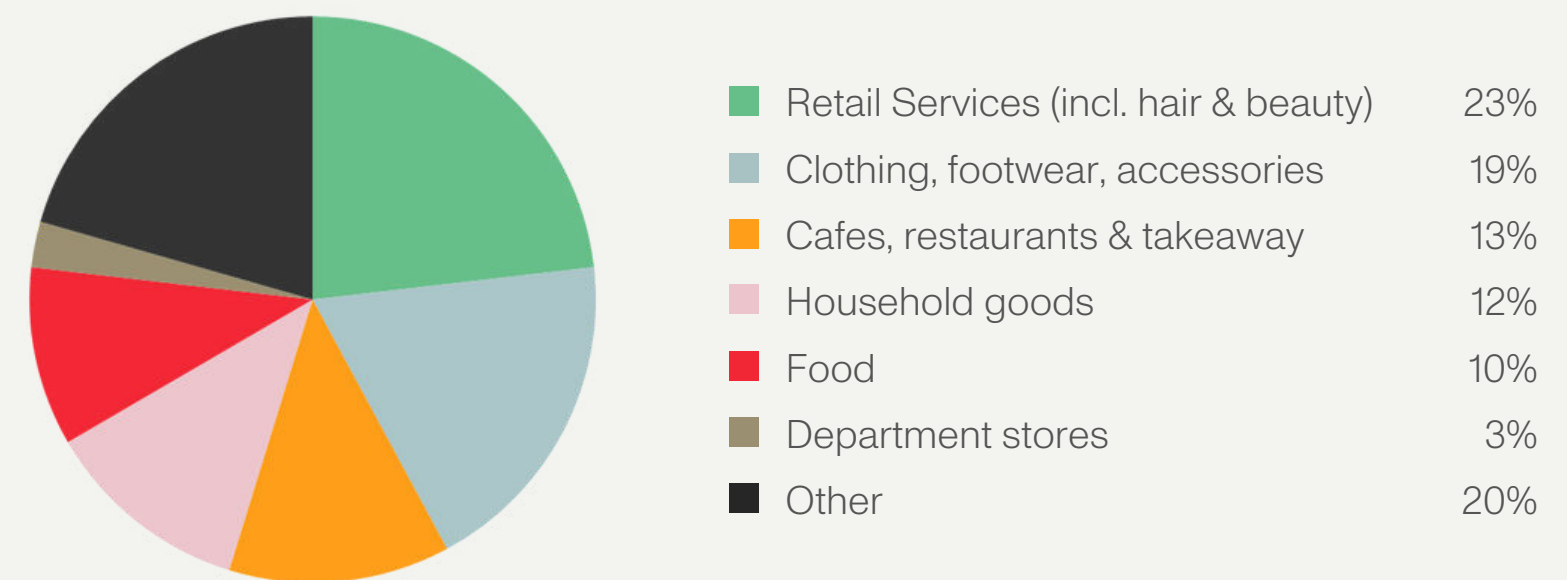
What states/territories do you have businesses in? (select all that apply)



How many permanent staff do you employ?



What category of retail does your business fall under?



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