



ARA & American Express Small Retail Index



Foreword

Small to medium size businesses are the backbone of our retail economy, and the ARA is pleased to support this vital and vibrant community with this Small Retail Index and insights series in collaboration with American Express.

There is no question 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.

But we are mindful of the toll these pressures are taking. I can't recall a period of more significant challenge for our retail community – with our small retailers disproportionately affected by ongoing revenue, cost and resource pressures.

As we approach the end of the year, it's useful to reflect back on key events from this year.

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 occurred whilst retailers were grappling to stay competitive in e-commerce and distribution and invest and innovate in areas such as sustainability.

At the start of the year, retailers were focused on the labour crisis. Whilst this has eased, it is still a core challenge with more than 38,500 retail vacancies remaining as of November 2023. Unfortunately, SMBs can be disproportionately affected by the war for talent, often competing with the opportunities offered by larger businesses.

This has also been 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.

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.

The aim of this Small Business Index is to deeply discuss and understand the core challenges facing small retail and hospitality businesses – and to use that knowledge to support and strengthen our advocacy platform.

We hope you will find it insightful.



Paul Zahra

Chief Executive Officer,
Australian Retailers Association

Foreword

Together with the Australian Retailers Association, we're proud to deliver the latest findings from the ARA & American Express Small Retail Index, on a topic very close to our hearts - small business.

This report confirms what many of us know to be true: The pressures facing small businesses are considerable. Not only do they have to contend with rising costs, but also the uncertainty of what's around the next corner.

Christmas is typically one of the busiest times of year for most retailers, but with cost-of-living pressures meaning consumers are being more considered with their spending, retailers have every right to feel apprehensive about whether the festive season will live up to expectations.

Commissioned in September and October, 2023 and surveying more than 500 SMB retailers, this index paints a clear picture of more challenges for the sector. But equally, it shows a promising new wave of resilience amongst business owners, as they seek new ways to respond and move their businesses forward.

While retailers remain resilient, we also know that they can't tackle this alone. It is critical that we do all that we can to support small businesses - from industry to the corporate sector and Government, each of us has a role to play.

We hope that you review this report to gain an even deeper appreciation for the tenacity of small business operators and a renewed spirit to rally behind the sector. And for small business owners reading this, we're behind you.



Emily Roberts

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

Executive Summary of Small Retail Index

Surveying small to medium sized retailers has provided us with important insights for the retail industry.

Hundreds of small to medium sized retailers were surveyed, with revenues under \$50 million (this is considered a small to medium sized enterprise). There were many valuable insights around business performance which are detailed in this report.

Despite ongoing financial concerns and uncertainty, we are seeing encouraging signs of future growth with positive sentiment towards investment in areas such as sustainability, AI, staff bonuses and staff training.



43%

of SMBs say they are performing below their financial forecasts



55%

are uncertain or lacking confidence about their business performance



priorities

acquiring new customers and increasing customer loyalty are top SMB priorities



concerns

the consumer spending slowdown is the most pressing SMB concern



36%

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



54%

of SMBs have passed on higher costs to customers



56%

are investing about the same or more into sustainability for 2024



25%

are attracting and retaining staff through staff incentives and bonuses

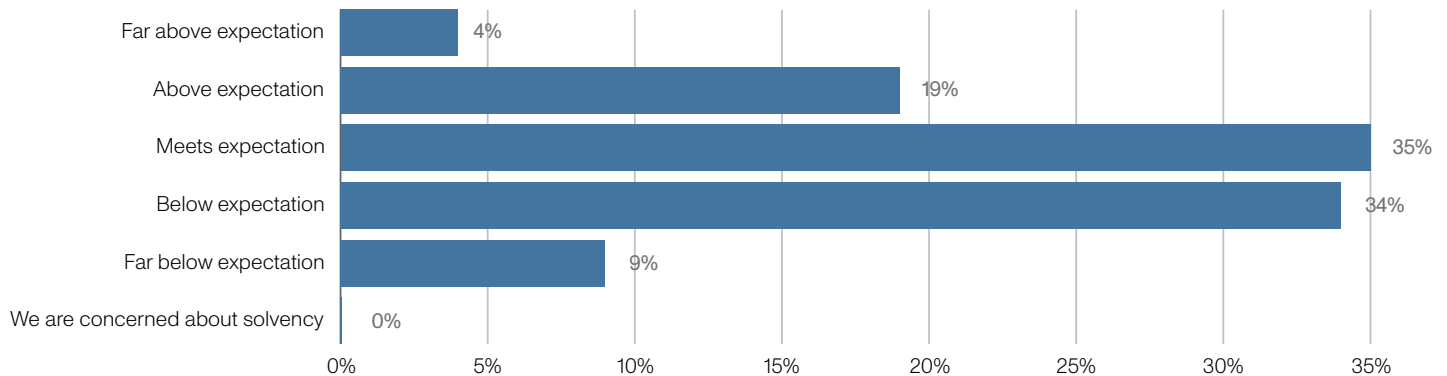
Business performance

Whilst many retailers are meeting their financial expectations, most remain concerned about their financial future.

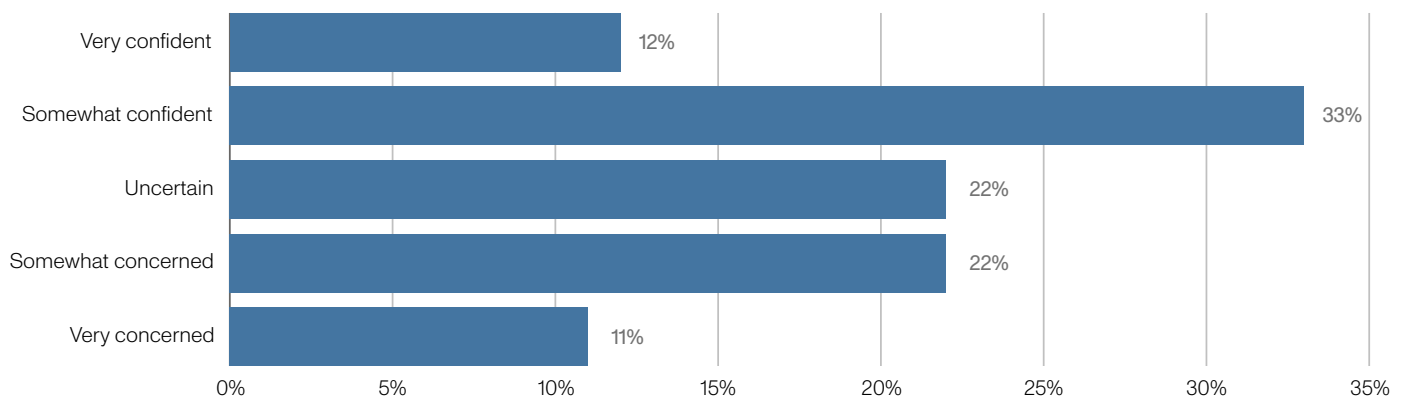
Whilst there is some cause for optimism with 23% saying their business was performing above or far above expectation, most were simply meeting expectations (35%) or below (34%) / far below expectation (9%). Allowing for the fact that some SMBs would have adjusted their budgets through each quarter, this is a concerning result.

Whilst, hopefulness was a key sentiment for some with 33% of SMBs saying they are feeling somewhat confident for the remainder of the financial year, unfortunately 55% are uncertain or concerned about their future performance.

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



How confident are you feeling about your business performance for the remainder of this financial year?



The top concerns

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 to leasing costs.

Interestingly, mental health and the wellbeing of the individual surveyed and the team were not too high on this list, which is an encouraging result, given the strenuous change and disruption our retail community has faced.

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

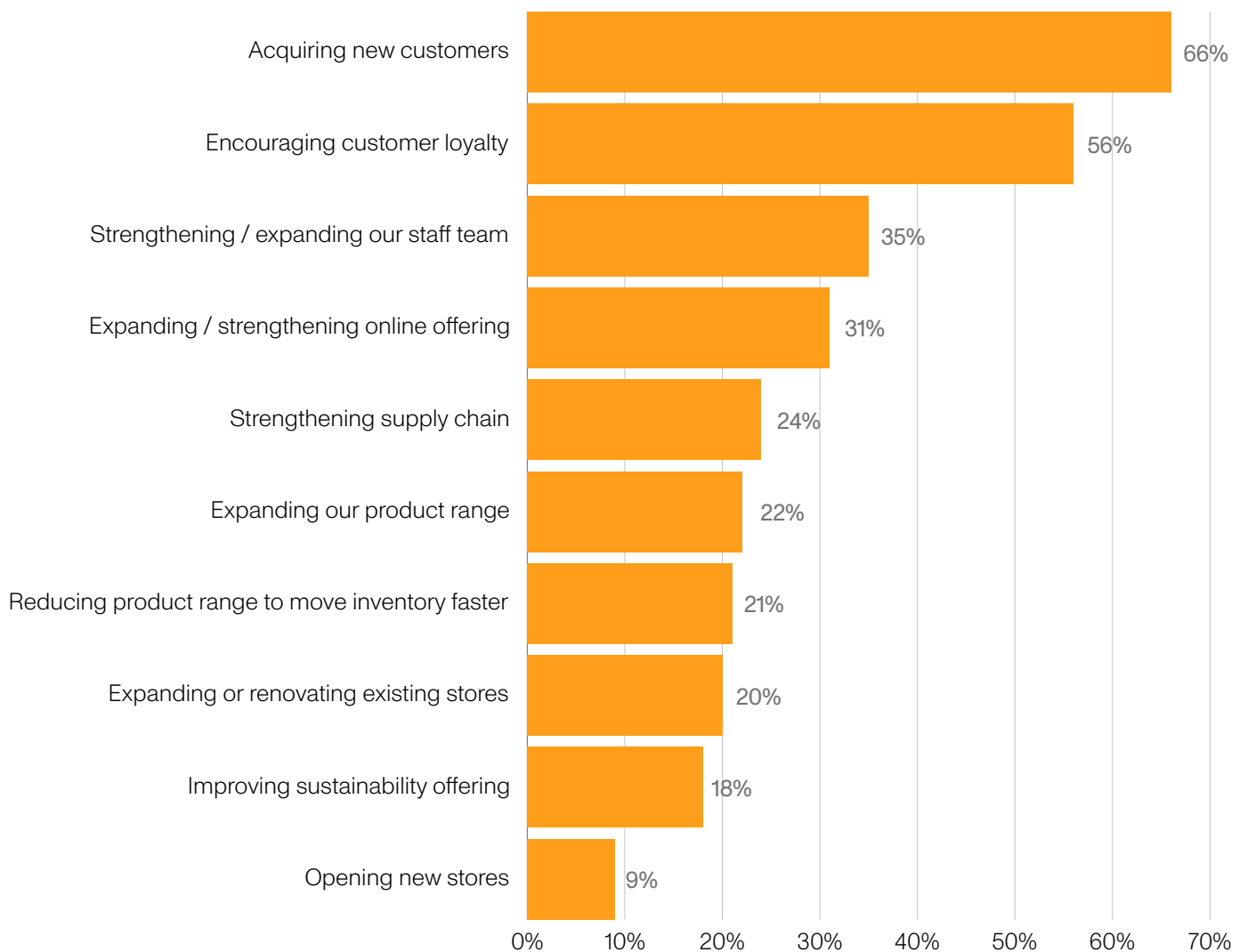


The top priorities

Customer growth (66%) and customer loyalty (56%) are strong future focuses for SMBs, and 35% are seeking to strengthen or expand the staff team. However, only 9% prioritised expanding or opening new stores.

Supply chain concerns remain a priority with 24% identifying this as a top concern. Opening new stores, and expanding and renovating are the lowest priorities at the moment for SMBs.

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



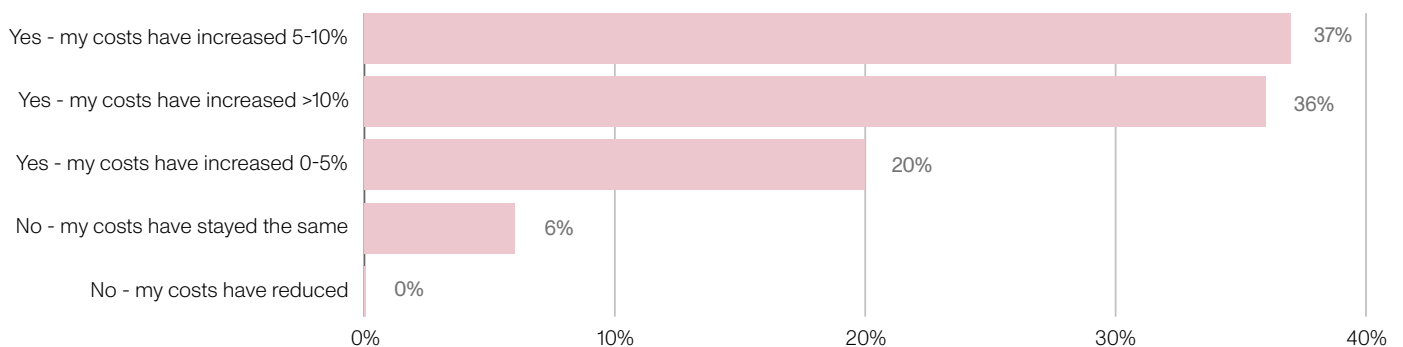
Higher costs

The majority of respondents have incurred higher costs, resulting in these costs being passed on to consumers.

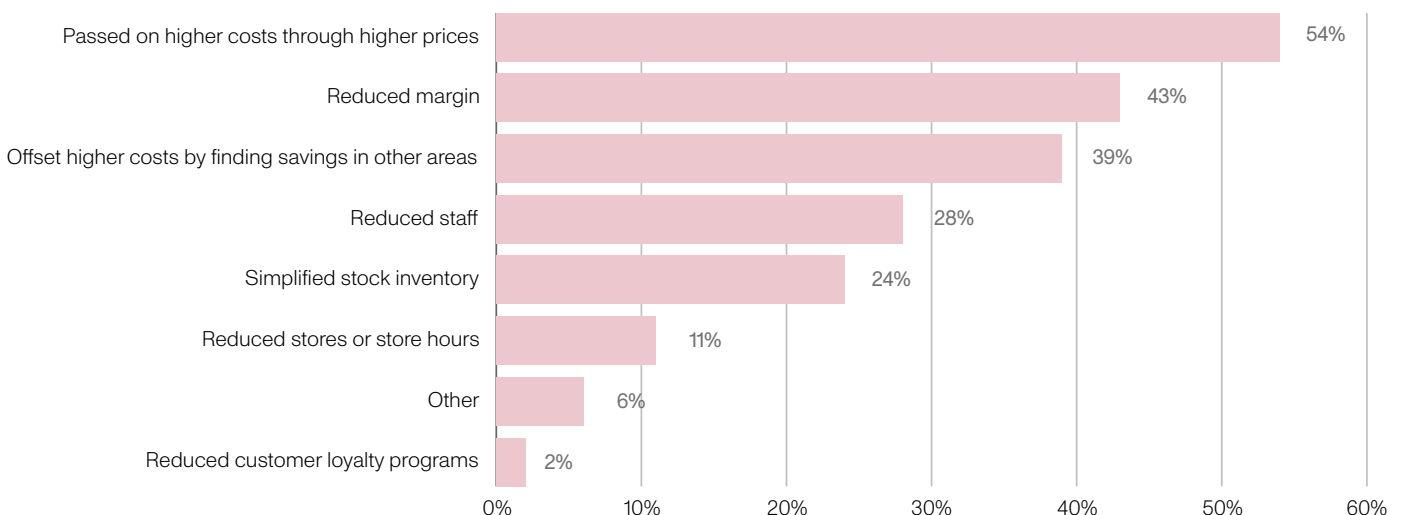
Unsurprisingly, 93% of SMBs have seen cost increases in their business. However, around one-third of SMBs say their costs have increased more than 10% - which is above the level of inflation.

SMBs are absorbing cost increases by reducing margins, with 54% of SMBs passing higher costs onto their customers. 28% of retailers have reduced staff to compensate for the increased cost of doing business.

Have you incurred higher costs in the past 12 months?



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

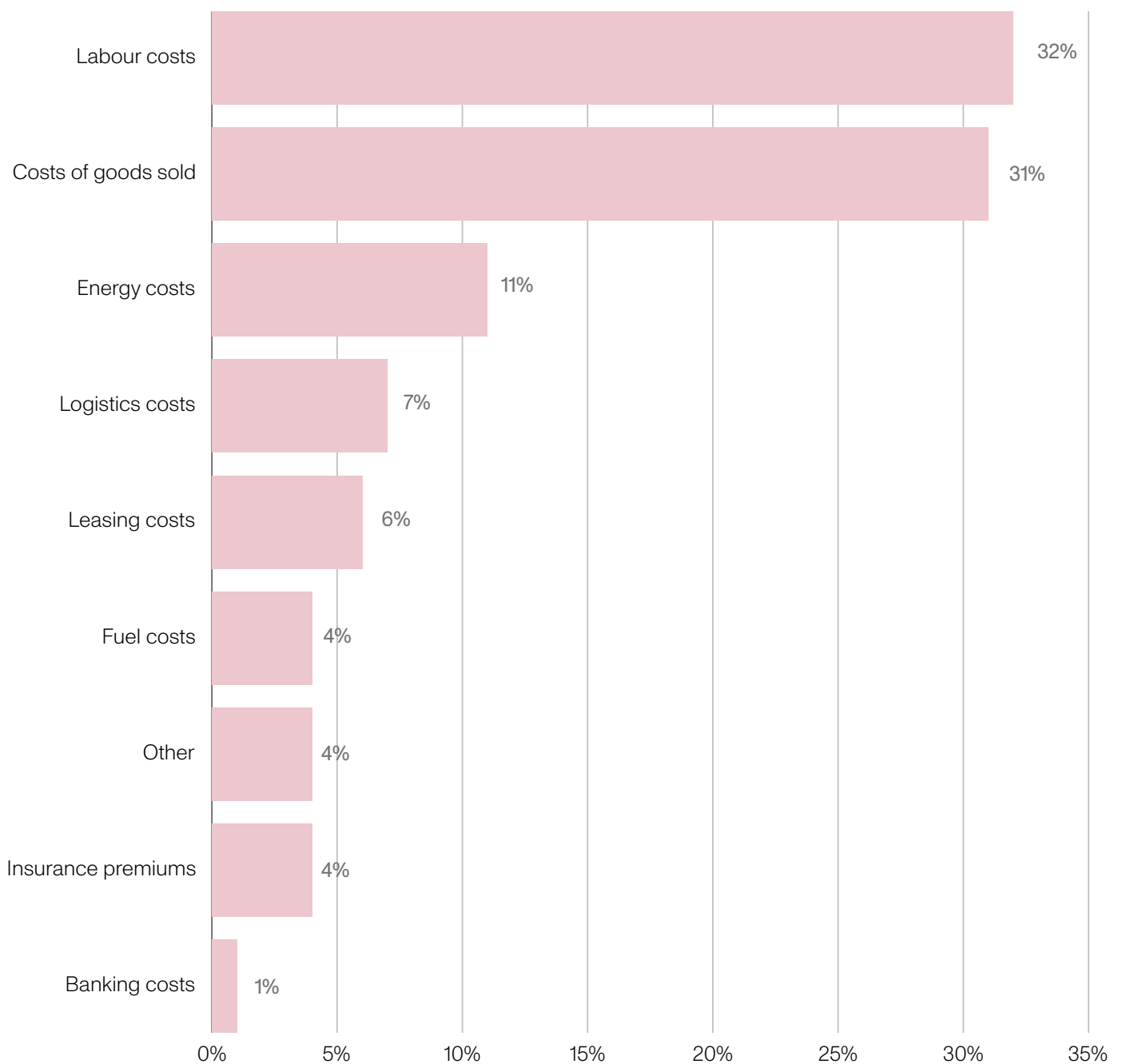


Higher costs

Costs continue to rise across the board for retailers with labour costs, the cost of goods, and energy costs driving the greatest increases. We know that retailers have been growing their online presence and that's come with some need to increase staff as well.

Retailers are also seeing increased costs in energy costs, and the ARA is advocating for continued support from Government in this area.

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

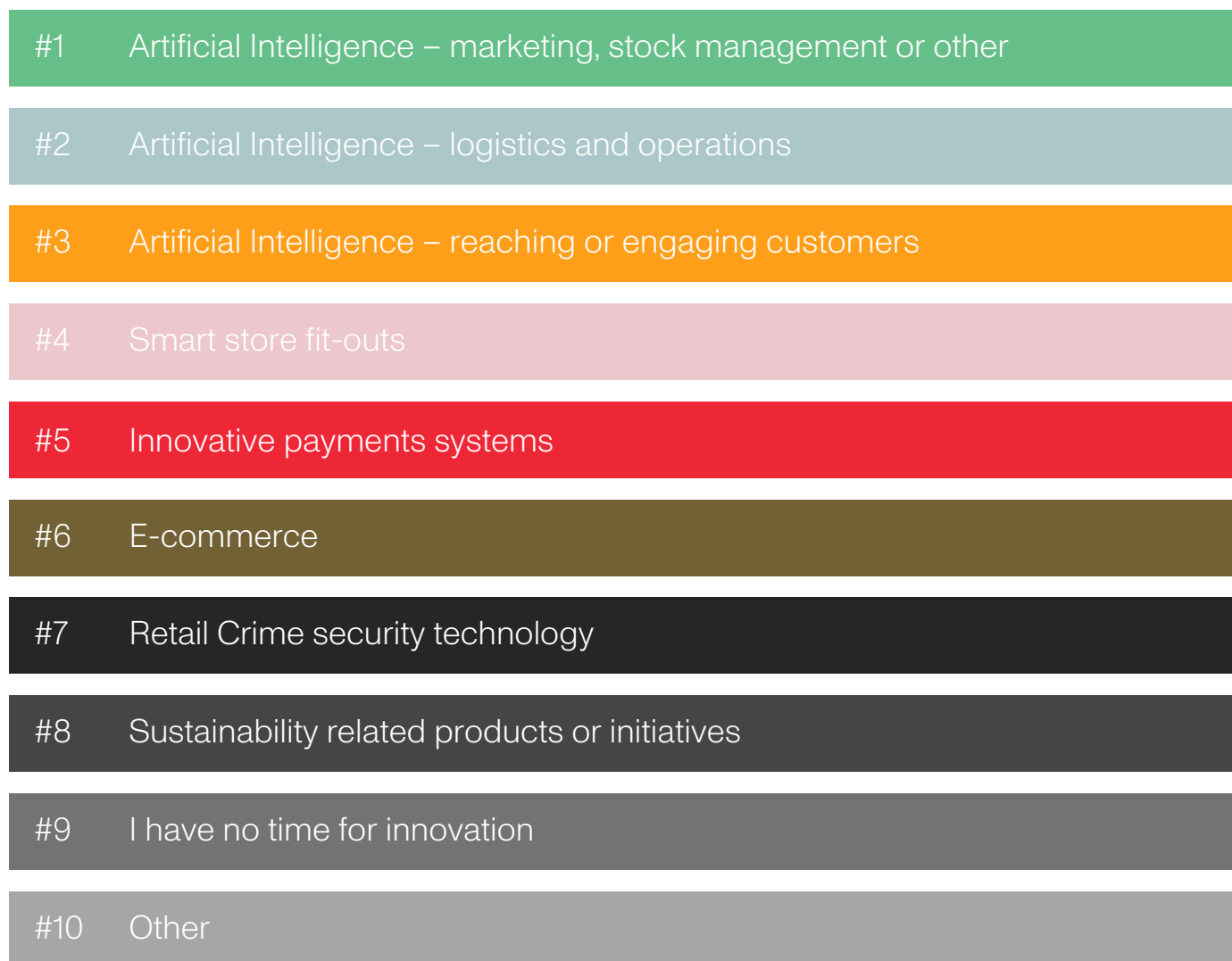


Focus on innovation

Artificial Intelligence has come in as the top three areas of focus for small and medium sized businesses, which is encouraging given the strong momentum in that area.

There appears to be a real appetite to invest in the space, whether it comes to marketing, logistics and operations, or engaging customers.

When it comes to innovation, which of the following areas are you likely to invest resources into in the coming 12 months? (in order of priority)

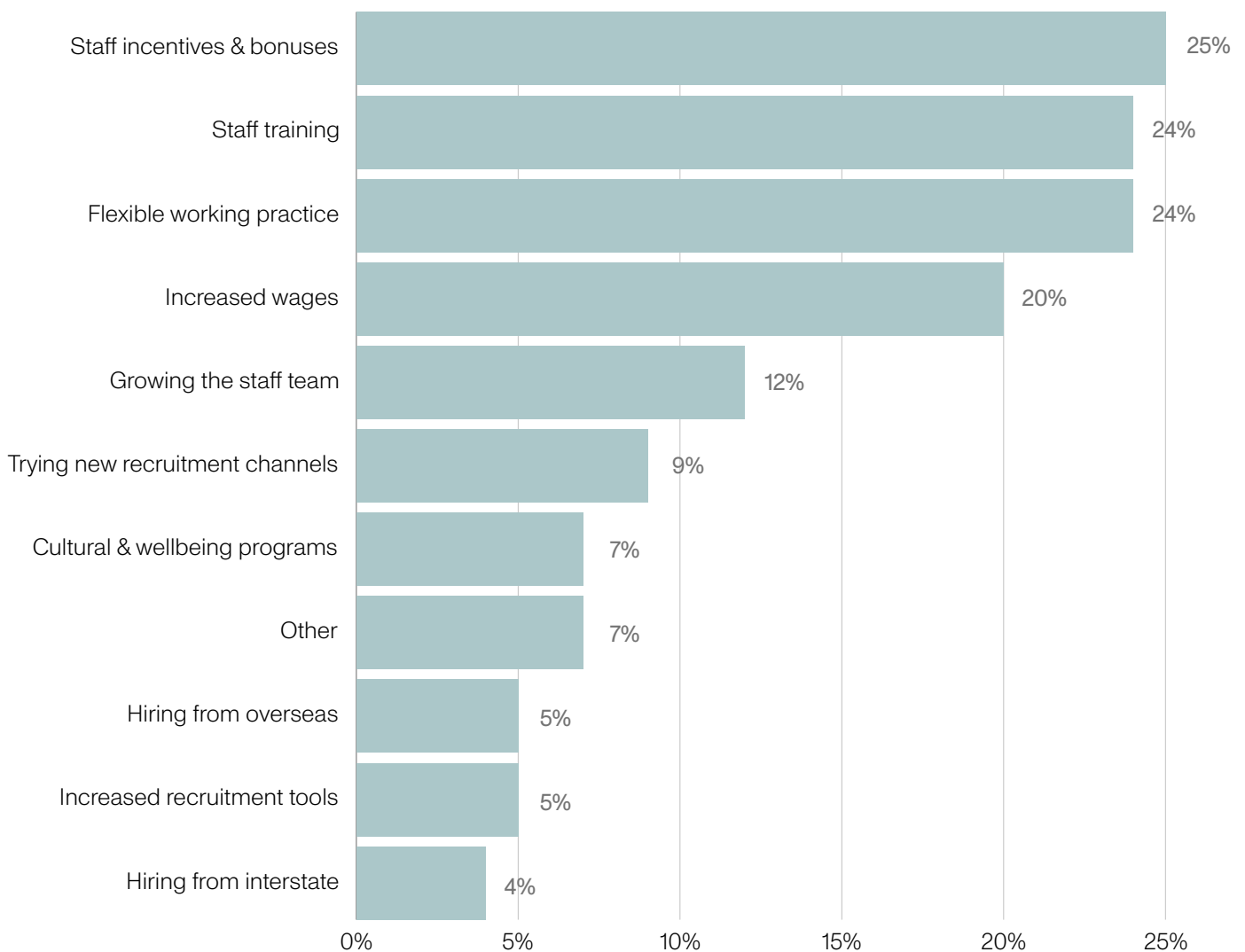


Retaining staff

Incentives, bonuses and staff training remain popular areas of investment. Flexible work practices are also an alluring option when it comes to attracting & retaining talent for 2024.

With many high-tech options now entering the market to aid recruitment, it's not surprising to see investment in new channels to help grow the team.

When it comes to attracting and retaining staff, which of the following areas are you investing in for 2024?



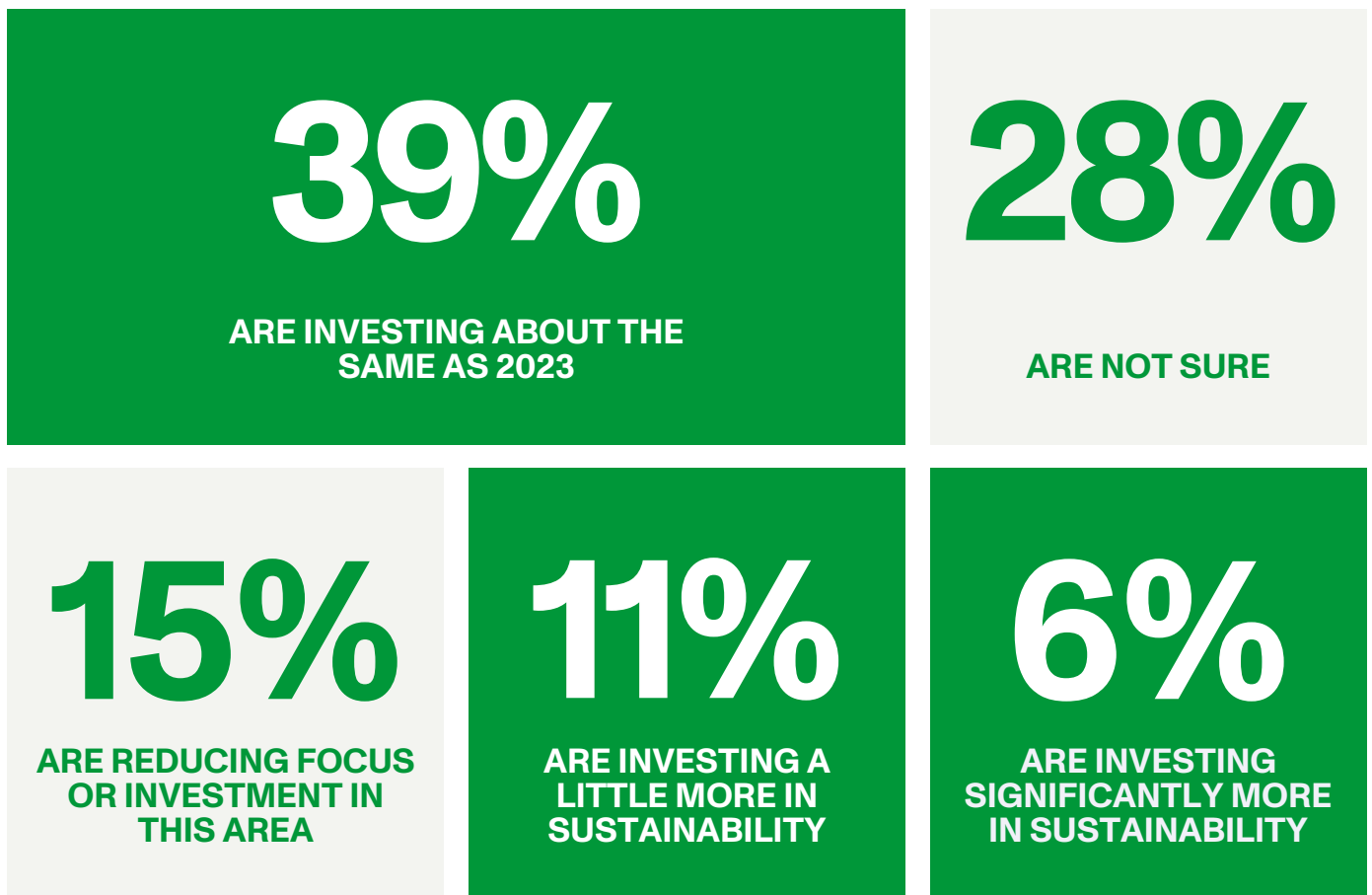
Focus on sustainability

Over half of participants are investing about the same or more into sustainability for 2024.

It's encouraging to see the majority of small businesses investing in sustainability, however, it's concerning to see high percentages of participants staying neutral or going backwards with their investments.

With growing customer interest in sustainable practices and mounting Government involvement in the space, it's important that retailers are continually using sustainability as a customer attractor, a point of difference, and a market leadership trait.

How big a focus is sustainability for 2024 for SMB retailers?



Focus on sustainability

Looking specifically into what areas are being invested in within sustainability, we see a strong focus into sustainable packaging and sustainable product lines. Of course, with the Government's focus in those areas, this is not a surprising result. However, a concerning 35% of retailers are not investing in sustainability despite mounting customer demand in this area and retailers needing to meet Government requirements.

The areas that reported less investment were emission reduction (14%), and sustainable delivery methods (8%). Other areas of investment are supply chain transparency (6%), offsetting emissions (4%), donating to charitable causes (2%), and engaging with sustainability consultants (2%).

What areas of sustainability are you investing in? (tick all that apply)



Insights from the ARA & American Express Small Business Roundtable

In October 2023, the ARA and American Express convened a roundtable in Sydney which included a range of high profile small business representatives - from Small Business Commissioners and industry associations to retail and hospitality businesses.

We explored a range of challenges and opportunities and also discussed the findings in this report. Highlights from this discussion are included below and will be included in our small business advocacy moving forwards.



Paul Zahra – CEO, Australian Retailers Association

“It’s been a perfect storm coming out of COVID-19 – small business owners have struggled through and are very resilient, with most doing ok if they survived.

Many small businesses are suffering due to leasing costs, along with wages and utilities all going up. Of course, if they take their own pricing up it then impacts on inflation and perpetuates the problems in the economic market.”



Emily Roberts – Vice President & General Manager, Consumer & Commercial Services, American Express

“When we look at optimism and overall business confidence, this index reveals that 43% of small and mid-sized businesses are not meeting their financial targets, amidst a challenging operating environment.

However, business owners have indicated that they are taking action to change this trajectory, by focusing on new customer acquisition, existing customer loyalty, and innovation.

Innovation opportunities are emerging in the forms of AI and e-commerce, providing efficiency and growth opportunities as businesses continue to move forward and look beyond these challenging times.”

Insights from the ARA & American Express Small Business Roundtable



Lynda McAlary-Smith – VIC Small Business Commissioner

"I echo the value in taking the mediation pathway with resolving leasing disputes – even when it looks like it's unresolvable. It's uncommon to deal with a small business leasing dispute less than \$500M – we have a 76% success rate, and it does work – even from a landlord perspective.

There is some naivety from small business owners in leasing contracts. Often, they sign up for lease terms and do not understand the financial commitments. Maybe even spending a few hundred thousand in a fit out.

When signing up to a lease they must read the terms of the lease to go in fully informed.

Seeing people willing to start small businesses and passion for serving the community – we must understand how to collectively support that.

It's not great for Australia if people are just walking into well paid jobs, which some young people see as the preferable pathway. We need young people to come into small businesses for the benefit of the country."



Dominique Lamb – QLD Small Business Commissioner

"We have a 71% success rate in mediation and resolving disputes. We are currently seeing a lot more lockouts from landlords.

There is a high rate of business failure due to lack of basics in financial literacy, new business owners don't want to pay for legal advice –and this is not seeing them sustained in the long-term.

Small businesses are the life blood in largely populated or tiny spaces. We continue to be concerned about what that looks like in the future.

We see a threat to life from a small business owner on our assistance line once a week."



Chris Lamont – NSW Small Business Commissioner

"The biggest challenge is inflationary pressure and the cost of doing business – what we are seeing is equivalent to 1987, where most businesses were not operating in that environment.

Most small businesses do not have the strength to carry on. They used home equity to start their business. The younger generation do not have this capacity. We are also seeing that younger entrepreneurs are good with ideas, but not good at cash flow or contracts.

We hope we have reached the bottom of the 'U' and we see improvement in business conditions in 2024.

In terms of leasing, we are seeing 80% resolution of disputes at or before mediation. This is because landlords are not sure they will get another tenant in this climate, also if they do win, they still will not get a good outcome from someone going bankrupt."

Insights from the ARA & American Express Small Business Roundtable



Sandy Chong – CEO, Australian Hairdressing Council

“Succession planning is a difficult thing to do. Most hairdressing business owners are just closing the doors and not selling. Another factor is that millennials want freedom, so they are renting chairs and not opening salons – therefore they are not creating sustainability for the industry as they are not employing apprentices.

70% of industry are now single operators with the main concerns being the cost of living, IR, leasing and problems with cashflow – there is also abuse from customers and mental health issues.

Small business owners always pay staff first and always put themselves last – a lot of times they are getting paid less than the people they employ.”



Jason Minty – Managing Director, Becker Minty Group

“Retail is in a very tough place right now and it’s stressful for everyone. I’ve been open for 16 years – and the challenge is which direction to go – with my values as I’m a believer in bringing customers into the store – so the question is where to put the funds and focus.

Our cost base is getting higher and higher – international shipping used to be \$52K and now for the same quantity it’s \$150K a year. We have had to change our business model and think locally rather than internationally.

in terms of Christmas it’s a real struggle getting stock, along with having cashflow challenges. People are not talking about Christmas yet – we need to think about being clever and hope to make a good in store experience.”



Jane McNally - CEO, Camilla Australia

“The area we are struggling the most is online. There is a clear division amongst customers – the ones that can afford it are still spending. However, people that buy in sales are dropping off due to lower discretionary spend.

In an international context, Australia is tougher than the other markets.

We think Black Friday is where the action will happen.

There will be winners and losers in these times. There will be fallout – small business owners need to try and increase market share. Businesses will be sharpened through this period.”

Insights from the ARA & American Express Small Business Roundtable



Andy Tyson - Director, Bistrot 916

"People will spend what they have to spend. High-end restaurants don't want their image hindered – they want to offer high value and not discount to lower excellence.

Operating through Covid has been a massive jolt within the macro and micro market. We have had to look at the foundations of the basics of what we do, which is turning produce into products. It requires the need to adapt very quickly and to lose the pretence of what you want the business to be.

We are thinking about interest rates and how they affect the customers and aim to keep the business busy and hopefully profitable.

In terms of adapting we now offer \$1 oysters on the weekend. We've taken one item on the menu and created an offer that is really appealing. We've negotiated directly with suppliers – it's a loss leader but it made sense to do in summer. The dollar price point really clicks with customers."



Suresh Manickam – CEO, Restaurant and Catering Australia

"A current concern is Industrial Relations with skills and skills migration a factor in our industry. With the IR proposals the Government is raising the price of workers.

Another issue is energy consumption is large in hospitality. There is a move by local councils to move away from gas – it's an ill-thought-out policy as it has a cost and fundamental impact on the way they do things (in commercial kitchens).

90% of restaurants are family owned, and 80% are small businesses. We are not seeing meaningful succession planning discussions and businesses are owned for over 10 years. There is an asset that won't be fully appreciated until those conversations are happening. It's a fair bit of asset that is undervalued.

We are adapting to the new economy – we've all had to change since Covid. There is a greater reliance on the big economy. For example, Uber Eats and similar businesses add value to small business and to the consumer. As an industry association we need to liaise with Government around IR frameworks. This new paradigm is here to stay.

Also, the way in which the sector is dealing with suppliers has changed. There are massive supply chain issues from floods, fires, or overseas circumstances."

Insights from the ARA & American Express Small Business Roundtable



Jo Barbaro - CFO, APG & Co Pty Ltd

"All of the challenges discussed today are real – particularly the CPI impact on leases – which has put downward pressure on operating retail stores. We are also experiencing currency challenges with a weaker US dollar - as manufacturing is performed offshore.

Theft has doubled in the last year – which has a meaningful impact for small businesses and challenges to our team members. The prediction of flat retail sales in Christmas in an already low economic environment presents a cash flow challenge for us.

There is no support or safety net from Government at the moment and we need to work out how to compete in an extremely competitive environment."



Olivia Hitchens - Partner, Hitch Advisory

"It's a challenge with leasing and landlords – the disputes are a huge problem with the power of big landlords and powerlessness of small operators. We have tried to negotiate with landlords, who are not open to negotiation. The most you might get is a fit-out contribution.

There are differences in state laws with claw backs and rent deferrals and small businesses losing bank guarantees. There is only so much solicitors can do by this stage.

The reason landlords are happy to have an empty shop is because it sets a pricing precedent. If they negotiate with one business, they then need to negotiate with all retailers as it brings down the cost per square metre."



Matthew Addison – Chair, COSBOA

"I find there is a misunderstanding in small business about what AI is. They question if using AI is handing over their thinking. There is fear of the unknown – the challenge is understanding what machine learning and the intelligence is – whereas the mindset should be about using 2024 techniques to enhance my business.

There is a need to educate on innovation – AI and sustainability are the biggest areas – small businesses can't ignore the technology that is coming through for privacy and ethical reasons – it can also improve service and reduce costs."

Insights from the ARA & American Express Small Business Roundtable



Tom Ferrier - Founder, Greener

"Looking at this through an emissions lens – electricity is a rising cost to business but also one of the biggest emitters. Some Greener partners will help them save money and reduce emissions by using Greenpower. An example business saved \$15k and saved 120 tones of carbon, which is the equivalent to 59 cars off the road. So, we are seeing sustainable solutions saving money. Carbon neutral shipping costs are coming down. Being sustainable does not now cost more. There are huge opportunities for businesses to save money. Some are easy solutions, and some are more difficult but worth the effort. If you're not being sustainable, it's a strategic threat."



Gareth Jude - CEO and Co-Founder, Think Uncommon

"I've been in retail since the 1970's and have seen a lot of impact from technology – it has been the great facilitator of retail innovation in that time. The computer, barcodes, internet, mobile phones, and Industry 4.0 technologies have helped transform the way we manage our businesses and serve our customers."

In retail, you always need to be doing something different to your competitors to win customers. That's why if you are not perpetually innovating you are probably going backwards. AI is another technology that retailers need to embrace to facilitate innovation.

Small business greatest strength is context. As a small business operator, you know your customers because you serve them every day but you also probably do the buying, marketing, accounting, and recruiting so you also know the full picture. Big business has a resource advantage over small business but they are not led by people with this on the ground knowledge.

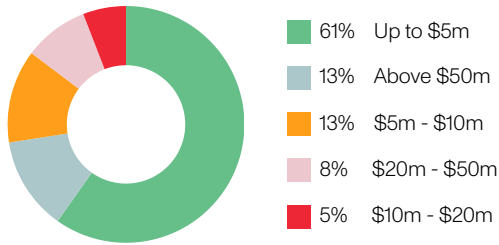
I think AI has the potential to close the resource gap. Recruiting processes will be improved with AI as you can do background checks and screening interviews before moving quickly to select the best candidates and not to lose them to another organisation. Generative AI has the potential to write copy for web sites and social posts taking time consuming work away from business owners. As the next big disruption – AI can decrease cost while increasing service outcome. AI is another great tool for retailers but it will be those who use it best that will win."

Chris Balken - Founder, The Collector Store

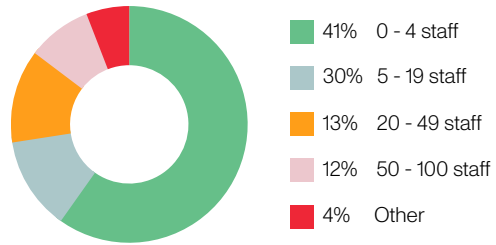
"We need to constantly try new things – shipping and everyday costs have gone up. Our outlook is optimistic but we're not sure what Christmas looks like. We are planning 6 months ahead with no rhyme or rhythm. Looking at investing in AI – is it worth it?"

Survey participants

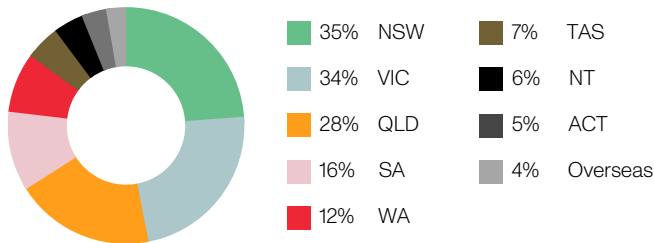
What is the average revenue of your business over the past three years? (In AUD)



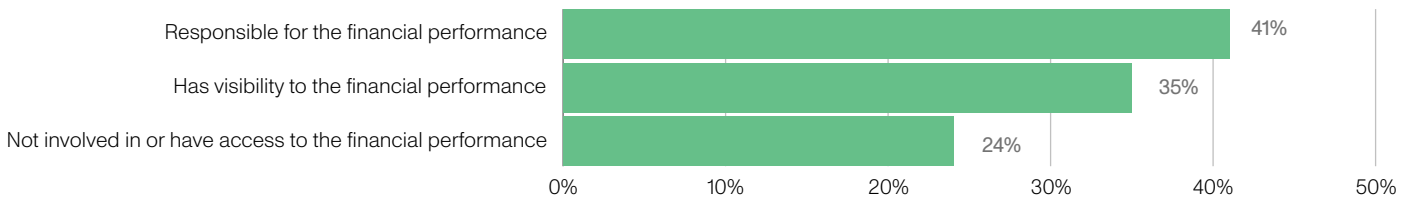
How many permanent staff do you employ?



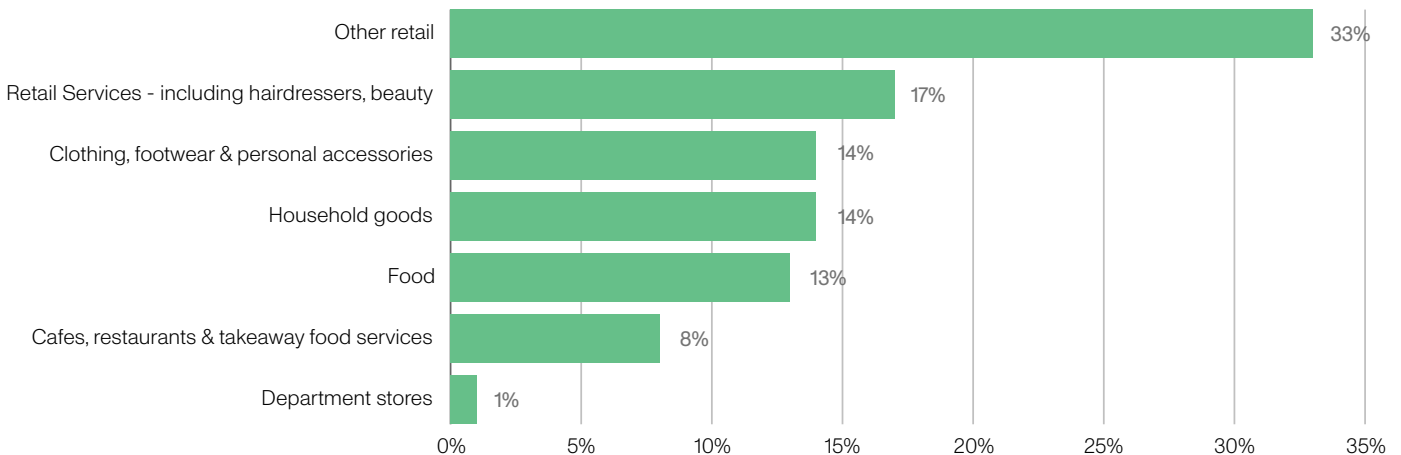
What states/territories do you have business in? (select all that apply)



What is your role within your business?



What category of retail does your business fall under?



ARA's Small Business Hub

Access our range of resources and tools to help small to medium size business owners at www.retail.org.au/small-business-hub

Discover a world of personalised experiences for small businesses: Dive into exclusive events, access OnDemand recordings, explore cutting-edge research, stay updated with the latest news, and acquire valuable business insights within our carefully curated hub.



SMB Insights

Unlock actionable insights to drive your SMB's success.



SMB Resources

Stay informed with the latest SMB resources and tips that matter.



SMB Member Benefits

Unlock exclusive benefits tailored for SMB members and supercharge your business journey.



SMB Financial Management

Master your SMB's financial success with expert guidance and valuable cashflow tips.



SMB Legal

Navigate the legal landscape with confidence - your SMB's ally in legal matters.



Events

Small business, big opportunities - network and stay informed at our upcoming events

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