

— THE ECONOMY OF SHOPPING SMALL THE FUTURE OF SMALL BUSINESS



2019



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FOREWORD

Welcome to the seventh annual *Shop Small* report – an informative snapshot of sentiment among small business owners and their incredible economic impact.

Small business touches the lives of all of us. In fact, approximately 70 per cent of Australian adults have owned or worked for a small business at some stage in their lives, or they live with somebody who does.

This year's report – *The Economy Of Shopping Small: The Future Of Small Business* – highlights the aspirations of small business owners to grow and expand. It also estimates the economic benefit that would be unlocked if aspiring small business owners took the chance and had a go starting their own business.

The Morrison Government recognises the challenges that many small business owners face, particularly the cost of doing business and their ability to access finance to grow their business. That's why we've taken action to fast-track cuts to their tax rates and launched the \$2 billion Australian Business Securitisation Fund to improve access to competitive finance for small business owners.

There is no doubt we have seen significant advancements in technology over recent years. I was pleased to see this report examine the opportunities technology creates for small businesses. While the research shows that current economic conditions are front of mind, it was interesting to see that keeping up with new technology is the fastest growing concern.

Many are embracing change and it's wonderful to see so many small business owners setting their sights on global opportunities in an increasingly digital world. Building on our ambitious trade agenda, the Morrison Government will continue to look for ways to make it easier for our entrepreneurs to take their bright ideas onto the world stage.

Closer to home, the report shows that much of the economic impact delivered by small business is retained within their local communities. This includes paying local workers and suppliers, as well as contributing to good causes like schools and community groups. It's great to see the value and proportion of the consumer spending that stays local is rising for a second consecutive year. While small business is the backbone of the Australian economy, it is also the lifeblood of our local communities.

Each and every one of us must continue to back the small businesses within our communities. Let's make this support a constant source of optimism for the small business owners that add so much value to our daily lives.

Senator the Hon
Michaelia Cash

*Minister for Employment,
Skills, Small and Family Business*





A SNAPSHOT OF AUSTRALIAN SMALL BUSINESS

There are more than **2.1 million** small businesses in Australia. They're an integral part of our economy and our communities. In fact, the majority of adult Australians (70 per cent) have been touched by small business – that's **12.7 million** consumers – including 17 per cent who currently own a small business, 34 per cent who work for one, 39 per cent who did previously and 27 per cent with someone in their household who does.

\$93.8 billion

THE ANNUAL ESTIMATED COST TO THE AUSTRALIAN ECONOMY FROM STOPPING SMALL BUSINESS OPERATORS FROM ACTING ON THEIR GROWTH PLANS

34%

OF SMALL BUSINESSES HAVE SEEN REVENUE INCREASE IN THE PAST YEAR

21%

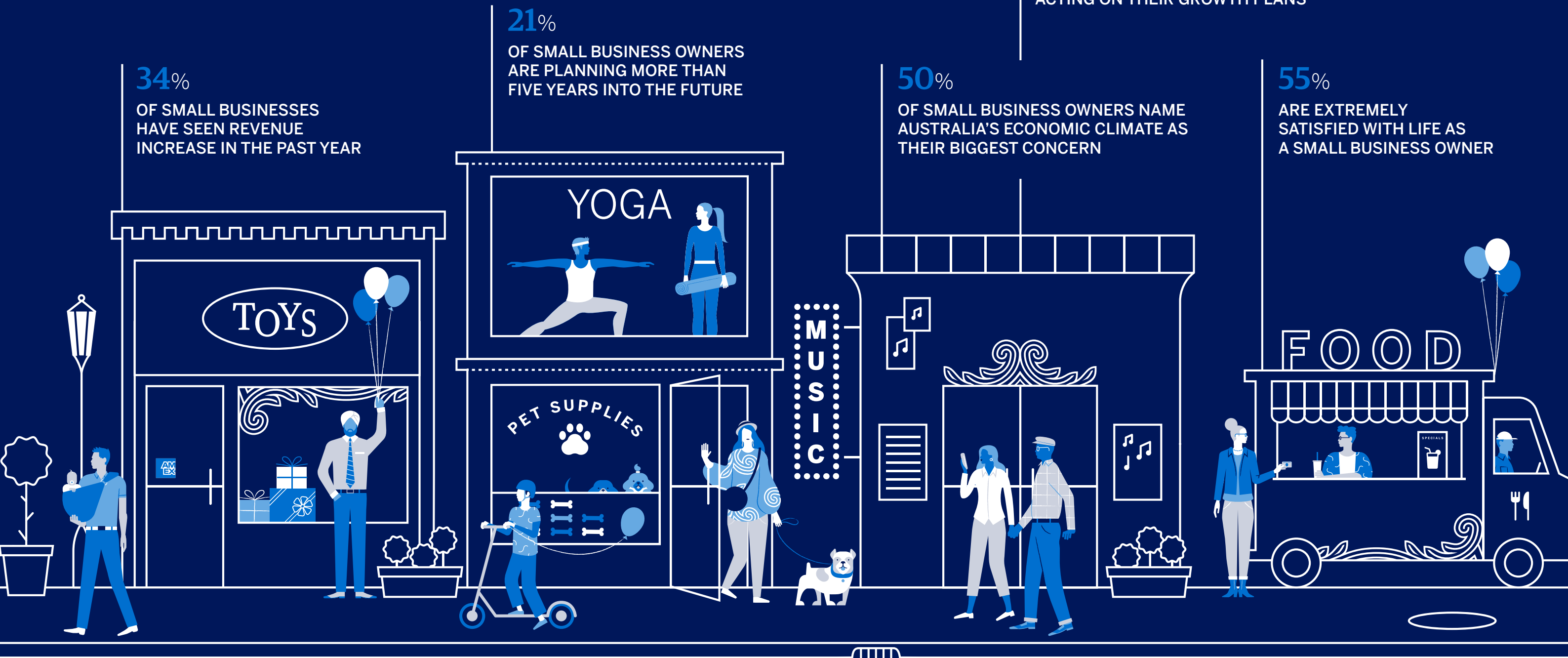
OF SMALL BUSINESS OWNERS ARE PLANNING MORE THAN FIVE YEARS INTO THE FUTURE

50%

OF SMALL BUSINESS OWNERS NAME AUSTRALIA'S ECONOMIC CLIMATE AS THEIR BIGGEST CONCERN

55%

ARE EXTREMELY SATISFIED WITH LIFE AS A SMALL BUSINESS OWNER





PART ONE

Dreamers, Drivers and Drawbacks





INTRODUCTION

Australia's small business owners are dreamers like the rest of us. But they've been brave enough to act on those dreams, going out on a limb to turn their bright ideas into reality. And yet although the rewards of working for yourself are appealing, it's still difficult to stand out from the crowd and be financially successful.

In our annual Shop Small report, now in its seventh year, we focus on the future of small business – what's driving growth, how far are small business operators looking and what succession plans do they have in place?

Our research shows that many small business owners have new plans they haven't been able to implement. We'll look at what's stopping many of these businesses from reaching their true potential and the cost to the Australian economy. We're calling this the Dormant Dollar.

The Economy of Shopping Small annual report has become a valuable measure of sentiment across the small business community and the customers they serve. This year's findings show that confidence is down slightly although female small business owners typically have a brighter outlook than men.

Most small business owners tell us they love having control over their own destiny, and the sense of fulfilment that comes from working for yourself, but they're less keen on the financial pressure and stress that small business ownership brings. Australian economic conditions are the biggest concern this year.



CURRENT PERFORMANCE

Small business sentiment is a little softer in this year's Shop Small research. But in an increasingly digital world, more small business owners are expanding their horizons and looking to do business overseas. The research shows these businesses are more likely to enjoy revenue growth but are also more susceptible to a decline, suggesting the stakes are higher when adding this extra layer of complexity to operations. This must be weighed up against the potential rewards of reaching more customers.

When asked to rate the overall success of their business, the proportion who said 'extremely good' was down from 11 per cent to seven per cent. Only 34 per cent said revenue had increased in the past financial year, down from 38 per cent in 2018 and 43 per cent in 2017. Exposure to overseas markets was a strong indicator of success while those based in New South Wales were less likely to see revenue increasing.

The proportion enjoying growth was highest among those also operating in foreign countries or importing (46 per cent), those operating in the travel services industry (45 per cent) and female business owners (44 per cent).

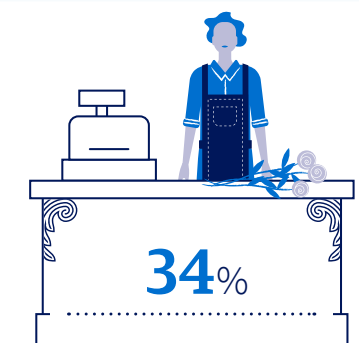
Although more than half of businesses reported no change in revenue, 12 per cent indicated that it had decreased. This number was significantly higher for those operating in foreign countries (24 per cent) and those in business for 10-20 years (22 per cent).

The proportion of consumers who think small businesses in their local area are doing it tough has fallen from 80 per cent last year to 73 per cent. Those in rural areas are slightly more likely to agree with this sentiment (77 per cent).



"Being in control of your own destiny is a very strong motivator for the thousands of small business owners across our country, but conditions can still be tough. Confidence is softer than last year with operators feeling the pressure and stress that being a small business owner entails."

Brian Walker
CEO, The Retail Doctor Group



SAID REVENUE HAD INCREASED
IN THE PAST FINANCIAL YEAR



“When evaluating your risk look at all elements of your business: is your website secure, have you got the right level of insurance and, most importantly, are you protecting your customer’s data? This is the greatest risk because if a customer trusts you with their personal information and you let them down, some will never return and that trust is never truly regained.”

Dean Long
CEO, Accommodation Association of Australia



“The pace of change in the retail industry is constant: the use and understanding of technologies and concepts such as AI, CRMs, privacy, and data management is evolving. All retailers need technology to enable business growth, but without appropriate safeguards, or if information or data is compromised, this can destroy businesses overnight.”

Russell Zimmerman
Executive Director, Australian Retailers Association

BUSINESS CONFIDENCE

Economic conditions are weighing heavily on small business confidence this year but keeping up with technology is the fastest growing concern. There’s a significant gender imbalance, with female business owners much more likely to predict growth in the year ahead, while the proportion of owners who fear going out of business is unchanged from 2018.

“The satisfaction I get from owning a small business really drives me. Positive customer feedback is a huge motivation, knowing that you’ve done your best to provide a service or the best fares.”

Aurora Walker
Business Owner, Engineer Business

A majority of small business owners expect to see growth in the next financial year (61 per cent) but this is down slightly from 66 per cent a year ago. Those predicting a decline is up from 12 per cent to 17 per cent with 22 per cent predicting no change. Women who own small businesses have a more positive outlook, with 78 per cent predicting growth and 38 per cent expecting double-digit growth. This compares to 52 per cent and 23 per cent among men.

Small business owners in South Australia are extremely confident, with 85 per cent expecting to see growth in the next year, while almost half (49 per cent) of those who export predict double-digit growth.

Small businesses providing healthcare services are the most likely sector to predict double-digit growth (38 per cent), while professional services are most likely to predict a decline (20 per cent). Half of small businesses in NSW don’t expect to see any growth and one-quarter of those with no physical presence are predicting negative growth.

One-third say their business is at moderate to high risk of becoming insolvent in the next three to five years. This figure was unchanged from last year. This figure rose to two-thirds among small businesses operating overseas. These fears are also heightened among those in operation for less than two years (46 per cent), those in the food and beverage industry (40 per cent) and those operating entirely online (37 per cent).



“Most small retailers work *in* rather than *on* their businesses and should engage externally with other retailers – large and small – by attending conferences, joining associations or local business chambers to discuss issues. A business mentor may also assist in working through problems. Discussing business issues within such groups can help address risk, however, counsel from a proactive accountant or lawyer can also be invaluable.”

Russell Zimmerman
Executive Director, Australian Retailers Association

Small business owners evaluate risk through past experience (47 per cent), speaking to other business owners (30 per cent) and gut feel (27 per cent). But 13 per cent don’t have a risk assessment strategy at all.

The current economic climate in Australia is the biggest worry for small business owners, with 50 per cent saying this is highly concerning. This is up from 43 per cent a year earlier. Those highly concerned about attracting new customers is up slightly to 44 per cent, while keeping up with technological changes spikes from 27 per cent last year to 41 per cent.

“As a business owner, I was my own operator. I didn’t feel like as if I had any support as I didn’t feel like I had the time to reach out for support.”

Elizabeth Camara
Previous Business Owner, Ladies Clothing Store





LIKE AND DISLIKES

The majority of small business owners are happy with their lot. They enjoy being in control despite the financial pressures. Consumers appreciate the customer service and quality of products and services provided by small businesses in their area. They'll even pay more, within reason.

Small business owners cited maintaining work/life balance (43 per cent), controlling their own destiny (38 per cent) and a greater sense of fulfilment (35 per cent) as their favourite aspects of running a small business.

The difficulty of achieving financial success (36 per cent), the competition facing small business (34 per cent) and the stress owners deal with (33 per cent) are the least favourite aspects of running a small business.

Over the past year, small business owners feel better supported by the Federal Government, 39 per cent compared to 29 per cent last year. Reducing taxes is again

“Staffing as well as achieving a work life balance is a challenge for me as a small business owner.”

George Deimanis
Business Owner, Financial Services

highlighted as the government action most likely to have a positive impact on small business.

There is a slight increase in the number of small business owners (24 per cent) who want government to improve the availability of grants, low-interest loans and tax concessions. Making it easier to apply for this assistance is requested by 23 per cent, also up marginally from last year.

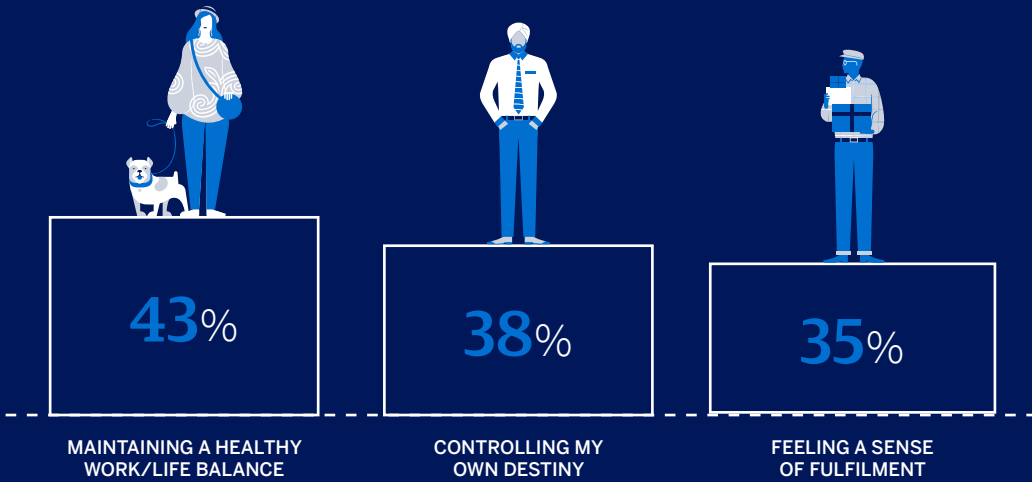
Most consumers (80 per cent) say they care about the success of small businesses in their local community. The 77 per cent of consumers who believe they'll get better customer service from a small business is up slightly from last year.

They're also more likely to agree that small businesses offer better quality, up from 43 per cent last year to 49 per cent. And 62 per cent are willing to pay more, within reason, when shopping at a small business. This is marginally higher for those currently working in small business (65 per cent).

“One of my biggest challenges is adhering to all the regulations. There are so many things you have to comply with and you're really never taught how to. Then of course there's always financial hurdles.”

Charles Yeung
Business Owner, Pharmacy

The favourite aspects of running a small business according to Australian business owners:





FORWARD PLANNING AND GROWTH DRIVERS

This year's research suggests many small business owners aren't spending enough time on planning. The most common growth strategies in the past year are increased marketing and use of social media. Those making investments are more likely to predict growth.

The majority of small business owners (57 per cent) report spending the right amount of time thinking about the future but 28 per cent believe they don't spend enough time on it and 14 per cent believe they spend too much. Only 21 per cent are looking more than five years into the future.

So, how much time should they spend on business planning? When we correlate the time spent on planning with revenue growth expectations, it suggests a small business owner should spend 20-30 per cent of their time on planning. Currently, the majority of small business owners spend 10 per cent of their time doing so. Winging it is rarely a recipe for success but too much planning, it seems, can also be detrimental.



"If you fail to plan, you plan to fail." From cash flow, to budgets and mapping growth, all aspects of a business must be planned. A good retailer will have a 12-month plan, a medium-term plan for about five years, and a long-term plan that may address managing family members wishing to join the business."

Russell Zimmerman
Executive Director, Australian Retailers Association

The most popular growth strategy implemented in the last year is increased marketing investment (25 per cent). This is followed by greater use of social media (20 per cent), launching or changing products in response to customer feedback (12 per cent), longer trading hours (12 per cent) and hiring people with new or deeper skills (11 per cent).

"In hindsight, I probably wasn't as prepared or as organised as I should have been, and I probably should have done a lot more delegation and planning ahead than what I did."

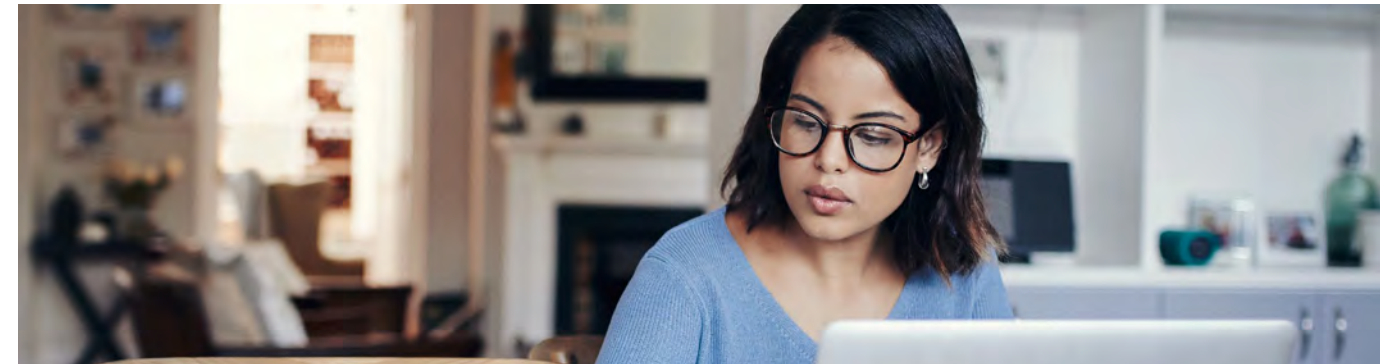
Elizabeth Camara
Previous Business Owner, Ladies Clothing Store

Small business owners expecting double-digit growth are significantly more likely to have done these things in the past 12 months, showing a correlation between confidence and action. These changes are most commonly driven by customers (39 per cent), friends or family (31 per cent) and other small businesses (19 per cent).

It's not difficult to see why small business owners are looking to marketing and social media strategies. When asked to estimate upfront costs versus potential additional revenue, employing social media has the lowest average investment, while projected to deliver five times the return on investment (ROI). Adopting a new marketing strategy is expected to deliver three times the ROI.

But the biggest perceived benefits lie in improving customer loyalty schemes (11x ROI) and adding additional sales channels (5.5x ROI). In a world where everything can be accessed 'as a service', purchasing equipment is perceived as a sunk cost that won't result in revenue gains.

Only 10 per cent of owners describe their small business as 'forward thinking' or 'innovative'. Those that are looking towards future innovation point to investment in the latest technology (40 per cent), training (35 per cent) and initiatives designed to reward staff for putting their ideas forward (34 per cent).



THE DORMANT DOLLAR

We've introduced some new economic analysis in this year's report. This includes the Dormant Dollar, which calculates the cost to the Australian economy of small business owners being unable to execute growth strategies. Access to financial support is a major inhibitor.

One of the most concerning research findings is that 39 per cent of small business owners have ideas, plans or visions that they haven't been able to implement despite believing they would help grow their business. This number is slightly higher for those predicting double-digit growth (63 per cent) but much lower for those expecting a revenue decline (30 per cent) or no growth (eight per cent).

These plans include developing new products or services, making greater use of social media, staff training, purchasing equipment and adopting new marketing strategies. Failing to execute on these plans costs the Australian economy an estimated \$93.8 billion per year.

When asked to name three factors restricting growth, 15 per cent say increased costs. This is followed by cash flow constraints (13 per cent) and the current state of the Australian economy (13 per cent). Cash flow is seen as a much bigger restriction by women (20 per cent) than men (10 per cent).



"Any small business owner will tell you cash flow is king. Cash flow constraints continue to be one of the major issues keeping small business operators up at night. We know that just one late payment makes a difference to small business' capacity to pay staff and creditors."

Kate Carnell
Australian Small Business and Family Enterprise Ombudsman

More small business owners are concerned about wage costs this year, up from 40 per cent to 43 per cent. But finding employees with the right skills is less of a concern, down from 44 per cent of small business owners to 31 per cent, and those worrying about finding the right cultural fit is down to 23 per cent.



"Access to affordable finance remains one of the biggest challenges for small business. Small businesses have irregular cash flows leading to issues with increasingly strict loan serviceability requirements. As a result, businesses are often refused loans or are forced into borrowing against personal assets such as home property. This is hurting the ability of businesses to grow, innovate and manage their finances successfully."

James Pearson
CEO, Australian Chamber of Commerce and Industry

THE DORMANT DOLLAR

Many small business owners (39 per cent) have growth plans that they haven't been able to implement yet. We're calling this the Dormant Dollar. Those plans include adopting new marketing strategies, making better use of social media, developing new products or services, staff training and purchasing equipment. Using annual turnover bands as reported by the Australian Bureau of Statistics, failure to execute on these growth plans is costing our national economy an estimated \$93.8 billion.



THE FUTURE GENERATION

Only 36 per cent of consumers say they're interested in owning a small business. This is down sharply from 44 per cent last year. This is partly explained by more than three-quarters of consumers (77 per cent) agreeing that running a small business is a difficult way to earn a living.

Those who are interested in owning a small business like the idea of being able to control their own destiny (54 per cent), feeling more fulfilled (53 per cent) and earning a living from something that interests them (47 per cent). Exposure to greater stress (37 per cent), the difficulty of achieving financial success or financial risk fears (both 34 per cent) and maintaining work/life balance (33 per cent) are most commonly cited as reasons that put consumers off the idea of starting a small business.

"I started my own business because I loved fashion and was working in an office and finding it very difficult with small children, so I thought that owning a business would give me more flexibility."

Elizabeth Camara

Previous Business Owner, Ladies Clothing Store

It's also interesting to note that the proportion of consumers planning to start their first small business has fallen from 24 per cent to 20 per cent during the past year. Interest is higher among young consumers and men than women.

Of those consumers with small business aspirations, 31 per cent have checked for competition in the local area and 27 per cent have developed a product or service to sell. One-quarter have undertaken training to develop the necessary skills or knowledge and 23 per cent have registered an Australian Business Number.



"Anyone wishing to start a business should ensure they're passionate about the field of work they're seeking to enter. Owning a small business comes with long hours, extensive staffing obligations and countless other responsibilities. To effectively juggle these commitments an owner needs a high degree of passion to ensure their business reaches its full potential."

Dominique Lamb

CEO, National Retail Association

Only 29 per cent of those thinking about starting a small business have invested any money in the idea. This lack of financial commitment is partly explained by 30 per cent of consumers having no firm timeframe, although 17 per cent plan to be in business within the next 12 months.

Lower-cost access to business premises (39 per cent), more government assistance (36 per cent) and a change in personal circumstances or help with marketing (both 35 per cent) would be most likely to convince these consumers to bring their small business plans forward.

THE FUTURE DOLLAR

The Future Dollar is the economic benefit that would be unlocked if those planning to start a small business could be convinced to bring their plans forward. Our research estimates that this is worth \$167 billion to the Australian economy. This figure was calculated by examining the proportion of consumers that strongly agree that they plan to start a small business in the next three years and have taken action to do so, examining the types of businesses they intend to start – online, offline or both – and the turnover that these types of businesses typically generate in their first year of operation.



THE STATE OF PLAY

Part One of this annual report shows a slight softening in small business sentiment, with the proportion of business owners reporting revenue growth down for the second year running.

Many business owners also report being unable to implement plans that they believe would help to grow their business. This includes new marketing strategies, better use of social media, developing new products or services, staff training and investing in new equipment. We estimate that this Dormant Dollar costs the Australian economy \$93.8 billion.

Part Two will focus on how small business owners are planning for the future. It will examine the impact of running a small business on mental wellbeing and what succession plans are in place to ensure the longevity of businesses. Finally, it will explore the optimism of small business owners about the future and how this compares to the views of the communities they serve.



PART TWO

Families, Feelings and Futures





INTRODUCTION

In the second part of this year's report, we look at succession planning, the impact of small business ownership on mental wellbeing and the future prospects of Australia's small business community.

Our research shows that for many, running a small business is a family affair, although the number of owners employing a family member is down from last year. There are still many unsung relatives out there who step in when a family business is experiencing high demand or staffing issues.

Running a small business is far more likely to have a positive impact on the owner's wellbeing but it still takes a toll on many. Fewer people are interested in starting a small business this year and, among consumers whose parents run a small business, less than half are interested in taking it on.

Younger people are more likely to feel optimistic about the future of small business. This positivity is fuelled by the perceived importance of these businesses to the communities they serve as well as believing that the use of technology will increase competitiveness. Rising costs and lack of scale are the biggest concerns among those who feel pessimistic about the future of small business.



FAMILY BUSINESS

Less than half of small business owners (45 per cent) have a family member working for them. This is down from 57 per cent last year. Almost one-quarter (23 per cent) say this is in a full-time capacity, with 15 per cent working part-time and 10 per cent on an ad hoc basis, such as during staff shortages or busy periods.



"The fact that almost half of businesses have a family member working for them showcases the role of family as the backbone of our country's small businesses."

Brian Walker
CEO, The Retail Doctor Group

"Business is an interest of mine, probably stimulated by the fact mum has always had a farm stay business... I would definitely consider doing something similar in the future."

Chris Hallard
Child of a Business Owner, Farm Stay





SUCCESSION PLANNING

Nothing lasts forever but it's often difficult for small business owners to plan too far into the future. This includes planning what will happen to the business when they're no longer involved. With one in four owners predicting an exit within three years, it's an issue worthy of more time than it's getting.

The personal impacts of running a small business (24 per cent) are most frequently cited as a reason for getting out of ownership. This is followed by retirement plans (21 per cent), working long hours and running costs (both 20 per cent).

Only 27 per cent of those who expect to be operating their business in five years' time have a detailed succession plan in place. A further 31 per cent report having a loose plan, but 41 per cent have no plan at all. More than half who don't have a succession plan in place say this is because it's still too far in the future.

The most common succession plans are selling to somebody from outside of the business (36 per cent) and passing it on to their children (29 per cent). Of the 17 per cent of consumers whose parents own a small business, less than half (45 per cent) are very interested in inheriting it.

"I would like to pass our business along to my children, once the business is running smoothly. Until you get to that point, it's hard to plan for succession as the business needs to be ready to hand over."

Aurora Walker
Business Owner, Engineer Business



"The small business sector is facing a major shake-up over the coming decade, with a large proportion of small business owners approaching retirement age. This generational shift presents a number of challenges for the sector and the economy more broadly. Some small business owners looking to sell may find it difficult to attract a buyer, which is why there is a need for meticulous succession planning sooner rather than later."

Kate Carnell
Australian Small Business and Family
Enterprise Ombudsman

Carrying on a tradition (45 per cent) is the most commonly cited reason for wanting to inherit the family business. This is followed by the belief that once they are at the helm they will earn a comfortable living from the business (42 per cent).

Those with no interest in carrying on the family business speak of wanting to forge their own path (45 per cent) and lacking the necessary skills or knowledge to run a small business (38 per cent).



"All business people need to have a plan for how they leave their business. Do they intend to sell? Who to? How much money will they need? When they sell they need a plan to maximise their return for the efforts they have put into the business, often over many years. Even if they end up closing the business they still need to think about how they do that and when. A bad process for closing a business can be costly and stressful."

Peter Strong
CEO, Council of Small Business
Organisations Australia



"The simple formula for selling a business is E-X-I-T:

- **Evaluate** – how attractive is your business to a potential buyer or successor?
- **Explore** – how ready is the business to sell?
- **Innovate** – close the value gap.
- **Transition** – how ready are you to transition out of your business, both financially and personally?

Unfortunately, few business owners take the time to plan and protect what they've worked so hard to build. It's important to plan now for your exit – whether that's in two years or 22 years."

Kerry Boulton
CEO, The Exit Strategy Group



MENTAL WELLBEING

Earlier in this report we looked at the economic impact of small business owners being unable to implement growth plans. Now we look at the hidden costs related to their mental wellbeing (see *The Wellness Dollar*). Our research suggests more needs to be done to support small business owners when the pressure gets too much.

Owners are far more likely to say that running a small business has a strong positive impact on their mental wellbeing (38 per cent), rather than a negative impact (15 per cent). Those negative impacts are higher among those in the retail-services (19 per cent) or food and beverage industries (17 per cent).

Despite 44 per cent of owners reporting no negative impacts on their business, 22 per cent admit that they've had to work fewer hours because of mental strain. An additional 16 per cent have had to close for a period of time (13 per cent) or temporarily stop work entirely (11 per cent) as a result of the mental impact of running a small business.



"Small business success is dependent on community support. The same is true for the mental health of small business owners – community support can often make all the difference. Everyone including family, friends, customers and suppliers has a role to play supporting small business owners' ability to work well."

Leanne Faulkner
Small Business Wellbeing Advocate

"It was my decision to close my business because of the mental and physical strain. I was working 15-hour days so wasn't seeing anybody and was basically a nomad. I decided that I had enough and sold the business."

David Bourke
Business Owner, Fish Mongering Business

Almost three-quarters (73 per cent) of consumers can see how running a small business would have a negative impact on the mental wellbeing of the owner. Those owners reporting a negative impact on mental wellbeing are more likely to share concerns with family and friends (47 per cent) rather than seek professional help (32 per cent). Only 23 per cent believe enough support is available and 14 per cent receive no support at all.

A majority of owners (57 per cent) would go into small business if they had their time again. This is down from 63 per cent last year. Those who have been running a small business for more than 20 years (74 per cent) and those offering healthcare services (70 per cent) are most likely to agree with this sentiment.



"It was a tough decision to close my stores and start downsizing, but I was finding it hard to juggle doing most of the work myself - particularly with a young family."

Elizabeth Camara
Previous Business Owner, Ladies Clothing Store



"Stress management in small business is as important as financial management – an investment in ourselves is an investment in the business. Healthy habits contribute to healthy business outcomes for all."

Leanne Faulkner
Small Business Wellbeing Advocate

THE WELLNESS DOLLAR

There are 2.1 million small businesses in Australia, with 15 per cent of owners admitting that running the business has a negative impact on their mental wellbeing. In more than half of cases, their businesses have already been negatively impacted. With an average annual turnover that's \$115,000 less than other small businesses, we estimate the economic impact of mental health strain on the small business sector to be \$19.1 billion per year.





AN INCREASINGLY DIGITAL FUTURE

We've already noted that small business owners are feeling the pace of technological change. It's easy to see why when we look at how quickly they expect digital trends to cause a fundamental shift in how they do business. Many consumers think small businesses are reacting too slowly and will struggle to make a successful transition.

Small business looks set to become increasingly digital with 46 per cent of owners predicting online will account for at least half of their sales within three years. Almost half of Australian bricks and mortar small business owners (48 per cent) predict their business will operate entirely online in the future. More than a quarter (26 per cent) of these businesses foreseeing this happening in the next three years.

Three-quarters of consumers agree that small businesses in their local area are being impacted by changes in the way they shop or dine. However, only 53 per cent of shoppers can think of a small business that's embracing technology.

Two-thirds of consumers believe small businesses need to go online to survive, while 57 per cent say these smaller companies can't compete with the delivery speed and other customer services offered by big business.

Going digital is not without challenges. When compared to small businesses with a physical presence, today's online small businesses are more likely to:

- Fear insolvency within the next three to five years (37 per cent vs. 32 per cent)
- Expect declining or flat revenue in the next year (55 per cent vs. 34 per cent)
- Feel less optimistic about the future of small business (33 per cent vs. 41 per cent)



"We need to lift the digital literacy of Australian small business owners to ensure they can access and compete in markets, promote their goods and services and protect themselves and their customers online."

James Pearson
CEO, Australian Chamber of Commerce and Industry



FUTURE OUTLOOK

These are times of unprecedented change for small business owners. The shift to digital is moving quickly, consumers are more demanding than ever before, access to financial support has been tightened and new global opportunities promise greater rewards but bring inflated risk. So it's no wonder there's a sense of uncertainty.

Owners are more likely to have a positive view of the future of Australian small business, with 39 per cent believing the future is at least somewhat optimistic. This compares to 27 per cent who are pessimistic.

Consumers are sat firmly on the fence. They're slightly more likely to take a positive position on the future of small businesses in the local area, with 36 per cent being at least somewhat optimistic and 32 per cent being at least somewhat pessimistic. At a national level, 33 per cent are optimistic and 34 per cent pessimistic.

Consumer optimism is driven largely by people realising the importance of small business in their communities (50 per cent). Increasing costs for small business owners is the most common reason for consumer pessimism.

More than one-quarter (27 per cent) of small business owners expect the rise of the Millennial workforce to have a very positive impact on their business. This is slightly higher than for Gen Z and migrant workers (both 25 per cent) or Baby Boomers staying in the workforce (23 per cent).

"I'd like to think there will be more small businesses in the future. I definitely do see growth in small businesses in my local area and I think people will increasingly recognise the benefits of shopping local."

Louis Lee
Business Owner, Services Business

WHAT DOES THE FUTURE HOLD?

Change will be the only constant for Australia's small business community. One in four business owners in this year's report don't expect to be running their business three years from now. More than half with a physical presence can see a scenario where their business will be completely online and one in three say this is likely before 2022.

Many also have their eye on global markets. 42 per cent of owners expect to operate overseas, import or export three years from now.

In a rapidly changing business environment, planning is important. But small business owners must also be wary of analysis paralysis because too much planning isn't helpful. Our research suggests 20-30 per cent of time is the sweet spot.



"While global trade represents the greatest challenge, it is also the single greatest opportunity to grow as a small business because if your product is unique it will attract people from around the world at a faster rate than ever before."

Dean Long
CEO, Accommodation Association of Australia

THE BOOMERANG DOLLAR

This is the third year that the Shop Small report has measured the Boomerang Dollar. This is the value of consumer spending within small businesses that flows back into the local community. It's made up of staff salaries, supplier payments and contributions to local causes like schools and community groups. The share of turnover reinvested locally has increased during this time from 42 cents of every dollar to more than 45 cents. This amounts to \$57.7 billion that small businesses have contributed to their local economy in the past year, up for the second year running from \$37.3 billion in 2017.



METHODOLOGY

The Economy of Shopping Small: The Future of Small Business research was commissioned by American Express and undertaken by RFI Group, a leading global intelligence and media provider focusing on financial services. Fieldwork took place between 6 – 20 August 2019.

The research needed to explore insights from both consumers and small business owners to understand the state of small business in Australia. RFI Group carried out two quantitative surveys to provide hard data and representative insights as well as in-depth qualitative interviews with current and former small business owners and children of small business owners to provide a detailed lens.

Trends within this group were then assessed via:

SMALL BUSINESS OWNERS – QUANTITATIVE SURVEY

- RFI conducted a 20 minute survey with 856 small businesses nationally
- All respondents were small business owners (fully or partially) who spent at least 8 hours per week working in their business and were a key decision maker within the business
- All respondents were small business owners who had owned the business for 6+ months
- All businesses had annual turnover under \$2m
- All businesses had fewer than 20 employees
- Business were online, offline or both
- Businesses were B2C, B2B or both

Focus industries:

- **Retail** – Fashion e.g. clothing, footwear, accessories
- **Retail** – Food e.g. deli, butcher, green grocer, fishmonger, convenience store, health food, specialised food
- **Retail** – services e.g. hairdressers, beauty, vets, gardening
- **Retail** – Other goods e.g. hardware retail, electronics retail, recreational goods retail
- **Dining and drinking** – e.g. restaurants, cafes, takeaways, pubs, bars
- **Travel** – accommodation & services e.g. hotel, B&B, travel agency
- **Professional services** – e.g. accountants, lawyers, financial advisors, tax advisors
- **Healthcare services** – e.g. dentists, optometry, physiotherapy, remedial massage

CONSUMERS – QUANTITATIVE SURVEY

RFI conducted 20-minute survey with 1,010 consumers aged 18 years and older. The sample was nationally representative by age, gender and state.

SMALL BUSINESS OWNERS – QUALITATIVE SURVEY

RFI conducted 30 minute in-depth telephone interviews with 8 current small business owners and 5 former small business owners from a variety of industries, plus 2 children of small business owners.

ABOUT RFI

RFI Group is a provider of data-driven insights to the financial services industry. It covers 39 key global markets, and has regional offices in San Francisco, Toronto, London, Hong Kong, Singapore and Sydney.



ABOUT SHOP SMALL

Shop Small, founded by American Express, is a nationwide movement that brings together support from the business community, governments and consumers to support small businesses. Now in its seventh year, Shop Small begins on 1 November 2019 and runs for the entire month.

American Express Card Members registered with the Shop Small promotion will receive a \$10 credit when they spend \$20 or more at participating businesses, up to a total of five times. Terms and Conditions apply.

Visit www.shopsmall.com.au and follow #ShopSmall for more information.

FOR FURTHER INFORMATION AND MEDIA ENQUIRIES PLEASE CONTACT:

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THE ECONOMY OF SHOPPING SMALL

THE FUTURE OF SMALL BUSINESS

2019