



THE ECONOMY OF SHOPPING SMALL: Keeping it in the Community

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Foreword

For most of us, small businesses are integral to our everyday life and their contribution essential to the vitality of our nation's economy. From Bondi to Broome, the sense of community we all feel is deeply tied to the characters that inhabit it, including the unique small businesses that call our local communities their home.

The Economy of Shopping Small: Keeping it in the Community explores the unique relationship that exists between small businesses and the customers they serve.

The foundations of these relationships are built on far more than convenience or the bottom line. Instead they are founded in principles of loyalty, respect and a genuine desire to see a dream realised and a community made all the better for it.

Now in its fifth year, Shop Small has always had one simple mission: to encourage consumers to support the hardworking men and women of small business. For this year, the movement investigates the economic impact of small businesses in our local communities, as well as the many intangible benefits, like the sense of belonging that comes from somebody knowing your name when you order your morning coffee.

We now live in a global village where you can buy anything, from anywhere, with the click of a button. That's why it's more important than ever that we do not take these businesses and the services they provide for granted.

In my role as CEO for the Council of Small Business Australia (COSBOA), I'm committed to working hard to help small businesses grow and thrive. But it's not just the responsibility of organisations like COSBOA to support small business. Each and every one of us has a duty to give back to the men and women who pour their hearts and souls into their passion each and every day.

So next time you're looking to buy a gift for someone special, or just need to pick up some milk on your way home from work, shop small. Take the time to let the person behind the counter know when they've exceeded your expectations and more importantly, reward their excellence by coming back again tomorrow. Also, be sure to tell your friends because businesses are increasingly relying on word of mouth to bring new customers through the door.

Running a small business is very rewarding, but also incredibly challenging for the unsung heroes of our communities. Let's give them the support they deserve and make sure they're around for future generations to enjoy.



Peter Strong

*CEO, Council of Small
Business Australia*



PART ONE

A sense of community and the Boomerang Dollar





Overview

Small businesses define the places where we live and work. They bring people to the local area and make them want to stay, whether it's for a coffee or for a lifetime.

Almost half of Australia's small businesses have been trading for ten years or more, two thirds for more than five years. For every proprietor that retires, another high street hero begins their story. 82 per cent of Australians have lived in their local areas for three years or more; more than half (54 per cent) have notched up a decade, 37 per cent twenty years; 12 per cent have 'always' lived there.

This combination of long-term shop fronts and low residential turnover brings together Australia's best entrepreneurs with our country's most loyal consumers.

This report relies on a mix of quantitative and qualitative research to benchmark not just the behaviour of proprietors and consumers, but the stories behind the statistics. We look at what motivates Aussies to shop small and whether small shops are making the most of what they have.

In *The Economy of Shopping Small* we discover the importance of keeping a dollar in the community – how local spending is reinvested in the community, connecting small businesses with new customers and other small businesses. Households across the country spend more than \$90 billion each year at small businesses, but how much of that goes back into their local communities?





Community counts in the growing small business sector

This year's research uncovered a shared sense of community among small business owners and their customers. Consumers value small businesses because they provide employment, boost the local economy and meet demands for specific products and services. They bring variety and encourage community participation. Similarly, business owners have a strong connection with the area and people who live there.

Almost half of the consumers we surveyed said small businesses defined their community, and nearly one quarter of small business owners said that 'community feel' attracted them to the area in the first place. Two out of five consumers said their area wouldn't be the same without its small businesses, to the extent that they'd consider moving elsewhere if they weren't there.

When we asked small business owners to name what they liked best about running a small business, one in four said interaction with other small businesses and the local community.



"You've got to stay 100% focused on the running of a small business because if people don't get the right product, or don't get the freshness they expect, they'll drop you and move on."

Adrian, Para Hills Fresh Cut Butchers, South Australia

More than half of Aussies say their local area has a thriving economy, however, there is a sense of disconnect between consumers **wanting** to shop small and their actual spending behaviour. Part of this is attributable to the specialisation of local shops and consumers not being able to find everything they want at a small business. Only 10 per cent of consumers reported being able to get everything they want from local, small businesses. This was down significantly from 17 per cent last year.

"Small businesses really are the heartbeat of the local community. Often these small operators underestimate the value and contribution they deliver to our communities."

Brian Walker, CEO & Founder, Retail Doctor Group



Consumers also named higher prices (61 per cent), limited product range (33 per cent) and limited opening hours (20 per cent) as some of the factors preventing them from buying from small businesses.

Consumers feel small businesses improve their communities and (76 per cent) care about the longevity of their local small businesses. 68 per cent of consumers said that small businesses make local areas more desirable, and two thirds believe they contribute to its overall sense of happiness.

Local consumers make up a large proportion of small business activity. Six out of 10 small business owners said their customers are mainly locals but, worryingly, that loyalty is waning. Nearly half of small business owners said that retaining their existing customer base is a concern.



"Small businesses keep a community going because they employ people. When people spend money in the local shops, it stays in the community."

Laney, Erina Bikeworx, NSW





Collaboration goes beyond the customer and the community

Community spirit is alive and well, so much so that consumers expect small businesses to support each other. 75 per cent of consumers said it's important that small businesses support other local businesses. More than half (58 per cent) expect this support to be financial in nature.

Are businesses putting their money where their mouth is when it comes to supporting the local community? The research shows undoubtedly, they are.

Three quarters said they prefer to use local suppliers they have a personal relationship with, 70 per cent feel they have strong relationships based on trust with other local businesses and 69 per cent use small, local suppliers because they know their money stays within the community.

Business owners reap the financial benefits of collaborating locally. Two thirds of business owners noted that local suppliers are more likely to reciprocate custom; 59 per cent named cost efficiencies in the convenience of being in close proximity and half said they can negotiate better payment terms locally.



“To be successful as a small business owner you need to work hard. It's important to be there. Treat every complaint as a question that can be answered, not as a reason for confrontation.”

Gil, Glengarry Spectacle Boutique, Western Australia



Some businesses are also collaborating to drive demand with other small businesses in the community; a quarter (24 per cent) of businesses get involved in joint promotion or marketing while 22 per cent take part in local loyalty schemes.

On average, small business owners reported working with 5.4 local businesses during the past year, mostly with professional services firms like lawyers and accountants, or food retailers including grocers and convenience stores.

Those who collaborated with three or more businesses most commonly reported increases in sales through referrals, a sense of supporting the local community and customer reach as the biggest benefits. In fact, two thirds of Australians would recommend a small business to others if it supported other local businesses and 63 per cent would shop at a small business for the same reason.

The benefits of working together locally go far beyond the businesses' own sales and turnover; it provides value to the whole community.



"Running a small business is hard work. You need to forego some of your free time and be sincere. If you're not sincere, if you're not real, people see through you."

Nick, Golden Ox Restaurant, Queensland





The Boomerang Dollar

Have you ever considered where your dollar goes when you hand it over to a small business? Into the pocket of the small business owner? To cover overhead or salaries?

The Household Expenditure Survey, conducted yearly by the Australian Bureau of Statistics, estimates the average household spends almost \$40,000 a year on a broad range of consumer goods and services. Of this, consumers estimate that a quarter (24.6 per cent) of their spending is with local small businesses. Modelled against most recent population figures that equates to annual spending of \$88.9 billion annually.

Small business owners themselves say they are investing 42 per cent of their annual turnover within their local community, with 27 cents going towards salaries of local workers, 12 cents to local business suppliers, and the remaining 3 cents going to support local charities, schools and sponsorships.

Small businesses are aware of how the Boomerang Dollar can drive more local economic growth; four in five said they would consider greater collaboration with other small businesses in the area. Those with a low level of collaboration said focusing on their own business, lack of time and getting better deals elsewhere are the biggest impediments. Some business owners went as far to say they feel alienated from their community or distrusted by them as a result of low collaboration.

Where does the money go?





What's next?

In the second part of *The Economy of Shopping Small: Keeping it in the Community* we'll look at the future of Australia's small business community. What do the people behind the counter like most about running a small business and what are their biggest challenges and fears? Are they feeling positive about their futures and will they still be operating in 12 months' time?

We'll also look at attitudes towards technology. Are small business owners looking for digital tools to improve business processes and customer experiences? Or do they worry about eroding the personal touch that sets them apart from bigger rivals and new online competitors?



PART TWO

Current confidence and future outlook





Overview

In the second part of *The Economy of Shopping Small: Keeping it in the Community*, we delve into the future of small businesses – what are the pressing issues, and how are owners keeping up with evolving customer demands, especially around new technology?

While consumers expect small businesses to provide a greater level of personalised service and convenience compared to the big end of town, they also understand the challenges small business owners face.





The highs and the lows

Running a small business is difficult, but the rewards for getting it right are worth chasing. Almost half of business owners said the ability to control their own destiny was their favourite thing about being their own boss, followed by maintaining work/life balance and achieving a sense of fulfilment.

More than a quarter are driven by a sense of purpose, by making a living from something they care about, while 22 per cent expect to be in a better long-term financial position. Running a small business has had a strong, positive effect on personal fulfilment for 53 per cent of owners. It's also been positive for their financial position, mental wellbeing and home life.

There are challenges, however. More owners are worried about managing costs than they are about growing their small businesses. Increasing energy prices and costs/overheads were the most pressing concerns, with 55 per cent and 53 per cent respectively saying they were extremely concerned about these. Attracting new customers (58 per cent) and retaining existing customers (56 per cent) were the top concerns in last year's report.

One in three said too much red tape or the difficulty of achieving financial success are their least favourite aspects of running a small business. Almost as many said it's more stressful or difficult to maintain work/life balance when compared to working for someone else.



"We live in the area and have done since 1979. We're in our third house here and being close to the community, we actively support it. We sponsor the local fishing club and have always supported the local sporting teams our kids and grandkids played for."

Gil, Glengarry Spectacle Boutique, Western Australia



If small business owners had their time again, 62 per cent would still go into business for themselves, up slightly from 58 per cent last year. Yet fewer would encourage friends or family to start their own venture, down from 60 per cent last year to 52 per cent. The proportion who would actively discourage (six per cent) was unchanged.

The outlook for most business owners is optimistic. 82 per cent expect they'll still be running their small business in 12 months' time, but nine per cent said they're likely to shut up shop. Similarly, 13 per cent said they often think about giving up on their business.

Most customers appreciate running a small business is challenging, so it's no real surprise that only one in three would like to own their own. The biggest deterrents are stress, financial risk and maintaining work/life balance.



"If we don't look after our customers and provide a good service, if we're not friendly with them, why would they bother coming back?"

Margaret, Red Hill Gallery, Queensland





The future is coming, but are businesses ready to embrace it?

While many business owners expressed their positive outlook for the future, there were mixed attitudes to the role new technology would play. Much of this reluctance stems from a natural tension between customer service and relationships.

Although 46 per cent of small business owners are using social media as a way of marketing to customers, and a further 24 per cent plan to do so, many still need to be convinced about the benefits of introducing new customer-facing technologies. Only 52 per cent have a website, and 24 per cent say they have no intention of ever getting one.



"We use social media a lot more to promote the business these days because that's the way things are going. But we don't use handheld computers for taking orders because it takes away from the personal interaction that's such an important part of good old-fashioned customer service."

Nick, Michelangelo's Italian Restaurant, NSW

There's also been limited uptake of contactless payments (27 per cent), product review functionality (21 per cent) and the ability to sell through a third-party website like eBay or Etsy (20 per cent). The exception is casual and fine dining businesses, which have widely embraced sites like Deliveroo, Foodora and Menulog to introduce or widen delivery services.

Some commonly held attitudes towards new technologies reveal why many businesses are proceeding with caution. Three quarters said technology can't replace the consumers common sense and 64 per cent worry that glitches could disrupt the shopping experience.



“Small businesses need to be smart about how they take their value proposition to their communities – thinking outside the box for ways to engage their customers, and responding to what customers want and need. The ability to be agile, customised and innovative is a luxury that many small businesses have over their larger counterparts, so it’s important to make the most of this advantage.”

Brian Walker, CEO & Founder, Retail Doctor Group

Funding and lack of available time are the biggest barriers to implementing new technology, while a lack of technical expertise also causes hesitance. Some small business owners are concerned that technology becomes outdated so quickly, while others simply don't see the benefit or feel overwhelmed by choice.

Those who have implemented new technologies, or plan to do so, are most commonly motivated by the opportunity to drive business growth, keeping up with other small businesses and meeting the demands of customers.

According to owners the biggest benefits are customer convenience, reaching potential customers beyond the local area and more regular contact with existing customers. Increased operating costs and fees to service providers were considered the biggest drawbacks, with small business owners also bemoaning the reduced personal connection with customers.

The majority of consumers reported a basic website is the most important technology for a small business to invest in. This is followed by online sales or booking functionality and social media channels.

More than one in three consumers have used a website to engage with a small business, compared with 20 per cent through social media channels and 19 per cent via a third-party website like eBay or Etsy.

Two in five (42 per cent) consumers say technology provides greater convenience, saves time (40 per cent) or money (33 per cent) and allows them to compare competitor offering side-by-side for the best deal (33 per cent). Like small business owners though, many consumers worry that technology can't replace common sense, believing glitches will impact the shopping experience and that technology could dehumanise the experience.

Technology dominates thinking when small business owners were asked to predict how their operations will change during the next 12 months. More than a third plan to improve how they use social media, 27 per cent expect to incorporate more technology into daily operations and 24 per cent are targeting increased online sales.





Actions speak louder than words

This report has highlighted a shared sense of community between small businesses and the customers they serve. While we have looked at the role of technology in helping these businesses grow in the future, consumers cannot underestimate the importance of loyalty.

To continue enjoying the benefits of local bakers and butchers, independent book stores, boutique designers and friendly corner shops, and ensuring small businesses survive, consumers need to show commitment by changing behaviours and spending more locally.

The economy of shopping small is about keeping it in the community. Actions speak louder than words.





Methodology

The Economy of Shopping Small: Keeping it in the Community research was commissioned by American Express and undertaken by AMR, a leading provider for international B2B research and advisory services.

In order to understand the current trading environment for Australia's small business, researchers focused on recruiting respondents from seven selected industries: Retail (fashion, food, services), Dining & Drinking, Travel, Professional Services and Healthcare services. Each individual participant had to be:

- A small business owner (fully or partially) who spend at least 8 hours per week working in their business and are the key decision maker within the business
- A small business owner who has owned the business for 6+ months
- Owner of a business with annual turnover between \$50K and \$2m
- Owner of a business with 0-19 employees (not including the owner)
- Owner of a business not solely online
- Owner of a business not solely B2B (i.e. it has private consumer customers)

Trends within this group were then assessed via:

Small Business Owners - Quantitative Survey:

An online survey of around 15 minutes was completed by more than 500 (548) respondents, with the fieldwork taking place between 25 September and 30 September 2017, with recontact of 302 responds for two additional questions happening between 6 October and 9 October 2017.

General Public - Quantitative Survey:

In addition, feedback from business owners was compared and contrasted with responses from 1,033 members of the general public (aged 18 years or older), who also completed an online survey of around 15 minutes. Respondents were selected and weighted so the findings were nationally representative of age, gender and state. The fieldwork took place between 22 September and 28 September 2017 and on 11 October 2017.

About AMR:

One of Australia's leading locally owned research consultancies with more than 25 years in research, consultancy and advice, AMR regularly conducts research studies on consumers, businesses, governments, countries and cities. AMR is part of WPPAUNZ, Australasia's leading marketing content and communications services group.



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 fifth year, Shop Small begins on 1 November 2017 and runs for the entire month.

American Express Card Members registered with the Shop Small promotion will receive \$10 credit for every \$20 they spend in participating businesses during the month, up to a total of \$50.

Visit www.shopsmallaustralia.com and follow #ShopSmallAU for more information.

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