

yellow^o

New Zealand's
Small Business
Nation 2020



What follows is a summary report of research undertaken by Dynata*, on behalf of Yellow New Zealand.

* Dynata is the world's largest first-party data and insights platform.

1,000 small businesses[†] across the nation took part in a survey, in field July – August 2020.

[†] In the context of this research, a small business is defined as a business with under 50 employees.

The purpose of the research was to:

- Shed light on the impact of the COVID-19 2020 pandemic, in a wide range of small business industries
- Understand the overall satisfaction small business owners have with the performance of their business
- Identify the goals of small business owners
- Understand perspectives on the role of digital marketing



Meet New Zealand's small business nation.

We are predominantly sole traders (71%), we are young; half of our businesses are under 10 years old, and we are hungry to grow — the primary goal of the majority of all small businesses is to get more customers.

Executive Summary
by Yellow New Zealand
CEO Darren Linton



While we expected to hear that the majority of small businesses have felt the impact of the COVID-19 pandemic, we have been able to identify and understand the ways in which this change has brought positive momentum to a minority (9%) of businesses.

Overall, small businesses are moderately satisfied with their performance in 2020, with businesses with a longer tenure of more than 10 years most satisfied. For these businesses, it is their established and loyal customer base providing a cushion of support and seeing them through.

However, beyond what we know about the incredibly difficult challenges faced by the tourism and hospitality sectors. We discovered a group who are universally impacted the most; 'emerging' businesses (businesses with a 2-5 year tenure).

From a cross-section of industries and locations, these young businesses survived their first two years with unfavorable odds of success and are now in the two to five-year growth stage. Making up more than 100,000 businesses, this group most keenly feels the impact of the pandemic.

There is also, increasingly an acknowledgment from many of the importance of digital in business, with 70% agreeing that businesses with an online presence are most likely to survive economic downturn. However, more than a third (37%) of small businesses report they have no online presence.

The reason for this varies, but over half of small businesses agreed they need more support when it comes to getting an online presence and using digital marketing (53%).

As we lean into the recovery of the small business economy, we wanted to understand how we could help, and we knew we needed to start by listening. This research is the beginning of an ongoing conversation and we welcome the opportunity to collaborate with small businesses, with government, and with industry bodies to identify and deliver on the initiatives that will best support and aid New Zealand's small business nation to recover, and to thrive.

We discovered a group who are universally impacted the most; 'emerging' businesses (businesses with a 2-5 year tenure).

70%

70% agree that businesses with an online presence are most likely to survive economic downturn.

37%

More than a third (37%) of small businesses report they have no online presence.

53%

Over half of small businesses (53%) agreed they need more support when it comes to getting an online presence and using digital marketing.



01

A Bird's Eye View

Looking at small businesses broadly, their goals, and current satisfaction levels.

02

The Journey To Digital

The online presence and marketing activity of small businesses.

Contents



03

The Pandemic Effect

Understanding the impact of COVID-19 on small businesses.



04

Spotlight On Emerging Businesses

Small businesses most likely to be impacted by COVID-19 – emerging businesses.*

* Businesses with a 2-5 year tenure.

A Bird's Eye View

Looking at small businesses broadly, their goals, and current satisfaction levels.



According to MBIE New Zealand is a nation of small and micro businesses. They account for 28% of employment and contribute over a quarter of New Zealand's gross domestic product.

This survey sought to understand more about where they are, the age/ stage of the business, satisfaction levels and their goals and ambitions. The findings are as follows:

The majority of small businesses are sole traders located in main metropolitan cities.

Of the small businesses in NZ, 71% are sole traders, 19% have 1-5 employees, and 10% have 6-49 employees. 71% of New Zealand small businesses are located in metropolitan areas. The majority of small businesses (93%) operate out of one geographic location.

New Zealand has a 'young' small business culture – 50% of small businesses are under 10 years old.

13% of small businesses are under two years old, 19% are 2-5 years old, 18% are 6-9 years, 27% are 10-20 years old and 22% are more than 20 years old.

Small Kiwi businesses are hungry, over half say their main business goal is to get more customers.

Looking at what businesses are trying to achieve (note - businesses could answer more than one goal): 52% of small businesses want to get more customers, 40% want to manage their existing customers, 11% want to stop the decline in their customer base, 11% want to spend less time working in their business and 2% want to sell their company.

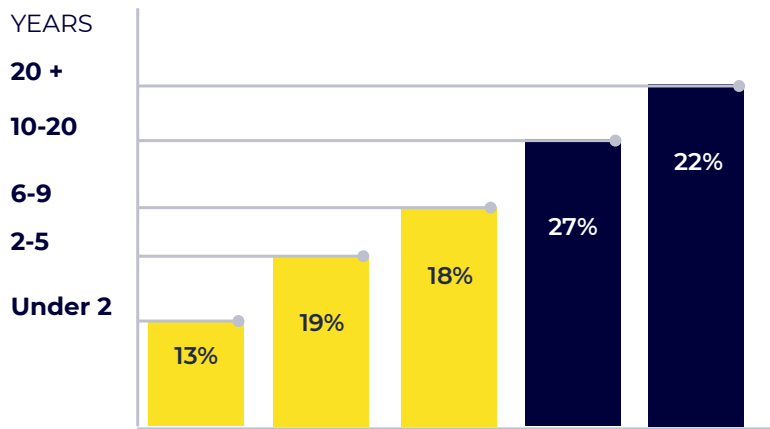
For the younger businesses under two years old, the desire to get more customers increases to 77%.

For businesses over 10 years old, the desire to get more customers decreases to 43%, but the desire to manage their existing customers increases to 46%. Based on the commentary from respondents this is in line with the maturity of the business and loyalty of customer base.



Small businesses across the nation are broadly united in their ambition to grow and manage existing customers.

Small Business Tenure (Years)

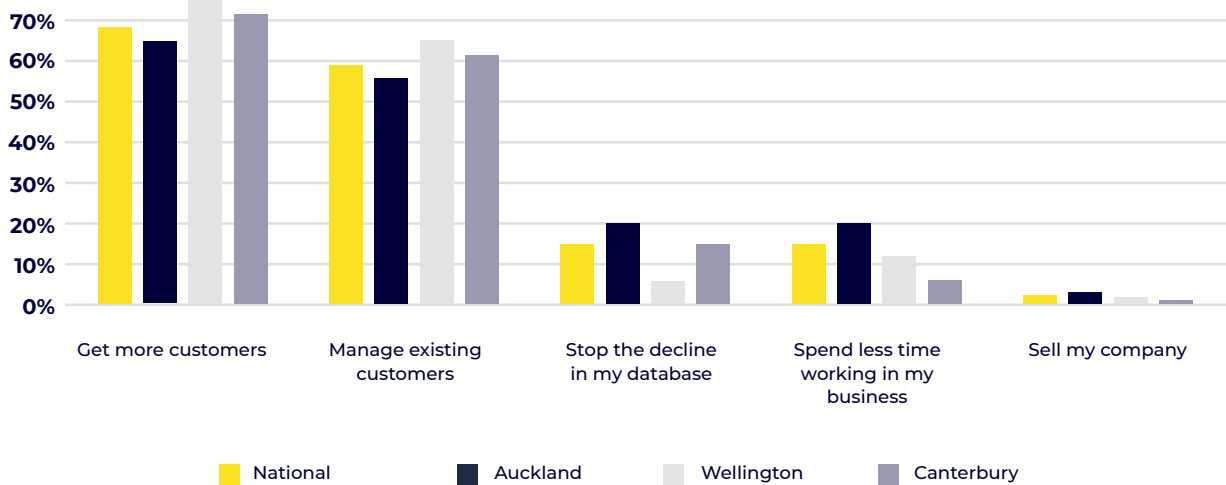


New Zealand has a young small business culture.

50% of small businesses are under 10 years old.

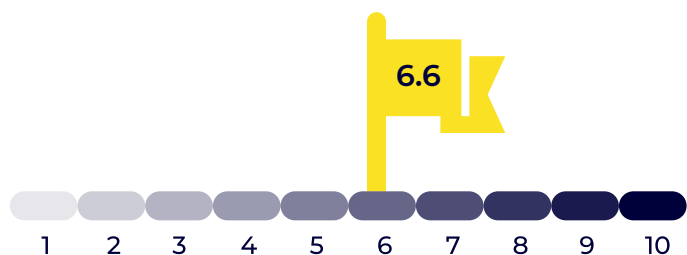
Small Business Goals by Region

Small businesses across the nation are broadly united in their ambition to grow and manage existing customers.



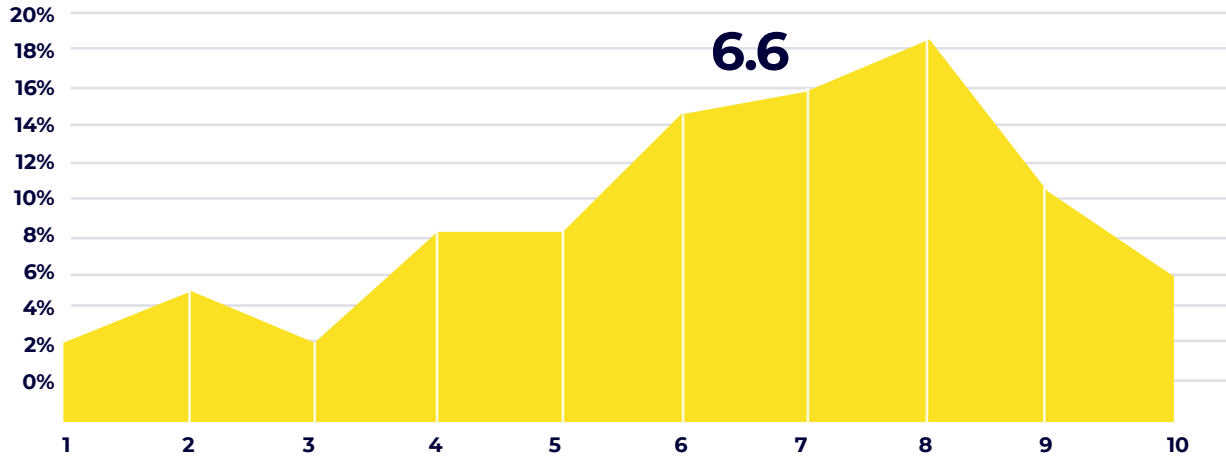
Overall, small businesses are moderately satisfied with their performance.

The average score out of 10 (10 = highly satisfied) was 6.6.



Business Satisfaction Score

Average Satisfaction Rating = 6.6



Those who were more satisfied (7-10) were more likely to be businesses who have been in business for more than 10 years.

Businesses scoring 7-10 on the satisfaction scale, by tenure:

More than 20 years	27% (overall 22%)
10-20 years	28% (overall 27%)
6-9 years	17% (overall 18%)
2-5 years	19% (overall 19%)
Under two years	10% (overall 13%)

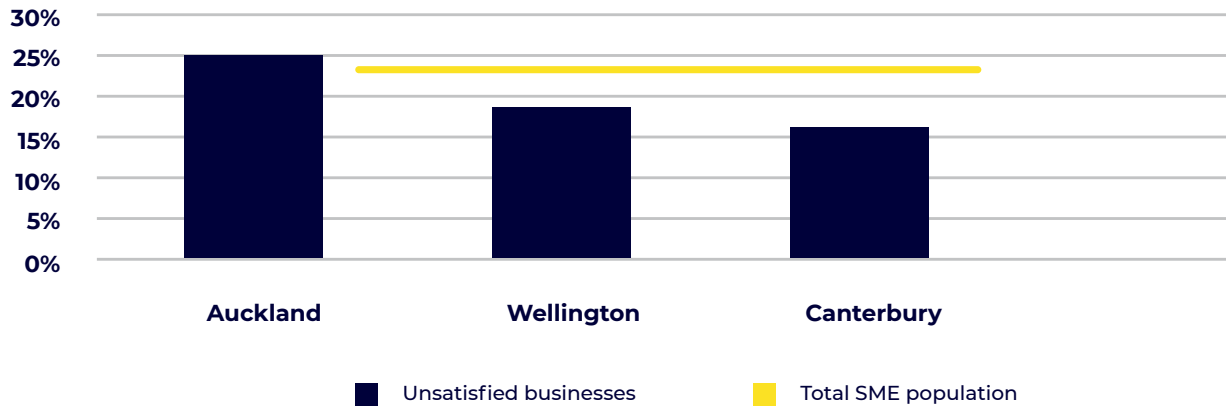
Those who were less satisfied (1-4) were more likely to be businesses who were younger (less than two years in business).

Businesses scoring 1-4 on the satisfaction scale, by tenure:

More than 20 years	17% (overall 22%)
10-20 years	20% (overall 27%)
6-9 years	23% (overall 18%)
2-5 years	17% (overall 19%)
Under two years	23% (overall 13%)

Auckland businesses were more likely to be unsatisfied, and Wellington and Canterbury businesses were less likely to be unsatisfied.

Percentage of Businesses Who Are Unsatisfied (by Region)



Not surprisingly, those in the Travel & Accommodation industry were over three times more likely to be unsatisfied, versus the national SME population.



The Journey To Digital

The online presence
and marketing activity
of small businesses.

02

Small businesses see the value in having an online presence, however many are not engaging in the digital world.

70%

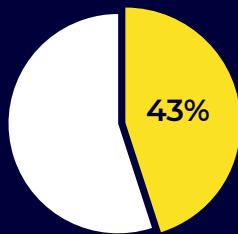
70% of survey participants agree that small businesses with an online presence are more likely to survive economic downturn, however more than a third (37%) of small businesses have no online presence.

Overall, small businesses say they need support when it comes to the digital world.

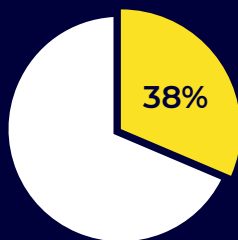
53%

53% agree that small New Zealand businesses need more support when it comes to getting an online presence and using digital marketing.

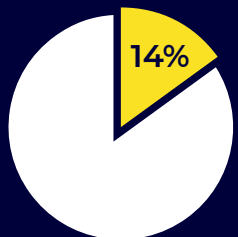
Less than half of small businesses have a website, and around one third have a Facebook page.



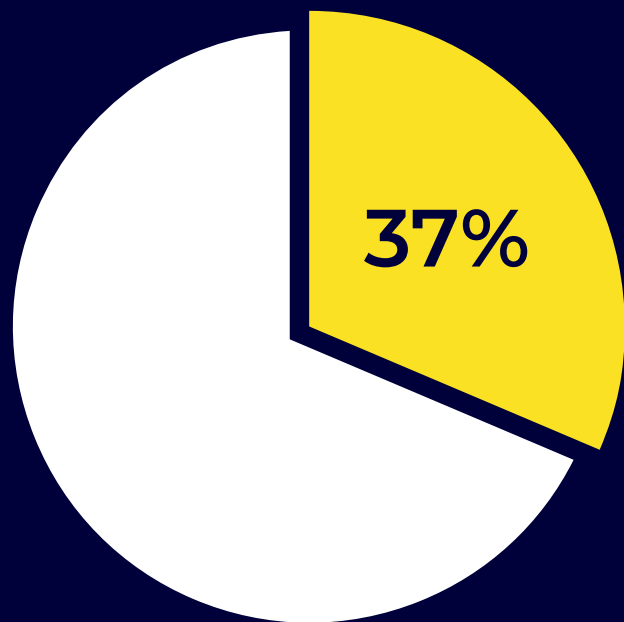
43% of small businesses currently have a website



38% have a Facebook page



14% have an Instagram page



37% have no online presence at all

57% don't have a website and of those without a website, 40% would like one.

Of those with no online presence at all, 27% would like a website, and 16% would like a Facebook page.

Many of those with no online presence say it's simply not relevant to their business, and they are able to perform without one.

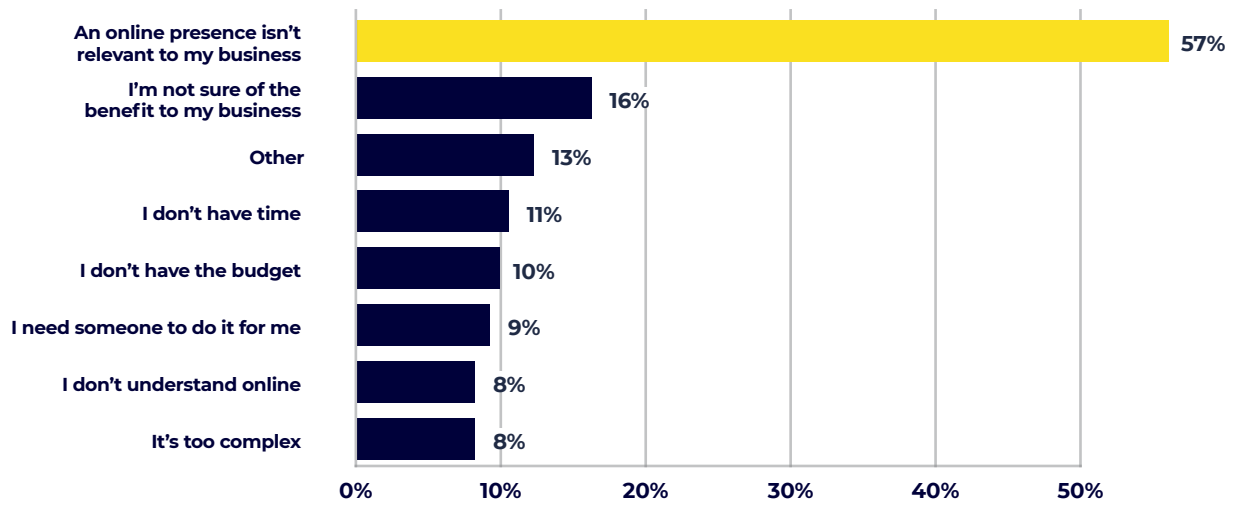
Of those who don't have any online presence, 57% say it's not relevant.

CEO Darren Linton explains that relevancy often changes with the stage of the business and digital journey.



“Relevancy is a subjective thing; we've talked to many owners who have been running their small business successfully without a digital footprint. If it represents more time and effort when things are fine, why make the shift? We get it. Some small businesses aren't looking to grow. But we've found the existing customer experience can also be improved with a digital presence. That's not always obvious. We see the ongoing role of resources and support as being just as important a part of the digital journey.”

Businesses With No Online Presence, Why They Don't Want One



Examples of other barriers to getting online include:

"I'm about to retire"

"I have enough customers already"

"I want to work less not more"

"I sell wholesale and don't need it to market my business"

"It's not my current focus"

"It doesn't apply to the farming industry"

Whilst small businesses want to grow, many are not investing in marketing to achieve that growth.

69% of small businesses rely on referrals, or 'word of mouth', to promote their business.

35%

spend under \$1,000 on marketing each year.

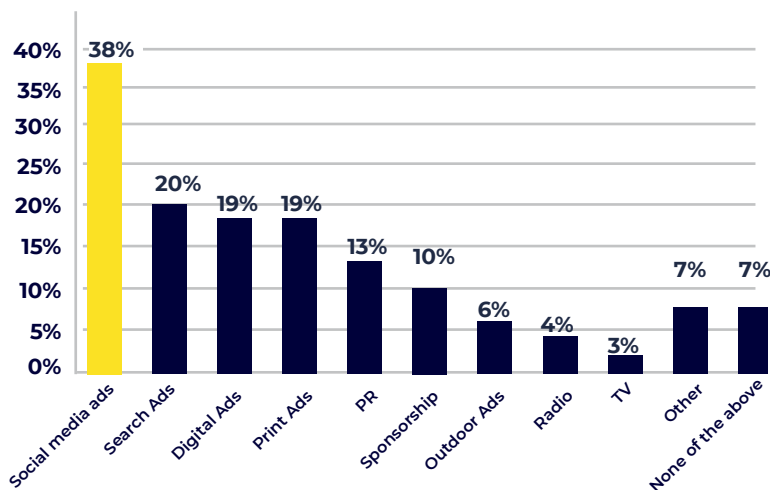
32%

spend nothing on marketing each year.

23%

spend \$1,000 or more on marketing each year.

Marketing Activity of Small Businesses



Of those who are spending money on marketing,

Social media is the preferred channel (after referrals).

The Pandemic Effect

Understanding the
impact of COVID-19
on small businesses

03

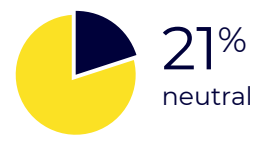
CAFFE
Greco
WIFI

hey
ようこそ
GUTEN TAG
Greco breakfast on
6:30am-1:30pm Monday to
Catering welcome

Over half of NZ businesses have been impacted by COVID-19 in some way, and 69% of this impact has been negative.

53% of small businesses have been impacted by COVID-19

Of those businesses:



Examples of negative impact include:

“Most of our customers are foreign tourists”

“People working from home has resulted in a decline in productivity”

“My clients have lost their jobs or reduced their hours and can’t afford me”

“Loss of income due to event cancellations”

“The timeframe for products to arrive has delayed dramatically”

“We are unable to export our items”

“We’re a luxury brand, a lot of people are saving money rather than spending it on non-essentials”

“Income loss due to inability to conduct face to face workshops”

“Competition has increased”

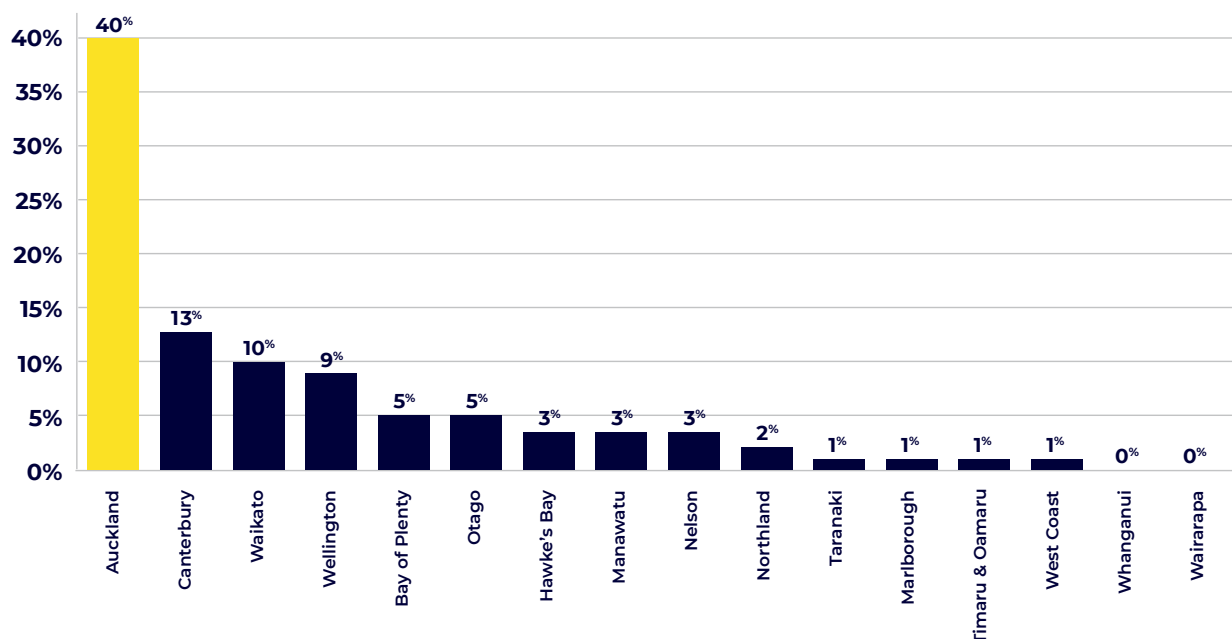
“We have been impacted by international students not returning from overseas”

Some small businesses claimed they lost **90-100% of revenue** and many say they couldn't operate at all.

Those industries most impacted negatively include: Professional Services, Trades & Services, Food, Drink & Dining, and Travel & Accommodation.

Businesses negatively impacted by COVID-19 were more likely to be located in Auckland.

Location of Small Businesses Negatively Impacted by COVID



A minority (9%) of small businesses recorded a positive impact due to changes resulting from COVID-19.

Examples of positive impact include:

“Clients need our support more than normal”

“Being small has enabled us to adapt to business needs in the COVID-19 climate”

“**More people looking for NZ made products**”

“An increase in cleanliness and safety has increased demand for our services”

“More people are interested in health”

“**My business is online and has been selling more since COVID-19**”

Spotlight On Emerging Businesses

Small businesses most
likely to be impacted
by COVID-19 —
emerging businesses*

* Businesses with a 2-5 year tenure

04

It's 'emerging' small businesses who need support.

In 2017, only 56% of those businesses established in 2014 survived. Meaning, 44% of small businesses didn't survive their first three years

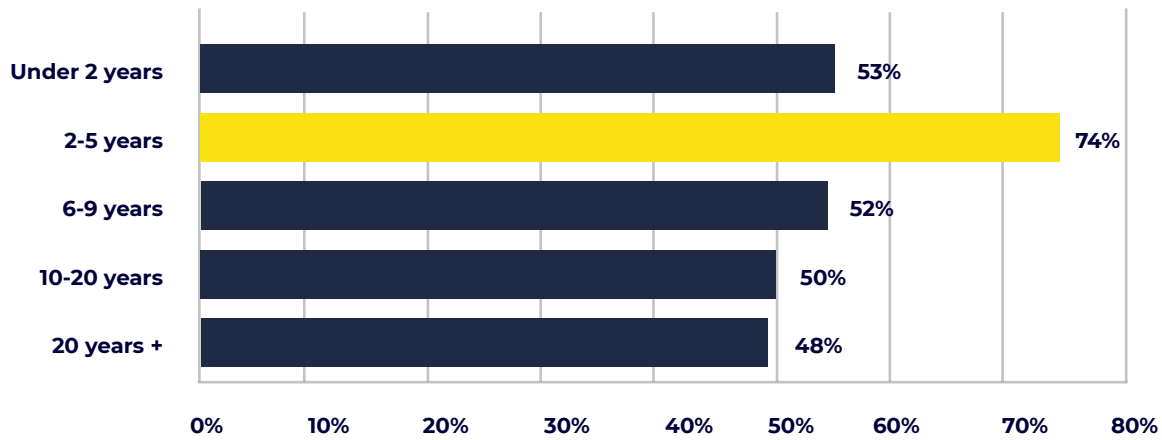
(source: Business survival rates in all industries in New Zealand, stats NZ).

Yellow CEO, Darren Linton, suggests businesses under two years in development will be unlikely to have a benchmark for 'normal' when it comes to assessing change versus the emerging businesses with a 2-5 year tenure;



“This is an interesting area of the research, my hypothesis would be that businesses in the first two years won't have enough data to compare performance when it comes to pre and post-COVID-19. Everything is new and challenging in those stages, and statistics tell us many don't survive, even without COVID-19. This is tough for the emerging businesses, they've made it past those first two difficult years, only to get knocked by COVID-19.”

% of Businesses Impacted Due to COVID-19, by Tenure



COVID-19 impact included:

“Clients can’t afford my services”

“I’ve lost half my business”

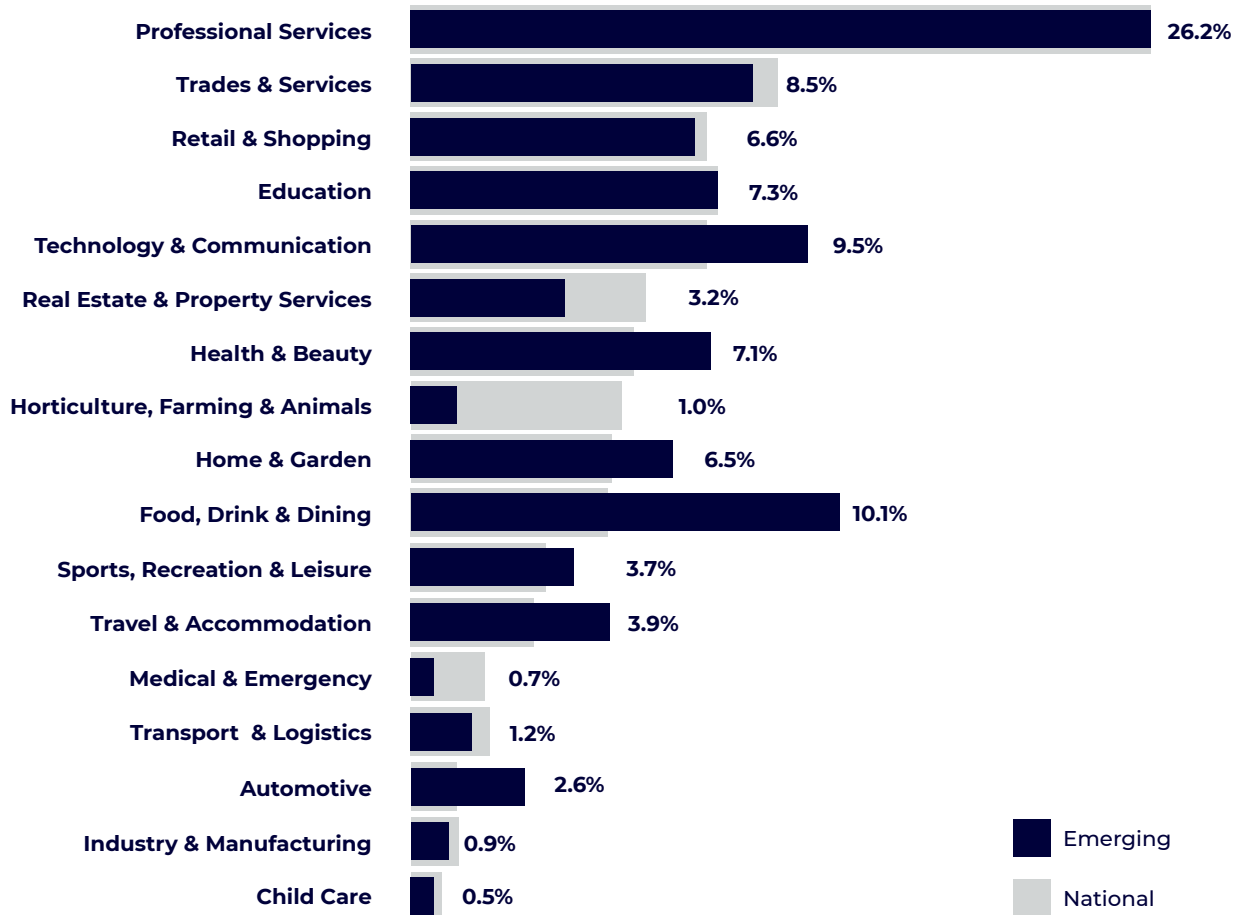
“I’ve had to adapt to the changes, and cope with the decline in sales at the same time”

“We’re not getting as many customers as before”

“We’ve had problems importing products”

“95% of my work is from overseas, and COVID-19 has prevented me from going overseas”

Who Are These Emerging Businesses?



This is a segment currently growing and seeking more customers.

Emerging businesses are nearly twice as likely to be in the growth phase, with 39% claiming their current business situation was 'growing'.



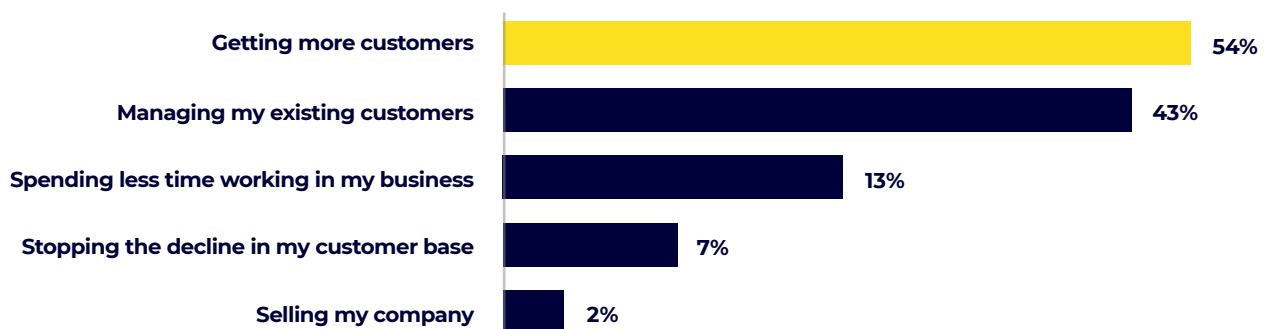
Business Situation



54% 54% say their business goal is to get more customers.

43% 43% say they want to manage their existing customer base.

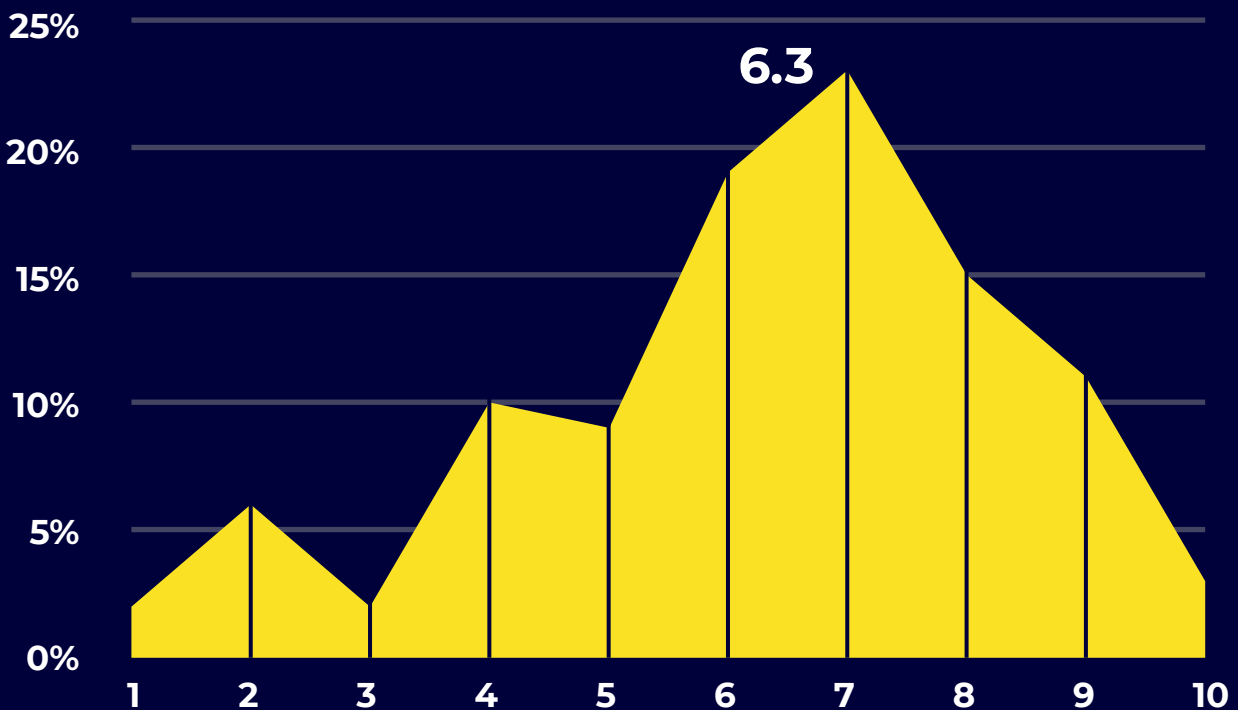
Business Goal

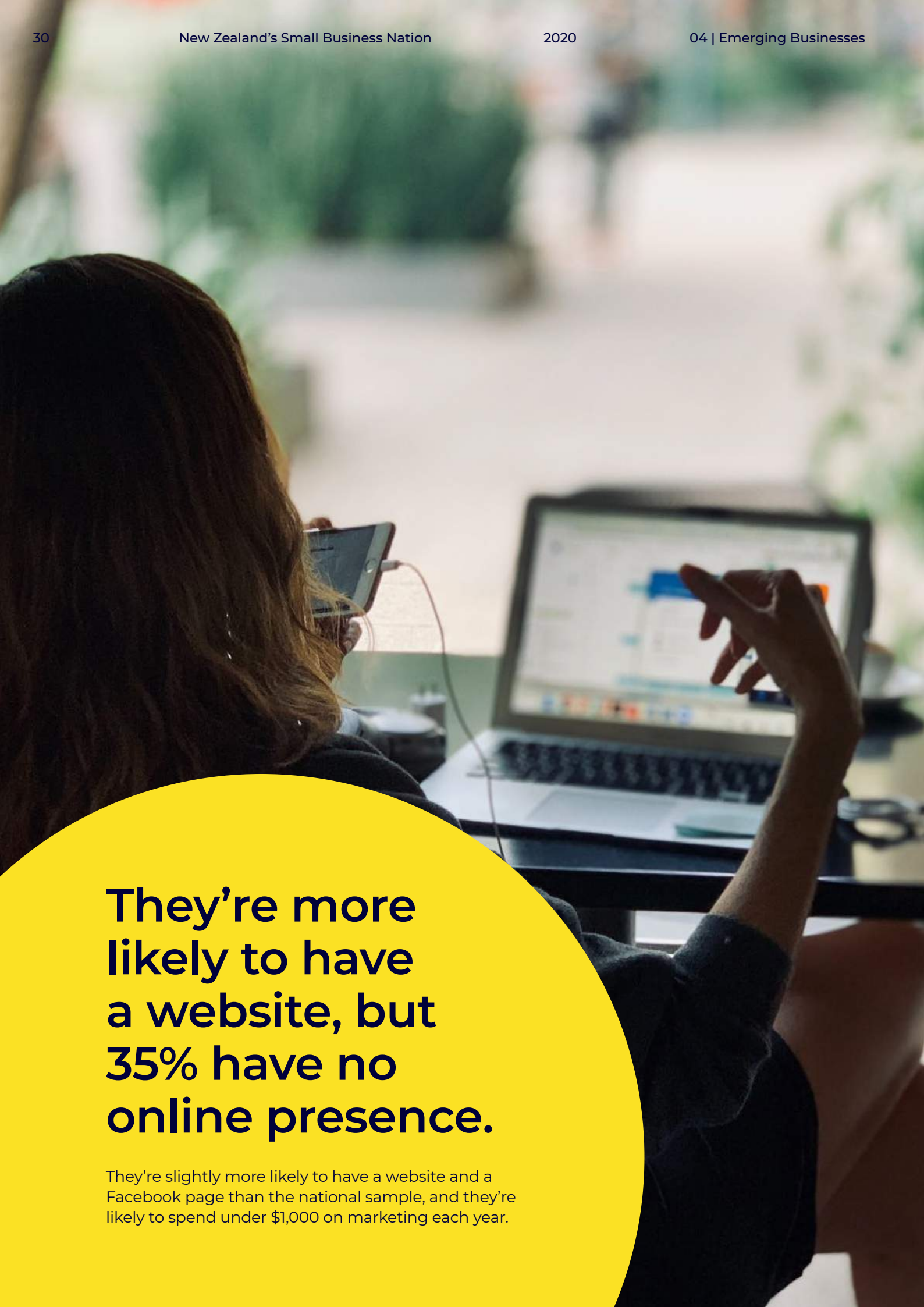


When it comes to business satisfaction, this group are sitting on the fence.

Business Performance Satisfaction

Average Satisfaction Rating = 6.3

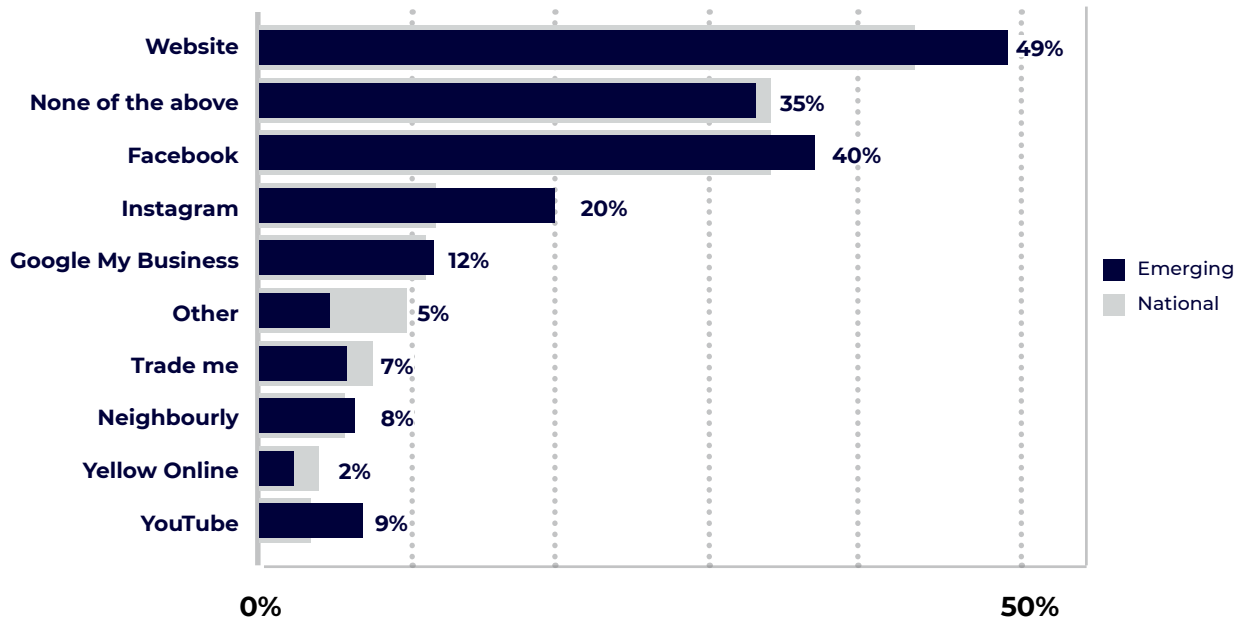




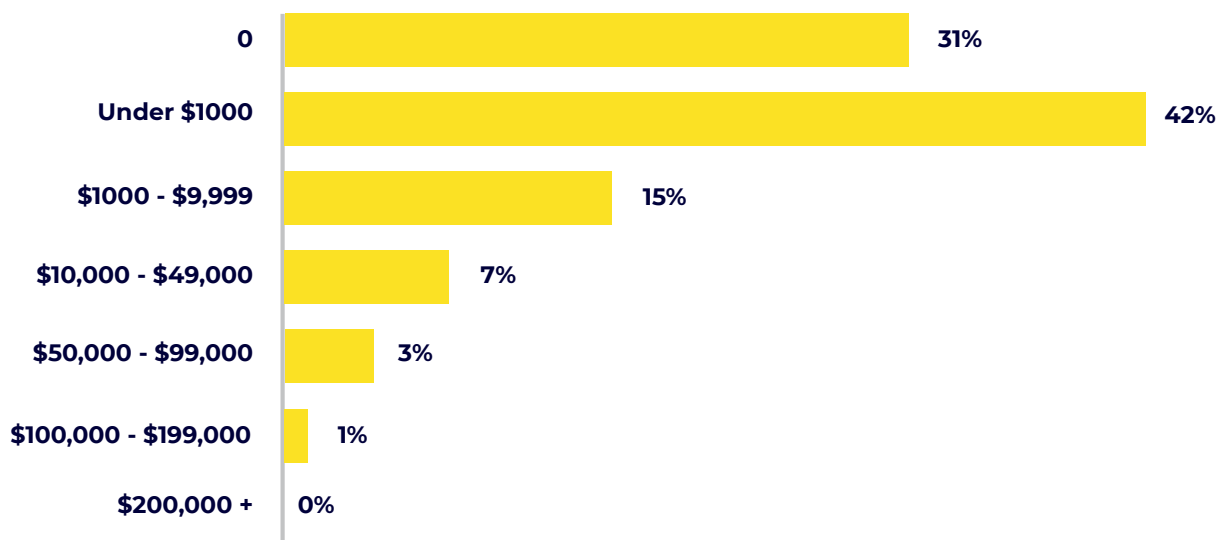
They're more likely to have a website, but 35% have no online presence.

They're slightly more likely to have a website and a Facebook page than the national sample, and they're likely to spend under \$1,000 on marketing each year.

Current Online Presence



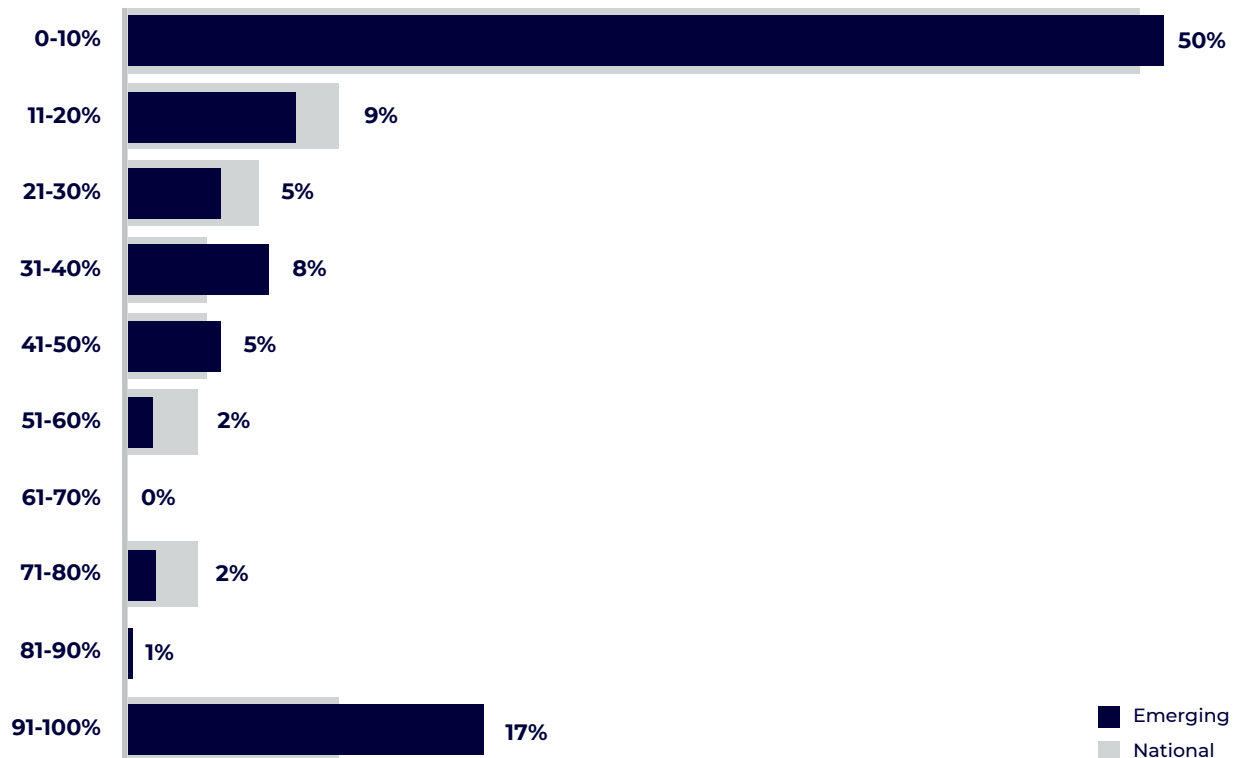
Annual Marketing Budget



They spend all, or nothing, on digital marketing.

Whilst they're almost twice as likely to spend all their marketing budget in digital media, the majority spend 0-10%.

Digital Marketing Spend as a Percentage of Total Marketing Budget





In Conclusion

New Zealand's small business nation is young, growing and dominates the overall business landscape.

The performance of these small businesses is crucial to driving economic growth and to the wellbeing of 530,000 business owners across the country.

This report aimed to shed light on how the sector at large is faring, and provide insight into the impact of COVID-19.

What it identified is while the pandemic brought about positive momentum for some, more than half of small businesses in New Zealand have keenly felt the impact of COVID-19. Of this, more than two thirds report the impact has been negative.

Emerging (2-5 year tenure) businesses may be the ones most affected with the highest business impact reported as a result of COVID-19, and an over-indexed likelihood to be in growth mode.

The report identified that whilst these businesses state growth as their main driver, many are not investing in marketing to achieve that growth.

And while the majority see the value in digital marketing and online presence, many are not engaging in the

digital world. More than a third of small businesses have no online presence at all.

There are a number of reasons for this, however, what is clear is **there is an identified need for more support for small businesses in New Zealand, particularly when it comes to digital.**

Initiatives that simplify a pathway to digital, and offer an affordable entry point have the potential to both convert New Zealand small business ambitions for growth, and protect them against future crisis.

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