



New Zealand's

Small Business Nation 2023

yellow^o NZME.



"As most small businesses are micro-enterprises (over 70% are sole traders), when we talk about SMEs, fundamentally we are talking about the humans behind the businesses."

Summary

It's time to have an important conversation about our SME community.

Overall SME business satisfaction has stalled at an average of 6.2 out of 10, shown in our latest research over the last three years.

Mental health remains a significant issue in a post-pandemic environment and despite the perceived momentum of a shift to digital, our results show that actually, the digital equity gap in our small business community has only closed by one percentage point.

SMEs who are investing a portion of their marketing budgets in digital are more satisfied with their business performance, and yet, a third of all SMEs still have no online presence at all.

It's clear that kiwi businesses are facing ongoing challenges and need our support.

For 60 years, our Yellow whānau have been that support and worked alongside SMEs as they navigate ever-changing economic climates - most recently, through the global pandemic.

We've seen the very real challenges first-hand, but we also know that economic downturns can present opportunities. Adversity can be a catalyst for new ways to do business better, with side hustles and start-ups as inventive Kiwis 'make lemonade'.

The top three business goals for SMEs right now, are 'to get more customers' (48%), 'manage existing customers' (41%), and 'free up time' (21%).

What this shows, is that **there's no time more important than now** to lean into growth, embrace digital transformation and stay seen.

We've seen some industries bear the fruits of this mindset already. It's no coincidence that the Travel, Accommodation and Hospitality sector now holds the lowest digital equity gap in the country (13%). The government's \$200+ million in funding has made a significant contribution to a more digitised industry. This is because it directly addresses barriers that we see time and again in our research - offering up both time (expert strategy) and money (implementation funding).

In the following pages, we have gathered insights from a diverse range of small Kiwi businesses. They are colourful, creative, diverse and hard working humans, and what they all have in common is their entrepreneurial spirit, their scale (under 50 people), and their pivotal role on Aotearoa New Zealand's economic front line.

As most small businesses are micro-enterprises (over 70% are sole traders), when we talk about SMEs, fundamentally we are talking about the humans behind the businesses.

To our government, and to larger kiwi enterprises, we need to change the way we're supporting SMEs and work together collectively to turn the tide on business digitisation in Aotearoa.

To our community of SMEs this research says it all. Now is the time to take action. Let's invest in digital business transformation and marketing, achieve our business goals and move the needle on overall satisfaction.

At Yellow, we're committed to helping our SMEs with that.

Ngā mihi nui,

Tracey Taylor

Chief Executive Officer
Yellow NZ



Over 1,200 small to medium businesses¹ (SMEs) across the nation took part in a survey. This research was in field 1 - 22 February 2023.

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

¹ In the context of this research, a SME is defined as a New Zealand-registered entity with under 50 employees.

The purpose of this research was to capture the sentiment and voice of the SME sector, to understand overall goals and satisfaction levels, their outlook on the future, and to track the pace of digital growth.

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

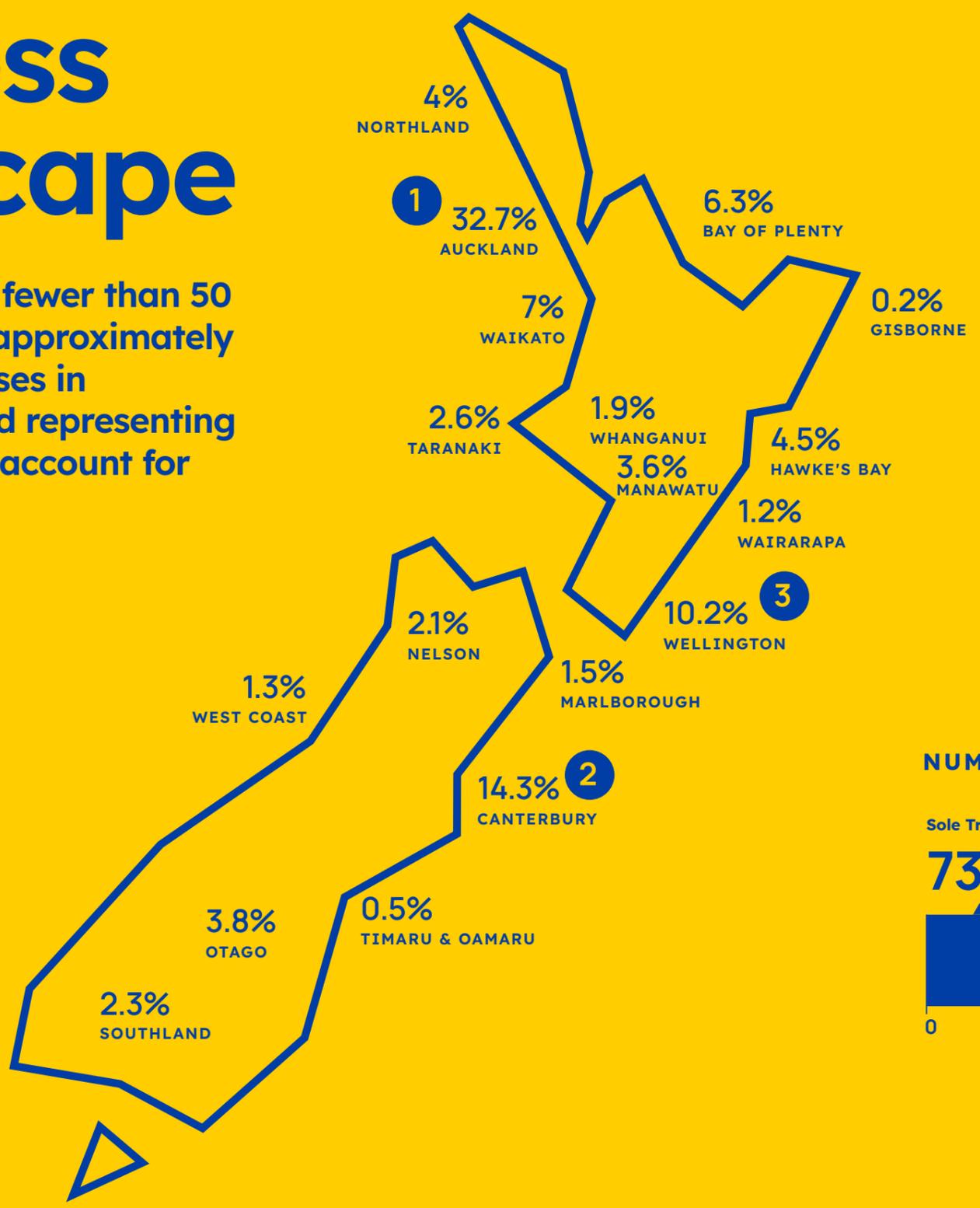
Contents

Summary	01
The Small Business Landscape	05
SMEs Overview	06
- Regions as surveyed	
- Small business tenure	
- Number of employees	
Closing the Digital Divide	07
Total SMEs with no online presence	07
Industries with an online presence	09
Online presence barriers	10
Growth of Instagram	11
Online channel presence	11
The Importance of Staying Seen	13
Percentage of SMEs investing in marketing	13
Investing to grow	15
Satisfaction Levels and Business Goals	17
Business satisfaction score	17
Anatomy of a 'more satisfied' SME vs. a 'less satisfied' SME	18
Satisfaction by industry	19
Satisfaction by size	21
The pivotal role of culture	23
Happy factors	23
Unhappy factors	24
Mental health	25
Economic climate	27
Business goals	29
Freeing up time	31
Future state	33
Business Concerns -	
Rising costs	35
NZ Economy	35
Customer mindful of spending	36
Mental wellbeing	36
Local talent needed	36

The Small Business Landscape

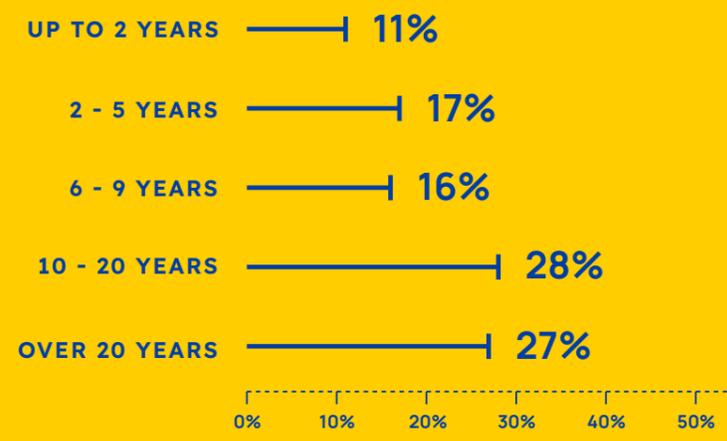
Defined as those with fewer than 50 employees, there are approximately 587,000 small businesses in Aotearoa New Zealand representing 99% of all firms. They account for 42.6% of employment.

REGIONS AS SURVEYED



SMEs Overview

SMALL BUSINESS TENURE (YEARS)



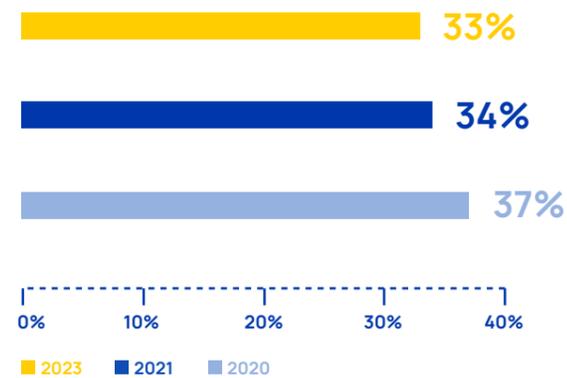
NUMBER OF EMPLOYEES



Closing the Digital Divide

Digital growth has stalled. A third of SMEs still have no online presence.

TOTAL SMEs WITH NO ONLINE PRESENCE



During COVID-19, a small (3 percentage points) shift of businesses making the transition to digital was reflected in the 2021 data. However, in 2023 the total online presence amongst small businesses remains relatively flat, moving just 1 percentage point. With a third (33%) still having no online presence.

While a large proportion of SMEs still have no online presence, many say they want one. 22% of SMEs with no website say they would like one, 12% say they would like a Google Business Profile and 9% saying they would like a Facebook page.

22%

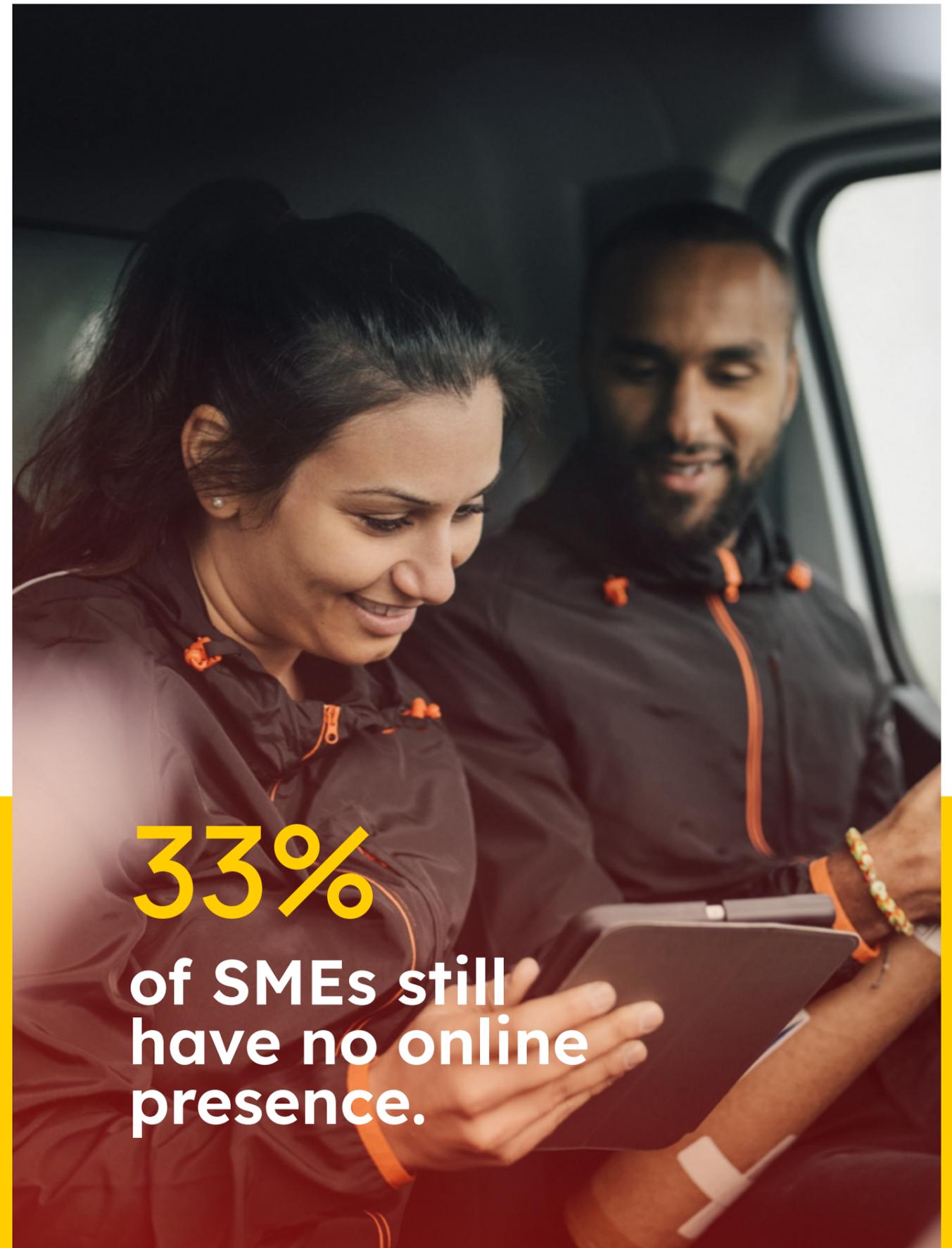
with no website would like one

12%

would like a Google Business Profile

9%

would like a Facebook Page

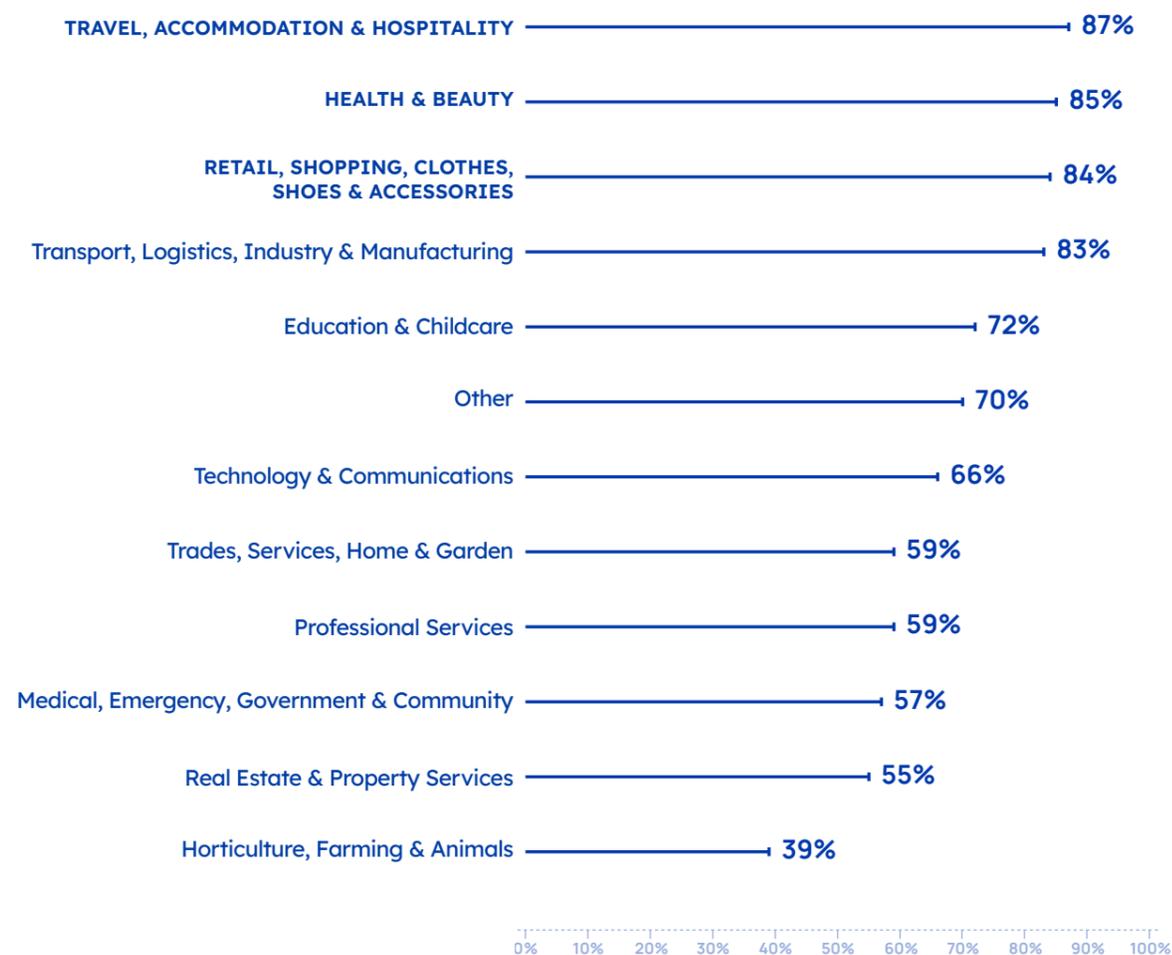


33%
of SMEs still have no online presence.

Industries with an online presence

Not surprisingly, the top industries with an online presence include Health and Beauty, and Retail, as well as Travel, Accommodation and Hospitality. The latter holds the smallest gap remaining to convert (13%).

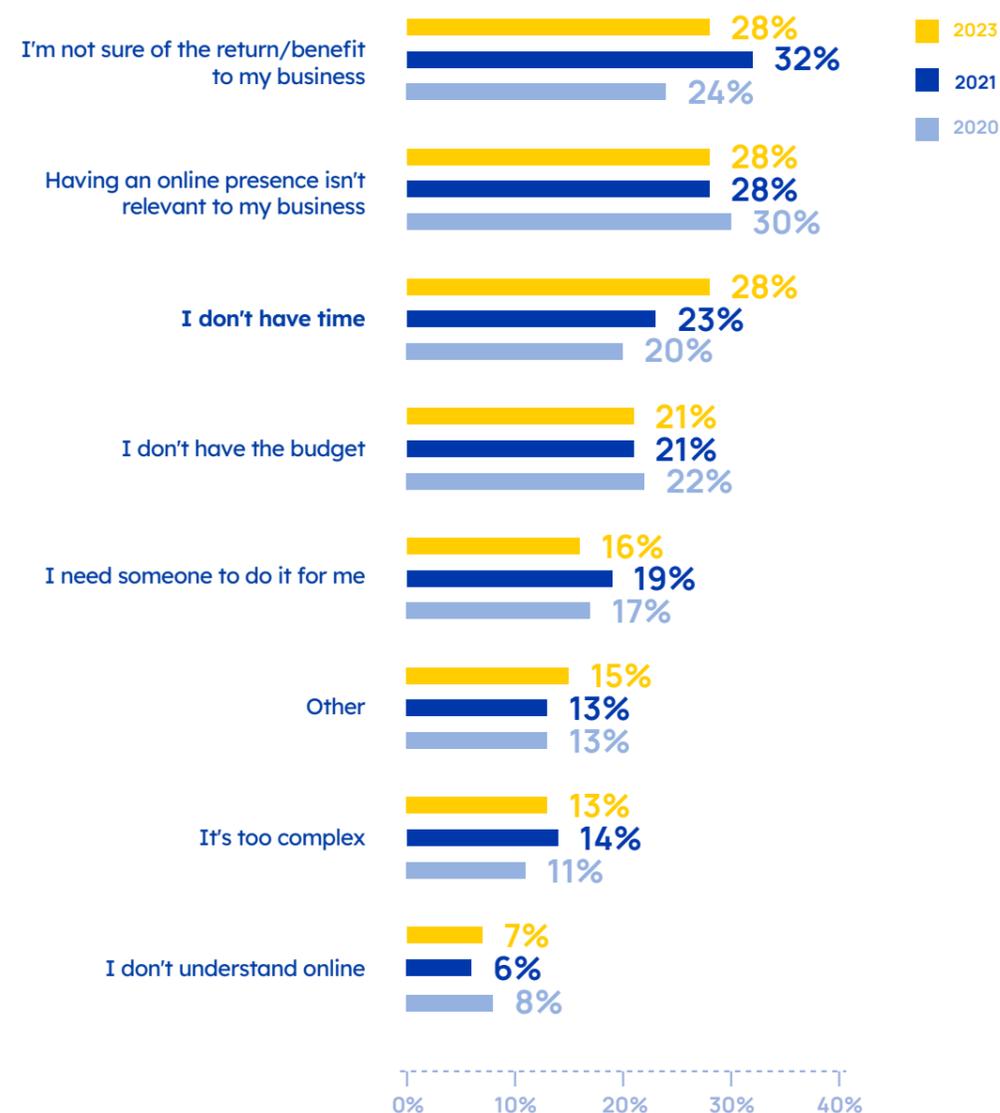
INDUSTRIES WITH AN ONLINE PRESENCE



Industries less likely to have an online presence include Horticulture, Farming and Animals, Real Estate and Property Services, and Medical, Government and Community.

There has been a sharp increase in SMEs identifying a lack of time as an barrier to getting online.

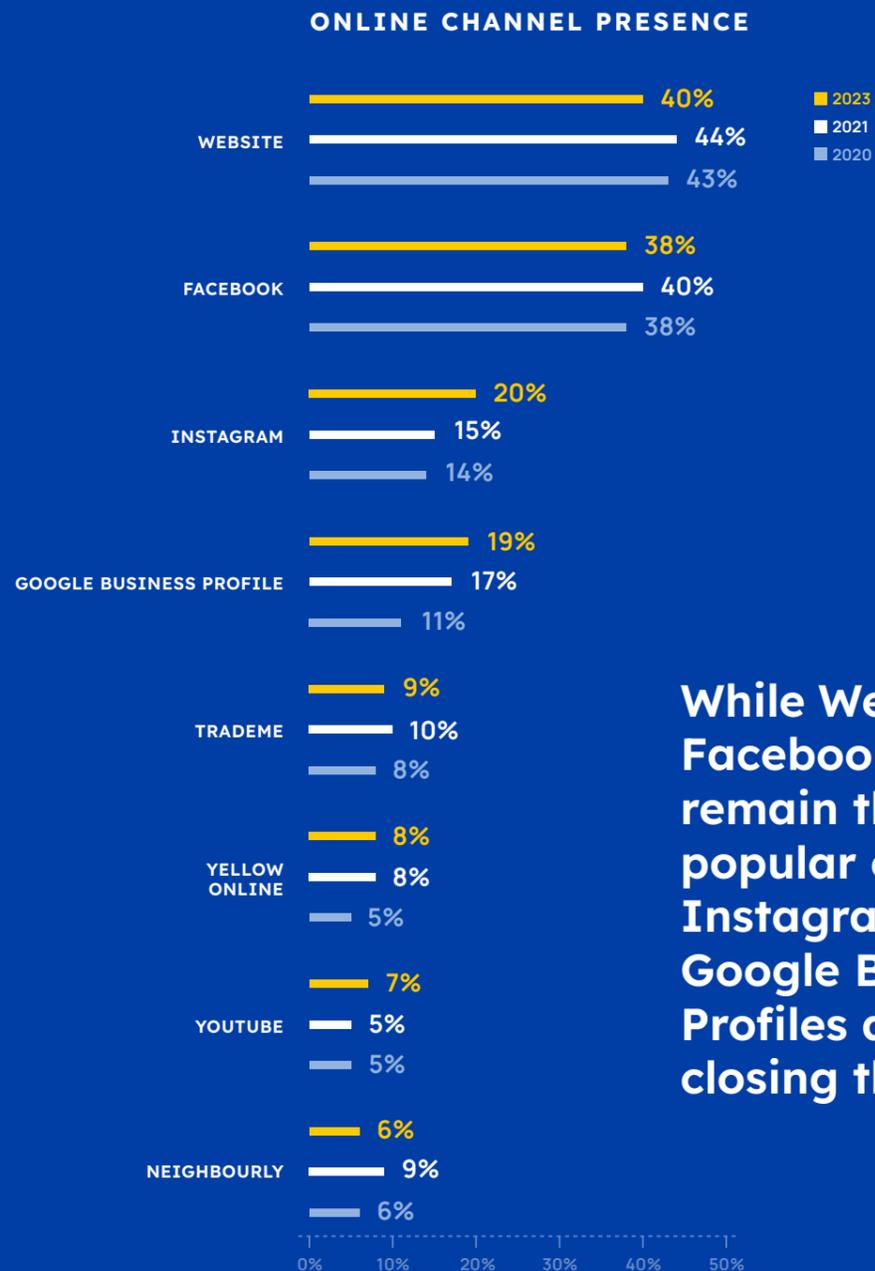
ONLINE PRESENCE BARRIERS



Instagram is growing in popularity as a digital shop front

Looking at the online channels SMEs are using, we saw a significant increase in the number using Instagram, this jumped from 15% to 20%. Google Business Profile also increased from 17% to 19% since 2021.

Instagram is particularly popular among Health & Beauty (43%) and Travel, Accommodation and Hospitality (39%). And in each of these industries, 16% of those who don't have an Instagram page want one.



While Websites and Facebook pages remain the most popular options, Instagram and Google Business Profiles are quickly closing the gap.



“A rise in business profiles through Instagram was anticipated due to the power of the channel.

With location addresses opening in Maps steering in-person visits, SEO-friendly bios, menus and price lists in highlights with engagement expansion through tags, an Instagram profile is a strong, customisable marketing proposition for SMEs.

Particularly for hospitality establishments, health & beauty providers and e-commerce stores, it can do a great job of converting engagement into sales.”

Sally Knox

Head of Content and Lead Gen
Yellow NZ

The Importance of Staying Seen

Economic conditions reflect conservative marketing investment levels

Overall, 65% of SMEs are investing in marketing, this is a decline from 69% in 2021.

PERCENTAGE OF SMEs INVESTING IN MARKETING



"When the economic times get tough, we sometimes see a snap reaction as businesses jump to reduce costs, with marketing budgets often in the firing line.

But customers don't stop spending entirely, they change the way they spend.

When consumers adopt a more value-oriented approach, the best response is to stay seen and boost your value. By maintaining a marketing presence, businesses are in a prime position to attract or convert new customers as their competition dials back their presence. Re-evaluate your pricing and considering bundles, or loyalty-based discounts and incentives, captures the attention of customers on the hunt for the best bang for their buck.

*With customers more likely to shop around, the best thing a business can do during difficult economic times is to **stay seen.**"*

Kelly Duncan

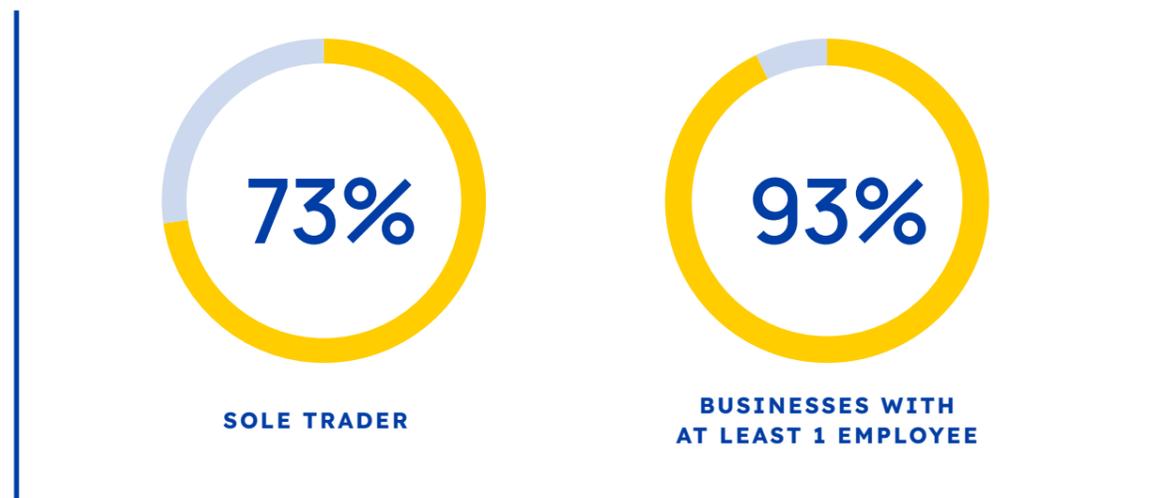
Chief of Brand & Partnerships
Yellow NZ



Investing to grow

SMEs who identify that one of their goals is to 'get more customers' are more likely to invest in marketing.

PERCENTAGE OF BUSINESSES LOOKING TO GET MORE CUSTOMERS WHO ARE SPENDING IN MARKETING



SMEs who invest a portion of their marketing budgets in digital are more satisfied with their business performance.

Businesses investing 21-60% of their marketing budgets in digital have an average business satisfaction score of 6.5 versus those who spend a higher or lower percentage who have an average business satisfaction score of 6.



"We find across the board with our customers that those who use a mix of channels are the most satisfied with their business performance. It's all about knowing your customers."

June Hartel

Chief Experience & Revenue Officer
Yellow NZ



"We all have different marketing strands, we use digital advertising but are absolutely on board with the Yellow book as well."

Andrew Durrans

Director
Auckland Plumbers Group Ltd.

Satisfaction Levels and Business Goals

While the perception of the NZ economy is more pessimistic this year, current business satisfaction levels are flat, with an average score of 6.2 out of 10.

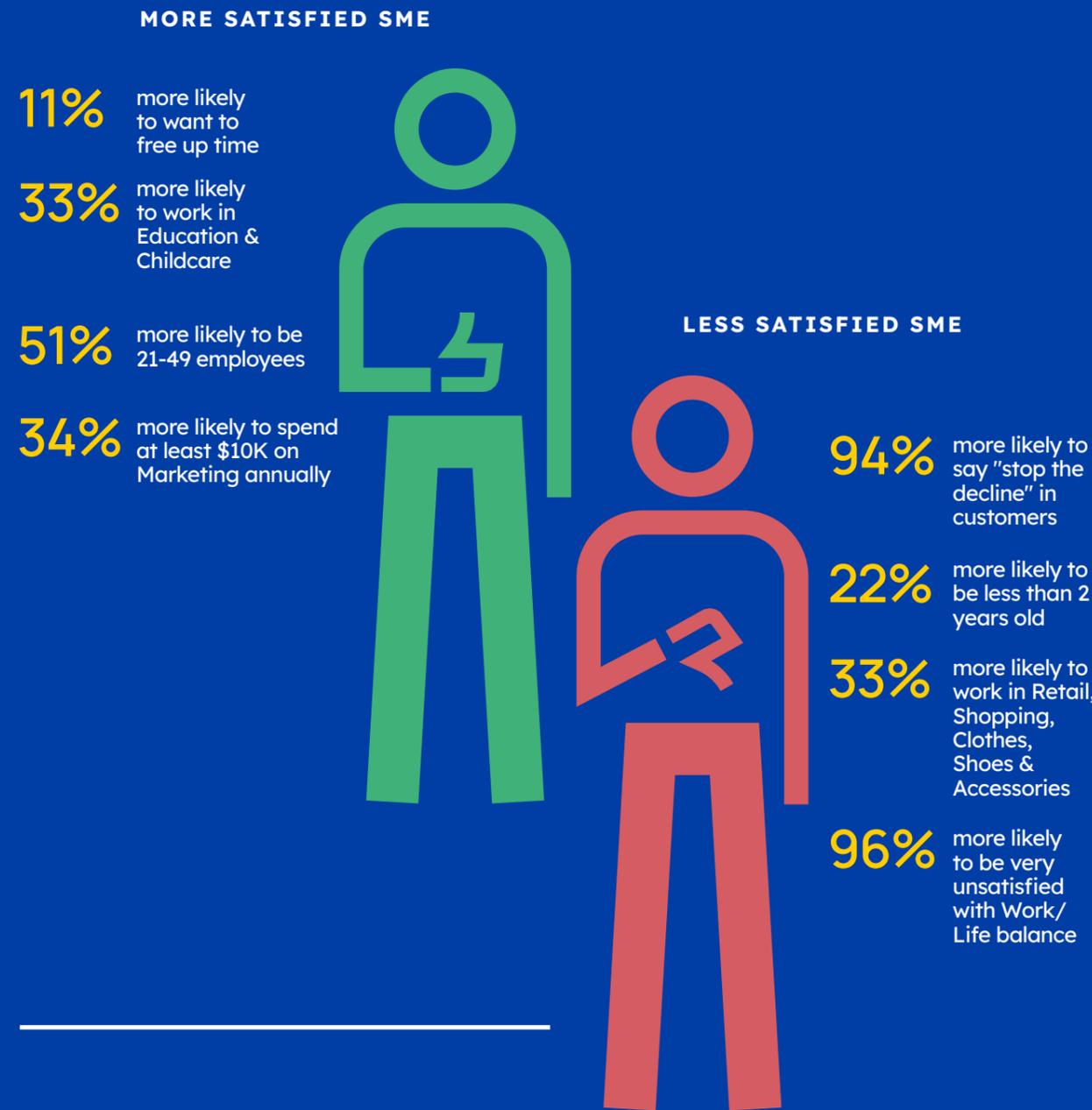
6.2 =
The average score out of 10 (10 = Highly satisfied) was 6.2

BUSINESS SATISFACTION SCORE

SMEs remain on the fence with their overall business satisfaction



Anatomy of a 'more satisfied' SME vs. a 'less satisfied' SME

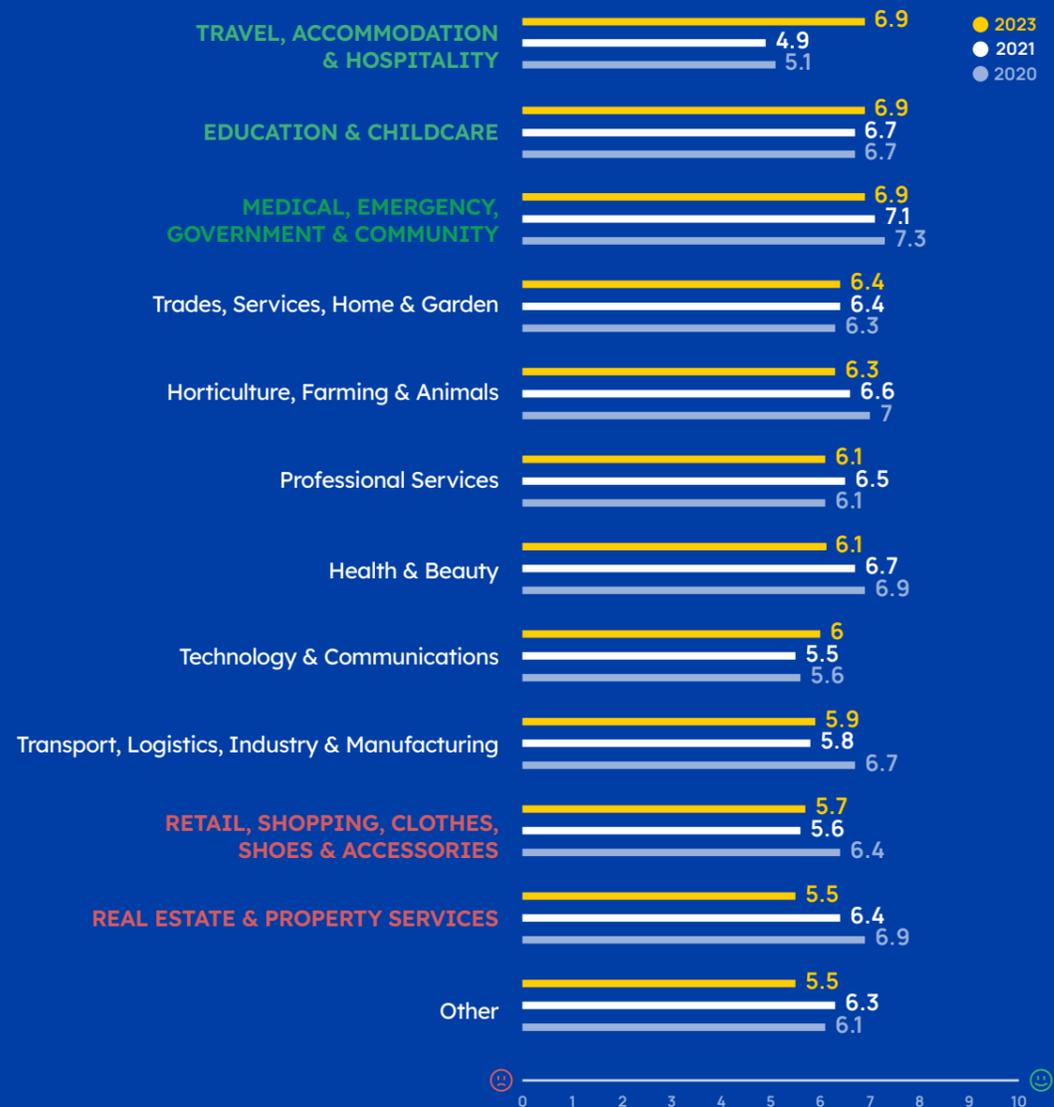


Business Satisfaction by Industry

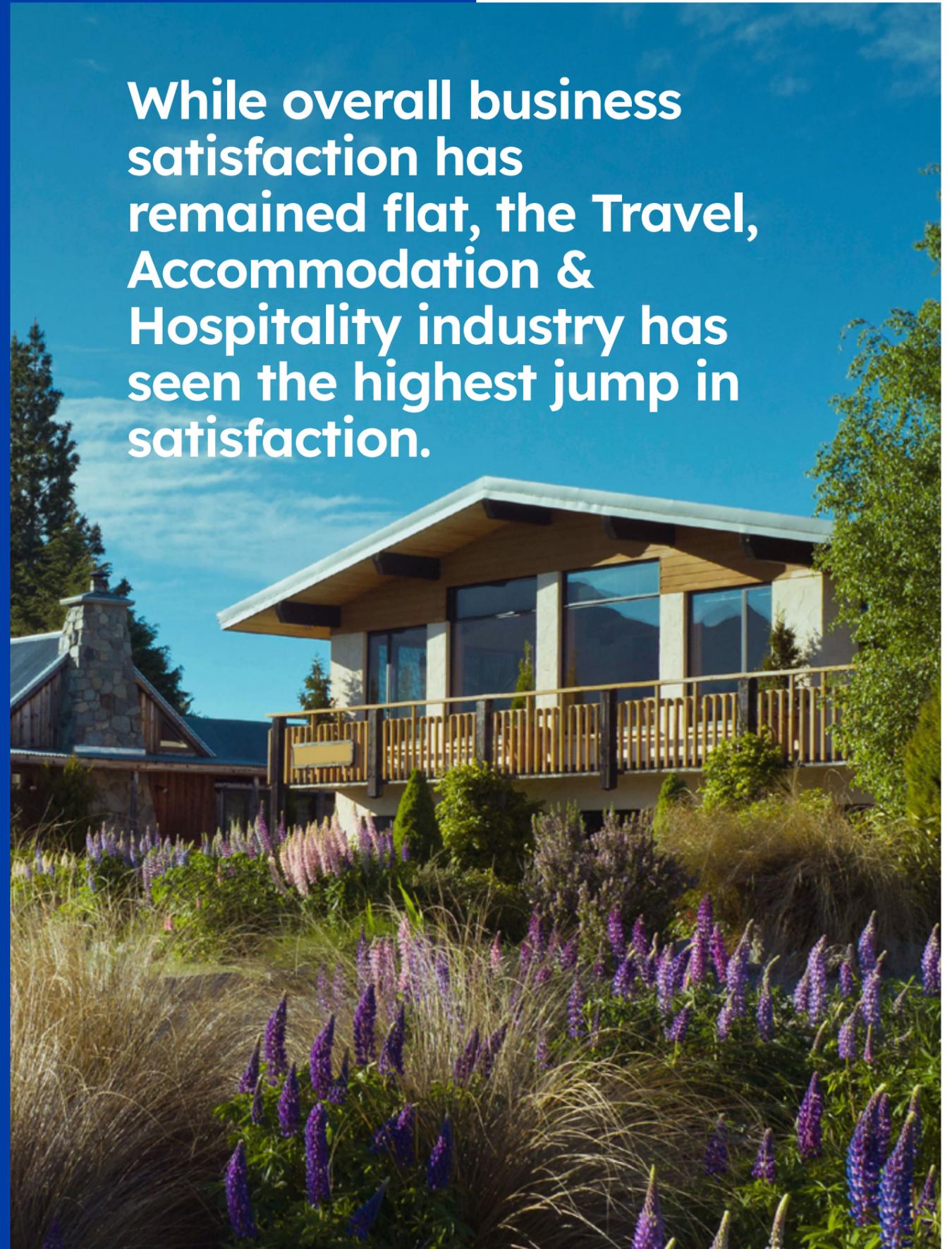
Travel, Accommodation & Hospitality are more satisfied with current business performance, while Retail and Real Estate are less satisfied.



BUSINESS SATISFACTION BY INDUSTRY



While overall business satisfaction has remained flat, the Travel, Accommodation & Hospitality industry has seen the highest jump in satisfaction.

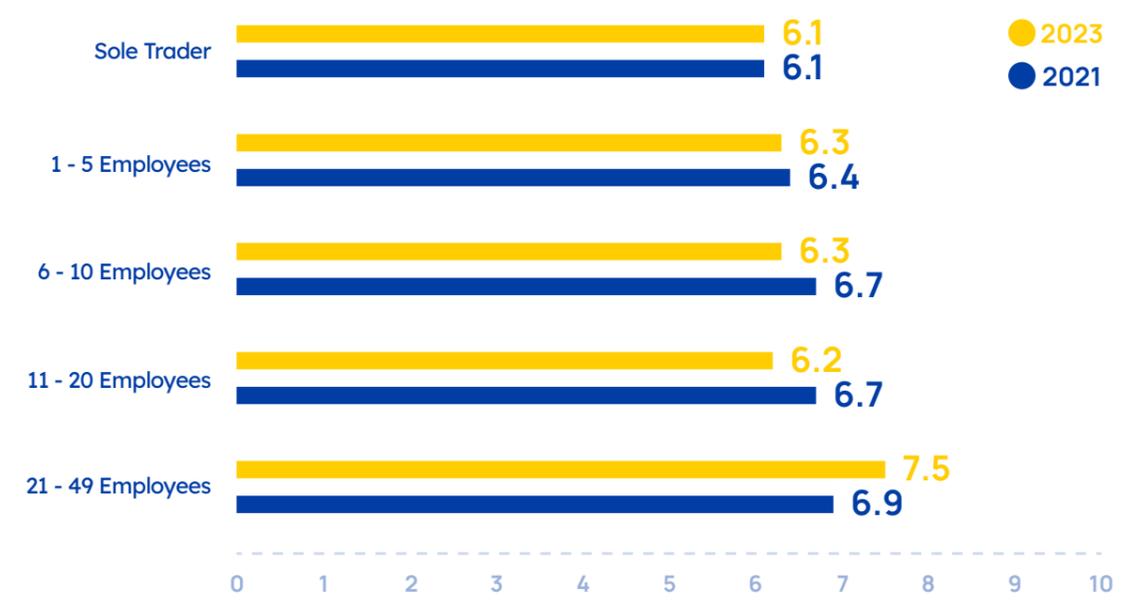


Larger SMEs are more satisfied with their current business performance than smaller SMEs

Larger businesses with 21-49 employees rate their business satisfaction as 7.5 out of 10, this is significantly higher than the average SME satisfaction score of 6.2, and also an increase since our last survey.

BUSINESS SATISFACTION BY SIZE OF THE BUSINESS

Q. On a scale of 1-10, how satisfied are you with your current business performance (10 = highly satisfied)



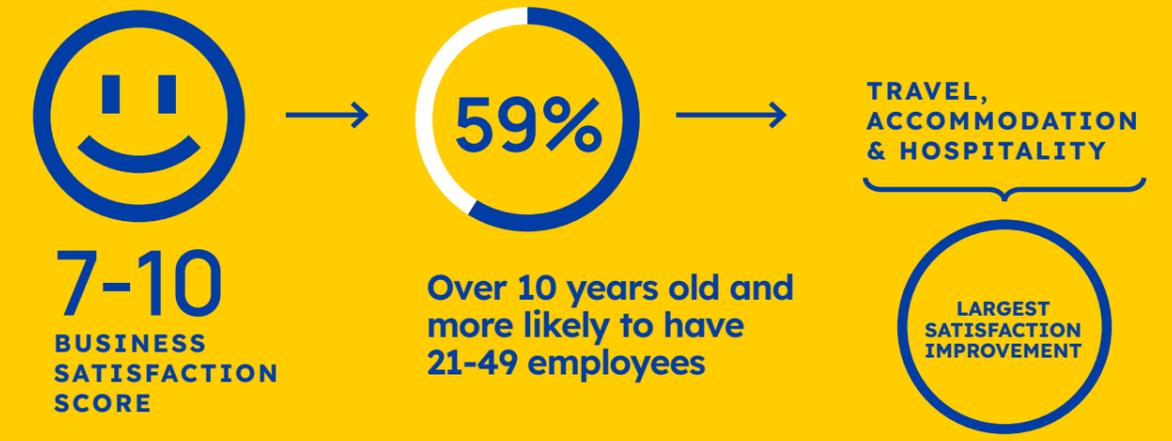
7.5

Business satisfaction score out of 10
(10 = Highly satisfied)
for businesses with 21-49 employees

6.2

Average SME satisfaction score out of 10
(10 = Highly satisfied)

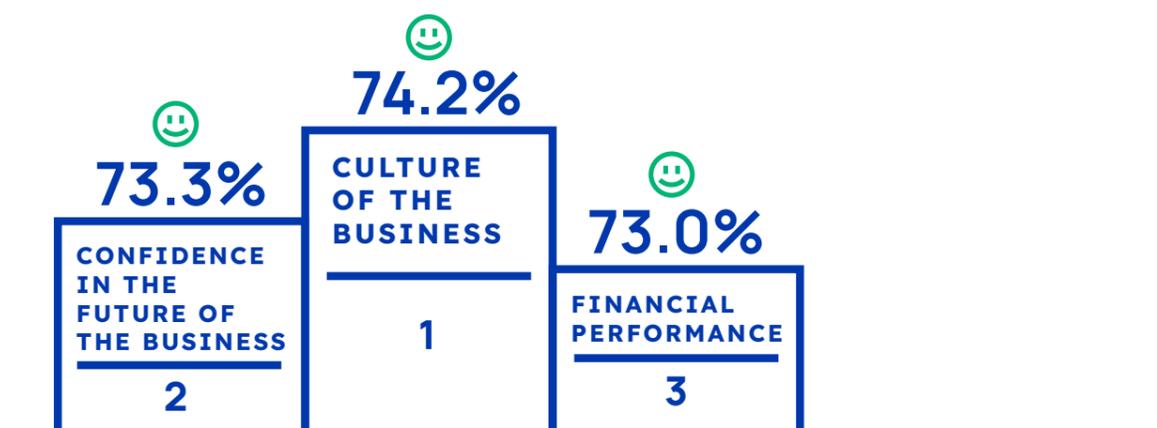
With time and scale comes a greater sense of satisfaction



Of those businesses that scored their satisfaction at the higher end (7-10), **59% have been in business for more than 10 years.** These 'more satisfied' businesses are more likely to have a larger team of 21-49 people, and they are more likely to be in **Travel, Accommodation and Hospitality** which has shown the largest improvement in the most satisfied industries list, coming from the bottom of the satisfaction table in both the 2020 and 2021 surveys.

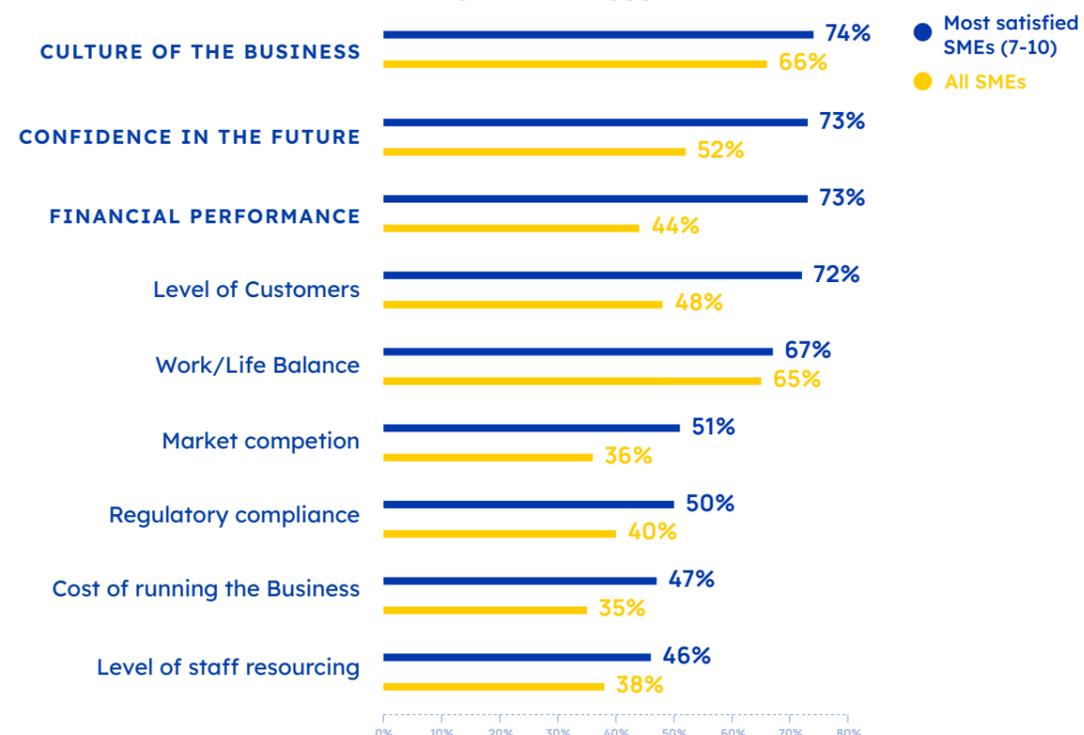
Culture is contributing to overall business satisfaction

The 'most satisfied' (those who scored 7-10 for their current business satisfaction) are more likely to say they are very satisfied or somewhat satisfied with the culture of the business, followed closely by confidence in the future and financial performance.



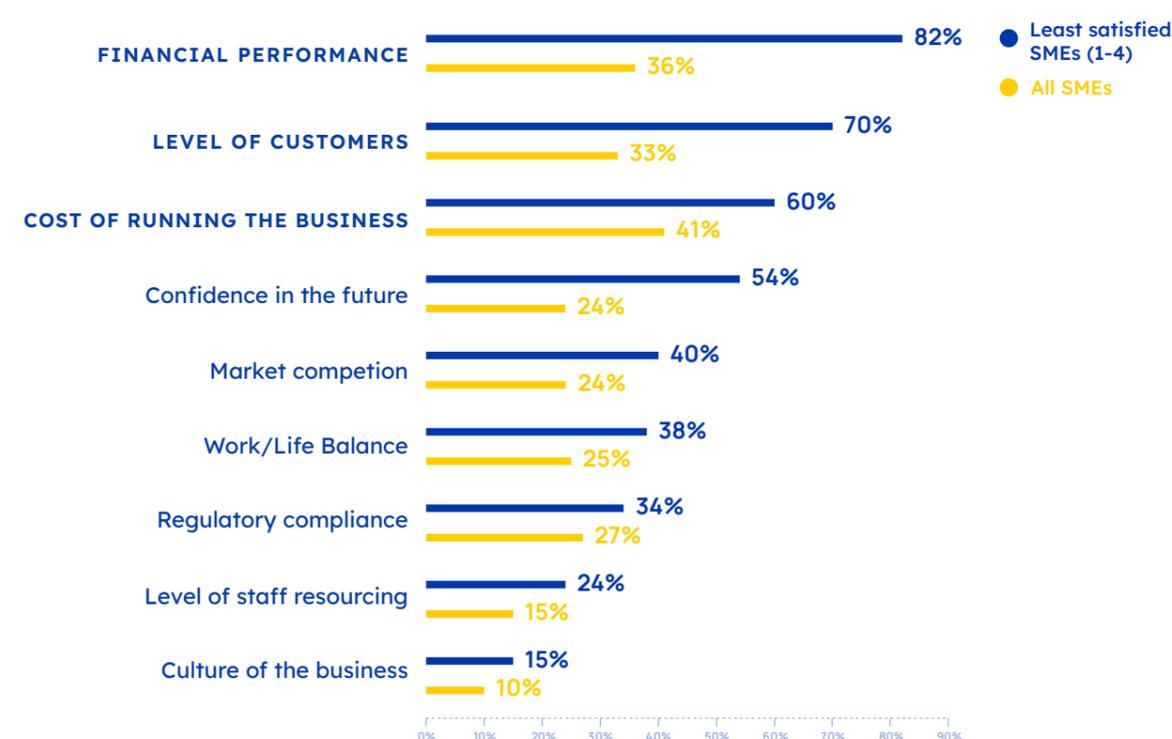
HAPPY FACTORS

Q. Thinking about the score you provided for your overall business satisfaction, which of the following factors are you most happy with?



UNHAPPY FACTORS

Q. Thinking about the score you provided for your overall business satisfaction, which of the following factors are you least happy with?



"Culture might seem like an unusual indicator for the 73% of SMEs who are sole traders, however, they tell us that there is absolutely a role for workplace culture, with one. This is often a direct reflection of their sense of lifestyle."

Kelly Duncan

Chief of Brand & Partnerships
Yellow NZ

Conversely, at the other end of the spectrum, businesses who are 'least satisfied' (those who scored 1-4 for their current business satisfaction) were most likely to say they were very unsatisfied or somewhat unsatisfied about financial performance, followed by the level of customers they have, and then business running costs.

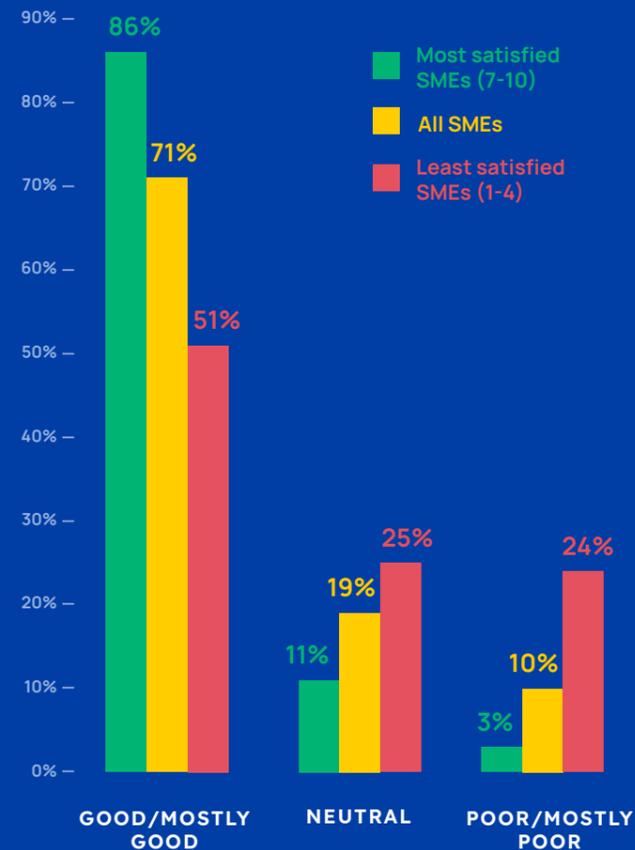
A key insight from the survey is the clear correlation between current business satisfaction and mental health.

Looking again at those 'most satisfied' businesses, 86% report good, or mostly good mental health.

Of the 'least satisfied' businesses, only 51% reported good or mostly good mental health and 24% reported poor or mostly poor mental health.

SMEs CURRENT MENTAL HEALTH

Q. In relation to running your business, how would you rate your Mental Health currently?

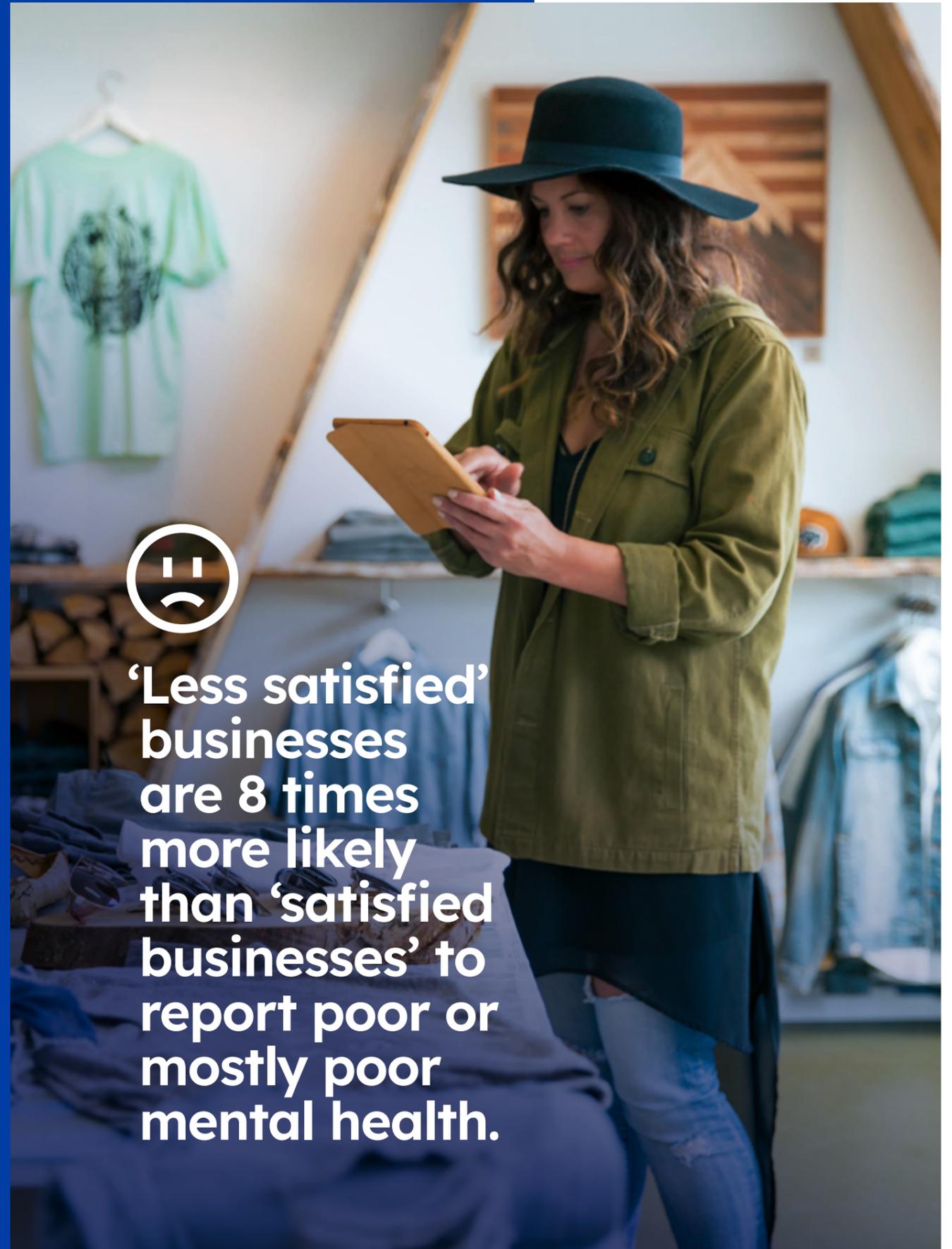


'Less satisfied' businesses are 8 times more likely than 'satisfied businesses' to report poor or mostly poor mental health.



For small business owners and employees feeling overwhelmed or anxious, there is free help available, 24 hours a day, 7 days a week:

- visit [First Steps](https://www.firststeps.nz/resources/community-resources) for support for small business owners, ranging from dealing with anxiety to tackling insomnia.
[firststeps.nz/resources/community-resources](https://www.firststeps.nz/resources/community-resources)
- call or text **1737** for support from a trained counsellor
- call Lifeline on **0800 543 354** or text **4357**
- call Samaritans on **0800 726 666**



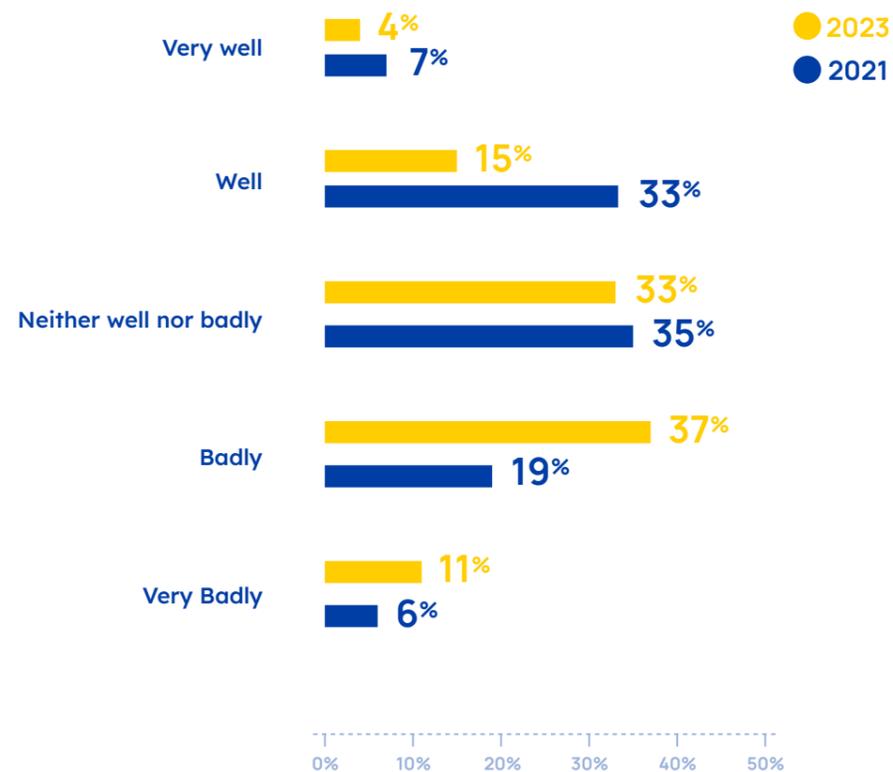
Another driver for satisfaction levels is the economic climate

SMEs have grown significantly more concerned about the NZ economy.

Nearly half (48%) of SMEs say they think the NZ economy is going badly or very badly versus 25% in 2021. This is a significant shift, and perhaps the biggest one observed in this report.

NEW ZEALAND ECONOMY

Q. Thinking about the NZ economy overall, how well do you think things are going at the moment?



48%

of SMEs say they think the NZ economy is going badly or very badly versus

25%

in 2021.



Business Goals

Customer growth is the most important business goal for SMEs.

The most commonly cited business goal was 'to get more customers' (48%) followed by 'managing existing customers' (41%). This is broadly consistent with 2021 data.



How will SMEs achieve this?

Access to resources such as government funding, size of market potential, capital, and cash flow are significant factors for any business when it comes to positioning for growth, as is their marketing mix, which this report examines more on page 13.



48%
of businesses
said they
want more
customers.

More businesses are looking to free up time

As the economic crunch comes on, and sleeves are rolled up, business owners report spending more time in/on the business, as a result, freeing up their time has become a bigger priority. Respondents were 17% more likely to select this as a goal than in our 2021 survey.

Where is this coming from?

The industries more likely to indicate they want to 'free up time', are Real Estate & Property Services (38%), Horticulture, Farming & Animals (31%), as well as Trades, Services, Home & Garden (23%). These industries also correlate with those who are less likely to have a digital presence.

WANT TO FREE UP TIME



38%

Real Estate & Property Services



31%

Horticulture, Farming & Animals



23%

Trades, Services, Home & Garden



"On the surface, investing in digital does take an investment of time upfront, but it's a case of slowing down to speed up. Taking the time to lay digital transformation foundations will save a lot more time down the track."

We see with our customers when they bring more digital into the mix, be that through smart customer acquisition marketing, investing in customer relationship management (CRM) software or other time-saving digital tools. It will save time and money on the bottom line and allow faster growth."

Kelly Duncan

Chief of Brand & Partnerships
Yellow NZ



17% ^{UP}

The selection of the 'free up time' goal has seen a 17% increase on 2021 survey results.

Future state

The cooling economic climate of 2023 is top of mind for SMEs as they look ahead for the next 12 months, with 'rising costs' identified as the top concern.

BUSINESS CONCERNS

Q. Thinking about the current business environment, which of the following concerns do you have for the next 12 months?



* Exclude Sole Traders



65%
of businesses identified 'rising costs' as their top concern.

1. Rising costs

In every aspect of business costs are rising. According to Statistics New Zealand, annual inflation to the December 2022 quarter was 7.2%. From hard materials costs to labour, premises and the cost of lending, SMEs are facing cost pressures on every line of the balance sheet. This leaves operators in a difficult position, how much can they absorb and how much can they pass on to the customer?



“Transparent price conversations between businesses and customers that explain where increases are coming from fosters long-term connection and trust, it’s a great way to address current business realities and take customers on the journey. A lot of kiwis feel passionate about buying local, and want to be supportive, this encourages that, and of course, it mitigates price shock.”

Kelly Duncan

Chief of Brand & Partnerships
Yellow NZ

2. NZ economy

SMEs are widely acknowledged in any global economy as the economic front line and will undoubtedly feel the impact of fluctuations.



“On the surface, SMEs appear to be more vulnerable to economic changes, however, they can also be much more agile, move faster, and leverage their challenger mentality in areas like product innovation and pricing, often more so than their bigger counterparts. But it’s not easy. Funding and access to capital, are key, not to mention the regulatory and policy environments, these are areas that the government and financial institutions can step into to relieve pressures, and we join the SME community in calling on them to rise to this challenge.”

Tracey Taylor

Chief Executive Officer
Yellow NZ

3. Customers mindful of spending

Naturally, this area of concern is interrelated with a declining economy, cost increases and rising interest rates. However consumer spending doesn’t stop, it shifts. Businesses that position their offerings as a smart, cost-effective choice will be well-positioned to respond to a shift in customer mindset.

4. Mental wellbeing

We know from 2021 data that 37% of SMEs reported the mental wellbeing of themselves and their staff was negatively impacting their business.

Fast forward to post-COVID and 28% still identify mental wellbeing as a concern for the future. For businesses with teams (non-sole-traders), 34% identify this as a future concern.

Insights from this report suggest there is a direct correlation between low business performance satisfaction levels and low levels of mental health, which may be set to get worse before they get better.

5. Local talent needed

Amongst team-based businesses (1-49 employees), 28% reported staff shortages as a future concern. The most important contributing factors to that were ‘finding the right talent to fit the role locally’ (76%), ‘wage/ salary expectations too high’ (57%), and ‘retaining current staff’ (47%).

In some respects, staff shortages may have been expected to rank higher as an issue, with widely reported labour shortages across New Zealand, and many parts of the world. However this is in line with Q1 2023 reporting from jobs websites which suggests a turning point in the labour market.

28%

of total SMEs still identify mental wellbeing as a concern for the future.

34%

of businesses with teams (non-sole-traders) identify mental wellbeing as a future concern.





For more information about this report, please contact
kelly.duncan@yellow.co.nz

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New Zealand's Small Business Nation 2023