



**BDO WELLBEING & BUSINESS
PERFORMANCE INDEX**

RETAIL SECTOR

APRIL 2023 REPORT

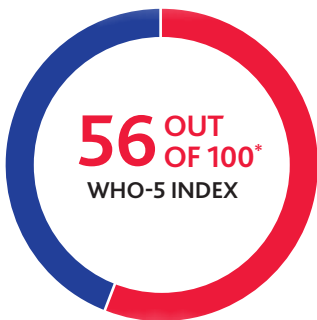


SECTOR FOCUS: RETAIL

This report shares sector-specific findings of the April 2023 measure of the biannual BDO Wellbeing & Business Performance Index - Te Rangahau o Ngā Hauora Pai - which monitors both wellbeing and business performance (and the link between the two) among New Zealand's business leaders. The April 2023 Index findings are compiled from our third measure of the survey, undertaken during March 2023 among a nationally representative sample of 504 business leaders and owners who responded to our digital survey. To view the main April 2023 report and video insights – providing a whole-of-business lens – along with our other sector-specific commentaries, go to bdo.nz/wellbeing.

COST OF LIVING AND INFLATION CAUSING SIGNIFICANT ISSUES FOR RETAILERS

Retail business leaders scored 56 out of 100 on the WHO-5 Index – the World Health Organisation's internationally recognised wellbeing measure. This is 6 points lower than the whole-of-business average and is the lowest WHO-5 Index score across all sectors we measure [Figure 1]. In October 2022, the WHO-5 Index had climbed to 62 – a reflection of stronger trading after the lows of the COVID-19 pandemic, with more people returning to the CBD. This latest decrease in wellbeing reflects worsening economic conditions.

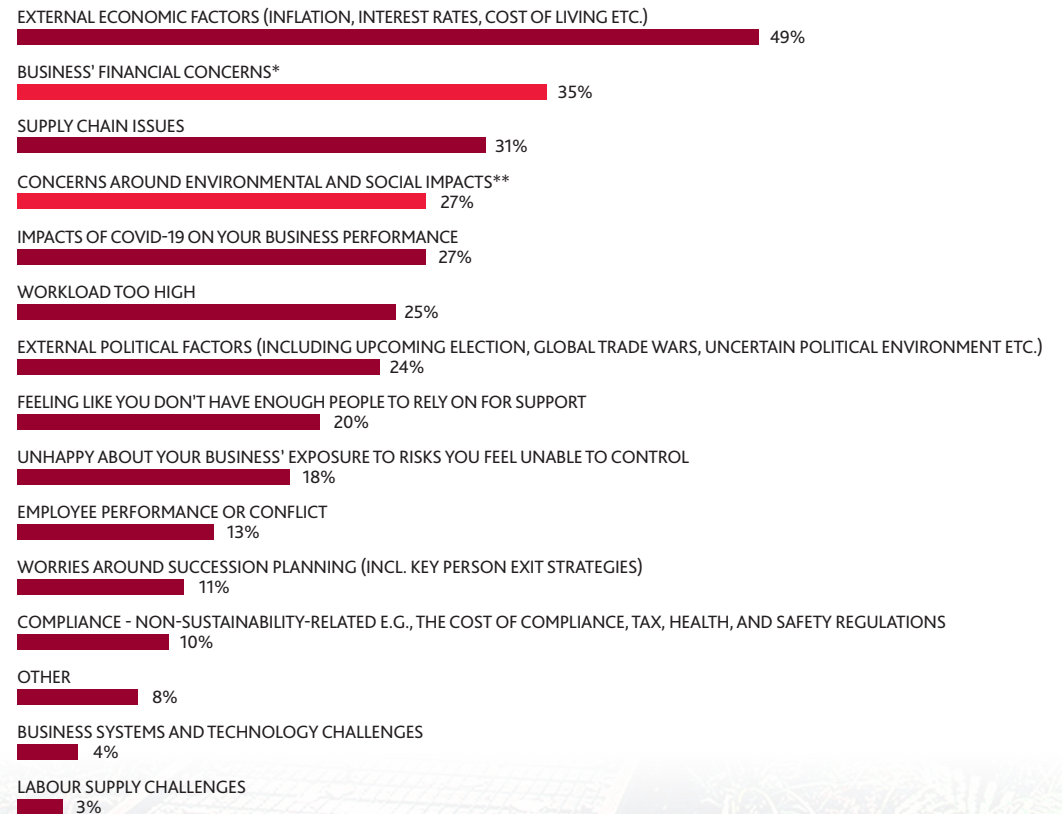


*** HOW THE WHO-5 SCORE IS CALCULATED:**

Someone who scores 'all of the time' on a particular statement is given a score of 5, while if they score 'at no time' they get a score of 0 for that statement. The total raw score, ranging from 0 to 25, is multiplied by 4 to give the final score, with 0 representing the worst imaginable wellbeing and 100 representing the best imaginable wellbeing.

Over half (54%) of retail business leaders say that they have been feeling less mentally healthy than normal, with half (49%) of these saying external economic factors, such as inflation, interest rates and the cost of living, were the most prevalent cause of this [Figure 2]. It's no surprise that these factors are causing issues in NZ's retail sector – cost of living pressures have increased since our last measure in October 2022, and many consumers have less money to spend on items that are increasing in price due to inflation. This is, of course, all having a flow-on effect on retailers, with 35% of retail respondents who have been feeling less mentally healthy citing business financial pressures as a key cause.

FIGURE TWO: IN THE LAST 6 MONTHS HAS ANYTHING BEEN CAUSING YOU TO FEEL LESS MENTALLY HEALTHY THAN NORMAL IN YOUR BUSINESS LIFE?



* Combined score based on respondents who selected the following two drivers: Cash flow problems 30%. Business' financial performance challenges 17%

** Combined score based on respondents who selected the following three drivers: Concerns around physical risks to infrastructure caused by natural disasters and climate change – 9%. Concerns around transition risks (non-physical) associated with climate change – 13%. Compliance – Sustainability/ESG-related – 27%

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SUSTAINABILITY BECOMING MORE PREVALENT

Rounding out the top three contributing factors to negative wellbeing among retail business leaders are supply chain issues on 31%, followed by concerns around environmental and social impacts (27%). Retailers are particularly susceptible to changes in consumer demand when it comes to sustainability, with increasing numbers of customers wanting to know a brand's sustainability credentials before they make a purchase. This is especially pertinent after the recent adverse weather events NZ has experienced.

Other key contributors to negative wellbeing among retail business leaders include workload (25%) and external political factors (24%).

Lower than average wellbeing is also reflected in lower business performance, with just 42% of retailers saying they have felt positive about their business performance all or most of the time. Only 37% have felt positive about their financial performance all or most of the time – this is the lowest Index score across all our focus sectors and shows many retailers are finding present conditions challenging.

AN OPPORTUNITY TO ADOPT STRONG FINANCIAL MANAGEMENT PROCESSES

Despite the financial pressures retailers are currently facing, we have seen a slight drop of 1% in the numbers of retailers who are using strong financial management processes as a way to manage wellbeing in their business life at 27% [Figure 3]. Considering business is likely to be slow, and many retailers will be buying stock ahead of time in order to overcome supply chain challenges, it's more important than ever that retailers are regularly reviewing their cash flow and margins in order to stay afloat, and we had hoped this figure would be higher. That said, there was a 9% increase in respondents who were seeking business advice – as economic conditions continue to deteriorate, getting outside help around key points like financials is crucial.

FIGURE THREE: WHAT DO YOU DO TO STAY MENTALLY HEALTHY GENERALLY IN YOUR BUSINESS?



ADOPTING A SUSTAINABILITY MINDSET

"We expect sustainability to become more prevalent in future surveys. Many retailers have been scared to enter this space because they are afraid of greenwashing. But there's a real opportunity here also. Consumers are excited about sustainable retail and it's important you harness that. Transparency is key to avoiding greenwashing – showing your customers what you're doing and where you know you need to improve."



DIVYA PAHWA
BDO RETAIL PARTNER

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A SLIGHTLY MORE POSITIVE FUTURE OUTLOOK

There is a slightly more positive future outlook, with 55% of retailers expecting to feel positive about their business performance all or most of the time in six months. Two-thirds (61%) also expect to feel generally satisfied with life in six months' time.

A likely driver for this improved outlook is the expectation that external economic pressures might ease. Half (49%) of retail leaders who had been experiencing negative wellbeing in the past six months said that economic factors were causing this, but those saying this will be an issue in future has decreased slightly to 37% [Figure 4]. Several recent economic forecasts indicate that economic conditions are at their worst currently, with interest rates and inflation potentially going to decrease later in the year - our April 2023 Index results likely reflect similar expectations among sector business leaders.

Meanwhile the number of people expecting to feel negative wellbeing as a result of concerns around environment and social impacts is expected to increase, growing from 27% currently to 44% in six months' time. Specifically, transitional risks are an issue, with 32% saying this will be a cause of negative wellbeing in six months (these are non-physical risks associated with climate change – for example changing consumer demand and loss of brand reputation where businesses are perceived to not be acting strongly enough on climate change). We expect this to increase in future waves as many Kiwis become increasingly climate-conscious.

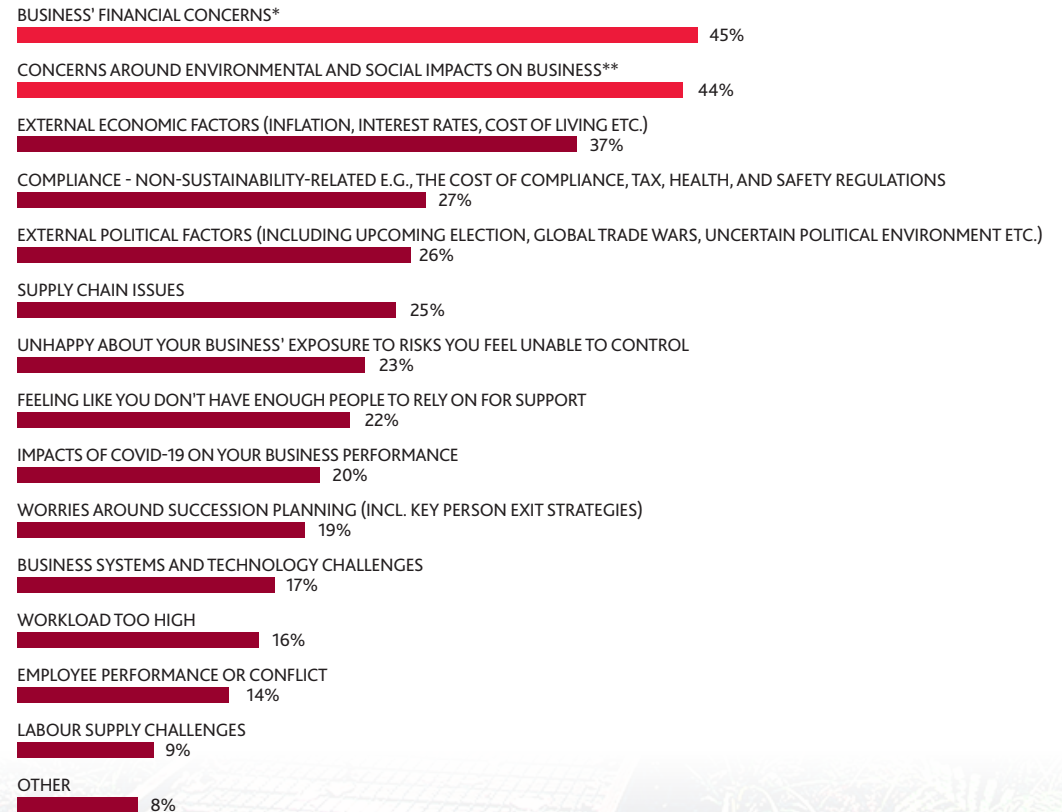
FOCUS ON YOUR NUMBERS TO COMBAT INFLATION

"The impact of Cyclone Gabrielle and other recent flooding events on the NZ supply chain have added to what was already an uncertain economic environment. Prices are increasing, and inflation is taking its toll. To counter this, retail businesses should increase their focus on their numbers. This means looking both backwards and forwards. At least once a month, retailers should be looking at their previous month's results, specifically at sales and overheads, and using this to update their 12-month forecast – and making business decisions based on this."



JUSTIN MARTIN,
BDO RETAIL SECTOR LEADER

FIGURE FOUR: WHAT DO YOU EXPECT TO BE THE MAIN DRIVERS OF THIS IN YOUR BUSINESS LIFE?



* Combined score based on respondents who selected the following two drivers: Cash flow problems 28%. Business' financial performance challenges 28%

** Combined score based on respondents who selected the following three drivers: Concerns around physical risks to infrastructure caused by natural disasters and climate change – 13% Concerns around transition risks (non-physical) associated with climate change – 31% Compliance – Sustainability/ESG-related – 15%

PRACTICAL STEPS FOR RETAILERS TO ALLEVIATE BUSINESS PRESSURES



ECONOMIC UNCERTAINTY:

- **Forecast around different scenarios** – This can be around sales, inflation, exchange rates – anything that might affect your business over the coming year. This can then guide you as you plan for stock, staffing, pricing and financing, enabling you to review which levers you can pull and when, and how each one will impact the rest of your business.
- **Report on cash flow** – daily if necessary. Cash flow planning should be done regularly, but the cadence should depend on what's going on in your business and in the wider economy. If things are changing all the time, it's important to regularly review your cash flow so that you can be absolutely sure you have enough to pay your essential costs, and seek help in advance if you need it. Implement a three-way cash flow system for better insights.
- **Create KPIs** directly tied to the areas that drive your profitability



SUPPLY CHAIN:

- **Open communication is key** – Customers know supply chains are disrupted. So provided you are open and honest with your customers, they should normally empathise with you. Ask for customers' contact details so that you can let them know when you don't have certain items in stock, and give them regular updates, or offer alternatives (or a refund), if necessary.
- **Get strategic with your stock management** – Review previous years' results to forecast which products will be popular at which times. This enables you to order those products well ahead of when customers will need them.

- **Streamline your product offering** – You can simplify your supply chain by working out where 80% of your profits come from and then only purchasing those items.
- **Conduct a supply chain audit** – Understanding where your stock is coming from will enable you to plan ahead if certain countries go into lockdown or face other disruption. It's always useful to find local alternatives if possible.
- **Use data to understand your customers' needs** – Use customer feedback tools, either on your EFTPOS machine or via a survey, to find out whether your customers were satisfied and which alternative products they may find useful.



SUSTAINABILITY:

- **Explore alternatives to plastic packaging** – Especially if running an online shopping component
- **Email receipts instead of printing them** – This also gives you an opportunity to ask the customer if they want to be added to your mailing list
- **Source local products where you can** – This will also help with simplifying your supply chain
- **Consider measuring your business' emissions** - The NZ Government has created an emissions calculator specifically designed for small businesses. Measuring your carbon emissions is the first step to making meaningful reductions.



FOR MORE TIPS AND VIDEO INSIGHTS,
VISIT [BDO.NZ/WELLBEINGINRETAIL](https://www.bdo.co.nz/wellbeinginretail)



WELLBEING SUPPORT
CONTACTS

Xero Assistance Programme (XAP)
1737.org.nz – National mental health helpline
Mental Health Foundation ([mentalhealth.org.nz](https://www.mentalhealth.org.nz))

CONTACT OUR SPECIALIST RETAIL TEAM AT [BDO.NZ/RETAIL](https://www.bdo.co.nz/retail)