

Small Business

SPECIAL REPORT





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7-PAGE FEATURE

Retail, hospitality hit by rents, slow spending

The rate of business failures in hospitality and retail during the past year should be ringing alarm bells for decision makers.

A WALK down Hay Street in the city, or through the precincts of Subiaco, Leederville or Highgate shows the tangible impact of the challenging business environment many retail and hospitality businesses in Perth have endured.

Business News has compiled a list of nearly 50 closures and insolvencies (see map) in the central city and surrounds in the past two years.

Landlords unwilling to adjust rents, and tighter purse strings among consumers, have been flagged as two of the biggest

causes, in what numerous industry insiders described as the perfect storm.

"The city is done, mate," a director of one major hospitality chain told *Business News*.

"There's no reason for anybody to go there.

"(And at shopping centres)

major landlords don't care who they bankrupt."

Across Western Australia, there were 76 retail insolvencies in the 2019 financial year, significantly up from 31 in 2014, according to the Australian Securities and Investment Commission.

Continued on page 20

Key takeaways

- High-profile business closures across city and major nearby districts
- Economic slowdown and high rents two big factors
- Technological literacy a key skill for small business owners to master

Sliding doors: Closures and changes in Perth, a selection



Retail, hospitality hit by rents, consumer spend

In accommodation and food, there were 85 appointments, rising from 54.

That's despite a general improvement in numbers across the economy as a whole, with 857 insolvencies in the state in the 12 months to June 2019, down 8 per cent on the previous year and 14.4 per cent on 2016.

There have been some high-profile scalps, including The Trustee on St Georges Terrace and Rosendorff Diamond Jewellers on Hay Street.

Java Juice is the latest example, having entered administration in mid-August.

Also included on the map are larger national chains that have hit the wall, such as Ed Harry.

Meanwhile, other operators have scaled back.

Franchise Fusion owner Troy Pickard told *Business News* the company had grown from 11 stores in the Bucking Bull and Primal Pantry franchises to 17 in an 18-month period, but then closed five shops in the past 10 months.

The business then sold the master franchising rights for Bucking Bull in WA, leaving Primal Pantry at Brookfield Place as the only operating asset, for now.

76 RETAIL
INSOLVENCIES
FY19

Mr Pickard, who has been in the industry for 20 years, said it had been a stressful period.

"It doesn't leave an owner when you walk out of the store, it stays with you all day every day," he said.

"It's fair to say the food and beverage sector in particular is (amid) the perfect storm at the moment."

Major contributing factors were a soft economy, landlords unwilling to lower rents, and wages unchanged since the boom.

"You've got a challenge with landlords and shopping centres being greedy, and I say that with the greatest respect ... it's driving businesses to fail," Mr Pickard said.

They were unwilling to accept the challenging

economic climate, he said, leading to tenants exiting and shops becoming vacant.

"The premises is then vacant for an extended period of time, and there are examples where those tenancies are rented out at half, even a quarter of the value a previous tenant was expected to pay," Mr Pickard said.

"Landlords are not prepared to accept the changing economic climate and [are] failing to embrace the need to reset rent levels to pre-boom periods of 10 years ago."

One reason Mr Pickard said Fusion had retained the Brookfield Place Primal Pantry was that the landlord had been willing to work collaboratively with the business.

Numerous sources suggest landlords were often unwilling to reduce rents because it could lead to building devaluations, with some preferring to use rent rebates so as not to affect the headline value of assets.

Confidence, spending down

HLB Mann Judd Insolvency WA principal Kim Wallman said his team, which was focused on small businesses, was having more meetings than usual.

"In the retail sector it's just turnover," he said.

Consumers were not confident, he said, and businesses simply did not have enough revenue coming in.

Mr Wallman said many landlords were reluctant to share pain with tenants by reducing rents, a common opinion expressed by many industry sources speaking to *Business News*.

Data from the Australian Bureau of Statistics shows retail spending has been stagnant for some time.

Retail sales in WA were \$34.1 billion in the 2019 financial year, up just 0.2 per cent (unadjusted for inflation) compared with the 2017 financial year.

For clothing retailers, sales dropped 5.9 per cent over that period to be just more than \$1.1 billion in 2019.

Cafe, restaurant and takeaway sales improved, growing 4.5



PRESSING ON: Troy Pickard says Brookfield Place was willing to work with tenants during

per cent from 2017 levels to be \$5.6 billion in the year to June.

But that belies a longer-term trend.

Sales across food outlets were higher in the 2013 financial year than the most recent period.

Beaumonde on the Point director Neil Irvine told *Business News* the cafe and restaurant industry in Perth was in very bad shape.

"The industry is tough, Perth needs another million people to make it worthwhile for a lot of restaurants," Mr Irvine said.

"We've got ... too many things in Perth for the amount of population we've got."

The economy was soft, he said, and too many businesses were engaging in discount wars. Customers also had strong expectations on price.

"I can only see more people going under unless people's attitude to restaurants change,"

said Mr Irvine, who is both a landlord and tenant at the On the Point precinct.

"We've all had to discount rents, I'm not the only landlord in Perth who's had to do that."

But he said councils had been unwilling to reduce rates as rents had come down.

The Honda Shop managing director Eddie Peters said pressure was also being felt outside the city.

"Go through Subiaco and look at the empty shops, go to Burswood ... come to Midland, there are 30 empty shops just on one stretch along Great Eastern Highway," he said.

"The businesses that (were) in there, they're small retail, family businesses that just can't compete."

Mr Peters said there was also a high vacancy rate in regional areas such as Bunbury.

Bricks and clicks

Co-founder of Cottesloe fashion boutique The Black Wall, David Long, said his business had expanded to a second store in Fremantle, but retreated after less than two years.

"We had our shop right in the heart of Fremantle, right on Market Street, and businesses that had been there almost 30 years, neighbours of ours, all shut down within the past 12 months," Mr Long said.

"Some tried to sell their businesses but no-one would buy in."

"Franchises ... established businesses from over east have given it a go into Fremantle but all of them have gone."

He said a big part of the squeeze on businesses was that commercial rents had not come down as much as residential rents.

On the other side, customers had less disposable income.



the tough economic climate. Photo: Gabriel Oliveira

An example of this was the fly-in, fly-out workers who previously shopped at the store.

During the boom years, the shop might get one or two of those customers a week, buying \$1,000 of items.

"That customer almost doesn't exist any more," Mr Long said.

Yet there was some cause for optimism, he said, with online sales creating new opportunities and driving a significant chunk of business.

The Honda Shop's Mr Peters is less enthusiastic about online retailing.

Mr Peters was a highly vocal advocate of levying a GST on all online purchases, with the federal government dropping the threshold from \$1,000 to zero last year.

He has also campaigned for action against overseas retailers he claims are fraudulently producing invoices to avoid customs

“Landlords are not prepared to accept the changing economic climate and [are] failing to embrace the need to reset rent levels to pre-boom periods of 10 years ago - Troy Pickard

handling charges and reduce GST liability.

Even in cyberspace, however, WA consumers are being thrifty.

According to data collected by the National Australia Bank, WA retail sales fell nearly 4 per cent in April compared with the previous month.

Year-on-year growth in WA was about 1.5 per cent, about half the rate of Queensland and Tasmania.

Small Business Lounge founder Brooke Arnott said

there were indications customers were moving back towards in-store experiences because they wanted better customer service.

"We've got clients that have grown globally and they are mainly retail-based in stores," said Ms Arnott.

But she said there were many factors making competition from online retail tough.

"When you have a space for someone to come into, there's a lot of extra costs to take into

consideration (compared with running an online store," Ms Arnott said.

"Rent, electricity, staff to manage those stores.

"The customer is still paying the same price as if you bought it online."

Taking action

Business Foundations chief executive Phil Kemp said business models, and a lack of expert help, were overarching problems.

"The issue business are facing, mum and dad business, (is) that technology is changing the way business is conducted within the business and between businesses," Mr Kemp told *Business News*.

"The way business was done in the past is not the way business will be done in the future."

He cited the example of JB Hi-Fi, which recently reported an increased profit, as one business

which had navigated a tough environment by investing in a new business model.

Examples of how technology was changing, and could benefit business, were tools for project management or scheduling workers, new channels to market, and social media marketing.

But a big problem was that many business owners struggled to get the assistance they needed on these fronts.

Business Foundations, which ranks fifth on the BNiQ list of SME organisations and programs, was recently focused on supporting technology adoption in regional areas with indigenous enterprises, he said.

Technological literacy, particularly around digital marketing, is also a priority for Business Station, according to chief executive Colin Jorgensen.

It operates three incubators across Perth and ranks eighth on the SME programs list.

Mr Jorgensen said examples included forums on issues including website development, software, online trading, and digital marketing and strategy.

"(We want to) get people digital savvy," he said.

The driver was not just online sales, but building brand awareness, Mr Jorgensen said.

Consultancy B-Directory owner Elsa Rene-Mitchell is working on similar training initiatives in digital marketing, including for AgriStart, 21st on the BNiQ list of SME organisations and programs.

"You need to be willing to do everything, to up your social media game, make sure your website and online presence are doing really well," Ms Elsa Rene-Mitchell said.

"Good isn't good enough any more; you have to be exceptional.

"We're living in the era where it's cool to own a business, I think we're in a small business boom personally, so its highly competitive."

Mr Jorgensen agreed that it was increasingly easy for people to open small businesses, although they would be entering a tough economic environment.

"It's easier now to set up a business than it was 10 years ago," Mr Jorgensen said.

There was more support and information available than ever, he said.

WA's LARGEST STARTUP OR SME ORGANISATIONS

RANKED BY \$ VALUE OF FUNDING PROVIDED THIS YEAR



PLUS: Spacecubed runs the Plus Eight and She Codes programs. Photo: Attila Csaszar

Rank	Change from previous year	Company	Senior WA executive and title	Year established in WA	Type of service to start-ups	Specialist service	\$ value of funding provided this year
1	↑	Innovation Bay	Ms Paula Taylor Perth City Lead	2015	Events	Founder networking and angel investor events	NFP
2	↑	Yuuwa Capital	Mr James Williams Investment Director	2009	Organisation	Fund manager	\$2,500,000
3	↓	Accelerating Commercialisation	Mr Larry Lopez Director	2014	Organisation	Commercialisation assistance, access to expert network for grantees	\$2,000,000*
4		Business Foundations	Mr Phil Kemp Chief Executive Officer	1993	Program	Startup education, mentoring and advisory	NFP
5		Core Innovation Hub	Tamryn Barker Co-Founder, Chief Executive Officer	2016	Program, space	Resources industry	NFP
6	↓	Plus Eight	Ms Kate Kirwin Program Director	2017	Program		\$400,000
7		Business Station	Mr Colin Jorgensen Chief Executive Officer	2003	Organisation, space and program	Four incubators with state of the art facilities, co-working space, hot desks, seminar rooms, board rooms, end to end business advisory...	\$400,000
8	↑	Atomic Sky	Mr Peter Rossdeutscher Principal	2013	Organisation	Incubator, Corporate Innovation Advisory	\$260,000
9	↓	Centre for Entrepreneurial Research and Innovation	Ms Carolyn Williams Chief Executive Officer	2015	Organisation	Education	NFP
10		WA Digital Health Accelerator Program	Dr Tracey Wilkinson Founder	2019	Program	Digital Health specific commercialisation and entrepreneurship programs	\$220,000
11	↓	Just Start IT	Ms Lainey Weiser Driver & MD	2014	Program	Education	\$200,000
12	↓	Perth Angels	Mr Ian Brown Chairman	2010	Organisation	Angel Investors	NFP
13	↓	Curtin Ignition	Ms Danelle Cross Manager	2011	Program	Startup training program	NFP
14	↓	Bloom	Ms Elizabeth Knight Leader, inspiration & internal team	2013	Organisation	Incubator	NFP
15	↓	SPURonWA	Mr Graeme Gammie Chief Executive, Landgate	2013	Organisation, Place	Accelerator, location technology hub	\$99,599
16	↓	Unearthed	Mr Zane Prickett Founder, Director	2014	Program	Seed accelerator	\$70,000
17	↓	She Codes	Ms Kate Kirwin Program Director	2015	Program		\$70,000
18	↓	Curtin Accelerate	Mr Rohan McDougall Director, IP Commercialisation	2013	Program	Accelerator	\$40,000

* Approx \$36 million was provided nation wide, of which \$2m went to four WA based companies in 2018/19

GET THE FULL LIST ONLINE businessnews.com.au/List/start_up_accelerators

WA's LARGEST STARTUP CO-WORKING SPACES
RANKED BY SIZE OF SPACE

Rank	Company	Suburb Location(s)	Senior WA executive and title	Year established in WA	Size of space (square metres)	Address(es)
1	WeWork *	Perth	Ms Eva Galant Global Expansion Manager	2019	11,314	152 St Georges Terrace, 45 Francis Street
2	Liberty Executive Offices	Perth, West Perth and Burswood	Mr Jamie Vine Founder, Chief Executive Officer	2010	NFP	77 St Georges Terrace, 197 St Georges Terrace, 37 St Georges Terrace, 53 Burswood Road, 1060 Hay Street
3	Spacecubed	Perth, Yanchep	Mr Brodie McCulloch, Managing Director	Flux 2016 Riff 2011 Core Innovation Hub 2016 Y.hub 2018	Flux 3,000 Riff 2,000 Core 200 Y.hub 390 Total 5,590	191 St Georges Terrace, 45 St Georges Terrace, 128 Yanchep Beach Road
4	Business Station	Joondalup, Gosnells, Subiaco	Mr Colin Jorgensen Chief Executive Officer	2003	3,450	16 Barron Parade, 2232 Albany Highway, 430 Rokeby Road
5	Spaces The Wentworth	Perth	Mr Dayle Parkins Area Manager	2019	2,926	300 Murray Street
6	Victory Offices	Perth	Ms Claire Duncan Manager	2018	NFP	2 The Esplanade
7	The Platform	Perth	Ms Wen Li Lim Managing Director	2017	1,002	256 Adelaide Terrace
8	Claisebrook Design Community	Perth	Ms Gene Barker Founder	2016	930	25 Gladstone Street

* Opening later this year

All information compiled using surveys, publicly available data and contact with industry sources. Other companies may be eligible for inclusion. If you believe your company is eligible, please email: claire.byl@businessnews.com.au
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LEARNING CURVE: After 17 years in the business, Tony Moreton says he has learned to take the time to get to know his customers. Photo: Gabriel Oliveira

Reward for effort despite looming franchise regs

The franchise sector is regularly under review, yet it has been a successful pathway for many small business owners.

Madeleine Stephens

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WITH his trademark red bandana, Tony Moreton takes a personal approach to his business as a Jim's Antennas franchisee, particularly enjoying the human interaction his job involves.

Mr Moreton immigrated to Australia from Zimbabwe in 2002 with his wife and two children, hoping to use his experience as an IT professional working in big banks to land a similar job in Australia. However, after struggling to get a foot in the door, he decided to look into owning his own business.

Jim's Group appealed to him because of its good reputation, a work assurance guarantee and a positive word-of-mouth recommendation (a friend had told him the man from Jim's Mowing who looked after his lawn every week was one of the happiest guys he knew).

Seventeen years later Mr Moreton says he is in a good place, with enough income to pay his bills and sufficient work in the pipeline.

But it was the customer contact that he particularly enjoyed.

"I enjoy that, sitting down for a cup of tea with my customers," he said.

"It's certainly a complete change from the white collar job I had before where I was locked in an office analysing spreadsheets and churning out statistics.

"I find this far more rewarding."

Mr Moreton owns one of the 354 Jim's Group franchises in Western Australia, the biggest franchise in the state, according to BNiQ data (see next page).

Jim's Group, as well as other domestic services franchises, including CleanTastic Perth and Jani-King Australasia, have consistently topped the BNiQ largest franchises list, which is ranked on the number of WA franchises.

Business Development Alliance director Mark Fernandez, who advises franchisors and franchisees on business decisions, said he called these businesses the 'man in the van', as they needed only a small investment compared with food outlets, which could require an initial investment of millions.

Jim's Group franchises have an initial investment of between \$11,000 and \$50,000, while a CleanTastic Perth business costs around \$5,225.

In contrast, setting up a Subway store costs between \$195,000 and \$365,000, while \$500,000 to

\$750,000 is required to establish a Red Rooster outlet.

Despite the high investment costs, fast food outlets and cafes are popular, with half of the top 30 franchises on the BNiQ list falling into this category.

Mr Fernandez said some franchises in Perth had been adversely affected by economic conditions.

"There are lots of issues around the Perth CBD area with all the construction there and a lack of foot traffic," he said.

"We have also got Subiaco; that whole area is a ghost town almost.

"So there are a couple of pockets that are hurt, but [overall] franchising is still going well."

However, the sector faces the prospect of more regulation after a number of scandals involving franchises underpaying staff, including 7-Eleven, Domino's, Caltex and Retail Food Group.

A federal parliamentary inquiry released in March delivered a report that made more than 70 recommendations for change and greater regulation.

The parliamentary committee identified systematic exploitation of some franchisees by a subset of franchisors, and a regulatory framework that does not provide

adequate protection against these practices.

Regulatory changes proposed in the report seek to address issues of: disclosure; franchise registration; supplier rebates; whistleblower protections; unfair contract terms; cooling-off periods; exit rights; collective action; dispute resolution; binding commercial arbitration; alignment of industry codes; churning; education; and leasing arrangements.

Mr Fernandez said while the sector didn't need more regulation, he agreed it should be mandatory for franchisees to seek professional advice.

"Franchisees have said they have lost their home, they've lost their whole life savings, they've been wronged by the franchisor and maybe misrepresented in some of the information," he said.

"This certificate page says, 'Well, did you get any advice? Did you take the numbers from the franchise system, go to your accountant, did you take the franchise legal documents and go to a lawyer who can understand it?'

"And if you don't want to spend the \$500, or \$800 or \$2,000 to go and get advice, then the onus is on you."

However, any new recommendations needed to be made cautiously, Mr Fernandez said.

"We certainly don't want to stifle people getting into small business and getting into franchising because there is more regulation," he said.

In April, the government established a franchising taskforce to determine the feasibility and implementation of the recommendations.

“We certainly don’t want to stifle people getting into small business and getting into franchising because there is more regulation – Mark Fernandez

WA's LARGEST FRANCHISES
RANKED BY NUMBER OF WA FRANCHISES




Rank	Change from previous year	Company	Year est. in WA	Core business	Number of WA Franchises	Cost of acquiring a franchise
1	—	Jim's Group	1991	Home services	354	\$11,000 - \$50,000
2	↑	Cleantastic Perth	2004	Commercial cleaning	182	From \$5,225 plus GST
3	↓	Jani-King Australasia	1993	Commercial cleaning	171	\$15,000 - \$45,000
4	—	Subway	1988	Quick service restaurants	131	\$195,000 to \$360,000
5	↑	Puma Energy	1976	Petroleum wholesaling, retailing and convenience stores	90	\$180,000 - \$600,000
6	↑	Domino's	1989	Quick service restaurants	73	Initial franchise fee: \$50,000 (total investment \$250,000-\$500,000 + GST) New stores - \$60,000 franchise fee and build cost which can range from \$350,000 to around \$450,000 plus GST
7	↑	McDonald's Australia	1982	Quick service restaurants	72	
8	↓	Bakers Delight	1994	Bakery retail	71	\$100,000 - \$500,000
9	↓	Housework Heroes	2001	Domestic cleaning	68	\$19,750
10	—	Red Rooster	1972	Quick service restaurants	64	\$500-750K
11	↓	Smartline Personal Mortgage Advisers	1992	Mortgage broking	59	
12	↓	Dome	1989	Retail café	55	\$1million - \$1.5million
13	↓	Chicken Treat	1976	Quick service restaurants	50	\$100,000 - \$500,000
14	↑	Mortgage Choice	1995	Mortgage broking	WND	From \$35,000
15	↑	Auto Masters	1975	Automotive servicing	45	\$275,000 - \$800,000
16	—	Success Tax Professionals	2003	Accounting and tax	44	\$15,000
17	↑	Jetts 24 Hour Fitness	2008	24 hour fitness	43	\$550,000
18	↑	helloworld		Retail travel	41	
19	↑	Muzz Buzz	2005	Drive-through coffee	40	\$380,000
20	↑	LJ Hooker	1960	Real estate, financial services and settlement/conveyancing	37	nil

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100
GET THE FULL LIST ONLINE  businessnews.com.au/List/franchises

All information compiled using surveys, publicly available data and contact with industry sources. Other companies may be eligible for inclusion. If you believe your company is eligible, please email: claire.byl@businessnews.com.au
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SPECIAL REPORT

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