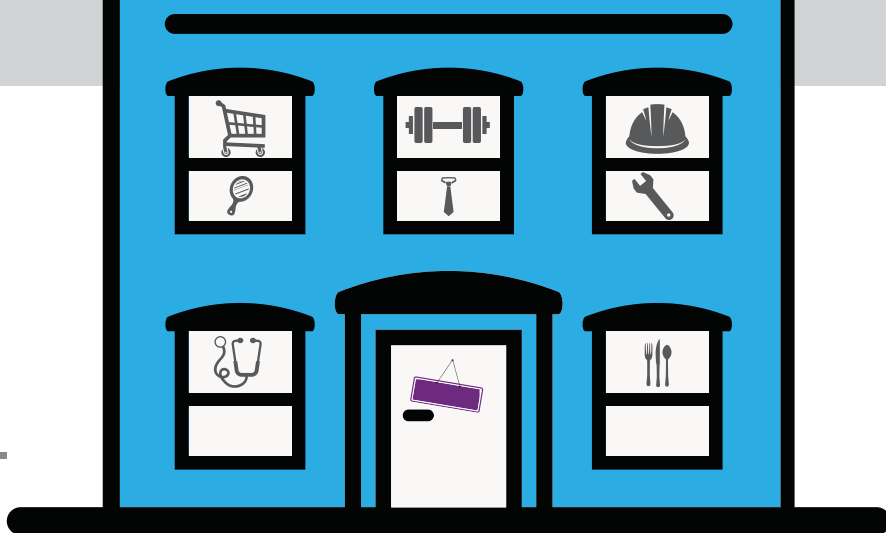


# STORE FRONT

## BUSINESS INDEX

Powered by PYMNTS.com



Third Quarter 2015



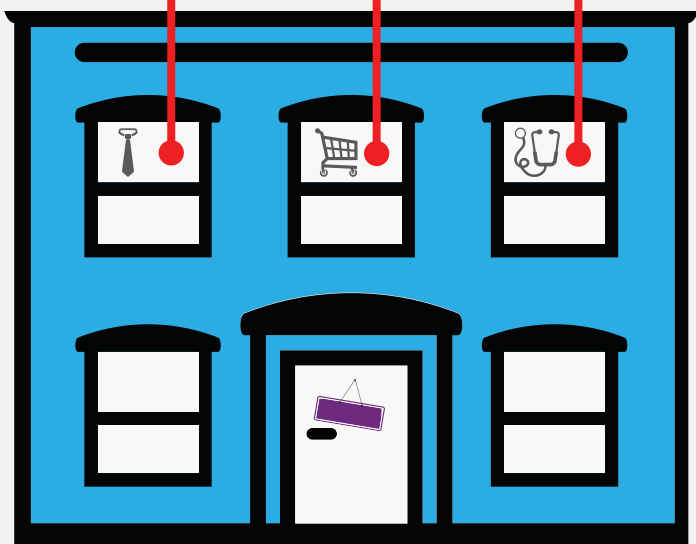
### 3.4 Million Store Front Businesses

Q3 2015 Growth ↗ 3.4%

## Q3 2015 Forecast Snapshot

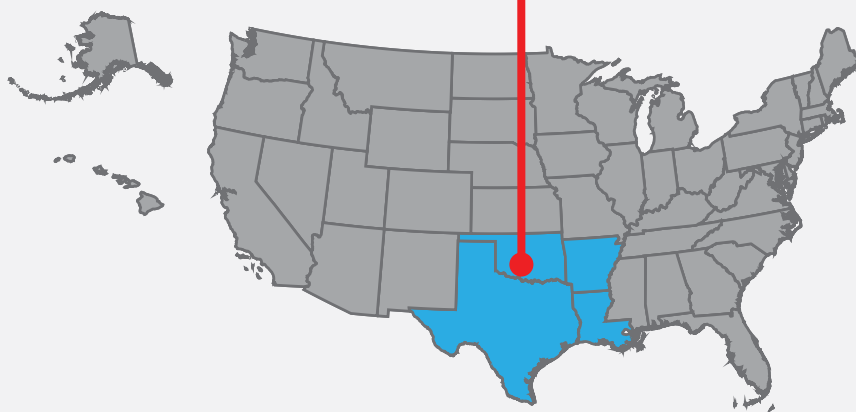
### Segment Snapshot

↗ 4.8% Professional Services  
↗ 1.1% Retail  
↗ 3.0% Healthcare



### Geography Snapshot

↗ 4.1% Southwest



# THE STORE FRONT BUSINESS INDEX

## THIRD QUARTER 2015

Welcome to the second edition of the Store Front Business Index. In this report, PYMNTS.com and CAN Capital track and profile the health of a specific segment of small businesses across the U.S. These are businesses we know and interact with on a regular basis – the ones that keep our communities thriving and surviving.

Specifically, we evaluate the performance of local businesses in the sectors which surround communities, both merchants and service providers that are typically found in both urban and suburban locations. We include all regions of the country and the following business segments for analysis: eating establishments, professional and personal services, construction, remodeling and repair services, fitness clubs, and a wide variety of retailers.

The “Store Front Business Index” (SFBI) provides a quarterly metric to measure the health of these typically small businesses that populate store fronts and local streets across the U.S. based on three criteria: growth in new establishments, wages and employment<sup>1</sup>.

Since our inaugural publication of the Index last quarter, how are those businesses doing? They are continuing to grow at a pretty decent pace, after a slight slowdown in the beginning of 2015. Overall, the Index growth has continued and grew by 3.3%, on an annual basis in real terms for the 1st quarter of 2015. This is significantly higher than the real GDP growth rate of 0.6% for the 1st quarter of 2015<sup>2</sup>. Our forecast shows a slight increase and continued growth rate of 3.4% for Q3 2015.

On the following pages of the report, we will point out areas which might be performing better than others. For example, is the Pacific West continuing to grow faster than the Northeast as was determined in the past report? Is the Fitness category still outperforming Retail?

We also break down the individual components of the Index. Which component drives the impact more on the overall Index: establishments, wages or employees?

To understand and discuss these trends firsthand, the PYMNTS team interviewed small merchants in a local community in the Northeast. We covered topics spanning financing, expansion plans, growth, employment and general business sentiment in their area. We picked a location which would closely resemble the “average” town - from an unemployment and income perspective - not experiencing extreme growth nor significant struggles vs. the rest of the country.

Excerpts from the interviews and the owners’ perspectives are highlighted in the different sections of this index. We found their thoughts to be enlightening, pragmatic and inspiring. We hope you find this combination of financial analysis and “feet on the street” insights interesting and enlightening. We welcome your feedback and comments, which can be sent to storefront@pymnts.com.

<sup>1</sup> Actual data is currently available through the 1st quarter of 2015. Projected values were used to construct estimated values of the Index through the 3rd quarter of 2015 using historical data supplemented with 2015 data highly correlated with our Index data and utilizing econometric forecasting tools and techniques.

<sup>2</sup> <http://www.bea.gov/newsreleases/national/gdp/gdpnewsrelease.htm>

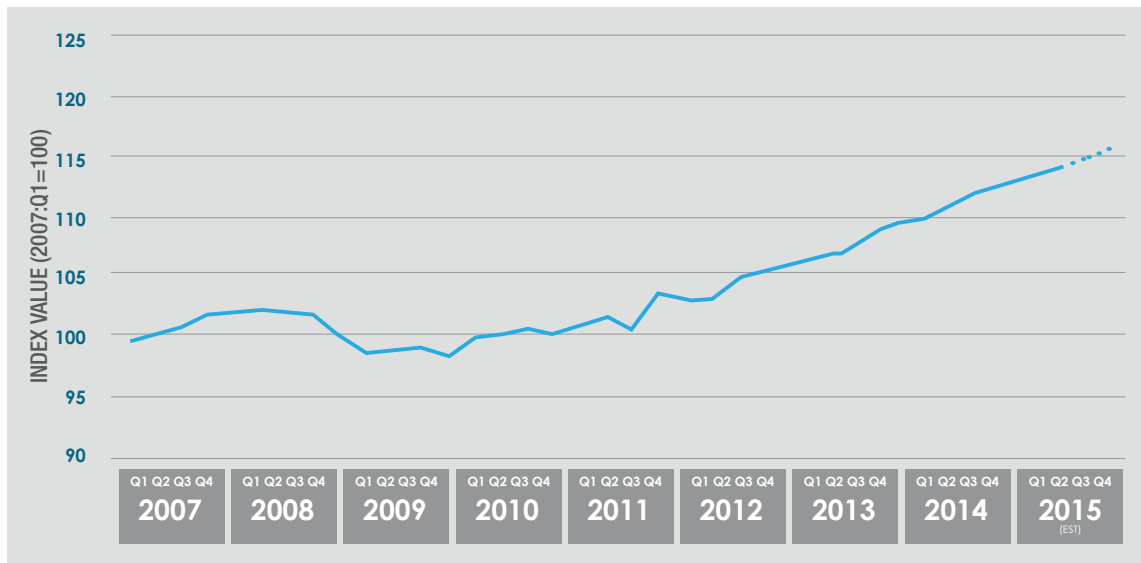
# OVERALL INDEX RESULTS

We are tracking approximately 36.6% of the small business establishments in the U.S., roughly 3.4 million, to develop the Index. The Index represents “health” of representative businesses based on the level of key activities in the community.

The Store Front Business Index, overall, shows strong, healthy results. Since the lowest point of the recession until the 1st quarter of 2015, the overall Index has increased 13.6%. In the 1st quarter of 2015, the Index value increased by 3.3% as compared to the 1st quarter of 2014. Specific

improvement was driven regionally by 4.4% and 4.1% gains in the Mountain and Southwest respectively, and categorically by 6.0% gains for Building Contractors and Remodelers.

While growth continues to be strong, our forecast shows a slight reduction moving forward. This is due in part to a reduction in GDP during the 1st quarter of 2015, which led to reduced gains. So while the Index continues to perform well, we project that the growth for the 3rd quarter of 2015 will be 3.4%, which is slightly higher than the 3.3% result in the 1st quarter of 2015, and still higher than real GDP growth.



# OVERALL INDEX RESULTS

## ESTABLISHMENTS

The growth in establishments is relatively slow and on average grew around 2.4%, and is therefore the smallest contributor to the Index growth overall. We are projecting establishments to continue to grow, but at 2.5%. The greatest growth is seen in the Mountain region, where the number of establishments grew by 3.2% and is forecast to accelerate to 3.5%.

## EMPLOYMENT

Employment was also a large driver in the Index, but not as much as total wage growth, implying the actual rate paid per employee increased. The number of employees saw steady growth throughout the country at an average rate of 3.2% for the first quarter of 2015. It is projected to grow by 3.3% for the 3rd quarter of 2015. This growth is led to some degree by the Mountain region, which saw employment grow by 4.2% in the 1st quarter of 2015, and with the Building Contractors and Home Remodelers, which saw employment rise by 6.7% in the 1st quarter of 2015.

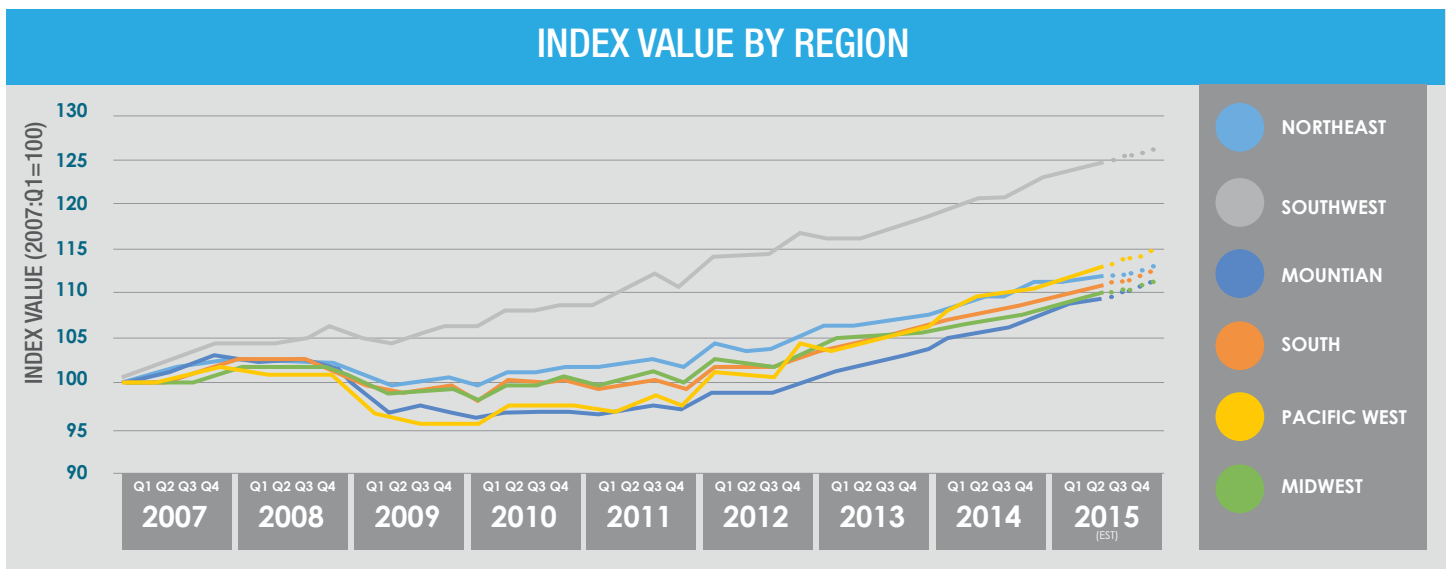
## WAGES

Wages are the largest drivers of growth within the Index. Total wage growth combines the effect of the growth in the number of employees as well as the growth in the average salaries earned. Growth for total wages has been strong and on average grew at 4.7%. This growth is projected to increase to 5.3% for the 3rd quarter of 2015. The largest areas of growth were among Building Contractors and Home Remodelers, which grew at 8.5% for the 1st quarter of 2015, and for Eating and Drinking Places, where wages grew by 7.2% in the 1st quarter of 2015.

# INDEX VALUES BY REGION

The businesses reflected in The Store Front Business Index have done well across all regions, mirroring overall impacts during the recession and subsequent improvements in the five-year period since the recession ended. Growth has been fairly consistent across regions, but ranges from a strong 11.1% in the Midwest to a whopping 17.8% in the Pacific West over the five-year period from the 1st quarter of 2010 through the 1st quarter of 2015.

Specifically for the most recent four-quarter period, the overall Index for the U.S. has increased by 3.3%. We expect this steady growth to continue at 3.4% through the 3rd quarter of 2015. Over this period, it is the Southwest leading the way with 4.1% year-over-year growth, with the Northeast coming in the lowest at 2.6%.



## FINDINGS FROM THE FIELD

To test the results of our findings on the ground and take a pulse of local business communities, the PYMNTS team traveled to Warwick, Rhode Island, which has a population of **82,000** with a median household income of **\$62,295**.

We spoke to different small business establishments, including florists, hair salons and a variety of other retail and personal services in the area to understand how they operate their business, their growth and expansion plans and marketing strategies.

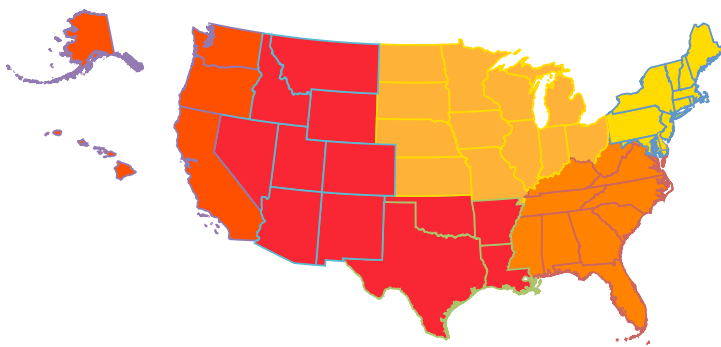
While the business sentiment was upbeat, merchants were cautiously optimistic about growth and employment. Where we find these merchants lagging behind are in establishing an online sales presence and promotion. Most of them still rely on word of mouth marketing and their established clientele.

# INDEX VALUES BY REGION

## ACTUAL INDEX GROWTH FOR THE 1ST QUARTER OF 2015

Wage growth is the driving factor over the last four quarters, across the country. However, the Southwest and Mountain regions stand out, as the growth in the number of employees grew at a higher rate than anywhere else. This means that

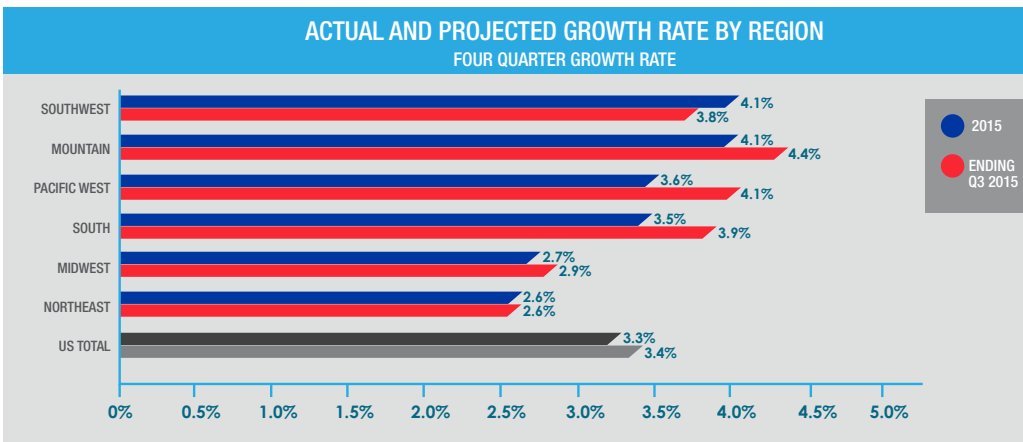
this region was able to support more people relative to other regions. Wages and establishment growth rates were relatively comparable. We are projecting similar trends and rates for the 3rd quarter of 2015 due to relatively low volatility.



HIGHEST GROWTH  LOWEST GROWTH

*“Business environment is thriving. I have seen tremendous growth in my own industry. After 24 years of renting, it made sense to start my own business four years ago and within a week, I had three employees and within a year, I had eight and within two, I had twelve.”*

- Salon owner



*“We are hiring, but not necessarily for growth. The inn business has a lot of competition. I have 48 employees currently and we usually hire more during the peak season when there is more demand.”*

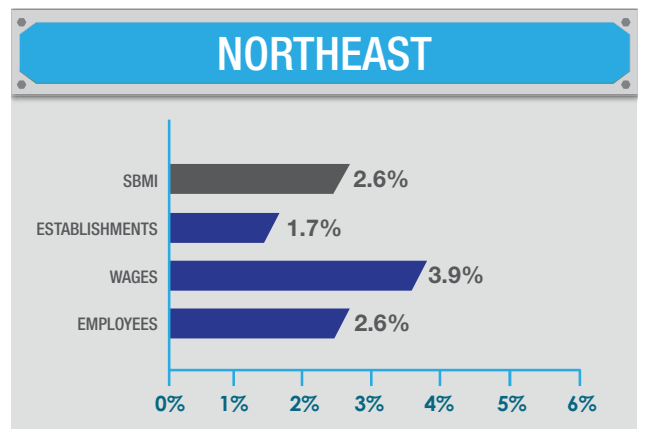
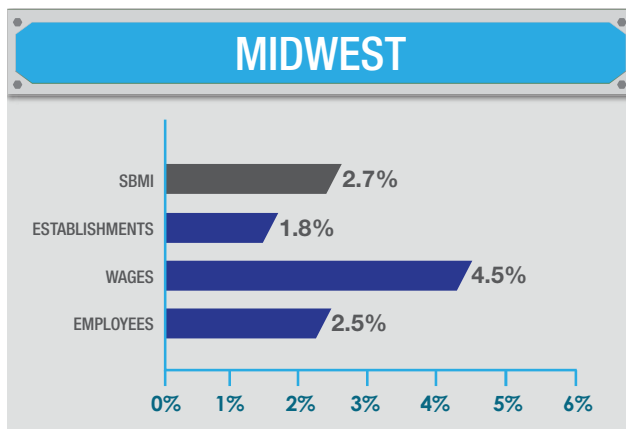
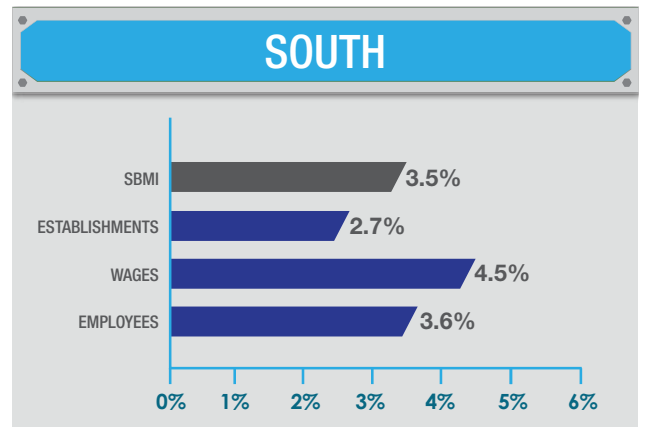
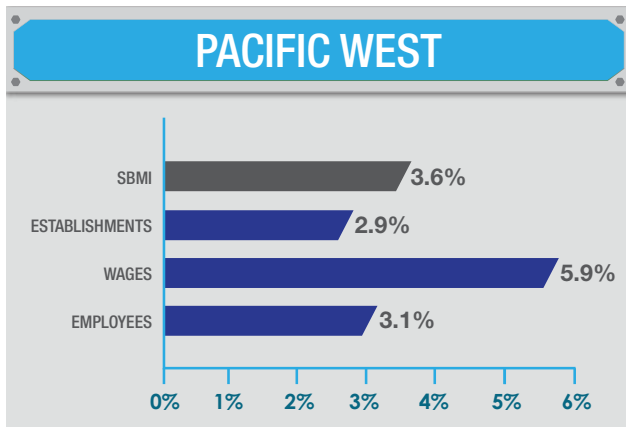
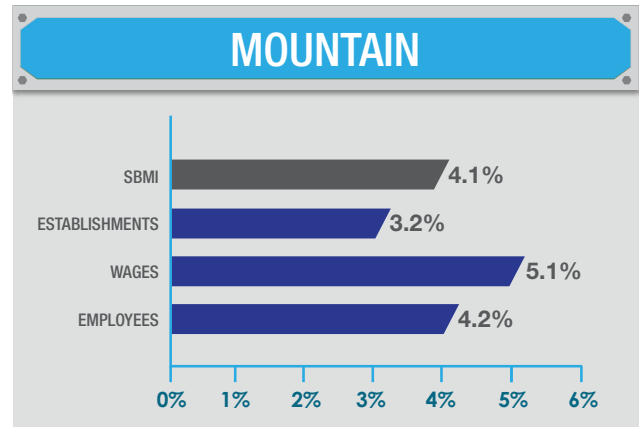
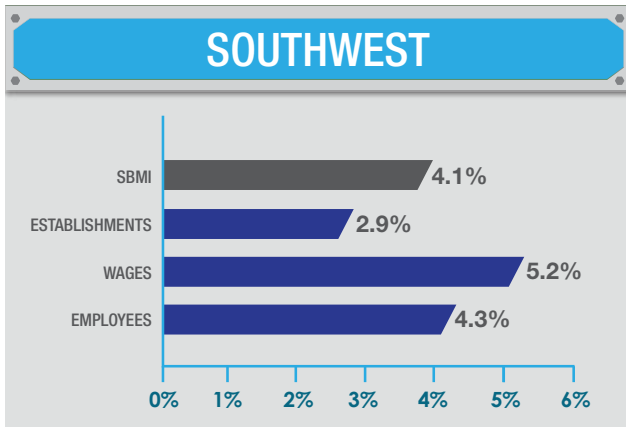
- Inn owner

## FINDINGS FROM THE FIELD

Most businesses we spoke to were family-run establishments and/or ran a small operation needing no more than a handful of employees. Warwick’s unemployment rate stands at **4.8 percent**, which is just slightly less than the national average of 5.1 percent. We purposely selected a location which would

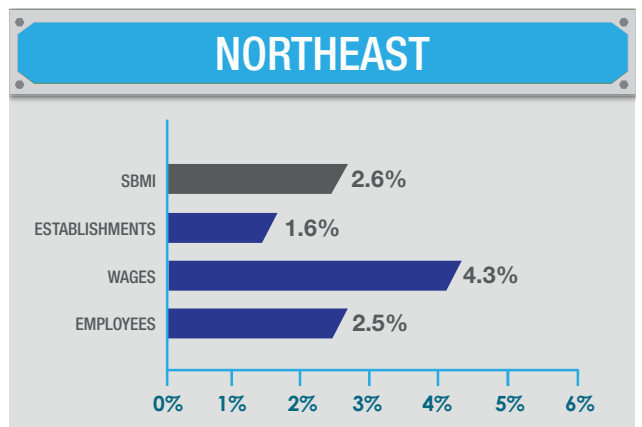
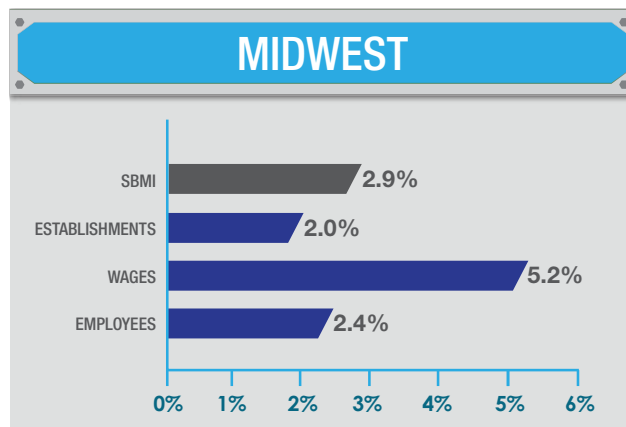
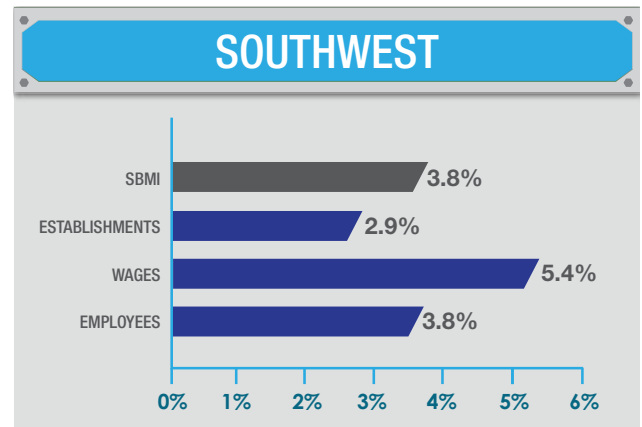
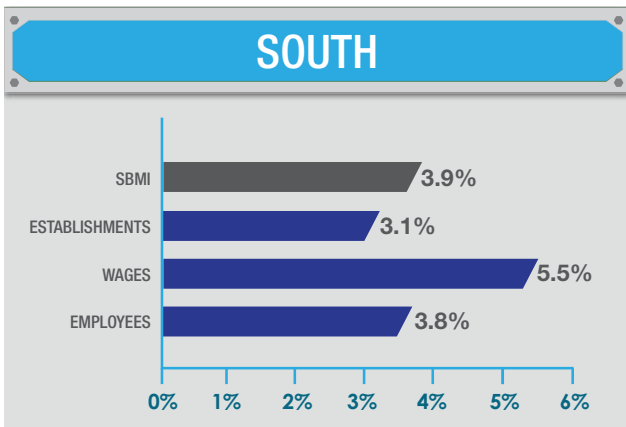
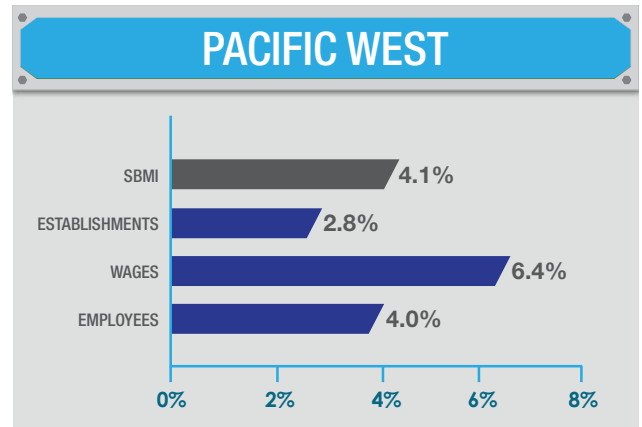
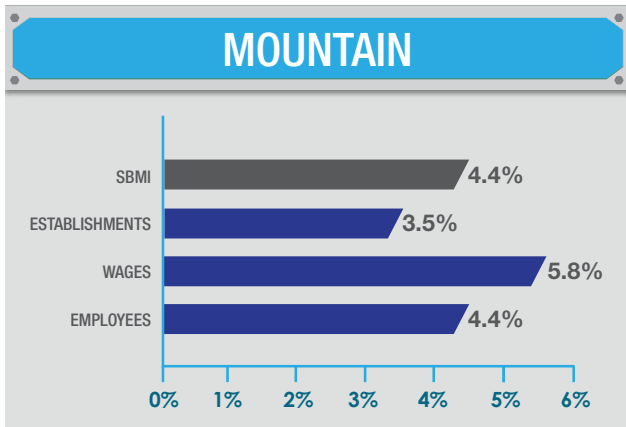
be closely representative of the “average” community for our initial discussion. Strong hiring doesn’t necessarily indicate good health of a business. Some businesses like hotels and inns hire seasonally depending on demand.

# INDEX VALUES BY REGION



# INDEX VALUES BY REGION

PROJECTED INDEX GROWTH FOR THE 3RD QUARTER OF 2015



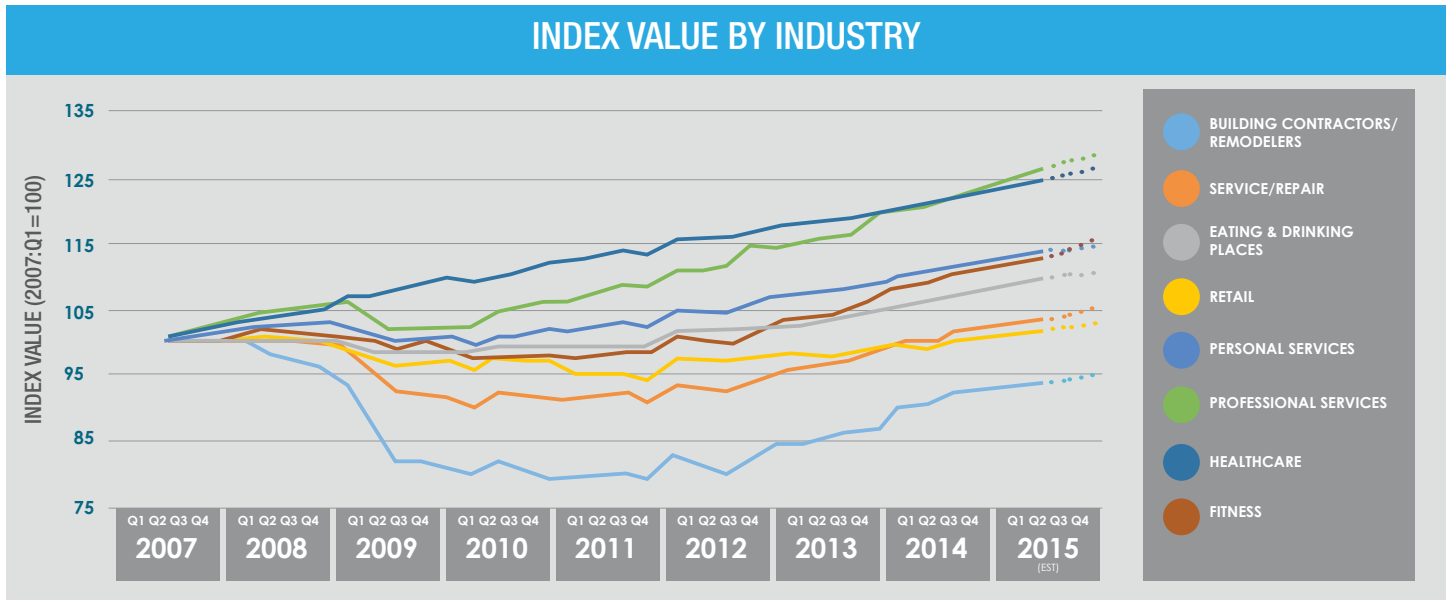


# INDEX VALUE BY INDUSTRY

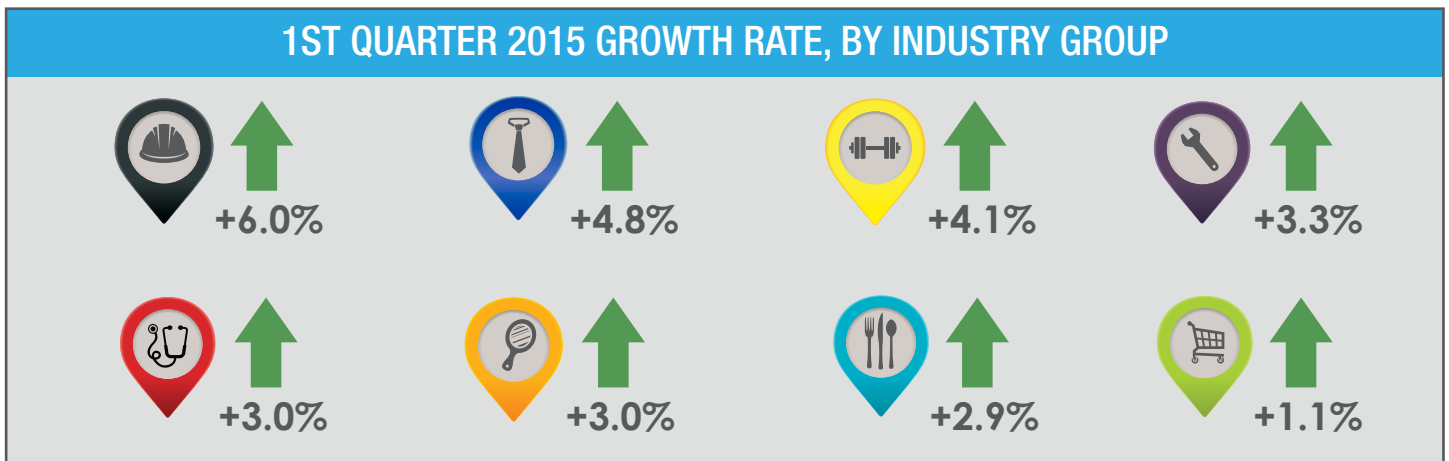
The Building Contractors and Home Remodelers segment clearly demonstrates its sensitivity to economic downturns. As reported in the prior version, this segment took the longest to recover from the recession. It did not start to improve until the 3rd quarter of 2012. However, since that time, it has continued to have the strongest recovery. Over the last 10 quarters through the 1st quarter of 2015, this segment has had the best growth, gaining 15.4%. The next best growth

over this 10-quarter period was Professional Services and the Fitness segment, growing 12.4% and 11.6%, respectively.

An interesting observation over this period is that the two lowest growing segments over these 10 quarters have been Retail and Eating and Drinking Places. These two categories clearly show the flattest trends over the last three years.



For the 1st quarter of 2015, the Building Contractors and Home Remodelers segment continued its strong recovery with a healthy growth rate of 6.0%. Americans also showed increased willingness to use Professional Services as well as a desire to stay in shape through Fitness, with those two segments growing at a rate of 4.8% and 4.1%, respectively.



# INDEX VALUE BY INDUSTRY

Finally, the drivers of the individual components of the Index by segment varied quite a bit, which was a different result compared to what we saw when we looked at the regional comparisons. Two segments were standouts: Building Contractors/Remodelers and Professional Services.

In the segment analysis, wages were the key driver, but these two segments benefited more from the wage growth. The

two segments did have strong wage growth of 8.5% and 6.5%, respectively, but it was accompanied by additionally strong growth in establishments and employees. By contrast, the Eating and Drinking Places category showed very strong growth of 7.2%, but this was offset by non-existent growth in the number of establishments and below average growth in the number of employees.

## FINDINGS FROM THE FIELD

While the business sentiment was upbeat, merchants are cautiously optimistic about growth and expansion. Almost all the merchants we spoke to, including family-run businesses, procured a business loan from their regional credit banks.

When it comes to promotions and marketing, we found that, depending on the industry, the merchant was lagging behind in online sales and marketing. Most of them still rely on word of mouth, traditional marketing and their established clientele.

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***“People are not overly spending like they used to. They are spending because they have to. For the most part, people just buy what they need. Years ago an average sale would have been \$150 for each person who came in. Now people just buy shoes. We do sell online but still can’t compete with other discounted sellers.”***

- owner of a retail store

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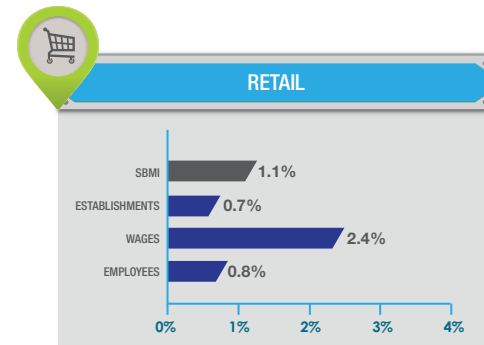
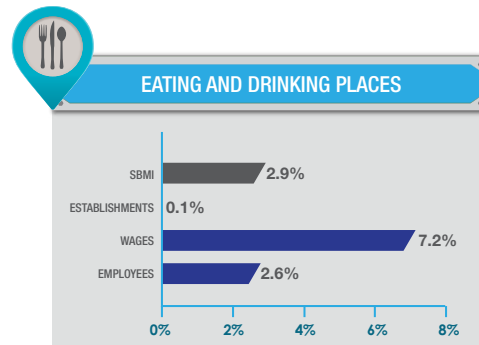
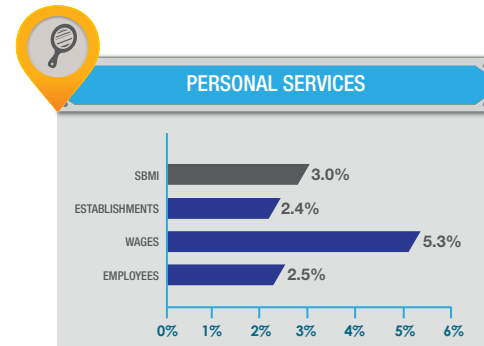
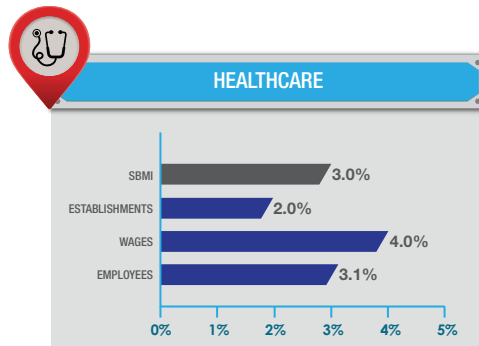
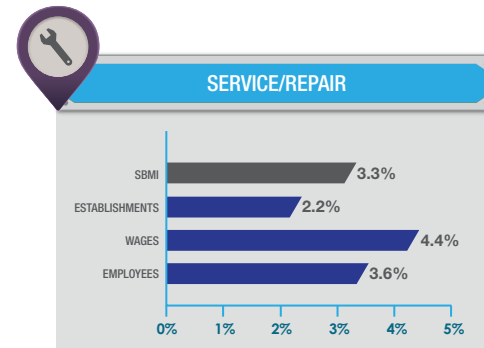
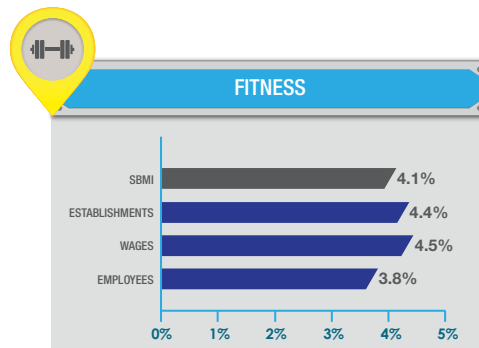
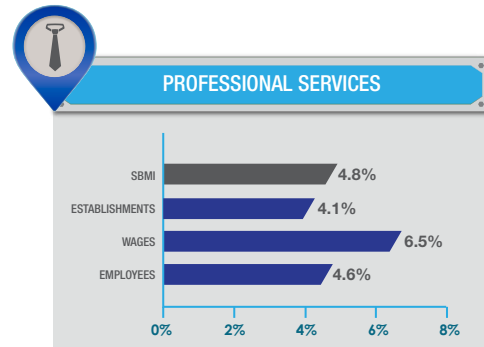
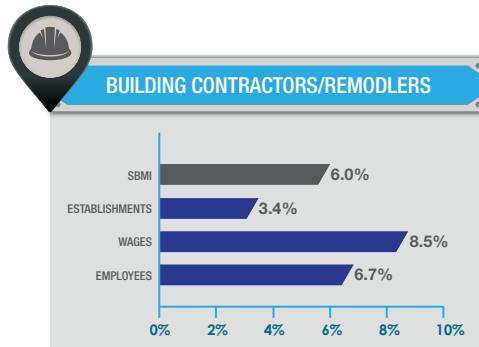
***“I am a little bit of a dinosaur when it comes to online push. There is always a fear of networks going down and so I stick to taking appointments offline. I have my own beauty products line but have resisted selling it online.”***

- salon owner

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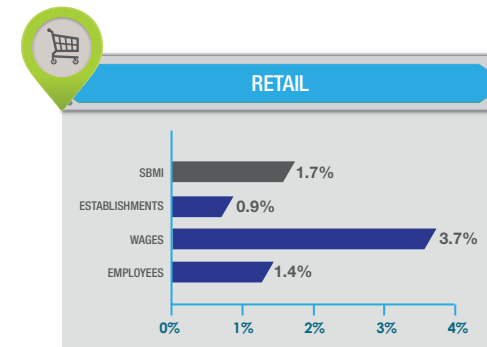
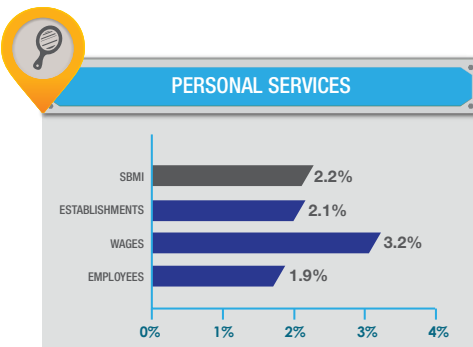
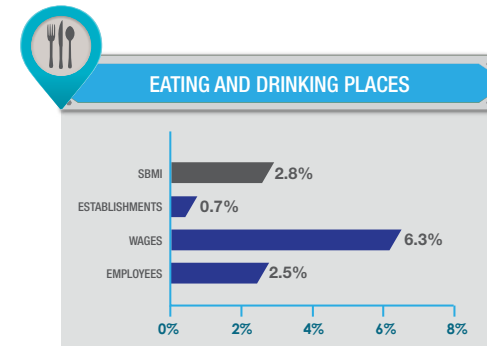
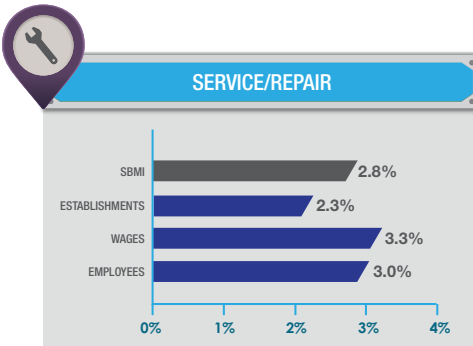
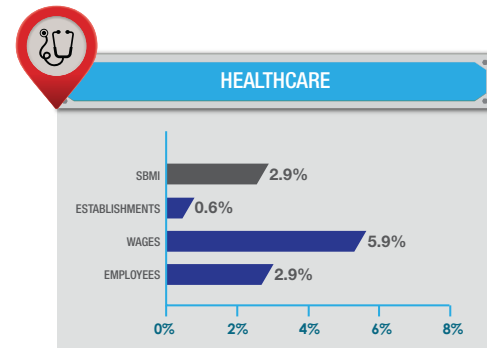
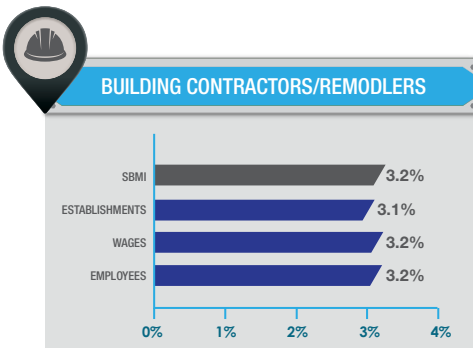
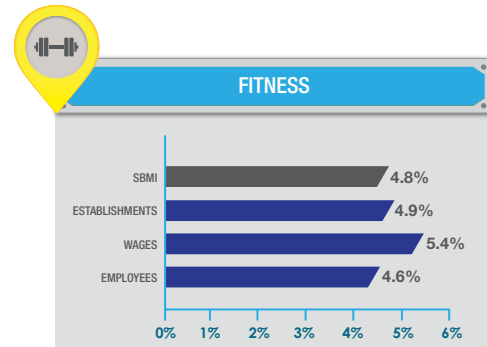
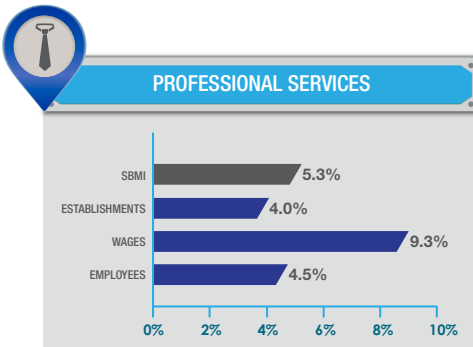
# INDEX VALUE BY INDUSTRY

ACTUAL INDEX GROWTH FOR THE 1ST QUARTER OF 2015



# INDEX VALUE BY INDUSTRY

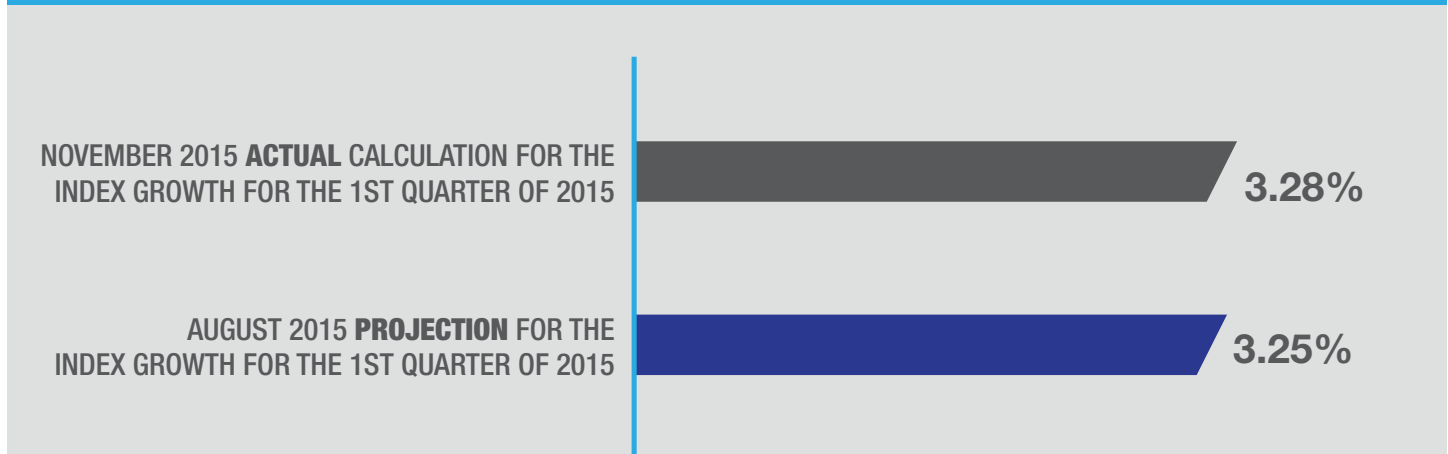
PROJECTED INDEX GROWTH FOR THE 3RD QUARTER OF 2015



# EVALUATION OF PRIOR PROJECTION

In the last iteration of this report we produced projections for how the Index would perform from the 4th quarter of 2014 to the 2nd quarter of 2015. This report includes data from the U.S. Bureau of Labor Statistics covering the 1st quarter of 2015.

## COMPARISON OF PROJECTED GROWTH WITH ACTUAL CALCULATED GROWTH



Based on our Index values, in August 2015, we projected that the growth for the 1st quarter of 2015 was going to be 3.25%. After data for the 1st quarter of 2015 became available, the actual growth in the Index turned out to be 3.28% – a fairly good projection vs. actual results!

Overtime, BLS data is revised as the agency receives more survey information. As a result, historic data points may change but generally by very small amounts. We will incorporate all new adjustments into our data as soon as it is available. We do not anticipate that these revisions will greatly affect projections.

# METHODOLOGY

## WHAT IS THE INDEX?

The Store Front Business Index (SFBI) provides a quarterly metric measuring the health of typically small businesses that populate Main Street USA. Measurements are in real terms and are based on the growth in new establishments, real wages and employment.

Main Street small businesses are identified by the NAICS codes that relate to businesses that are typically small businesses found in both urban and suburban areas. This includes eating establishments, professional and personal services, construction, remodeling and repair services, fitness clubs, and a wide variety of retailers.

## INDEX DEVELOPMENT

We used data from the Quarterly Census of Employment and Wages (QCEW) provided by the U.S. Bureau of Labor Statistics<sup>3</sup> only for our selected industries<sup>4</sup>. In total, we used over 10 million data records covering the number of establishments, employees and total wages to develop the Index. We used econometric analysis and modeling techniques to develop the Index, adjusting for seasonality and calculated over a 10-year period. The Index was established using data from 2004 through 2014.

The SFBI is calculated as a weighted average of the three factors: the number of establishments; the number of employees; and the total wages paid for select industries.

<sup>3</sup> <http://www.bls.gov/cew/dataguide.htm>

<sup>4</sup> Actual data is available through the 1st quarter of 2015. Projections were developed for the second and third quarter of 2015 using the calculated values of the Index along with industry and regional macro-economic data on GDP and employment, which were proven to be highly correlated with our Index data, using rigorous econometric tools and techniques.

# ABOUT

## ABOUT CAN CAPITAL

CAN Capital, Inc., established in 1998, is the pioneer and market share leader in alternative small business finance, having provided access to over \$5 billion in funding to small businesses.

As a technology-powered financial services provider, CAN Capital uses innovative and proprietary risk models combined with daily performance data to evaluate business performance and facilitate access to capital for entrepreneurs in a fast and efficient way.

CAN Capital, an Inc. 5000 fastest-growing company, makes capital available to businesses through its subsidiaries: Merchant Cash Advances by CAN Capital Merchant Services, Inc., and business loans through CAN Capital Asset Servicing, Inc. (CCAS). Business loans obtained through CCAS are made by WebBank, a Utah-chartered Industrial Bank, member FDIC.

For more information, please visit: [www.cancapital.com](http://www.cancapital.com). Follow CAN Capital on Twitter and Facebook.

## ABOUT PYMNTS.COM

PYMNTS.com is reinventing the way in which companies in payments share relevant information about the initiatives that shape the future of payments and commerce and make news.

This powerful B2B platform is the No. 1 site for the payments and broader commerce ecosystem by traffic and the premier source of information about “what’s next” in payments. C-suite and VP level executives turn to it daily for these insights, making the PYMNTS.com audience the most valuable in the industry. It provides an interactive platform for companies to demonstrate thought leadership, popularize products and, most importantly, capture the mindshare of global decision-makers. PYMNTS.com... where the best minds and best content meet on the Web to learn “what’s next” in payments and commerce.

## FEEDBACK

We are interested in your feedback on this report. If you have questions, comments, or would like to subscribe to this report, please email us at [storefront@pymnts.com](mailto:storefront@pymnts.com).

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