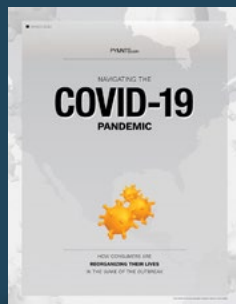
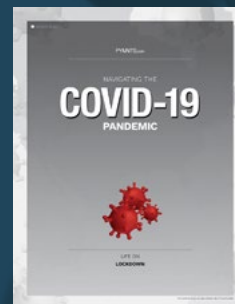


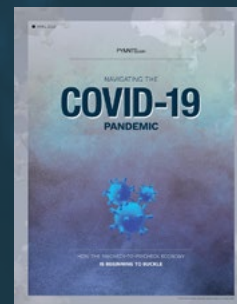
NAVIGATING THE COVID-19 PANDEMIC



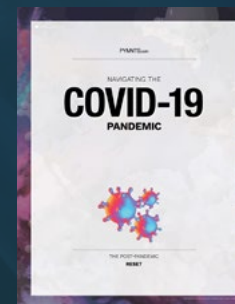
MARCH 18
How Consumers Are Reorganizing Their Lives In The Wake Of The Outbreak



MARCH 26
Life On Lockdown



APRIL 9
How The Paycheck-To-Paycheck Economy Is Beginning To Buckle



APRIL 22
The Post-Pandemic Reset

MAIN STREET ON LOCKDOWN



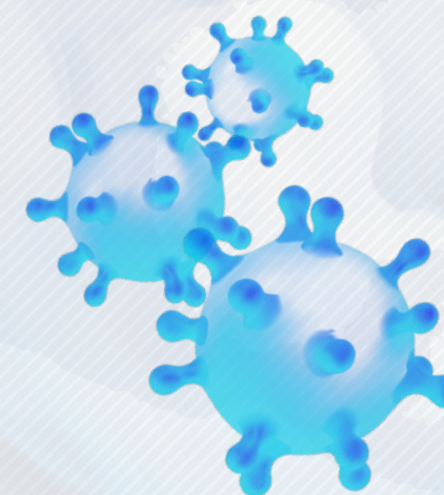
APRIL 2
How SMBs Are Coping With The Economic Fallout Of COVID-19



APRIL 16
The COVID-19 Cash Chasm

MAIN STREET

ON LOCKDOWN



REINVENTING
THE ROAD TO RECOVERY

TABLE OF CONTENTS

02

INTRODUCTION

03

PART I
THE HAVES AND HAVE NOTS

11

PART II
WHY SOME SMBs ARE
STEERING CLEAR OF PPP LOANS

15

PART III
POST-PANDEMIC PLANNING

21

CONCLUSION

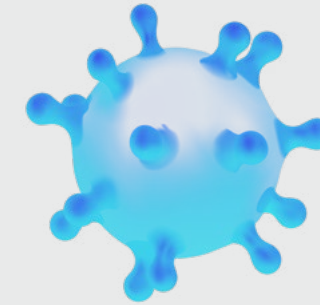
22

METHODOLOGY

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INTRODUCTION



The United States government approved \$3 trillion in COVID-19 pandemic relief funding by April 24, much of which has been devoted to economic stimulus packages to keep small and mid-sized businesses (SMBs) open and their workers employed.¹ It is becoming clearer as the outbreak progresses, however, that temporary financial assistance will likely not be enough to save Main Street businesses from long-term financial instability — or even permanent closure. Many SMBs have thus looked to enact their own reinvention plans and to prepare for whatever economy will emerge once the contagion risk subsides.

PYMNTS surveyed 190 SMB owners on March 24 to gauge their efforts to keep their operations afloat amid mounting econom-

ic uncertainty, and we queried another 502 SMBs on April 6 to see how the pandemic was affecting their financial stability at that point. Our April 20 survey of 437 SMBs goes one step further, examining just how many of these changes are likely to become permanent fixtures in the post-pandemic landscape — and why financial recovery may require full-scale reinventions for many businesses.

We have surveyed more than 1,000 U.S. SMB owners to date as part of our Main Street On Lockdown report series, and the Reinventing The Road To Recovery edition presents the latest findings from our extensive research. It aims to determine why 67.9 percent of SMBs are intent on sticking to their pre-pandemic business models in a post-pandemic market.

THIS IS WHAT WE LEARNED.

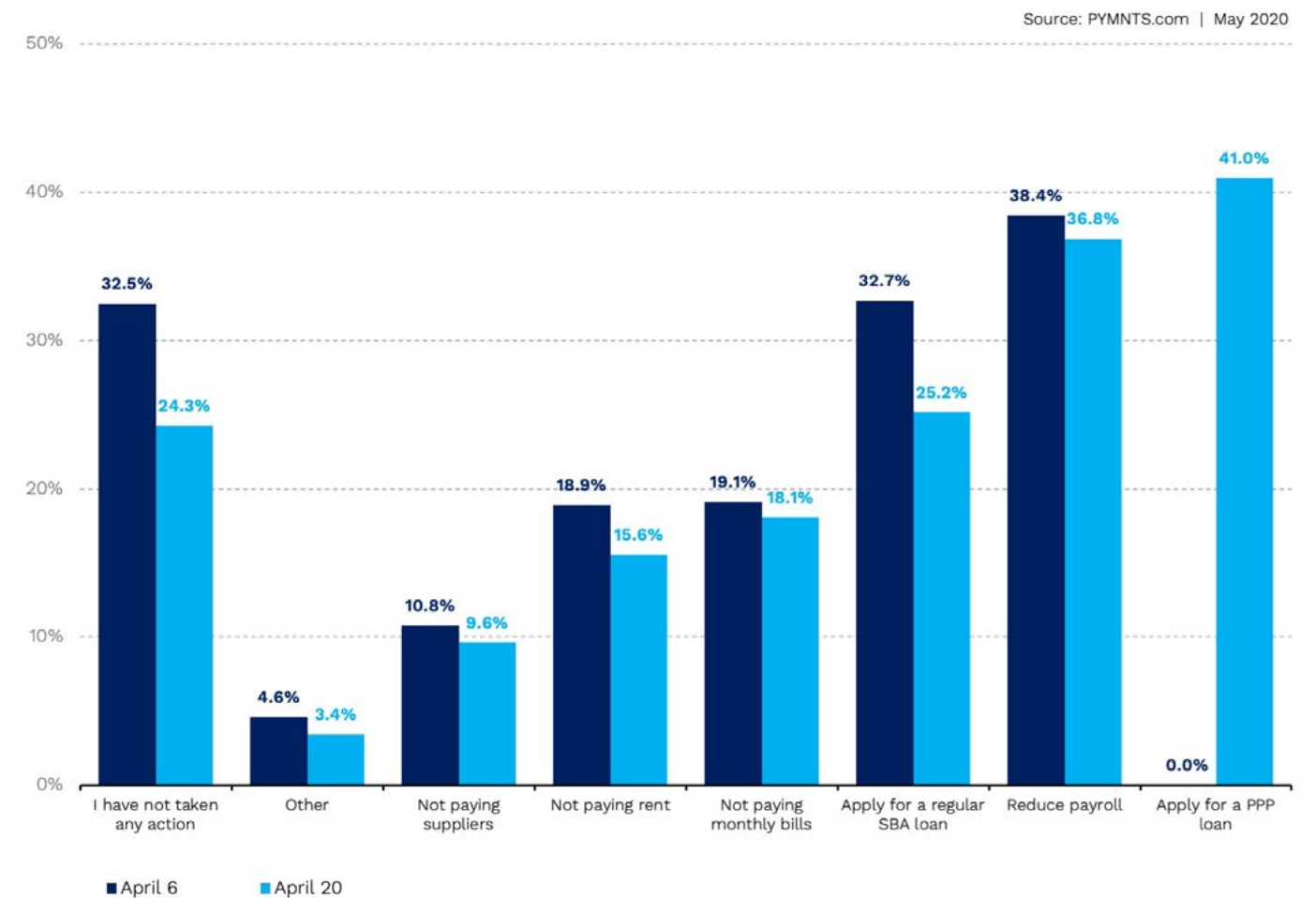
¹ Author unknown. Coronavirus: Congress passes \$484 billion economic relief bill. BBC. 2020. <https://www.bbc.com/news/world-us-canada-52398980>. Accessed May 2020.

PPP LOANS ARE NOW THE MOST POPULAR FINANCIAL LIFELINES FOR SMBs.

More SMBs are turning to federal Paycheck Protection Program (PPP) loans to stabilize their businesses in the face of economic uncertainty. Forty-one percent of all SMBs applied for these loans by April 20, compared to the 36.8 percent that reduced their employees' payroll and the 18.1 percent who stopped paying their monthly bills. Our April 6 survey found that 38.4 percent of SMBs were reducing payrolls, meaning that PPP loans have surpassed payroll cuts to become the single most common way in which owners are working to keep their businesses afloat amid the pandemic.

We noticed a sharp decline in the share of SMB owners applying for regular U.S. Small Business Administration (SBA) loans, however, with 32.7 percent doing so by April 6 but just 25.2 percent doing so by April 20. The share of SMB owners who were not taking any actions to mitigate the pandemic's impacts also decreased during the same period, from 32.5 percent to 24.3 percent. We saw notable drops in the shares of SMB owners who were not paying their bills and making rent payments, as well.

FIGURE 1: SMBs' ATTEMPTS TO SOFTEN THE PANDEMIC'S IMPACTS
Share that had taken select measures to mitigate the pandemic's financial effects



THE HAVES AND HAVE NOTS

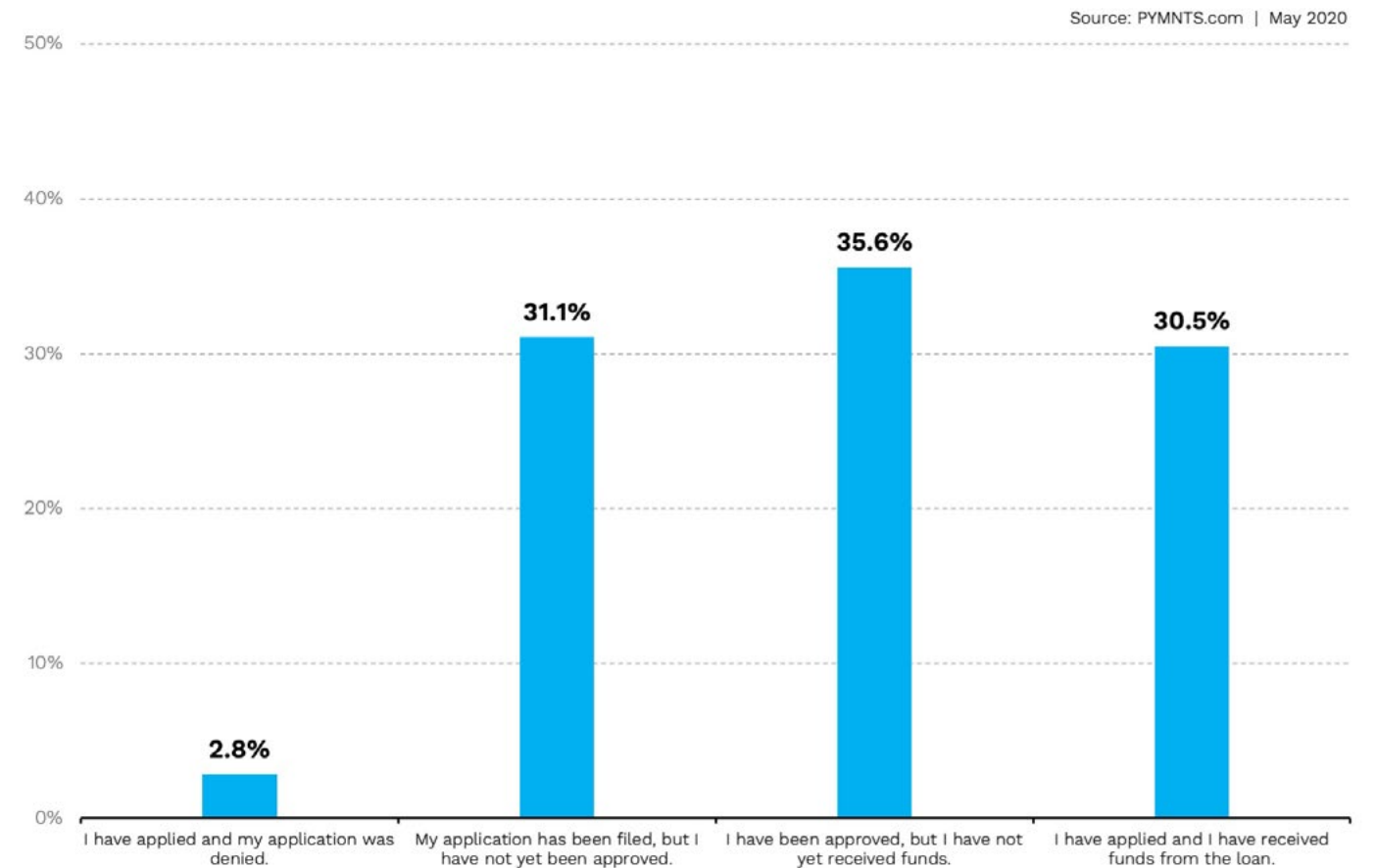
MOST PPP LOANS HAVE BEEN ISSUED TO FINANCIALLY STABLE SMBs.

Stable SMBs that were weathering the pandemic's impacts better than their unsure or unstable counterparts were the most likely to have applied for and received PPP loans. We found that 43.2 percent of SMBs owners who are sure their businesses will survive the pandemic have been granted PPP loans. This compares to 30.3 percent of SMB owners who do not think their operations will survive who have received such loans, and 10.7 percent who are unsure who have received them.

SMBs with greater annual revenues are also likelier to receive PPP funding. Our research shows that 42.4 percent of SMBs generating \$2.5 million or more in annual revenues filed for and received PPP loans, as did 36 percent of those earning between \$1 million and \$2.5 million annually. This compares to just 18.2 percent of those generating between \$250,000 and \$500,000 in yearly revenues that applied for and received such loans.



FIGURE 2: WHICH SMBs HAVE APPLIED FOR AND RECEIVED PPP LOANS
Share of SMBs that have filed loan applications, by application status



THE HAVES AND HAVE NOTS

FIGURE 3: WHICH SMBs HAVE APPLIED FOR AND RECEIVED PPP LOANS

Share of SMBs with select loan application statuses, by financial stability

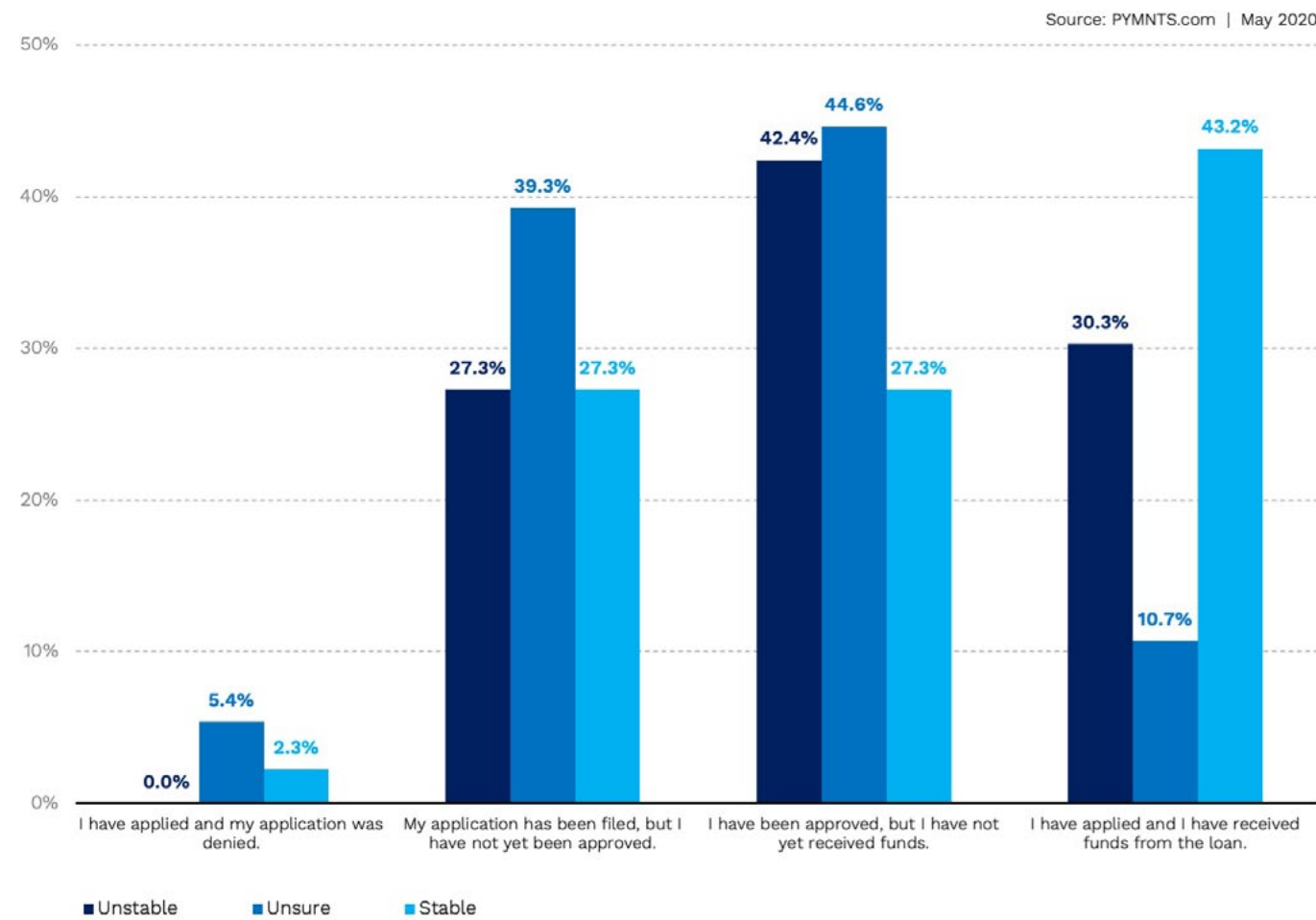
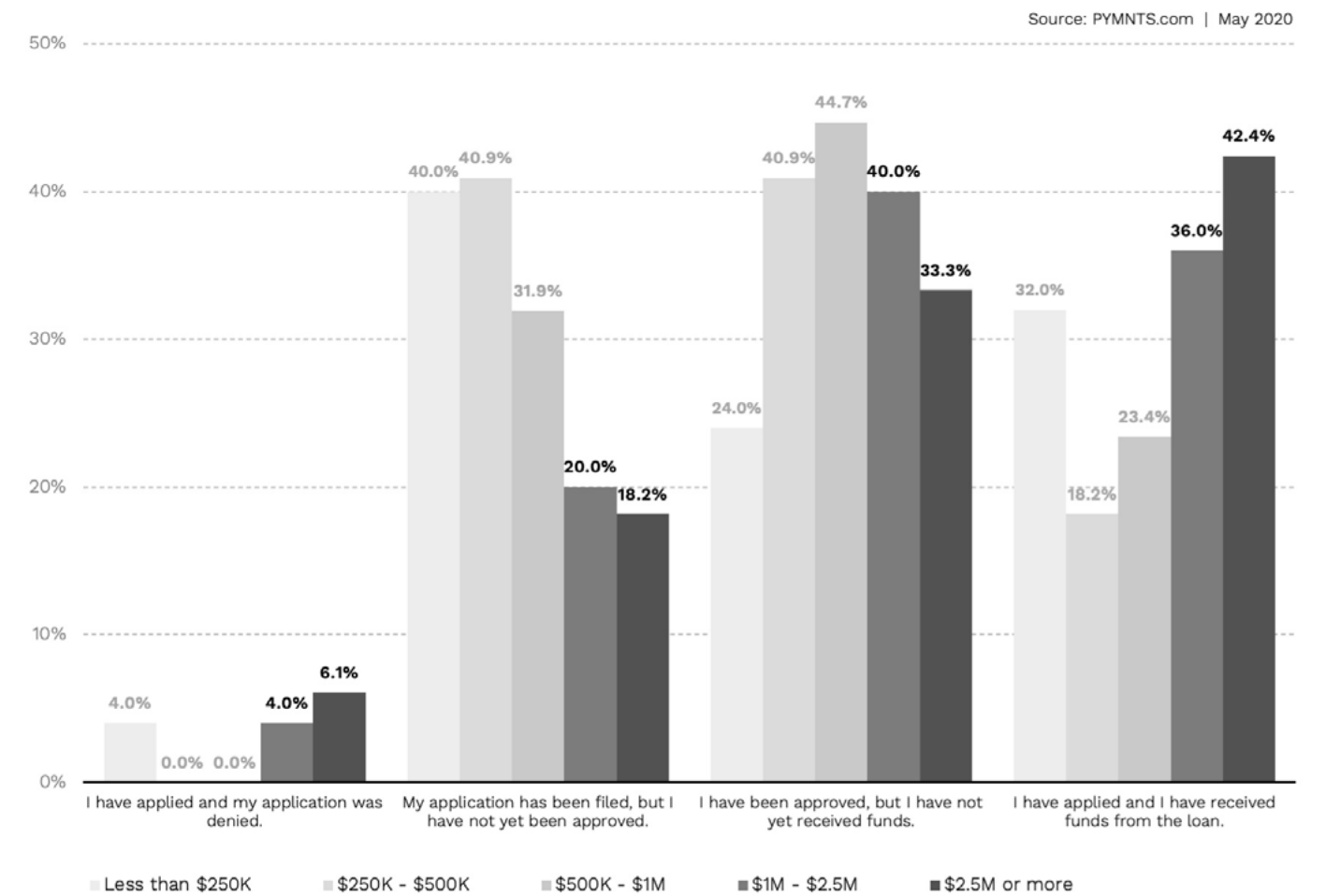


FIGURE 4: WHICH SMBs HAVE APPLIED FOR AND RECEIVED PPP LOANS

Share of SMBs with select loan application statuses, by annual revenues



THE HAVES AND HAVE NOTS

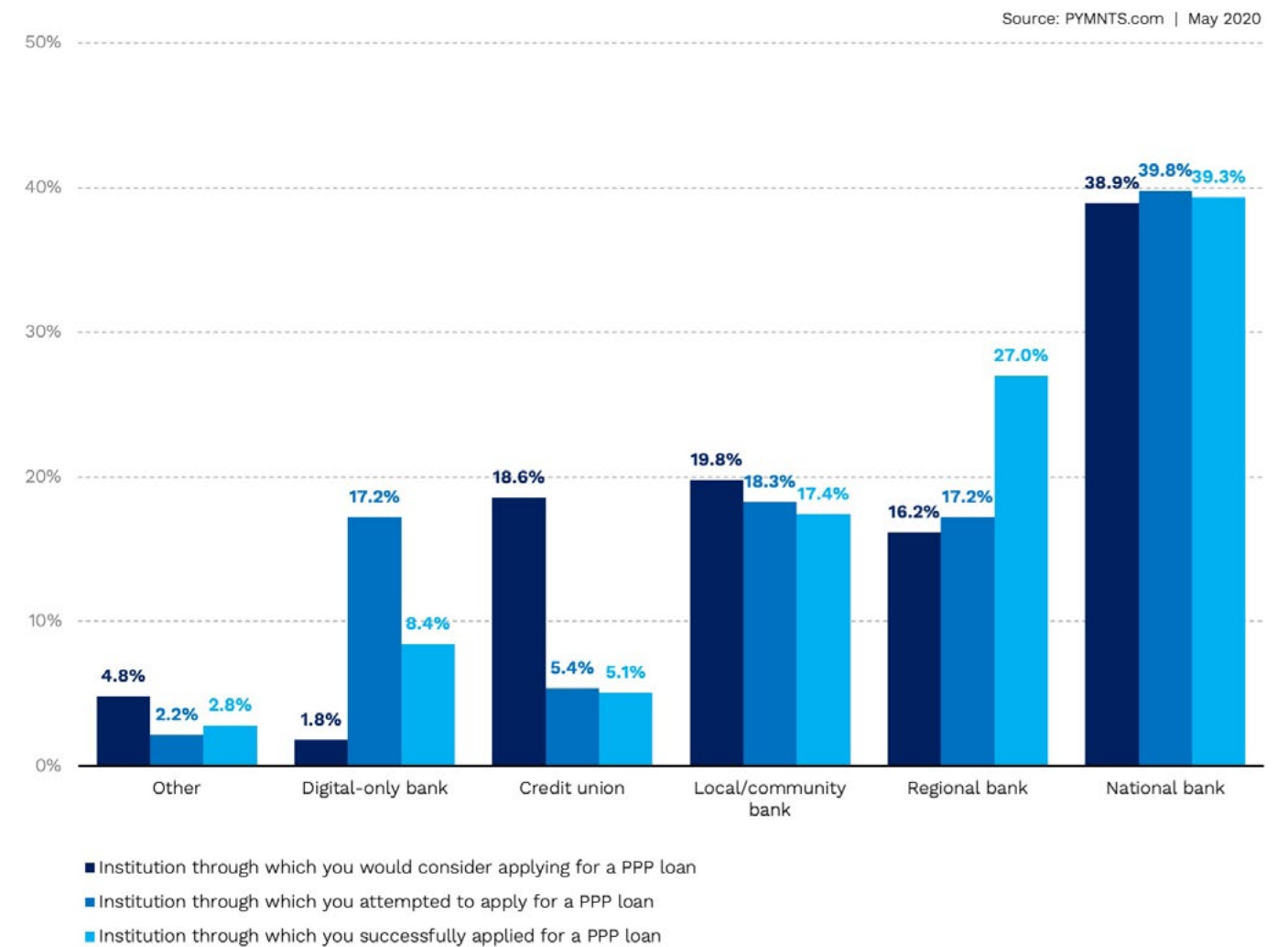
A MAJORITY OF SMB OWNERS RELIED ON NATIONAL BANKS TO HANDLE THEIR PPP APPLICATIONS.

The majority of SMB owners in our April 20 survey sought out national and regional banks when submitting their PPP applications. Our research indicates that 39.3 percent of SMB owners who successfully applied for PPP loans relied on national banks to do so, while 27 percent turned to regional banks and 17.4 percent used local and community banks.

Even SMB owners who had not applied for PPP loans were most likely to turn to national and regional banks to do so, with 38.9 percent saying they would rely on the former and 16.2 percent the latter. We also saw a considerable gap between the share of SMB owners who said they would like to apply through credit unions (CUs) and the share who did, with 18.6 percent of those who had not applied saying they would like to use CUs and just 5.1 percent of those who applied saying they did.



FIGURE 5: SMBs' USE OF SELECT FIs TO FACILITATE PPP APPLICATIONS
Share who applied or would apply for loans using select types of FIs



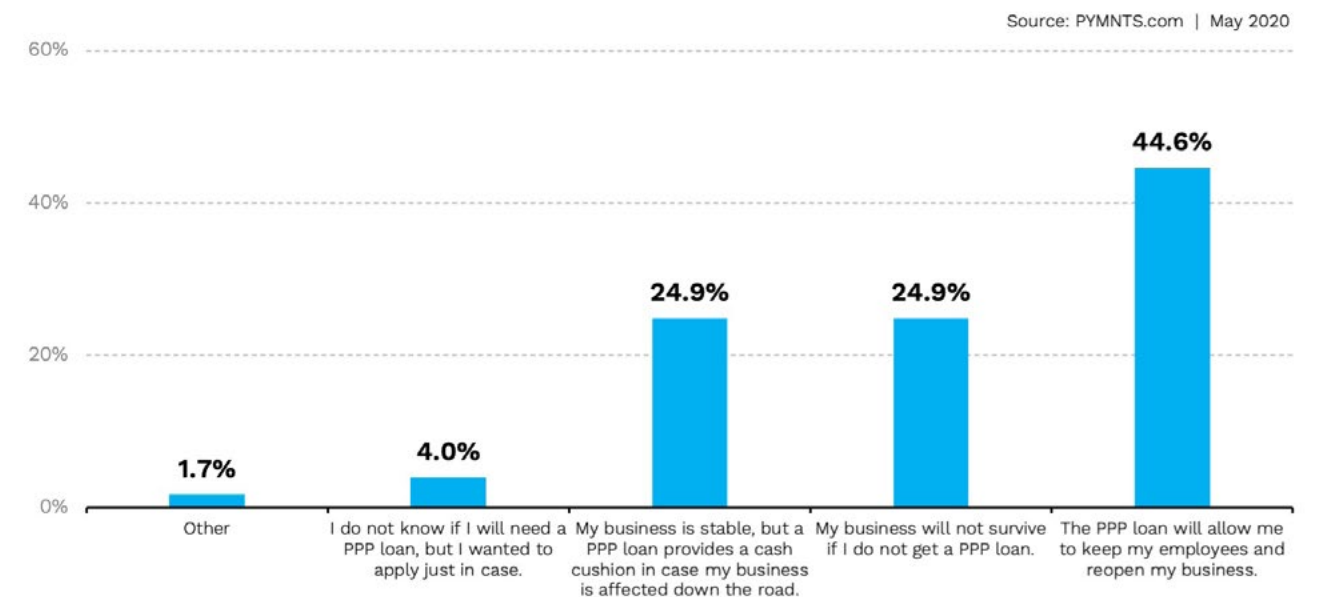
WHY SOME SMBs ARE STEERING CLEAR OF PPP LOANS

MOST BUSINESSES THAT APPLIED FOR PPP LOANS DID SO TO REOPEN THEIR DOORS AND KEEP THEIR WORKERS EMPLOYED.

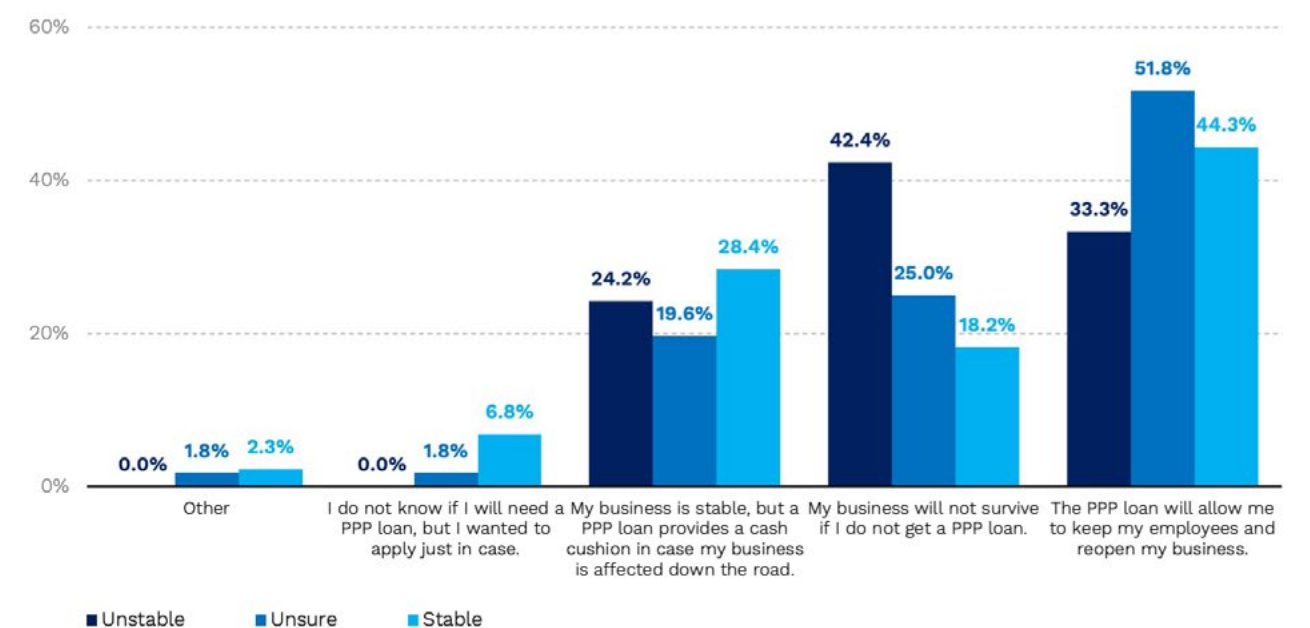
Our research shows that 44.6 percent of SMB owners who applied for PPP loans did so to keep their employees and reopen their businesses, while 24.9 percent needed the additional funding to survive the pandemic and another 24.9 percent sought added cash cushions. We found that another 4 percent were unsure about whether they would need the funding but applied as a precaution.

Firms uncertain about whether they would survive the pandemic were the most likely to apply for PPP loans to keep employees and reopen, with 51.8 percent of unsure SMBs that applied citing this as a reason. This compared to 44.3 percent of stable SMBs that filed for loans and said the same.

FIGURE 6: SMBs' REASONS FOR APPLYING FOR PPP LOANS
Share that cited select reasons for seeking PPP loans



Share that cited select reasons for seeking PPP loans, by financial stability



WHY SOME SMBs ARE STEERING CLEAR OF PPP LOANS

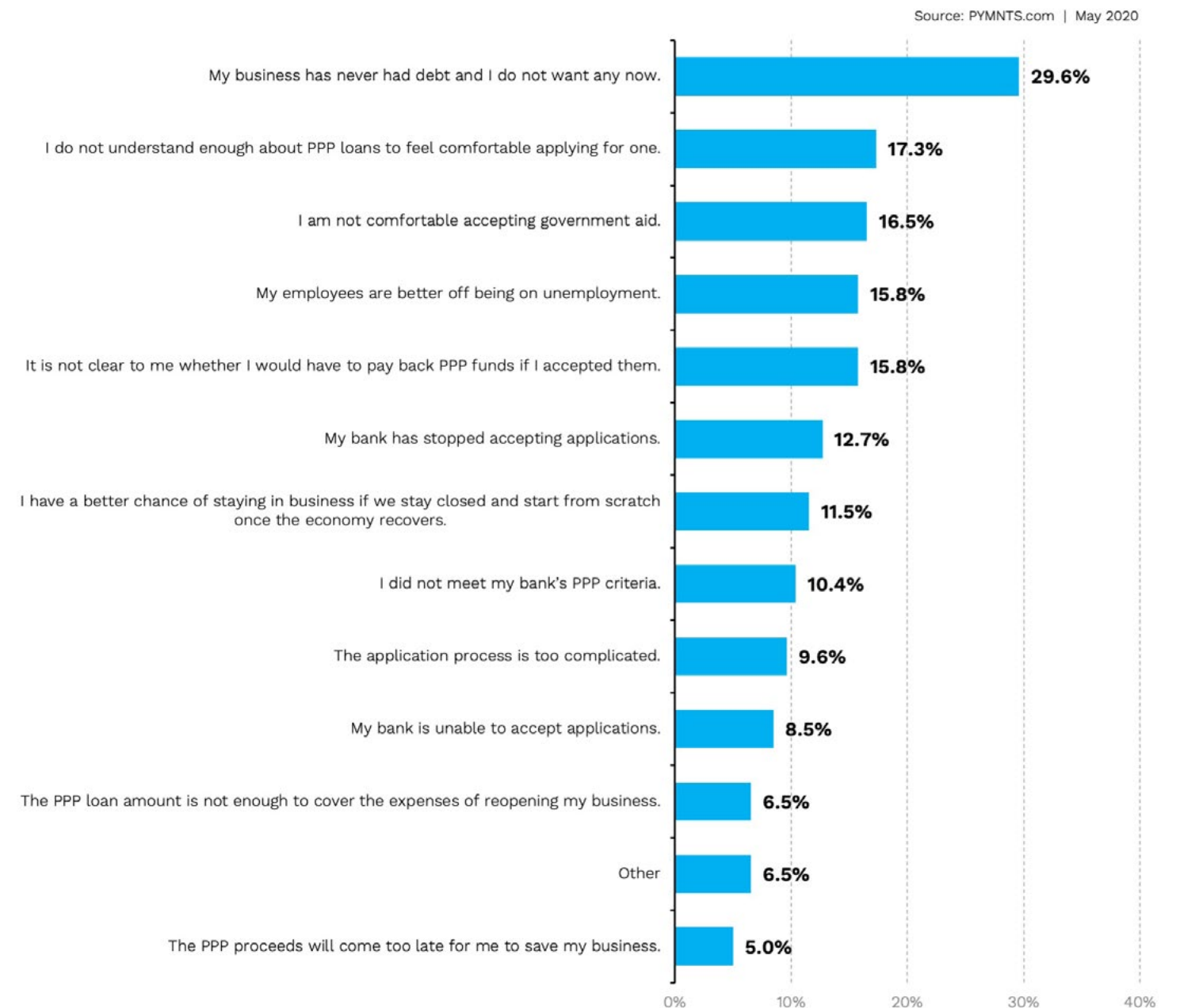
PPP LOANS' TERMS ARE UNCLEAR TO MANY SMBs. A SIZABLE SHARE EVEN INDICATE THAT THEY THINK THE LOANS MUST BE REPAID.²

The simple availability of PPP loans is often not enough to entice SMBs to apply for them. Our research shows that 29.6 percent of SMB owners who did not apply for PPP loans listed concerns about incurring debt as a reason they did not do so. Not understanding enough about PPP loans to feel comfortable filing for them was SMB owners' second-most common reason to forgo applying, cited by 17.3 percent. Another 15.8 percent said one reason they did not file was because they were unsure whether they would have to repay the loans, further highlighting a lack of knowledge about the offerings.

Other factors SMB owners commonly cited for not applying included being uncomfortable accepting any government aid, believing their employees were better off filing for unemployment and thinking their banks no longer accepted PPP applications.

² The [Paycheck Protection Program Information Sheet](#), distributed by the Department of The Treasury, clarifies that any funding obtained through the PPP program need not be repaid as long as participating businesses abide by two stipulations. First, proceeds must be "used to cover payroll costs and most mortgage interest, rent, and utility costs over the eight-week period after the loan is made." Second, "employee and compensation levels" must be "maintained."

FIGURE 7: SMB OWNERS' REASONS FOR AVOIDING PPP LOANS³
Share who cited select reasons for not applying



³ Respondents were asked to select any of the 13 factors listed above as reasons for which they chose not to apply for PPP loans.

POST-PANDEMIC PLANNING

SEVEN OUT OF 10 SMBs PLAN TO OPERATE EXACTLY AS THEY DID BEFORE THE PANDEMIC ONCE IT PASSES.

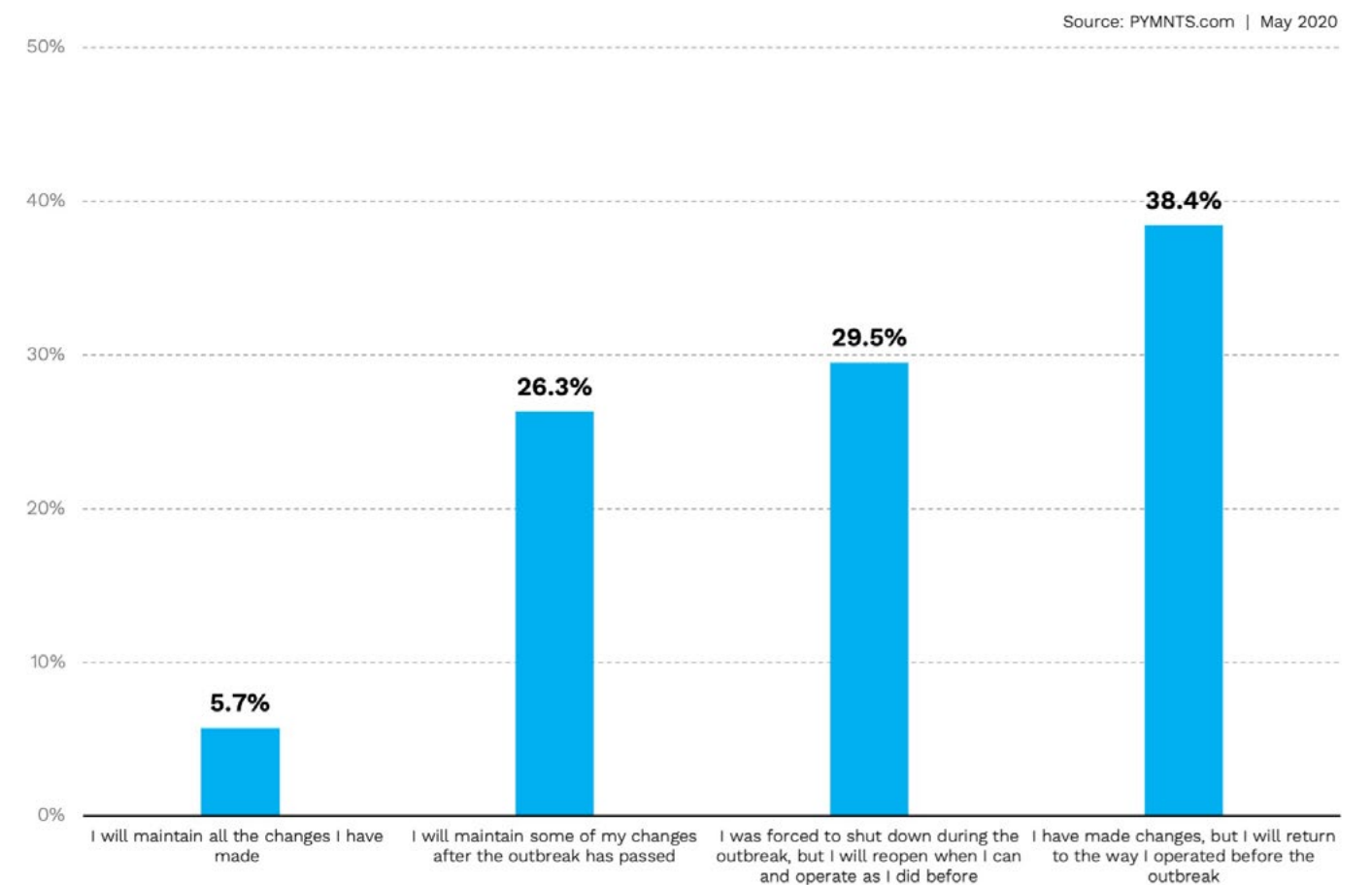
The majority of SMB owners see the pandemic as a temporary issue requiring short-term operational changes rather than fundamental shifts in their business models. Our research shows that 38.4 percent of all SMB owners have made some changes to their normal operations to weather the pandemic but planned to go back to business as usual once it passed. Another 29.5 percent said they were forced to shutter their businesses but that they intended to reopen and run them exactly as they had once the contagion risk ended.

Some SMBs planned to institute permanent operational changes after the outbreak, but they were in the minority. Our survey indicates that 26.3 percent of SMB owners aimed to keep some of the adjustments they have made, and 5.7 percent planned to maintain all of them.



FIGURE 8: SMBs OWNERS' POST-PANDEMIC BUSINESS PLANS

Share who indicated willingness to alter their operations in select ways once the crisis is over



POST-PANDEMIC PLANNING

SMBs THAT RELIED ON IN-STORE SALES WERE THE MOST INTENT ON GOING BACK TO BUSINESS AS USUAL.

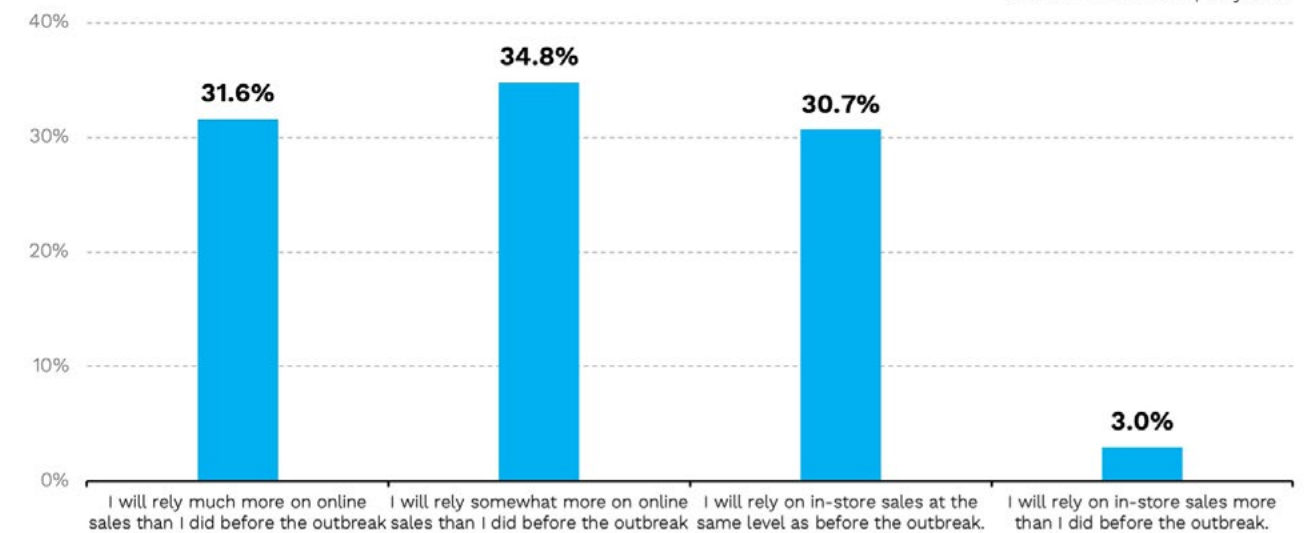
Our research shows that 66.4 percent of SMB owners expected to generate more online sales after the COVID-19 outbreak than they did beforehand, with 34.8 percent saying they will rely “somewhat more” on such sales and 31.6 percent reporting they will rely “much more” on them. We found that 30.7 percent of SMB owners believed they would have the same level of digital reliance as they had in the past, however, while 3 percent said they would rely more on brick-and-mortar sales in the future.

The SMB owners who believed in-store sales would be at least as crucial after the pandemic passed were often the most heavily or even exclusively reliant on brick-and-mortar sales. Our survey shows that 61.5 percent of those who relied exclusively on in-store sales for their revenues believed they would be able to continue operating that way even after the pandemic ended. This compared to only 18.6 percent of SMBs that relied on in-store sales for between 25 percent and 50 percent of their revenues. These findings show that some firms will seek to operate as they did before – regardless of the COVID-19 pandemic’s long-term impacts on the U.S. economy – because they were already heavily invested in doing so. It remains to be seen whether this strategy will prove successful.

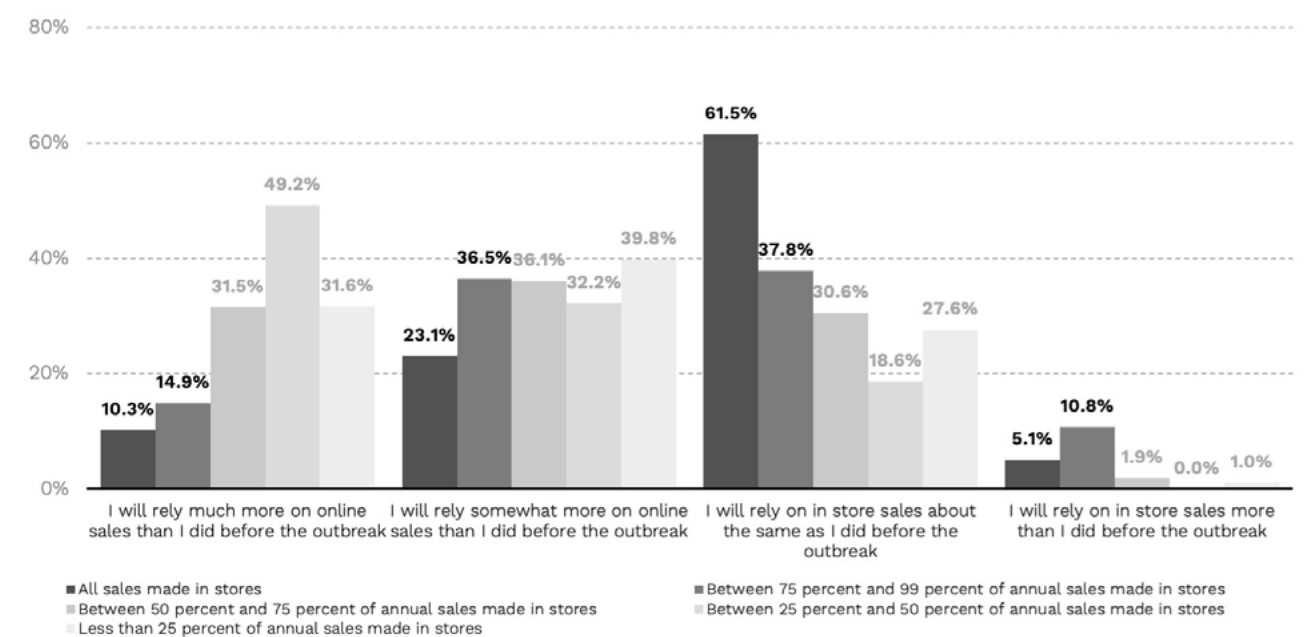
FIGURE 9: HOW SMB OWNERS PLAN TO CHANGE THEIR RELIANCE ON IN-STORE SALES

Share who plan to make select changes in the wake of the outbreak

Source: PYMNTS.com | May 2020



Share who plan to make select changes in the wake of the outbreak, by portion of sales generated in stores



POST-PANDEMIC PLANNING

ONLY FOUR OUT OF 10 SMBs WILL DOWNSIZE THEIR BRICK-AND-MORTAR PRESENCES AFTER THE PANDEMIC, EVEN THOUGH THE MAJORITY BELIEVE THEY WILL BE MORE RELIANT ON DIGITAL SALES.

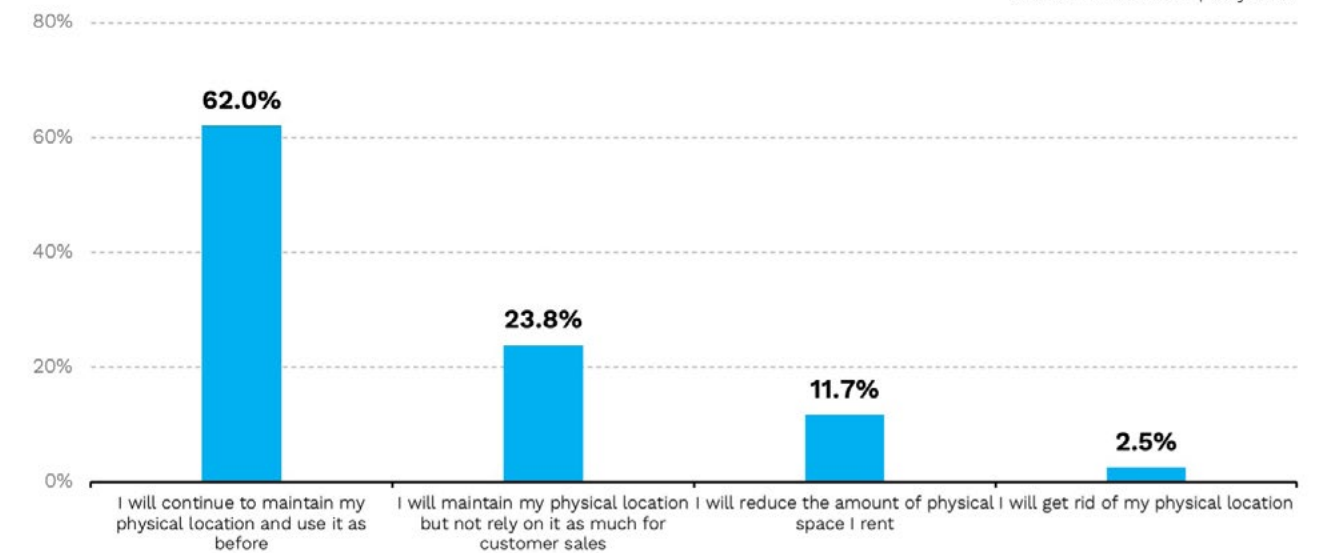
Some SMB owners planned to adapt to the post-pandemic world by reducing their brick-and-mortar footprints, with 38 percent saying they intended to reduce the amount of space they devoted to physical stores. Our research indicates that 23.8 percent of all SMB owners aimed to maintain their brick-and-mortar presences in the future but reduce their reliance on in-store sales. This seems counterintuitive, as the majority of businesses expected to be more reliant on digital sales going forward. Only 11.7 percent of SMB owners planned to rent less space for their physical stores despite this, while just 2.5 percent aimed to eliminate their brick-and-mortar presences. Sixty-two percent planned to maintain their physical locations and use them as they had before the pandemic. These trends indicate a strong desire to maintain current operations, even if doing so runs contrary to financial expectations.

SMBs that had been more reliant on in-store sales before the pandemic were also more likely to say they would maintain their brick-and-mortar operations after it was over. We found that 76.9 percent of SMB owners whose businesses generated all sales in stores said they would keep their brick-and-mortar locations and use them just as they had before the outbreak. Only 54.1 percent of firms that generated less than 25 percent of their annual sales in stores said they would run their stores just as they had before the pandemic, however.

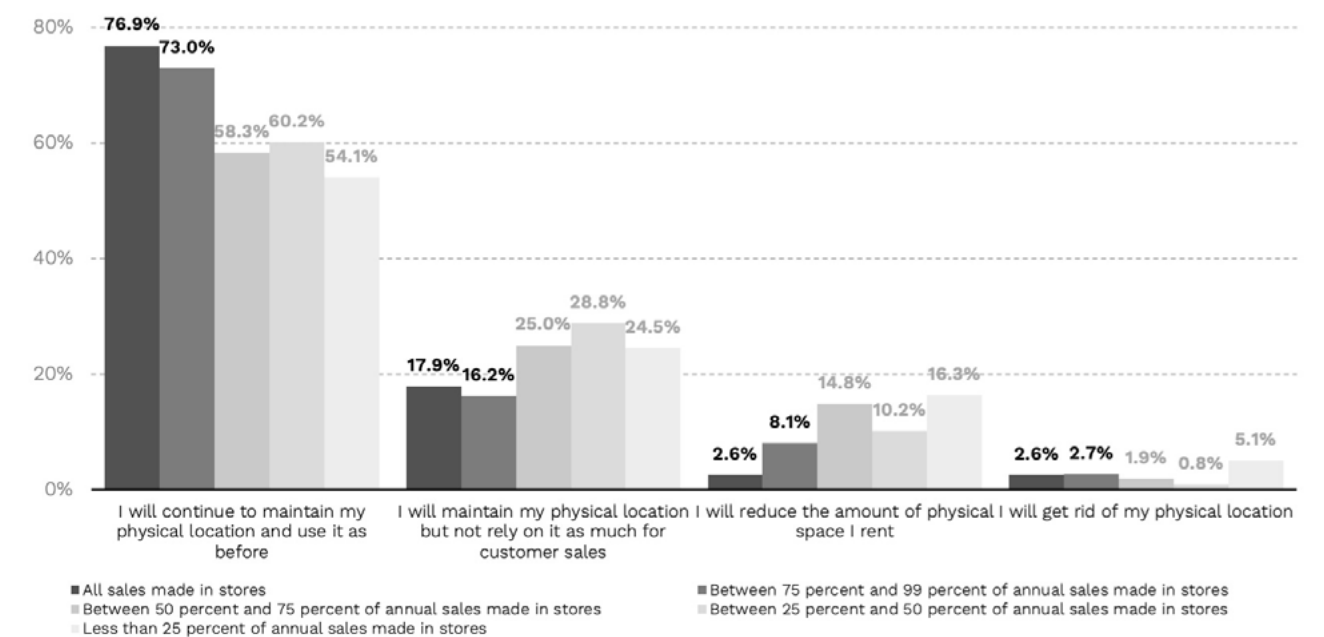
FIGURE 10: SMB OWNERS' POST-PANDEMIC PLANS FOR THEIR BRICK-AND-MORTAR OPERATIONS

Share who plan to make select changes in the wake of the outbreak

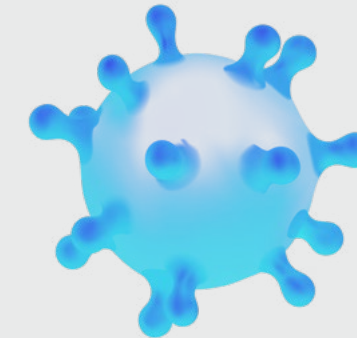
Source: PYMNTS.com | May 2020



Share who plan to make select changes in the wake of the outbreak, by portion of sales generated in stores



METHODOLOGY



CONCLUSION

Change is never easy, but COVID-19 has made it an imperative. Main Street SMBs have taken drastic measures to survive the outbreak, and many are reinventing themselves to endure and thrive in a post-pandemic world. Many are planning to scale back on their brick-and-mortar locations and in-person workforces while shifting employees to remote locations and expanding their digital capabilities. Some have been resistant to make any operational changes, however, let alone those that might be necessary in a post-pandemic market. It is not yet clear whether truly large-scale changes will be necessary, but all indicators suggest that resisting them is a risk many SMBs cannot afford.

PYMNTS issued a survey to 437 SMBs on April 20 as a follow-up to its March 24 and April 6 surveys, which examined how small U.S. firms were coping with cash flow shortfalls amid the COVID-19 pandemic. SMBs in our sample hailed from many industries, with our analysis focusing on those in the construction, manufacturing, professional services, retail and technology sectors.



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