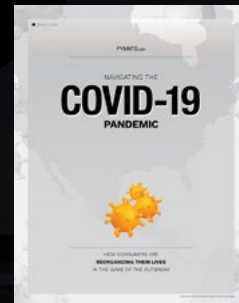
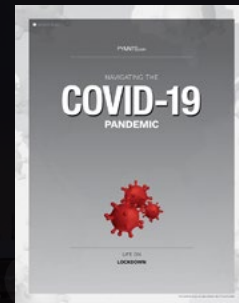


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NAVIGATING THE COVID-19 PANDEMIC



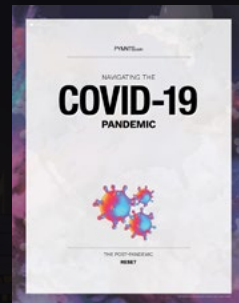
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MAIN STREET ON LOCKDOWN



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



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THE GREAT REOPENING

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■ MAY 2020

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MAIN STREET

ON LOCKDOWN



BUSINESS
RECOVERY

*The Main Street On Lockdown survey was taken between May 8 and May 14, 2020.

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INTRODUCTION

The United States has never faced an economic downturn similar to the one it is currently experiencing. Nearly 40 million people have filed for unemployment¹ since the COVID-19 pandemic began just a few months ago, whereas 8.7 million lost their jobs throughout the Great Recession, which began in December 2007 and officially ended in June 2009.² The unemployment rate is currently about 14.7 percent, and experts predict it could reach as high as 23 percent before the economy begins to recover.³ This compares to a high of 25 percent experienced during the Great Depression, which took four years to unfold.⁴

Spending is down across the board as consumers scrimp and save, and those who are still shopping are doing so online. Small to mid-sized business (SMB) owners have pivoted quickly to adapt. More than seven out of 10 have enhanced their firms' digital offerings or added new capabilities such as digital invoicing, online order-ahead options and new eCommerce portals. Even more

remarkable is that this seismic shift in SMB innovation has occurred in just 10 weeks. How well have small firms coped with this new economic reality, and how long will they endure the pandemic?

PYMNTS has surveyed more than 1,000 SMBs over the past 10 weeks to determine firsthand how the pandemic is affecting their operations and how their economic mitigation strategies are changing over time. The Main Street On Lockdown: Business Recovery edition is based on a survey conducted May 8 that analyzes the responses of 431 SMBs. It aims to identify the digital technologies in which firms are investing, determine the methods they are using to stay afloat and explore how a new stimulus funding round from the Small Business Administration (SBA) may be changing their financial stability. We also seek to understand whether SMBs are planning to maintain their recent operational changes in the post-pandemic market.

THIS IS WHAT WE LEARNED.

¹ Bayly, L. New weekly figures show almost 40 million people lost their jobs since the pandemic. NBC. 2020. <https://www.nbcnews.com/business/economy/new-weekly-figures-show-almost-40-million-people-lost-their-n1211886/>. Accessed May 2020.

² US business cycle expansions and contractions. The National Bureau of Economic Research. 2020. <https://www.nber.org/cycles.html>. Accessed May 2020.

³ La Monica, P. America's unemployment rate may reach 23 percent, Trump adviser says. CNN. 2020. <https://www.cnn.com/2020/05/22/investing/kevin-hassett-economy-unemployment-rate/index.html>. Accessed May 2020.

⁴ Iacurci, G. Unemployment is nearing Great Depression levels. Here's how the eras are similar—and different. CNBC. 2020. <https://www.cnbc.com/2020/05/19/unemployment-today-vs-the-great-depression-how-do-the-eras-compare.html/>. Accessed May 2020.

NEW DIGITAL FRONTIERS

**MORE THAN 70 PERCENT OF SMBs
HAVE EXPANDED THEIR DIGITAL CAPABILITIES
DURING THE PAST 10 WEEKS.**

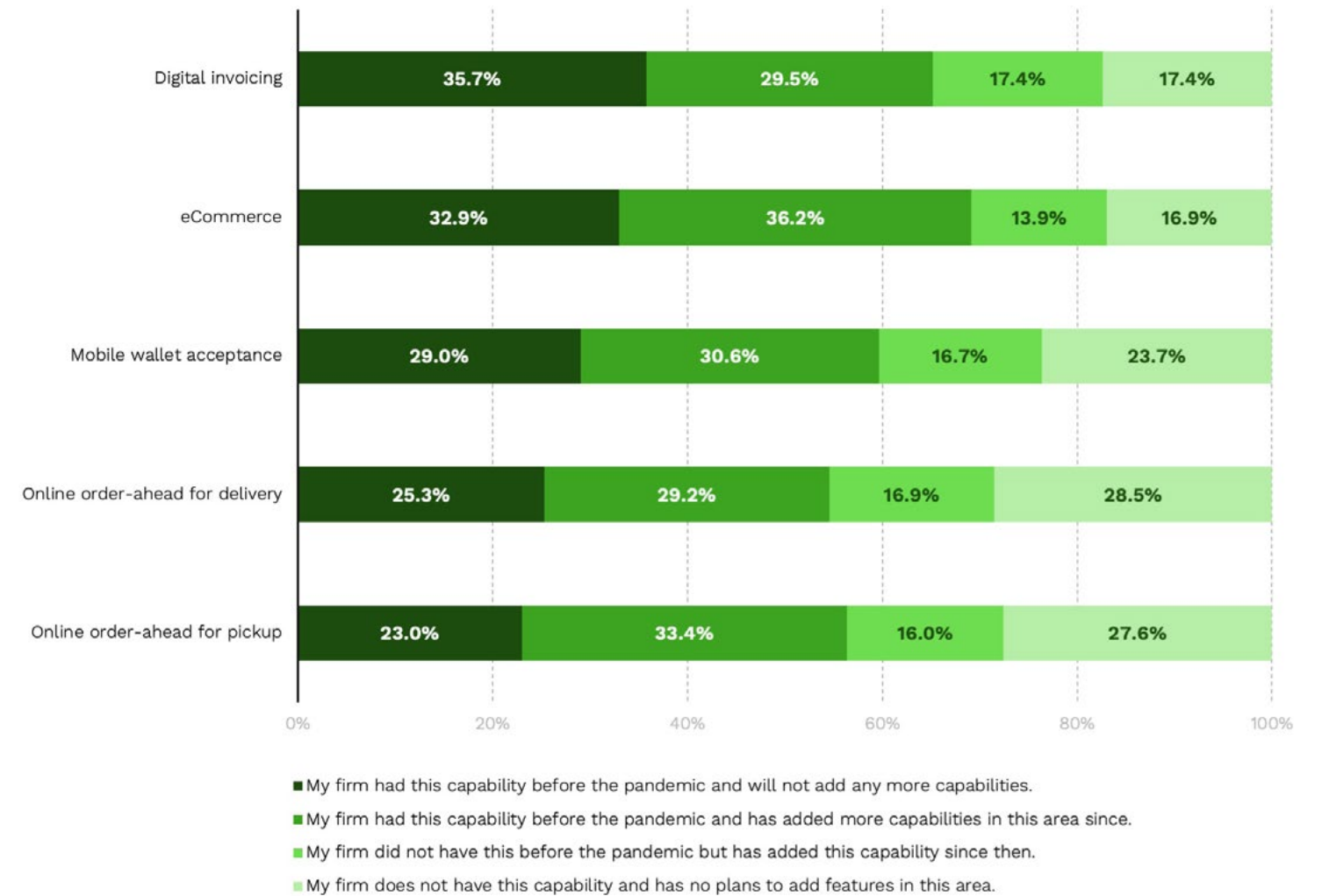
The COVID-19 pandemic has been a catalyst for small firms' innovation, with 71.7 percent of SMBs improving or adding digital capabilities since the crisis began. Our survey reveals that 49.4 percent have either improved upon existing online order-ahead for pickup features or added new ones during the past 10 weeks, while 50.1 percent have improved upon or added eCommerce portals. We also found that 47.3 percent have enhanced or added mobile wallet capabilities, and 46.9 percent have done the same for digital invoice capabilities.



FIGURE 1: HOW SMBs HAVE IMPROVED THEIR DIGITAL CAPABILITIES

Share that have implemented select digital improvements since the pandemic began

Source: PYMNTS.com | May 2020



NEW DIGITAL FRONTIERS

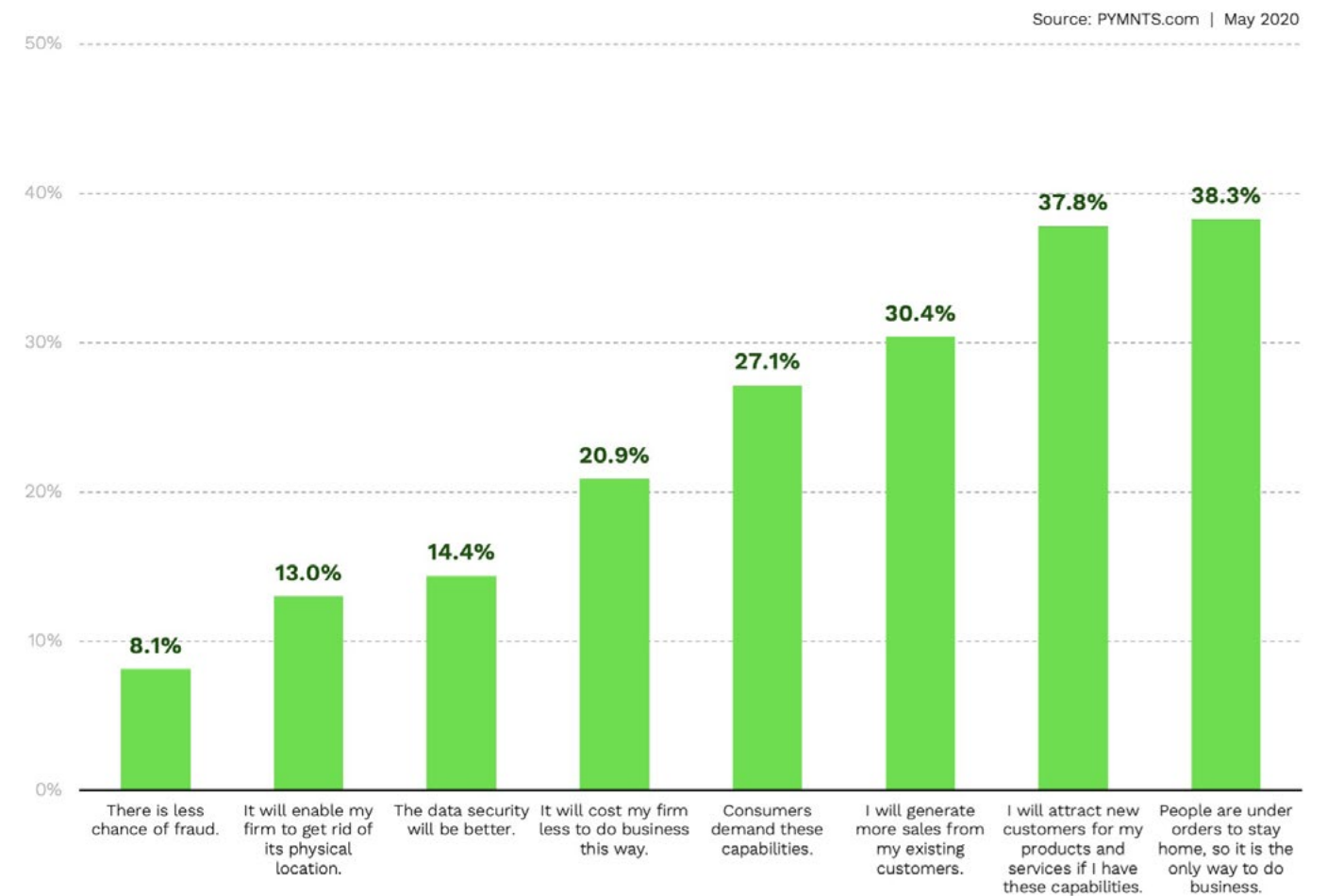
SMBs ARE INNOVATING BECAUSE THEY BELIEVE IT IS THE ONLY WAY TO REACH THEIR CUSTOMERS.

SMBs most commonly say they are interested in innovating new digital capabilities because they have no choice. Our research shows that 38.3 percent of SMBs are interested in enhancing their digital offerings because many consumers are under stay-at-home mandates and prevented from doing business through other channels. The second-most and third-most common motivations they have for wanting to upgrade such capabilities are beliefs that doing so will help them attract customers and generate new sales, with 37.8 percent and 30.4 percent citing these reasons.



FIGURE 2: SMBs' INTEREST IN ENHANCING THEIR ONLINE PRESENCES

Share that cite select reasons⁵ for wanting to add or enhance digital capabilities



⁵ Answers to this question were non-exclusive. Respondents were free to select all answers that applied. The share selecting each option therefore may or may not add up to 100 percent.

NEW DIGITAL FRONTIERS

SMBs HAVE RAPIDLY ADAPTED TO MATCH CONSUMERS' CHANGING PREFERENCES, BUT MOST PLAN TO RETURN TO PREVIOUS WAYS OF DOING BUSINESS WHEN THE ECONOMY REOPENS.

The majority of SMBs have either closed or altered their operations to stay open during the pandemic, but many still plan to run their businesses exactly as they did before the pandemic once their local economies reopen. Thirty-nine percent of SMB owners say they have changed how they run their businesses since the pandemic began but plan to revert to their prior operations when their economies reopen, while 30.6 percent say they have been forced to close but plan to operate as they did once they can reopen. We found that 27.6 percent who plan to maintain some of the changes have made during the pandemic and just 2.8 percent plan to maintain all of their operational shifts.

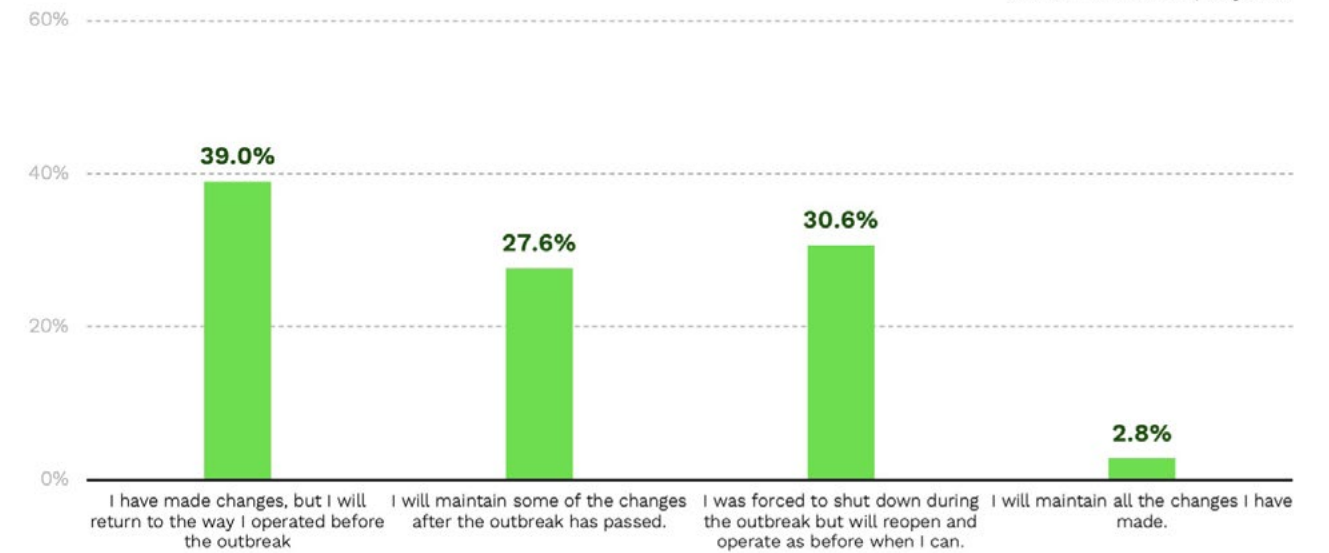
SMB owners who are sure they will be unable to keep their businesses open for the pandemic's duration are more reluctant to make long-term changes to their operations than those whose firms are stable or who are unsure if they will be able to stay in business. Our study finds that 40.8 percent of unstable SMBs have changed their operations but plan to roll them back once their economies reopen. This compares to 39.7 percent of unsure SMBs and 37.7 percent of stable ones that plan to do the same.

It is also important to note that some SMBs have closed their doors because they were required to do so to prevent the spread of contagion. Our survey reveals that 40.8 percent of unstable SMBs have been forced to shutter since the pandemic began but plan to revert to their previous operations if they manage to reopen. This compares to 34.1 percent of unsure SMBs and 23.7 percent of stable SMBs that are sure they would have been able to stay in business if they had not been forced to shutter to slow the virus's spread.

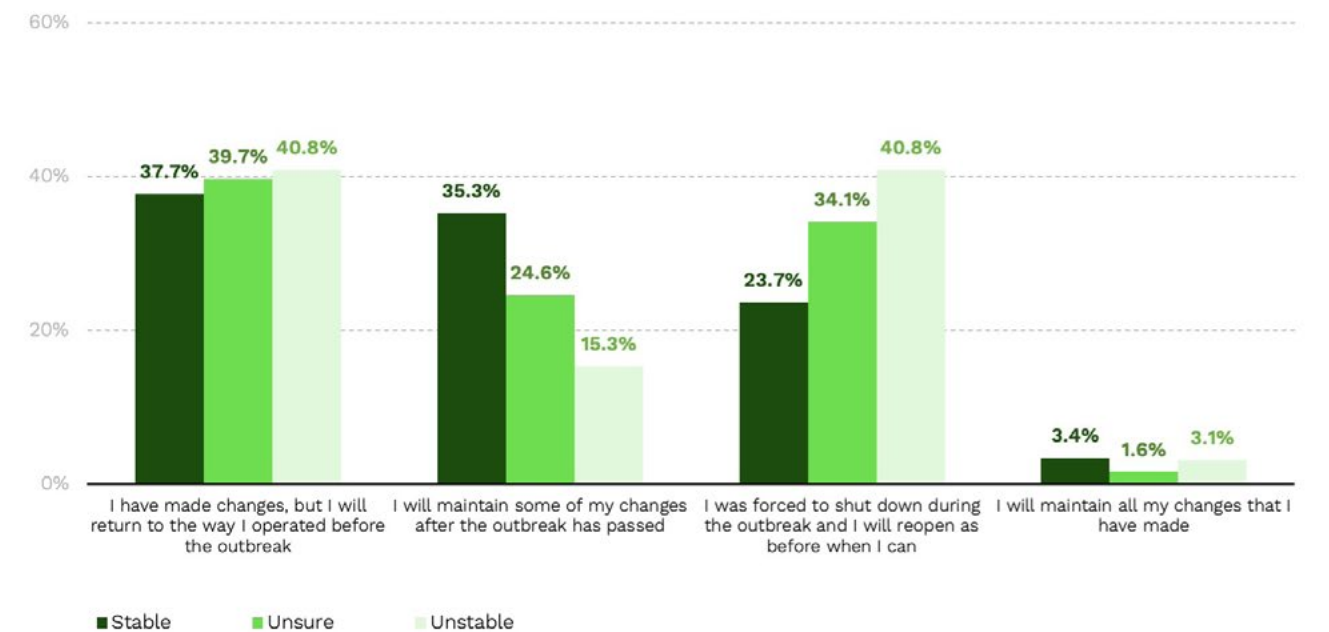


FIGURE 3: SMBs' PLANS FOR MANAGING THEIR BUSINESSES POST-PANDEMIC
Share that will maintain operational changes after their economies reopen

Source: PYMNTS.com | May 2020



Share that will maintain operational changes after their economies reopen, by stability



NEW DIGITAL FRONTIERS

MOST BUSINESSES PLAN TO NOT ONLY KEEP BUT ALSO EXPAND THE DIGITAL CAPABILITIES THEY HAVE ADOPTED.

A plurality of SMB owners will maintain the digital innovations they have developed to help their firms survive during the pandemic, and many intend to invest in more digital innovations in the future. Forty-two percent of SMB owners say they have developed new digital capabilities to cope and will maintain them after the pandemic, while 36 percent say they will invest more heavily in developing new digital capabilities after their local economies reopen. We found that 16.9 percent have not developed new digital capabilities but expect to rely more on those they have once their local economies reopen, while only 5.1 percent plan to eliminate their online presences once the pandemic passes.

Businesses' interest levels in keeping and expanding their digital capabilities after the pandemic vary depending on the innovations they have adopted. SMB owners who have implemented online order-ahead for pickup features are the most likely to be interested in investing in new digital innovations in the future, for example, as 51.2 percent plan to do so. This compares to 48 percent of those who have begun accepting or have enhanced their mobile wallet payment options and 47.7 percent who have adopted or enhanced their online order-ahead for delivery features.

SMB owners who have adopted digital invoicing and online order-ahead for delivery features are both likely to maintain their digital innovations, with 31.7 percent of each saying they plan to keep the capabilities they have adopted. We found that 28.7 percent of those who have added new eCommerce channels and 28.2 percent who have added online order-ahead for pickup say the same.

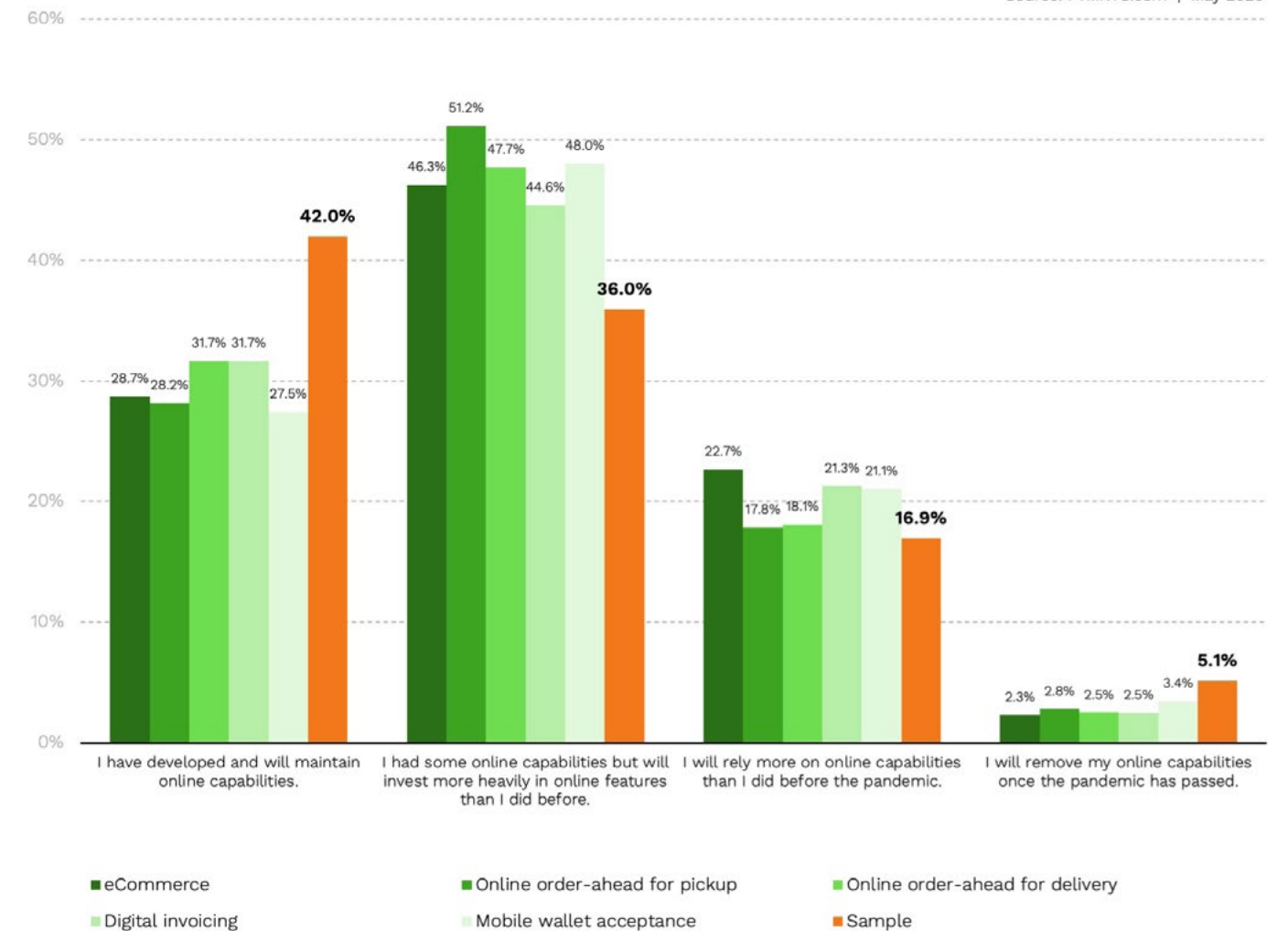
We also note that SMBs whose owners have set up new eCommerce channels during the pandemic are the most likely to say they will rely more on their online capabilities than they did before the outbreak. This is the case for 22.7 percent of SMBs that have either added or improved online purchasing options, compared to 21.3 percent of those that have begun using or improved their digital invoice capabilities and 21.1 percent of those that have begun accepting or have boosted their mobile wallet payment options.



FIGURE 4: SMBs' PLANS FOR DIGITAL INNOVATIONS AFTER THE PANDEMIC

Share that will maintain operational changes after economies reopen, by capabilities implemented

Source: PYMNTS.com | May 2020



NEWFOUND CONFIDENCE

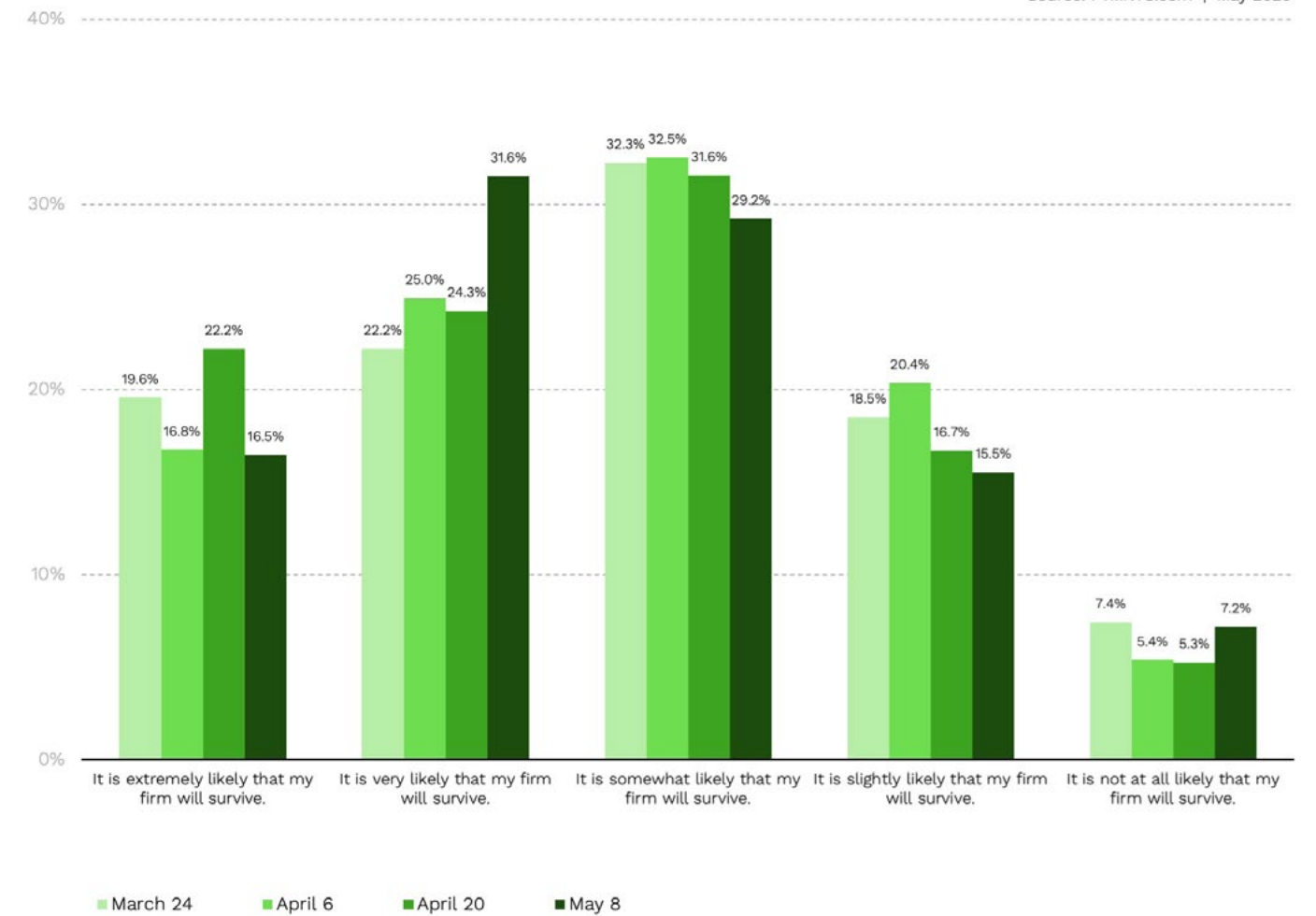
SMBs ARE MORE CONFIDENT THAT THEY WILL SURVIVE THE PANDEMIC NOW THAN THEY WERE IN APRIL.

SMBs' financial confidence has been slowly but surely increasing since early April. Our research reveals that 48.1 percent of SMB owners are confident they can keep their businesses open through the pandemic, up from the 46.5 percent who said so on April 20 and the 41.8 percent who said the same on April 6. We have simultaneously seen a decrease in the share of SMB owners who are only "slightly" or "somewhat" sure their firms will survive, as 44.7 percent said so on May 8, whereas 48.3 percent and 52.9 percent said the same on April 20 and April 6, respectively. The share of SMB owners who are sure they cannot stay open through the pandemic has also increased – to 7.2 percent from 5.3 percent on April 20.

FIGURE 5: SMBs' CHANGES IN CONFIDENCE OVER TIME

Share of owners who believe their businesses are likely to survive, by date

Source: PYMNTS.com | May 2020



NEWFOUND CONFIDENCE

SMBs' NEWFOUND CONFIDENCE COINCIDES WITH IMPROVED FUNDING ACCESS.

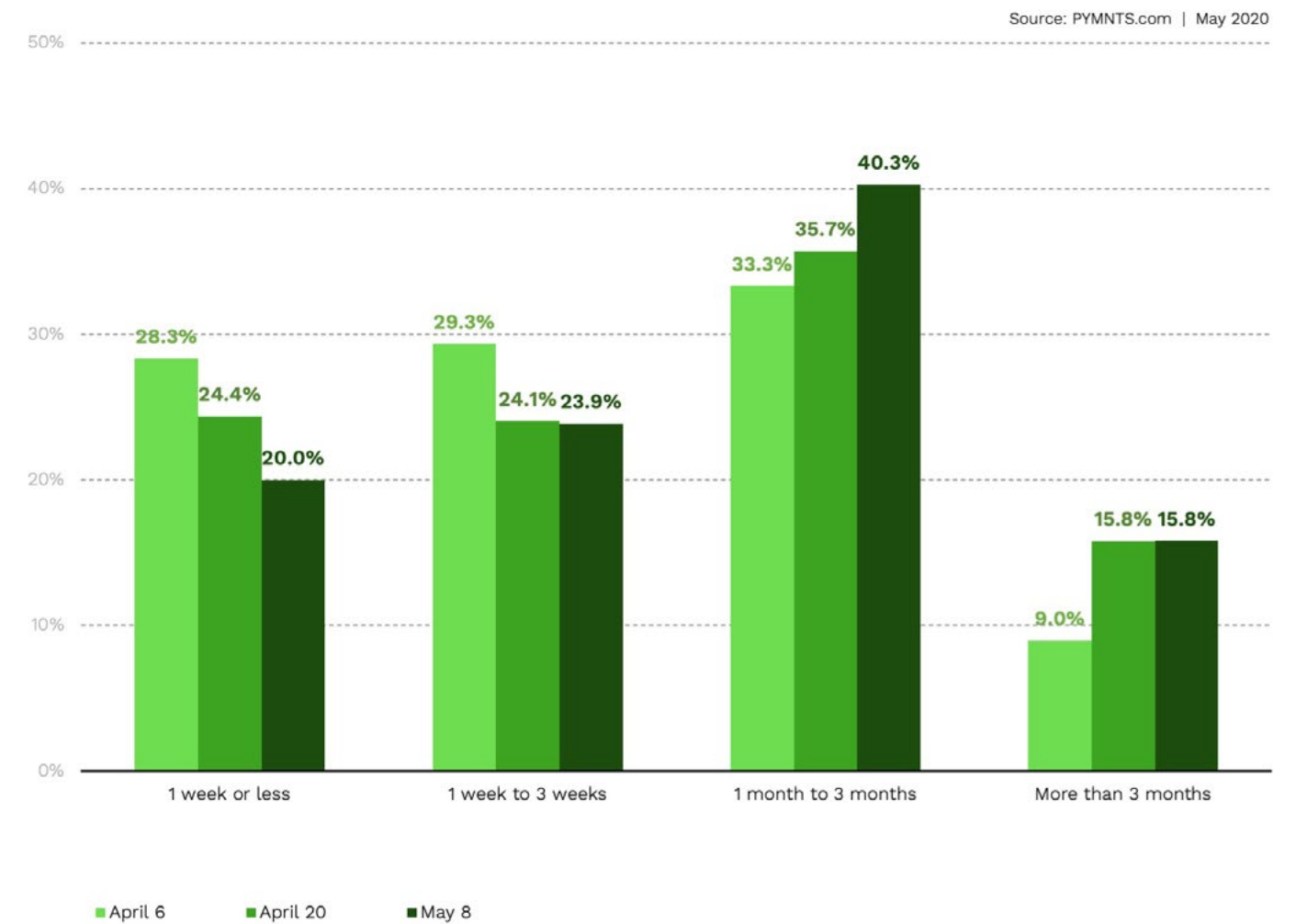
SMBs are growing more confident in their ability to survive the pandemic, and underpinning this shift is improved access to funding. Our May 8 survey reveals that the median SMB has enough funding to stay open for 26 days, compared to 23 days on April 20 and 16 days on April 6.

This change is also reflected by an increase in the number of SMB owners who believe their businesses can stay open for another one to three months. We found that 40.3 percent of SMBs now have enough funding to stay open for one to three months, up from 35.7 percent on April 20 and 33.3 percent on April 6.

Our research also reveals a decrease in the portion of SMBs that have enough funding to stay open for only three more weeks or less, with 43.9 percent of SMB owners counting themselves among this group. This compares to 48.5 percent and 57.6 percent who said the same on April 20 and April 6, respectively.



FIGURE 6: HOW LONG SMBs CAN STAY OPEN WITH THEIR CURRENT FUNDING LEVELS
Share with access to enough funding to stay open for select amounts of time



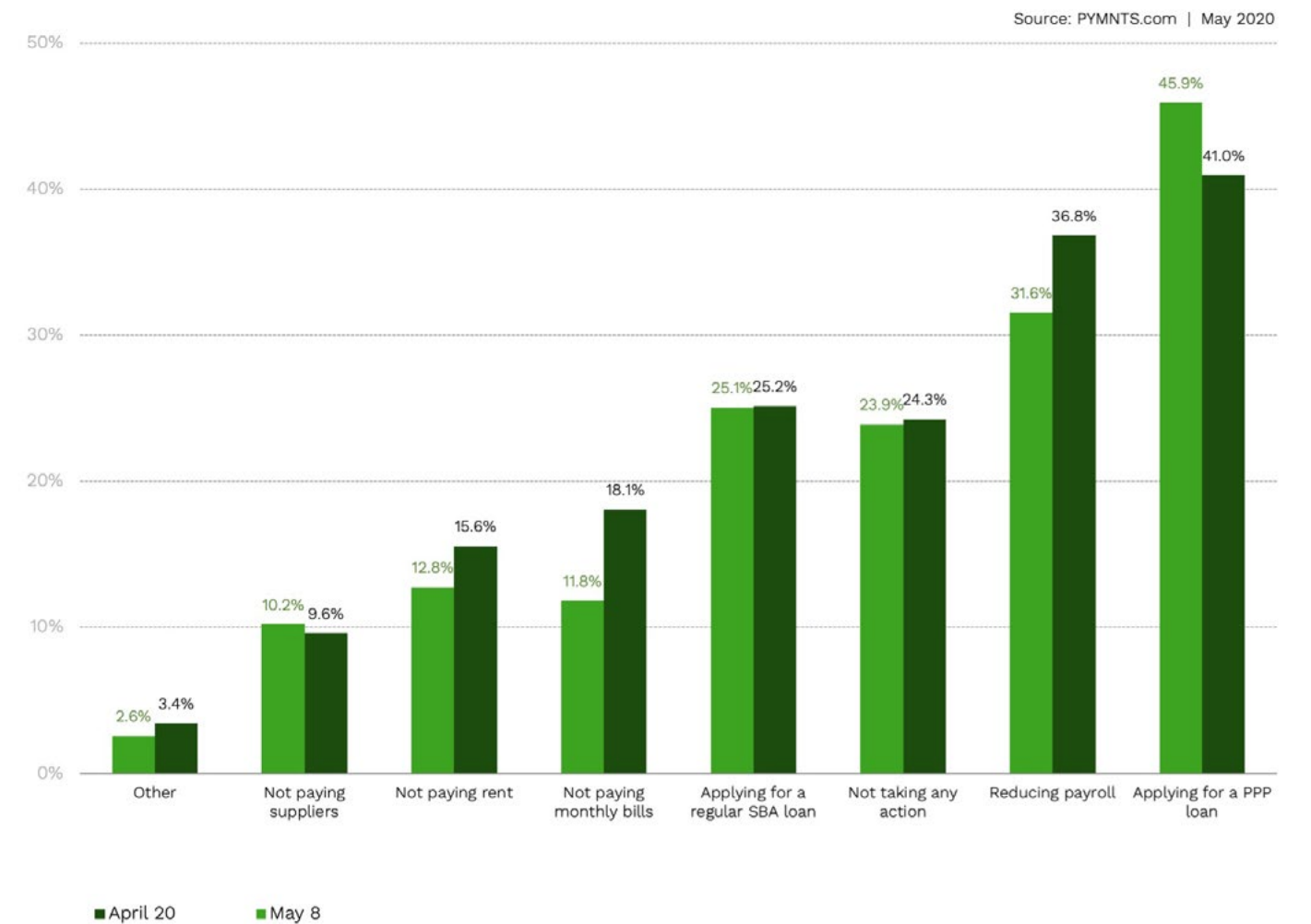
NEW FUNDING

MORE SMBs HAVE APPLIED FOR PPP LOANS SINCE LATE APRIL.

Firms are turning to Paycheck Protection Program (PPP) loans to mitigate the pandemic's financial impacts. The share of SMBs that have applied for such loans has increased to 45.9 percent from 41 percent in late April. This coincides with a decrease in the portion of SMBs fighting cash flow shortages with cost-cutting measures, including reducing employees' payroll, not paying their bills or not paying rent. Our research shows that 31.6 percent of SMBs now rely on reduced payrolls, less than the 36.8 percent that was doing so on April 20. We also saw that 11.8 percent are not paying their monthly bills and 12.8 percent are not paying their rent, which compares to 18.1 percent and 15.6 percent, respectively, that said the same on April 20. This suggests that PPP loans are offering a degree of financial relief that is allowing some SMBs to begin paying their bills again.

FIGURE 7: HOW SMBs ARE WORKING TO KEEP THEIR BUSINESSES AFLOAT

Share that have taken select measures to mitigate the pandemic's financial impacts, by date



NEW FUNDING

BEAUTY SALONS ARE APPLYING FOR PPP LOANS, REAL ESTATE FIRMS ARE REDUCING PAYROLL AND TECHNOLOGY FIRMS ARE BANKING ON OTHER SBA LOANS.

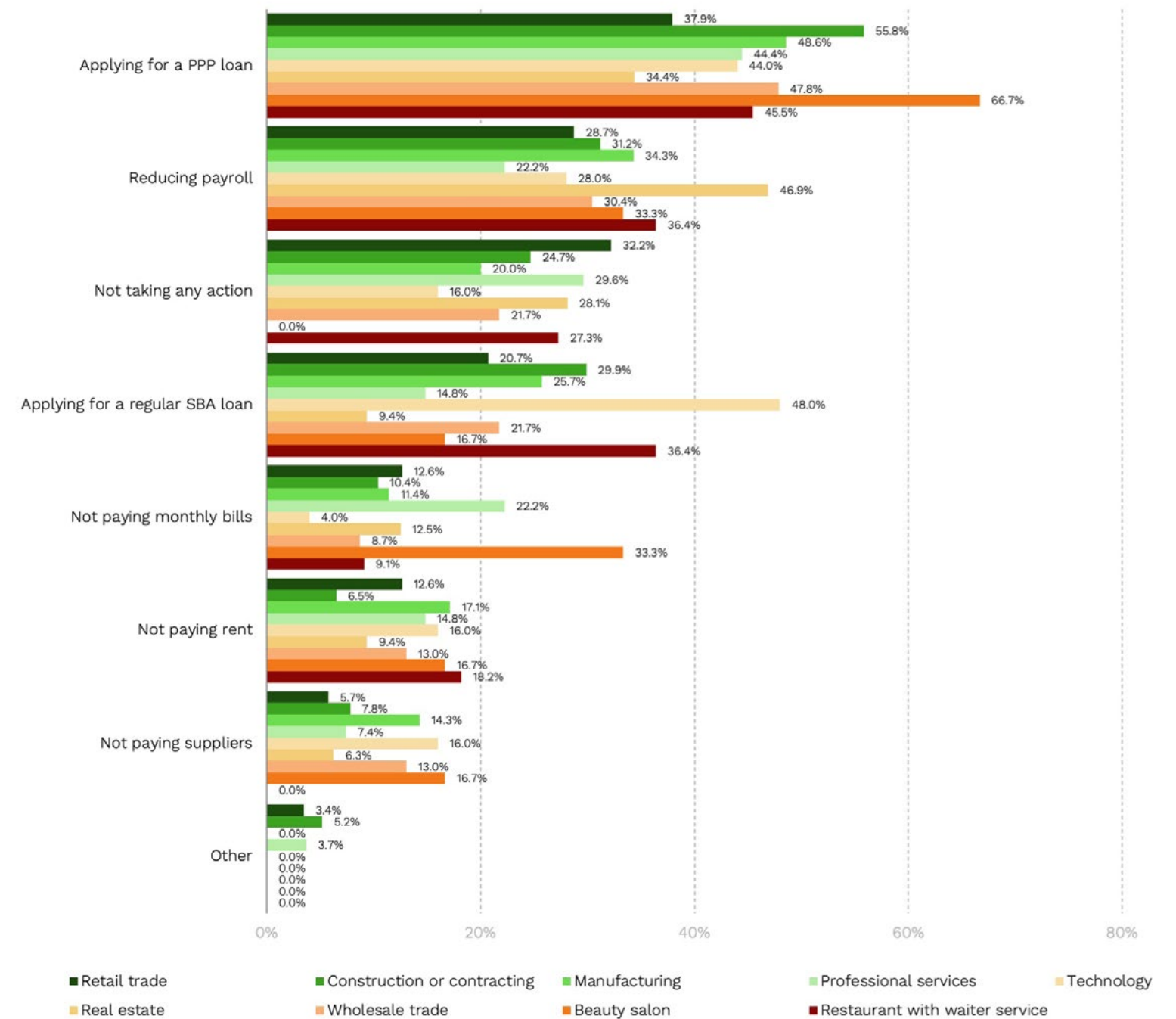
SMBs in different sectors are using varied strategies to stay afloat as the pandemic plagues their local economies. Many are applying for PPP loans regardless of sector, but none are more likely to do so than beauty salons. Our survey finds that 66.7 percent of beauty salons have applied for PPP loans, compared to 55.8 percent of construction and contracting SMBs and 47.8 percent of wholesale trading firms.

There are two sectors whose SMBs are noticeably likelier to take other mitigation measures than they are to apply for PPP loans. Technology-focused SMBs are more likely to apply for non-PPP SBA loans, at 48 percent, while their real estate counterparts are more likely to reduce employees' payroll, at 46.9 percent. We found that only 44 percent of the former and 34.4 percent of the latter have applied for PPP funding.

FIGURE 8: HOW SMBs ARE WORKING TO KEEP THEIR BUSINESSES AFLOAT

Share that have taken select measures to mitigate the pandemic's financial impact, by sector

Source: PYMNTS.com | May 2020



NEW FUNDING

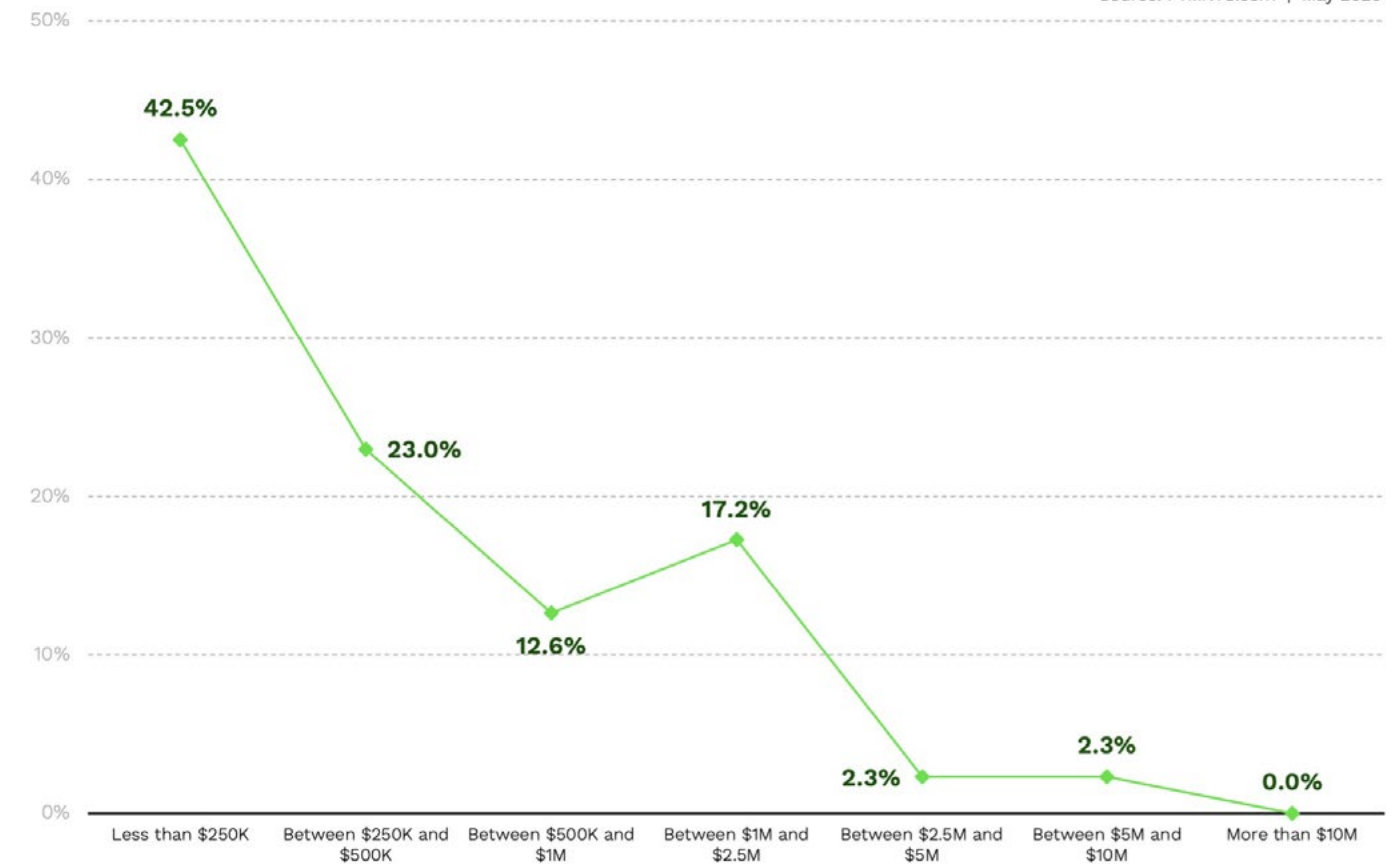
**MOST SMBs THAT HAVE OBTAINED PPP LOANS
HAVE RECEIVED LESS THAN \$500,000.**

There is no cap on the amount of relief funding PPP loan recipients can obtain, but the majority of SMBs report receiving less than \$500,000. Twenty-three percent have obtained between \$250,001 and \$500,000, and 42.5 percent have received less than \$250,000. Only 4.6 percent of all responding recipients have received more than \$2.5 million, and no SMBs we surveyed have received more than \$10 million in PPP funding.

FIGURE 9: SMBs' PPP FUNDING AMOUNTS

Share of loan recipients that obtained select amounts of funding

Source: PYMNTS.com | May 2020



NEW FUNDING

LARGE, STABLE SMBs HAVE RECEIVED MORE PPP FUNDING THAN OTHER SMBs.

The majority of PPP recipients we surveyed have secured \$500,000 or less in loans, and most of these loans have been awarded to SMBs generating more than \$500,000 in annual revenues. The largest loans are being distributed to the largest SMBs, with all disbursements valued between \$2.5 million and \$5 million and 50 percent of those between \$5 million and \$10 million being awarded to firms generating more than \$2.5 million in revenues annually.

Stable businesses have also received more PPP funding than their unstable and unsure counterparts. All PPP disbursements valued between \$5 million and \$10 million have been awarded to firms whose owners are sure they will survive the pandemic without such funds, and 50 percent of loans between \$2.5 million to \$5 million were given to stable businesses. Firms in this category also received 66.7 percent of disbursements between \$1 million to \$2.5 million.

Unstable and unsure businesses are less likely to receive PPP loans, and those that do also generally receive less funding than their more stable counterparts. We found that 33.3 percent of PPP disbursements valued between \$1 million and \$2.5 million have gone to unstable businesses, as have 25 percent of those valued between \$250,000 and \$500,000. Half of all \$2.5 million to \$5 million loans and 27.3 percent of those between \$500,000 to \$1 million have gone to firms that were unsure whether they could remain open without such funds.

FIGURE 10: CHARACTERISTICS OF SMBs THAT RECEIVE PPP LOANS
Share that are stable, unstable or unsure, by funding received

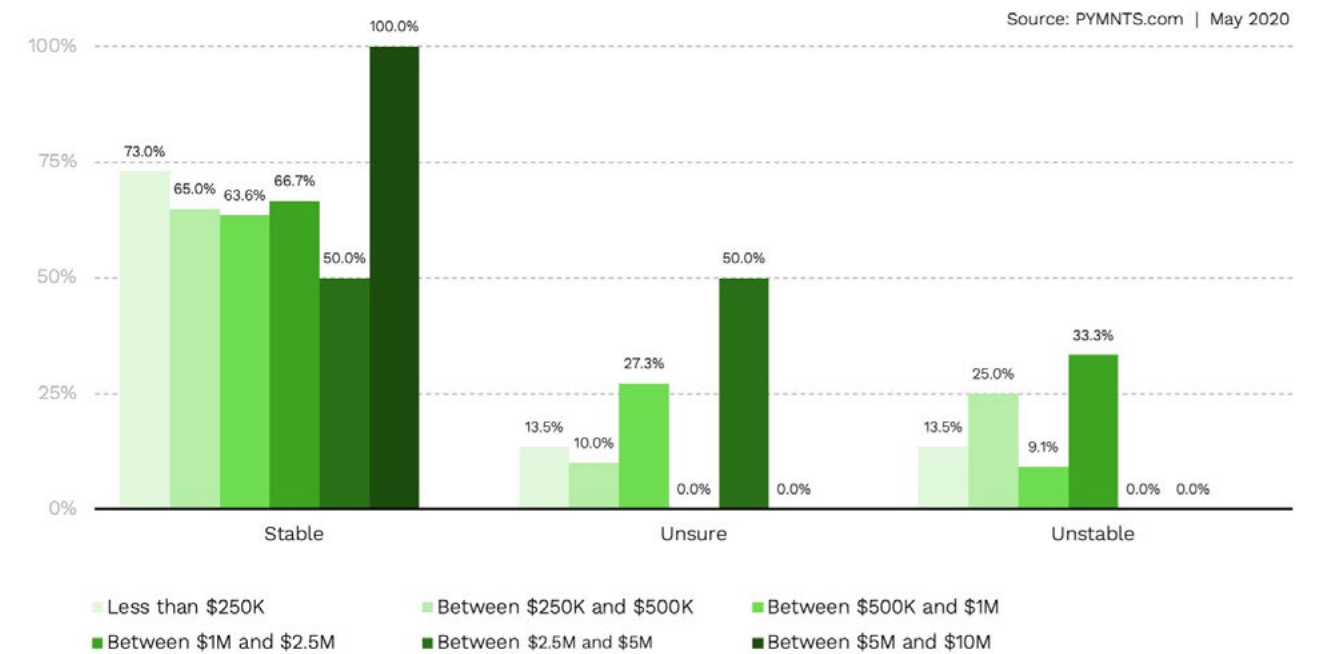


FIGURE 11: CHARACTERISTICS OF SMBs THAT RECEIVE PPP LOANS
Share that generate select amounts in annual revenue, by funding received

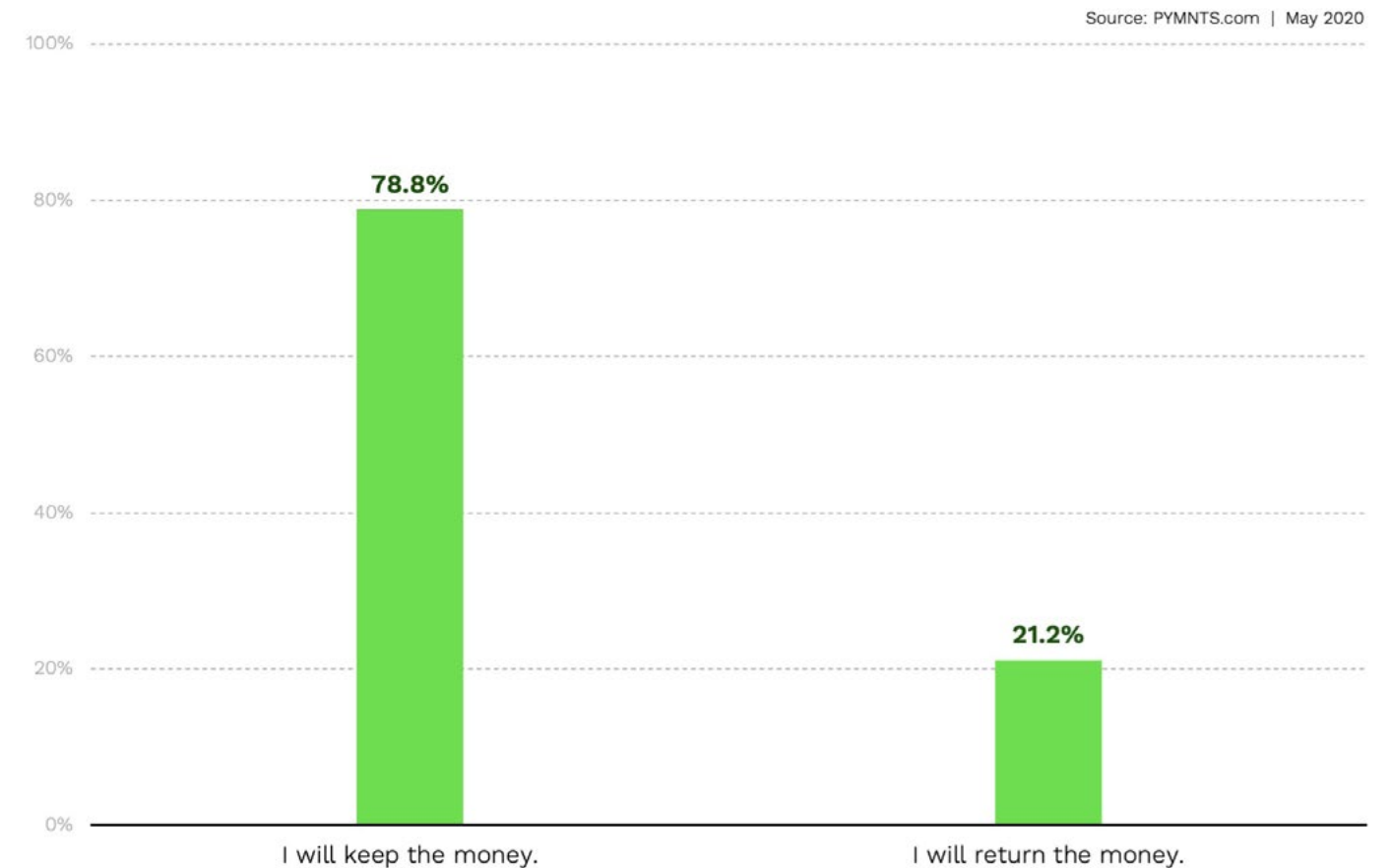


NEW FUNDING**JUST ONE-FIFTH OF ALL SMBs
THAT HAVE RECEIVED PPP FUNDING
PLAN TO RETURN THAT FUNDING.**

Not all PPP loan recipients plan to keep the funding, but the majority do. Our research indicates that 78.8 percent of SMBs that receive the funding keep it, while 21.2 percent ultimately decide to return their loans to the SBA. Small SMBs are the most likely to return PPP funding, with 33.3 percent of those generating less than \$250,000 and 29.2 percent of those generating between \$250,000 and \$500,000 in annual revenues planning to return their loans. Just 8.3 percent of PPP recipients generating more than \$2.5 million in annual revenues say the same.

Businesses' financial stability also correlates with whether they intend to keep or return PPP funding. Our survey reveals that 32.4 percent of unstable SMBs that have received PPP funding plan to return their loans, while 18.1 percent of stable firms plan to do the same. SMBs that are unsure whether they can remain open throughout the pandemic are the least likely to plan to return their stimulus funding, at 16.7 percent.

FIGURE 12: SMBs' PROPENSITY TO KEEP OR RETURN PPP FUNDING
Share that intend to keep or return their loans



NEW FUNDING

FIGURE 13: SMBs' PROPENSITY TO KEEP OR RETURN PPP FUNDING
Share that intend to keep or return their loans, by annual revenue

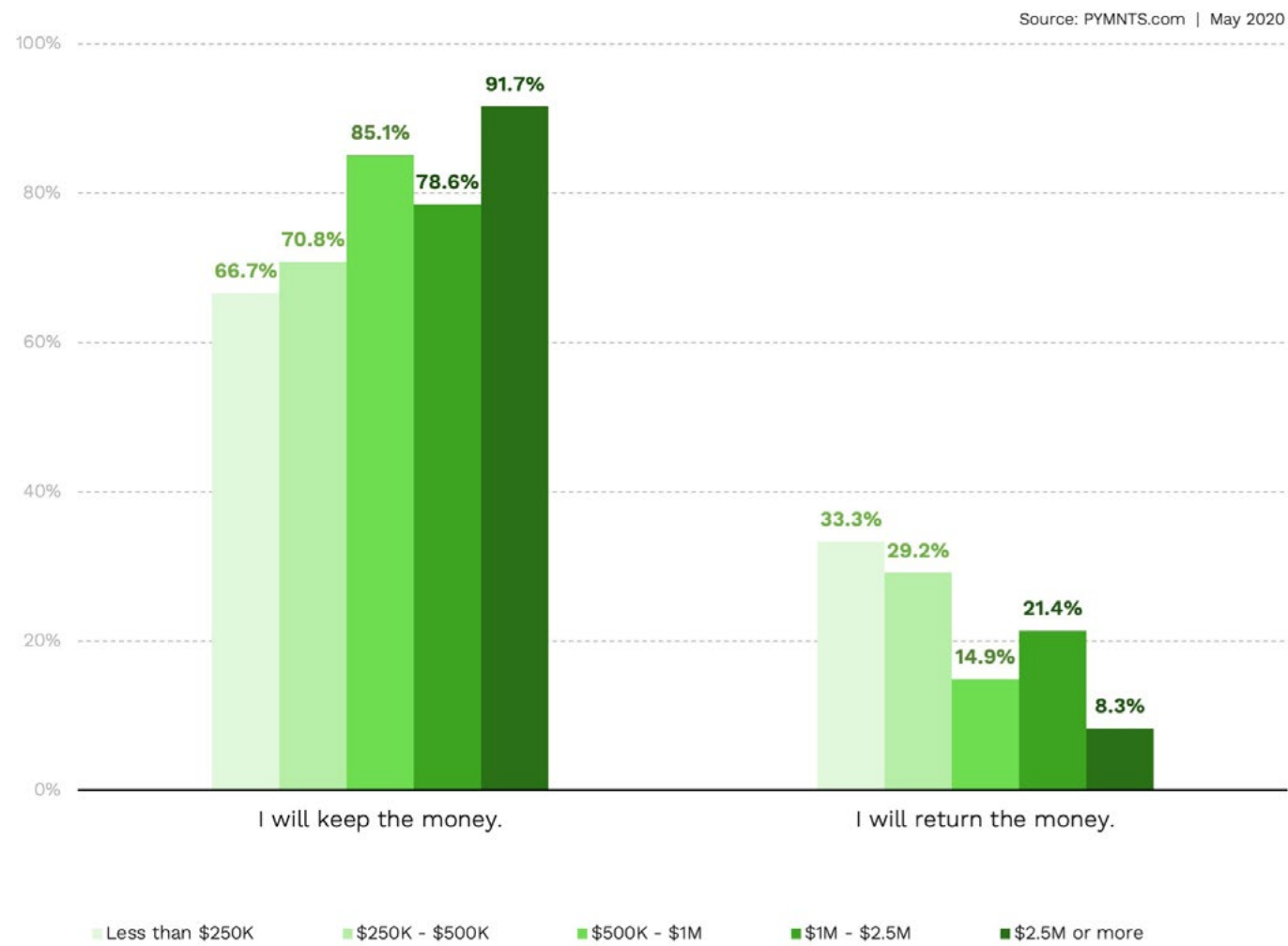
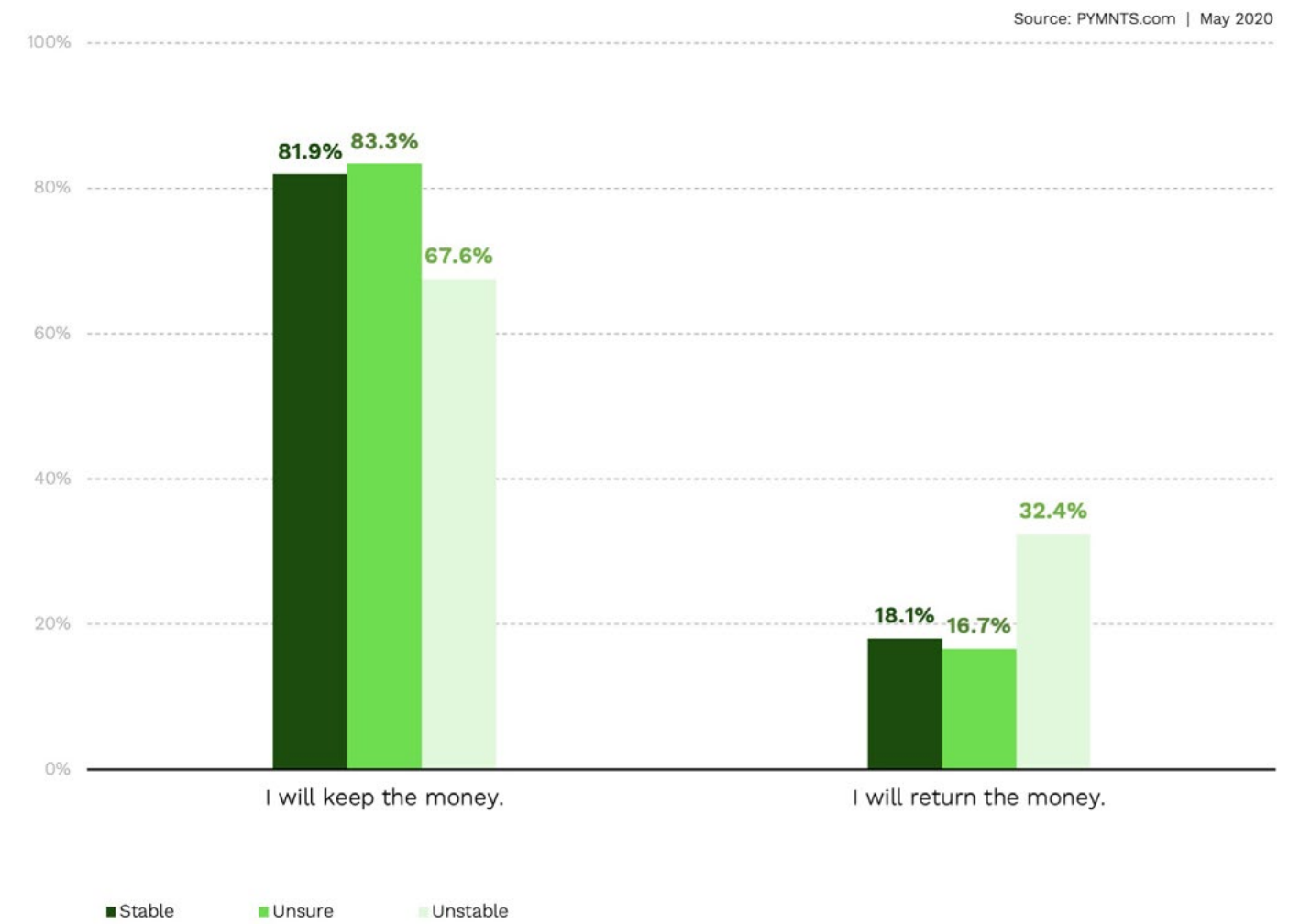
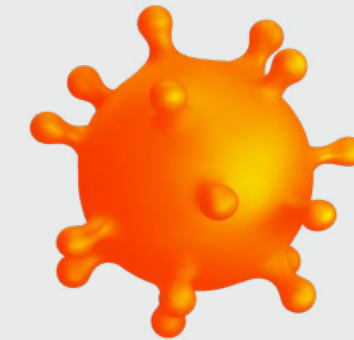


FIGURE 14: SMBs' PROPENSITY TO KEEP OR RETURN PPP FUNDING
Share that intend to keep or return their loans, by stability



METHODOLOGY



CONCLUSION

The COVID-19 pandemic has triggered a shift toward digital commerce, and SMBs have been innovating quickly to meet this demand. The widespread adoption of new digital capabilities designed for consumers following stay-at-home mandates and much-needed stimulus funding from the SBA have helped SMBs regain some financial stability amid the broader market turbulence.

It remains to be seen whether SMBs will retain the operational changes they have implemented after the pandemic, however. Most are still operating under the assumption that they can return to their pre-pandemic processes once their local economies reopen – even though most consumers do not expect their lives to return to normal for another 7.5 months. Many SMBs will be forced to reassess their future plans if consumers' preferences do not change.

PYMNTS issued a survey to 431 SMBs on May 8 as a follow-up to its March 24, April 6 and April 20 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 21 industries, with our analysis focusing on their implementation of new digital commerce capabilities and their likelihood of maintaining and expanding them after local economies reopen.



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