

PYMNTS.com

# PANDENOMICS

■ DECEMBER 2020

## MAIN STREET SMBs

THE 18-MONTH OUTLOOK



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## PANDENOMICS

This study series measures the impact of the COVID-19 global pandemic on consumer and merchant behavior and explores the accelerated shift to a digital-first world. Pandenomics is a proprietary research and analytic framework and series of insights that measures the shift away from a primarily physical world toward a digital-first counterpart. This framework makes it possible to accurately profile the characteristics of these digital shifters as consumers place an increasing priority on preserving their personal and familial health and safety as they make decisions about doing business in the world.

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# INTRODUCTION

The last nine months have been a whirlwind for Main Street SMBs in the United States, as lockdown mandates forced physical stores to shut down at the pandemic's start and merchants had to drastically change how they conducted their businesses or sold products and services.

The impact of the lockdown measures and consumers' fears of contracting the virus have had far-reaching impacts on Main Street SMBs, but not all SMBs have been equally impacted. Those that have embraced technology and adapted their business models to the pandemic's changing dynamics have been able to mitigate the economic challenges.

The U.S. is unfortunately now in what is commonly referred to as the second wave of the pandemic, with more than 2,000 Americans dying nearly every day. Lockdown measures are once again being implemented across the country to control the surge, and SMBs are facing new challenges.

News of the availability and distribution of COVID-19 vaccines has Main Street SMBs feeling optimistic about their chances of survival, yet uncertainty remains around when things will return to business as usual. PYMNTS' research shows that a significant gap exists between when Main Street SMBs expect things to return to normal and when consumers do.

What does this mean for Main Street SMBs' long-term financial outlook? More specifically, how is this perception gap likely to impact their cash flow, and what can businesses do to safeguard themselves? PYMNTS has been closely monitoring the pandemic's impact on businesses for the last 10 months. For our latest research, we surveyed 563 Main Street SMBs in the sectors of technology, construction/contracting, retail trade, manufacturing and professional services.

Our research shows that the keys for weathering the remaining course of the pandemic or even surviving another lockdown will be to shift back to — or adopt more — digital tools and give customers the ability to shop across different channels.

**Here are the details.**

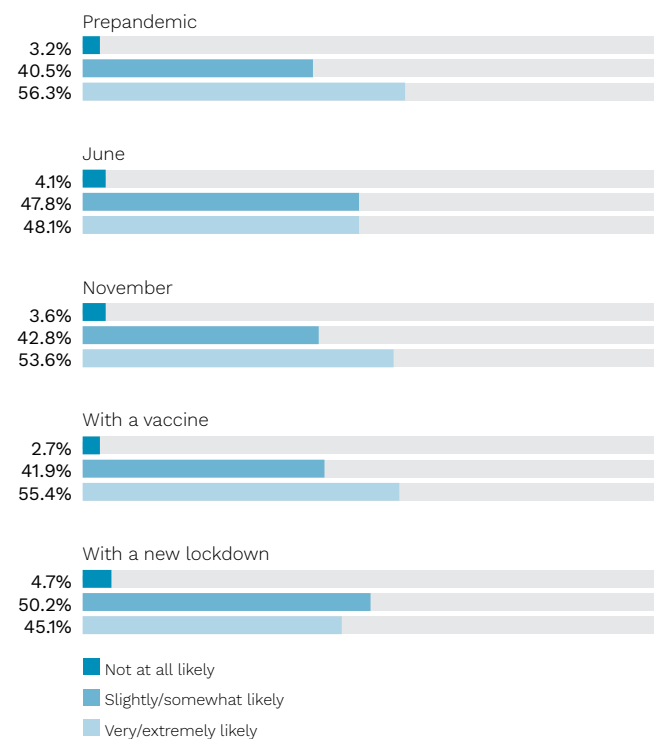
PART I: A MORE POSITIVE OUTLOOK FOR MAIN STREET SMBs

## Main Street SMBs are now more optimistic about surviving the next 18 months than they were back in June. That optimism is especially evident for those in the manufacturing sector.

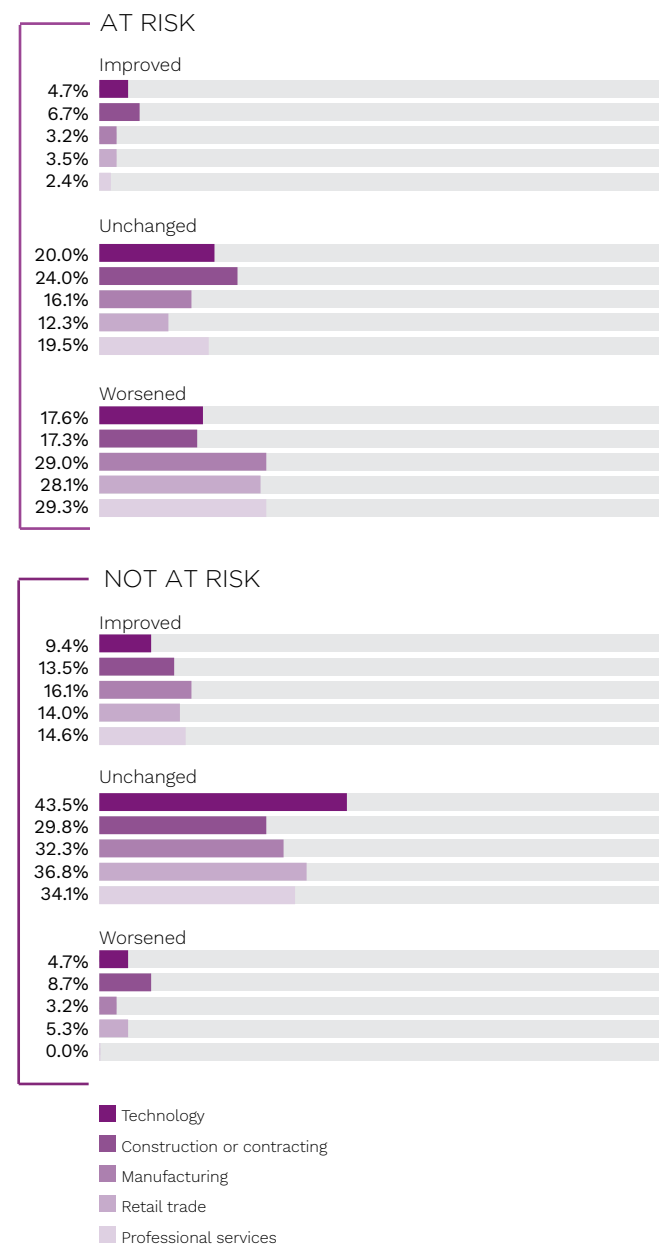
Main Street SMBs' confidence of survival has progressed as the pandemic has continued. Our research shows that 54 percent of merchants now feel that they are very or extremely likely to survive the pandemic, whereas 48 percent said the same in June.

The recent news surrounding the approval of vaccines has helped further improve merchants' perception of survival by 1.8 percentage points. Should a new lockdown occur, however, 8.5 percent fewer Main Street SMBs are now hopeful of survival.

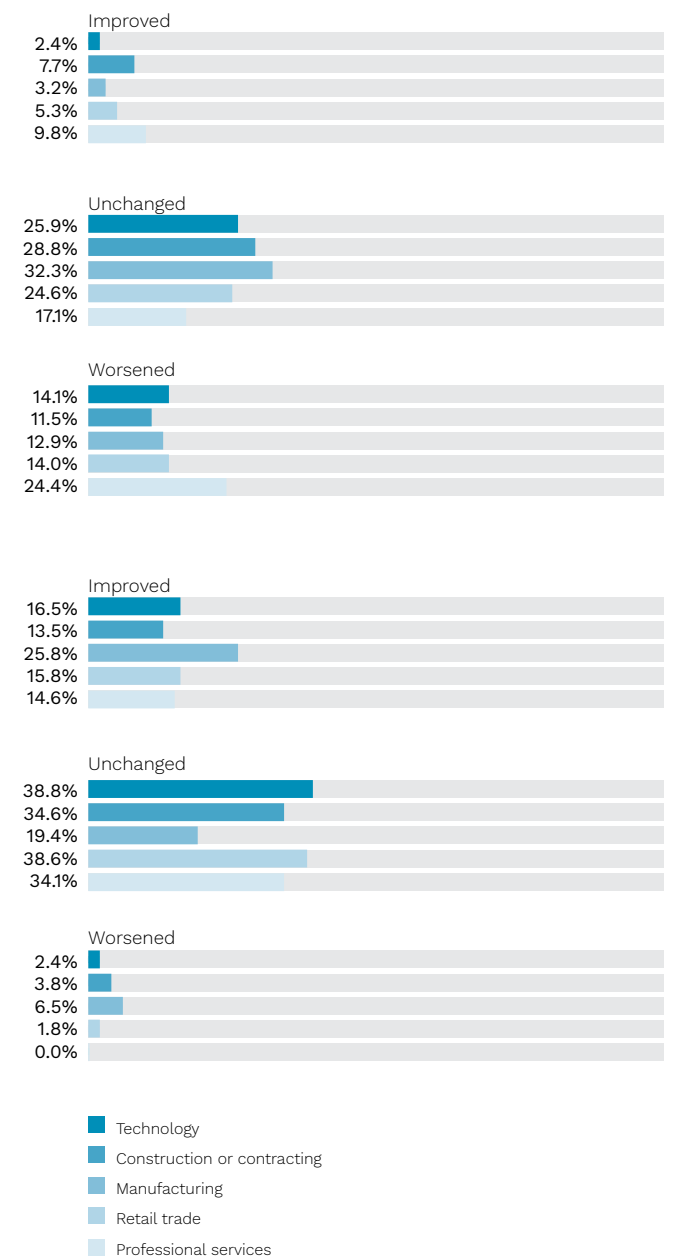
**FIGURE 1:**  
**LIKELIHOOD OF SURVIVING THE NEXT TWO YEARS**  
Shares of Main Street SMBs having select expectations toward surviving during various time frames or given various scenarios



**FIGURE 2A:**  
**LIKELIHOOD OF SURVIVING THE PANDEMIC**  
Main Street SMBs' attitude toward surviving in January versus in November



**FIGURE 2B:**  
**LIKELIHOOD OF SURVIVING THE PANDEMIC**  
Main Street SMBs' attitude toward surviving in June versus in November



Manufacturing firms that are not at risk are the most hopeful of all, as 26 percent of them improved their perception of survival in November from June. Professional services firms that are at risk of closure, meanwhile, have a gloomier outlook compared to businesses in other sectors. Twenty-four percent of professional services firms that are at risk of closure say their chances of survival have worsened compared to six months ago.

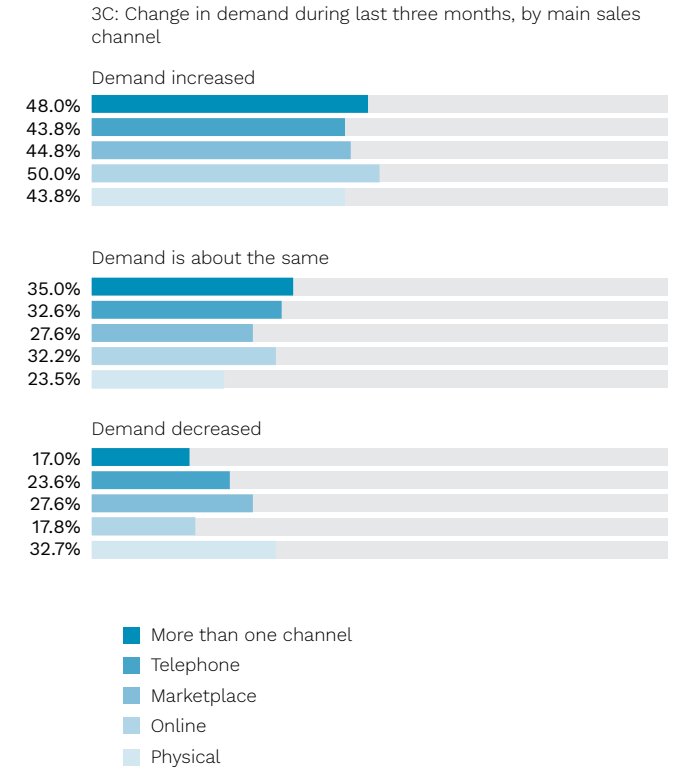
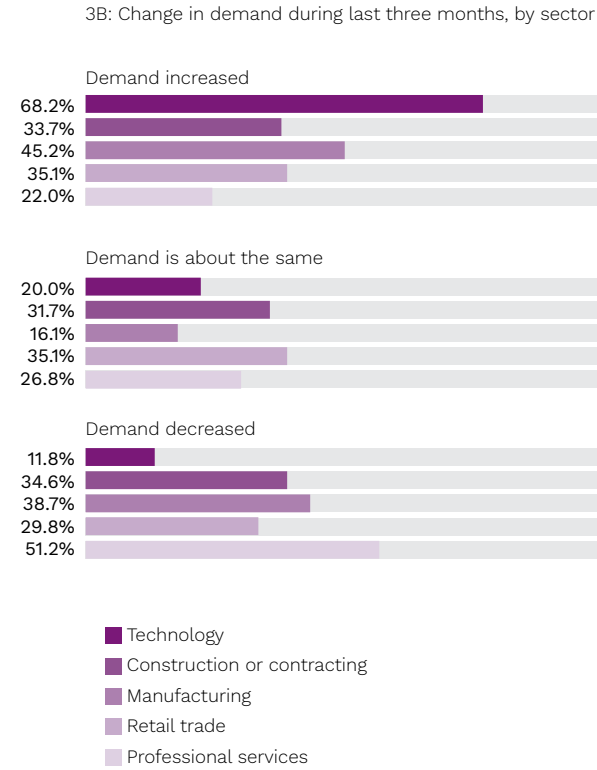
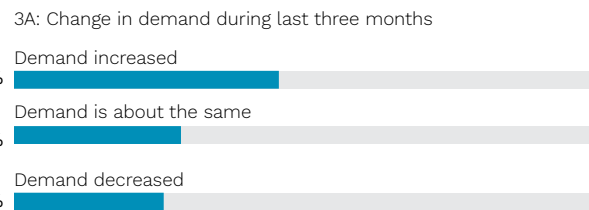
PART I: A MORE POSITIVE OUTLOOK FOR MAIN STREET SMBs

**Merchants are observing an overall increase in demand, especially merchants that allow customers to shop across multiple channels.**

Firms that sell across multiple channels seem to have fared better than those that exclusively rely on a single channel for all of their sales. Only 17 percent of businesses that sell through more than one channel experienced a decrease in demand, whereas a third that sell exclusively through physical stores faced decreased demand. This shows how merchants that have succeeded in diversifying their sales channels have been better able to cope with the pandemic's economic challenges.

Broadly speaking, there is good reason for the positive optimism among Main Street SMBs: 46 percent of them experienced an increase in demand for their products or services. Technology firms have shown the greatest improvement, and 68 percent experienced growth during the last three months. Results for businesses in the retail sector, on the other hand, have been mixed. Thirty-five percent of retail businesses have experienced an increase in demand, but demand has remained stable for an equally large share. The remaining 30 percent experienced a decline in sales.

**FIGURE 3:**  
**CHANGE IN DEMAND OVER THE LAST THREE MONTHS**  
Shares of Main Street SMBs experiencing demand shifts over the last three months, by sector and channel



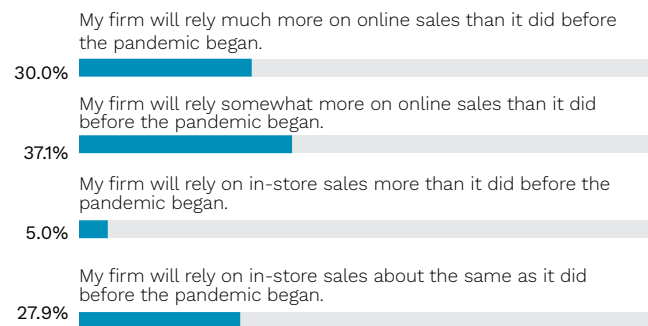
PART I: A MORE POSITIVE OUTLOOK FOR MAIN STREET SMBs

## More than two-thirds of Main Street businesses have retooled their business models to serve a more digital-first consumer base.

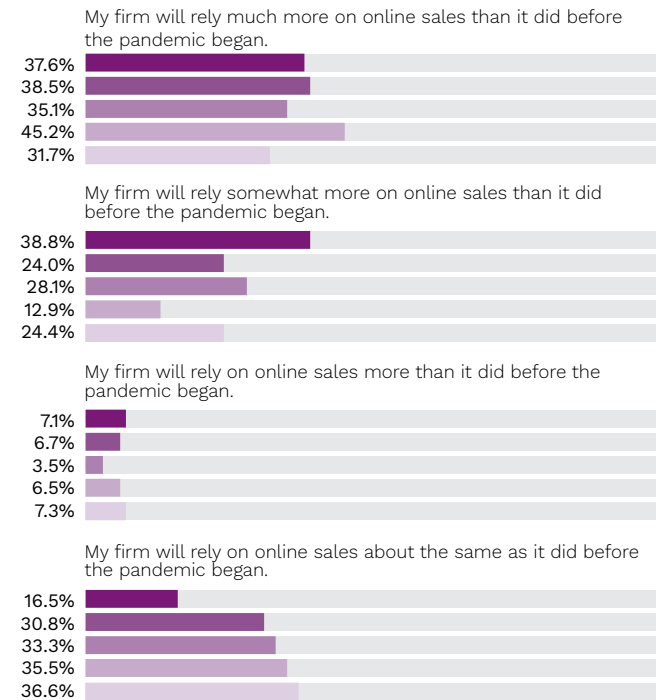
Our research indicates that 67 percent of merchants expect to generate more sales online once the pandemic has subsided. This expectation is especially prevalent for merchants in the technology and manufacturing sector, 76 percent and 58 percent of whom expect to rely more on online sales than they did before the pandemic began, respectively. Merchants who already sell mainly online plan to rely on this channel even more, as do more than a third of those who sell mainly in stores. This shows that businesses that are having success with online sales are becoming less dependent on foot traffic in their physical stores and that focusing on online sales will serve brick-and-mortar businesses well.

**FIGURE 4:**  
**MAIN STREET SMBs' PLANS FOR GENERATING SALES**

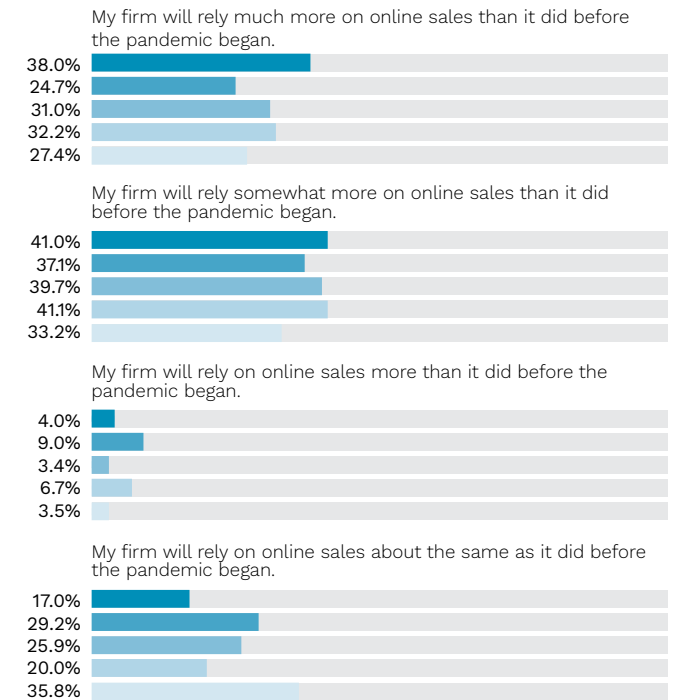
4A: Shares of firms expecting to generate sales in select ways after the pandemic has ended



4B: How firms expect to generate sales once pandemic has ended, by sector



4C: How firms expect to generate sales once pandemic has ended, by main sales channel



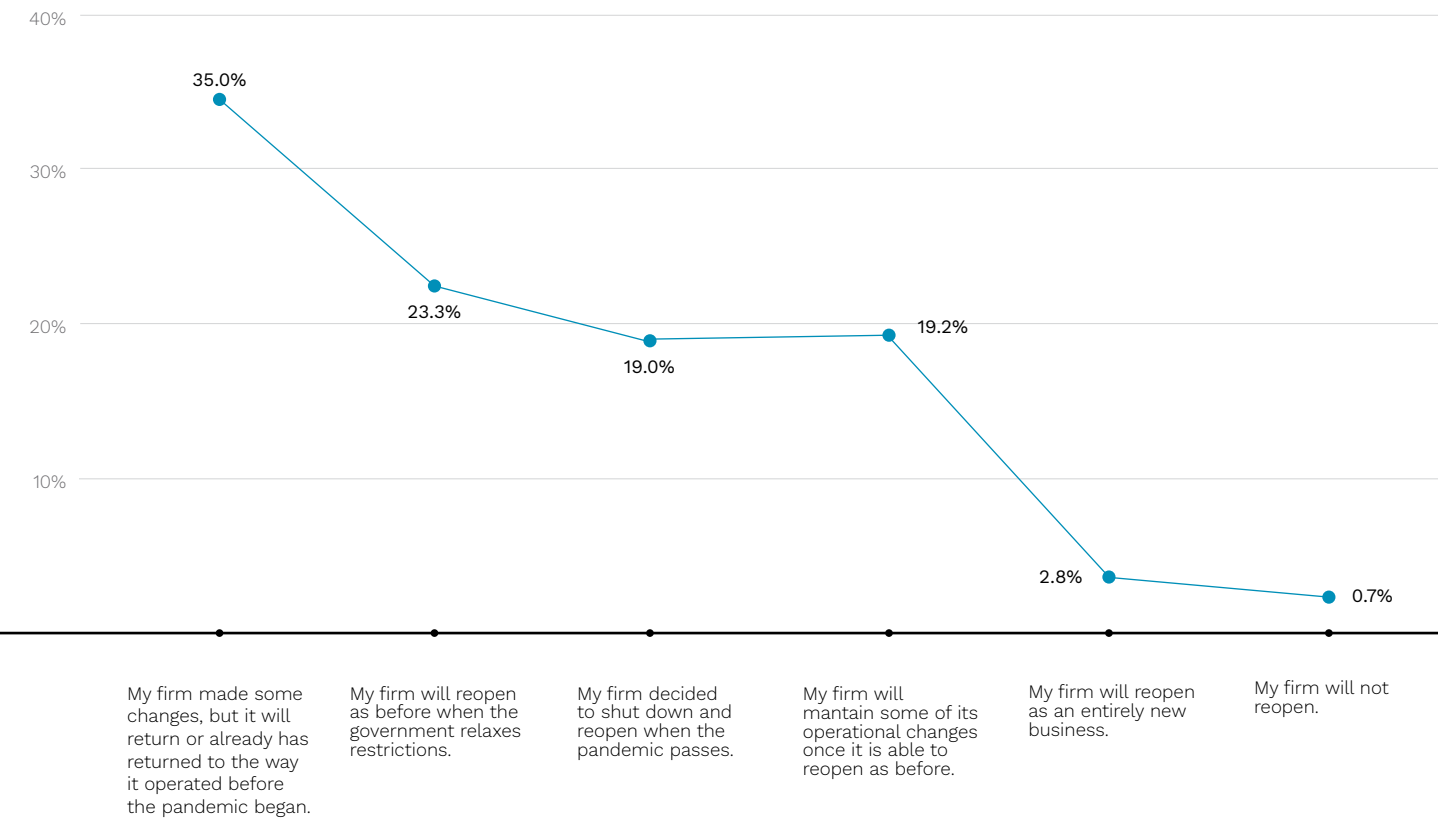
- Technology
- Construction or contracting
- Manufacturing
- Retail trade
- Professional services

- More than one channel
- Telephone
- Marketplace
- Online
- Physical

Despite the many benefits of selling online, 35 percent of Main Street SMBs plan to revert to their old ways of running their businesses, and only 19 percent plan to maintain the changes they have made to their business after the pandemic subsides. Roughly 20 percent have meanwhile decided to close their businesses until the end of the pandemic. As there is uncertainty around how long the pandemic will last, some of the businesses that decided to strategically shut down may never actually recover.



**FIGURE 5:**  
**FIRMS' EXPECTED STATE OF BUSINESS IN A POST-PANDEMIC ENVIRONMENT**  
 How businesses plan to run their business once the pandemic has subsided

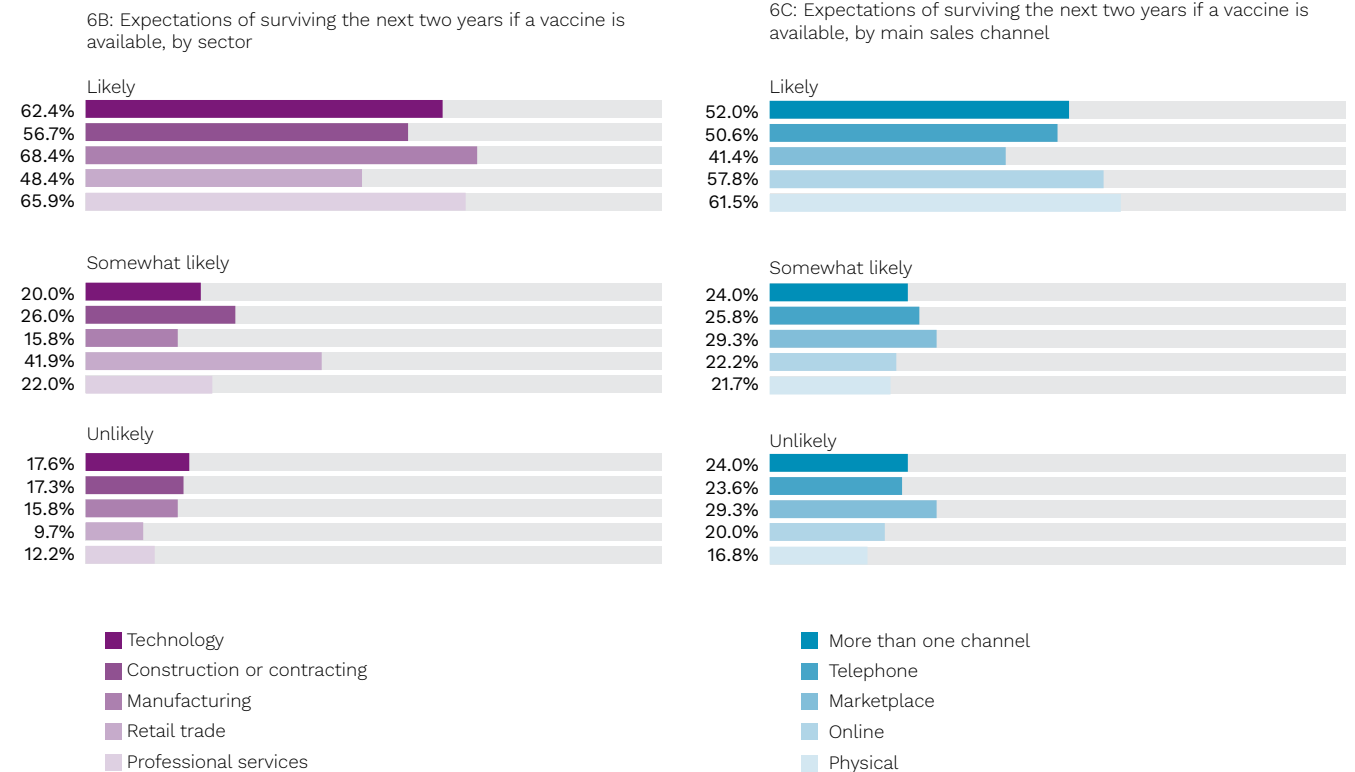
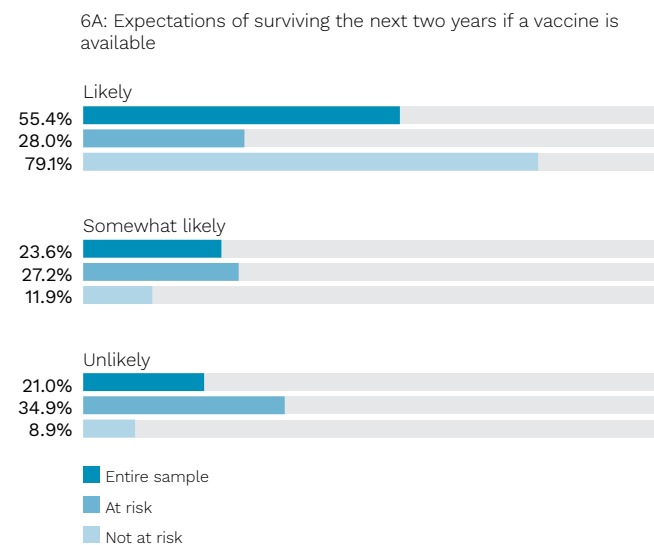


PART II: UNDERSTANDING THE PERCEPTION GAP

**Main Street SMBs expect prepandemic physical world interactions to return five months sooner than consumers do, setting the stage for a cash flow crunch for businesses that rely largely on foot traffic to drive sales.**

Our research found that 86 percent of surveyed Main Street SMBs are familiar with the recent announcement of potential vaccines and that more than half of respondents (55 percent) feel their businesses are very or extremely likely to survive for two years if a vaccine is made available. Main Street retailers are optimistic, as 68 percent feel they are very or extremely likely to survive the next 18 months if a vaccine is made available.

**FIGURE 6:**  
**EXPECTATIONS OF SURVIVING THE NEXT TWO YEARS IF A VACCINE IS MADE AVAILABLE**  
Main street SMBs' expectations of surviving if a vaccine is available, by level of risk, sector and main sales channel



Main Street SMBs across the board are fairly optimistic, and they expect things to revert to business as usual much sooner than consumers do. Firms expect to be back to normal in nearly eight and a half months from now (July 2021), whereas consumers expect things to return back to normal in another 14 months (the end of 2021). This disconnect will likely cause a cash flow crunch for businesses that solely rely on physical stores for making sales.

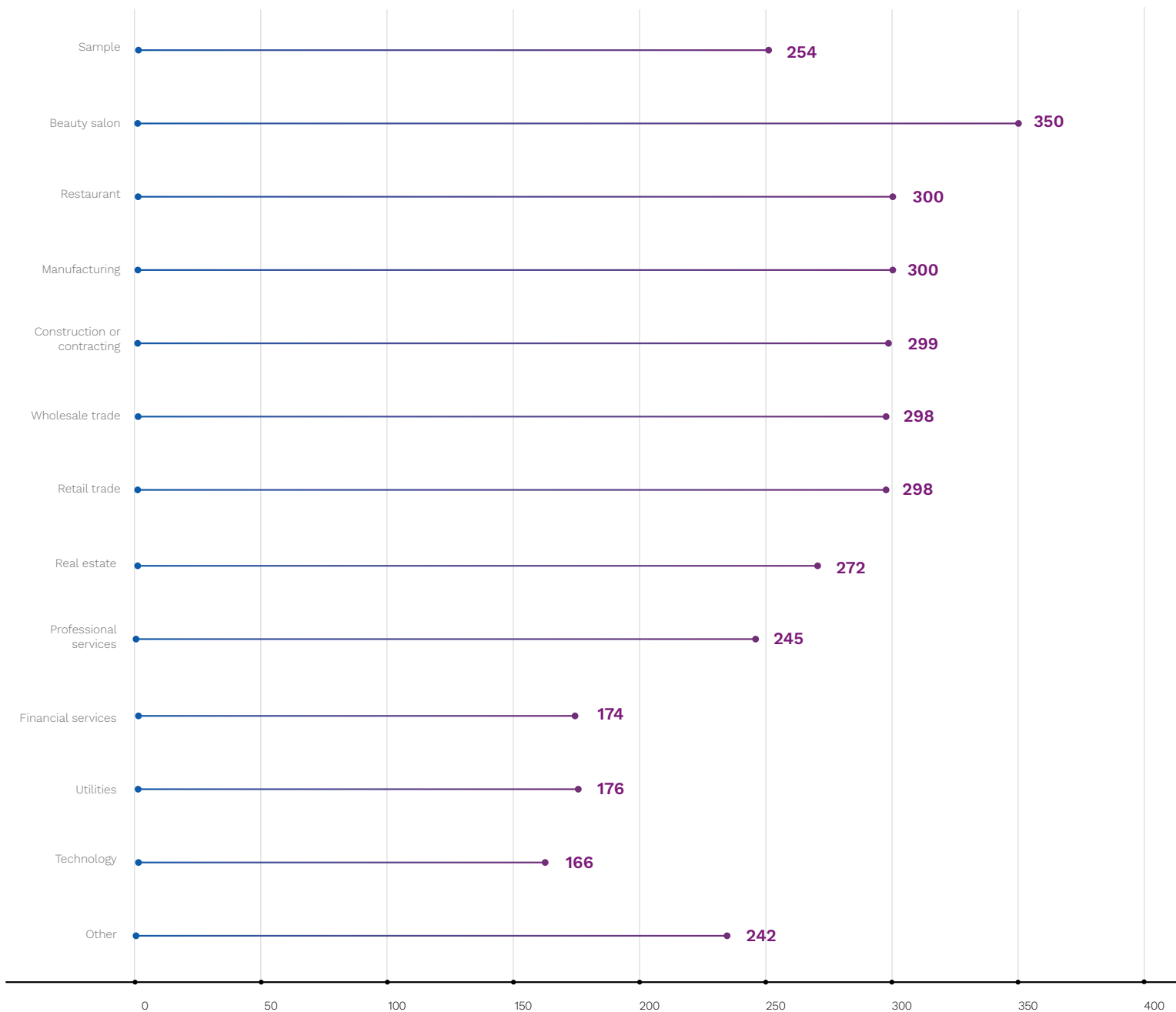
## PART II: UNDERSTANDING THE PERCEPTION GAP

**FIGURE 7:**  
**MAIN STREET MERCHANTS' AND SMBs' EXPECTED PANDEMIC TIMELINE**  
 Date that Main Street SMBs and consumers expect the pandemic to end, by date of prediction



Beauty salons are the most pessimistic sector we analyzed of all, as an average beauty salon does not expect things to return back to normal for another 12 months. Restaurants, manufacturing companies, construction firms, wholesale trade businesses and retail trade companies expect another 10 months to elapse before things can return back to normal.

**FIGURE 8:**  
**AVERAGE DAYS UNTIL PREDICTED NORMALITY**  
 Projected length of time before pandemic ends, by sector



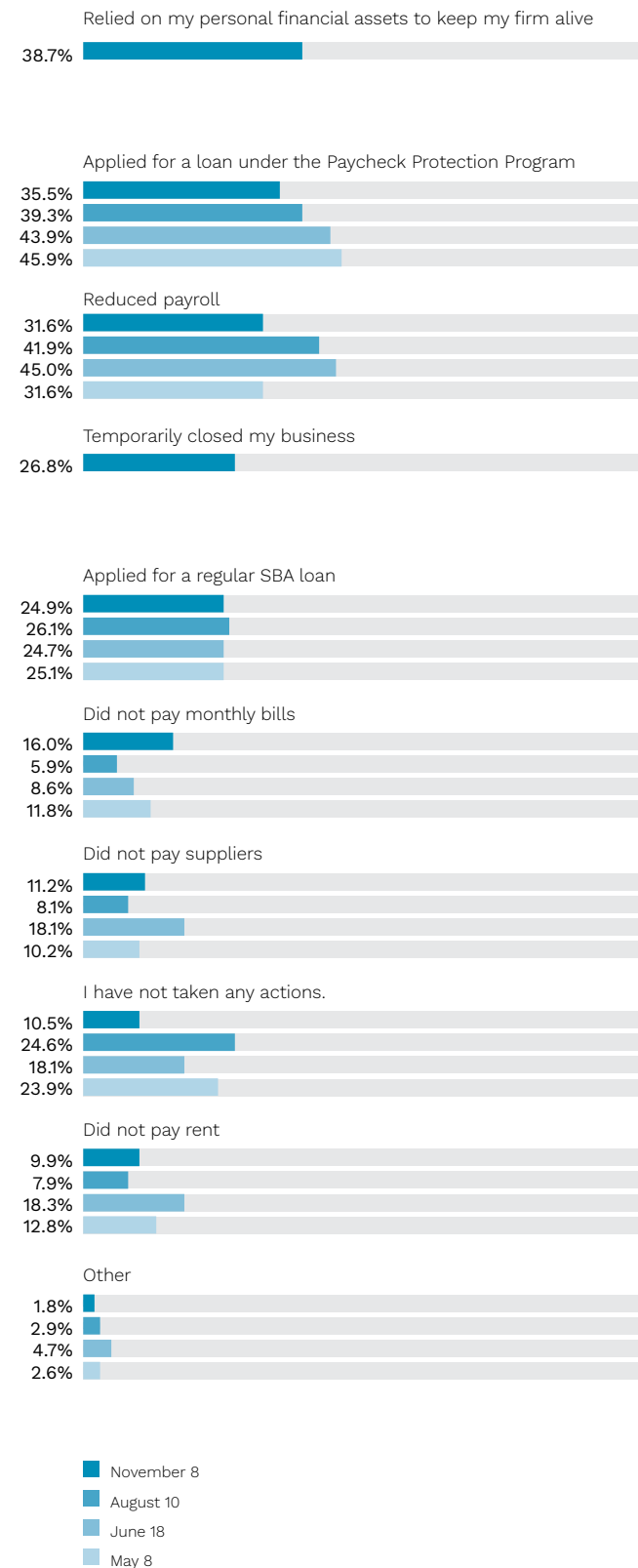


## PART II: UNDERSTANDING THE PERCEPTION GAP

Main Street SMBs from different sectors have thus had to take steps to mitigate the financial impact of suddenly shifting their business models. Our research shows that most businesses have relied on personal financial assets to keep their firms afloat (39 percent) or have applied for a loan under the Paycheck Protection Program (36 percent), while only 11 percent have not taken any action. SMBs in the professional services sector are the most likely among the various sectors we analyzed to have not taken any action: 32 percent of such businesses said so.

**FIGURE 9:**  
**ACTIONS TAKEN BY MAIN STREET SMBs TO MITIGATE PANDEMIC'S FINANCIAL IMPACT**

How Main Street SMBs have sought to weather financial challenges during the pandemic



## PART III: THE ROAD AHEAD

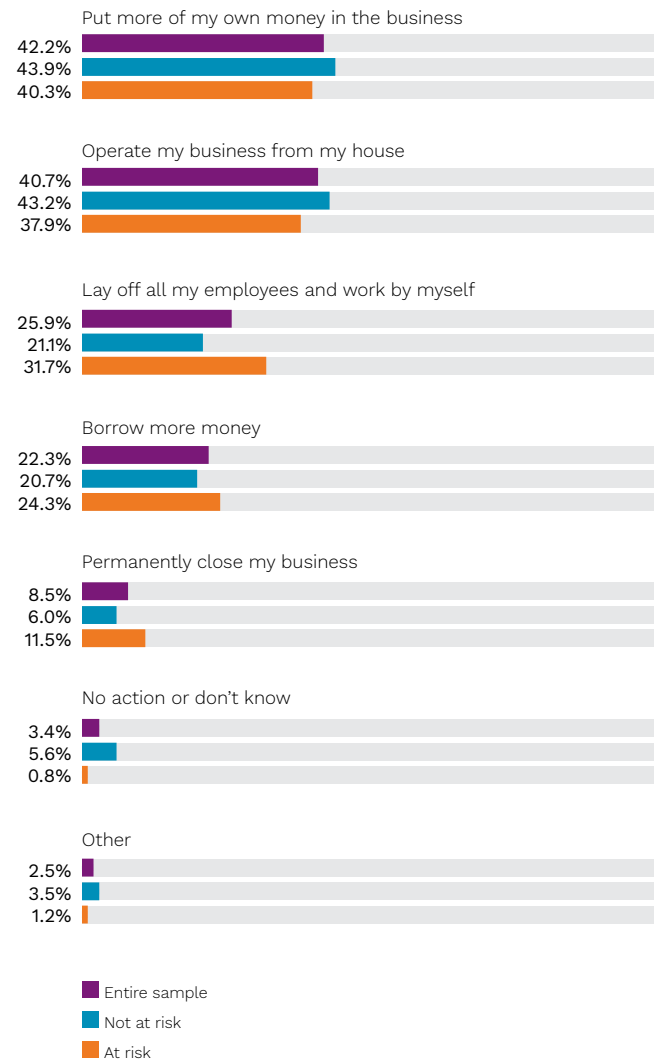
**Nearly three-quarters of Main Street SMBs believe it is likely there will be another lockdown. Twelve percent of at-risk firms say they will shut down if they have to cease operations to comply with lockdown measures.**

The number of coronavirus cases has generally continued to rise, and the majority of businesses (74 percent) expect yet another round of lockdowns. Firms from different sectors are planning to take varying approaches if and when they are forced to shut down their operations in response to the surge. Nearly a third of decision-makers for at-risk firms plan to lay off their employees and continue working alone, whereas 43 percent plan to operate their businesses from home. Another quarter plan to borrow more money to keep their businesses afloat. A small but still significant share (12 percent) expect to permanently cease operations if they have to shutter their doors in compliance with another lockdown.

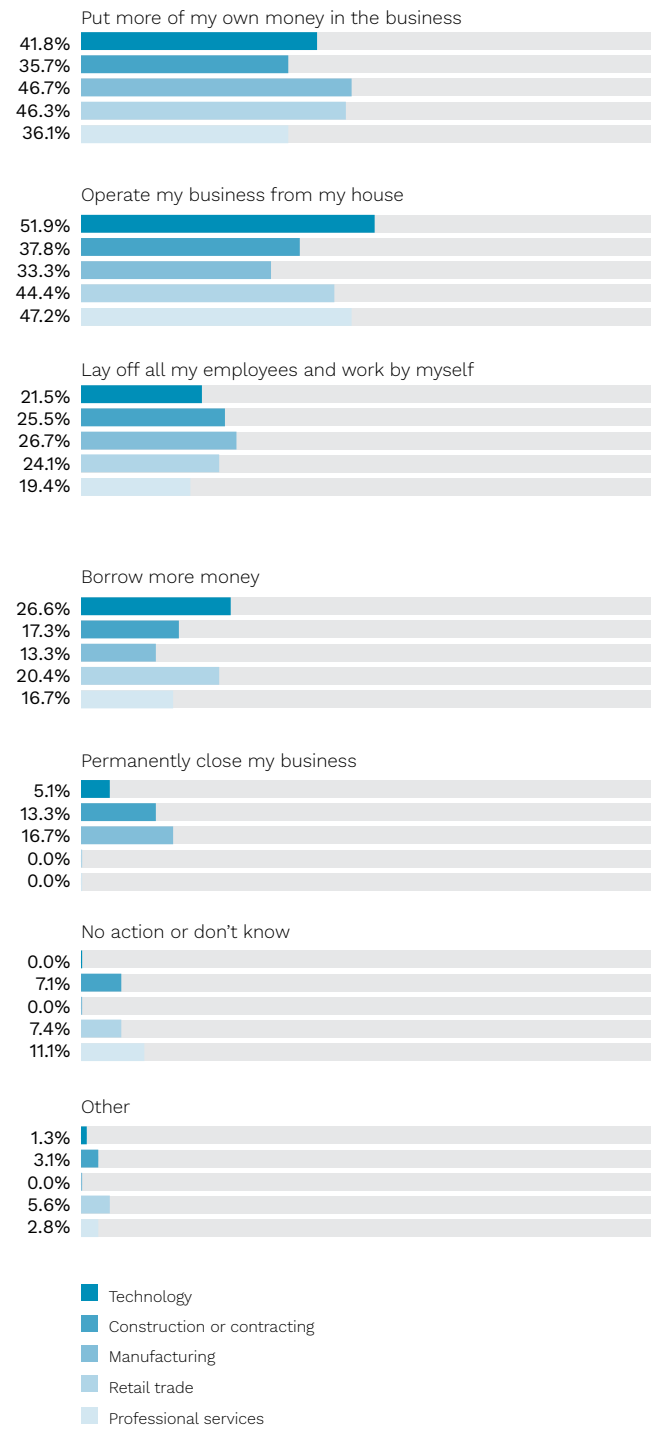
**TWENTY-SIX PERCENT OF MAIN STREET SMBs PLAN TO LAY OFF WORKERS IF THERE IS ANOTHER ROUND OF LOCKDOWN MEASURES, AND 9 PERCENT EXPECT TO PERMANENTLY CLOSE THEIR BUSINESSES IF SUCH RESTRICTIONS OCCUR.**

### PART III: THE ROAD AHEAD

**FIGURE 10A:**  
**MAIN STREET SMBs' PLANNED ACTIONS IF THERE IS ANOTHER LOCKDOWN, BY STABILITY**



**FIGURE 10B:**  
**MAIN STREET SMBs PLANNED ACTIONS IF THERE IS ANOTHER LOCKDOWN, BY SECTOR**



Businesses' likelihood of going under is particularly high in the manufacturing and construction spaces: Approximately 17 percent and 13 percent of such businesses, respectively, report they will close should another lockdown occur.

**DECISION-MAKERS AT TECHNOLOGY FIRMS ARE MOST LIKELY TO PLAN TO OPERATE BUSINESSES REMOTELY, WHILE THOSE AT MANUFACTURING FIRMS ARE MOST LIKELY TO PLAN TO POUR MORE OF THEIR OWN MONEY INTO THEIR OWN BUSINESSES IN THE EVENT OF A SECOND SHUTDOWN.**

Source: PYMNTS.com

# CONCLUSION

**T**he U.S. is now in its second wave of the pandemic, and Main Street SMBs facing the spectre of lockdown again are also confronted with deciding how to endure long enough to see the rollout of vaccines and the pandemic's end. The best path of survival for these businesses is to engage customers across a variety of channels. We know this is key because businesses that have embraced digital tools and channels during the pandemic have more successfully mitigated or lessened the financial impact of the pandemic on their business than those that have not. It is perhaps no surprise that these businesses are also able to be the most optimistic about survival prospects, even in the event of another possible lockdown. This contrasts with those who have not embraced digital tools and who fear another shutdown. Businesses' abilities to adapt their operations and embrace digital tools over the next 18 months will define their own chances of survival.

## METHODOLOGY

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PYMNTS issued a survey to 563 SMBs on Nov. 18 as a the next installment in our Pandenomics survey series, to examine how small U.S. firms are coping with the financial challenges of the ongoing public health crisis. SMBs in our sample hailed from 21 industries, and our analysis focused on how they are planning to stay in business given a second lockdown period, how the availability of vaccines impacts their future outlook and how they believe their operations will change in the postpandemic future.



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