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This study series measures the COVID-19 pandemic’s impact 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 one that is digital-first. This framework makes it possible to accurately profile the characteristics of these digital shifters as consumers place priority on preserving their personal and familial health and safety when making decisions about doing business in the world.

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PANDENOMICS

MARCH 2021

2021’S MAIN STREET BUSINESS SURVIVOR STUDY

UNDERSTANDING THE PROFILE OF MAIN STREET SMBs THAT HAVE WEATHERED THE PANDEMIC’S FALLOUT

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INTRODUCTION

Friday, March 19, 2021, will mark the one-year anniversary of the first statewide shutdown in the United States. California Governor Gavin Newsom issued executive order N-33-20 that day, instructing all non-essential businesses to close their doors and for residents to keep to their homes.[1] Other state governors soon followed suit, and by March 29, 2020, 26 states had implemented similar measures. It was not long before the once-bustling Main Streets across the nation were deserted as consumers hunkered down and businesses shut their doors.

Many states have eased their restrictions in the last year, and some consumers have even returned to stores, but many of the small to mid-sized businesses (SMBs) down Main Street are gone for good. PYMNTS' latest research shows that 12 percent of all Main Street SMBs have permanently closed since the pandemic began, in fact, and 45 percent of those that remain feel they could be at risk of closing in the near future.

These "Main Street Survivors" may not all be on solid financial ground, but their resilience and resourcefulness have already helped them weather a year of uncertainty. Many have even emerged as more adaptable and technologically innovative than ever before. So, who are the Main Street Survivors, and what can their lessons in managing cash flow shortages and keeping operations afloat teach their peers as the nation continues to grapple with the ongoing crisis?

PYMNTS has been tracking the pandemic's impact on the SMBs of Main Street U.S.A. since the very beginning, fielding our first survey on March 24, 2020. In our latest research, we surveyed more than 2,700 Main Street SMBs from across 28 industries to get a firsthand account of how they have adapted their operations to weather the rapidly shifting economic tides and which tactics they have adopted to help keep them afloat, even in the face of unprecedented economic uncertainty.

This is what we learned.

[1] Author unknown. About COVID-19 restrictions. California All. 2021. https://covid19.ca.gov/stay-home-except-for-essential-needs/. Accessed March 2021.

PART I: DRIVING SALES

One-third of all Main Street Survivors now sell on digital platforms and marketplaces. Digital channels are the biggest driver of sales growth for the Main Street Survivors that use them.

Online sales have become integral to many Main Street Survivors' businesses, whether they are made on SMBs' own websites or via third-party digital platforms. Fifty-nine percent of all Main Street Survivors now generate at least some of their sales on their websites and 33 percent generate them on digital marketplaces or third-party aggregators. Brick-and-mortar stores are still the most common way Main Street Survivors generate sales, however, as 61 percent do so. Only 15 percent of Main Street Survivors generate all their sales online, and they may operate out of physical locations on Main Street but only accept online orders for delivery or in-person pickup.

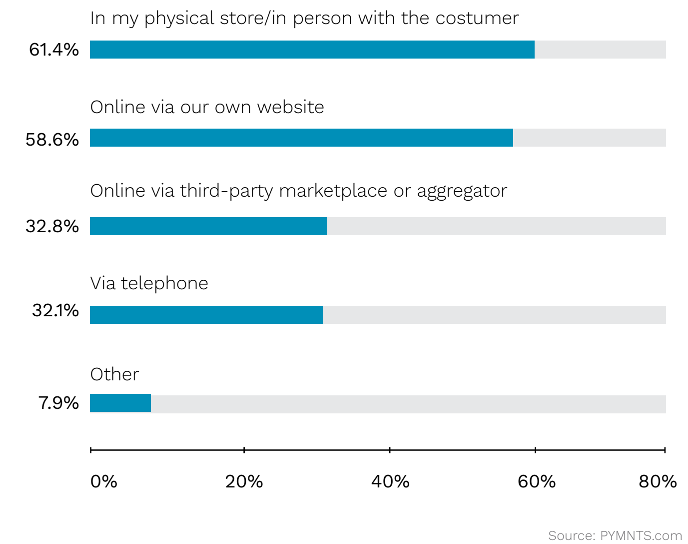
Most Main Street Survivors rely on multiple channels to generate sales, but digital platforms stand out the most. Forty-seven percent of the Main Street Survivors that sell via digital platforms say those sales have increased since the pandemic began. Website sales are in second place, with 44 percent of Main Street Survivors saying the sales made on their websites have grown since the pandemic began. Brick-and-mortar sales have unsurprisingly been the slowest in terms of growth, with only 16 percent of Main Street Survivors saying their brick-and-mortar sales are up compared to their pre-pandemic levels. Sixty-two percent of them have witnessed their brick-and-mortar sales decrease in that time.

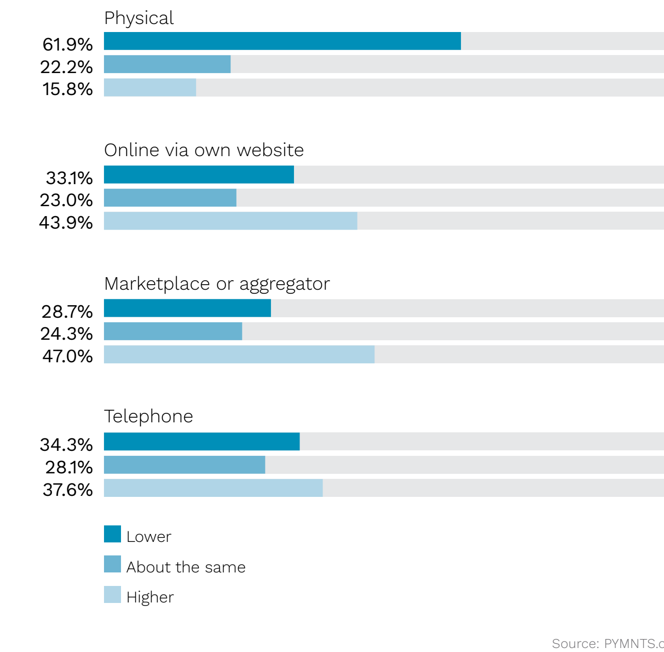
FIGURE 1:

WHERE MAIN STREET SURVIVORS GENERATE THEIR SALES[2]

1A: Share with sales that are are generated via select purchasing channels

1B: Share that have experienced select changes in their revenue streams since the pandemic began





[2] In Figure 1, the label "other" refers to Main Street SMBs that generate sales over the phone in addition to selling items online or in store. The label can also refer to Main Street SMBs that use rarer purchasing channels, with the most common being door-to-door sales.

PART I: DRIVING SALES

Main Street Survivors have adapted their product offerings to meet consumer demand. Those that opted to compete by lowering their prices are at higher risk of going out of business.

The Main Street SMBs that have managed to stay in business have adapted their approaches to market to sell their products and sidestep any potential cash flow crunches. Fifty-two percent began advertising or selling on digital marketplaces during the last year: 38 percent started to advertise on digital marketplaces to boost their sales and 31 percent began selling on digital marketplaces.

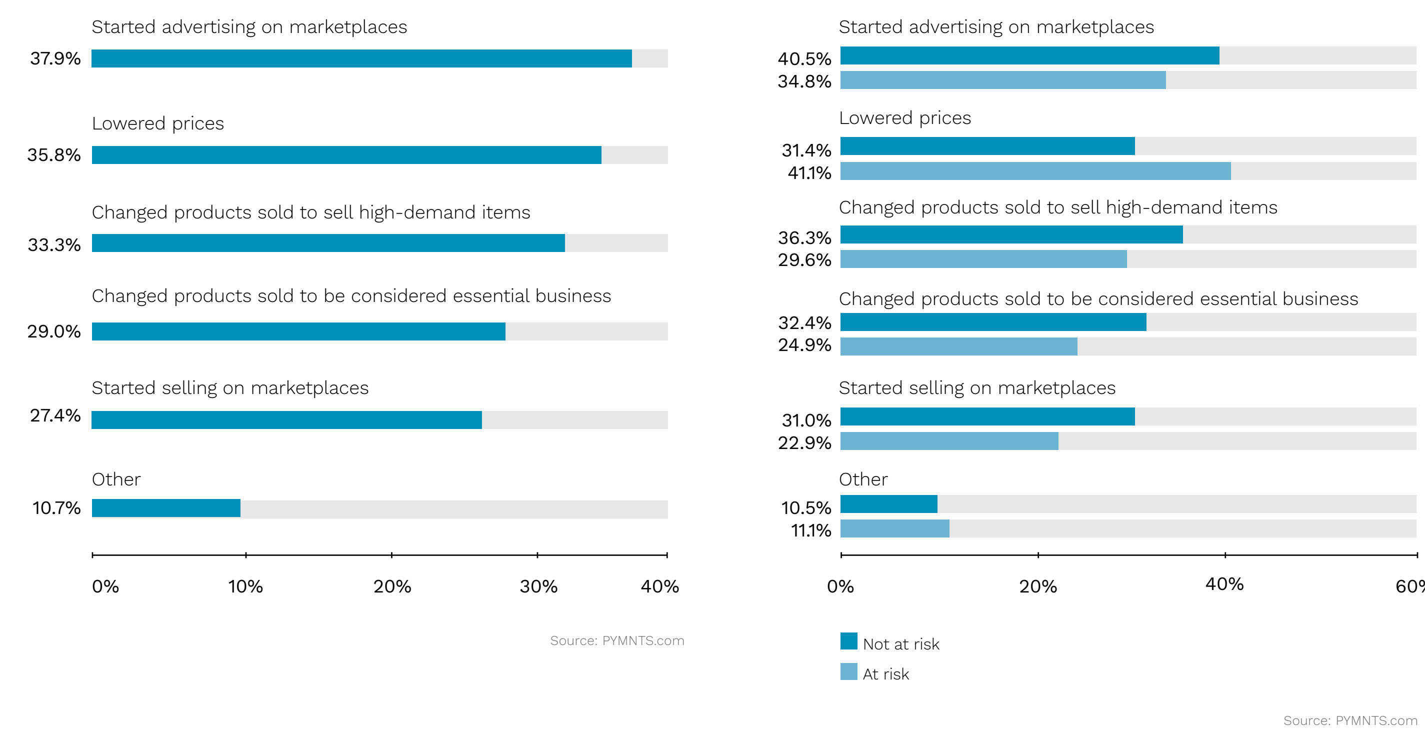
The second-most common strategy to drive sales has been to switch up product offerings. Fifty-one percent of all Main Street Survivors now sell entirely different products than they did before the pandemic began. Thirty-three percent have switched to selling products they feel are in higher demand, hoping that doing so will convince more consumers to buy them. We also found that 29 percent of Main Street Survivors that have switched now sell products that can help them qualify as "essential" businesses, allowing them to stay open in the face of regulations that call for the closure of all "nonessential" businesses.

The third-most common approach that Main Street Survivors have employed to drive sales is to lower their prices in the hopes that consumers will be more likely to buy their products if they are cheaper. Thirty-six percent of the Main Street SMBs that are still in businesses sell their products at lower prices now than they did before the pandemic began for just this reason.

Our research suggests that Main Street Survivors that use lower prices to drive sales are on shakier financial footing than the rest. Forty-one percent of Main Street Survivors that have lowered their prices to boost sales are at risk of closing, whereas just 31 percent that are not at risk of closing did the same.

FIGURE 2:

HOW MAIN STREET SMBs HAVE SOUGHT TO BOOST THEIR SALES DURING THE PANDEMIC
2A: Share that have taken select actions to increase sales
2B: Share that have taken select actions to increase sales, by risk of closure



PART I: DRIVING SALES

Main Street Survivors in the services sector are using digital platforms to advertise and promote their services. Those in the manufacturing sector have adjusted their product mix to be considered essential businesses.

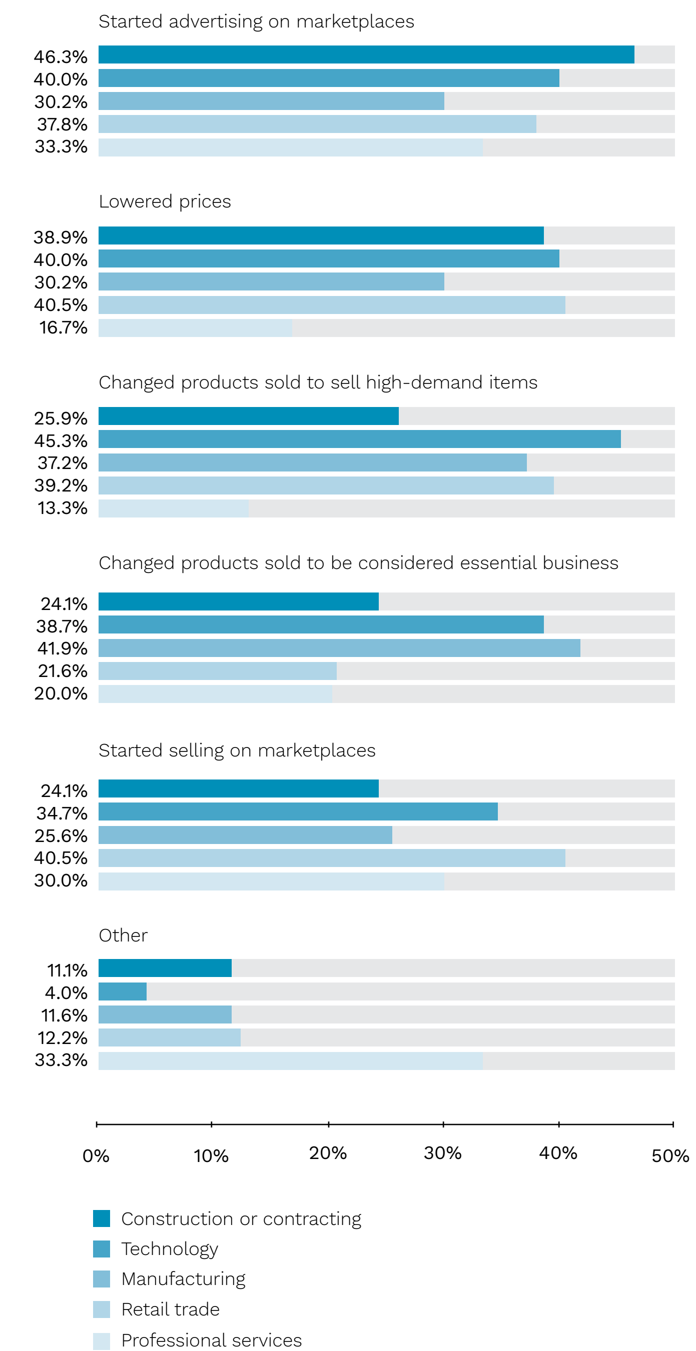
Main Street Survivors' strategies for boosting sales vary depending on the type of products and services they sell. Those in the services industry, including construction and retail trade businesses, are among the most likely to use digital platforms to promote their businesses. Forty-six percent of Main Street Survivors in the construction and contracting industry have started advertising on digital marketplaces and aggregators since the pandemic began, and 24 percent have begun selling products on digital marketplaces and aggregators in that time. Our research also found that 38 percent of Main Street Survivors in retail trade began advertising on digital marketplaces and aggregators while 41 percent began selling on digital marketplaces and aggregators during the past year.

Main Street Survivors in the technology and manufacturing industries have taken a very different approach. They are among the most likely to be selling entirely different products than they did before the pandemic began. Some sell products that they feel are more in line with their customers' demands and some do so because they want to be considered essential Forty-five percent of Main Street Survivors in the technology industry have switched to offering more high-demand products, and 42 percent of manufacturing firms have since switched to producing products that can help them qualify as essential businesses.

Many Main Street Survivors are taking a less fortuitous strategy of lowering prices to boost sales. This is especially common among those in the retail trade and technology industries: 41 percent and 40 percent of these firms have lowered their prices to drive sales since the pandemic began, respectively, but evidence suggests that lowering prices is linked to lower financial stability.

FIGURE 3:

HOW MAIN STREET SMBs IN DIFFERENT INDUSTRIES HAVE SOUGHT TO BOOST THEIR SALES DURING THE PANDEMIC
Share that have taken select actions to increase sales, by industry



Source: PYMNTS.com

PART II: MANAGING COSTS

Main Street Survivors are taking steps to improve the efficiency of their operations and preserve cash by replacing full-time workers with temporary staff and renegotiating rent and vendor payments.

Main Street SMBs that have managed to stay in business have numerous ways of keeping their spending in check, with the most common being using personal funds to supplement their businesses' cash flows. Thirty percent of all Main Street Survivor business owners report having used their own money to support their businesses since the pandemic began. This practice has grown less common in the past three months, however, with 25 percent of owners reporting doing so in that time frame.

Business owners are not the only ones bearing the brunt of the pandemic's financial impact, either. Many of their employees are also feeling the sting of the mid-pandemic cash flow crunch. Eighteen percent of Main Street Survivor business owners have cut their full-time staff and 15 percent have lowered their workers' salaries. Both of these practices have grown less common in the last three months, but that is partly because many Main Street Survivors have less full-time and more part-time workers.

Main Street Survivors are now hiring more temporary workers than they had in the year since shutdowns began. Sixteen percent of business owners hired temporary workers in the last three months — up from the average 11 percent who did so during the year prior to the pandemic. Fifteen percent have specifically reduced full-time staff to hire temporary workers instead. This strongly suggests that Main Street Survivors will continue to favor temporary workers over full-time employees going forward.

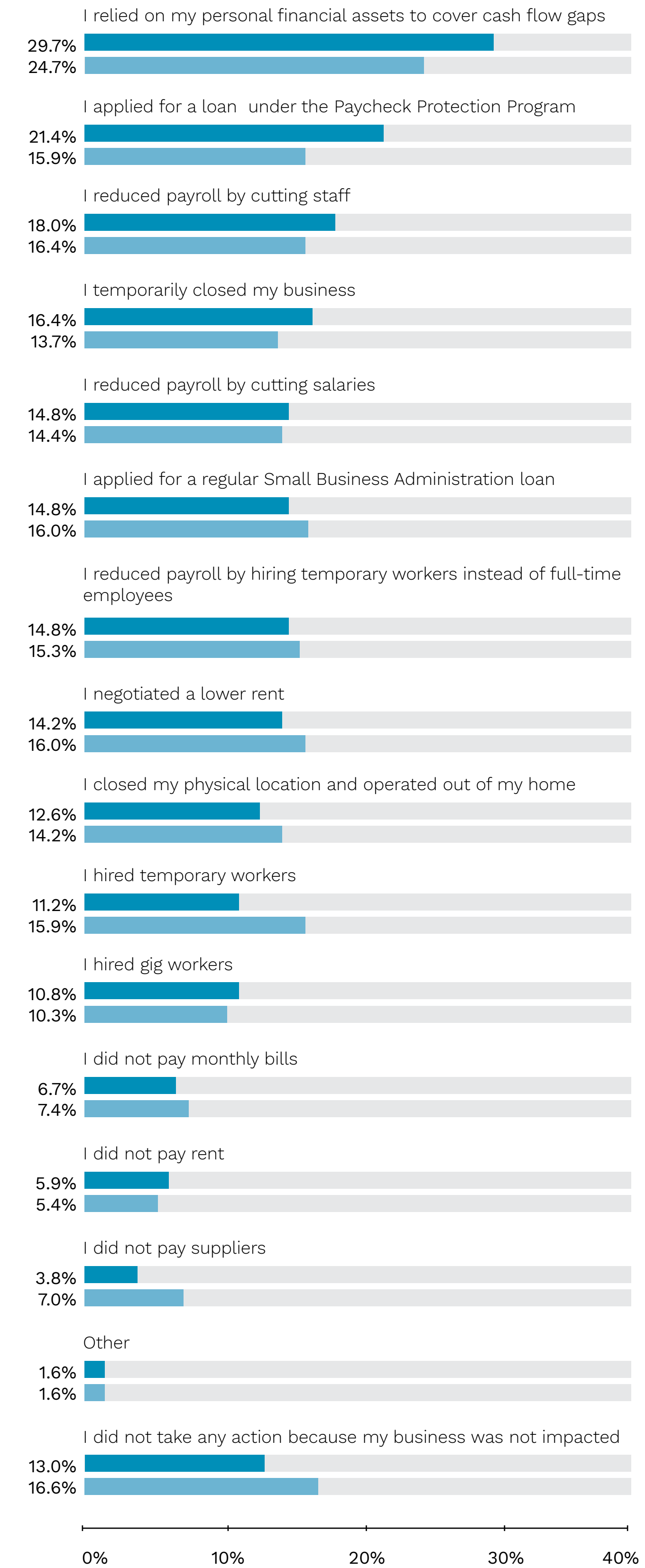


FIGURE 4:

HOW MAIN STREET SURVIVORS ARE MITIGATING PANDEMIC-RELATED FINANCIAL FALLOUT

Share that have taken select protective measures during the past three months versus in the year since the pandemic began

- Since the pandemic began
- During the last 3 months

Source: PYMNTS.com

PART II: MANAGING COSTS

Nearly eight in 10 Main Street Survivors chose not to apply for Paycheck Protection Program (PPP) loans in the last three months. Many of the smallest Main Street SMBs that have not applied in the last three months said they laid off their employees instead.

PPP loans can provide financial support to Main Street Survivors struggling to make ends meet, but the second round of PPP funding, which was rolled out in January, placed tighter restrictions on applications than the first, initially only accepting applications from businesses that could demonstrate that they had suffered at least a 25 percent loss in revenue. This resulted in far fewer applications. Only 16 percent of Main Street Survivors report having actually applied for such assistance in the last three months compared to an average 21 percent that had done so since March 2020. The 84 percent of Main Street Survivors that have not applied for PPP loans cite several reasons as to why. Our research shows that 19 percent of Survivors did not apply for PPP loans in the last three months because they worry about the implications it might have on their future taxes. Another 11 percent are simply unsure whether they will make enough revenue to return the funds they might receive from such programs.

There are also many Main Street Survivors — especially smaller ones — that do not realize PPP loans are available at all. Seventeen percent of all Main Street Survivor business owners who have not applied for PPP loans in the last three months were unaware that such loans were available. One of the other reasons Main Street Survivors did not apply for these loans is that they laid off their staff instead. This is especially common among those generating less than $500,000 in annual revenue, 14 percent of which opted to lay off their employees instead of applying for a loan.

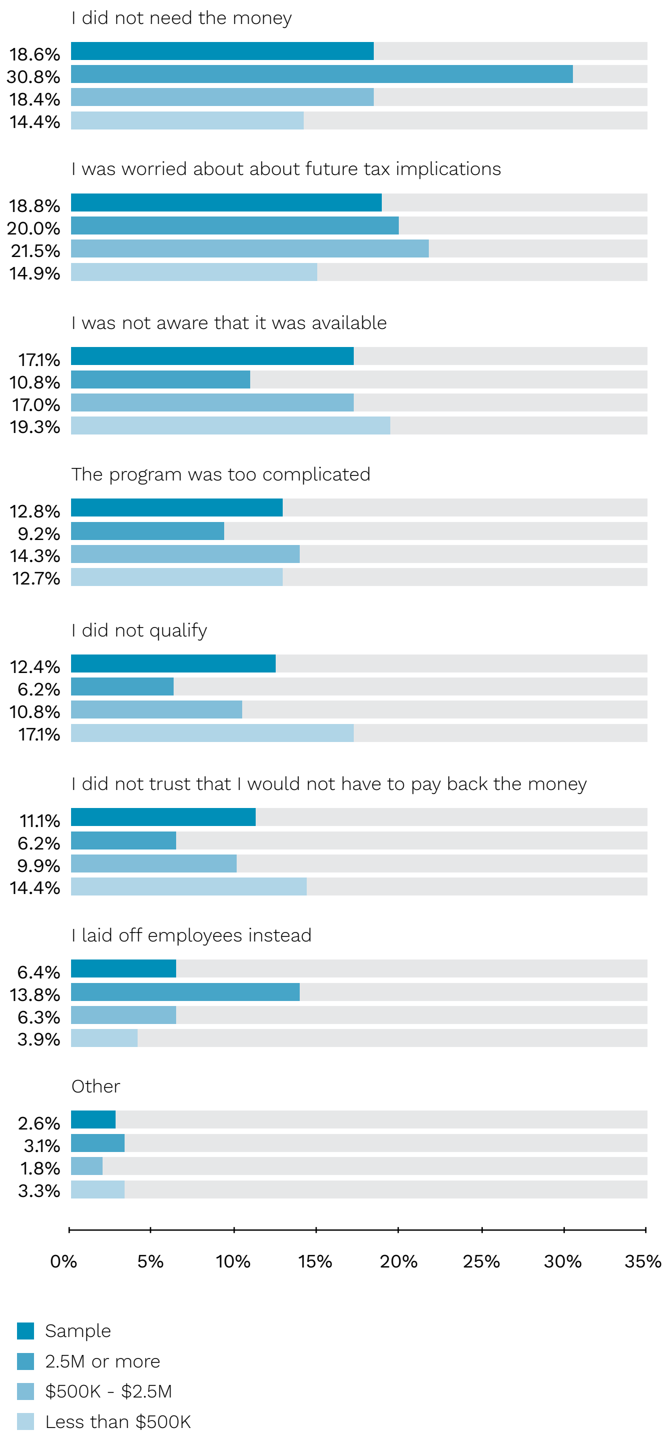
Not all Main Street Survivors see financial aid as a priority, however. Nineteen percent of Main Street Survivor business owners who have not applied for PPP loans in the last three months feel they do not need the money. This reasoning is particularly common among Main Street Survivors that generate more than $2.5 million in annual revenue. Thirty-one percent of Main Street Survivors of this size have not applied in the last three months because they feel they are financially stable enough to not need PPP loans. In comparison, 14 percent of Main Street Survivors that generate less than $500,000 in annual revenue that did not apply in this time frame say the same.

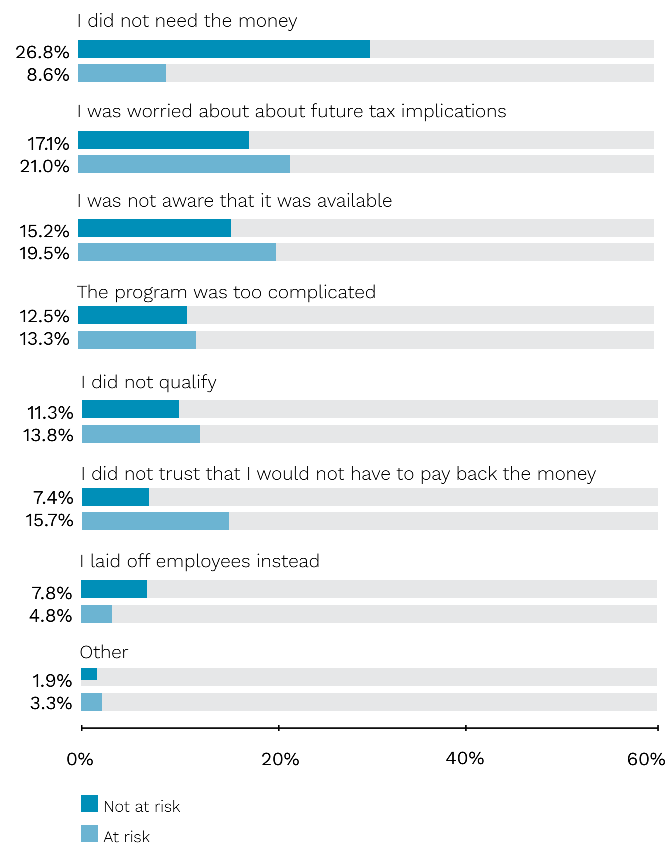
It should perhaps come as no surprise that many of these businesses feel they are at less risk of going out of business. Twenty-seven percent of all Main Street Survivors that feel they are not at risk of closing in the near future have enough cash available to keep them open in case of emergency — three times as many that say they are at risk of going out of business. These businesses report having enough funding on hand to remain operational for an average of 75 days in the event of an emergency.

This is in stark contrast with Main Street Survivors that have not recently applied for PPP loans because they were worried about tax implications or chose to lay off employees. Those that chose to not apply because of tax concerns report having funds to remain open for just 35 days while those that chose not to apply because they laid off employees have just 28 days' worth of funds available.

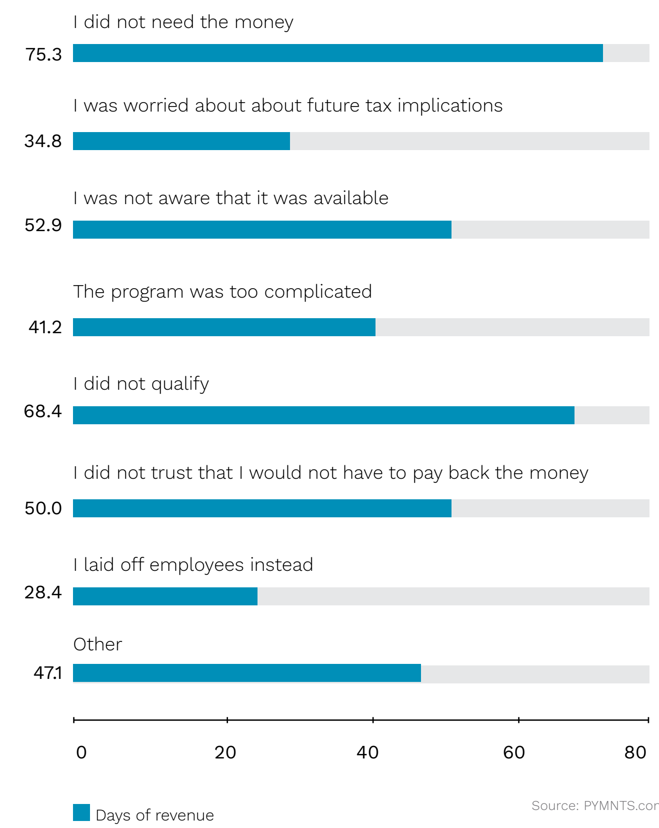
FIGURE 5:

WHY SOME MAIN STREET SURVIVORS HAVE NOT APPLIED FOR PPP LOANS
5A: Share citing select reasons for not applying, by annual revenue
5B: Share citing select reasons for not applying, by annual revenue, by risk of closure
5C: Share citing select reasons for not applying, by annual revenue, by average days of liquidity





Source: PYMNTS.com



Source: PYMNTS.com

Source: PYMNTS.com

PART III: LOOKING FORWARD

Main Street Survivors are optimistic that consumers will return to the outside world in late fall 2021, even though consumers believe that it will take until February 2022 for things to get back to normal.

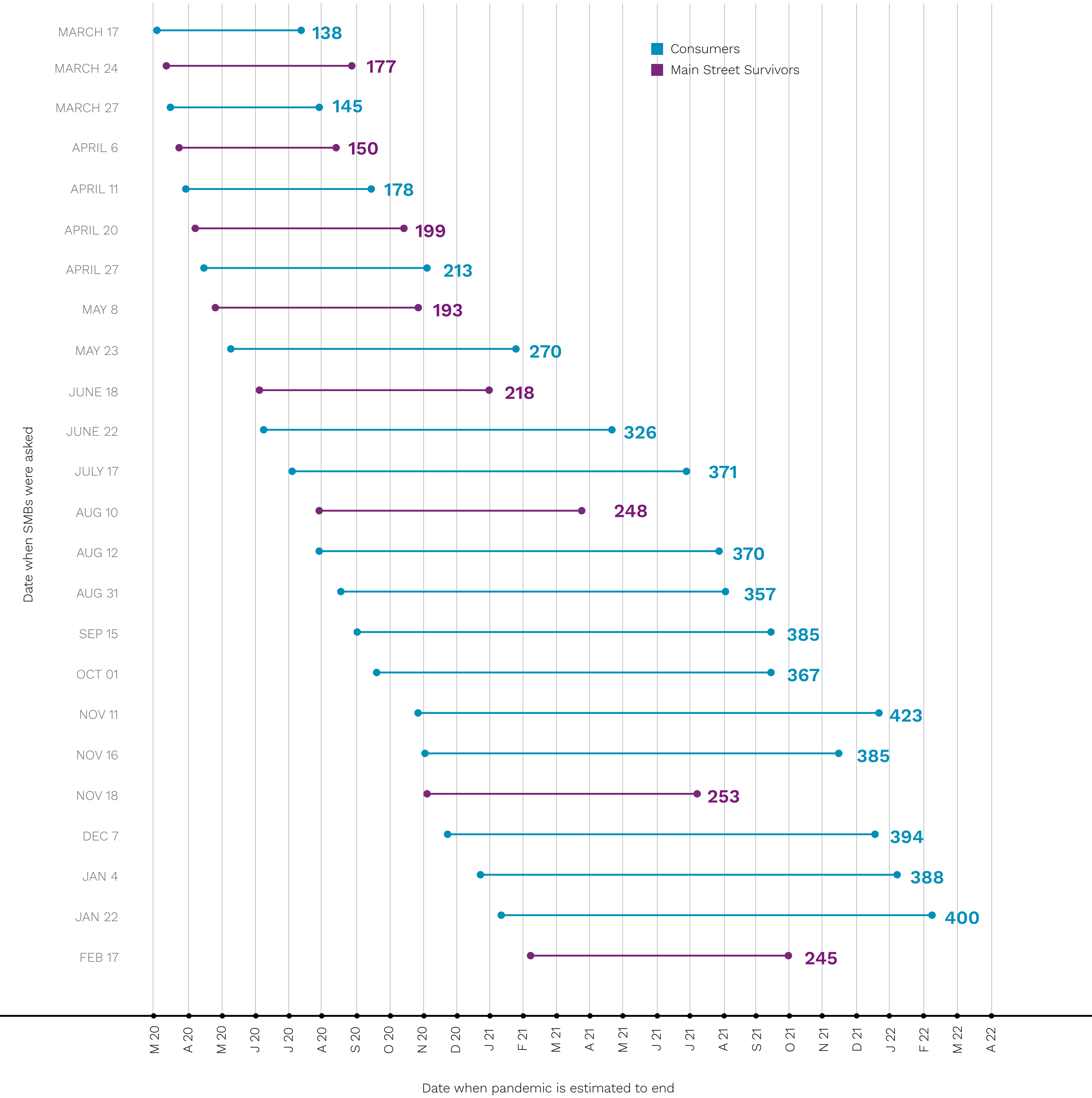
Main Street SMBs continue to be more optimistic about how long the pandemic will continue to reduce their foot traffic than consumers — and their outlook is growing rosier. The average Main Street Survivor now believes consumers will feel comfortable reengaging in the physical world by late October 2021 — just seven months from now. This is the first time since April 2020 that Main Street Survivors' expectations for how long it will take for the pandemic to subside have improved.

The trouble is that consumers do not see themselves going back to stores until mid- to late-February 2022. This leaves a roughly four-month gap between the time when Main Street Survivors believe their foot traffic will recover and the time when their customers expect the pandemic's impact on their lives to end. It is thus clear that Main Street Survivors' optimism could lead to more financial woes down the road if they are not careful.

FIGURE 6:

HOW LONG MAIN STREET SURVIVORS BELIEVE IT WILL TAKE BEFORE CONSUMERS FEEL COMFORTABLE RETURNING TO STORES

How many days the average Main Street Survivor believes will elapse before consumers feel comfortable versus how many days the average consumer believes it will take, by date



PART III: LOOKING FORWARD

Main Street Survivors plan to stick with what works, with three out of four of them planning to keep the digital and operational changes made as a result of the pandemic.

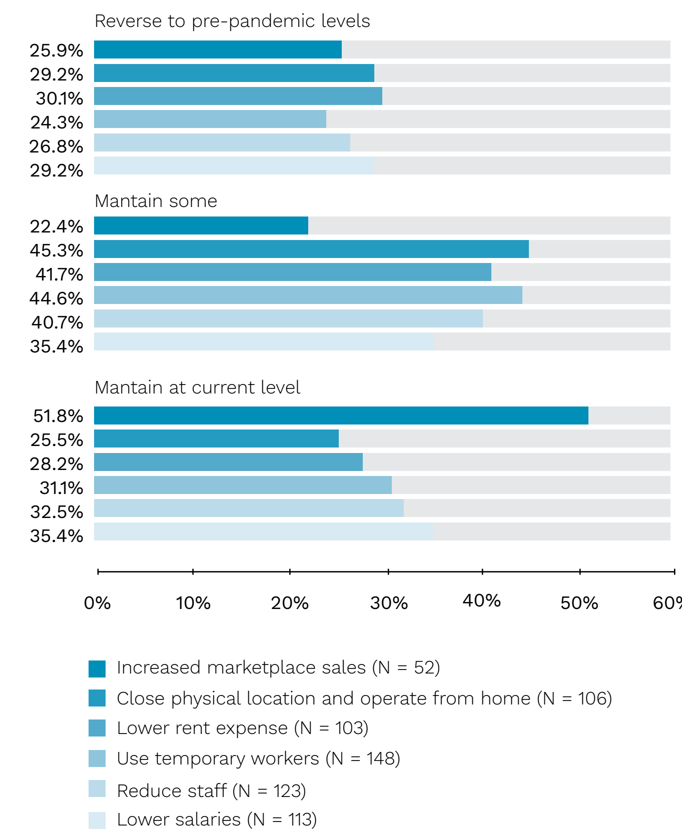
Main Street Survivors see the light at the end of the proverbial tunnel when it comes to shutdowns, but most have no intention of ever reverting back to "business as usual." Roughly three out of four of them plan to keep at least some of the digital and operational changes they have made since shutdowns began.

The most common change that Main Street Survivors plan on keeping is their usage of temporary workers, with 76 percent of Main Street Survivors planning to continue using temporary workers at least somewhat as often as they do now after the pandemic has subsided. Leveraging digital marketplaces followed this change: 75 percent of Main Street Survivors anticipate that their increased digital marketplace sales will continue long into the future. Many also intend to keep operating with reduced staff and keep salaries lower than they were prior to the pandemic.

This new post-pandemic Main Street will likely look very different than it did before the pandemic, however. Many of the Main Street SMBs that are still open plan to reduce their reliance on brick-and-mortar sales. Only 29 percent of Main Street Survivors' owners who have begun running their businesses from home plan to reopen their stores on Main Street as they once did, in fact. The remaining 71 percent plan to keep operating from home at least somewhat as much as they do now, signaling that many of the storefronts once lined Main Street U.S.A. may never return.

FIGURE 7:

HOW MANY MAIN STREET SURVIVORS PLAN TO KEEP THE CHANGES THEY HAVE MADE DURING SHUTDOWNS AFTER THE PANDEMIC IS OVER
Share that plan to maintain all, maintain some or get rid of select changes after the pandemic has passed, by changes in sales



Source: PYMNTS.com

CONCLUSION

Many of the small to mid-sized Main Street businesses across the nation have found resourceful ways to stay afloat — and their successes offer unique insights into how others can turn around their businesses. These Main Street Survivors have made sweeping changes to adapt to rapidly shifting conditions, investing in digital innovations that can help them reach more customers while also reforming their financial operations to boost their efficiency and resilience. It is impossible to say how many of the SMBs that form the core of the nations' local economies will make it to the end of the crisis, but it is clear that only those that take active measures to reform their operations stand a chance.

METHODOLOGY

PYMNTS issued a survey to 555 SMBs From Feb. 17, 2021, to Feb. 23, 2021, for this installment in our Pandenomics survey series, which examines how small U.S. firms are coping with the financial challenges related to 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 in the event of a second shutdown period, how the availability of vaccines impacts their future outlooks and how they believe their operations will change in the post-pandemic future. We have surveyed 2,702 Main Street SMBs to date.

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