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# PANDENOMICS

■ AUGUST 2021

## THE DIGITAL TRANSFORMATION OF MAIN STREET SMBs

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## PANDENOMICS

This study series measures the impact of the COVID-19 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 prioritize preserving their personal and familial health and safety as they make decisions about doing business in the world.



# INTRODUCTION

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**T**he County of Santa Clara, California has announced that it will be launching a grant program to encourage small local businesses to vaccinate their employees. The program, sponsored in collaboration with the Hispanic Small Business Development Centers, will issue \$5,000 to county businesses that have taken or plan to take active measures to inoculate their workforces against COVID-19. Grants can be used to offset the cost of upgrading air infiltration systems, modifying their brick-and-mortar facilities’ physical layouts, providing their employees paid time off to receive vaccinations or taking other protective actions to limit the risk of contagion as the delta variant spreads across the nation.<sup>1</sup>

It is unclear whether these grants will help bolster local commerce, but it is equally unclear how well local businesses such as those in Santa Clara will fare without them. Many small and mid-sized businesses (SMBs) with brick-and-mortar locations on main streets across the nation still are far from where they were financially before March 2020. PYMNTS’ research reveals that 76 percent of Main Street SMBs in Santa Clara County and throughout the U.S. say their local economies are still not back to normal, and labor shortages and high supplier costs are exacerbating their financial struggles.

PYMNTS has been studying the financial health of the SMBs on Main Street U.S.A. since March 2020, periodically returning to the field to observe how the latest developments continue to reshape Main Streets across the nation. We have surveyed 3,870 Main Street SMBs to date.

Our latest study examines how SMBs are grappling with ongoing capacity restrictions, labor shortages and the spread of the delta variant. We surveyed 638 SMBs with brick-and-mortar locations in commercial areas across the nation about whether they believe their local economies have recovered, what lingering pandemic-induced challenges are preventing them from recovering and how the digital innovations they have adopted over the past 17 months have altered their financial performance outlook. The Digital Transformation Of Main Street SMBs details the latest findings of our ongoing research.

**This is what we learned.**

<sup>1</sup> New County Program Offers Grants to Small Businesses Taking Steps to Reduce Risk of COVID-19. County of Santa Clara. 2021. <https://news.sccgov.org/news-release/new-county-program-offers-grants-small-businesses-taking-steps-reduce-risk-covid-19>. Accessed August 2021.

PART I: FAR FROM NORMAL

Seventy-six percent of Main Street SMBs say their local communities still are not back to normal.

The strong majority of Main Street SMBs still believe they are far from where they were prior to March 2020, as 76 percent say their local communities have yet to recover from the pandemic’s impact.

The outlook is even more bleak among Main Street SMBs in smaller cities, towns and rural areas. Eighty percent of Main Street SMBs in areas with between 250,000 and 1 million residents (cities) or between 25,000 to 250,000 residents (towns) say their local communities have yet to revert to how they were prior to March 2020, in fact. Main Street SMBs in rural areas do not fare much better, with 78 percent saying their communities still are reeling from the pandemic’s impact.

78%

OF MAIN STREET SMBs IN RURAL AREAS STILL BELIEVE THEIR LOCAL COMMUNITIES ARE FAR FROM RETURNING TO NORMAL.

FIGURE 1: HOW MANY MAIN STREET SMBs BELIEVE THEIR COMMUNITIES ARE BACK TO NORMAL

1A: Share who believe their local communities have reached varying degrees of normalcy

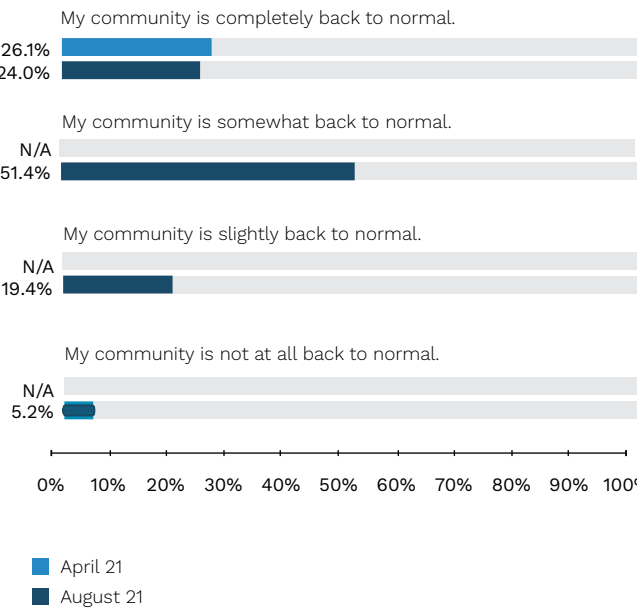
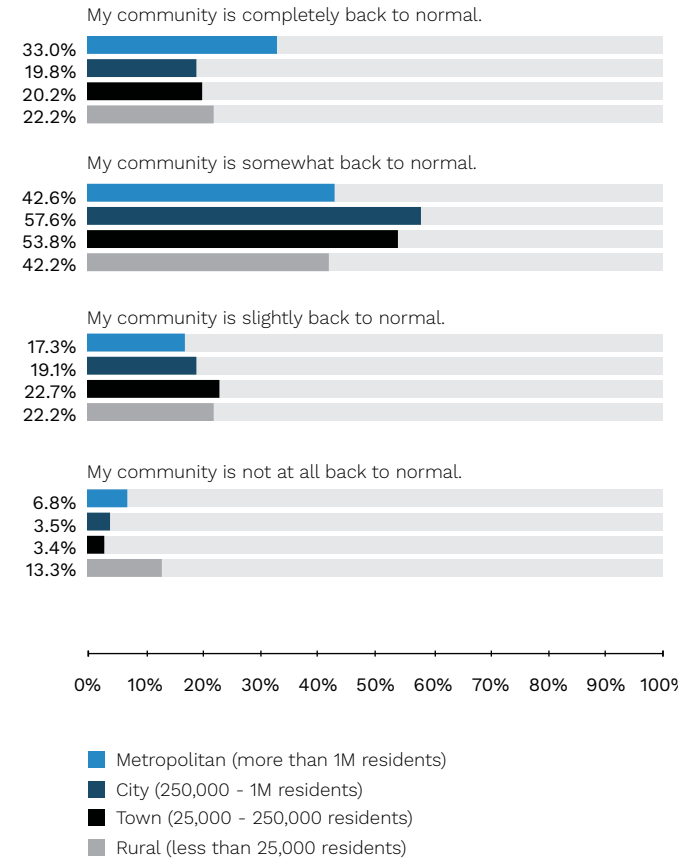


Figure 1B: Share who believe their local communities have reached varying degrees of normalcy, by residential area



Main Street SMBs in large, metropolitan areas such as New York City, Los Angeles, Chicago and Houston are by far the most likely to say their communities have recovered from whatever damage the pandemic may have inflicted. Nevertheless, 67 percent of them maintain they have a way to go before they truly return to “normal.”

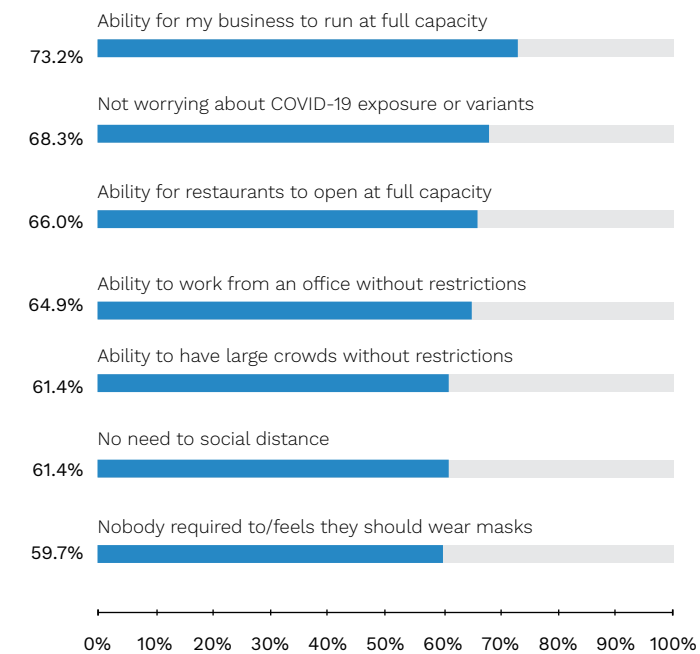
## PART I: FAR FROM NORMAL

**Seventy-three percent of Main Street SMBs say reopening at full operating capacity is critical for their communities to regain a sense of normalcy. Sixty-eight percent say not having to worry about infection is just as important.**

Main Street SMBs say two key factors are essential to being able to return to normal: full operating capacity and safety from exposure.

The most common prerequisite they say to returning their communities to normal is that their small businesses must be able to reopen at full operating capacity. Seventy-three percent say being able to reopen at pre-pandemic capacity is an important step toward regaining a sense of normalcy, whether by serving as many customers as before, driving the same sales volumes or hiring the same number of staff as they did prior to March 2020.

**FIGURE 2:**  
**WHAT MAIN STREET SMBs BELIEVE MUST HAPPEN BEFORE THEIR COMMUNITIES CAN RETURN TO NORMAL**  
Share that consider select factors to be “very” or “extremely” important in enabling their communities to get back to normal



Source: PYMNTS.com

Many other key factors Main Street SMBs say are necessary to return to normal are related to local businesses' operating capacity. Sixty-five percent of Main Street SMBs say their businesses cannot return to normal until they are able to work from offices without restrictions, for example, while 61 percent say they cannot return to normal until there is no longer a need to social distance.

Lifting capacity restrictions and doing away with social distancing guidelines still may not be enough to bring local communities back to where they were, however. Sixty-eight percent of Main Street SMBs say their communities cannot return to normal until their residents no longer have to worry about COVID-19 exposure, and 60 percent say residents no longer feeling the need to wear masks is critical to being able to return to normal.

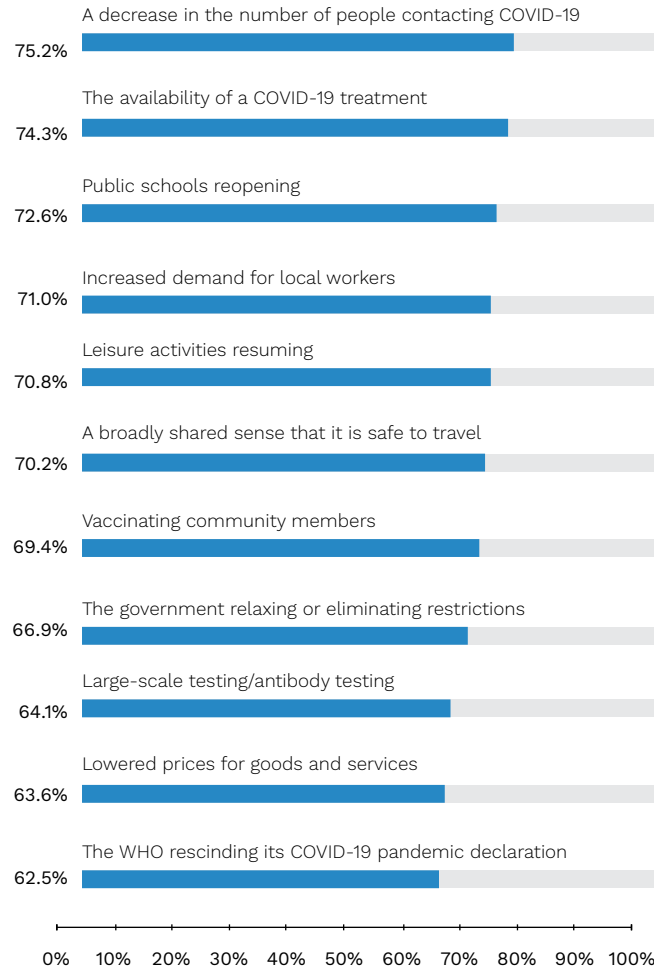
PART I: FAR FROM NORMAL

**Seventy-five percent of Main Street SMBs say COVID-19 case counts must decrease before their local economies can recover.**

The majority of Main Street SMBs say their communities' economic health hinges on their safety from contagion, and that economic recovery is impossible as long as the pandemic continues. Seventy-five percent say their economies cannot recover until there is a decrease in the number of community members contracting COVID-19, and 74 percent say they cannot recover until there is a widely available treatment for COVID-19. We also found that 69 percent say their economies cannot recover until their community members are fully vaccinated.

**MAIN STREET SMBs ACROSS THE NATION HAVE NOW BELIEVE THAT THEIR LOCAL ECONOMIES ARE UNLIKELY TO RECOVER UNTIL THE PANDEMIC SUBSIDES.**

**FIGURE 3: WHAT MAIN STREET SMBs BELIEVE MUST HAPPEN FOR THEIR LOCAL ECONOMIES TO RECOVER**  
Share that consider select factors to be "very" or "extremely" important to enabling their local economies to recover



Source: PYMNTS.com

Many Main Street SMBs say it is important that governments lift COVID-19 restrictions to help their economies recover, but they do not believe government action is as important as having local consumers feel confident that it is safe to leave their homes and reengage with the physical world. Sixty-seven percent of Main Street SMBs say local governments must lift restrictions before their economies can recover, and 63 percent say the WHO must rescind its pandemic declaration before their economies can be rebuilt fully.

Main Street SMBs say several macroeconomic factors are crucial to their communities' economic recovery. Seventy-one percent say their local economies cannot be repaired until there is an increase in demand for local workers, for example, and 64 percent say the prices of goods and services must decrease for their economies to recover. This strongly suggests that many communities are struggling to grapple with a highly volatile labor market and rising inflation rates.

## PART II: ROADBLOCKS TO RECOVERY

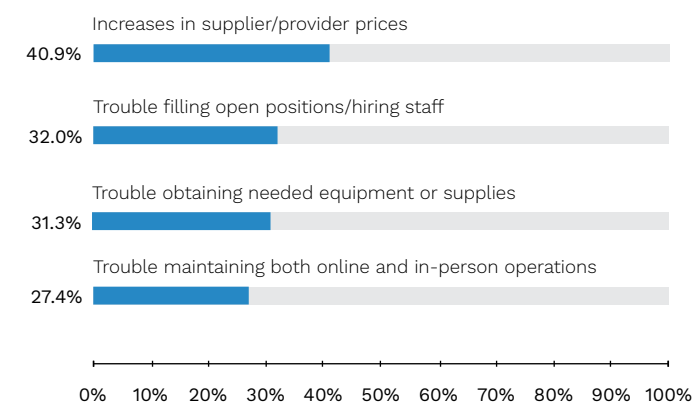
## Thirty-two percent of Main Street SMBs are struggling to fill the positions they need to operate at full capacity.

The labor shortage is one of Main Street SMBs' biggest ongoing challenges. Thirty-two percent of Main Street SMBs say they are struggling to fill open positions, preventing them from operating at full capacity. It is safe to say labor shortages are having a very real and very profound impact on the economic health of Main Street U.S.A.

Being short-staffed is not the only challenge eating into the bottom lines of Main Street SMBs, however. Many also are struggling to manage their supply chains and supplier relationships. Forty-one percent of Main Street SMBs say the ongoing pandemic has increased their supplier prices, and 31 percent say it is making it more difficult to obtain equipment and suppliers.

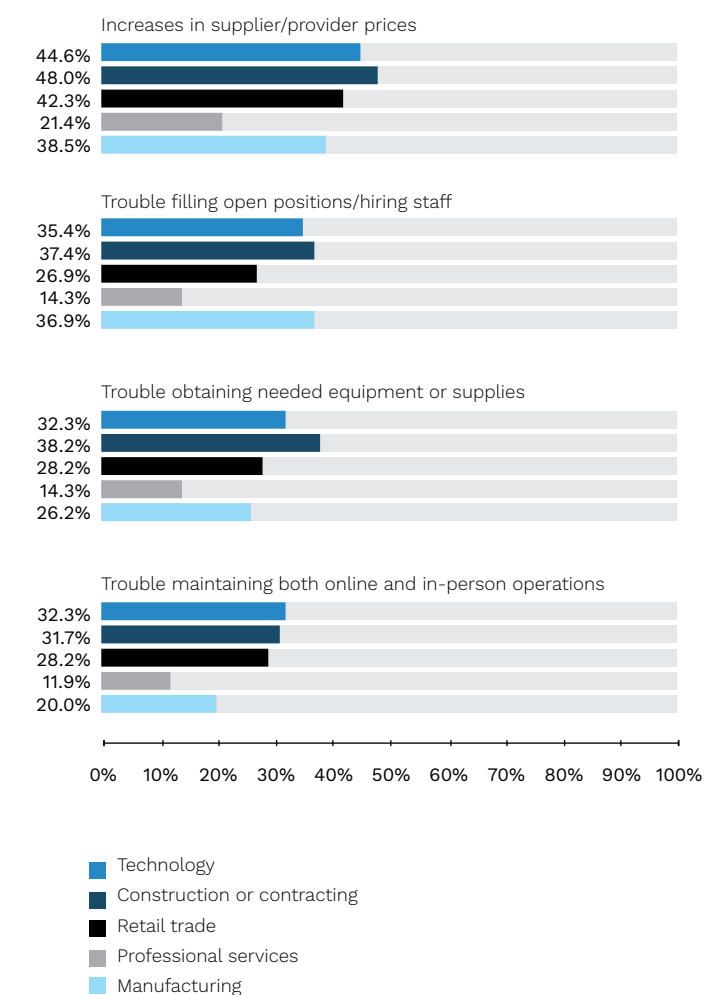
**FIGURE 4:**  
**THE CHALLENGES THAT ARE HOLDING MAIN STREET SMBs BACK**

4A: Share that are experiencing select pandemic-related challenges



Source: PYMNTS.com

4B: Share that are experiencing select pandemic-related challenges, by sector



Source: PYMNTS.com

In addition, 27 percent of Main Street SMBs are having difficulty maintaining both online and in-person operations — even though their digital capabilities could be key to driving sales.

Main Street SMBs providing professional services have managed to largely avoid such complications. They are by far the least likely to report struggling with any of these issues.

## PART III: MAKING DIGITAL INROADS

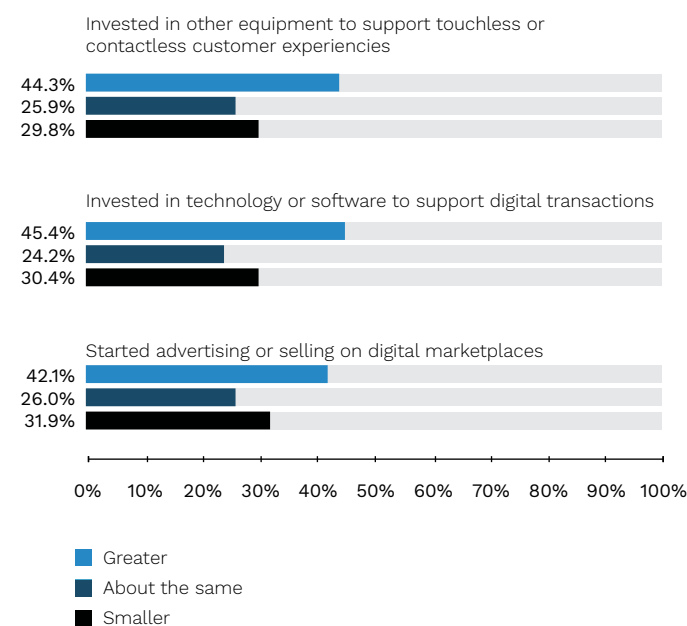
## Main Street SMBs that invested in digital and touchless technologies were 49 percent likelier to have seen their revenues increase than decrease in 2020.

Main Street U.S.A. may not look as it did before March 2020, but that does not necessarily mean that all Main Street SMBs are struggling. Many have invested in numerous digital technologies over the past 17 months, and these organizations are enjoying more robust sales than those that have forgone such innovations, underscoring how important eCommerce transactions and digital payments methods have become in the new, digital-first economy.

Touchless payments is one of the innovations that has helped Main Street SMBs drive sales since March 2020. Our research shows that the Main Street SMBs that invested in touchless payments are 49 percent more likely to have seen their revenues increase in 2020 than decrease, for example, with 44 percent of those that have invested in touchless payments innovations saying their 2020 revenues exceeded 2019 levels.

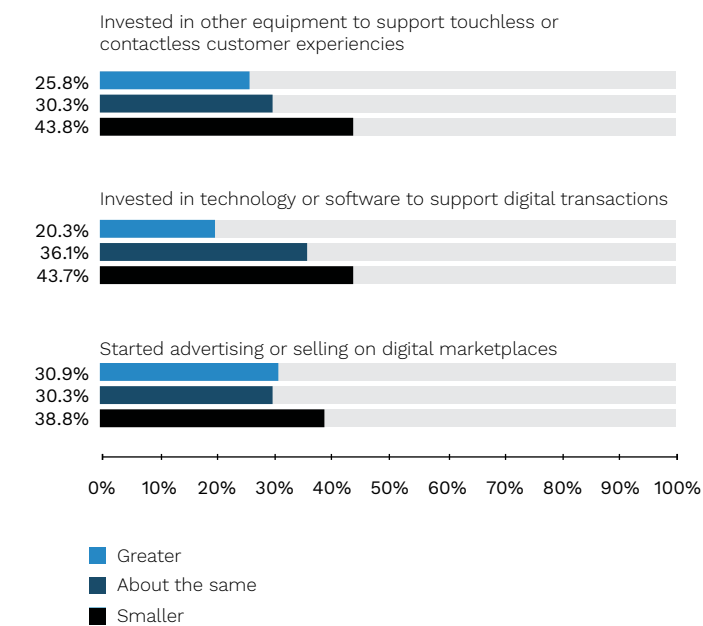
**FIGURE 5:**  
**THE IMPACT OF MAIN STREET SMBs' DIGITAL INNOVATIONS ON REVENUES**

5A: Share who saw their year-over-year revenues change in select ways in 2020, by the digital innovations they implemented



Source: PYMNTS.com

5B: Share who saw their year-over-year revenues change in select ways in 2020, by the digital innovations they did NOT implement



Source: PYMNTS.com

Main Street SMBs that invested in technology to support digital transactions, including those made on websites, via app and using digital wallets, for example, are outperforming their peers. These businesses are 49 percent more likely to have seen their revenues increase than decrease in 2020, with 45 percent saying their revenues increased that year over the prior one.

Digital marketplaces such as Amazon, Etsy, eBay and Mercari also have helped Main Street SMBs reach more customers as their shoppers migrated online. Main Street SMBs that began to advertise or sell on digital marketplaces after the pandemic began are 32 percent more likely to have seen their revenues increase rather than decrease in 2020. Forty-two percent of these businesses say their 2020 revenues were higher than those they generated in 2019.

## PART III: MAKING DIGITAL INROADS

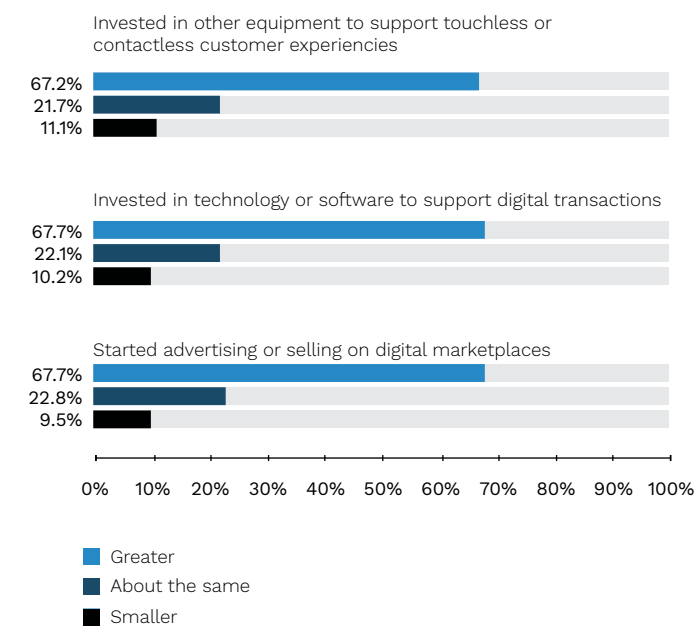
## Main Street SMBs that invested in digital and touchless technologies are five times more likely to anticipate that their revenues will increase than decrease in 2021.

The digital and payments innovations that helped many Main Street SMBs drive sales in 2020 also could be key to future success. Businesses that have invested in these innovations are consistently and exponentially more confident than other SMBs that their revenues will increase in 2021.

Sixty-seven percent of Main Street SMBs that have adopted touchless payments or other touchless customer experiences are confident about their 2021 revenues, meaning they are more than five times more likely to expect that their revenues will increase rather than decrease in 2021. Main Street SMBs that have invested in technology to support digital transactions also are more than five times more likely to anticipate that their revenues will increase as opposed to decrease in 2021, and 68 percent say their 2021 revenues will exceed 2020 levels.

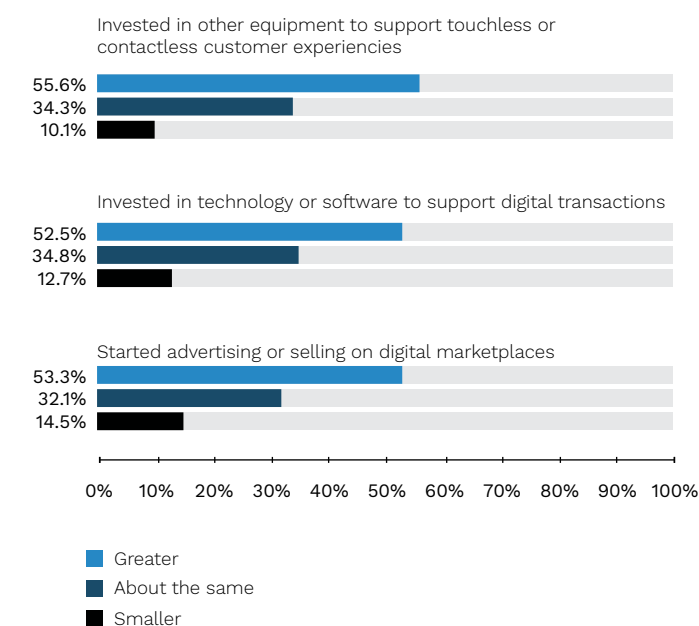
**FIGURE 6:**  
**MAIN STREET SMBs' EXPECTATIONS OF HOW THEIR 2021 REVENUES WILL CHANGE**

6A: Share who expect their year-over-year revenues to change in select ways in 2021, by the digital innovations they have implemented



Source: PYMNTS.com

6B: Share who expect their year-over-year revenues to change in select ways in 2021, by the digital innovations they have NOT implemented



Source: PYMNTS.com

Main Street SMBs that have begun to advertise or sell on digital marketplaces are the most confident. Sixty-eight percent are confident about their 2021 revenues, meaning they are more than six times more likely to expect that their revenues will increase as opposed to decrease in 2021. This underscores not only the importance of providing digital purchasing options but also the increasingly central role of digital marketplaces in consumers' everyday lives.

It is important to note that even among Main Street SMBs that have not implemented these innovations, the majority still are confident that their year-over-year revenues will increase in 2021. The difference is the degrees of confidence. Main Street SMBs that have not invested in technology to support digital transactions are about four times as likely to believe their revenues will increase as decrease in 2021, for example. Those that have not begun selling or advertising on digital marketplaces are less than four times as likely to expect their revenues to increase rather than decrease in 2021,

Main Street SMBs that have not adopted touchless payments and consumer experiences also are less confident that their 2021 revenues will be greater than 2020 revenues than are the SMBs that have adopted these innovations.



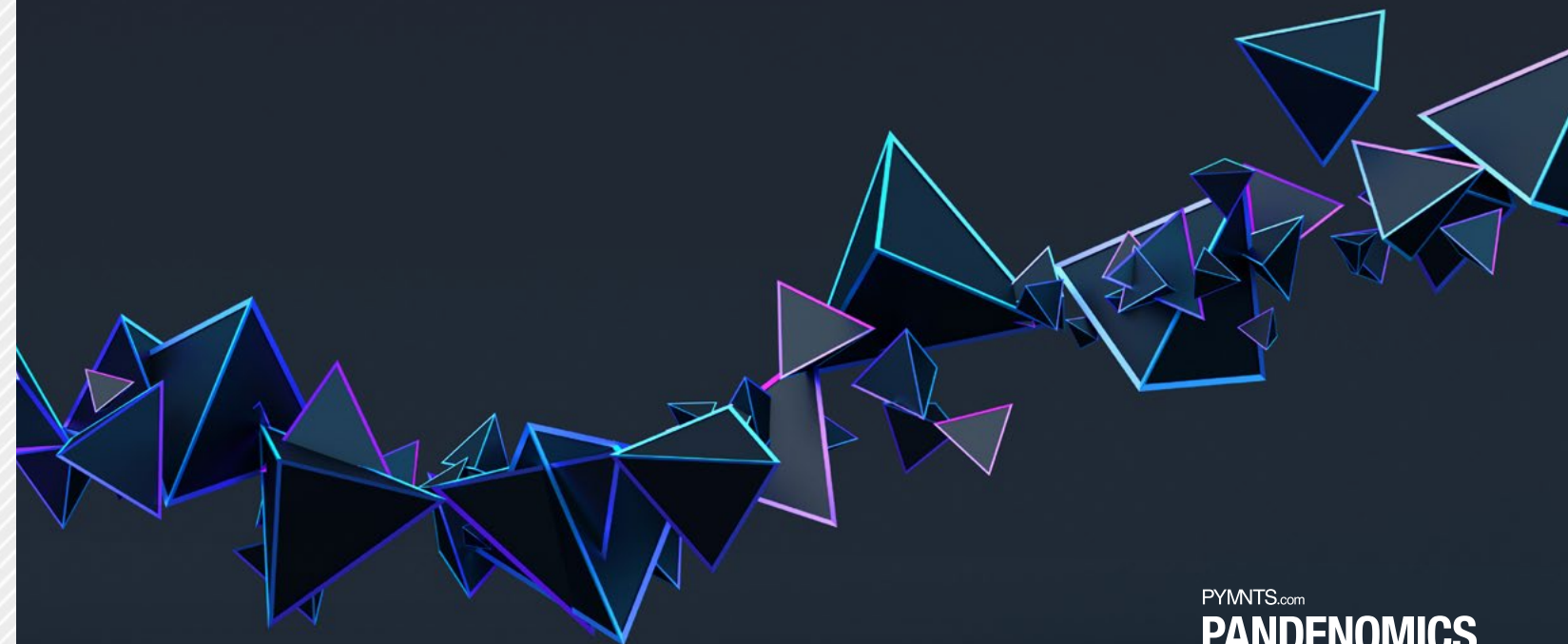
# CONCLUSION

**M**uch of Main Street U.S.A. still is struggling to regain the ground it lost since the pandemic began, but the SMBs that form its economic core have been able to tap several key innovations to help drive sales in a more and more volatile market. The Main Street SMBs that have invested in the touchless, digital commerce experiences that their local customers have come to expect have fared far better than their peers and stand the best chance of increasing their revenues going forward. It is clear that while Main Street U.S.A. may never again return to what was once considered “business as usual,” small business owners across the nation are finding new, innovative ways to reimagine their businesses to adapt and prepare for the digital-first future.

## METHODOLOGY

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PYMNTS issued a survey to 638 SMBs with brick-and-mortar presences in commercial areas (Main Street) in communities across the nation from July 26 to August 6, 2021, for the next installment of our ongoing research into their changing financial health. SMBs in our sample hailed from 21 industries, and our analysis focused on whether they believed they were close to returning to their pre-pandemic normal, what factors they believed were critical to economic recovery and which digital innovations they believe can help boost their revenues going forward.



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