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# MAIN STREET HEALTH

Q3 2022

SMBs BATTLE INFLATION





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# MAIN STREET HEALTH

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# INTRODUCTION

**M**arked by market uncertainties, pandemic-related concerns, supply chain issues and inflation, the current business environment is very difficult for any firm looking to conduct business. PYMNTS’ research found that times are especially tough for small firms that do not sell products online or have large, diversified incomes on which they can rely. Approximately 12% of businesses generating less than \$150,000 in sales annually told us that they are concerned about whether or not they will survive to see 2024, and 37% of small to mid-sized businesses (SMBs) we surveyed in July consider inflation to be their current greatest challenge.

Main Street SMBs make up much of the American business landscape, and the performance of the SMBs that typically dot town centers throughout the United States is a good indicator of the market’s current temperature.<sup>1</sup> Though some figures are worrying, our research also found signs of resilience and reasons for tempered optimism.

Around one-third of Main Street SMBs that increased their prices to compensate for higher costs found increased profit margins. Despite the fears of the smallest Main Street SMBs, the overall number of firms that fear failure is actually half what it was at its peak in November 2020. And although hope is tempered relative to January of this year or November of the last, still more than half of the organizations we surveyed said their sales this year will be exceed those of last year.

The Main Street Health Survey Q3 2022: SMBs Battle Inflation, a PYMNTS report, examines the current state of Main Street SMBs. We surveyed 533 U.S.-based businesses between July 12 and July 27 to learn more about the obstacles they face in the current business environment and their perceptions about the future.

**This is what we learned.**

<sup>1</sup> We define “Main Street SMBs” as a subset of SMBs generating under \$10 million in annual revenue that conduct business in sectors consistent with the core of a city or town’s commercial district, such as retail, professional services, consumer services or hospitality.

**Inflation is causing most Main Street SMBs to tone down their expectations for 2022, but retail sellers’ outlooks are holding strong.**

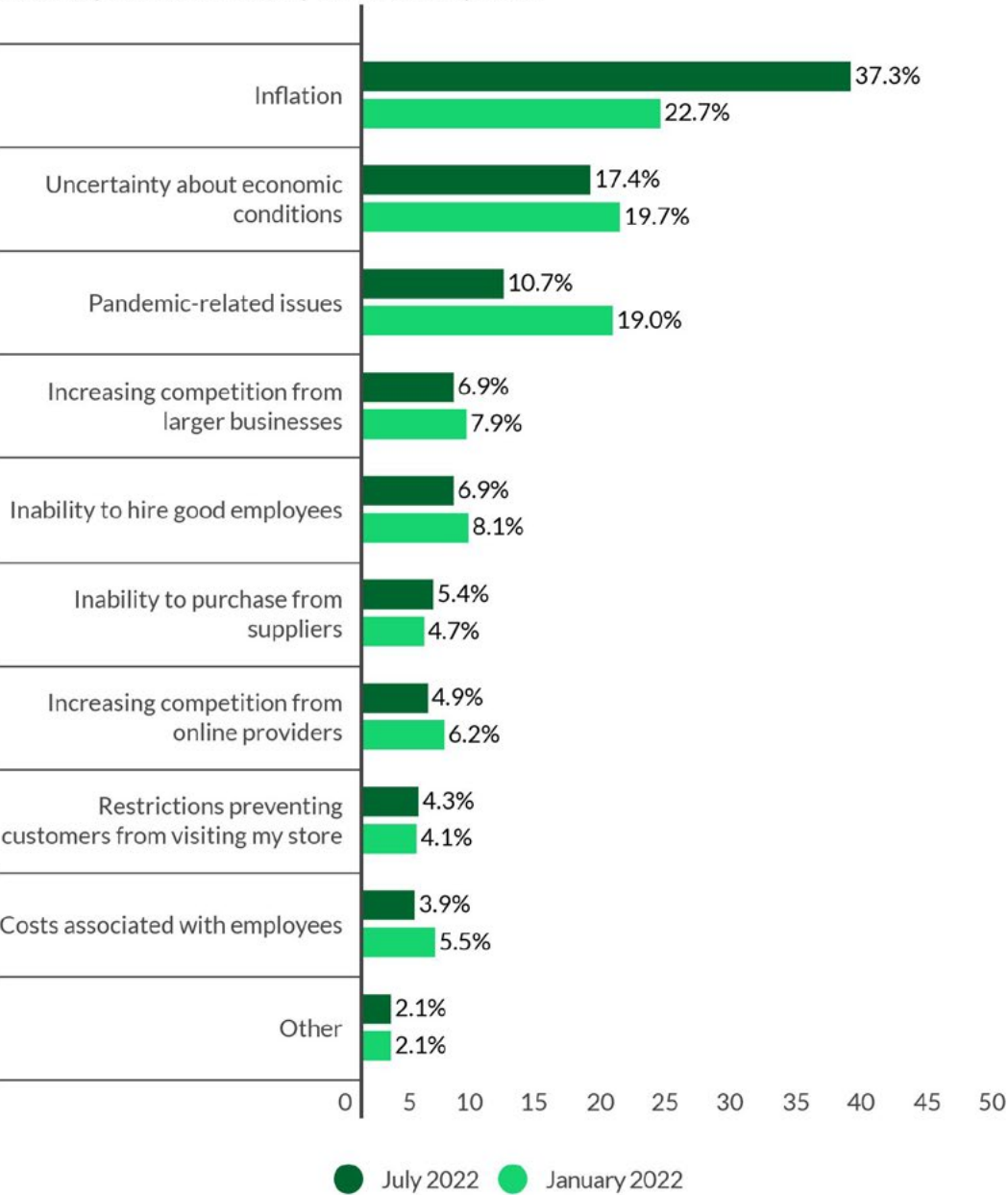
Despite general trends of growing concerns and falling optimism, more than half of Main Street SMBs say sales in 2022 will top those made in 2021.

A slight majority of Main Street SMBs think their bottom lines will grow in 2022: 54% of Main Street SMBs we surveyed said they expect revenues to increase in 2022. The bad news: The shares of Main Street SMBs expecting growth were 56% in January 2022 and 64% in November 2021, meaning outlooks have worsened over time.

However, 60% of Main Street SMBs generating more than \$1 million in revenue expect increased revenues in 2022, as do 57% of Main Street SMBs conducting the majority of their sales through digital channels. In most segments, significant decreases in the share of Main Street SMBs expecting revenue growth in 2022 were measurable. For example, 50% of personal and consumer services Main Street SMBs currently expect growth in 2022, down from 69% in November. Only retail Main Street SMBs are not experiencing these significant variations; at 64%, they are most comfortably positioned across industries.

What exactly is tempering these Main Street SMBs’ expectations of success? Inflation, which is growing as a concern in the minds of Main Street SMB owners. PYMNTS’ data reveals that 37% of Main Street SMB decision-makers cite inflation as their greatest worry for the coming year, while only 23% expressed this opinion in January 2022. Nearly 45% of retail and consumer services Main Street SMBs express that inflation is the concern that keeps them up at night. General uncertainty about economic conditions is the second-most common concern, but distantly so, cited by just 17% of respondents.

**Figure 1**  
**Greatest challenges for Main Street SMBs 2022**  
Share of businesses that considered each challenge to be their greatest this year, as surveyed in both January 2022 and July 2022



Source: PYMNTS  
SMBs Battle Inflation, September 2022  
January 2022 N = 532: All businesses; July 2022 N = 533: All businesses, fielded July 12, 2022 – July 27, 2022

**Weaker consumer confidence is reining in some Main Street SMBs’ ability to adjust prices.**

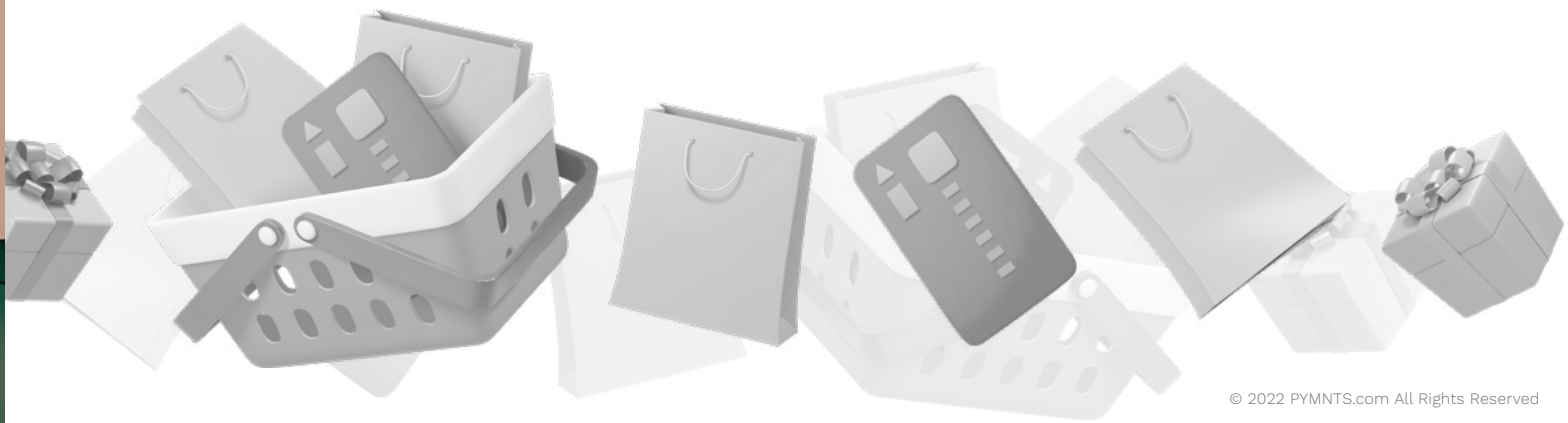
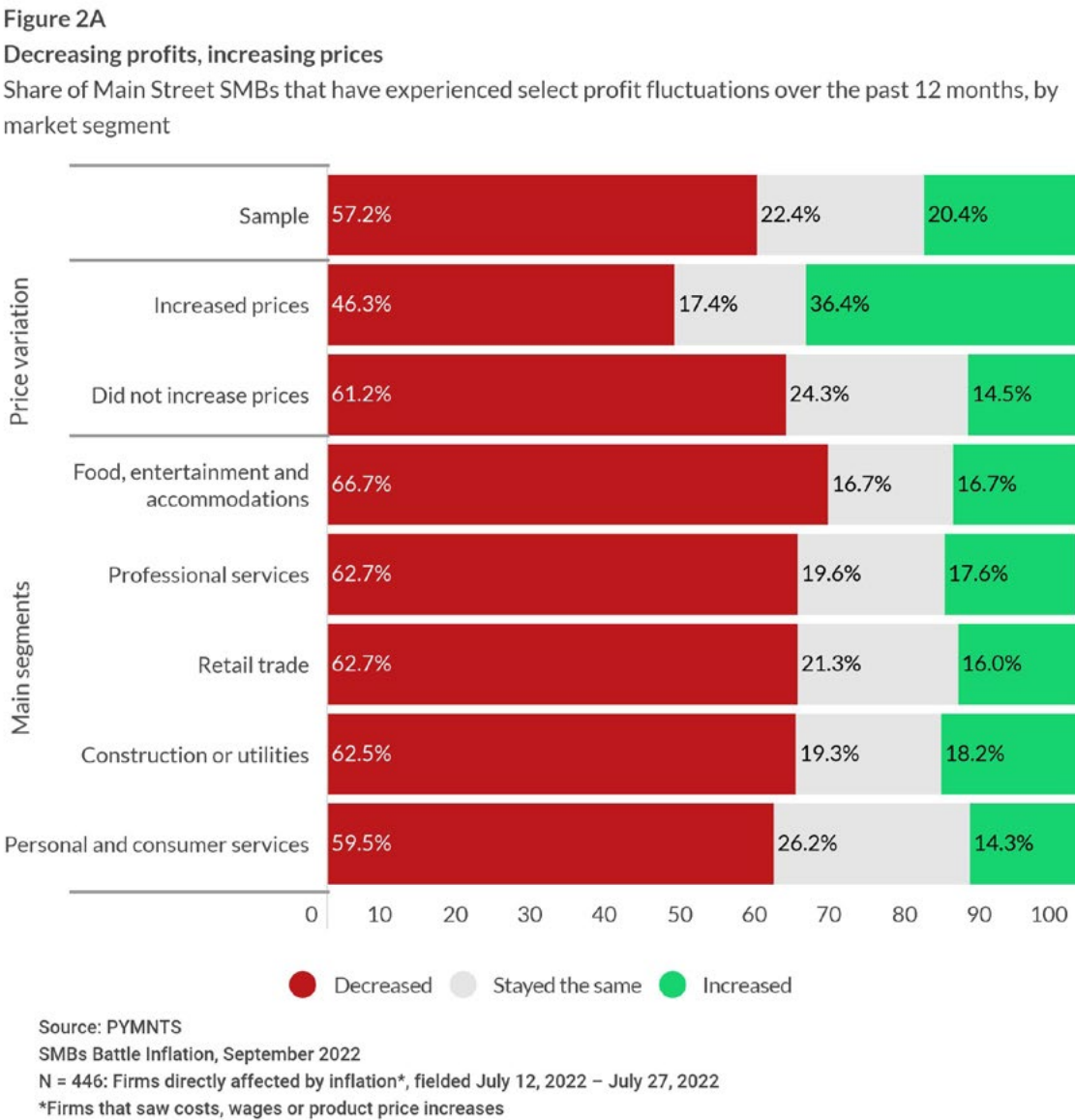
Consumer services Main Street SMBs are most likely to report cost increases and least likely to say they are adjusting prices, although a similar gap is measurable across segments.

Seven in 10 Main Street SMBs say supplier costs have increased over the last year, with 57% of them raising prices as a result. Main Street SMBs specializing in consumer services, such as hair and nail salons or repair shops and construction companies, were the most likely to have concerns around cost increases, at nearly 80%. While 68% of construction Main Street SMBs surveyed said they adjusted their prices, just 52% of consumer services Main Street SMBs did the same. In retail, we found a similar, if smaller, gap between cost increases and price adjustments: 73% of Main Street SMBs in the retail segment said they have experienced cost increases, and 60% of them have raised their prices as a result.

The average cited price increases are generally commensurate with declared cost increases, with product prices increasing 11% and business costs rising by 12%. Personal and consumer services Main Street SMBs are reporting the highest average increase in costs, at 14%, whereas retail Main Street SMBs stand on the opposite end, experiencing an average cost increase of 10%.

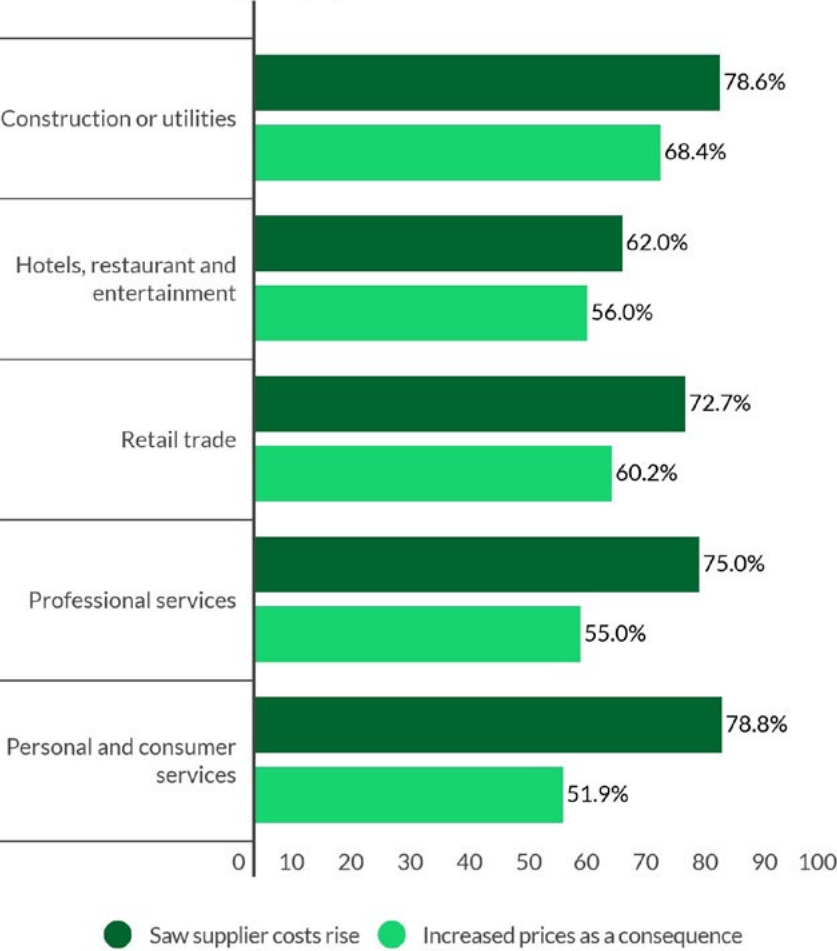
Only 46% of Main Street SMB owners say they have increased wages or workers’ hourly rates. This is consistent with Bureau of Labor Statistics data indicating that year-over-year increases in wages have trailed inflation for 17 months in a row.<sup>2</sup> Wages are a bit more flexible at Main Street SMBs generating more annually: 58% of Main Street SMBs generating more than \$1 million annually raised wages over the last year, while just 34% of Main Street SMBs generating less than \$150,000 annually did the same.

<sup>2</sup> Author unknown. Real Earnings — July 2022. Bureau of Labor Statistics. 2022. <https://www.bls.gov/news.release/pdf/realer.pdf>. Accessed September 2022.

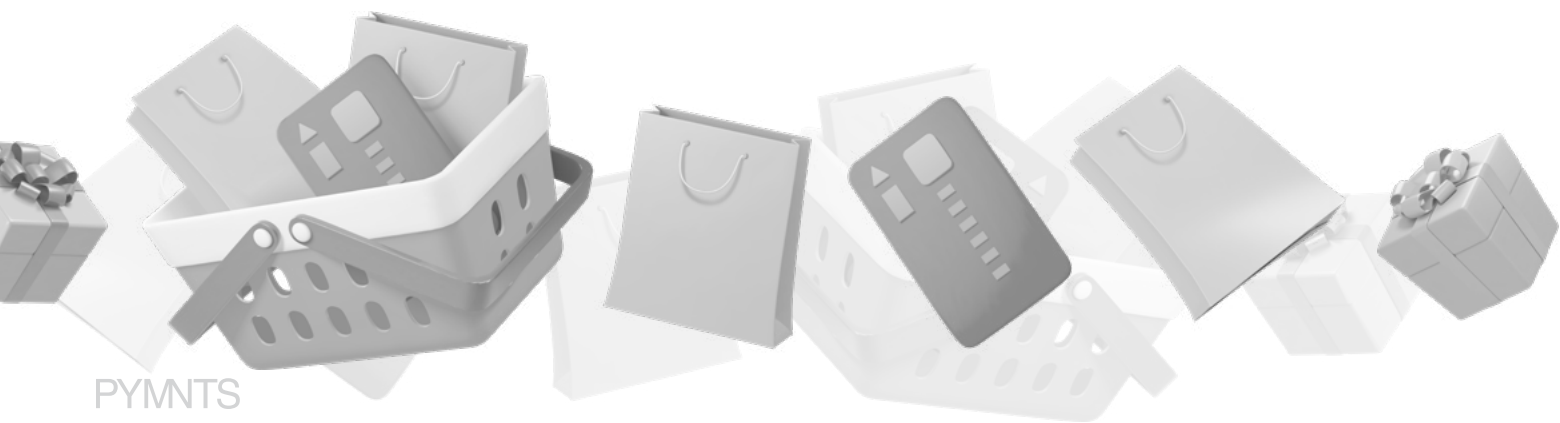




**Figure 2B**  
**Decreasing profits, increasing prices**  
Businesses that have experienced higher prices from suppliers and/or have increased prices for their consumers as a consequence, by sector



Source: PYMNTS  
SMBs Battle Inflation, September 2022  
N = 533: All businesses, fielded July 12, 2022 – July 27, 2022



## Personal and consumer services Main Street SMBs are approximately twice as likely as the average Main Street SMB to consider themselves at risk of needing to close.

The smallest and youngest Main Street SMBs are also particularly likely to be at risk.

With 12% of them saying they are sincerely concerned they will be going out of business in the next two years, personal and consumer services Main Street SMBs are far more likely than any other business segment we surveyed to consider themselves at risk.

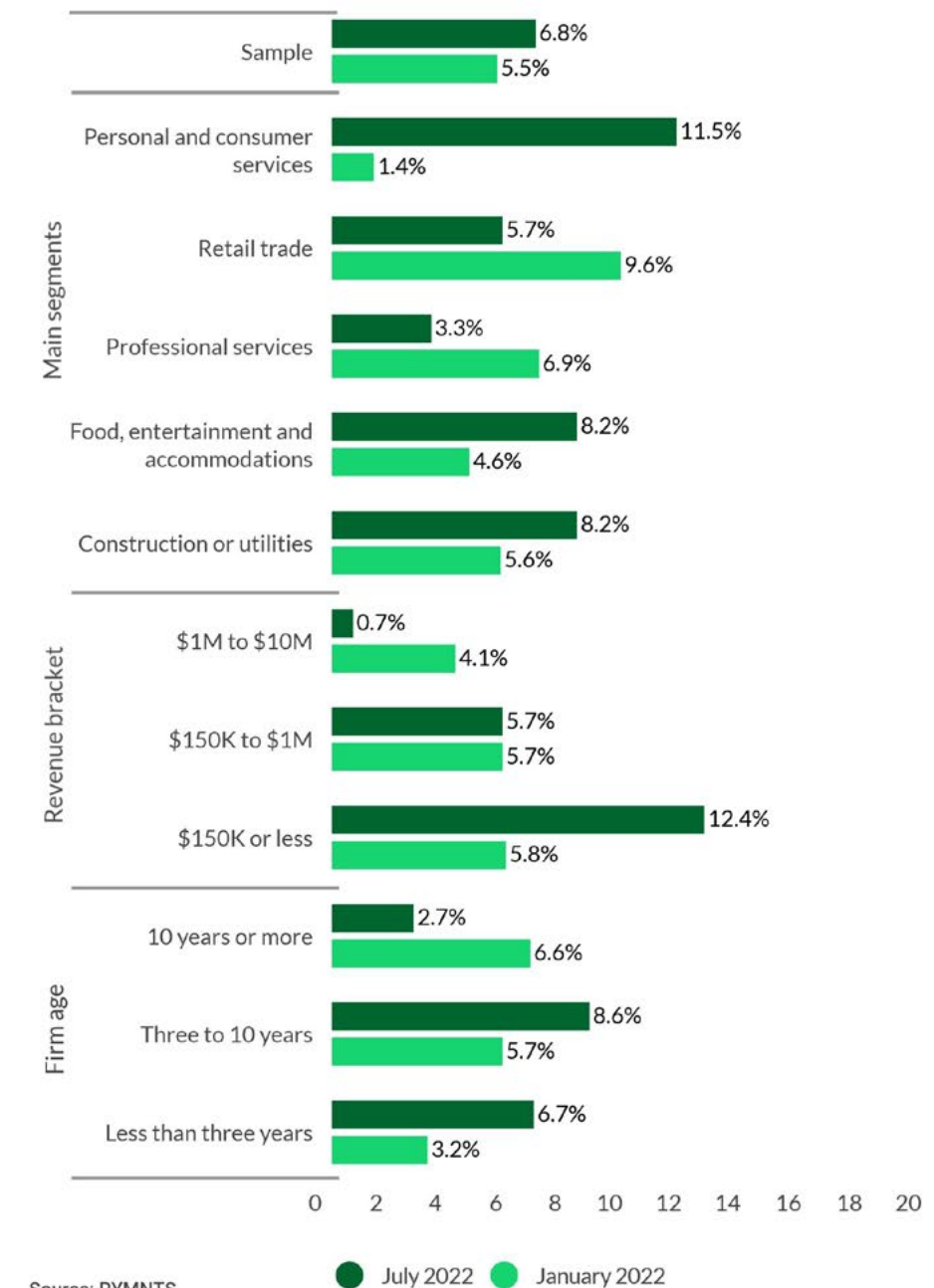
These Main Street SMBs include hair and nail salons as well as auto body shops, and some of their offerings are examples of discretionary spending. Though the tightening of consumer belts is being felt across sectors, these services may be the first to get the ax: Consumers might utilize fewer cosmetic services when they feel pessimistic about the economy or hold off on fixing a dent on their car, for example.

Main Street SMBs open for three years or fewer have become more than twice as likely to report being at risk since January, at 6.7% versus 3.2%. Smaller Main Street SMBs have also become far more likely to doubt their survival, with 12% reporting this concern now, although just 6% had these doubts in January. Despite these very large relative jumps in vulnerability, it is important to note that only 7% of all Main Street SMBs surveyed consider themselves at risk. That figure is less than one-third of the number that expressed this concern to us in November 2020, when the share was 24%, and is very close to January's figure of 5.5%.

Figure 3

### Firms at risk

Share of firms that consider it less than somewhat likely that they will continue to operate for the next two years, by firm demographic



Source: PYMNTS

SMBs Battle Inflation, September 2022

January 2022 N = 532: All businesses; July 2022 N = 533: All businesses, fielded July 12, 2022 – July 27, 2022

## Large players and online sellers have experienced relative success in these rough market conditions, with a notable share of them raising prices and increasing margins.

Thirty-six percent of Main Street SMBs that increased prices said their margins increased as a result.

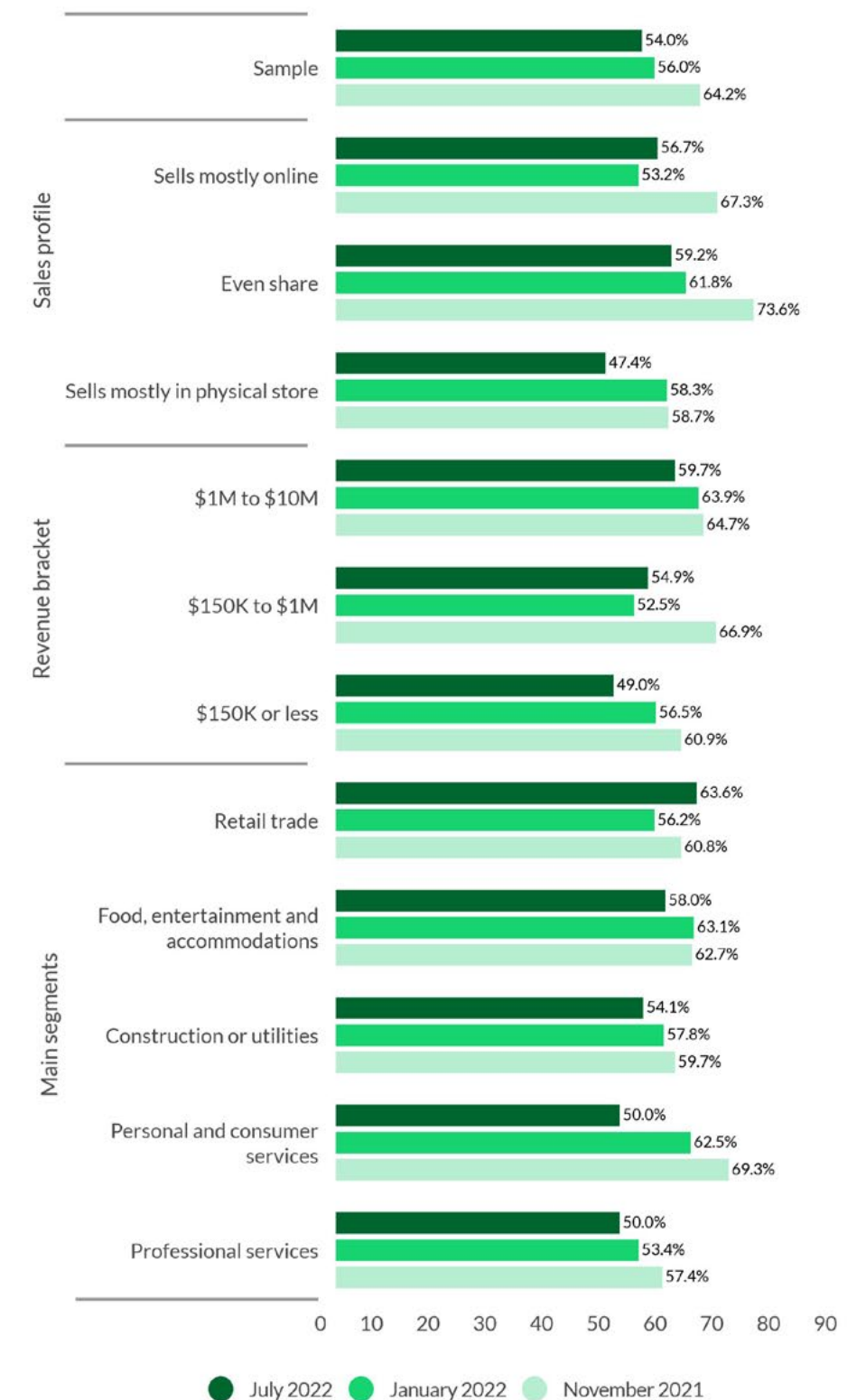
Overall, almost six out of 10 Main Street SMBs saw profit margins drop over the last year. Approximately two-thirds of hospitality firms report a drop in profit, leading all segments. Forty-six percent of Main Street SMBs say they have adjusted prices but that these adjustments have not been enough to stop their profit margins from decreasing.

Some Main Street SMBs are finding relief after raising prices: More than one-third of Main Street SMBs that increased prices said they have experienced increased profit margins.

Overall, 20% of Main Street SMBs say they are operating with higher profit margins amid the inflationary context, with larger Main Street SMBs and online sellers in our sample being the most likely to say they have experienced this trend. Over one-quarter of Main Street SMBs generating more than \$1 million in annual revenue say their profit margins are larger than they were last year. Sixty-five percent of these Main Street SMBs have increased prices over the last 12 months, with said increases averaging 11%.

Online sellers are more likely to have increased their margins as well; 25% have managed to do this, exceeding the 14% of brick-and-mortar sellers that did the same. Fifty-six percent of these sellers have increased prices over the last 12 months, with an average increase of 12%. For brick-and-mortar businesses — the type situated on main streets across America — the average rate of increase was just 9.5%.

Figure 4  
Main Street SMBs grow less optimistic  
Expected change in revenue year over year, by select segments



Source: PYMNTS

SMBs Battle Inflation, September 2022

November 2021 N = 765: All businesses; January 2022 N = 532: All businesses; July 2022 N = 533: All businesses, fielded July 12, 2022 – July 27, 2022



# CONCLUSION

**L**ike most places in the U.S., main streets are feeling stressed, and inflation’s ugly surge is ensuring that most businesses are experiencing trying times. Main Street SMBs better equipped to roll with the punches, such as online sellers, have an advantage, as do those that bring in greater amounts of revenue and those willing to raise prices in response. Increasingly, Main Street SMBs are coming to believe that this year will not be the rip-roaring return to success they had hoped for in January — but, on a positive note, relatively few, other than the smallest Main Street SMBs, fear that they will go out of business soon. Perhaps that alone is cause for celebration.

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## METHODOLOGY

The Main Street Health Survey Q3 2022: SMBs Battle Inflation, a PYMNTS report, examines the outlook and experiences of small to mid-sized businesses in the current market environment. We surveyed 533 U.S.-based Main Street SMBs between July 12 and July 27 about their experiences. Of the Main Street SMBs surveyed, 18% were in construction or utilities, 17% in retail, 11% in professional services, 10% in personal and consumer services, and 9% in food, entertainment and accommodation (also referred to as “hospitality”). Twenty-seven percent of the Main Street SMBs generate between \$1 million and \$10 million in sales annually, 37% generate between \$150,000 and \$1M and 36% generate less than \$150,000.

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