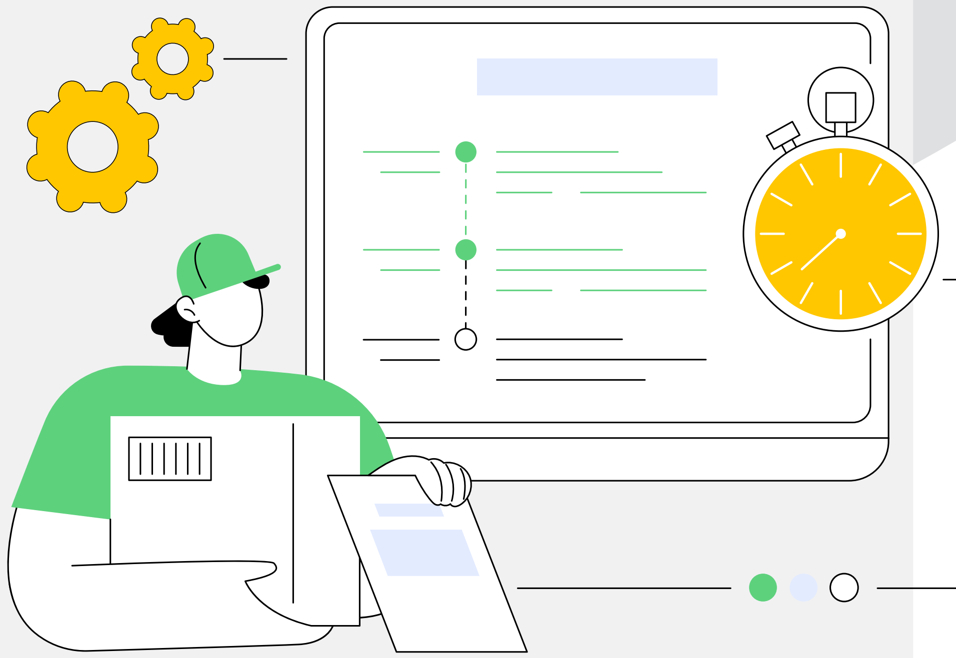
MAIN STREET HEALTH Q2 2023

Credit's Key Role in SMBs' Plans

June 2023 Report

Main Street Health Q2 2023, a PYMNTS and Enigma collaboration, is based on a survey of 514 SMBs with brick-and-mortar shops in commercial districts across the United States that reveals the latest on how business owners are reshaping their economic forecasts for the next 12 months — and what they see as the biggest hurdles to staying in business now and in the event of a recession.



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Main Street Health Q2 2023 was produced in collaboration with Enigma, and PYMNTS is grateful for the company's support and insight. PYMNTS retains full editorial control over the following findings, methodology and data analysis.

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INTRODUCTION

Main Street small to mid-sized businesses (SMBs) that have struggled to keep their doors open amid pandemic-related upheaval and survived are looking to solidify their finances amidst an inflationary market environment. PYMNTS' data finds they need help meeting their financing needs as they look to avoid business closures and position themselves for growth. In fact, 48% of these firms plan to increase their reliance on financing in the next 12 months. PYMNTS' research finds that Main Street SMBs with less access to cash are less likely to expect their revenues to grow — and those that have access to business credit sources are planning to increase their credit usage further. Among the firms that are planning to increase their credit usage, the expected average increase is 72%.

As Main Street SMBs consider utilizing more credit, their business owners will have to get savvy about the different financing options available to them, carefully weighing the pros and cons of tapping into additional sources of credit they may not have explored before. While the advantages of additional funds is clear, owners must be mindful of any disadvantages that come with potentially high interest rates and opaque loan processing fees in a period where lending costs have risen. Fortunately, options are plenty, ranging from merchant cash advances or equipment financing.

Main Street Health Survey Q2 2023: Credit's Key Role in SMBs' Plans, a PYMNTS and Enigma collaboration, is built from a survey of 514 SMBs with brick-and-mortar shops in commercial districts across the United States. The report strives to understand which resources business owners are planning on using to meet their businesses' financial needs. These SMBs include firms with a physical location from which they conduct their business and that generate less than $10 million in revenue. This definition excludes contractors, house cleaners or personal service businesses that operate out of the owners' homes.

The study explores Main Street SMBs' appetite for accessing credit at a point in time in which the risk of survival is remaining top of mind. PYMNTS finds that 40% of SMBs still think of inflation as their main concern, and 15% expect declining revenues this year. That worry is not unfounded, especially for those with little or no access to readily available financing. This study unearths SMBs' evolving preferences when seeking new sources of funding beyond personal credit cards and highlights the differences in those preferences across different SMB segments, such as construction, professional services, hospitality and retail.

This is what we learned.

Almost half of Main Street SMBs are planning to increase the amount of credit they use — or start using credit.

PYMNTS' calculations reveal that among the whole sample of Main Street SMB respondents, 48% have more credit in their plans — 34% of all respondents do not currently use credit and want to begin doing so; 14% currently have access to business credit sources and want to further expand their financing. Combine these two groups, and right around half of Main Street businesses are shopping for financing opportunities.

PYMNTS' research finds that 42% of Main Street SMBs have access to business or personal financing sources, such as credit cards, working capital from a bank, a loan from an online lender or a cash advance, but only 27% use them. Business credit cards are the most common source of financing available to Main Street SMBs, and they are most likely to be used in the future as well. Thirty-one percent of Main Street SMBs currently have access to business credit cards and 18% currently use them.

FIGURE 1:

Available financing options

Share of Main Street SMBs that cite financing resources available and used to face business contingencies

	BUSINESS SOURCES		
	Source used	Source available	Total
• Business credit card	18.3%	12.8%	**31.0%**
• Working capital loans from a bank	4.3%	8.7%	**13.0%**
• Business loans from an online lender	5.5%	8.0%	**13.5%**
• Unsecured business bank loans	2.2%	5.7%	**7.8%**
• Merchant cash advance	3.5%	4.5%	**7.9%**
• Equipment financing	2.0%	5.5%	**7.5%**

	PERSONAL SOURCES		
	Source used	Source available	Total
• Personal credit card	11.2%	14.8%	**26.0%**
• Personal loans from a bank	5.1%	10.4%	**15.5%**
• Personal investment assets that I could liquidate	4.6%	14.7%	**19.3%**
• Loans from family or friends	3.7%	6.1%	**9.8%**
• Mortgage loans against my house	2.4%	3.6%	**6.1%**
• Loans from employees	1.5%	3.9%	**5.4%**

Source: PYMNTS
Main Street Health Survey Q2 2023: Credit's Key Role in SMBs' Plans, June 2023
N = 514: Whole sample, fielded April 10, 2023 – April 28, 2023

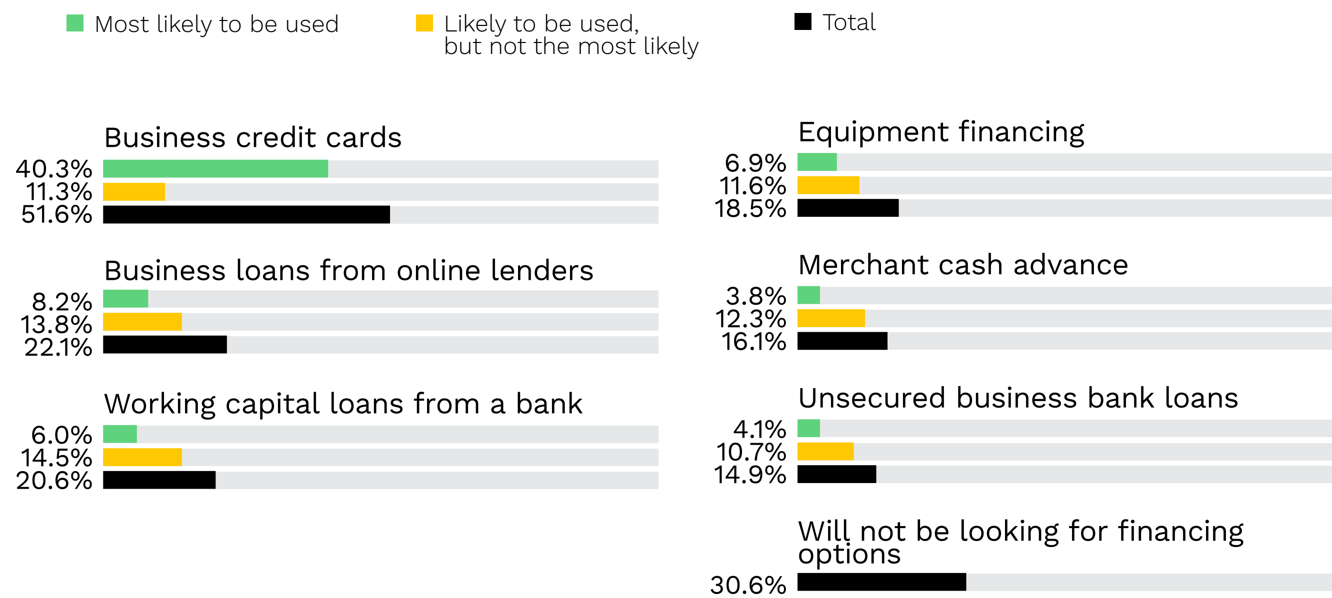
40%

Share of firms that are most likely to use business credit cards in the next 12 months

Most Main Street SMBs are not aware of or familiar with other financing options out there. This may be because they are so occupied with their day-to-day operations that they did not qualify for or were denied other financing options. It may also be that lenders did not do enough to inform and educate SMBs. We found that 14% have access to business loans from online lenders, but not all of them use them. Access to and utilization of other business sources, such as unsecured business loans or merchant cash advances, reached a mere 8%. These findings suggest that Main Street SMBs remain an underexplored market for financial lenders, or that lenders that have made forays to do so have shied away from approving loans or issuing credit lines to SMBs because they may not have qualified for traditional lending.

FIGURE 2:

Financing sources under consideration
Share of firms that will consider using select financing sources in the next 12 months



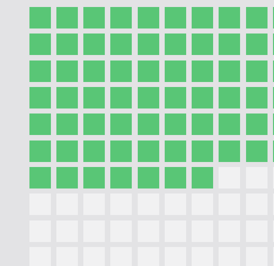
Source: PYMNTS
Main Street Health Survey Q2 2023: Credit's Key Role in SMBs' Plans, June 2023
N = 514: Whole sample, fielded April 10, 2023 – April 28, 2023

Construction Main Street SMBs consider using more sources of financing than Main Street SMBs in any other industry, on average. On the other hand, firms in consumer services are the least likely to be looking for credit options.

Looking out over the next 12 months, 7 in 10 firms plan to use some form of business financing. We also find that 52% of SMBs are planning to use business credit cards — a significant jump from the 31% that have access today. In addition, 22% will consider using business loans from online lenders and 21% will consider using working capital loans from banks. Despite a trend of becoming comfortable using credit, 31% of Main Street SMBs will not seek financing at all, implying that some owners do not need, are not comfortable with or are not familiar with external financing sources.

SMBs differ in the amounts they need and the type of financing they prefer. Fifty-nine percent of construction firms are likely to consider using credit cards, as are 61% of businesses generating annual revenues of more than $1 million. Consumer services and smaller SMBs, on the other hand, are particularly less likely to use credit. Other SMBs — namely 45% of smaller SMBs and 51% of personal consumer services firms — will not be looking for financing options next year at all.

67%



Increase in the share of SMBs planning to use business credit cards compared to those that have access today

Main Street SMBs primarily depend on large national banks for lending.

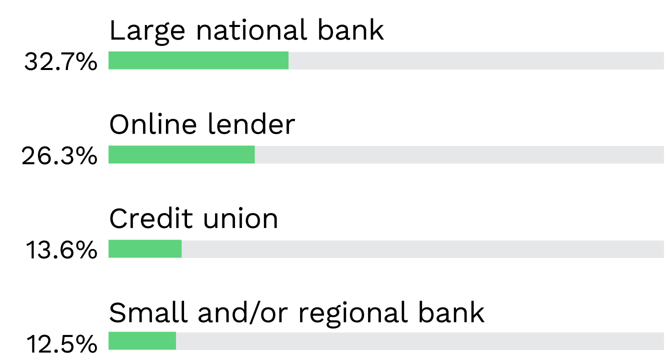
One-third of Main Street SMBs will likely use large national banks to meet their financial needs — more than any other type of lender. Our study found that 26% of Main Street SMBs are planning on using online lenders. Credit unions (CUs) and small regional banks come next: 14% say they will likely use CUs and 13% say they will likely use small regional banks. These preferences indicate the level of familiarity and trust that SMBs place in different types of financial institutions — and regardless of the type of industry, large banks hold the advantage.

Banks and other lenders will benefit from understanding SMB preferences so they can identify the most suitable prospects for lending, and our research found that SMBs exhibit different preferences based on their size and their line of business. For example, 39% of firms in construction are considering large banks like Bank of America, Wells Fargo and JPMorgan for credit lines, while smaller firms are more likely to work with regional banks. SMBs in the retail trades are most likely to consider applying for credit with online lenders and credit unions.

FIGURE 3:

Credit sources Main Street SMBs prefer

Share of Main Street SMBs that are considering select lenders to help with credit needs

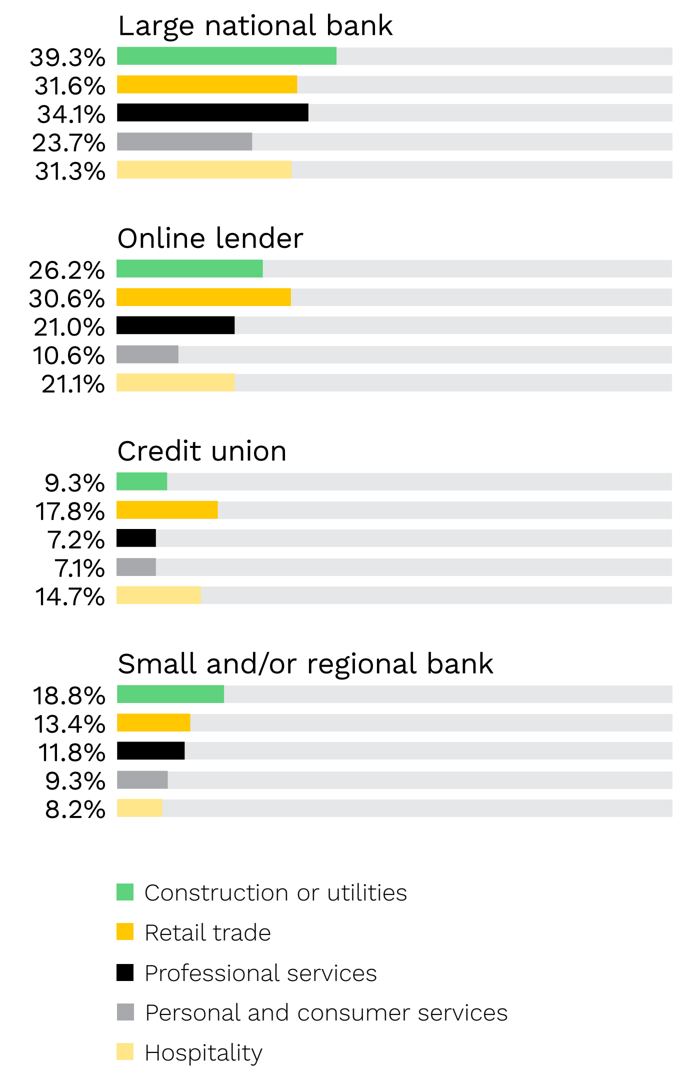


Source: PYMNTS
Main Street Health Survey Q2 2023: Credit's Key Role in SMBs' Plans, June 2023
N = 352: Firms planning to use financing in the next 12 months, fielded April 10, 2023 – April 28, 2023

FIGURE 4:

Lender preferences

Share of Main Street SMBs that are considering select lenders to help with credit needs, by industry



Source: PYMNTS
Main Street Health Survey Q2 2023: Credit's Key Role in SMBs' Plans, June 2023
N = 352: Firms planning to use financing in the next 12 months, fielded April 10, 2023 – April 28, 2023

Securing business financing can improve Main Street SMBs' outlook and resiliency.

Financing and cash flow are essential to the viability of a business. Firms with greater access to cash and financing sources are less likely to be vulnerable to business closures and more likely to expect their revenues to grow. While 8.6% of all Main Street SMBs say they are at risk of closing in the near term, this number rises substantially to 19% for those with access to less than $5,000 in cash. Main Street SMBs that have access to more than $50,000 in cash are in better shape: Only 2.3% feel they are at risk of closure.

While 42% of Main Street SMBs across all revenue tiers have access to business financing sources, only 27% of those with less than $150,000 in annual revenue have that same access. Small businesses are looking to turn this around in the next year, however, and are planning to use more credit.

64%

Share of SMBs with access both business and personal financing that anticipate their revenues will grow

PYMNTS' research shows that Main Street SMBs with more access to financing are more confident that their revenues will increase year over year. While 64% of Main Street SMBs with access to both business and personal financing sources are sure their revenues will grow year over year, that number drops to 54% for businesses that do not have access to financing or have not used it in the last year.

CONCLUSION

PYMNTS finds that firms with greater access to cash and financing sources are less likely to be vulnerable to business closures and more likely to expect their revenues to grow.

Large national banks have a preference advantage over other lenders, although we uncovered variances in preference that suggest other lenders — namely online ones — have an opportunity to improve their standing if they position their products and services to specific subsets of SMBs — or if they better capture the trust and confidence of SMB owners. With nearly half of all Main Street SMBs in our sample planning to utilize more credit than before, the time may be right for lenders to focus on wooing these small but vital contributors to the American economy.

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METHODOLOGY

Main Street Health Health Survey Q2 2023: Credit's Key Role in SMBs' Plans, a PYMNTS and Enigma collaboration, examines the outlook and experiences of small to mid-sized businesses in the current market environment. We surveyed 514 U.S.-based businesses between April 10 and April 28 about their plans. Among the organizations surveyed, 18% were in construction or utilities, 17% were in retail, 11% were in professional services, 10% were in personal and consumer services and 9% were in food, entertainment, and accommodations. Twenty-seven percent of the organizations generated annual revenues between $1 million and $10 million, 37% generated revenues between $150,000 and $1 million and 36% generated revenues of less than $150,000.

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ABOUT

PYMNTS is where the best minds and the best content meet on the web to learn about "What's Next" in payments and commerce. Our interactive platform is reinventing the way in which companies in payments share relevant information about the initiatives that shape the future of this dynamic sector and make news. Our data and analytics team includes economists, data scientists and industry analysts who work with companies to measure and quantify the innovation that is at the cutting edge of this new world.

Enigma provides comprehensive intelligence about the identity and financial health of every small and medium business across the United States. By engineering better data from hundreds of public and third-party sources, we aim to tell the complete story of every business, so that companies of every size can access the financial services they need to grow and thrive. Financial organizations from the world's largest banks to tomorrow's unicorns use Enigma's data to better serve their small business customers. To learn more visit enigma.com.

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