

# Market Outlook: Quarterly Research Insights into the Changing Landscape of Small Business

April 2022

# Research Overview



## Objectives/Approach

The ADP Research Institute, in partnership with the ADP Corporate Market Insights team surveyed ADP's small business clients on the changing landscape of business conditions. This is the second quarterly pulse study.

### Quantitative:

10-minute online survey

### Field Dates:

Wave 1: May 10 – 25, 2021

Wave 2: August 19 – September 13, 2021

Wave 3: December 2 – 31, 2021

Wave 4: March 16-April 12, 2022



## Who?

**ADP Clients:** Small business clients.

A representative sample was pulled and deployed by size segment and region to ensure a representative view of ADP's small business segment.

	Wave 1	Wave 2	Wave 3	Wave 4
1-49 EE	2,058	2,116	1,834	1,079
1 - 4 EE	1,067	1,118	866	539
5 - 9 EE	481	447	414	235
10-24 EE	404	397	413	205
25-49 EE	106	154	141	100
50-499 EE	NA	179	179	130
50-150 EE		114	126	80
151-499 EE		65	53	50

Finding's stat tested @ 95%

# Respondent Company Profile

Region	Total 1-49	1-4	5-9	10-24	25-49	50-499
Northeast	20%	19%	17%	22%	28%	27%
Midwest	19%	16%	21%	24%	18%	24%
South	32%	32%	35%	31%	30%	32%
West	29%	34%	26%	22%	24%	17%

Tenure	Total 1-49	1-4	5-9	10-24	25-49	50-499
Less than 1 year	4%	6%	3%	*	1%	-
1 to less than 3 yrs	8%	11%	5%	7%	1%	2%
3 to less than 5 yrs	8%	10%	7%	6%	2%	2%
5 to less than 7 yrs	7%	6%	9%	6%	5%	3%
7 to less than 10 yrs	7%	8%	9%	4%	2%	2%
10 yrs+	67%	58%	68%	76%	89%	92%

Business Owner Profile	Total 1-49	1-4	5-9	10-24	25-49	50-499
Woman-Owned	25%	28%	23%	21%	18%	7%
Minority-Owned	16%	22%	11%	8%	10%	8%
Veteran-Owned	6%	7%	6%	4%	5%	3%
LGBTQ+-Owned	2%	2%	*	2%	2%	1%
Don't know	4%	3%	5%	5%	4%	6%
None of the above	57%	49%	61%	63%	70%	79%

Woman and  
Minority Owned  
**6%**

# Executive Summary

## Employee Retention

- Offering flexible work hours/schedules and special bonuses/increase pay are most important to attract and retain employees in smaller companies (1-49 employees).
- Larger companies (50-499 employees) cite special bonuses/increase pay as most important to attract and retain employees followed by retirement plans, lower out of pocket medical costs and flexible work

## Labor Costs and Wages

- About one half of clients indicate that their labor costs are manageable and have had to make no changes.
- Clients are much less likely to increase wages in the next 3 months but are not planning to decrease them either.

## Employee Offerings

- Larger companies offer twice as many things to their employees than smaller companies.
- Smaller clients are most likely to offer flexible work hours/schedules to employees, followed by special bonuses/increased pay and retirement plans.

## Prices and Revenues

- Fifty percent of small business clients have had to raise the prices they charge their clients in the last 3 months, a significant increase from the prior wave (50% → 54%) but fewer say the increases will be permanent (75% → 68%), especially those in smaller companies (1-9 employees).
- Revenues are less likely to have increased in the last 3 months and more likely to have remained the same.



**ADP** | Research  
INSTITUTE

Quarterly  
Small Business Client  
Pulse Study

# Challenges Business is Currently Facing

1-49 EEs

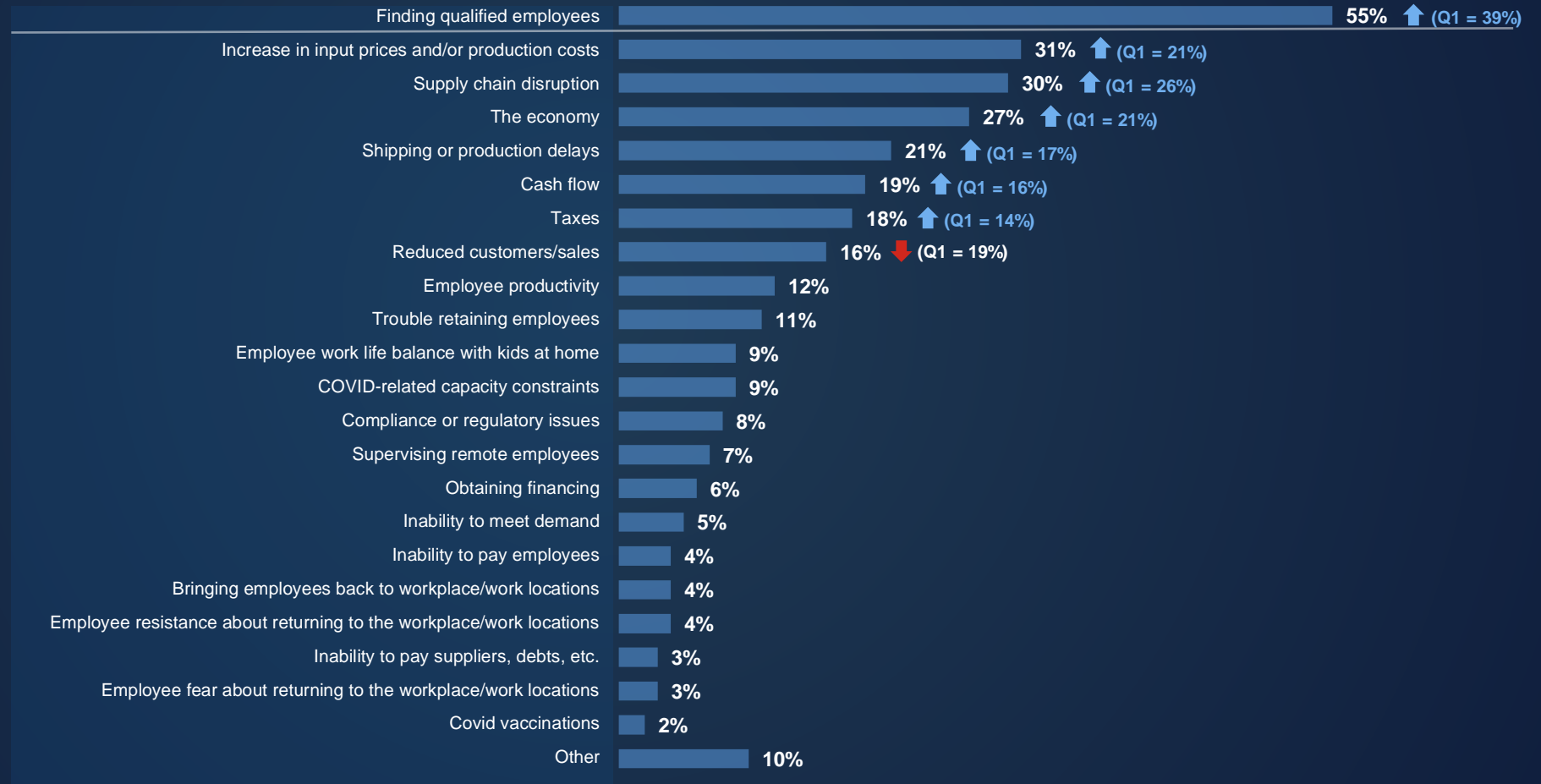


**Finding qualified employees** remains the overwhelming challenge facing small businesses.

The challenge caused by **Supply chain disruptions** continues to increase for small businesses with more than a quarter citing it as challenge and nearly one-fifth indicating it is a top challenge.

**Challenge:** 17% → 21% → 26%  
**Top:** 12% → 15% → 19%

## All Challenges



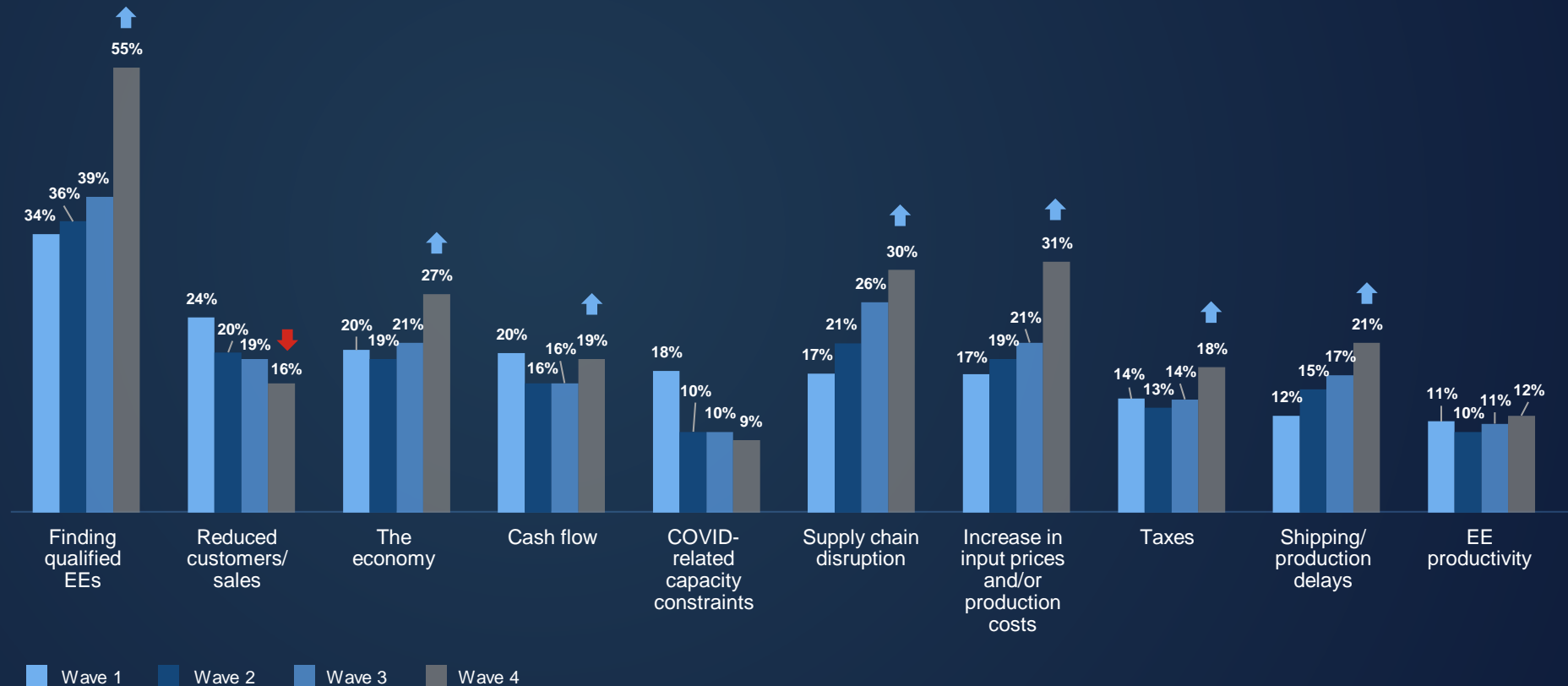
# Challenges Business is Currently Facing (Top 10)

1-49 EEs



**Finding qualified employees** continues to be a key challenge for small business clients are facing and has increased significantly in the last 3 months ago – more than half now cite it as a key business challenge.

Several other issues are far more of a challenge this wave than in prior waves. But **reduced customers/sales** has **dropped again** and now only 16% cite it as a challenge.



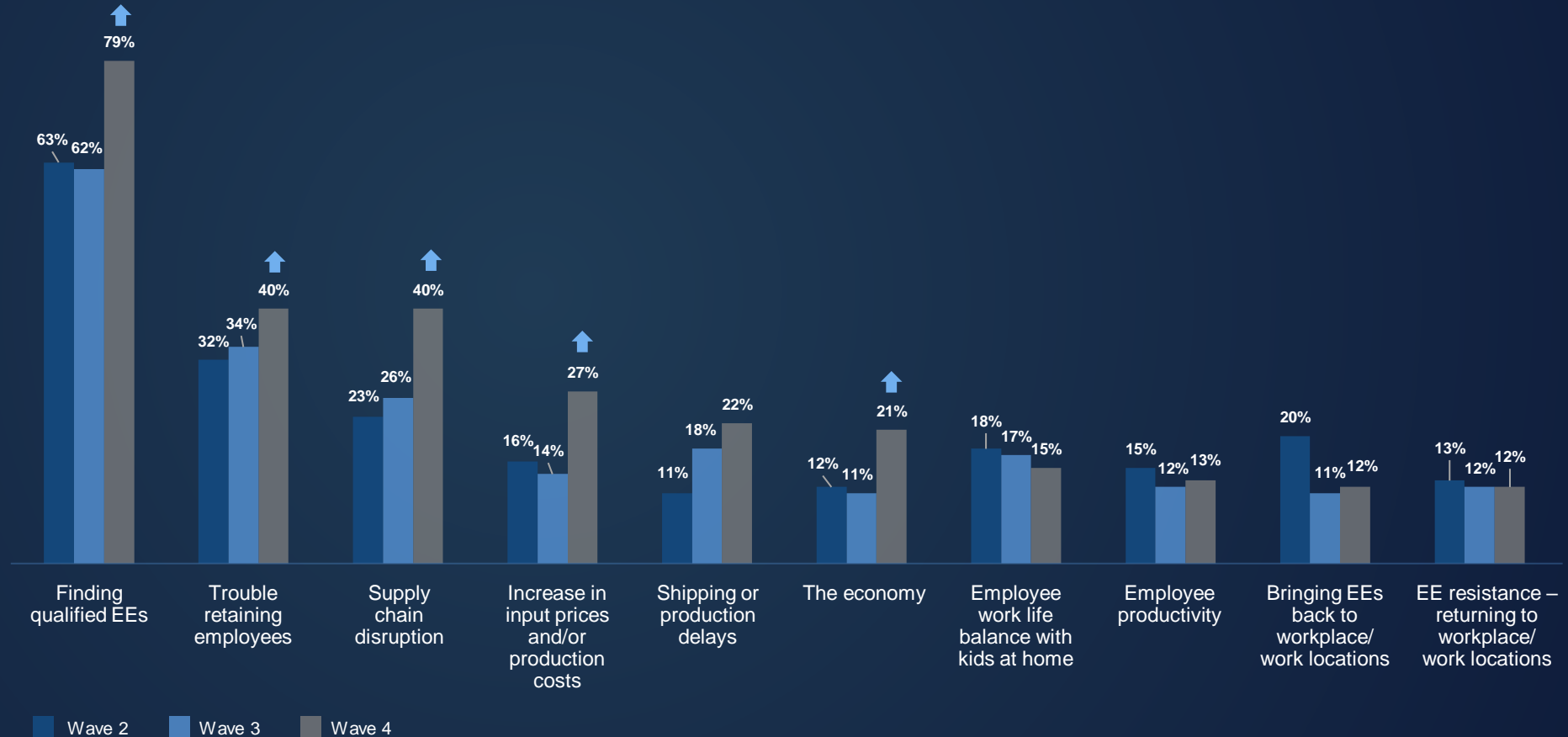
# Challenges Business is Currently Facing (Top 10)

50-499 EEs



**Finding qualified employees** continues to be the primary challenge clients with 50-499 employees face – jumping dramatically in this current wave.

**Employee retention, Supply chain disruption, increases in input price/production costs and the economy** have also increased significantly in the current wave.



# How Companies are Dealing with Increased Labor Costs



Many companies indicate labor costs are manageable and have had to make no changes. But among those who have made changes, **focusing on employee retention** is the primary way, especially among larger companies.

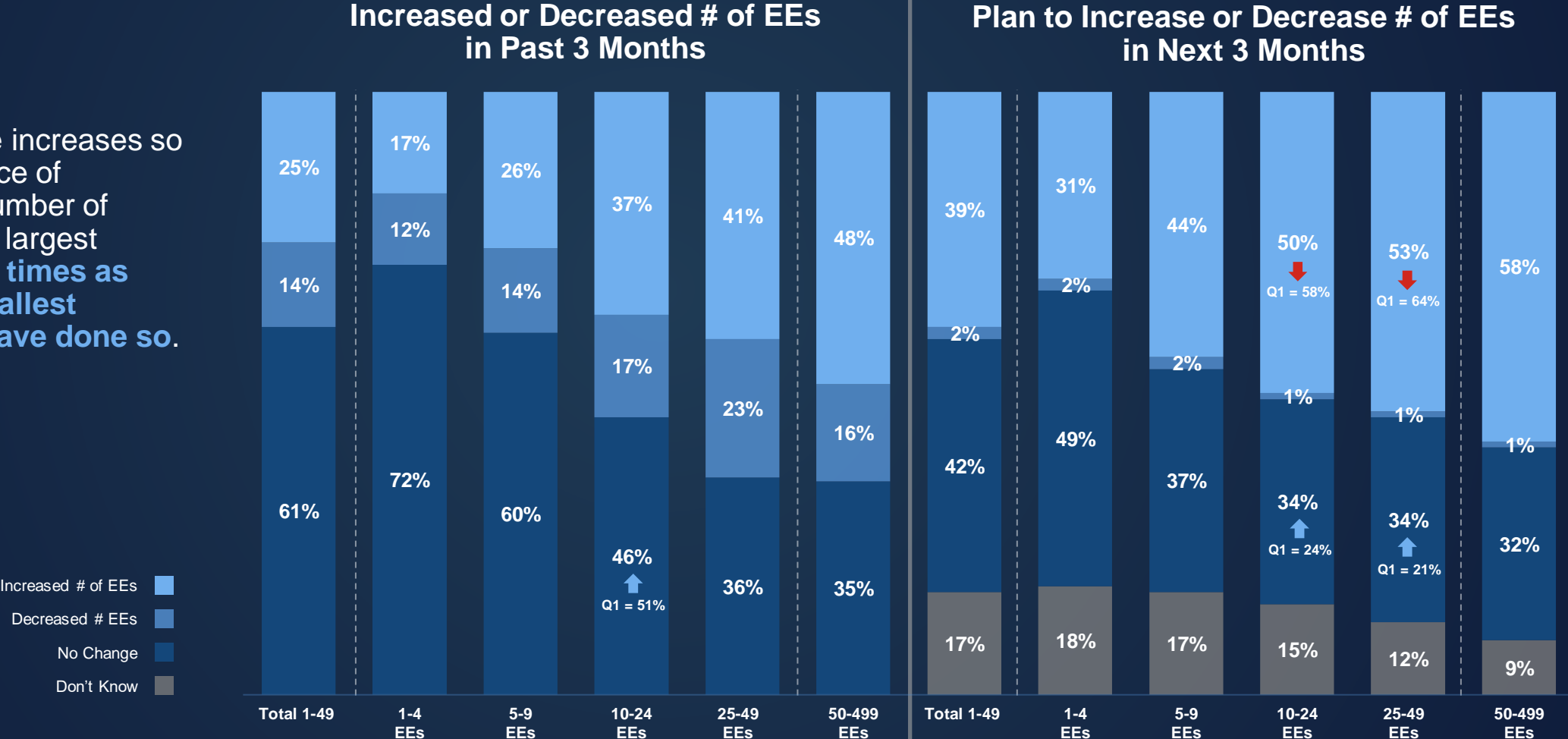
	1-49 EEs	1-4 EEs	5-9 EEs	10-24 EEs	25-49 EEs	50-499 EEs
<b>Focus on retention</b>	<b>24%</b>	<b>17%</b>	<b>26%</b>	<b>31%</b>	<b>40%</b>	<b>38%</b>
Scaling back usual business operations	10%	11%	11%	6%	8%	5%
Investing in labor saving technology	8%	9%	8%	8%	9%	13%
Asking employees to work more hours	9%	8%	9%	9%	10%	11%
Slowing hiring plans	8%	8%	9%	4%	11%	6%
Hiring more 1099 independent contractors (freelancers)	7%	9%	4%	7%	3%	3%
Reducing employee perks	4%	4%	4%	2%	4%	2%
Reducing benefits offered	3%	3%	3%	2%	5%	1%
Other	9%	8%	7%	10%	14%	8%
<b>Labor costs are manageable, we have made no changes</b>	<b>49%</b>	<b>52%</b>	<b>52%</b>	<b>47%</b>	<b>36%</b>	<b>45%</b>



# Number of Employees



As company size increases so does the incidence of increasing the number of employees – the largest companies are **3 times as likely as the smallest companies to have done so.**



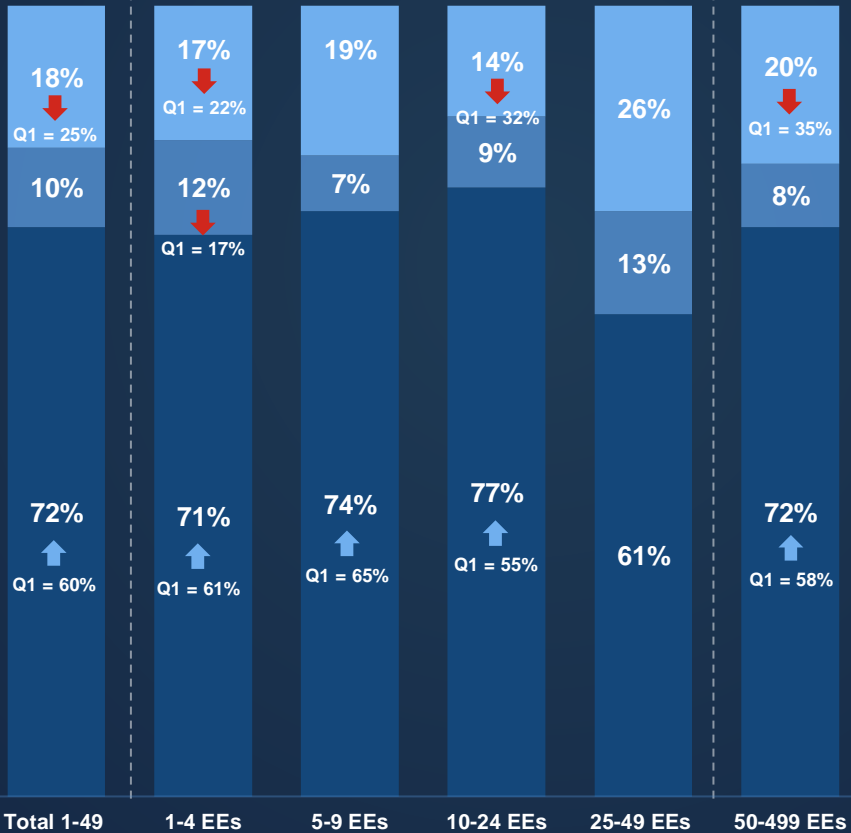
Q12. In the past three months, has your company increased or decreased the number of employees?  
 Q13. Does your company plan to increase or decrease the number of employees in the next three months?

# Number of Hours Worked by Employees

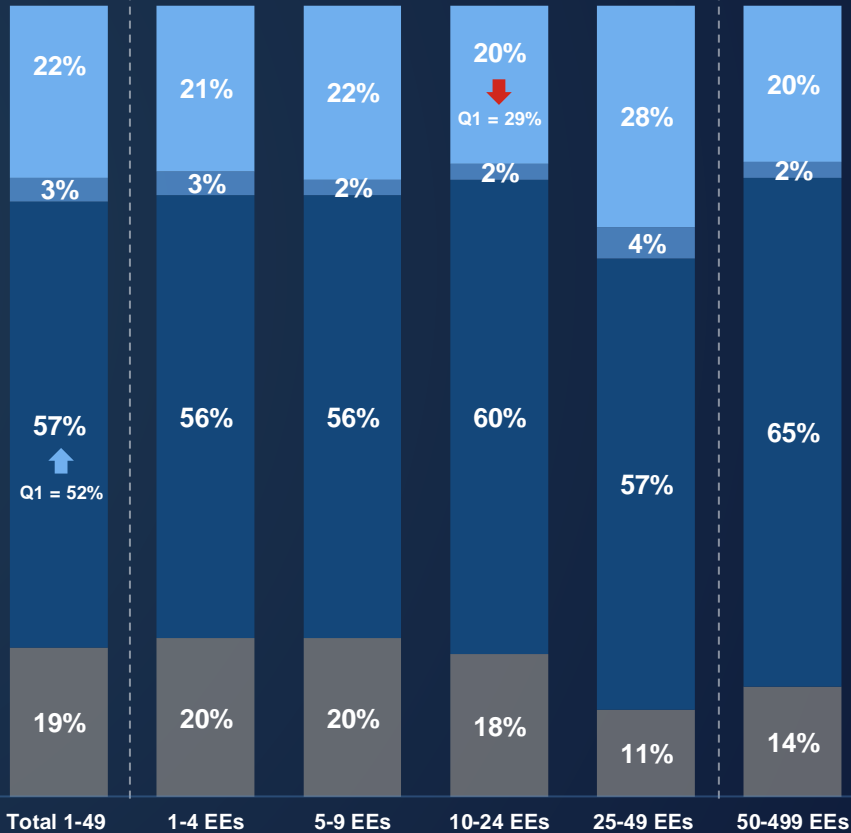


Overall, the majority of small businesses have not changed the number of hours worked by employees in the past 3 months and many **have no plans to do so** in the next 3 months.

### Increased or Decreased # of EEs in Past 3 Months



### Plan to Increase or Decrease # of EEs in Next 3 Months



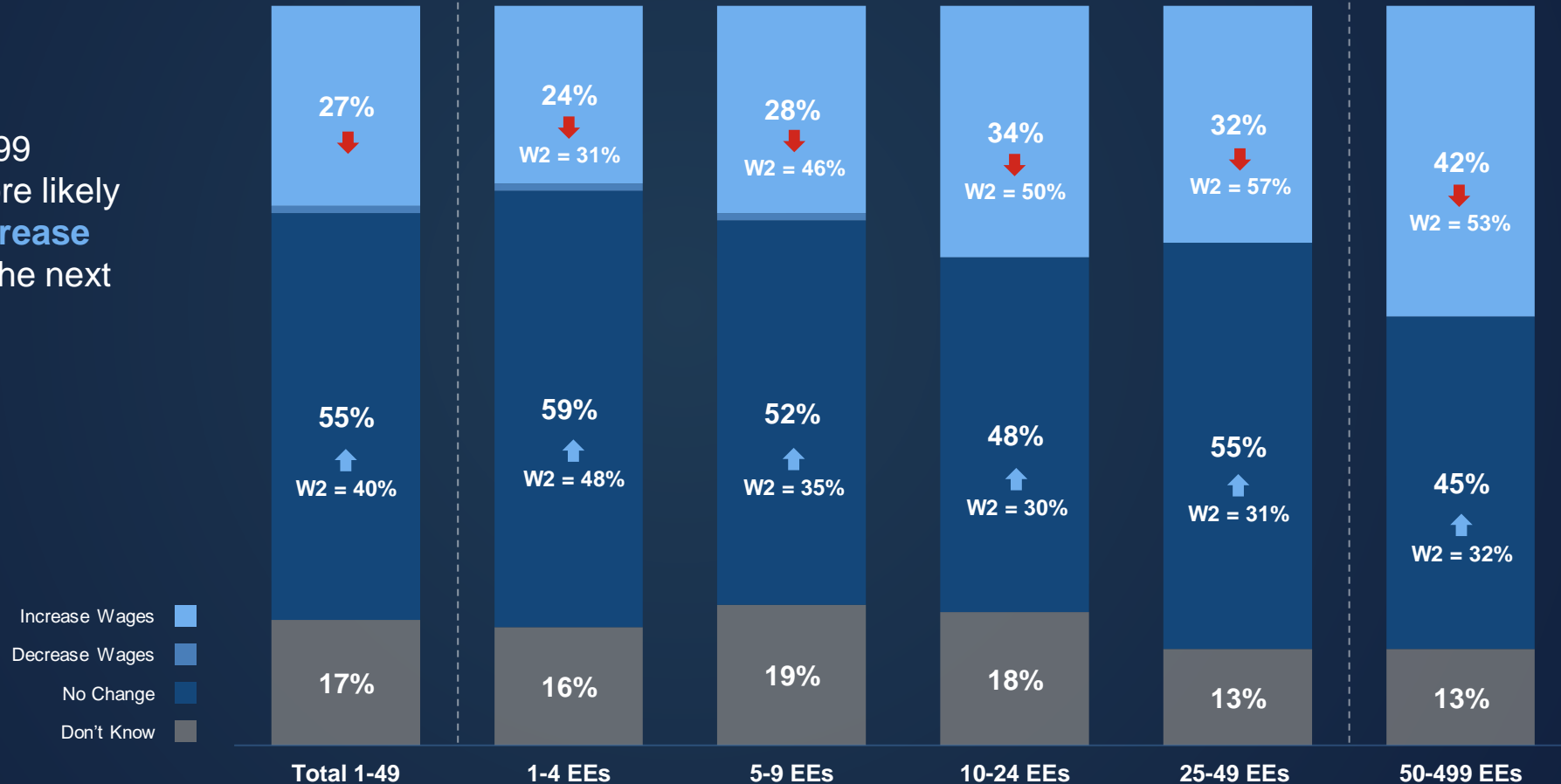
Increased Total Hours  
Decreased Total Hours  
No Change  
Don't Know

Q14. In the past three months, has your company increased or decreased the total number of hours worked by employees?  
Q15. In the next three months, does your company plan to increase or decrease the total number of hours worked by employees?

# Increase or Decrease Wages in the Next 3 Months



Companies with 50-499 employees are far more likely to be **planning to increase employee wages** in the next 3 months.



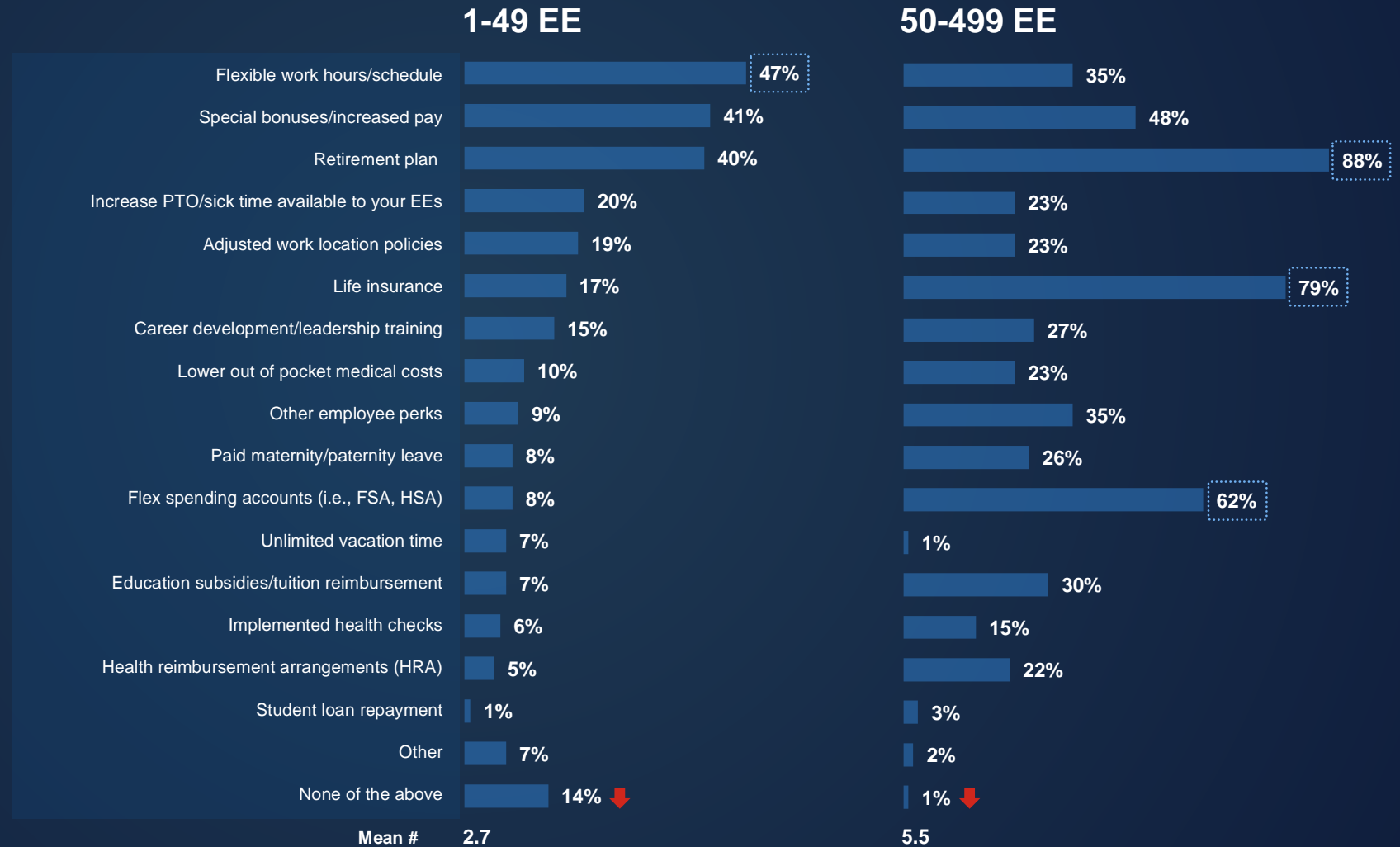
# Offered to Employees



Larger companies offer **twice as many things** to their employees.

Smaller clients are most likely to offer **flexible work hours/schedules** to employees, followed by special bonuses/ increased pay and retirement plans.

Retirement plans, life insurance and flex spending accounts top the list for larger companies.



# Offered to Employees



As company size increases so do the number of offerings to employees – **the largest companies offer twice as many as smaller companies.**

Flexible work hours and schedules are more common among smaller clients while retirement plans and life insurance increase in prevalence as company size increases.

	TOTAL 1-49	1-4 EEs	5-9 EEs	10-24 EEs	25-49 EEs	50-499 EEs
<b>Any (Net)</b>	<b>86%</b>	<b>80%</b>	<b>89%</b>	<b>93%</b>	<b>94%</b>	<b>99%</b>
Flexible work hours/schedule	47%	49%	49%	45%	37%	35%
Retirement plan	40%	27%	44%	59%	68%	88%
Special bonuses/increased pay	41%	34%	45%	48%	55%	48%
Increase PTO/sick time available	20%	16%	20%	22%	35%	23%
Adjusted work location policies	19%	19%	20%	18%	17%	23%
Life insurance	17%	9%	15%	28%	41%	79%
Career development/leadership training	15%	12%	19%	15%	25%	27%
Lower out of pocket medical costs	10%	8%	11%	13%	20%	23%
Other employee perks	9%	5%	10%	13%	20%	35%
Flex spending accounts (i.e., FSA, HSA)	8%	3%	9%	13%	23%	62%
Paid maternity/paternity leave	8%	5%	10%	11%	15%	26%
Education subsidies/tuition reimbursement	7%	6%	8%	6%	13%	30%
Unlimited vacation time	7%	9%	5%	4%	4%	1%
Implemented health checks	6%	4%	9%	5%	12%	15%
Health reimbursement arrangements (HRA)	5%	4%	6%	8%	5%	22%
Student loan repayment	1%	1%	1%	1%	2%	3%
Other	7%	5%	9%	9%	7%	2%
<b>None of the above</b>	<b>14%</b>	<b>20%</b>	<b>11%</b>	<b>7%</b>	<b>6%</b>	<b>1%</b>
<b>Mean # of Things Offered</b>	<b>2.7</b>	<b>2.2</b>	<b>2.9</b>	<b>3.2</b>	<b>4.0</b>	<b>5.5</b>

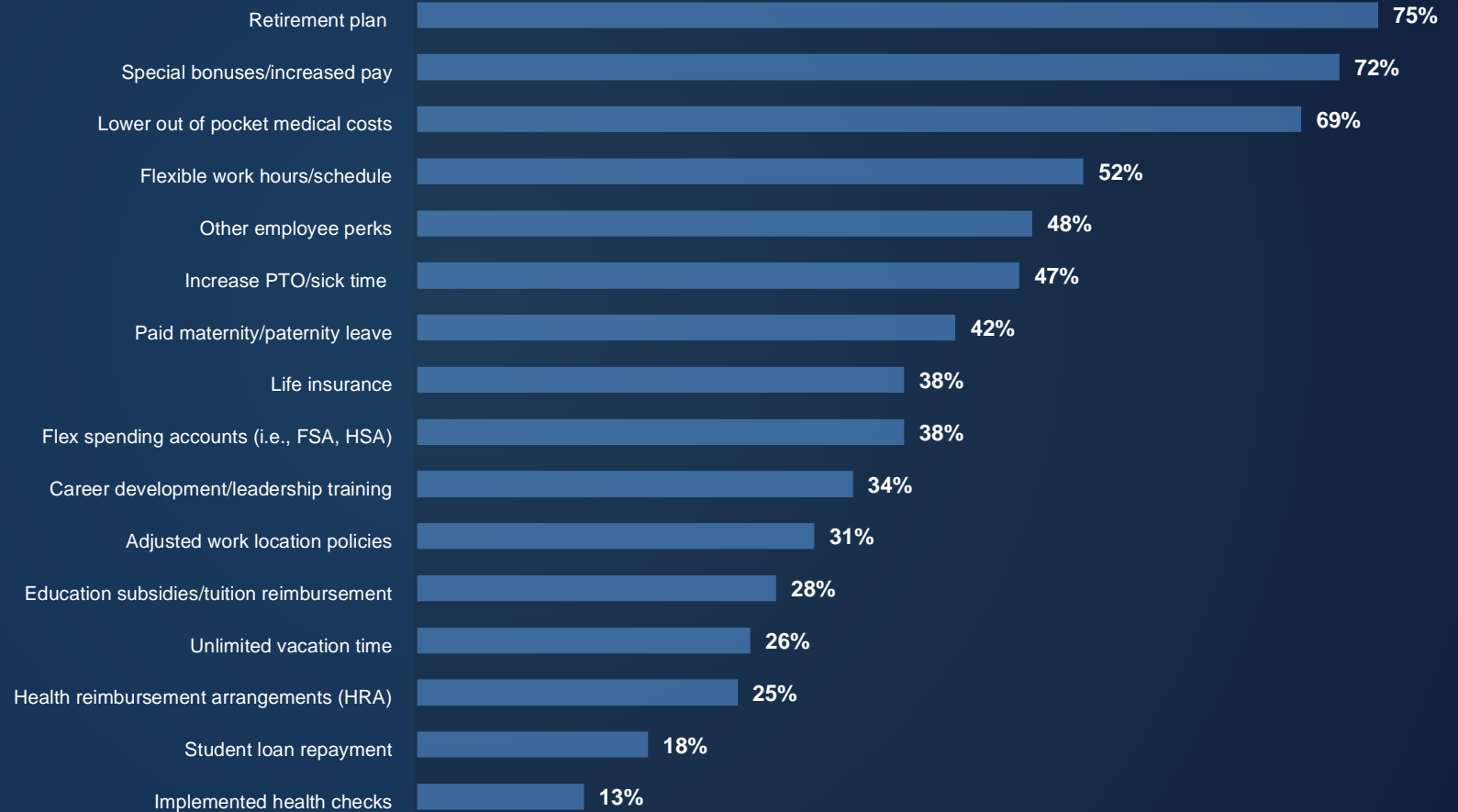
# Important to Attract New Employees

50-499 EEs



**Special bonuses/increased pay** is overwhelmingly the most important item to attract new employees to larger companies (50-499 employees), followed by **retirement plans, lower out of pocket medical costs** and **flexible hours/schedules**. Increased PTO time and career development/training round out the list.

## Extremely/Very Important



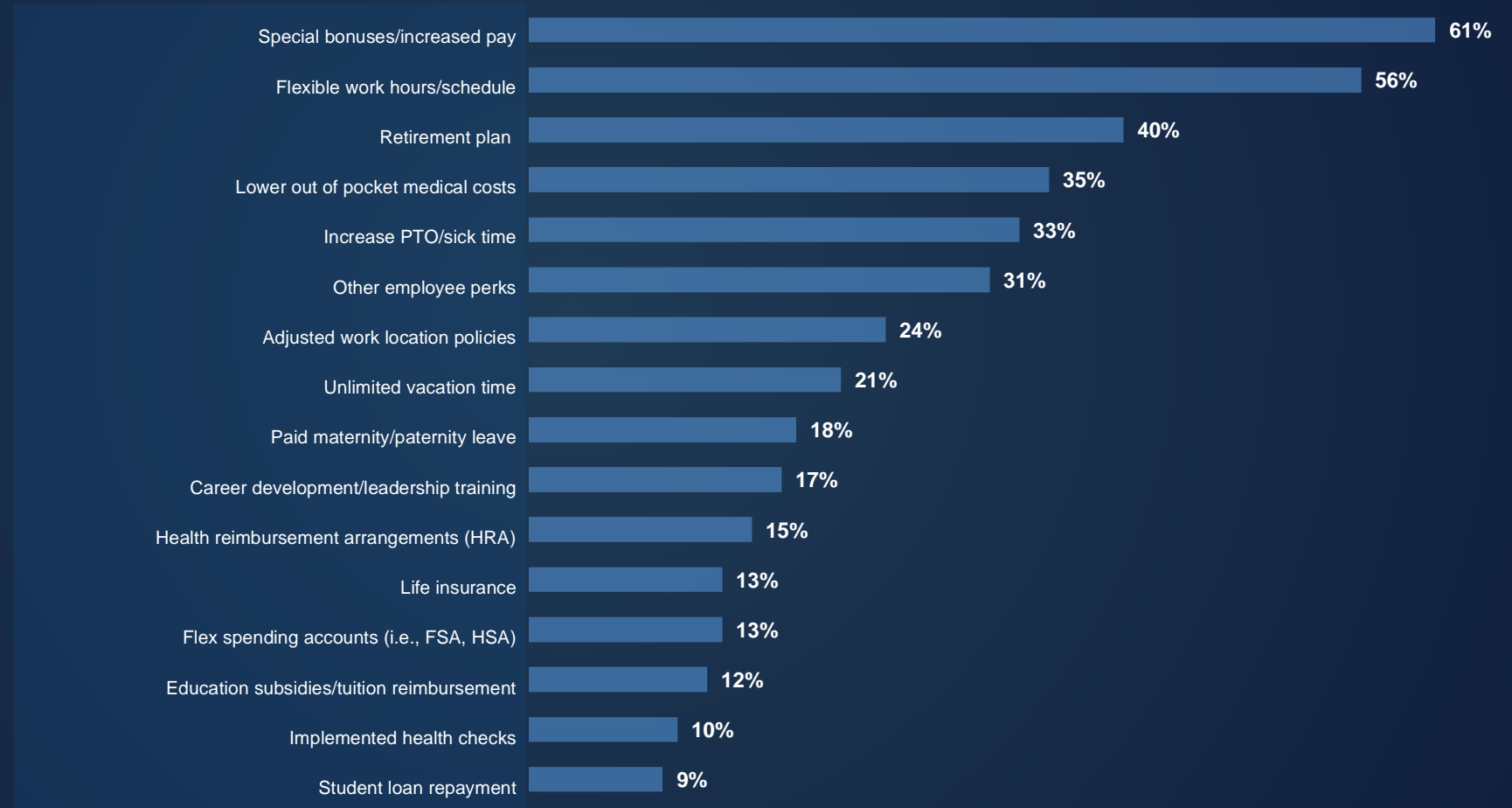
# Important to Retain New Employees

1-49 EEs



**Flexible hours/  
schedule and special  
bonuses/increased  
pay** are the most  
important offerings to  
retain employees.

## Extremely/Very Important



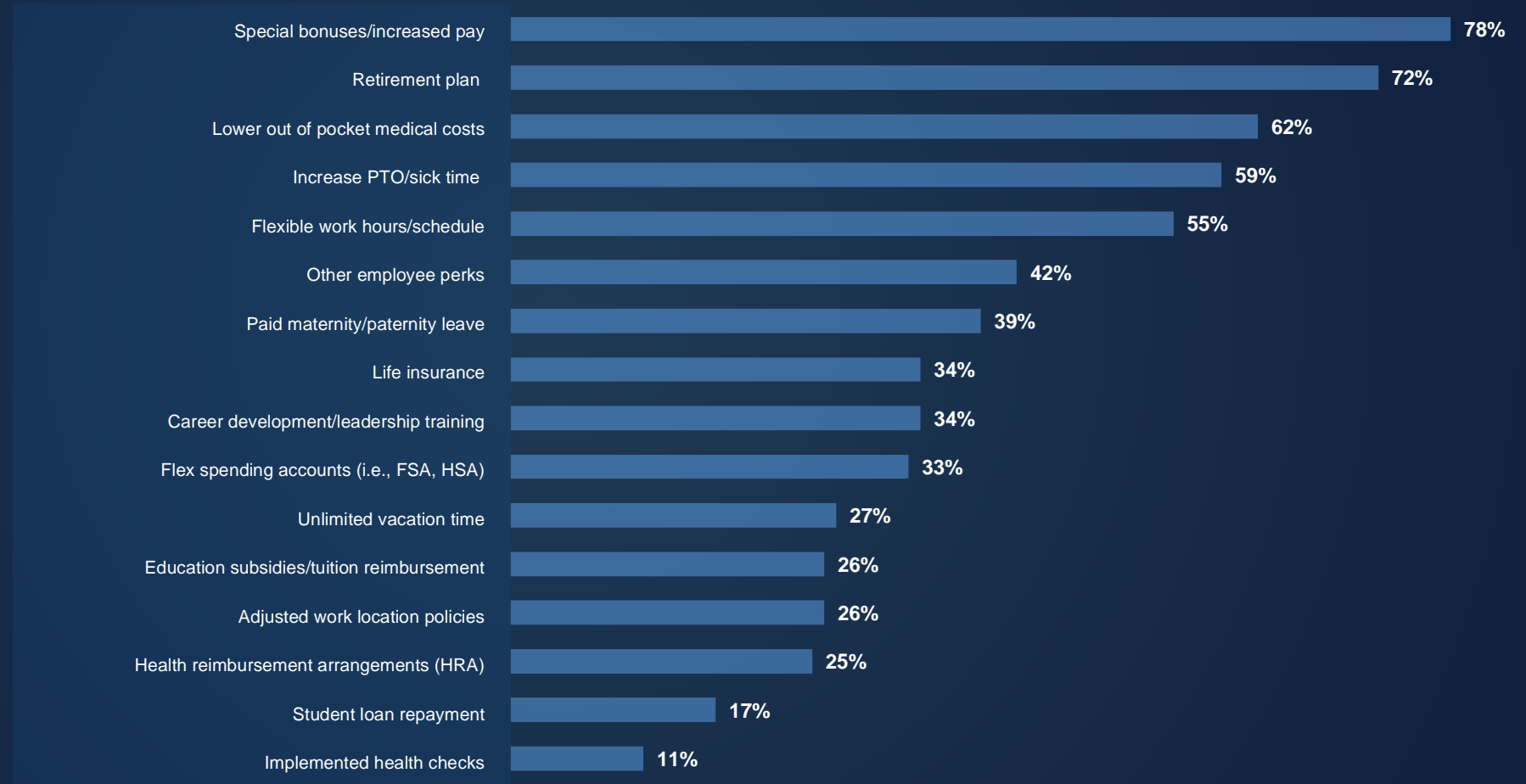
# Important to Retain New Employees

50-499 EEs



**Special bonuses/increased pay** is overwhelmingly the most important offering to retain employees in larger companies (50-499 employees), followed by **retirement plans, lower out of pocket medical costs and flexible hours/schedules.**

## Extremely/Very Important





# Prices Charging Clients/Customers

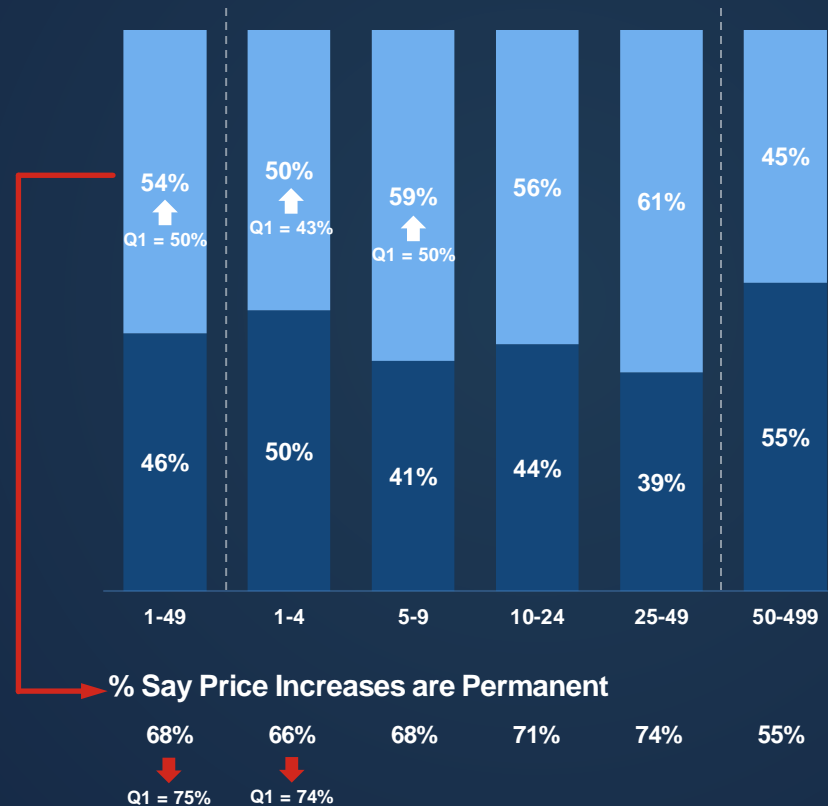


More than half of clients with 1-49 employees indicate that they have had to raise prices they charge in the last 3 months.

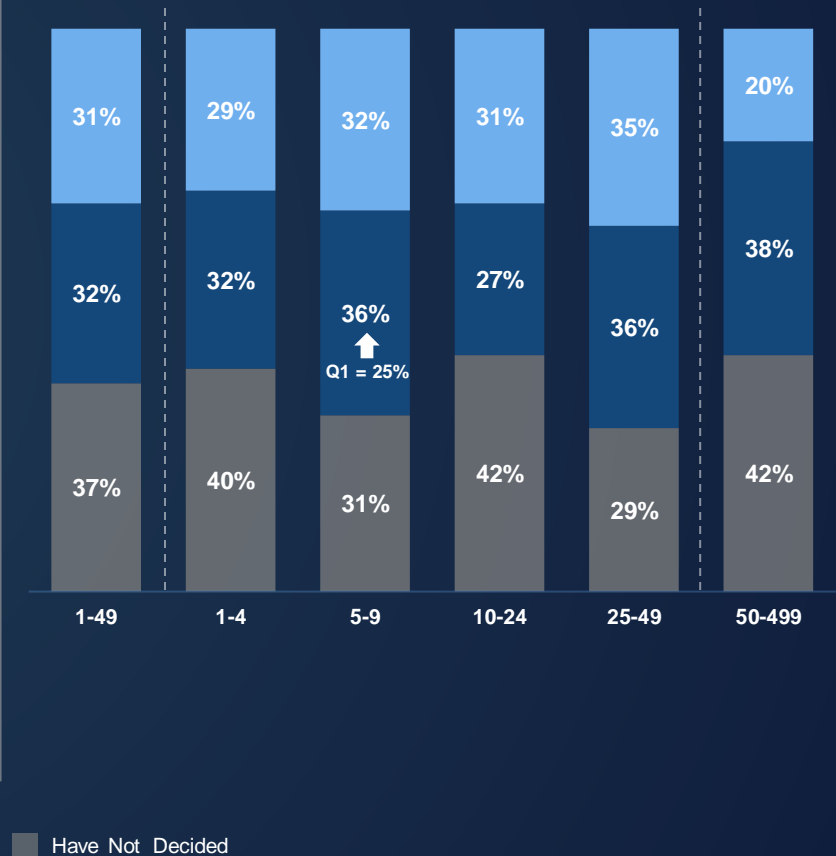
Regardless of company size, those who have had to raise prices indicate that the price increases are permanent.

Companies with less than 50 employees are significantly more likely than those with 50-499 employees to indicate price increases are permanent and are to be planning to raise prices in the next 3 months.

## Have You Had to Raise Prices in Past 3 Months?



## Plan to Raise Prices in Next 3 Months?



■ Yes ■ No ■ Have Not Decided

Q33: Have you had to raise the prices you charge your customers or clients, in the past 6 months?  
 Q34: Are the prices permanent or temporary?  
 Q35: Do you plan to raise the prices you charge your customers or clients, in the next 6 months?

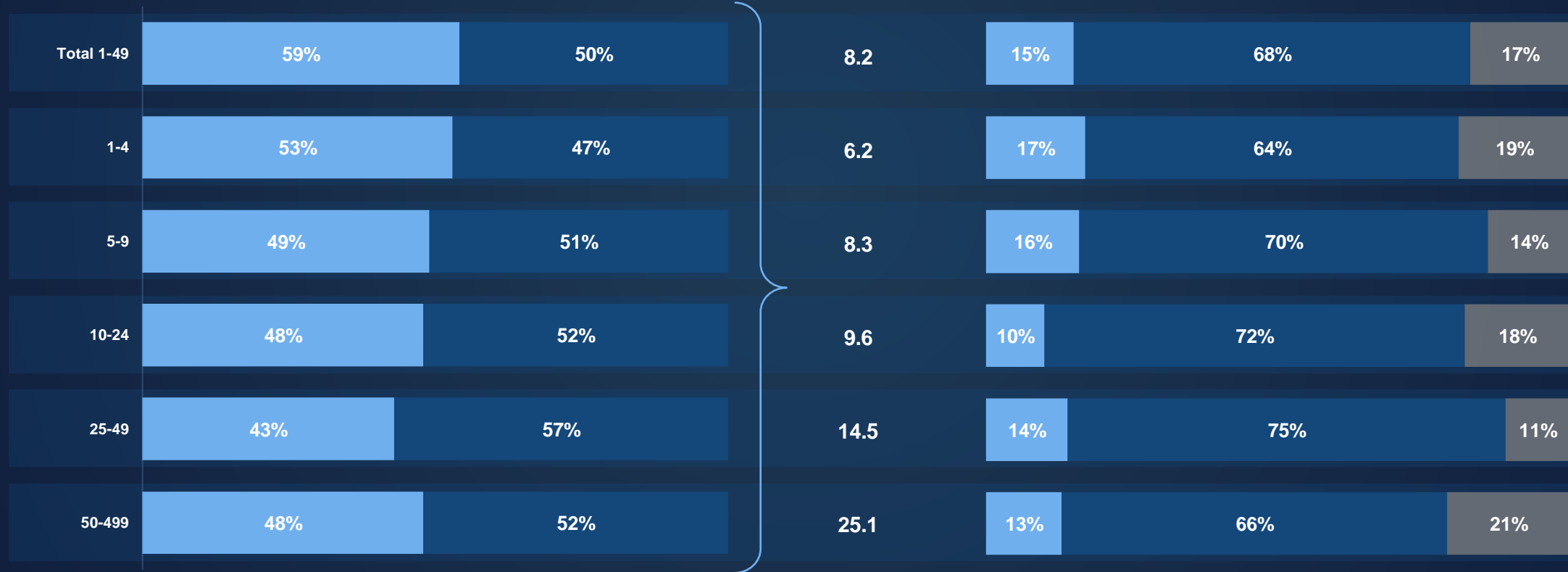
# 1099 Independent Contractors (Freelancers)



## Does Company Hire 1099 Independent Contractors (Freelancers)?

## Average # Hired Per Year

## Has # of 1099s Hired Increased/Decreased in Last Year?



■ No ■ Yes

■ Decreased ■ No Change ■ Increased