

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

September 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 fifth 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
- Wave 5: September 12 – September 29



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	Wave 5
1-49 EE	2,058	2,116	1,834	1,079	1,309
1 - 4 EE	1,067	1,118	866	539	585
5 - 9 EE	481	447	414	235	325
10-24 EE	404	397	413	205	270
25-49 EE	106	154	141	100	129
50-499 EE	NA	179	179	130	142
50-150 EE		114	126	80	86
151-499 EE		65	53	50	56

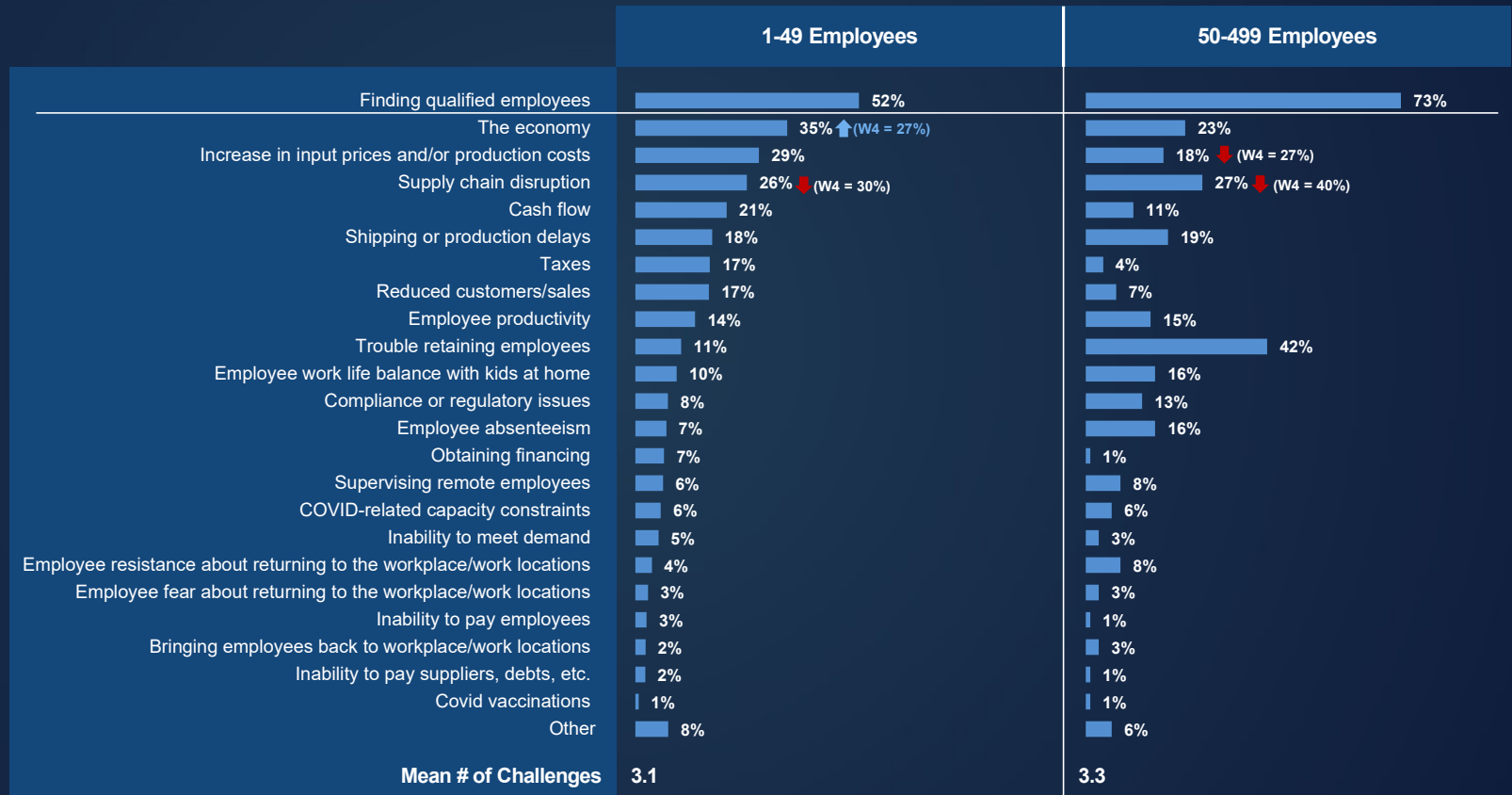
Finding's stat tested @ 95%

Challenges Business is Currently Facing



Finding qualified employees remains the overwhelming challenge facing all small business clients.

The economy is a far greater challenge for smaller clients whereas employee retention is a much bigger issue for larger clients.



Challenges Business is Currently Facing (Top 10)

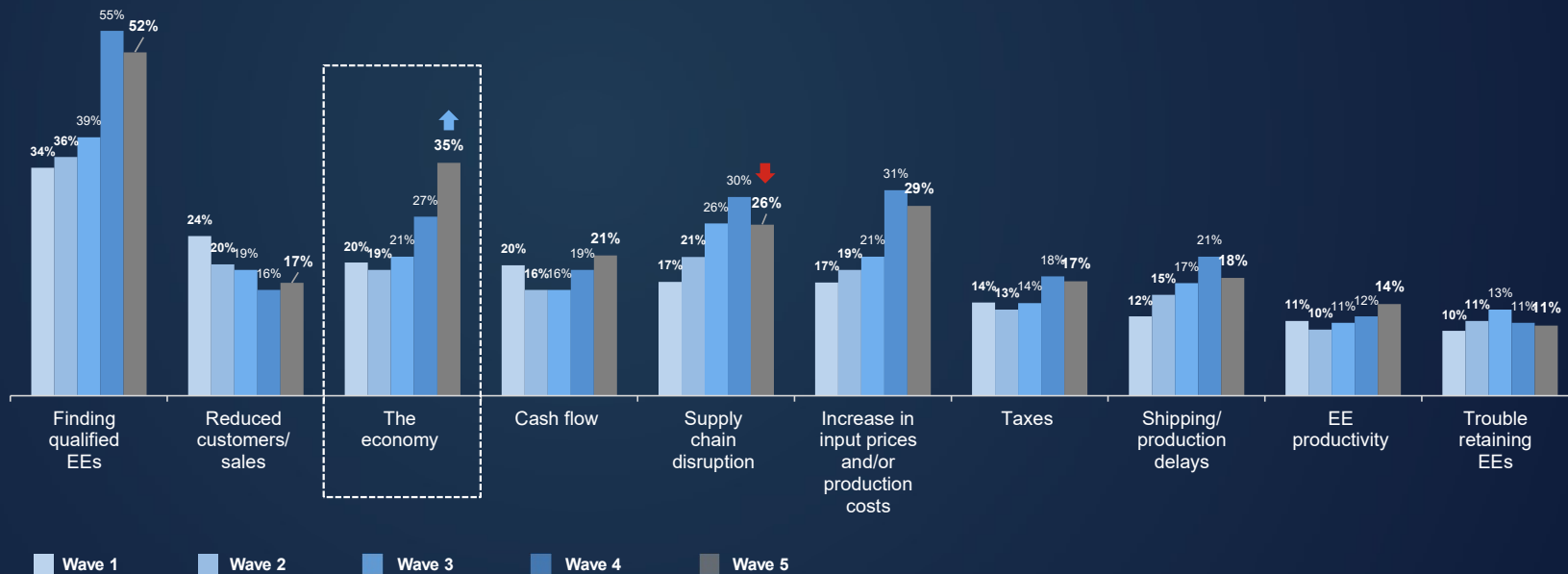
1-49 Employees



Finding qualified employees continues to be a key challenge for small business clients are facing with slightly more than half citing it as a key business challenge.

Not surprisingly, **the economy** has increased again as a challenge – with more than a third citing it as a challenge they are facing.

Supply chain disruptions are less of a challenge than they were last quarter, but still much more so than a year ago.



Challenges Business is Currently Facing (Top 10)

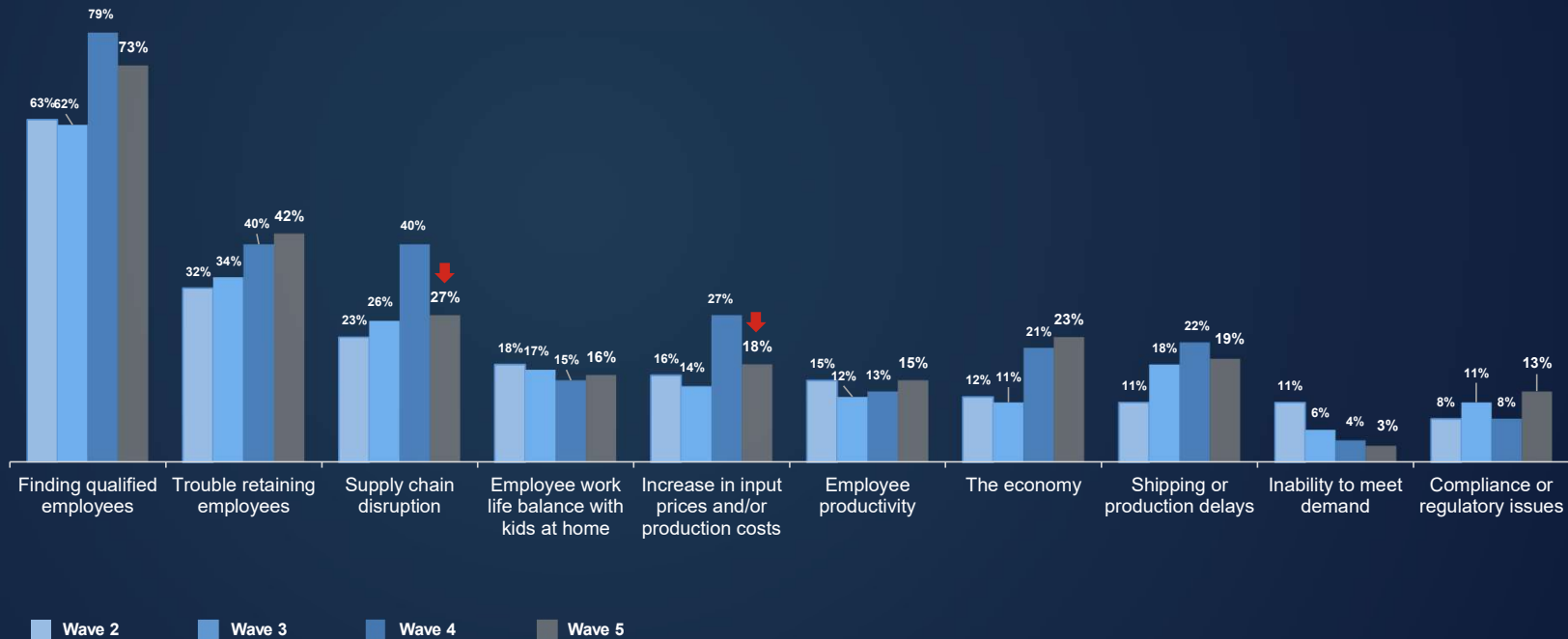
50-499 Employees



Finding qualified employees remains the primary challenge clients with 50-499 employees face with three-quarters citing it.

Employee retention is a secondary challenge.

The challenges from **supply chain disruptions** and **increases in input prices and production costs** have decreased.



Top 10 Challenges Business is Currently Facing *(by industry)*

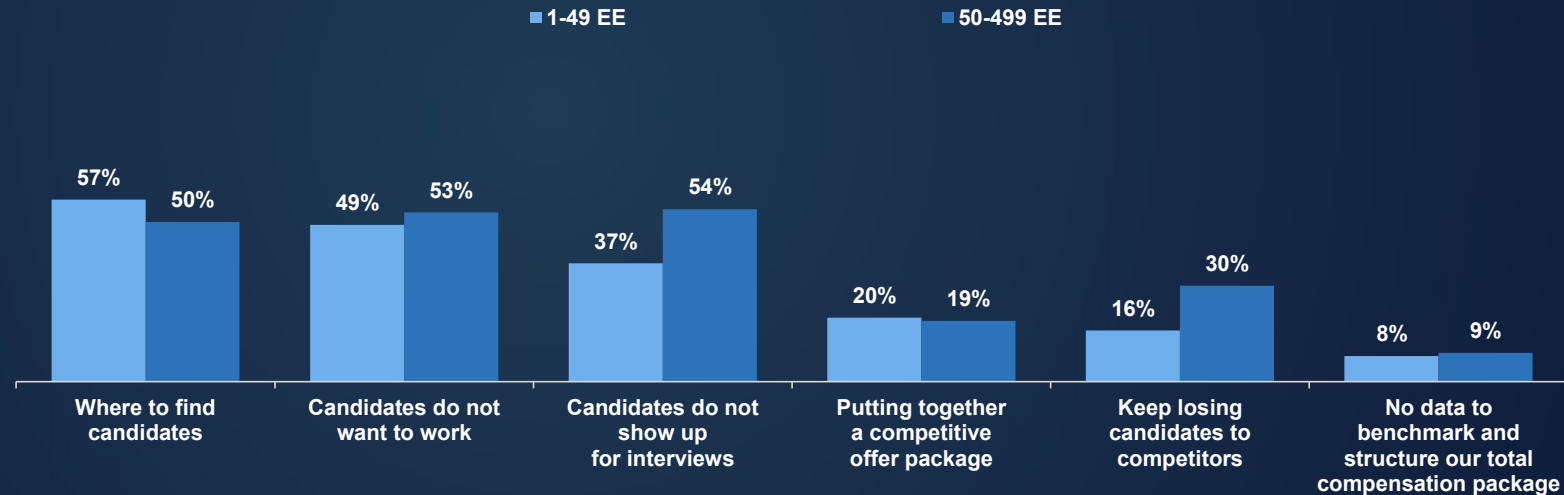
	Total	Prof, Scientific, Technical	Healthcare/ Social Assistance	Educational Services	Construction	Manufacturing	Retail/ Wholesale	Finance/ Insurance	Arts & Entertainment	Accommodation & Food Services
Finding qualified employees	54%	48%	64%	63%	68%	56%	52%	57%	40%	77%
The economy	34%	27%	30%	38%	24%	32%	40%	37%	33%	61%
Increase input prices/production costs	28%	13%	21%	12%	39%	47%	50%	11%	33%	55%
Supply chain disruption	26%	12%	15%	4%	49%	59%	54%	2%	17%	48%
Cash flow	20%	15%	17%	17%	31%	18%	23%	21%	21%	23%
Shipping or production delays	18%	8%	9%	4%	33%	39%	47%	2%	13%	25%
Reduced customers/sales	16%	13%	13%	8%	7%	18%	27%	16%	31%	32%
Taxes	16%	20%	11%	6%	19%	10%	23%	16%	19%	32%
Employee productivity	14%	13%	17%	13%	17%	17%	13%	14%	10%	25%
Trouble retaining employees	14%	8%	20%	17%	10%	17%	12%	15%	15%	27%
Employee work life balance	10%	14%	19%	12%	7%	7%	8%	12%	4%	11%
Compliance or regulatory issues	8%	8%	8%	4%	5%	11%	6%	14%	6%	9%
Employee absenteeism	8%	2%	10%	15%	8%	20%	5%	6%	10%	18%
Mean # of Challenges	3.1	2.5	3.1	2.7	3.6	3.8	4.1	2.8	3.2	5.1

Challenges Facing: Finding Qualified Employees

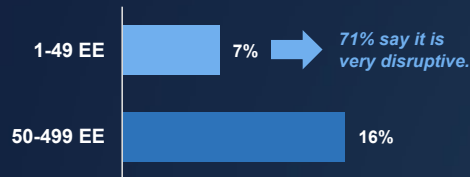


Where to find candidates is a key issue clients face in finding qualified employees.

Also adding to the challenge larger clients are facing are **candidates not wanting to work** and **not showing up for interviews**. The latter a far greater problem than small clients encounter.



Challenges Facing: Employee Absenteeism



Employee absenteeism is not a significant challenge for clients and the vast majority have not seen a change in it over the last 3 months.

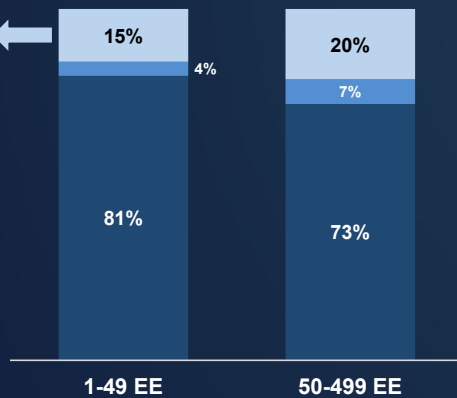
But among those who do find it a challenge, the majority indicate that it is quite disruptive and have seen an increase in the past 3 months.

While many are not addressing employee absenteeism, those who are, are doing so with flexible work hours and schedules.

Absenteeism Past 3 months

55% of those citing absenteeism as a challenge saw it increase.

- Increase
- Decrease
- No change



How Business is Handling Absenteeism



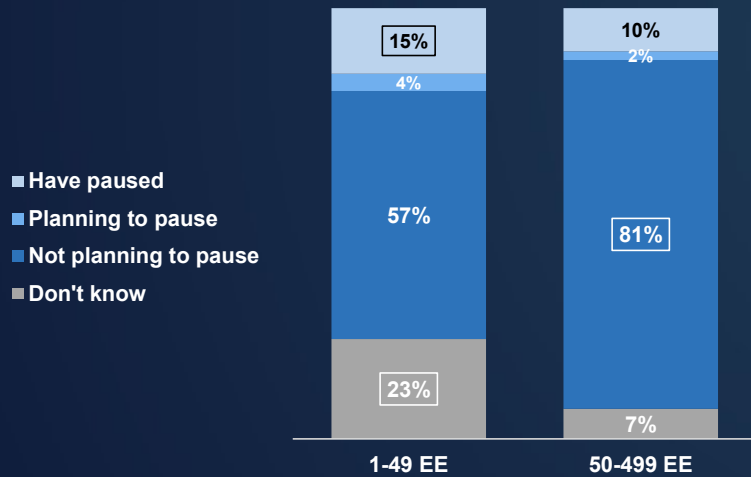
Hiring Plans

The majority of clients are **not planning to pause hiring** – especially larger clients.

One-fifth of small clients (1-49 employees) have either paused or are planning to pause **due in large part to uncertainty about the economy**.

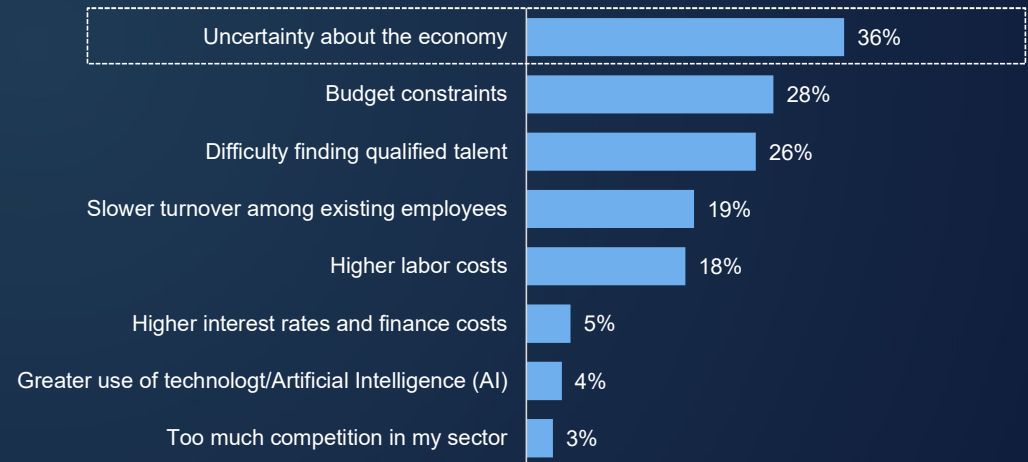


Hiring Plans Next 3 Months



Why Paused/Planning to Pause Hiring

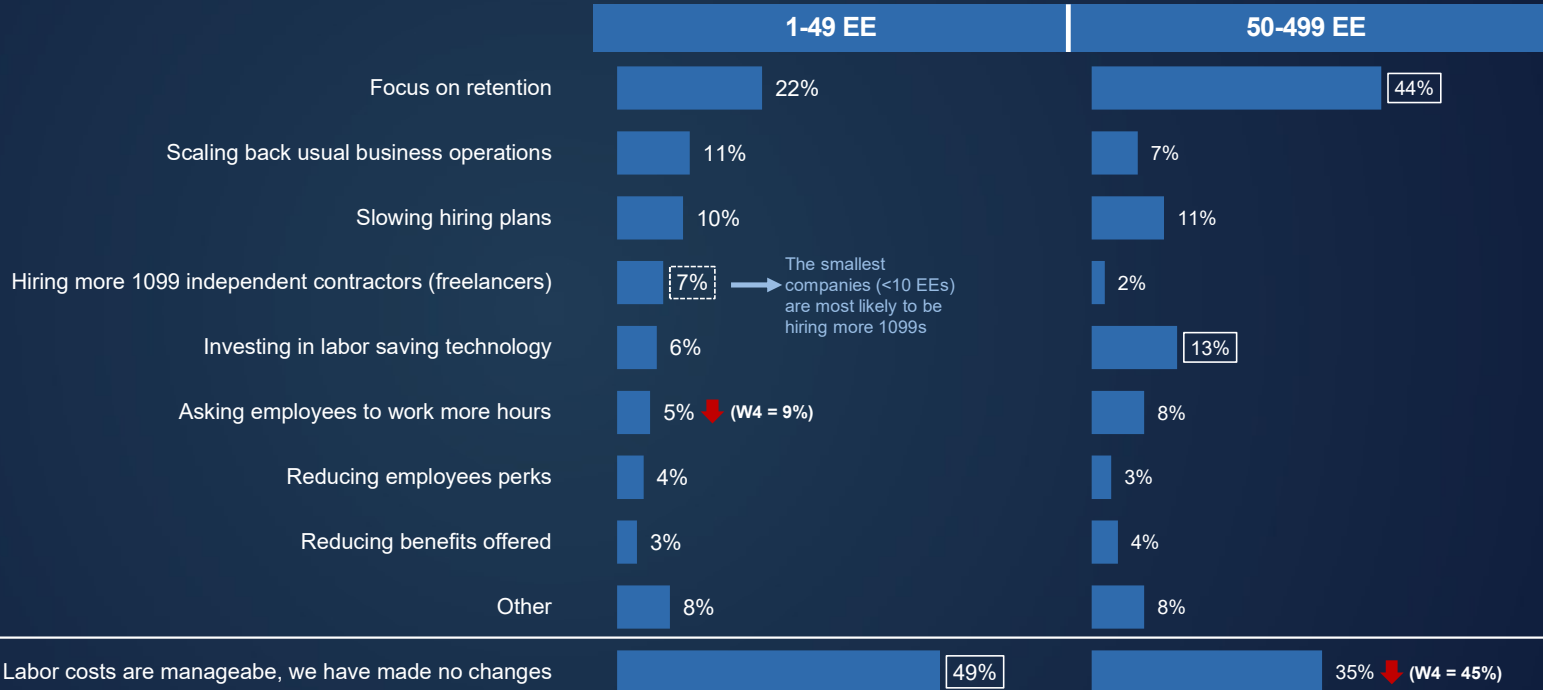
(base: 1-49 Paused Hiring/Planning to Pause Hiring)



How Companies are Dealing with Increased Labor Costs



Larger companies are far more likely than they were 3 months ago to be taking steps to address increased labor cost, primarily by **focusing on employee retention**.

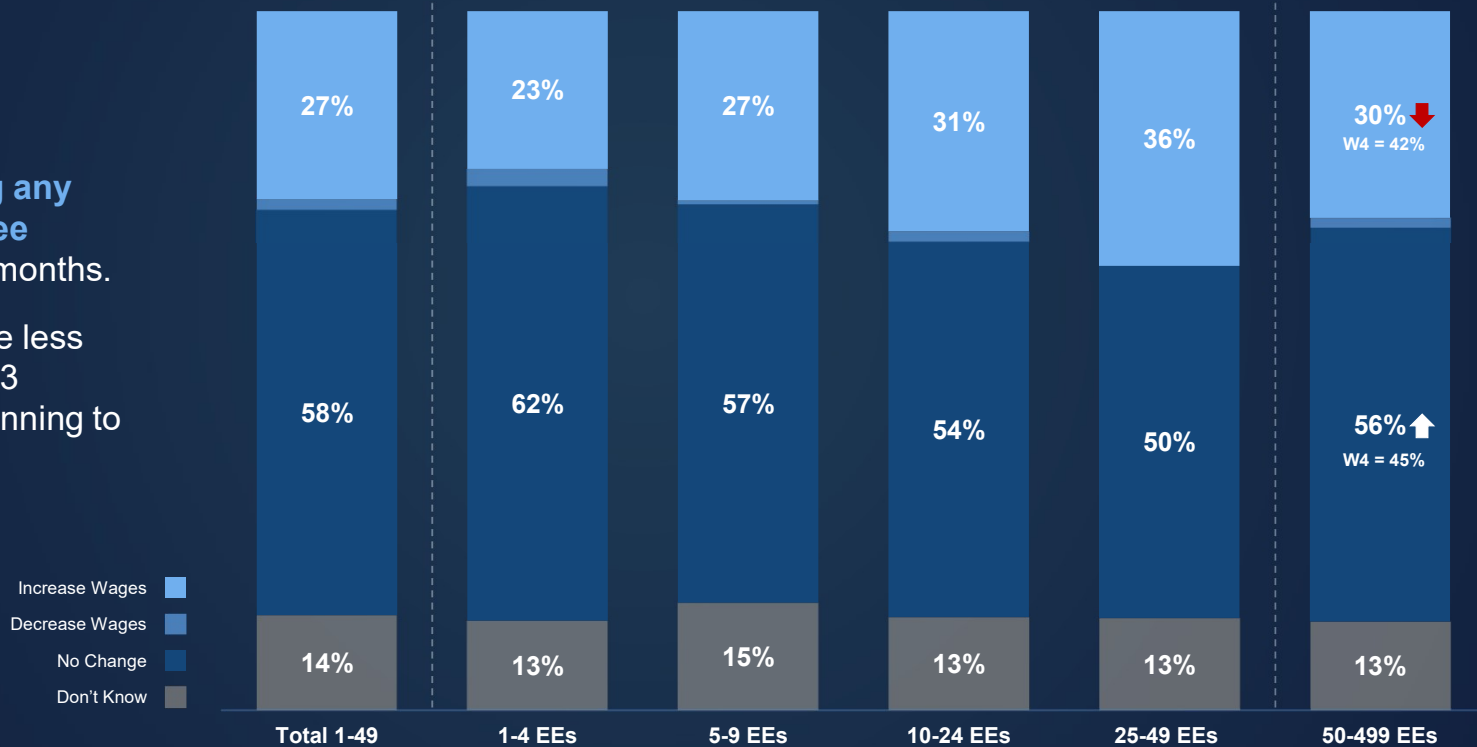


Increase or Decrease Wages in the Next 3 Months



The majority are **not** planning on making any changes to employee wages in the next 3 months.

Larger companies are less likely than they were 3 months ago to be planning to increase wages.



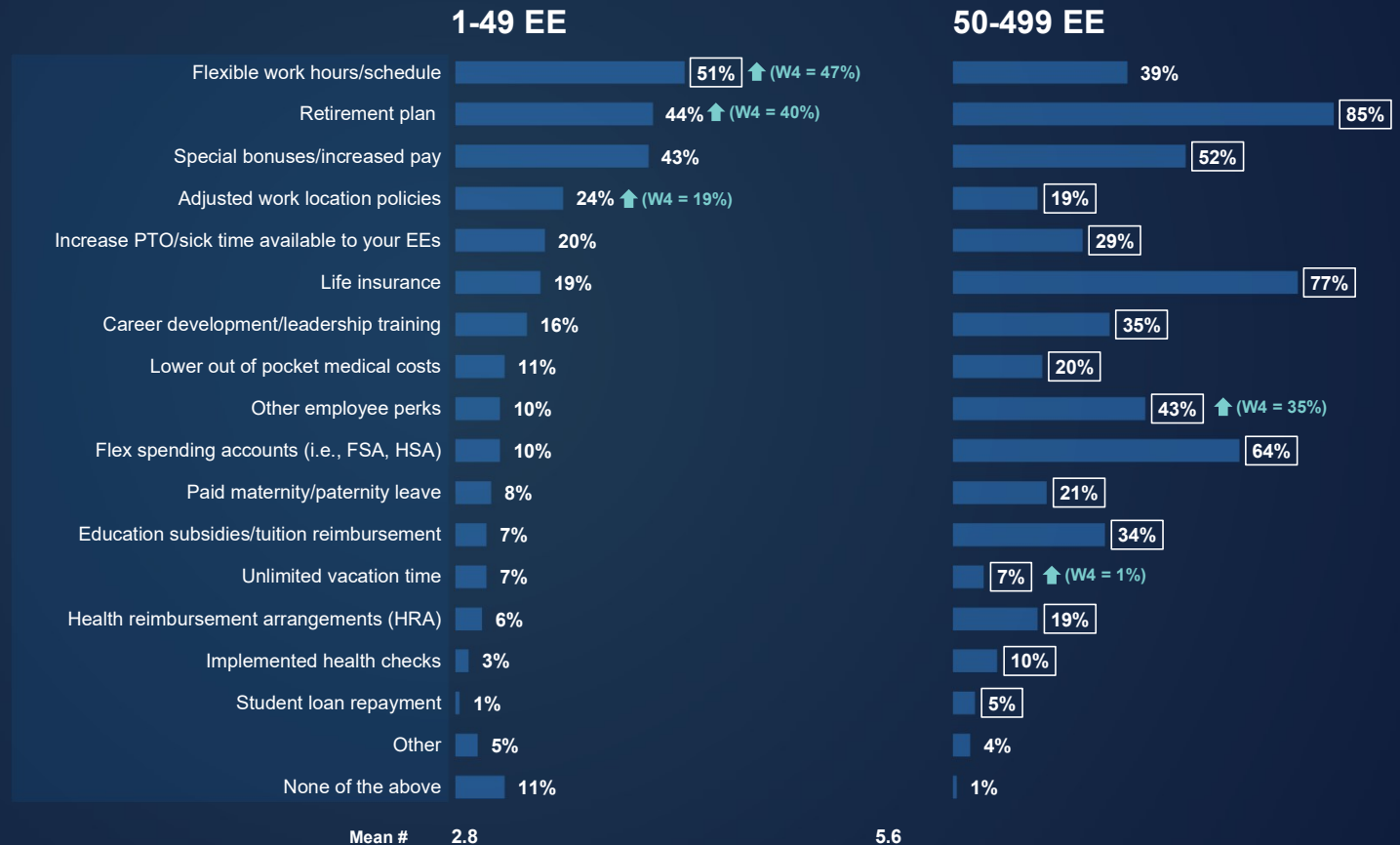
Offered to Employees



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

Smaller clients are still most likely to offer **flexible work hours/schedules** and **retirement plans** to employees (more so now than three months ago) as well as **special bonuses/increased pay**.

Retirement plans, life insurance and **flex spending accounts** remain the primary offerings for employees in larger companies.



Mean # 2.8

5.6

Important to Attract New Employees

Extremely/Very Important

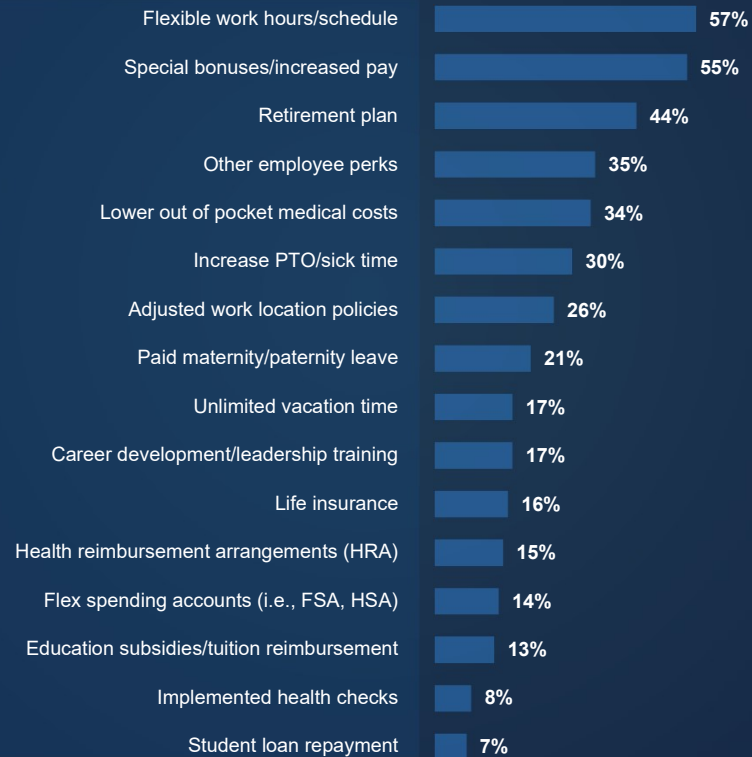


Regardless of company size, **special bonuses/increased pay** is important to offer to attract employees.

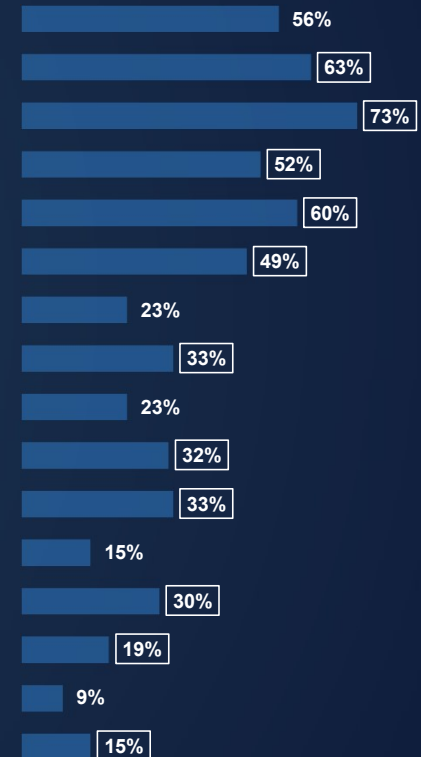
Flexible work hours/schedules are equally important in smaller companies (<50 employees).

Topping the list for larger companies (50-499 employees) are **retirement plans**. Lower out of pocket medical costs are very important as well.

1-49 EE



50-499 EE



Important to Retain Employees

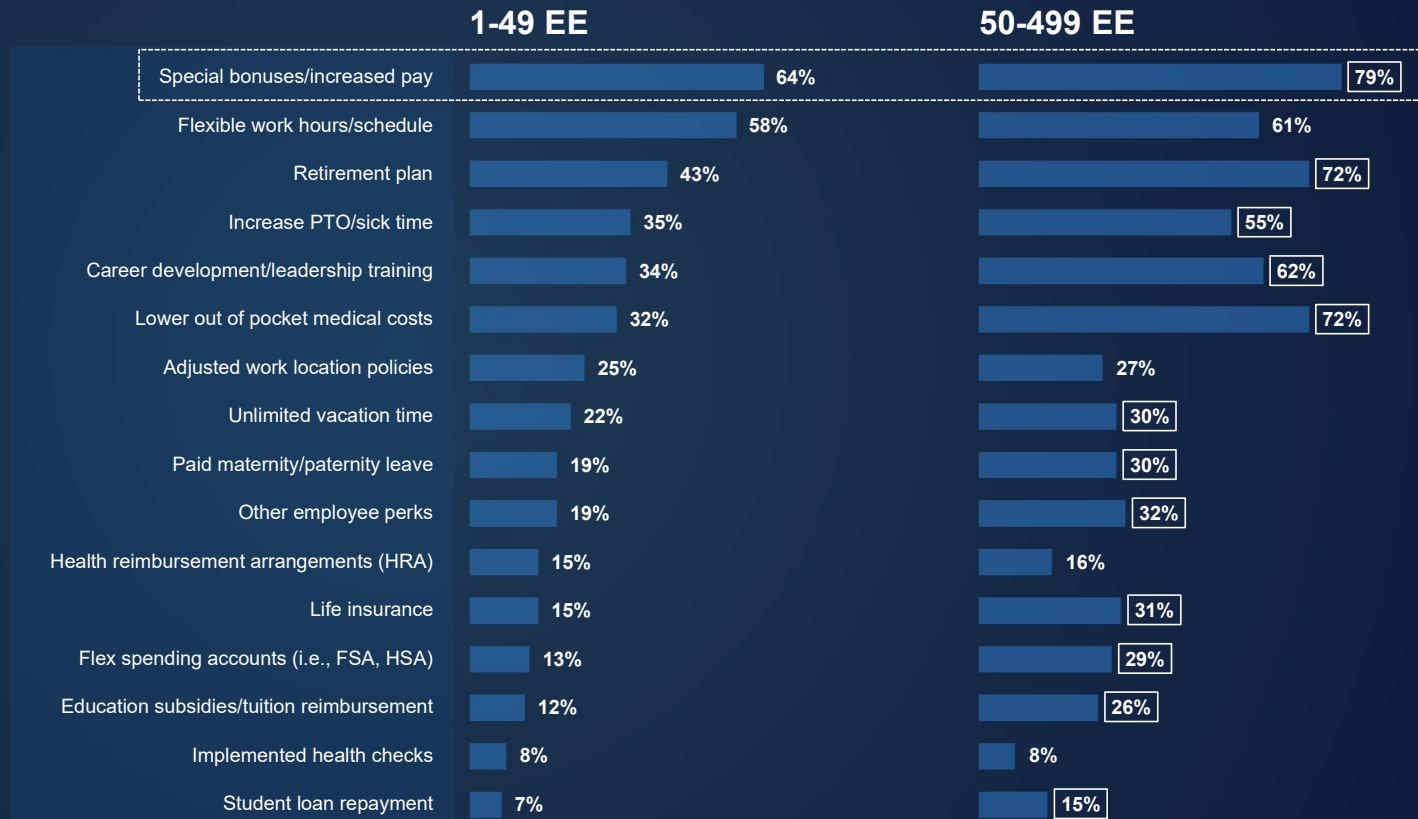
Extremely/Very Important



Special bonuses/increased pay remain the most important offering to retain employees regardless of company size.

Flexible work hours/schedules are of secondary importance for smaller companies (<50 employees).

Larger companies (50-499 employees) also cite **retirement plans** and **lower out of pocket medical costs**.



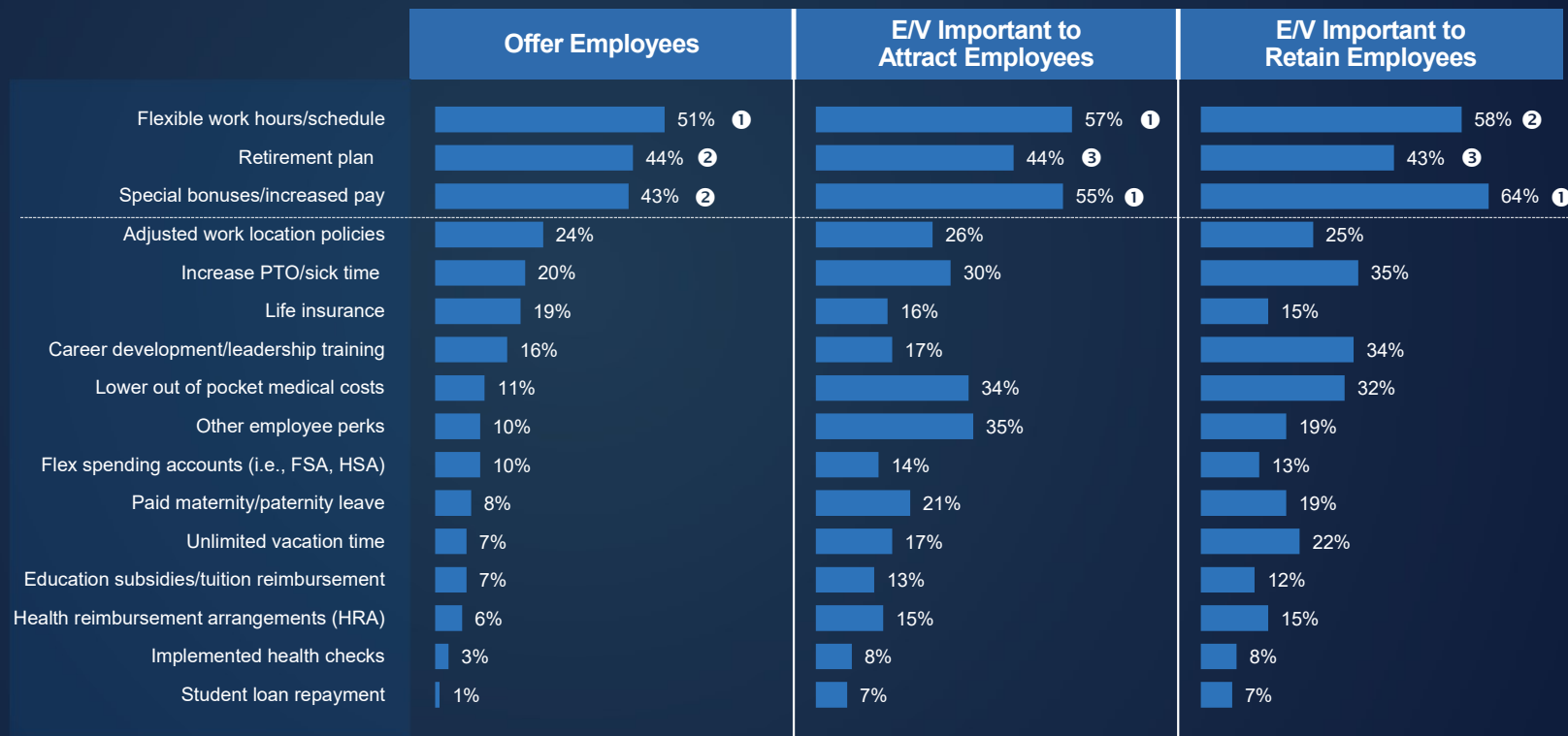
Offer, Important to Attract, Important to Retain

1-49 Employees



There is consistency in the top 3 things smaller companies are offering employees and what they think is important to offer to attract and retain employees.

But there are gaps when it comes to other offerings – increase in PTO/sick time, lower out of pocket medical costs, paid maternity/paternity leave, unlimited vacation time – items that are likely more difficult to fund.

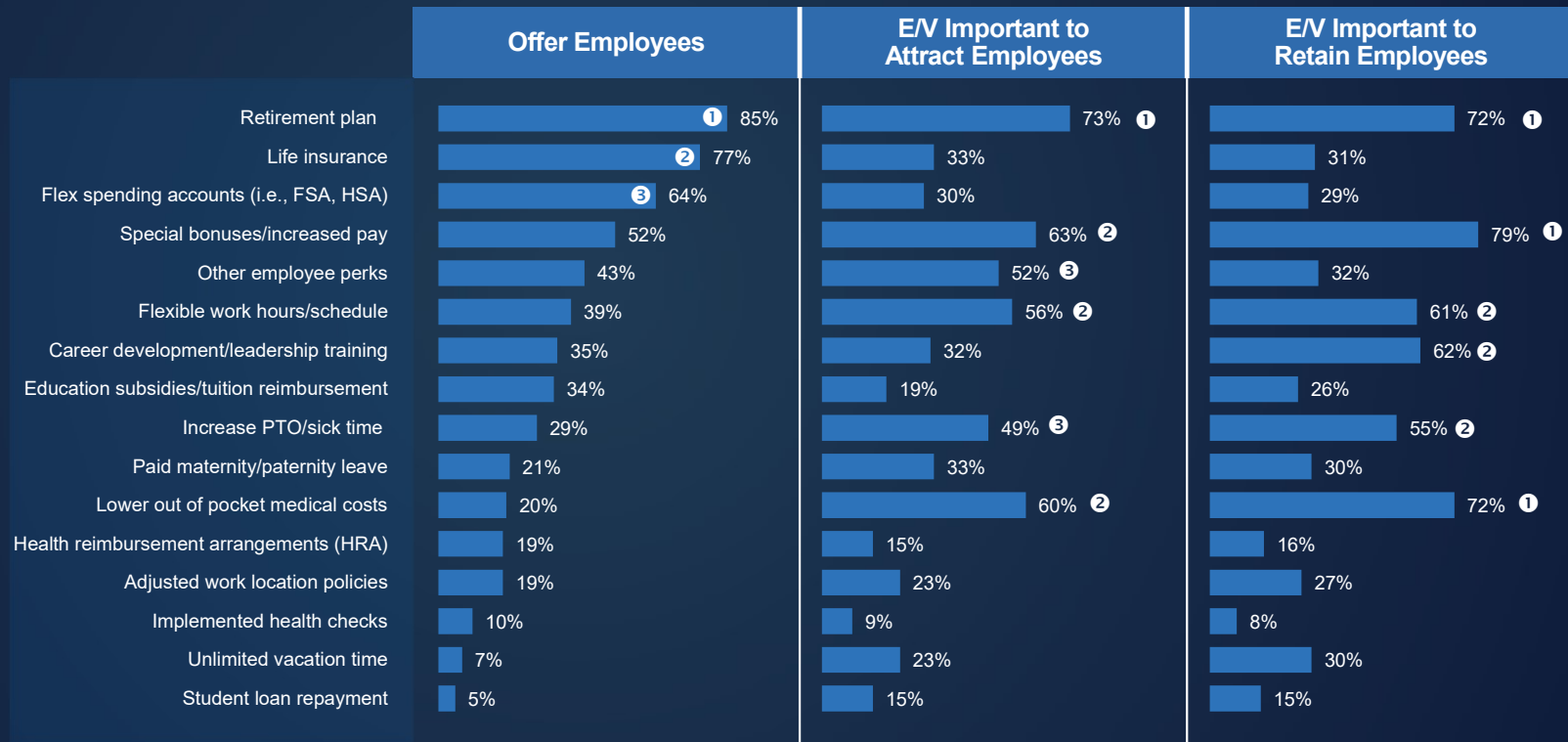


Offer, Important to Attract, Important to Retain

50-499 Employees



As seen with smaller companies, there are differences in what is being offered to employees versus what is perceived to be important to offer to attract and retain employees – special bonuses/increased pay, flexible work hours/schedules, increase in PTO/sick time, lower out of pocket medical costs.



Prices Charging Clients/Customers

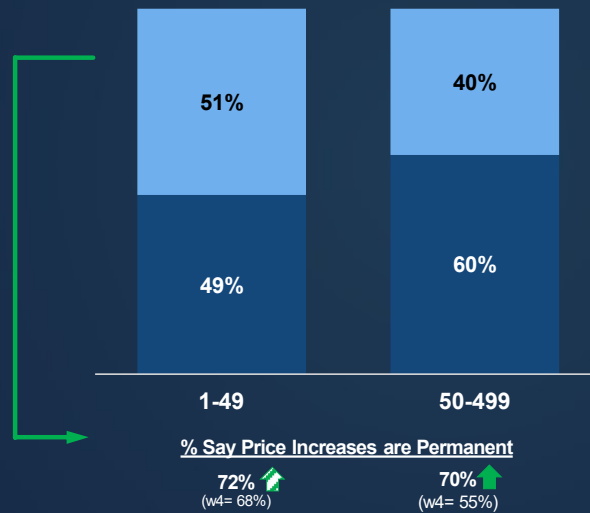


More than half of clients with 1-49 employees indicate that they have had to raise prices they charge in the last 3 months.

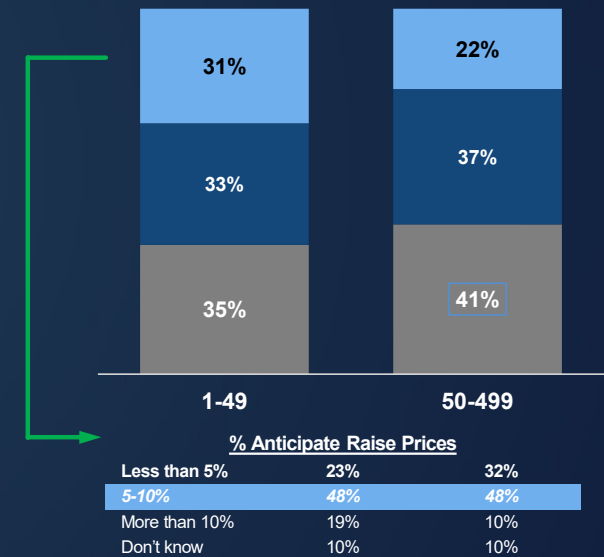
Regardless of company size, those who have had to raise prices indicate that the prices increases are permanent.

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?

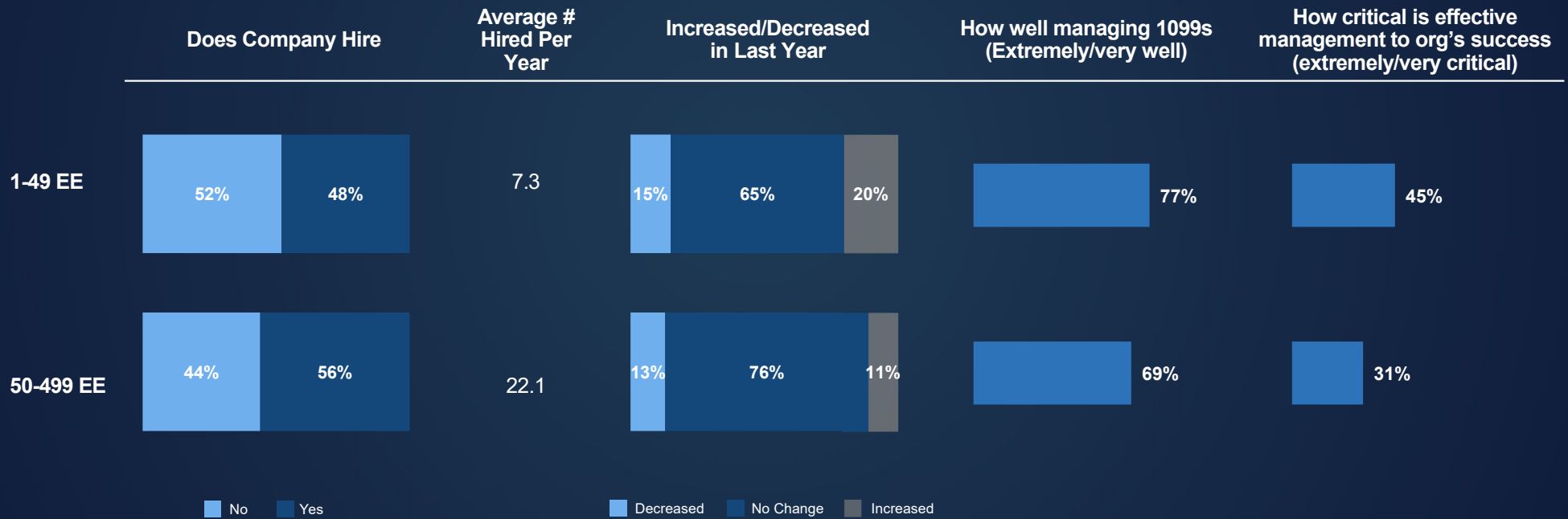


Plan to Raise Prices in Next 3 Months?



■ Yes ■ No ■ Have Not Decided

1099 Independent Contractors (Freelancers)



Respondent Company Profile

REGION						
	Total 1-49	1-4	5-9	10-24	25-49	50-499
Northeast	22%	21%	24%	21%	19%	14%
Midwest	16%	13%	15%	18%	26%	27%
South	32%	34%	31%	29%	29%	37%
West	31%	31%	30%	33%	26%	23%

TENURE						
	Total 1-49	1-4	5-9	10-24	25-49	50-499
Less than 3 yrs	12%	17%	11%	7%	2%	-
3 to less than 5 yrs	8%	11%	10%	4%	4%	3%
5 to less than 7 yrs	8%	7%	7%	10%	7%	6%
7 to less than 10 yrs	8%	10%	6%	7%	5%	4%
10 yrs+	64%	56%	66%	71%	83%	88%

BUSINESS OWNER PROFILE						
	Total 1-49	1-4	5-9	10-24	25-49	50-499
Woman-Owned	27%	31%	25%	26%	19%	6%
Minority-Owned	15%	18%	16%	11%	8%	4%
Veteran-Owned	4%	4%	6%	2%	3%	4%
LGBTQ+-Owned	3%	4%	3%	*	3%	1%
Don't know	2%	2%	1%	3%	4%	7%
None of the above	58%	54%	58%	63%	67%	82%

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 retirement plans as most important to attract employees followed secondarily by special bonuses/increase pay. Special bonuses/increase pay, retirement plans and lower out of pocket medical costs are equally important for retention.

Labor Costs and Wages

- Half of smaller clients (<50) continue to maintain that their labor costs are manageable and have had to make no changes whereas two-thirds of larger clients now indicate they are not and have had to make changes (55% → 65%) – primarily by focusing on retention.
- Wages are likely to remain the same in the next 3 months.

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

- Consistent with the prior wave, half of small business clients have had to raise the prices they charge their clients in the last 3 months, but more now indicate that the increases will be permanent (68% → 72%).



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Quarterly
Small Business Client
Pulse Study