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

September 2022

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#### **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



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%

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## Challenges Business is Currently Facing

<u> </u>		1-49 Employees	50-499 Employees
(1)			
	Finding qualified employees	52%	73%
	The economy	<b>35% ↑</b> (₩4 = 27%)	23%
inding qualified	Increase in input prices and/or production costs	29%	18% (W4 = 27%)
mployees remains	Supply chain disruption	26% (W4 = 30%)	27% 🦊 (W4 = 40%)
ne overwhelming	Cash flow	21%	11%
<u> </u>	Shipping or production delays	18%	19%
hallenge facing all	Taxes	17%	4%
mall business clients.	Reduced customers/sales	17%	7%
	Employee productivity	14%	15%
he economy is a far	Trouble retaining employees	11%	42%
reater challenge for	Employee work life balance with kids at home	10%	16%
maller clients	Compliance or regulatory issues	8%	13%
	Employee absenteeism	7%	16%
vhereas employee	Obtaining financing	7%	1%
etention is a much	Supervising remote employees	<b>6%</b>	8%
ligger issue for larger	COVID-related capacity constraints	<b>6%</b>	<b>6%</b>
1. 1	Inability to meet demand	5%	3%
inerits.	Employee resistance about returning to the workplace/work locations		8%
	Employee fear about returning to the workplace/work locations	3%	3%
	Inability to pay employees	3%	<b>1</b> %
	Bringing employees back to workplace/work locations	2%	3%
	Inability to pay suppliers, debts, etc.	2%	1%
	Covid vaccinations	1%	
	Other	8%	<b>6%</b>
	Mean # of Challenges	3.1	3.3



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Q12. What challenges is your business currently facing?

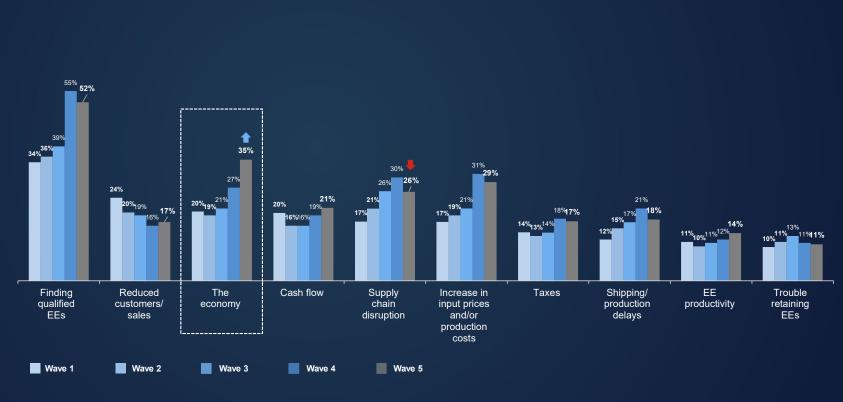
#### Challenges Business is Currently Facing (Top 10) 1-49 Employees



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 challenge than they were last quarter, but still much more so than a year ago



Q12. What challenges is your business currently facing?

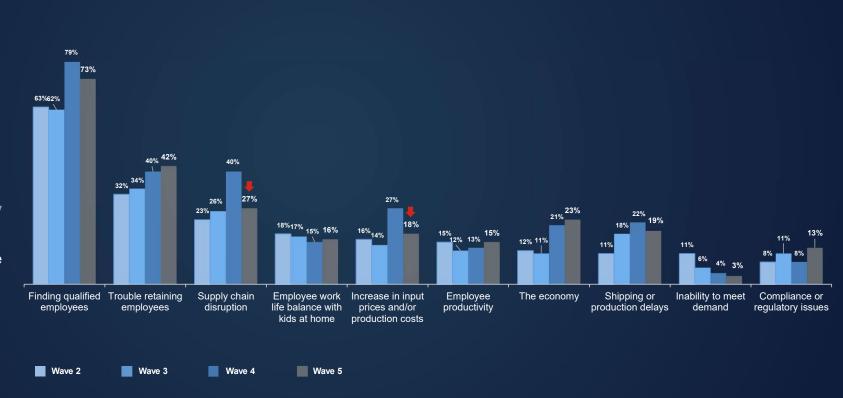
## Challenges Business is Currently Facing (Top 10) 50-499 Employees



**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)

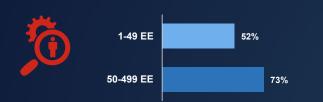
	Total	Prof, Scientific, Technical	Healthcare/ Social Assistance	Edcational Services	Construction	Manufacturing	Retail/ Wholesale	Finance/ Insurance	Arts & Entertainment	Accommodation & Food Services
Finding qualified employees	<mark>54%</mark>	48%	<mark>64%</mark>	<mark>63%</mark>	<mark>68%</mark>	<mark>56%</mark>	<mark>52%</mark>	<mark>57%</mark>	<mark>40%</mark>	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

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Q12. What challenges is your business currently facing?

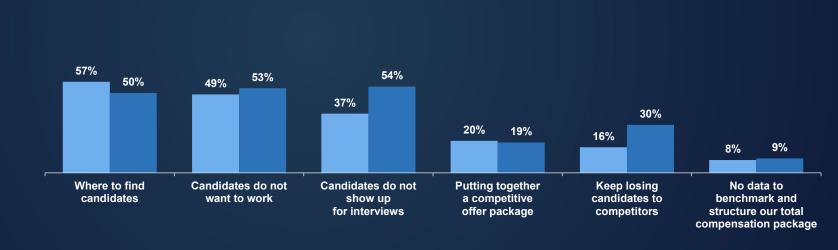


#### Challenges Facing: Finding Qualified Employees



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 later a far greater problem than small clients encounter.



50-499 EE

■ 1-49 EE

Copyright © 2022 ADP, Inc. Q14. What challenges are you

Q14. What challenges are your business clients currently facing when it comes to finding qualified employees?



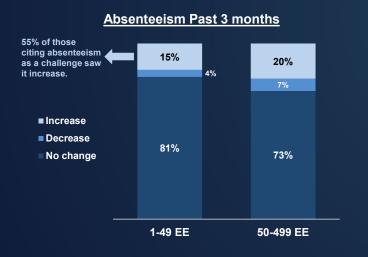
#### Challenges Facing: Employee Absenteeism



**Employee absenteeism** is not a significant challenge for clients and the vast majority have <u>not</u> 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.





#### How Business is Handling Absenteeism

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Q18. On a scale of 1 to 5 with "1" being "extremely disruptive" and "5" being "no impact," how much of an impact is it having on conducting day-to-day business? Q19: Has employee absenteeism increased or decreased in the past 3 months? Q20: How is your business handling employee absenteeism?



## Hiring Plans

**Hiring Plans Next 3 Months** 

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.



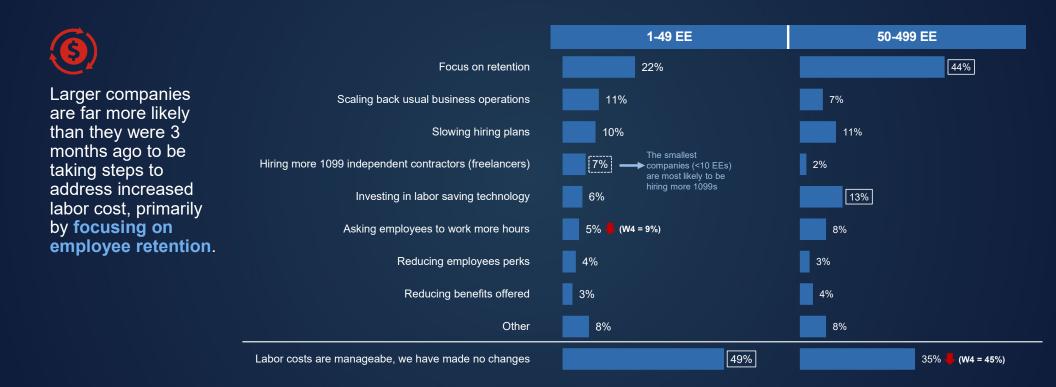
Why Paused/Planning to Pause Hiring

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

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Q21: Have you paused or are you planning to pause your hiring plans in the next 3 months? Q22: Why have your paused or are you planning to pause your hiring plans in the next 3 months?

#### How Companies are Dealing with Increased Labor Costs



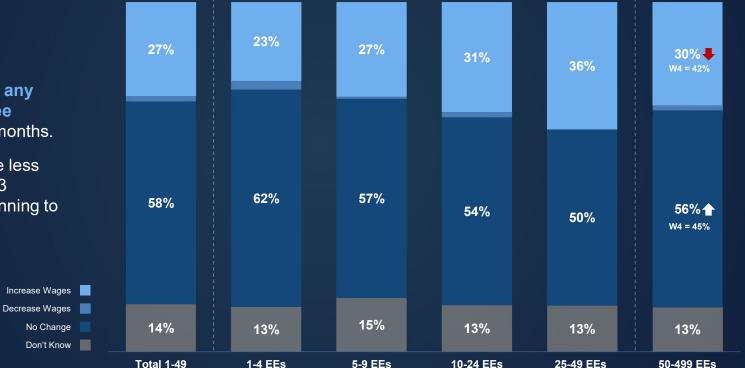


#### Increase or Decrease Wages in the Next 3 Months

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

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

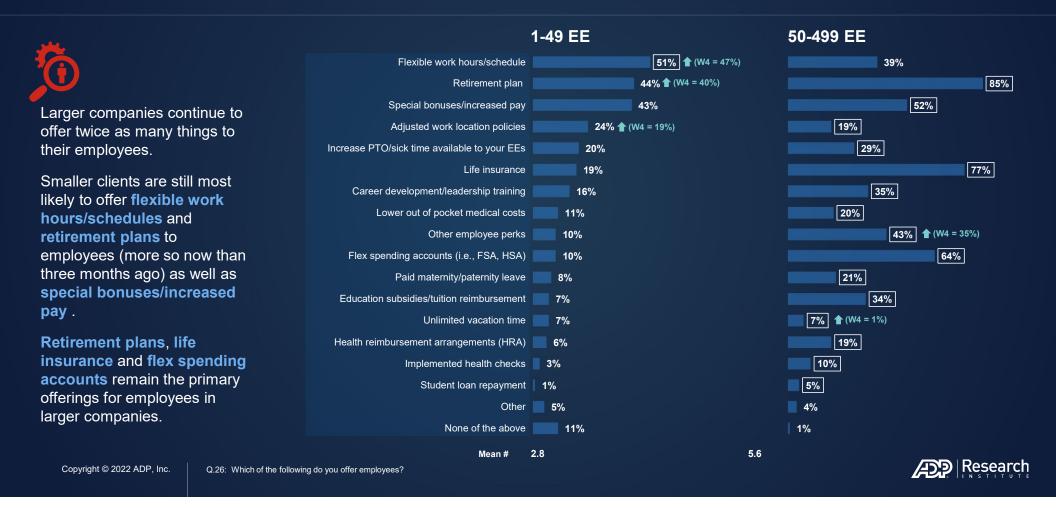


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Q17: Does your company plan to increase or decrease employee wages in the next three months?



#### Offered to Employees



## Important to Attract New Employees

Extremely/Very Important

		1-49 EE	50-499 EE		
- <del>2</del> 2	Flexible work hours/schedule	57%	56%		
	Special bonuses/increased pay	55%	63%		
	Retirement plan	44%	73%		
Regardless of company size,	Other employee perks	35%	52%		
special bonuses/increased pay is important to offer to	Lower out of pocket medical costs	34%	60%		
attract employees.	Increase PTO/sick time	30%	49%		
	Adjusted work location policies	26%	23%		
Flexible work hours/schedules are equally important in smaller companies (<50 employees).	Paid maternity/paternity leave	21%	33%		
	Unlimited vacation time	17%	23%		
	Career development/leadership training	17%	32%		
	Life insurance	16%	33%		
Topping the list for larger	Health reimbursement arrangements (HRA)	15%	15%		
companies (50-499 employees) are <b>retirement</b> <b>plans</b> . Lower out of pocket	Flex spending accounts (i.e., FSA, HSA)	Flex spending accounts (i.e., FSA, HSA) 14%			
	Education subsidies/tuition reimbursement	13%	19%		
medical costs are very	Implemented health checks	8%	9%		
important as well.	Student loan repayment	7%	15%		

Copyright © 2022 ADP, Inc. Q27. How important are each of the following for attracting new employees?



## Important to Retain Employees

Extremely/Very Important

		1-49 EE	50-499 EE			
- <b>*</b> *	Special bonuses/increased pay	64%	79%			
	Flexible work hours/schedule	58%	61%			
	Retirement plan	43%	72%			
Special bonuses/increased	Increase PTO/sick time	35%	55%			
<b>pay</b> remain the most important offering to retain employees	Career development/leadership training	34%	62%			
regardless of company size.	Lower out of pocket medical costs	32%	72%			
	Adjusted work location policies	25%	27%			
Flexible work	Unlimited vacation time	22%	30%			
hours/schedules are of secondary importance for	Paid maternity/paternity leave	19%	30%			
smaller companies (<50	Other employee perks	19%	32%			
employees).	Health reimbursement arrangements (HRA)	15%	16%			
Larger companies (50-499 employees) also cite	Life insurance	15%	31%			
	Flex spending accounts (i.e., FSA, HSA)	13%	29%			
retirement plans and lower	Education subsidies/tuition reimbursement	12%	26%			
out of pocket medical costs.	Implemented health checks	8%	8%			
	Student loan repayment	7%	15%			

# 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.

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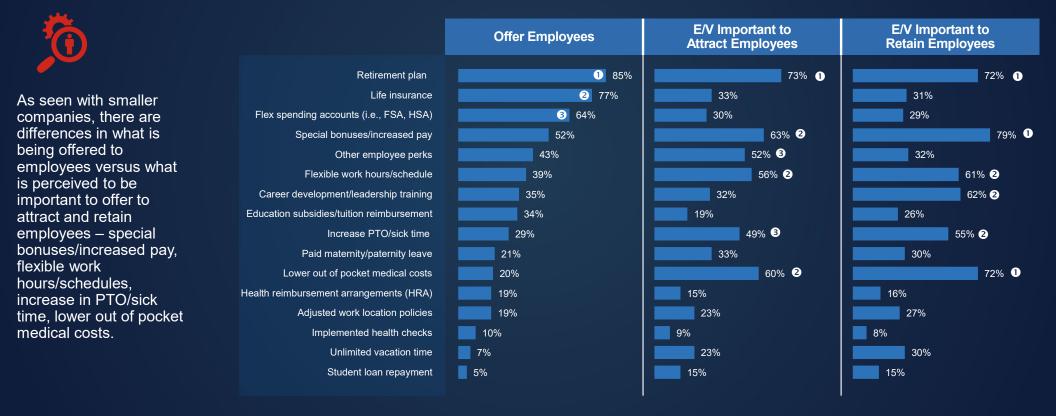
But there are gaps when it comes to other offerings – increase in PTO/sick time, lower out of pocket medical costs, paid maternity/paternity leave, unlimited vacation time – items that are likely more difficult to fund.

	Offer Employees	E/V Important to Attract Employees	E/V Important to Retain Employees		
Flexible work hours/schedule	51% 1	57% 1	58% 2		
Retirement plan	44% 2	44% 3	43% 3		
Special bonuses/increased pay	43% 2	55% 1	64% 1		
Adjusted work location policies	24%	26%	25%		
Increase PTO/sick time	20%	30%	35%		
Life insurance	19%	16%	15%		
Career development/leadership training	16%	17%	34%		
Lower out of pocket medical costs	11%	34%	32%		
Other employee perks	10%	35%	19%		
Flex spending accounts (i.e., FSA, HSA)	10%	14%	13%		
Paid maternity/paternity leave	8%	21%	19%		
Unlimited vacation time	7%	17%	22%		
Education subsidies/tuition reimbursement	7%	13%	12%		
Health reimbursement arrangements (HRA)	6%	15%	15%		
Implemented health checks	3%	8%	8%		
Student loan repayment	1%	7%	7%		

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Q25: Which of the following do you offer employees? Q26. How important are each of the following to attract new employees? Q28. How important are each of the following for retaining employees? 

# Offer, Important to Attract, Important to Retain 50-499 Employees



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Q25: Which of the following do you offer employees?

Q26. How important are each of the following to attract new employees? Q28. How important are each of the following for retaining employees? **ANDE** | Research

#### **Prices Charging Clients/Customers**



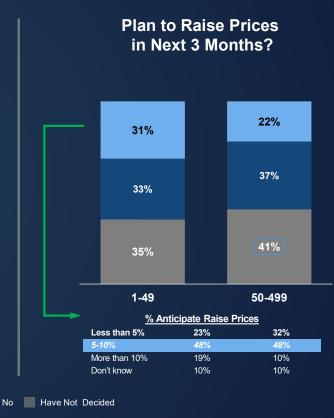
More than half of clients with 1-49 employees indicate that they have had to raise prices they charge in the last 3 months.

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.



Yes



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Q32: Have you had to raise the prices you charge your customers or clients, in the past 6 months? Q33: Are the prices permanent or temporary? Q34: Do you plan to raise the prices you charge your customers or clients, in the next 6 months? Q35: How much do you anticipate raising your prices?



### 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					
Woman and		Total 1-49	1-4	5-9	10-24	25-49	50-49
	∫ Woman-Owned	27%	31%	25%	26%	19%	6%
Minority Owned	Minority-Owned	15%	18%	16%	11%	8%	4%
6%	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%

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Minority



## **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 ( $68\% \rightarrow 72\%$ ).



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Quarterly Small Business Client Pulse Study

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