

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

February 2023

# 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 sixth 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
- Wave 6: January 19 – February 6, 2023



## 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	1,357
1 - 4 EE	1,067	1,118	866	539	585	587
5 - 9 EE	481	447	414	235	325	345
10-24 EE	404	397	413	205	270	303
25-49 EE	106	154	141	100	129	122
50-499 EE	NA	179	179	130	142	136
50-150 EE		114	126	80	86	80
151-499 EE		65	53	50	56	56

Finding's stat tested @ 95%

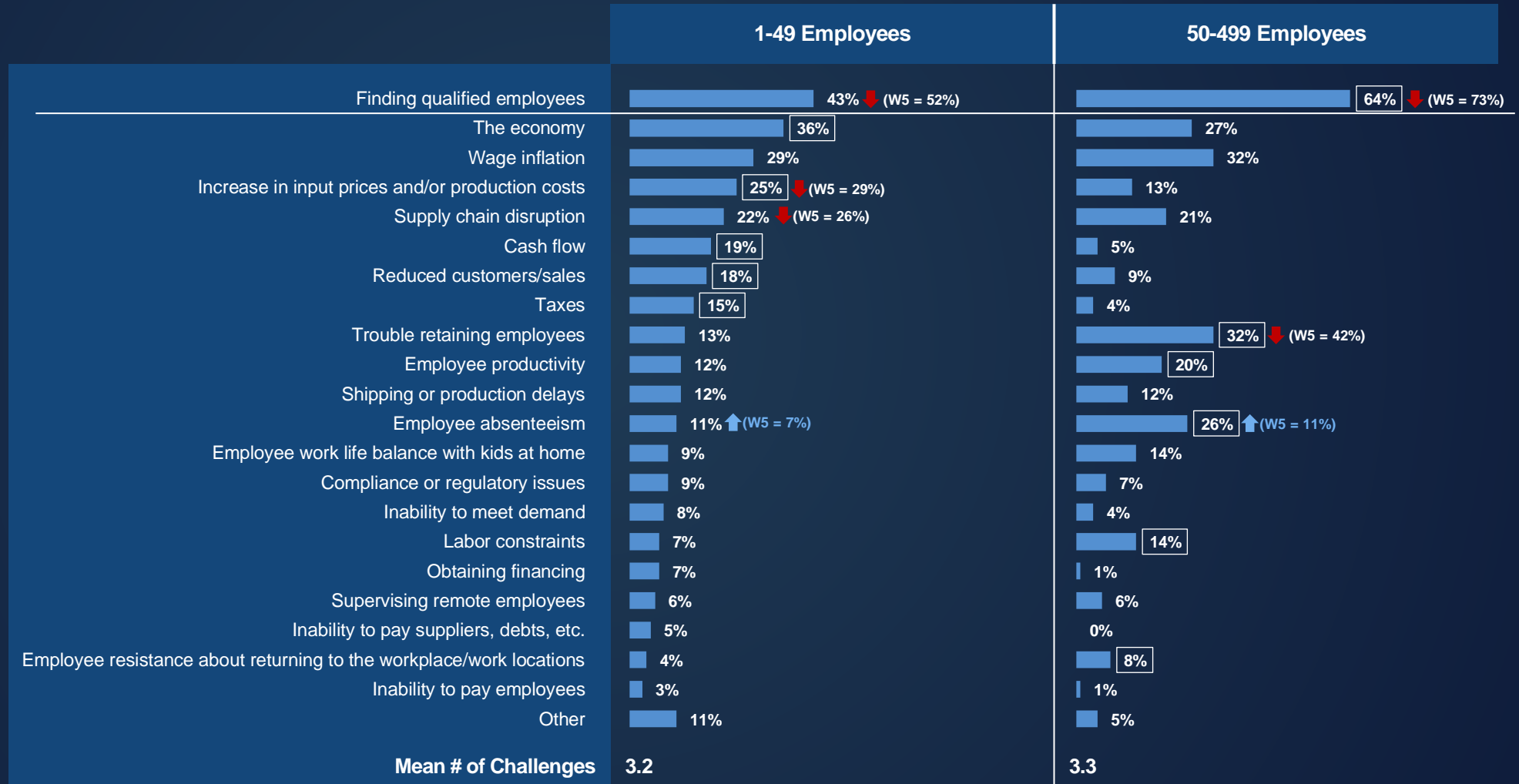
# Challenges Business is Currently Facing



**Finding qualified employees** remains the overwhelming challenge facing all small business clients but as lessened from September.

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

All clients find **employee absenteeism** more of a challenge than previously – especially larger clients,



# Challenges Business is Currently Facing (Top 10)

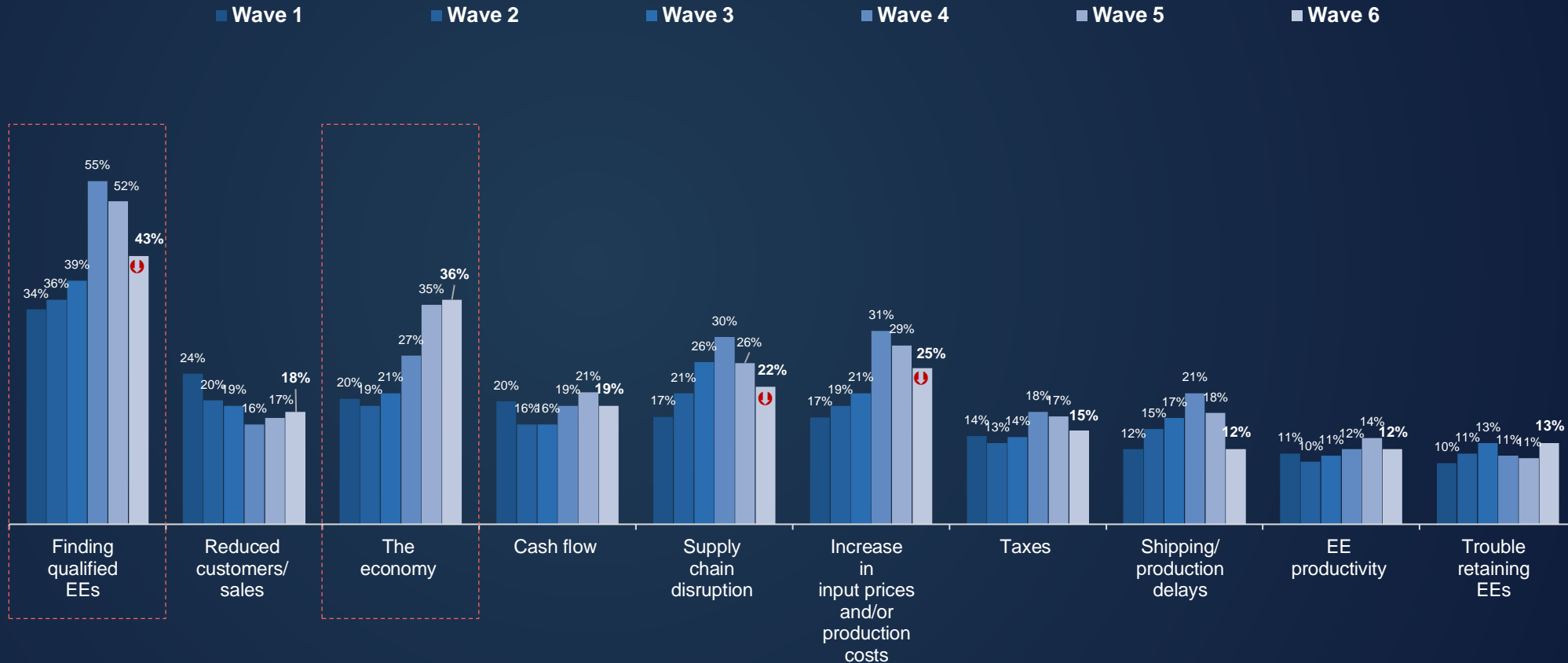
## 1-49 Employees



While **finding qualified employees** continues to be a key challenge it has dropped dramatically.

More than one-third continue to cite **the economy** – becoming more aligned with finding employees.

The challenges resulting from **supply chain disruptions** and **increases in input prices and production costs** continue to decrease.

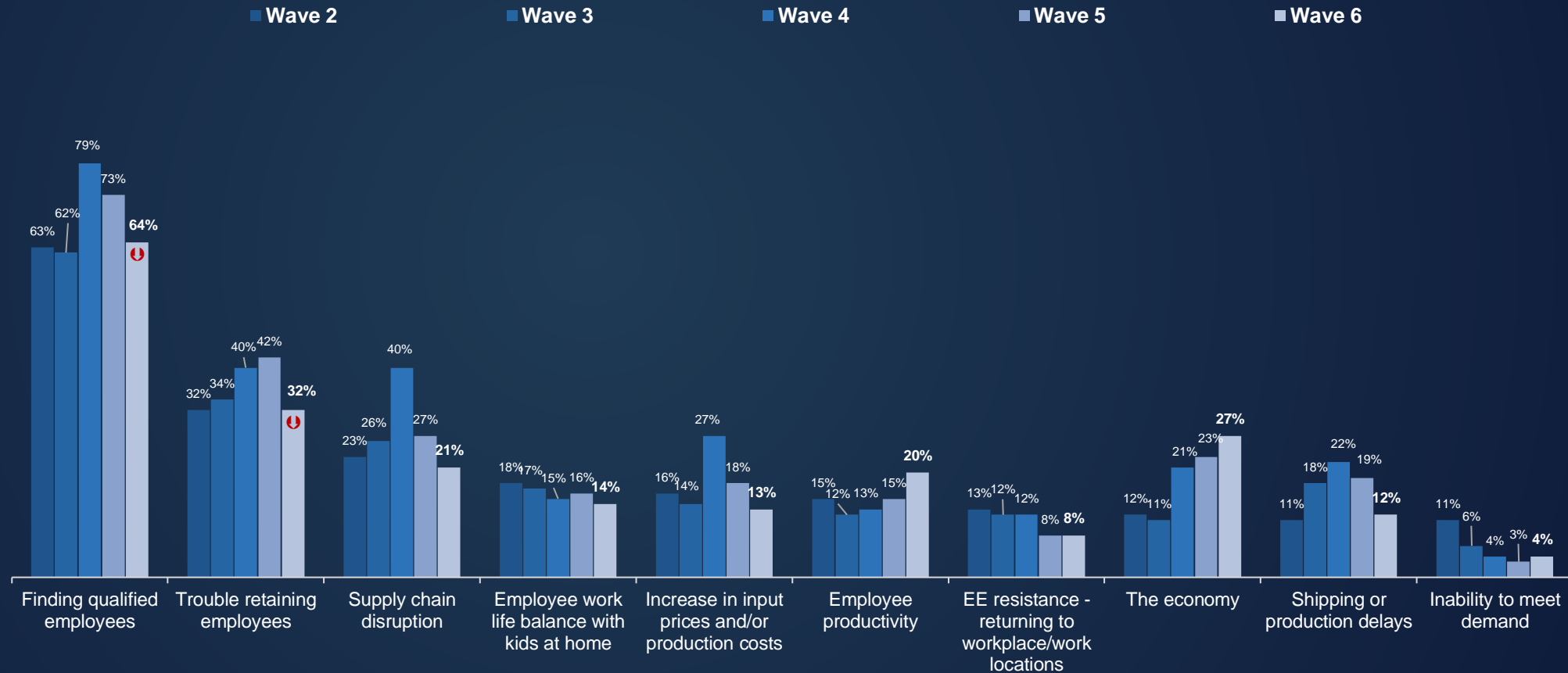


# Challenges Business is Currently Facing (Top 10)

## 50-499 Employees



Finding qualified employees and employee retention remain key challenges but are not as great as they had been.

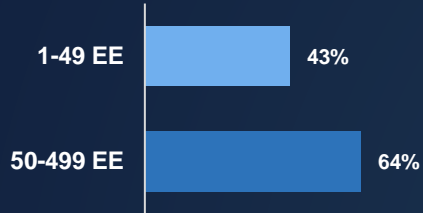


# Top 10 Challenges Business is Currently Facing *(by industry)*

	Total*	Prof, Scientific, Technical	Healthcare/Social Assistance	Educational Services	Construction	Manufacturing	Retail/ Wholesale	Finance/ Insurance	Arts & Entertainment	Accommodation & Food Services
Finding qualified employees	45%	●	●	●	●	●	●	●	●	●
The economy	35%	●	●	●	●	●	●	●	●	●
Wage inflation	29%	●	●	●	●	●	●	●	●	●
Increase input prices/production costs	24%	●	●	●	●	●	●	●	●	●
Supply chain disruption	22%	●	●	●	●	●	●	●	●	●
Cash flow	18%	●	●	●	●	●	●	●	●	●
Reduced customers/sales	18%	●	●	●	●	●	●	●	●	●
Taxes	14%	●	●	●	●	●	●	●	●	●
Trouble retaining employees	14%	●	●	●	●	●	●	●	●	●
Employee productivity	13%	●	●	●	●	●	●	●	●	●
Shipping or production delays	12%	●	●	●	●	●	●	●	●	●
Employee absenteeism	12%	●	●	●	●	●	●	●	●	●
EE work life balance w. kids at home	10%	●	●	●	●	●	●	●	●	●

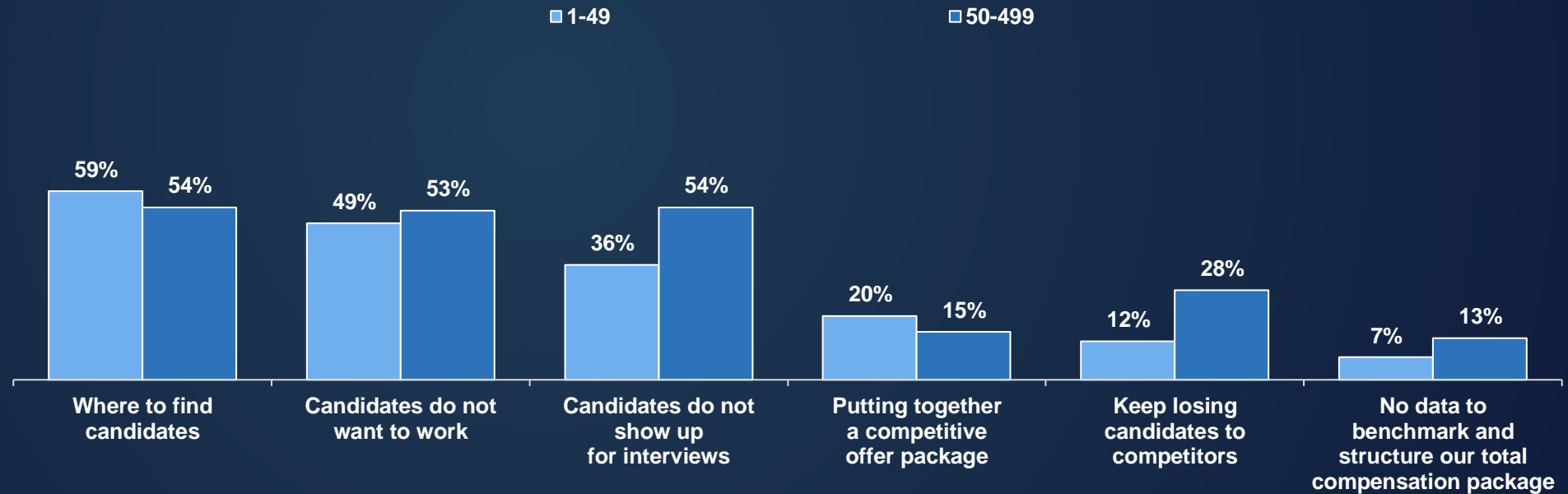
- top tier challenge
- 2nd tier challenge
- 3rd tier challenge

# Challenges Facing: Finding Qualified Employees

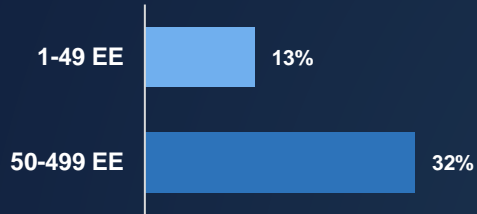


**Where to find candidates** is a key issue clients face in finding qualified employees.

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.

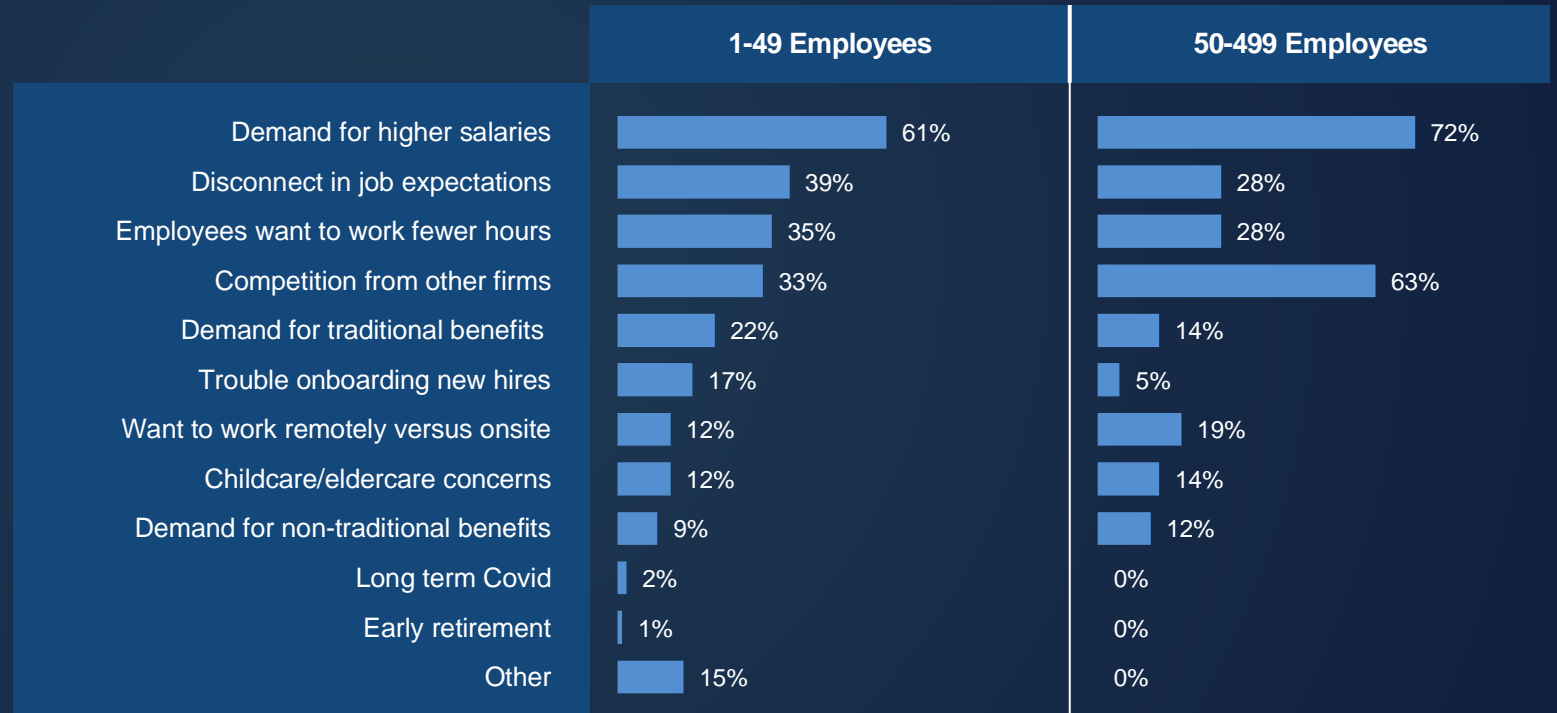


# Challenges Facing: Retaining Employees



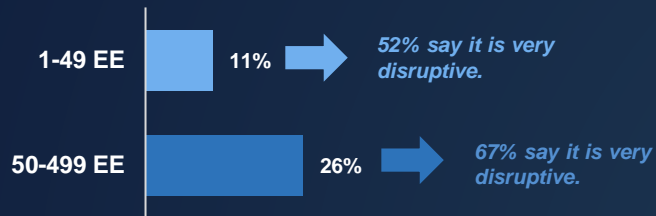
Employee retention challenges are driven primarily by the **demand for higher salaries**.

**Competition from other firms** is also a driver among larger clients.





# Challenges Facing: Employee Absenteeism

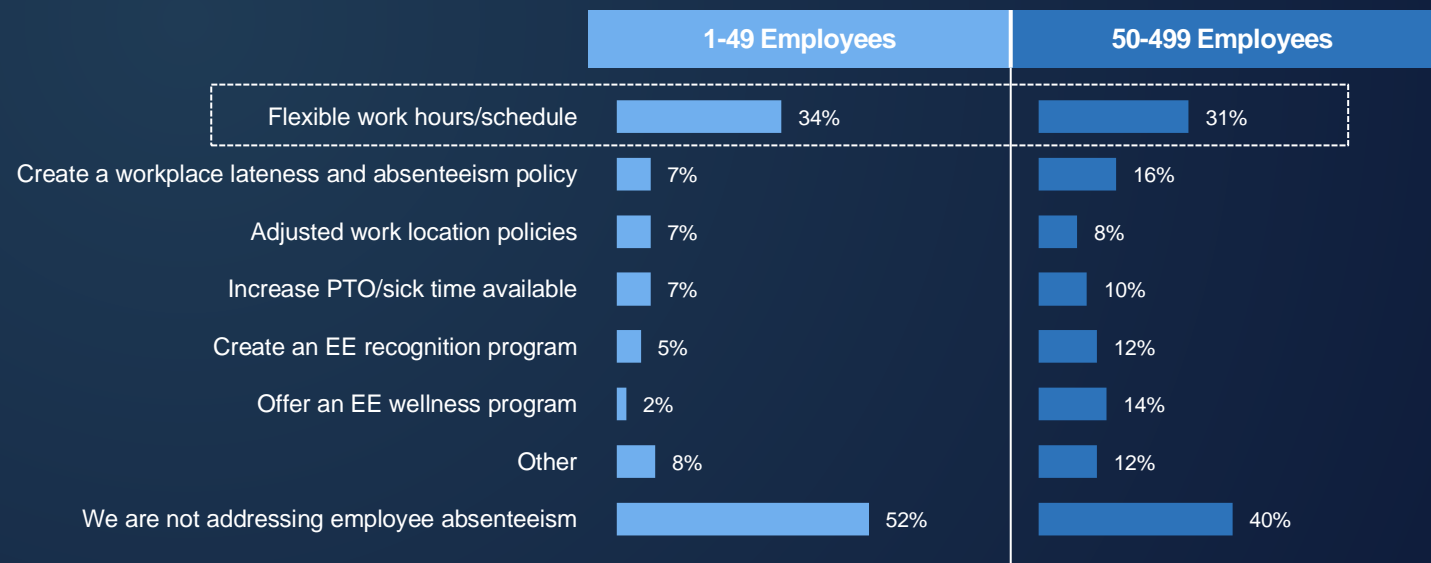
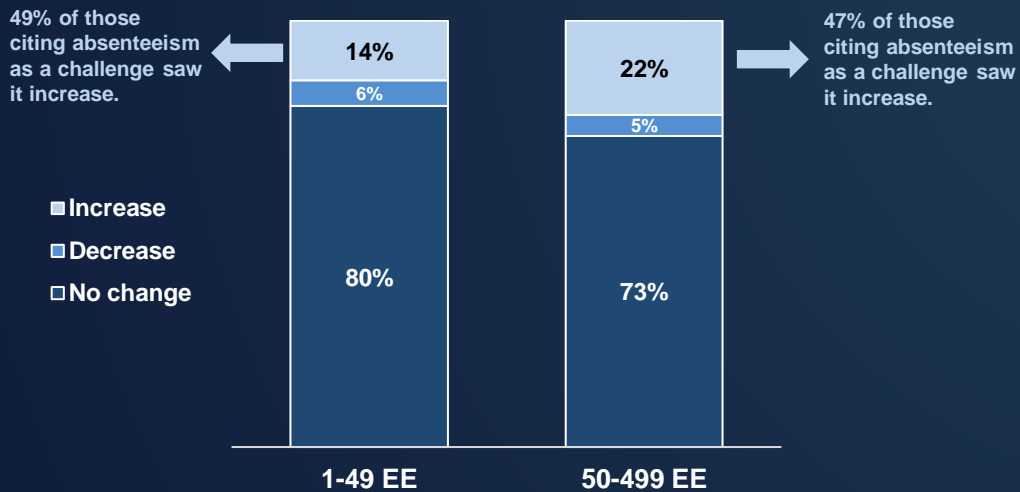


While the majority of clients have not seen a change in **employee absenteeism** over the last 3 months, it is becoming far more challenging to clients (1-49: 7% → 11%; 50-499: 16% → 26%).

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

## How Business is Handling Absenteeism

### Absenteeism Past 3 months



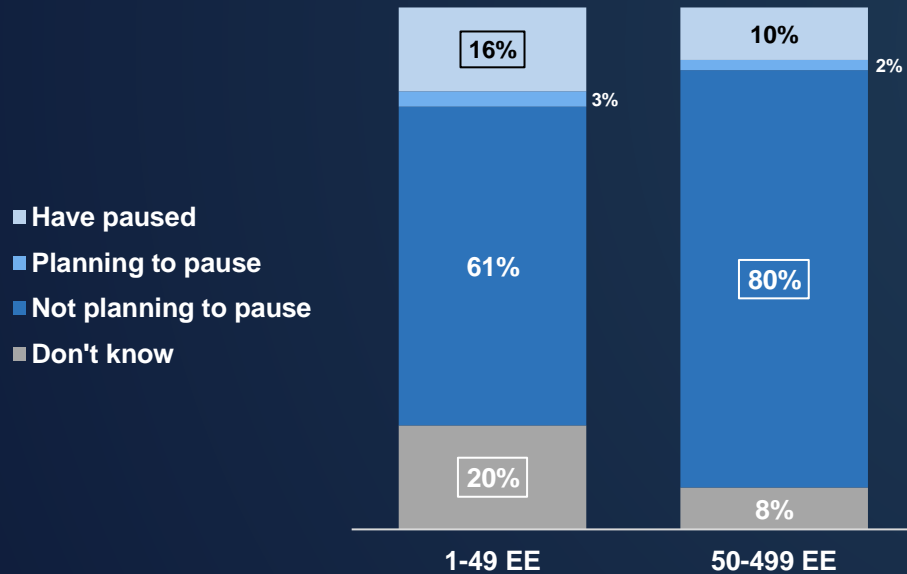
# Hiring Plans



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

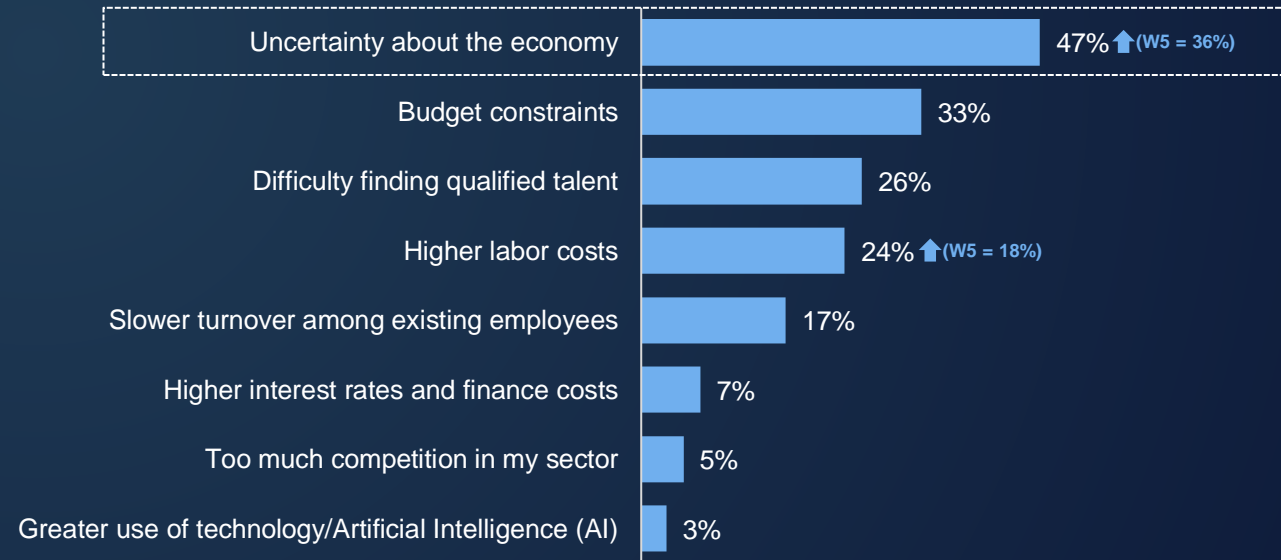
**Uncertainty about the economy** remains the key driver for pausing or planning to pause hiring with concern growing. **Increased labor costs** are also playing a larger role in the decision.

## Hiring Plans Next 3 Months



## Why Paused/Planning to Pause Hiring

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

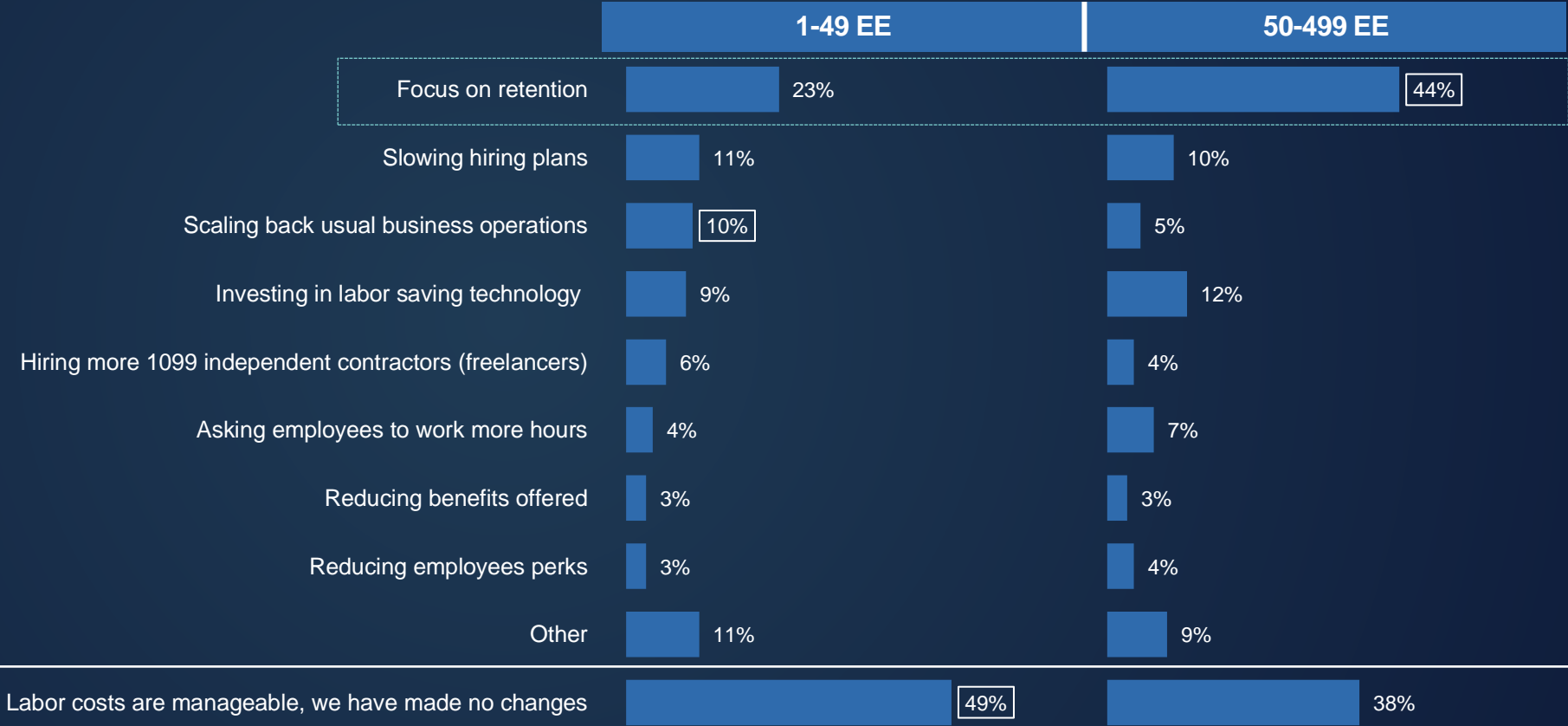


# How Companies are Dealing with Increased Labor Costs



Although higher labor costs are playing more of a role in the decision to pause hiring, only half of small clients are taking steps to address labor costs.

**Focusing on employee retention** is the most common approach all clients are taking to address labor costs.



As company size increases so does the likelihood that labor costs need to be addressed.

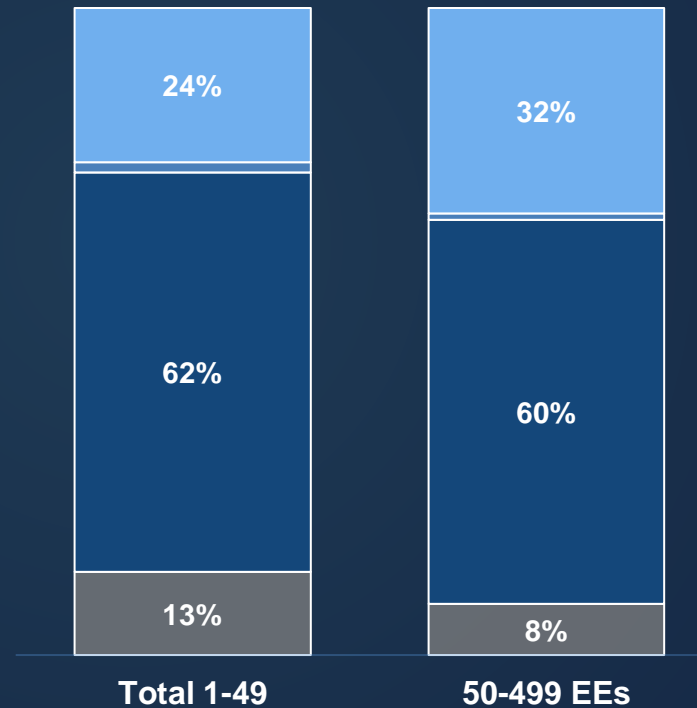
# Increase or Decrease Wages in the Next 3 Months



Consistent with prior waves, the majority are **not planning on making any changes to employee wages** in the next 3 months.

Larger clients are more likely to increase wages.

- Increase Wages
- Decrease Wages
- No change
- Don't Know



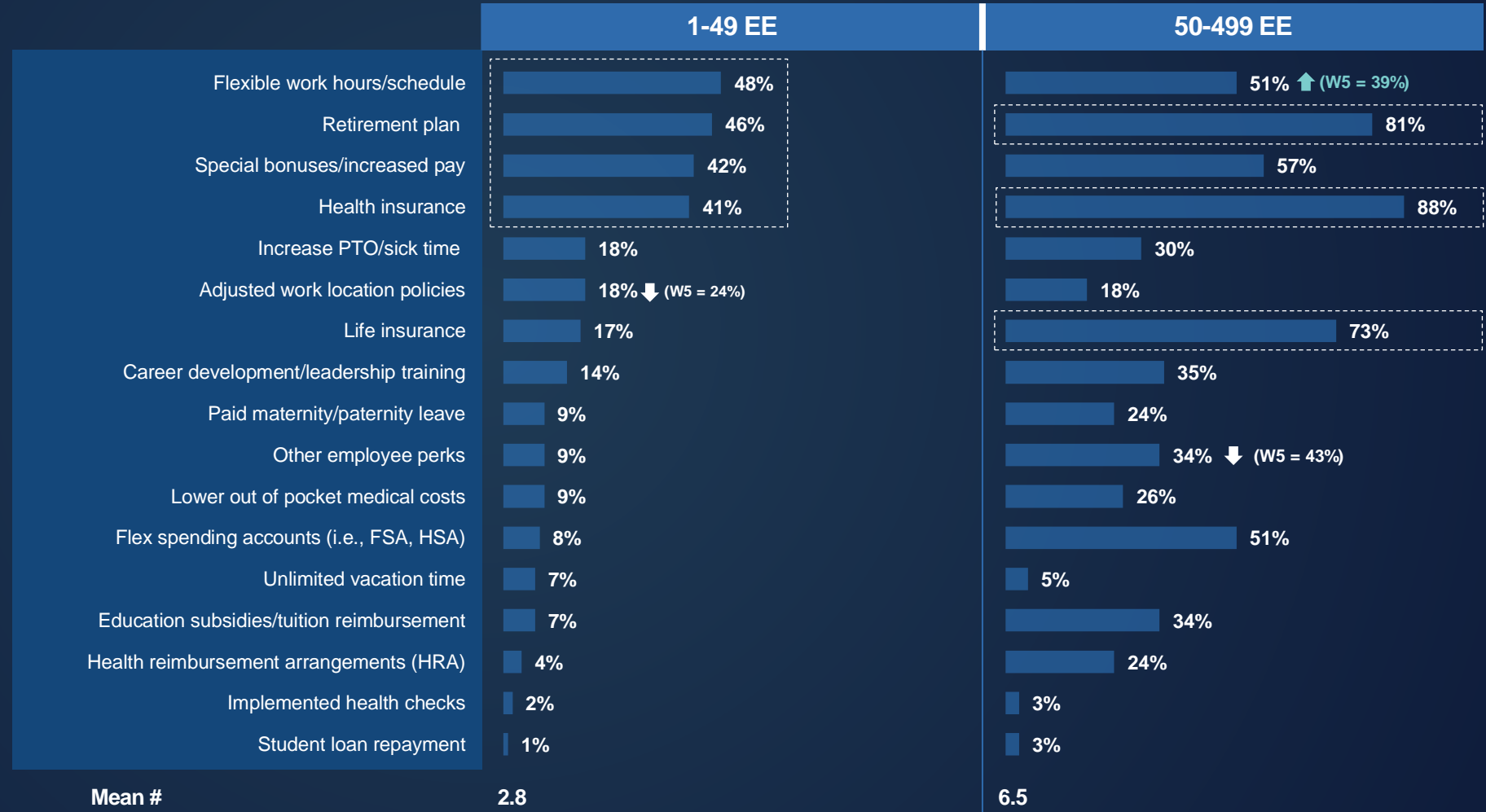
# Offered to Employees



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

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

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



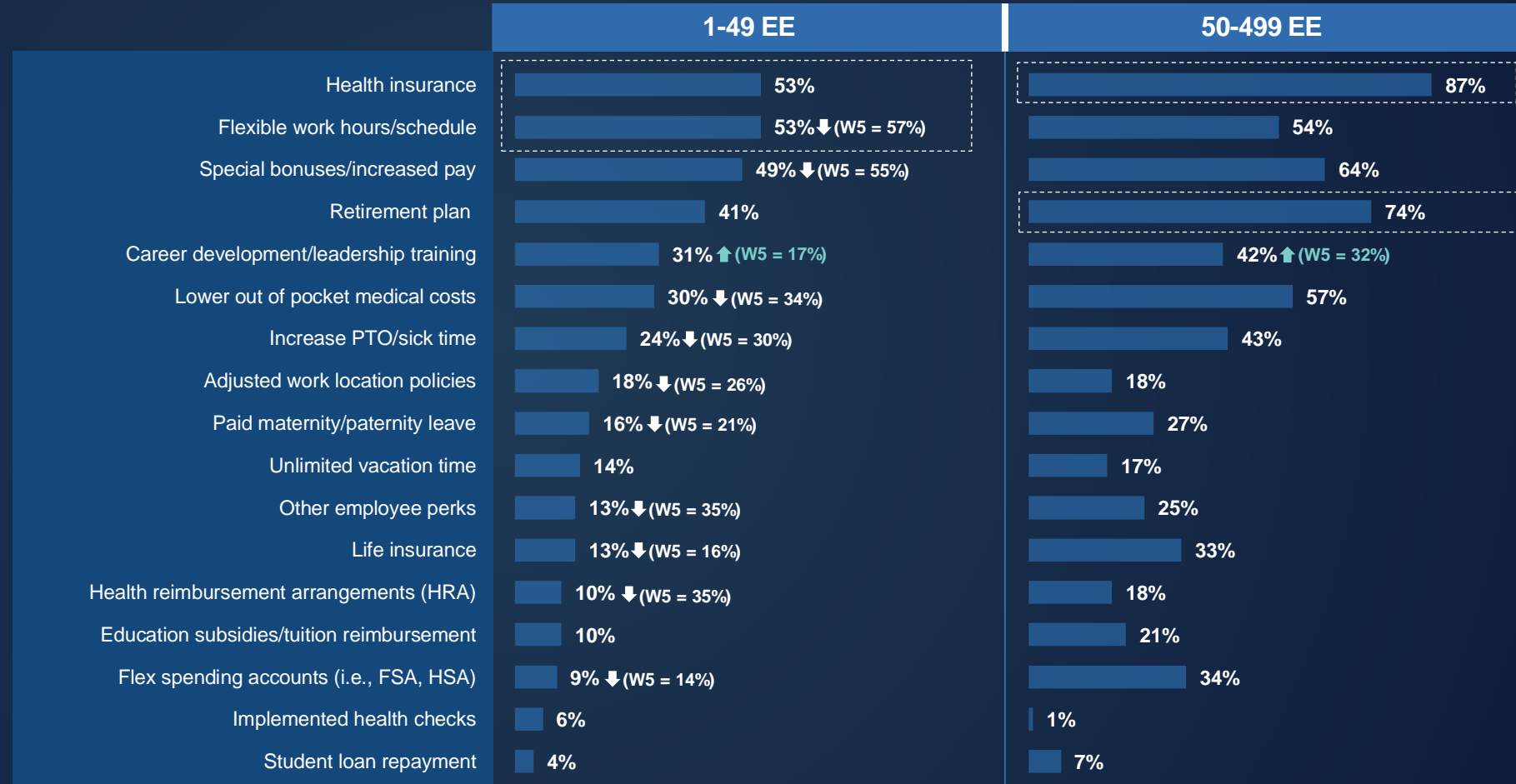
# Important to Attract New Employees

*Extremely/Very Important*



Career development and leadership training has increased in importance for attracting employees.

Smaller clients place far less importance on most offerings to attract employees – the exceptions include **flexible work hours/ schedules, adjusted work locations and unlimited vacation time.**



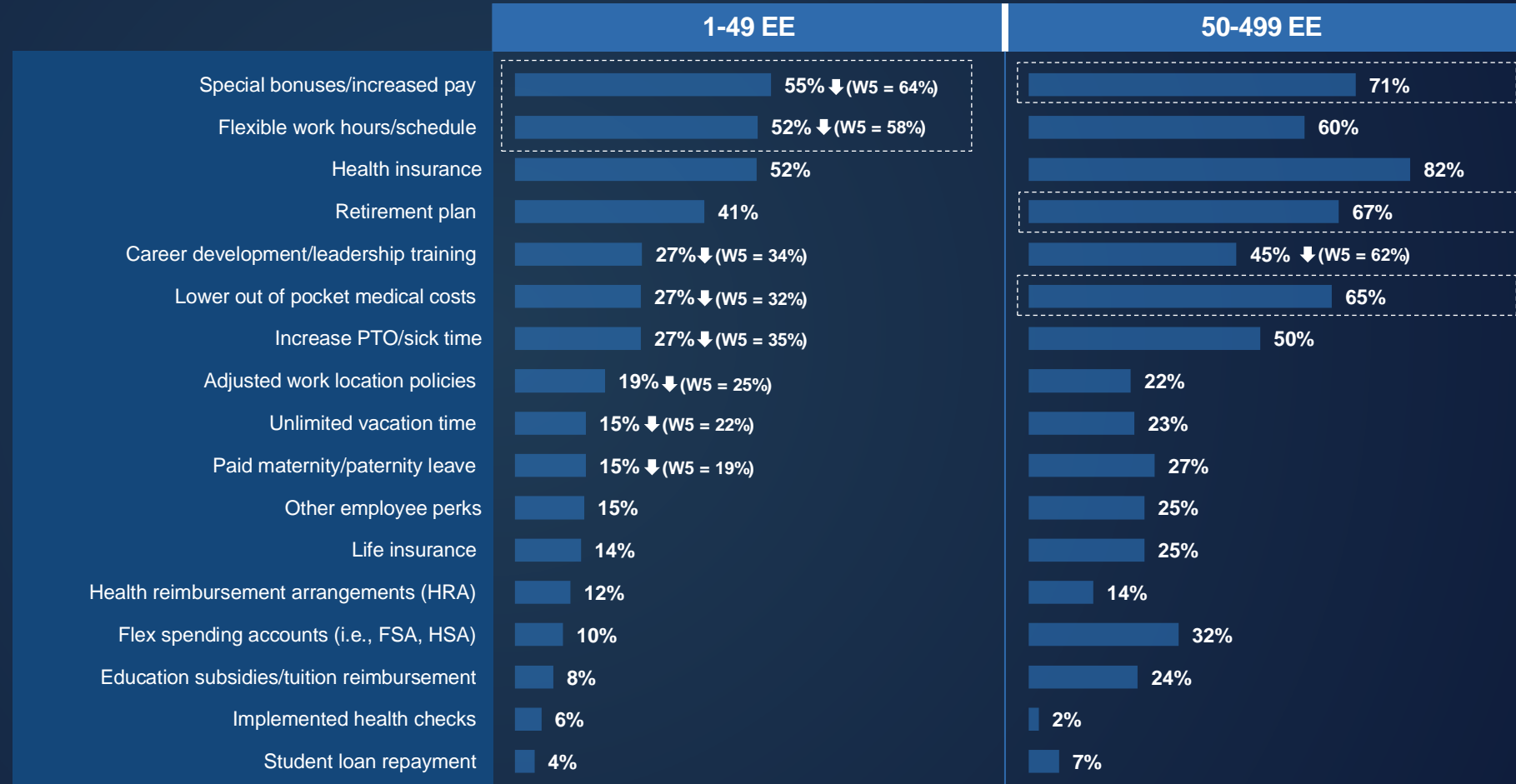
# Important to Retain New Employees

*Extremely/Very Important*



Interestingly, while **career development and leadership training** has increased in importance for attracting employees, it has decreased in importance for retaining them.

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



# 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 – **career development/leadership training** and **lower out of pocket medical costs** – 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	48% ①	53% ①	52% ②
Retirement plan	46% ①	41% ③	41% ③
Special bonuses/increased pay	42% ②	49% ②	55% ①
Health insurance	41% ②	53% ①	52% ②
Increase PTO/sick time	18%	24%	27%
Adjusted work location policies	18%	18%	19%
Life insurance	17%	13%	14%
Career development/leadership training	14%	31%	27%
Paid maternity/paternity leave	9%	16%	15%
Other employee perks	9%	13%	15%
Lower out of pocket medical costs	9%	30%	27%
Flex spending accounts (i.e., FSA, HSA)	8%	9%	10%
Unlimited vacation time	7%	14%	15%
Education subsidies/tuition reimbursement	7%	10%	8%
Health reimbursement arrangements (HRA)	4%	10%	12%
Implemented health checks	2%	6%	6%
Student loan repayment	1%	4%	4%

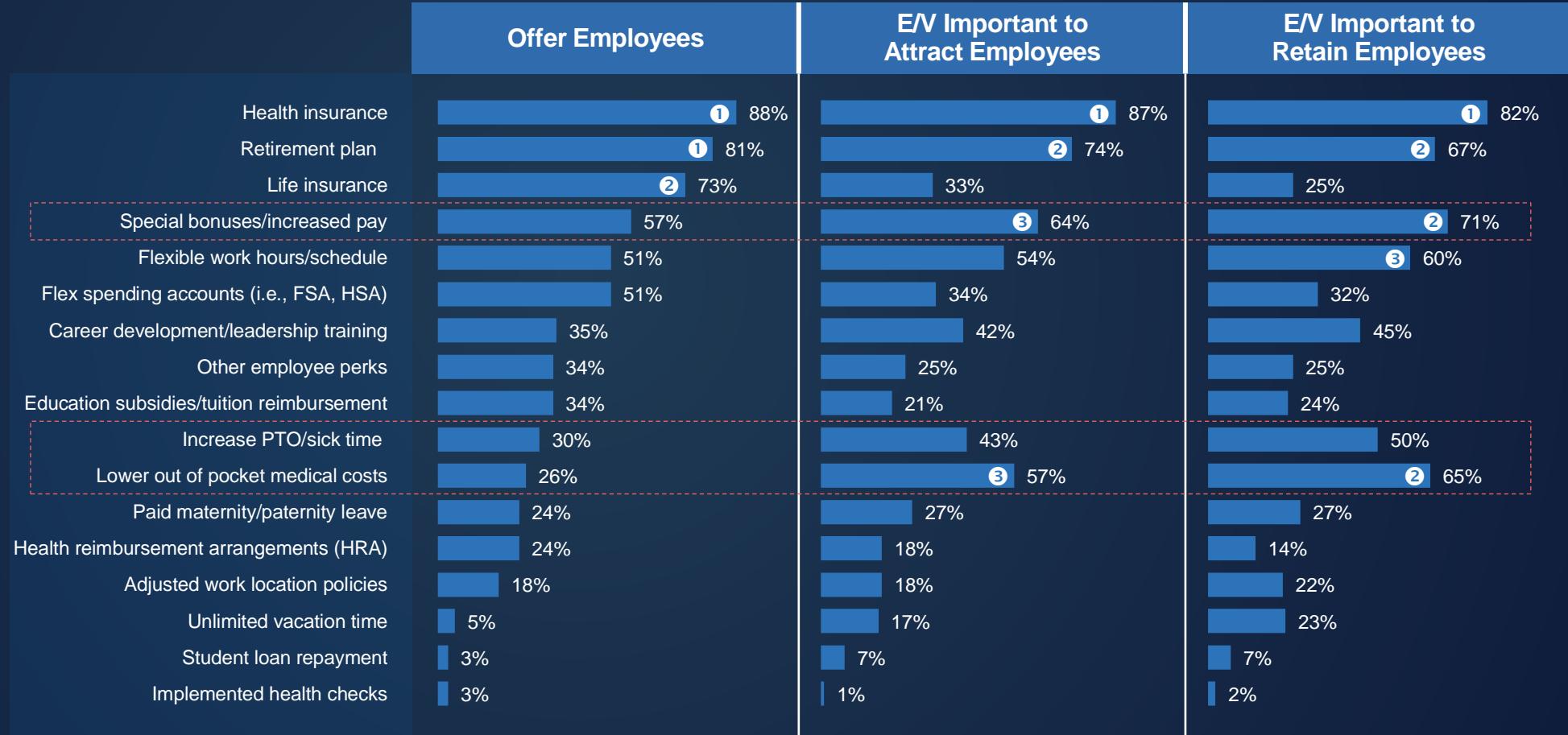


# Offer, Important to Attract, Important to Retain

## 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, increase in PTO/sick time and lower out of pocket medical costs.**



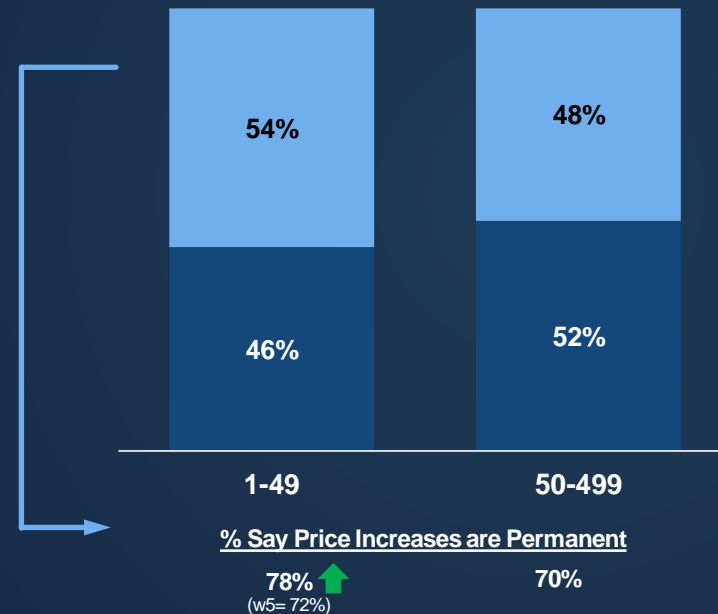
# Prices Charging Clients/Customers



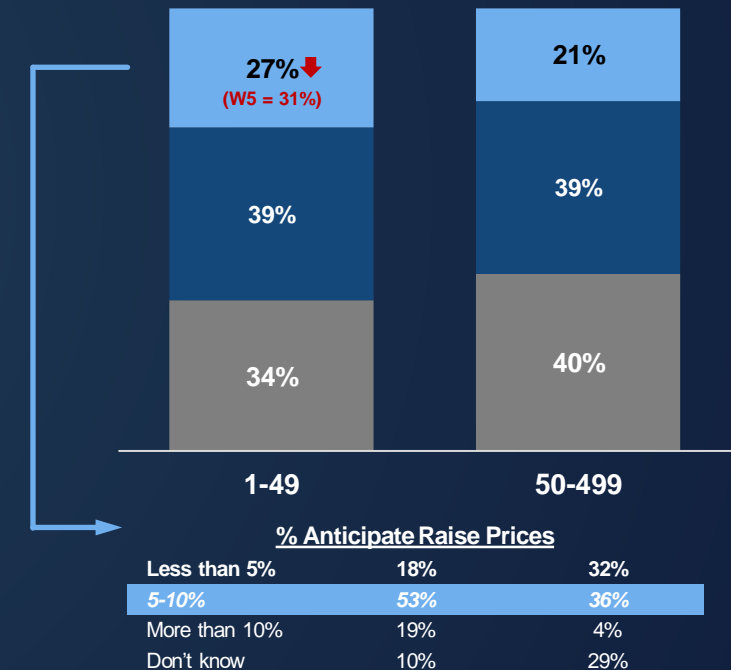
While there has been no change in proportion of clients indicating they have had to raise prices, smaller clients remain somewhat more likely to have had to do so than larger clients and are more likely to indicate that these price increases are permanent (vs. larger clients and wave over wave; 68% → 72% → 78%)

Smaller clients continue to be more likely than larger clients to be planning to raise prices in the next 3 months, but it is a decline from the prior wave.

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

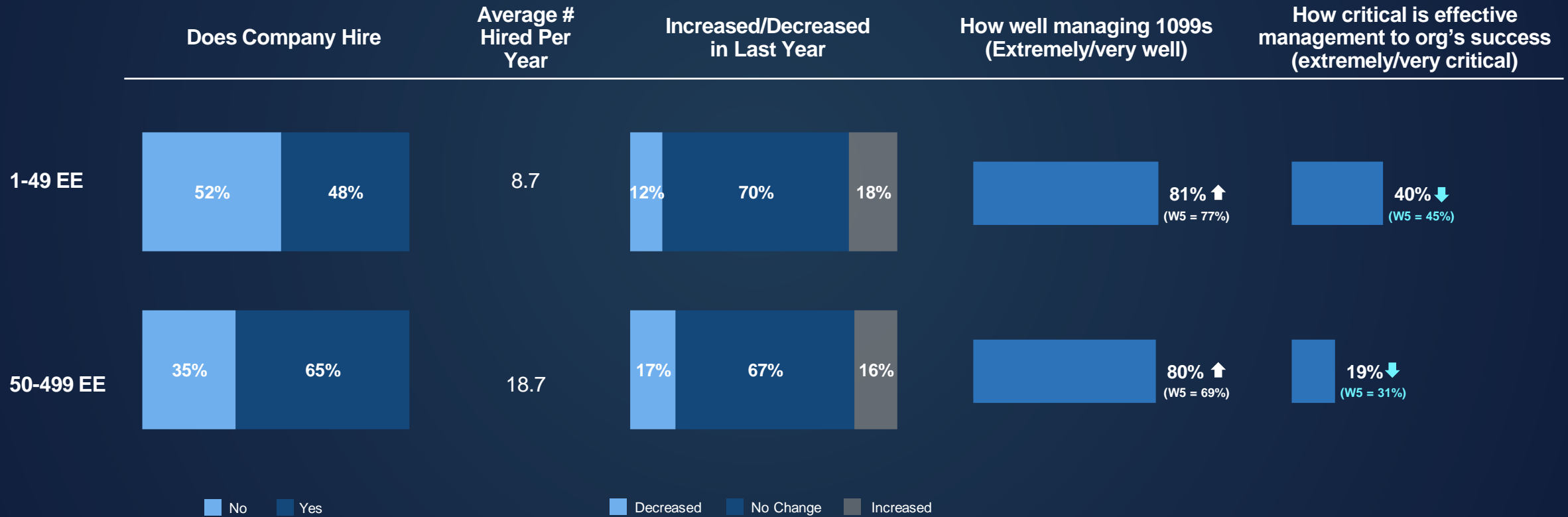


## Plan to Raise Prices in Next 3 Months?



■ 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	21%	22%	21%	19%	16%	17%
Midwest	16%	12%	17%	20%	21%	24%
South	31%	28%	30%	34%	39%	32%
West	32%	38%	32%	26%	25%	27%

TENURE						
	Total 1-49	1-4	5-9	10-24	25-49	50-499
Less than 3 yrs	11%	17%	9%	6%	3%	-
3 to less than 5 yrs	9%	9%	8%	9%	7%	1%
5 to less than 7 yrs	8%	9%	8%	6%	7%	3%
7 to less than 10 yrs	5%	5%	5%	6%	7%	2%
10 yrs+	67%	59%	71%	74%	75%	92%

BUSINESS OWNER PROFILE						
	Total 1-49	1-4	5-9	10-24	25-49	50-499
Woman-Owned	28%	33%	24%	28%	17%	13%
Minority-Owned	14%	18%	12%	10%	12%	3%
Veteran-Owned	5%	6%	6%	3%	4%	5%
LGBTQ+-Owned	2%	3%	2%	2%	2%	1%
Don't know	4%	4%	4%	3%	5%	6%
None of the above	57%	49%	62%	63%	65%	76%

Woman and  
Minority Owned  
**7%**



# Executive Summary

## Attracting and Retaining Employees

- Special bonuses and increase pay are pivotal for attracting and retaining employees
  - Offering flexible work hours/schedules and special bonuses/increase pay continue to be most important to attract and retain employees in smaller companies (1-49 employees).
  - Larger companies (50-499 employees) cite retirement plans and special bonuses/increase pay as most important for attracting and retaining employees.
  - All companies place far greater importance on career development and training to help attract employees.

## Labor Costs and Wages

- While uncertainty about the economy is a key factor in pausing hiring, higher labor costs are playing a much greater role in the decision.
- Focusing on retention is the primary means of dealing with increased labor costs.
- 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.
- Company size influences what is offered to employees – retirement plans tops the list for all regardless of size.
- There are gaps in what is offered (or not offered) and what is perceived as important to offer to attract and retain employees. Fewer offer the following than think they should:
  - 1-49: Career development training, lower out of pocket medical costs
  - 50-499: Lower out of pocket medical costs, increase PTO/sick time



**ADP** | Research  
INSTITUTE

Small Business Client  
Pulse Study