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ALLEVIATING THE MAIN STREET CASH CRUNCH

SEPTEMBER 2020

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Alleviating The Main Street Cash Crunch eBook was done in collaboration with Ingo Money, and PYMNTS is grateful for the company's support and insight. PYMNTS.com retains full editorial control over the following findings, methodology and data analysis.

INTRODUCTION

The year started out looking pretty promising to Loic Le Garrec, owner of Boston's Petit Robert Bistro. Mild winter weather in Boston had led to stronger-than-average performances in January and February, and Le Garrec told Karen Webster in a digital discussion that as March approached, he had every reason for optimism.

"I was expecting a huge spring season," Le Garrec said. "It's always a big time for us."

And then COVID-19 happened, and Le Garrec, like thousands of Main Street entrepreneurs nationwide, found his good year flipped into a not-so-good year as he was forced to close his doors, and start power-pivoting to keep his business alive and funds flowing into his coffers.

"It's a different business that we had to adapt to, and we have had to push every day and find ways to do new things to 'seduce' people," Le Garrec said. "Every week we have a special menu that we deliver on the weekend, and that's when we work the most. We have three, four cars and we deliver. I actually drove around town myself delivering food and it's not so fun … but we get to see our customers and they're helping us out a lot."

And while not every Main Street entrepreneur PYMNTS spoke to actually started doing deliveries, nearly all of the dozens PYMNTS has interviewed in the last half-year had a similar story to tell. They started 2020 with high hopes and big plans, found themselves brought up short by the near-total economic shutdown of mid-March and were forced to pivot post-haste to stay in the game at all. They went online or beefed up their digital offerings, they moved to offering curbside delivery for goods ordered digitally, their delivery services exploded, parking lots were turned into dining rooms and service providers like hairdressers started making house calls. Doing it differently, doing it digitally and doing it better became recurring themes for the small and medium-sized businesses (SMBs) and entrepreneurs PYMNTS interviewed this spring as they pushed through the acute pandemic period toward a much-anticipated eventual recovery.

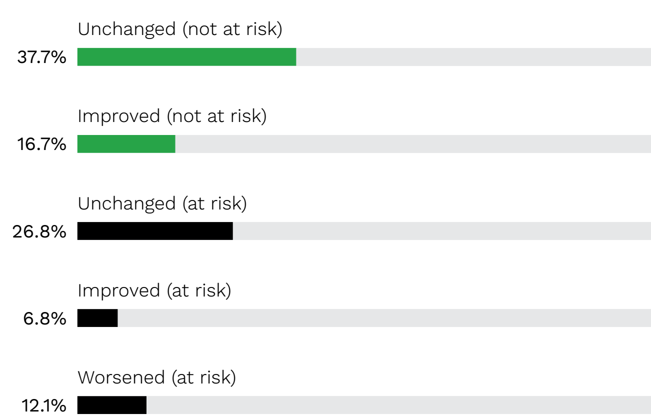
"We know we do have to change our thinking about the long term. How are we going to change as things go along? We don't know what the next step is in some cases. So we [are] just doing the best we can," Bob Wong, third-generation owner of the iconic Kowloon Restaurant in the greater Boston area, told PYMNTS in a recent conversation.

And that new best does appear to be making a difference for SMBs. The PYMNTS Main Street's Six-Month Checkpoint survey of Main Street merchants indicates that attitudes about their futures have improved since PYMNTS first started surveying Main Street SMBs in mid-March. Fifty-four percent of all SMBs now say they feel confident that they will be able to stay open through the end of the pandemic, up from 42 percent who said the same in the earliest days of the pandemic, according to the latest data. But digging down into that data a bit takes some of the shine off of the improved outlook.

FIGURE 1:

HOW MAIN STREET SMBs' FINANCIAL STABILITY HAS CHANGED SINCE MARCH

Share that say they are either stable or unstable and whether their finances have changed in select ways



Source: PYMNTS.com

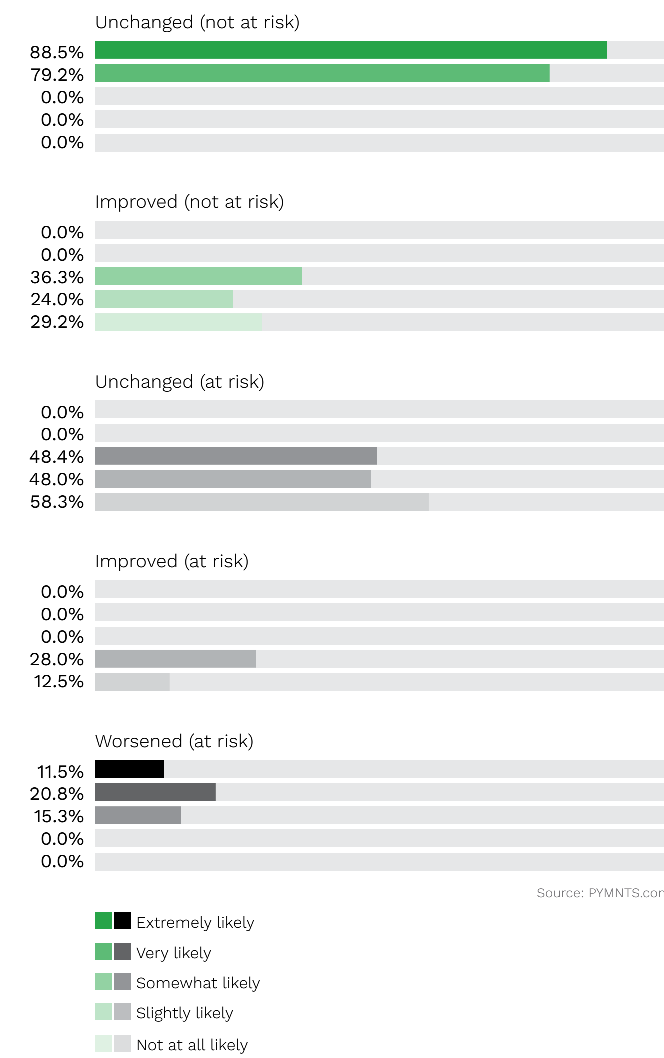
Improved financial stability was the major booster for merchant confidence, according to the study. PYMNTS data found 24 percent of SMBs report their financial situation has improved since two weeks into the pandemic, 65 percent of SMBs say their finances have gone largely unchanged and 12 percent say their financial situations have deteriorated since then. And many of those firms that reported feeling financial stability now, the data showed, were also feeling pretty darn stable at the outset of the pandemic. PYMNTS' survey shows that 69 percent of the SMBs saying they are not at risk of closing now were already sure they would be able to stay open when the pandemic began.

For those who started out the pandemic deeply worried about their future, the situation unfortunately does not seem to have turned around. The survey found 58 percent of Main Street SMBs that were sure they would not survive the pandemic in March currently report their finances have not improved and their businesses are still at risk of closing. Another 12 percent say their financial situation has improved, but not enough to remove the risk of closure.

FIGURE 2:

HOW MAIN STREET SMBs' FINANCIAL STABILITY HAS CHANGED SINCE MARCH

Share that say they are either stable or unstable and whether their finances have changed in select ways, by likelihood of survival stated in March



For those who started out the pandemic deeply worried about their future,

> **the situation unfortunately does not seem to have turned around.**

Taken together, the data is pretty clear — the outlook of many Main Street SMBs appears to be improving, but the bad news is the cash crunch remains a lingering headwind forestalling the segment's progress on the road to recovery. As data indicates, faster payments technology has the potential to alleviate that headwind in part, if not in total, for SMBs if (and only if) the merchants of Main Street really understand the options out there for them.

CAPTURING THE CASH CRUNCH AND ITS EFFECTS

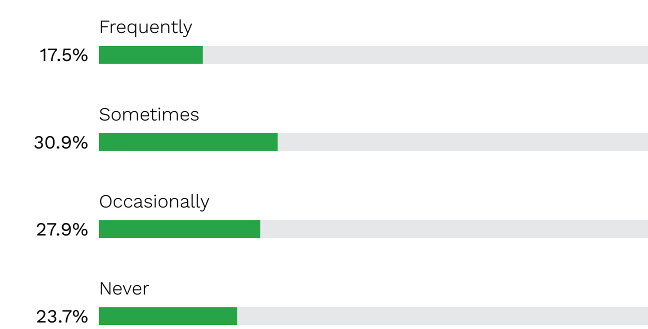
However improved the outlook of Main Street businesses is as summer 2020 passes into fall, PYMNTS' recent Road to Recovery Study — done in partnership with Visa over the summer — indicates the slow sales and shrunken revenue have made the cash crunch an incredibly prevalent problem for Main Street merchants, and has throughout the pandemic period.

According to survey data, 76 percent of Main Street SMBs report having at least occasional cash flow issues since the pandemic began, while 18 percent report having experienced frequent cash flow shortages during the pandemic, 31 percent report they have cash flow shortages "sometimes" and nearly 28 percent report they've experienced occasional cash flow shortages during that time. The pandemic, unsurprisingly, has been the main driver of those shortfalls, particularly those that reported cash flow challenges "sometimes" or "frequently." In those combined cohorts, 53 percent cite the pandemic as the primary contributing factor — or even the sole cause — of their financial challenges.

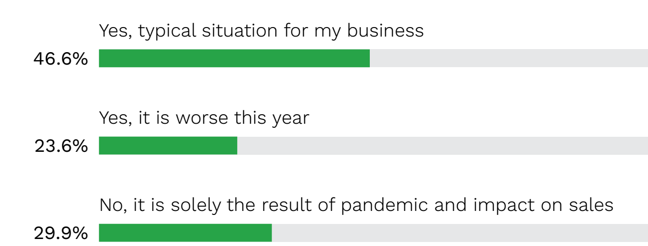
FIGURE 3:

WHY MAIN STREET SMBs REPORT EXPERIENCING CASH FLOW SHORTAGES

Share that have experienced cash flow shortages with select frequencies during the last four months



Share experiencing cash flow shortages "sometimes" or "frequently" that do or do not attribute their cash flow shortages to the pandemic



Source: PYMNTS.com

On top of that, another 24 percent say they typically deal with cash flow issues around this time of the year, but noted that this year these shortages were severe as a result of the pandemic.

A more recent Main Street consumer survey by PYMNTS indicates these issues have stayed put into the start of fall.

Seventy-two percent of all firms reported they still do not have enough funding to stay open for a month if their cash flow is interrupted, and 39.3 percent of firms have only enough funding to stay open for one week or less if their cash flow is interrupted.

And that cash flow shortage seems to exist among firms that did not identify themselves as at risk of closing down before the pandemic. The PYMNTS study reveals that confidence aside, 67.5 percent of these firms that believe they will outlast COVID-19 do not have enough funds to stay open for longer than a month if their cash flow is interrupted. That compares to the 79.1 percent of Main Street SMBs that feel as though they are at risk of closure and also would not be able to stay open for a month if their revenue streams were interrupted.

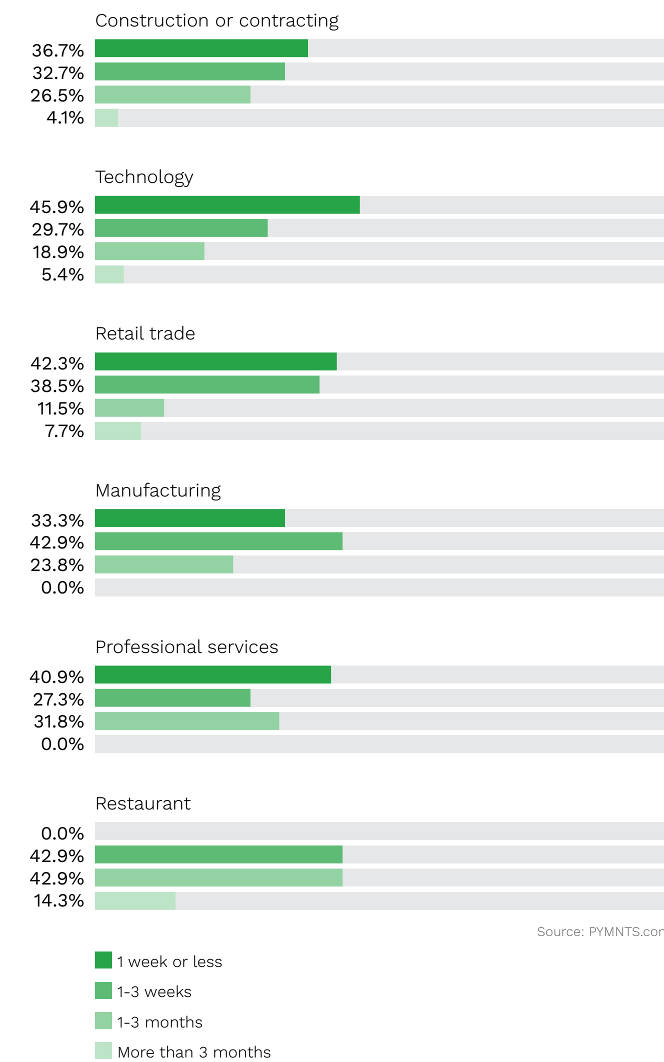
Few firms, it seems, have much in the way of an emergency cushion, making them unlikely to survive another protracted government shutdown. It's a risk, notably, that is looking increasingly possible in some regions of the U.S. where case counts have continued to climb, sometimes sharply.

And, as has been the case throughout the pandemic, the hardship of uneven and unpredictable cash flow has not landed evenly across SMBs, making for different impacts depending on the sector. Restaurants tend to have the most developed emergency cash cushions, with 14 percent reporting enough stored away to stay open for more than three months. On the other end of the spectrum are technology firms and retail trade firms, the two categories least likely to report sufficient access to funds to stay open for even a week in the event of interrupted cash flow.

Further exacerbating the cash flow pressure — and keeping merchants of all descriptions perched on the edge of a knife — is the fact that although the economy has been reopening for the last several weeks in most of the U.S., revenue remains stubbornly down. As of March 2020 at the start of the pandemic,

FIGURE 4:

HOW LONG FIRMS CAN REMAIN OPEN WITH THE FUNDS THEY HAVE
Share of firms that have enough funds available to remain open for select amounts of time, by industry



Few firms have much in the way of an emergency cushion,

making them unlikely to survive another protracted government shutdown.

88 percent of all Main Street SMBs said the pandemic had a significant negative impact on their revenues. As of early September, that number has fallen, but by far less than initially expected, as 75 percent still report the pandemic has significantly impacted their revenues.

The problem is widespread, persistent and ranges widely across verticals. Some segments have been hit harder than others — restaurants, for example, have reported the largest revenue fall-offs — but there are few to no segments of Main Street SMBs that haven't felt at least some of the sting, according to the report.

THE UNDER-TAPPED POWER OF REAL-TIME PAYOUTS

ALLEVIATING THE MAIN STREET CASH CRUNCH

SMB merchants are nothing if not an inventive group unwilling to be brought down without a fight. According to the PYMNTS and Visa study, facing mounting cash flow worries and limited options for accessing outside funds, entrepreneurs have been pushed to cover expenses with their own personal funds. The data demonstrates 37 percent of Main Street SMB owners who have experienced cash flow shortages within the past four months are tapping their personal funds to cover those shortages, 26 percent have used their personal credit cards to do so and 23 percent have sought help from family members or friends.

FIGURE 5:

MAIN STREET SMBs' INTEREST IN REAL-TIME SETTLEMENT
Share that cite select levels of interest

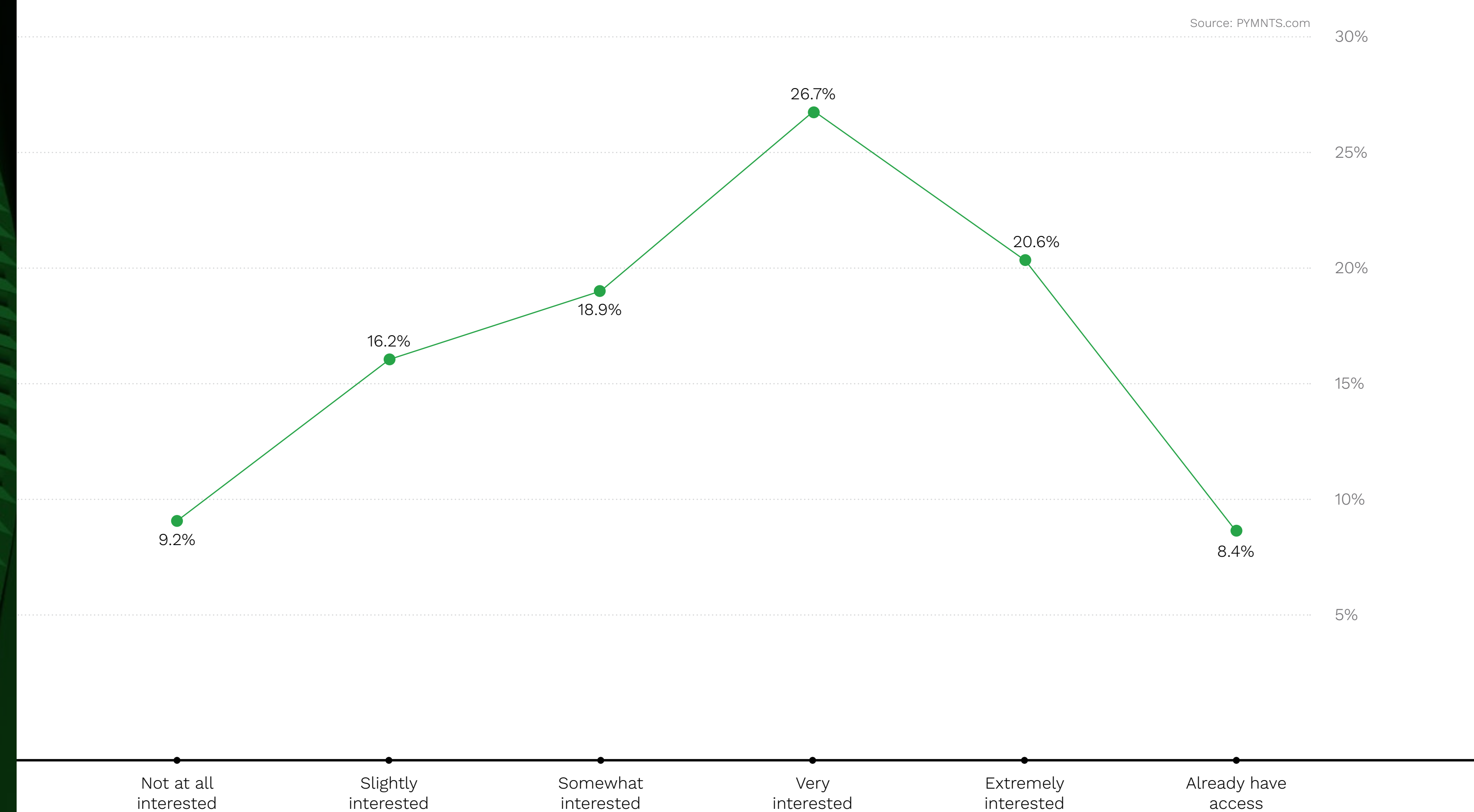
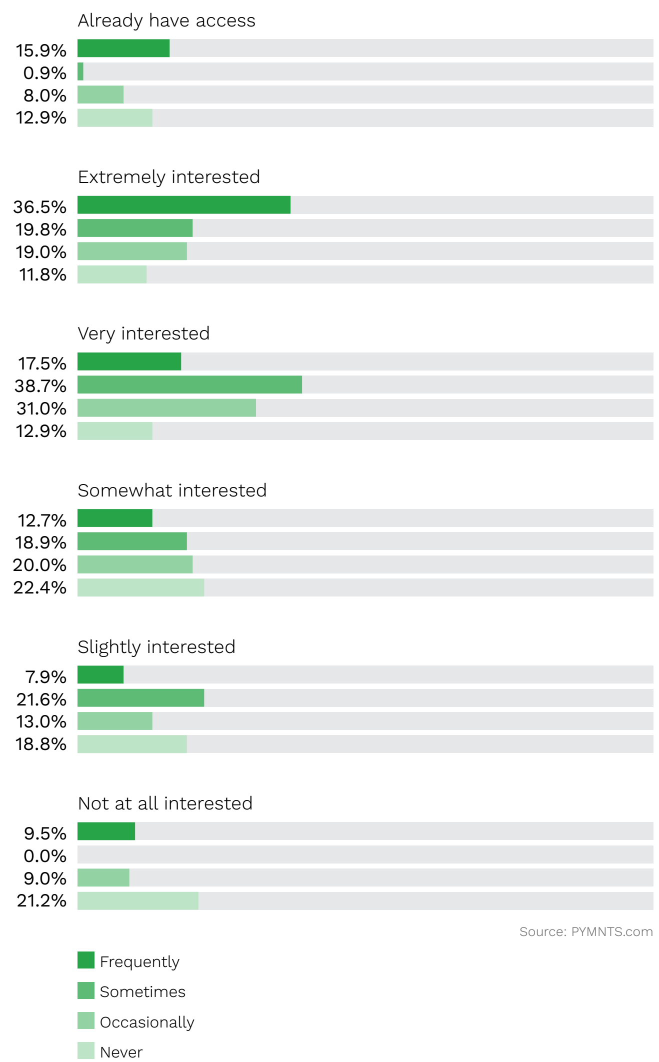


FIGURE 6:

MAIN STREET SMBs' INTEREST IN REAL-TIME SETTLEMENT

Share that cite select levels of interest, by frequency of cash flow shortages in the past four months



The report also showed that Main Street SMBs have begun to delay supplier, utility and employee payments to conserve cash, with 18 percent purposely delaying their supplier payments and 20 percent delaying payments to their employees for the same reason.

The situation around paying bills, according to the most recent PYMNTS Main Street survey, has marginally improved, with only 8 percent of Main Street SMBs reporting being unable to pay their monthly bills. Laying off employees and reducing payroll, however, has increased as entrepreneurs struggle to make ends meet. As of the start of September, 42 percent of Main Street SMBs reported having cut workers as a cost-saving mechanism, up from 32 percent in May.

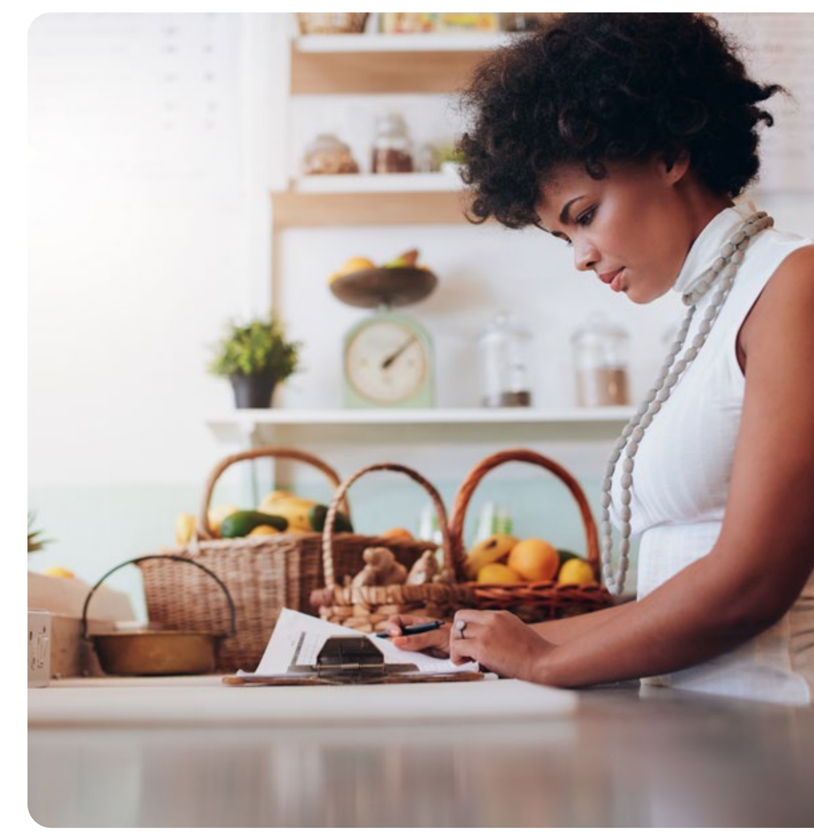
But the data is increasingly pointing to faster payments as a necessary element in alleviating the cash flow crunch of SMBs, by accelerating the receipt of sales proceeds when consumers buy from them using digital payments methods.

The situation around paying bills has marginally improved,

> **with only 8 percent of Main Street SMBs reporting being unable to pay their monthly bills.**

Access to instant settlement of funds is not, at present, common among the small business owners that dot America's Main Streets. According to PYMNTS/Visa data, a little over 8 percent even have access to such instant settlement at all. Interest in it, however, is booming.

According to the study data, SMBs report a near-universal desire to settle their sales in real time — with 91 percent reporting being at least slightly interested.



When it comes to choosing who to transact with, consumers and microbusinesses are twice as likely to want to continue business relationships

with entities that offer real-time settlement than with those that do not.

Main Street SMBs' interest in real-time settlement capabilities correlates with the frequency of their cash flow shortages, the data further demonstrates. The worse cash flow issues are for a business, the more interested they tend to be in being paid faster — with 59 percent of Main Street SMBs that have "sometimes" experienced cash flow shortages and 50 percent of those that have "occasionally" experienced cash flow shortages expressing the most interest.

The 9 percent of SMBs that are not interested in real-time settlement, on the other hand, are also highly financially stable. But not all highly financially stable businesses reject instant settlement as an area of interest, with nearly half (47 percent) report being at least "somewhat" interested in it.

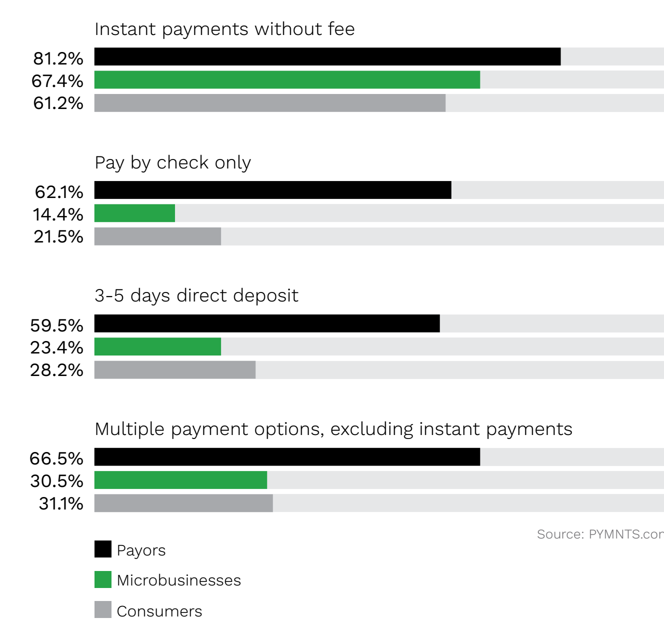
More than 81 percent

of firms believe offering free instant payments would be an incentive to customers and vendors.

FIGURE 7:

INSTANT PAYMENTS AND THE LOYALTY INCENTIVE

Share of consumers, microbusinesses and payors that are "somewhat" or "much more likely" to continue business relationships depending on select payment options



And that near-universal interest, the study demonstrates, looks as though it could translate into action for an increasing number of SMBs. The study found 42 percent of all Main Street SMBs would be "very" or "extremely" interested in switching to point-of-sale providers or acquirers that offered up real-time settlement capabilities, while another 44 percent are "somewhat" or "slightly" interested in doing so.

That data result was echoed in the just-released PYMNTS and Ingo Money collaborated study, Disbursements Satisfaction Report 2020: Monetizing Payout Choice, which found that when it comes to choosing who to transact with, consumers and microbusinesses are twice as likely to want to continue business relationships with entities that offer real-time settlement than with those that do not.

Given that the data notes there is both a genuine want and an established need for more instant payment availability — what's the holdup?

OVERCOMING RESISTANCE AND CLOSING THE PERCEPTUAL GAP

That merchants are highly interested in instant disbursement does not in turn mean they are enthusiastic without reservation. The PYMNTS/Visa study found that the 27 percent of Main Street SMBs not interested in real-time settlement capabilities say it is because they do not want to pay added fees, while 26 percent worry about chargebacks and refunds. A notable minority (17 percent) cite not trusting or understanding how real-time settlement works (11 percent).

And that knowledge gap, notably, shows up again in the PYMNTS/Ingo Disbursement survey, which very clearly reveals a perception gap when it comes to micro-merchants and what they believe their options are, and what their payors believe they are offering in terms of choice.

TABLE 1:

PAYEES' AND PAYORS' PAYMENT CHOICE PERCEPTIONS
Share that believe they have payment choice, by disbursement category

	ENTITIES		
	Payors	Microbusinesses	Consumers
AVERAGE	**78.8%**	**52.7%**	**57.2%**
• **Nongovernment disbursements**	78.8%	51.8%	53.0%
• **Government disbursements**	—	58.0%	68.2%
• **Investment account disbursements**	79.5%	47.6%	61.4%
• **Income and earnings disbursements**	78.4%	57.9%	59.4%
• **Insurance and lending-related disbursements**	80.2%	38.0%	51.1%
• **Product purchase-related disbursements**	80.2%	38.0%	42.3%
• **Other disbursements**	67.1%	44.4%	47.8%

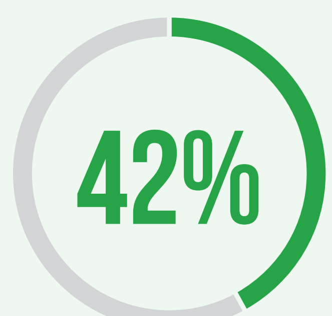
Source: PYMNTS.com

According to the report, 78.8 percent of payors say they offer their payees an option as to whether they want to receive disbursements through checks, direct deposit, credit card payments or other payout methods. And yet, when asked, only 52.7 percent of microbusinesses believe they can make such a choice.

Clearly there are some communication issues that need addressing in terms of merchant access to digital and instant disbursement going forward, and confusion is acting as a tailwind.

PAYORS

say they give payment choice for around 80 percent of the insurance, lending and product purchase-related payments they make



CONSUMERS

say they have payment choice for about 42 percent of the product purchase-related payments they receive

CONCLUSION

In the course of the last half year or so, SMBs' relationship to digital and instant payments has moved from one where faster funds were a convenience and a nice add-on, to one where access to them may be a life-or-death necessity as Main Street businesses continue to travel their own road to recovery.

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PYMNTS.com 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.

Ingo Money is the instant money company. Founded in 2001 with a mission to digitize the paper check, our push payments technology enables businesses and banks to disburse instant, safe-to-spend electronic funds from any source to consumers anywhere through more than 4 billion debit, prepaid, credit, private label credit and mobile wallet accounts. This transformation of traditional payments helps businesses reduce cost and delays while dramatically improving the consumer experience.

The Ingo Instant Payments gateway enables companies and banks to deliver instant, safe-to-spend funds directly into customer accounts. This "push payments in a box" solution offers industry leading benefits, including network ubiquity to reach more than four billion consumer accounts as well as all required compliance and security checks, through one simple API integration. Ingo Money has funded over $10 billion in transactions since launch, and completed the first push payment transaction in the U.S.

Learn more at **www.ingomoney.com**.

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