

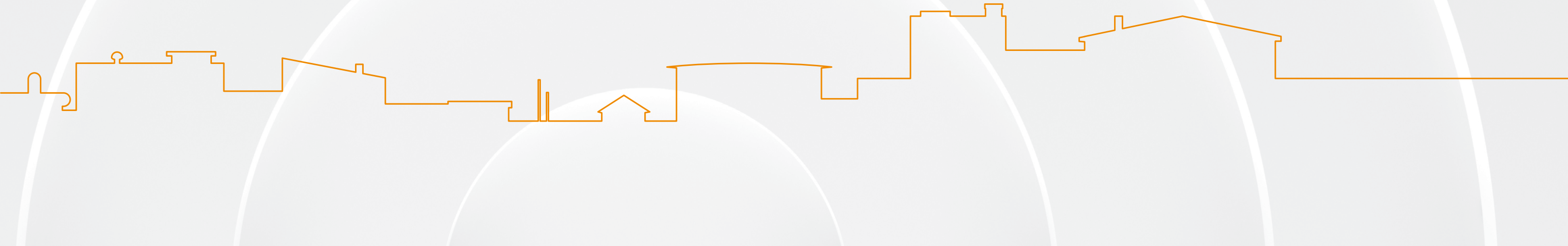
For The Road To Recovery: Main Street SMBs And Closing The Cash Flow Gap, PYMNTS, in collaboration with Visa, surveyed a panel of 359 U.S. SMBs across 26 industries to learn more about how the businesses that line Main Street, U.S.A., have been working to mitigate the COVID-19 pandemic's toll on their financial stability. We focused our analysis on Main Street SMBs, those generating less than \$10 million in annual revenue and maintaining at least one brick-and-mortar location in a commercial area as opposed to in a residential area or their owners' domiciles.

THE ROAD TO RECOVERY

Main Street SMBs
And Closing The
Cash Flow Gap

A PYMNTS AND VISA COLLABORATION
JULY 2020 ■

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To gauge the economic health and vitality of local economies, one need look no further than the financial stability of the small and medium-sized businesses that line the main streets and side streets of communities across the nation. A bustling Main Street signals a vibrant and financially strong local community – and a financially sound and confident consumer base driving foot traffic and daily sales to those businesses. Many Main Street SMBs and the communities they serve were strong, healthy and confident for the better part of the last decade and the start of 2020.

That all changed in early March as the pandemic-fueled economic lockdown forced the temporary closure of ample Main Street SMBs overnight.

The loss of the foot traffic that drove their daily sales and kept their businesses running was abruptly shut off, leaving many Main Street SMBs ill-equipped to withstand the cash flow challenges that remain four months after the World Health Organization (WHO) first declared COVID-19's spread a pandemic. Main Street SMBs hunkered down for what they thought

was a hiatus of a couple of weeks or months until the virus passed or was brought under control.

The result of that is a Main Street SMB sector that is no longer financially strong due to lockdown-imposed cash flow challenges. Seventy-six percent of Main Street SMBs that PYMNTS surveyed on June 18, 2020, faced cash flow shortages as a result of the pandemic. This study, done in collaboration with Visa, also shows that 18 percent struggle with cash flow shortages on a frequent basis.

9 OUT OF 10

MAIN STREET SMBs WOULD CONSIDER USING REAL-TIME SETTLEMENT CAPABILITIES IF AVAILABLE

Main Street SMBs across the United States are slowly reopening, and many are turning to digital tools to help boost sales and accelerate cash flows, addressing foot traffic declines arising amid the pandemic. Contactless and touchless payments, shifting sales online to marketplaces and integrating order-ahead for delivery and curbside pickup are a few of the digital techniques and strategies Main Street SMBs have adopted to make their products and services more accessible and safe for both consumers and employees.

One of the digital tools in which Main Street SMBs show great interest is real-time merchant fund settlement. Nine out of 10 surveyed Main Street SMBs would consider using real-time settlement capabilities if available, and four out of 10 surveyed Main Street SMBs say they would be “very” or “extremely interested” in switching to point-of-sale (POS) providers or acquirers that

offer that capability. For Main Street SMBs, whose only other reliable go-to sources of liquidity now might be personal savings, personal credit cards and/or conserving cash by pushing out the payment of rent and delaying vendor payments, real-time settlement is viewed as a welcome lifeline at a time when 60 percent of surveyed Main Street SMBs also say that their survival is uncertain.

These are only a few of the findings from this PYMNTS and Visa study on how the global pandemic is impacting Main Street SMBs’ cash flows and the digital tools and payment methods that these businesses are using or show interest in using as they restart and reinvent themselves. PYMNTS has surveyed more than 1,600 Main Street SMBs since March 6 to get their firsthand accounts on how the pandemic is affecting their operations and the steps they are taking to stay afloat. This latest collaboration



analyzes the results of a study fielded on June 18 to an additional 359 Main Street SMBs across the U.S. to understand the pandemic’s impact on their cash flows and the steps they might have to take to fill their cash flow gaps.

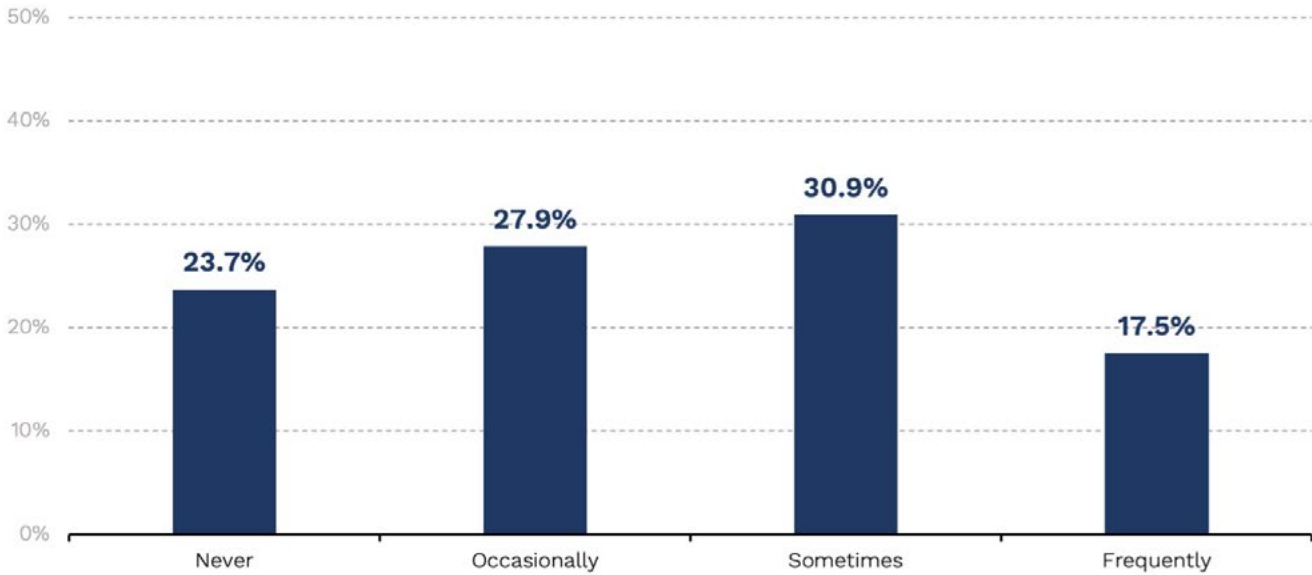
This is what we learned.

SEVENTY-SIX PERCENT
OF MAIN STREET SMBs REPORT
HAVING CASH FLOW SHORTAGES
DURING THE LAST FOUR MONTHS.

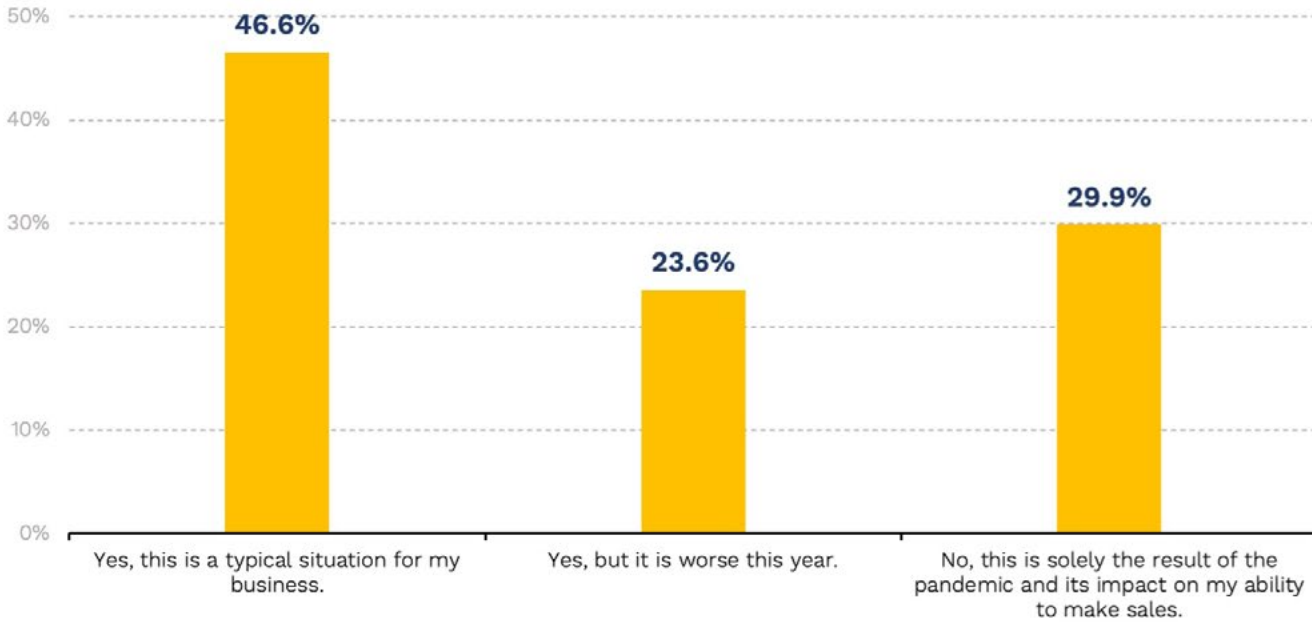
Slow sales and shrinking revenues have led to widespread cash flow shortages for Main Street SMBs over the course of the pandemic. Seventy-six percent of Main Street SMBs report having at least occasional cash flow issues since the pandemic began. Eighteen percent have experienced frequent cash flow shortages during the pandemic, 31 percent sometimes experienced cash flow shortages and nearly 28 percent have experienced occasional cash flow shortages during that time.

Among the 49 percent of Main Street SMBs that report cash flow challenges “sometimes” or “frequently,” 53 percent cite the pandemic as the primary contributing factor — or even the sole cause — of their financial challenges. Thirty percent say that their cash flow shortages are the sole result of the pandemic. Another 24 percent say that they typically deal with cash flow issues around this time of the year, but noted that this year these cash flow shortages are more severe as a result of the pandemic and its impact on their ability to serve customers.

FIGURE 1:
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

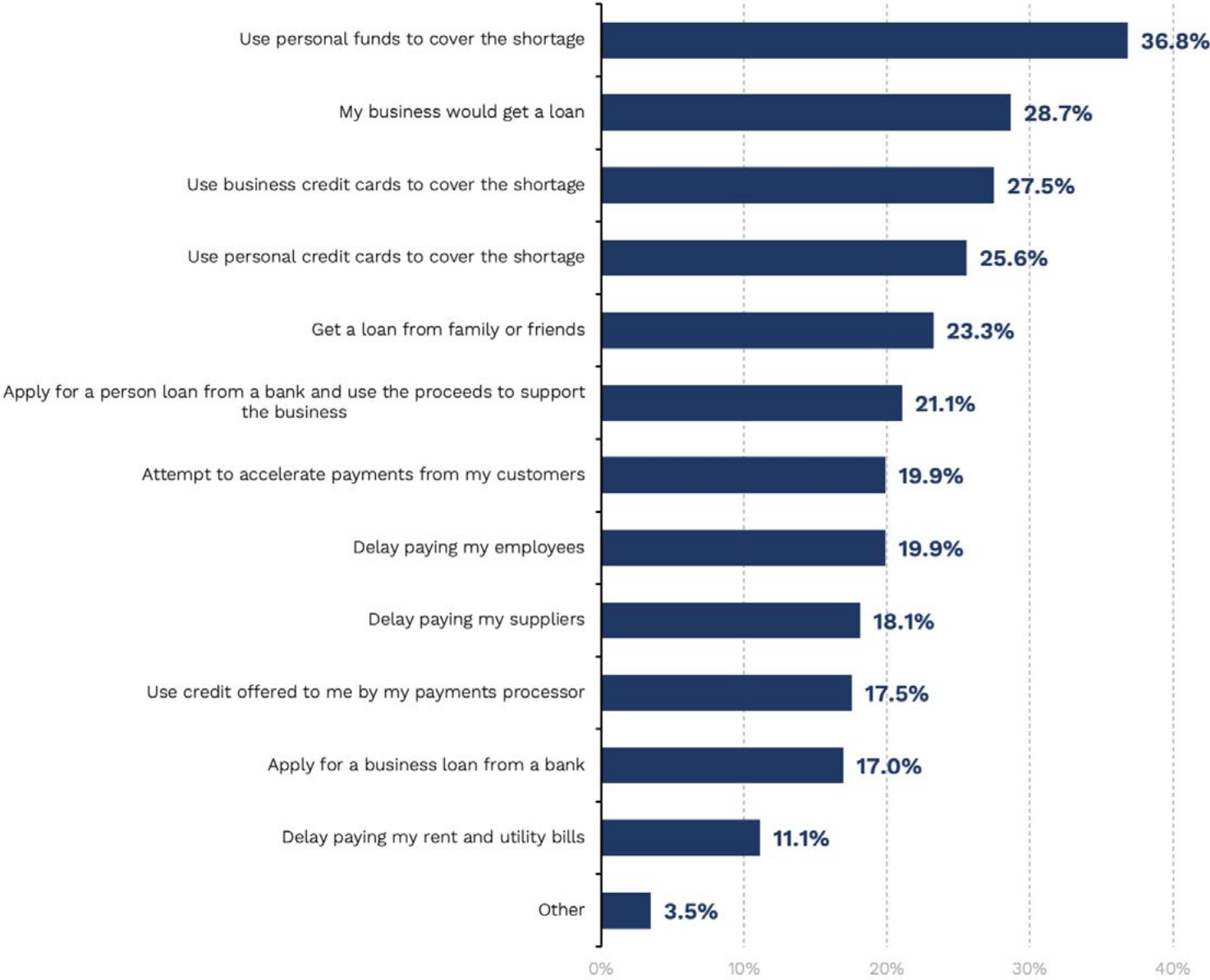
THIRTY-SEVEN PERCENT OF MAIN STREET SMBs THAT HAVE EXPERIENCED CASH FLOW ISSUES **HAVE TAPPED PERSONAL FUNDS** TO FILL CASH FLOW GAPS, AND NEARLY ONE-QUARTER **ASK FAMILY AND FRIENDS FOR LOANS.**

As Main Street SMBs’ cash flow challenges mount, many find they have limited means of accessing working capital to plug the holes. Many are therefore forced to cover expenses with their own personal funds.

Our study shows that 37 percent of these cash-strapped Main Street SMBs that have experienced cash flow shortages within the past four months are tapping their personal funds to cover those shortages. Another 26 percent use their personal credit cards to do so and 23 percent ask family members or friends for help. Many Main Street SMB owners say they plan to apply for personal loans to help fund their businesses: 21 percent did so, but applicants cannot be sure of whether or not they will be approved.

Supplementing revenues with personal funds is often not enough to keep their finances in check, however. Many Main Street SMBs also delay supplier, utility and employee payments to conserve cash, shifting their cash flow challenges to others out of sheer necessity. Our survey reveals that 18 percent of Main Street SMBs experiencing cash flow shortages are purposely delaying their supplier payments to help mitigate those shortages while 20 percent are delaying payments to their employees for the same reason. This desire to boost cash reserves is also driving 20 percent of Main Street SMBs to work to accelerate their customers’ payments.

FIGURE 2:
How Main Street SMBs are responding to their cash flow shortages
Share that have responded to cash flow shortages in select manners



Source: PYMNTS.com

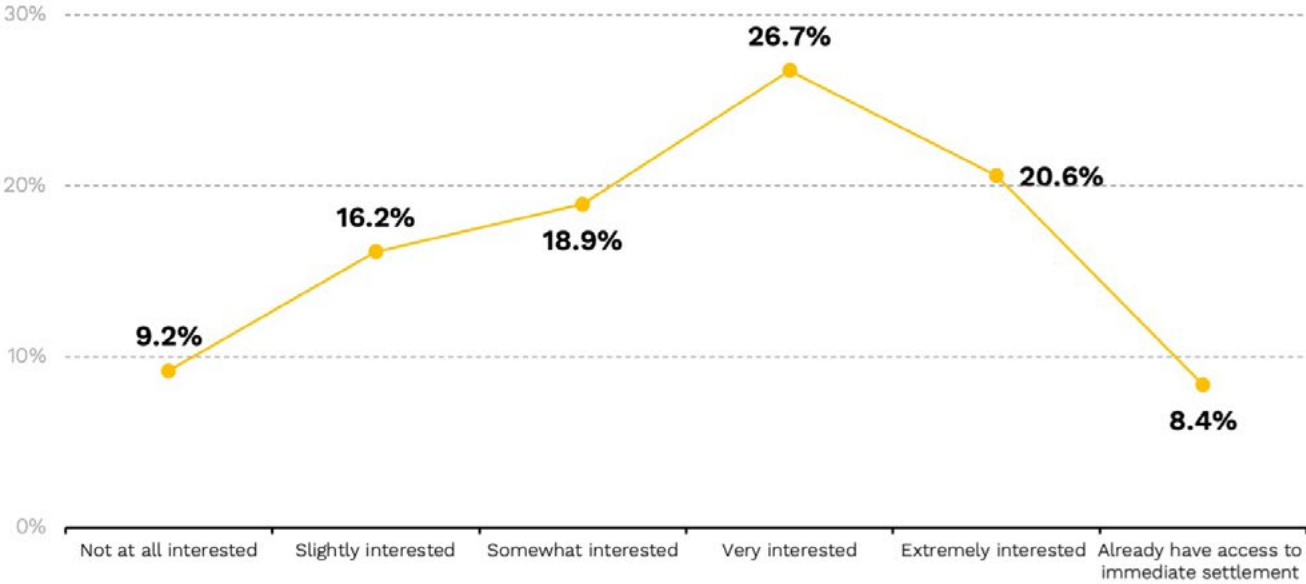
MORE THAN NINE OUT OF
EVERY 10 MAIN STREET SMBs WANT
ACCESS TO REAL-TIME SETTLEMENT
OF MERCHANT FUNDS.

Main Street SMBs express an almost universal desire to settle their sales in real time. Our survey shows that 91 percent are at least slightly interested in that feature or have access to it and use it. Only 9 percent of Main Street SMBs not only have no access to real-time settlement capabilities but also have no interest in using it.

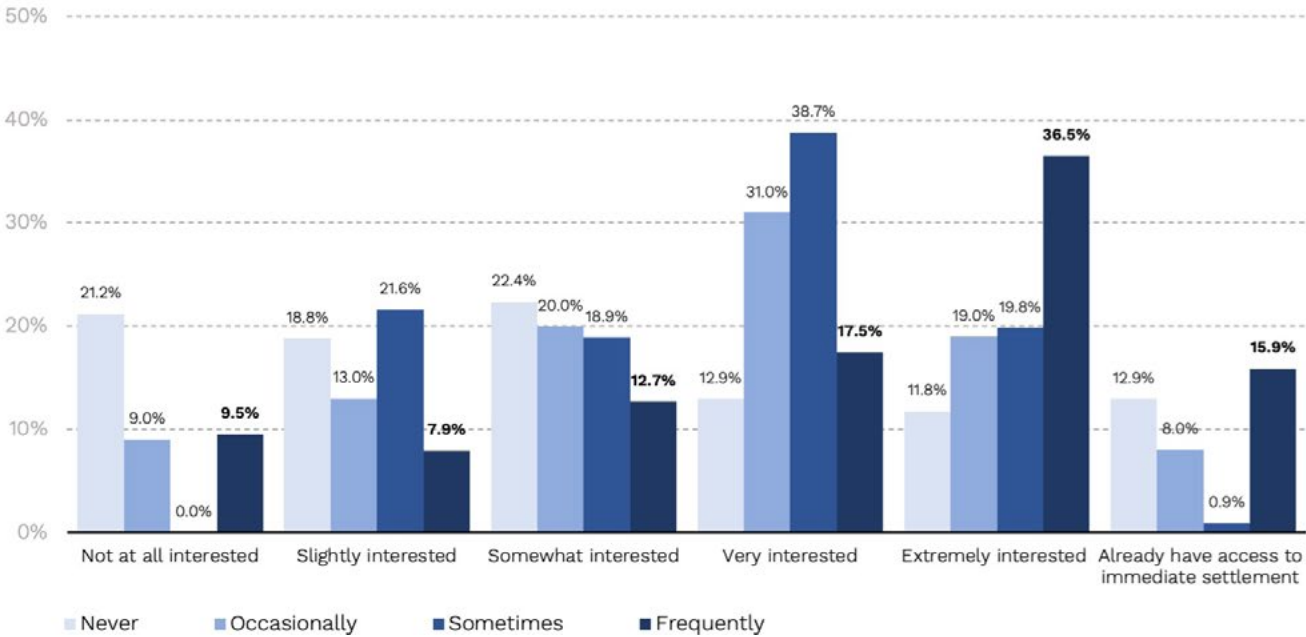
Main Street SMBs’ interest in real-time settlement capabilities correlates with the frequency of their cash flow shortages. Those that reported cash flow shortages at least occasionally during the last four months are the most interested. Our research shows that 59 percent of Main Street SMBs that have “sometimes” experienced cash flow shortages and 50 percent of those that have “occasionally” experienced cash flow shortages express the most interest.

The 9 percent of Main Street SMBs that express little to no interest in real-time settlement are those whose businesses are more financially stable. Even among this financially stable group, however, 47 percent report being at least “somewhat” interested in it.

FIGURE 3:
Main Street SMBs’ interest in real-time settlement
Share that cite select levels of interest



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

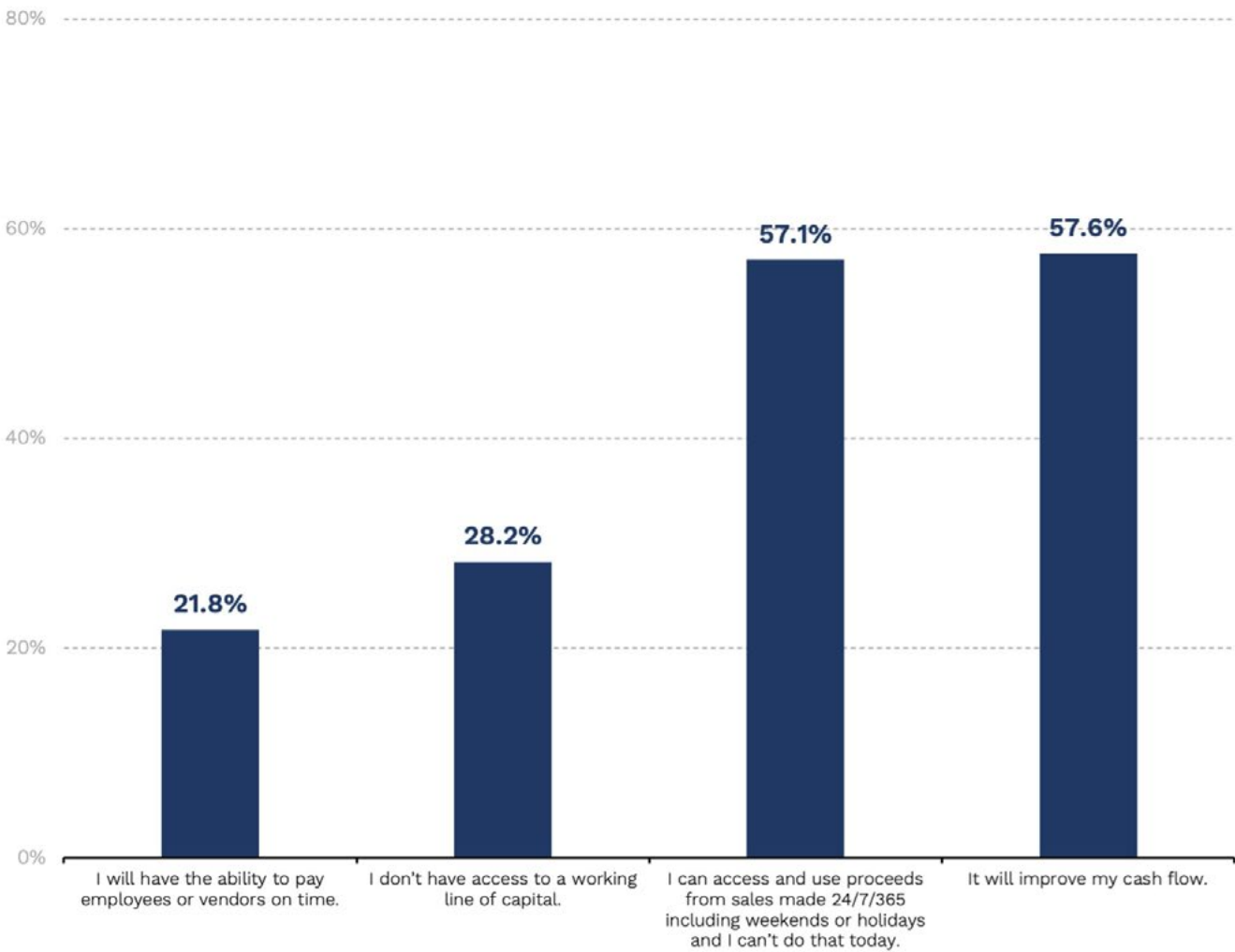


Source: PYMNTS.com

MORE THAN HALF OF MAIN STREET SMBs
THAT WANT REAL-TIME SETTLEMENT ACCESS
WANT IT **TO IMPROVE THEIR CASH FLOWS
AND BE ABLE TO SETTLE 24/7 YEAR-ROUND.**

Main Street SMBs are interested in real-time settlement to improve cash flows and access funds anytime, with 58 percent and 57 percent citing these, respectively. We also find that 28 percent of Main Street SMBs are interested in real-time settlement capabilities because they currently do not have access to a working line of capital and 22 percent are interested because they believe it would help them pay their vendors on time.

FIGURE 4:
Main Street SMBs’ reasons for being interested in real-time settlement
Share that cite select reasons for having interest in real-time settlement capabilities

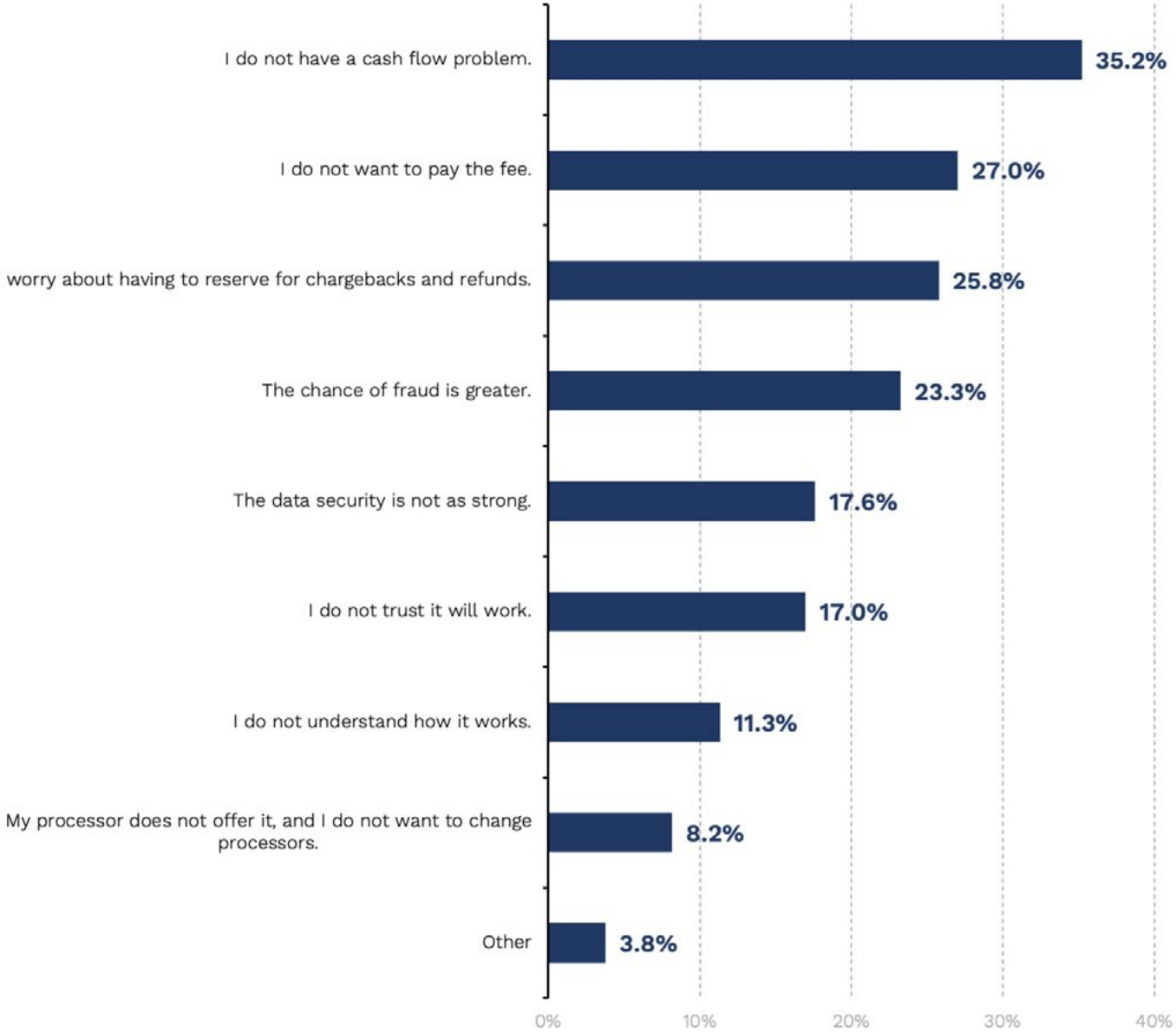


Source: PYMNTS.com

CONCERNS OVER CHARGEBACKS AND COSTS KEEP SOME MAIN STREET SMBs FROM EXPLORING REAL-TIME SETTLEMENT OPTIONS.

Very few Main Street SMBs lack interest in real-time settlement capabilities, but those that are uninterested and do not have cash flow problems tend to cite fees and chargebacks as their reasons. Twenty-seven percent of Main Street SMBs that are not interested in real-time settlement capabilities say it is because they do not want to pay added fees, while 26 percent worry about having to pay for chargebacks and refunds. Many Main Street SMBs that are uninterested also say it is because they either do not trust or do not understand how real-time settlement works. These reasons are cited by 17 percent and 11 percent of uninterested Main Street SMBs, respectively.

FIGURE 5:
Main Street SMBs' lack of interest in real-time settlement
Share that cite select reasons for being uninterested in real-time settlement capabilities

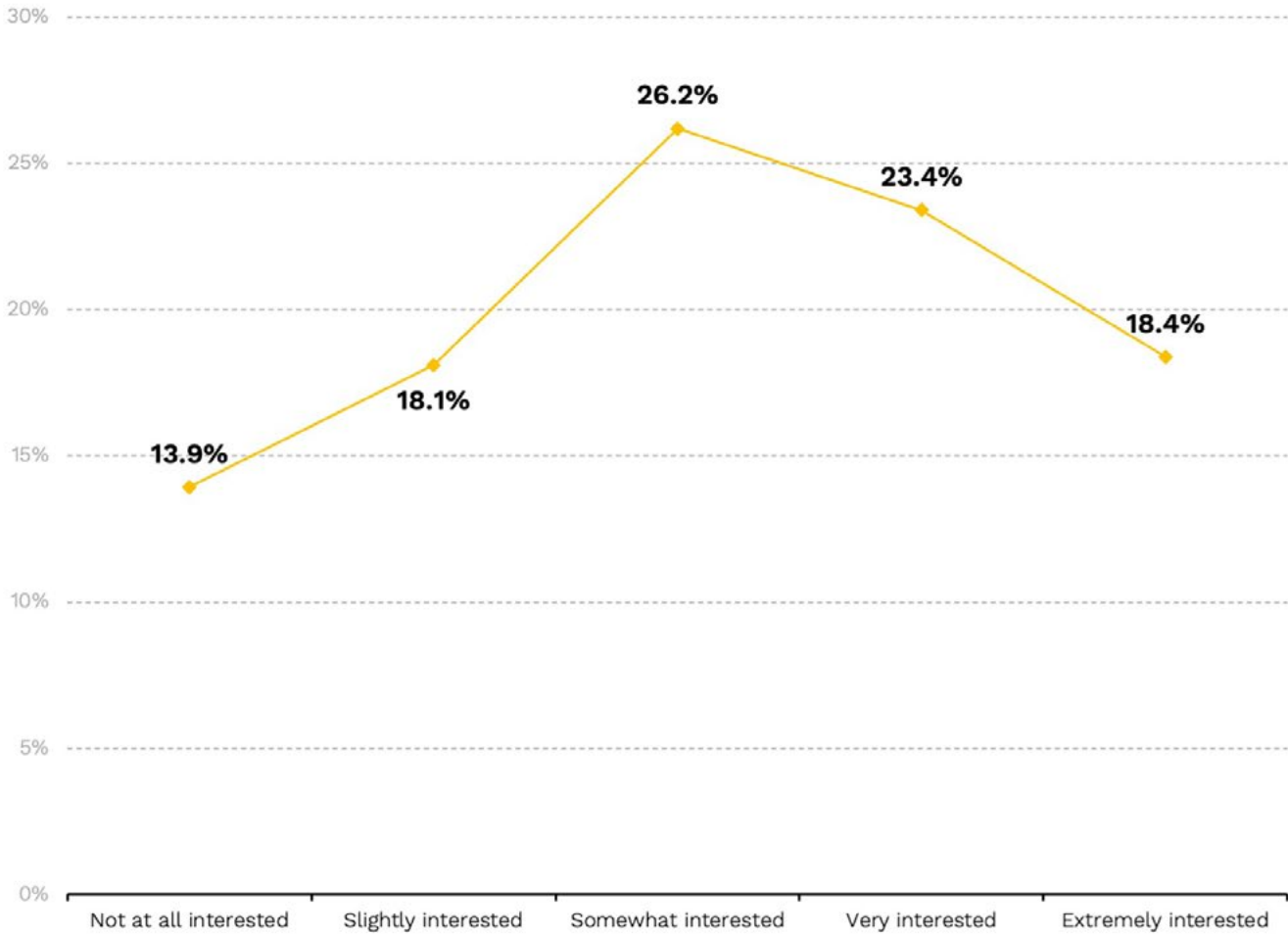


Source: PYMNTS.com

FORTY-TWO PERCENT OF MAIN STREET SMBs
WOULD SWITCH TO A NEW POS PROVIDER
TO ACQUIRE REAL-TIME SETTLEMENT
CAPABILITIES.

Approximately 91 percent of all Main Street SMBs are interested in real-time settlement capabilities, and a strong majority would consider switching POS providers to access them. Our study finds that 42 percent of all Main Street SMBs would be “very” or “extremely interested” in switching POS providers or acquirers for real-time settlement capabilities. Forty-four percent are “somewhat” or “slightly interested” in doing so.

FIGURE 6:
How many Main Street SMBs might be interested in switching acquirers or payment processors
Share that cite select levels of interest in switching for real-time settlement capabilities



Source: PYMNTS.com

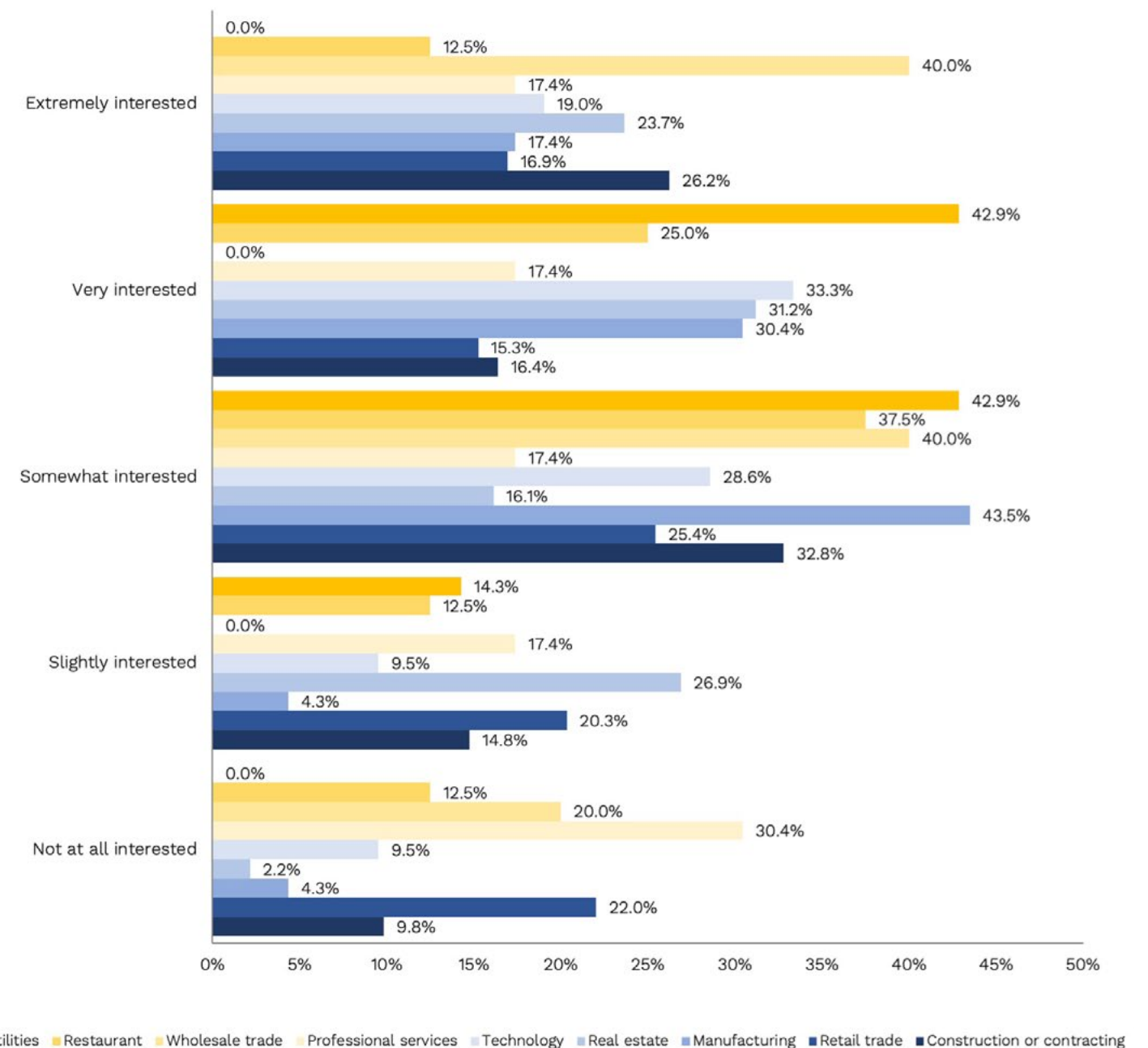
REAL ESTATE AND TECHNOLOGY FIRMS ARE MOST LIKELY TO SWITCH TO ACQUIRERS OR PROCESSORS THAT CAN OFFER THEM REAL-TIME SETTLEMENT OPTIONS.

Most Main Street SMBs would consider switching POS providers or acquirers for real-time settlement options, but those in the real estate and technology industries find the proposition especially appealing. Our research indicates that 55 percent of real estate firms and 52 percent of technology firms would be “very” or “extremely interested” in switching acquirers or payment processors for real-time settlement options. Thirty-two percent of Main Street SMBs in the retail trade industry and 35 percent of those in the professional services industry say the same.

FIGURE 7:

How many Main Street SMBs might be interested in switching acquirers or payment processors

Share that cite select levels of interest in switching for real-time settlement capabilities, by industry



Source: PYMNTS.com

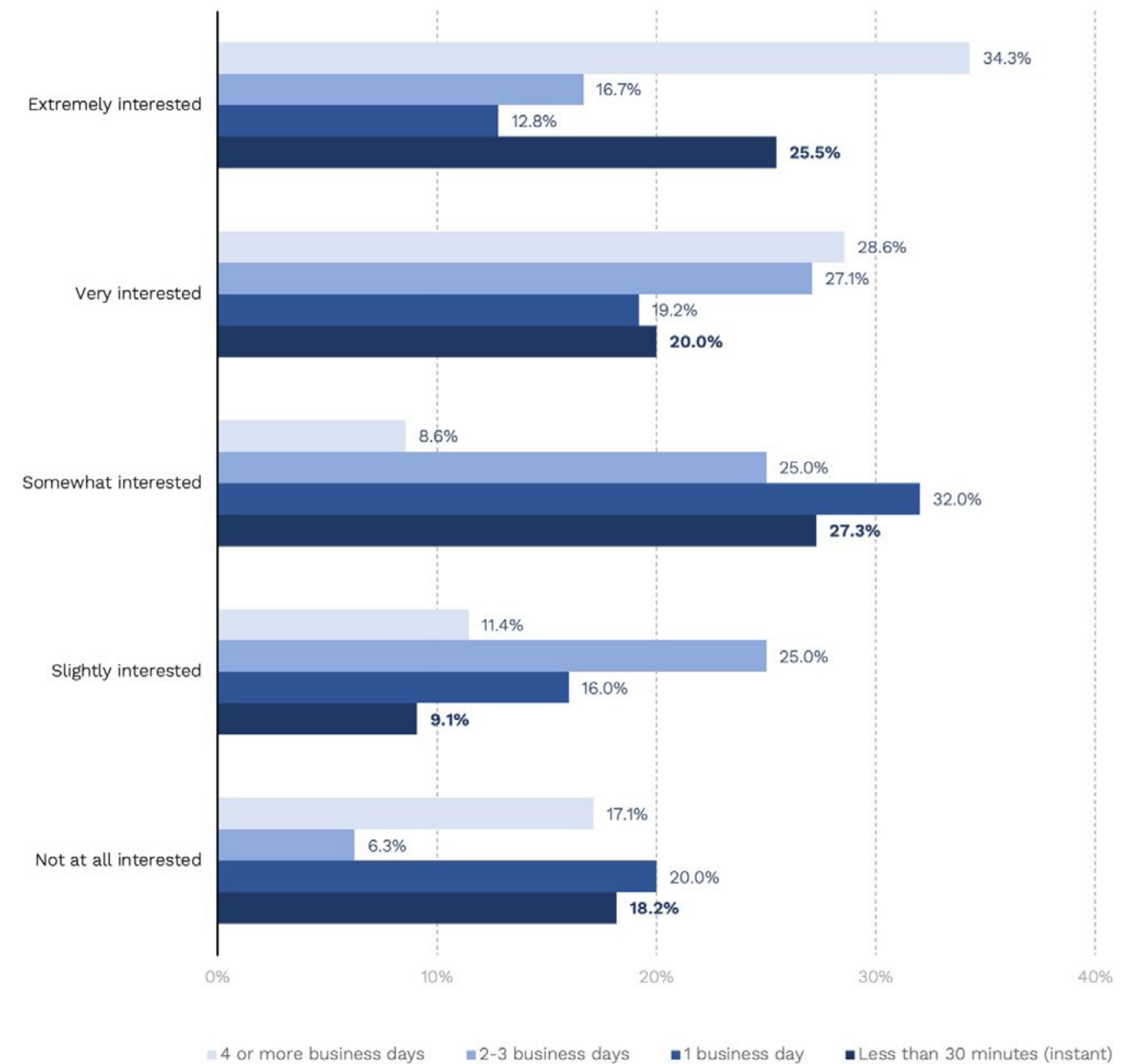
MAIN STREET SMBs THAT **HAVE TO WAIT
FOUR OR MORE DAYS TO ACCESS FUNDS**
ARE THE MOST INTERESTED IN
SWITCHING PROVIDERS TO GET
REAL-TIME SETTLEMENT SERVICES.

The longer Main Street SMBs have to wait for their transactions to settle, the more interested they tend to be in real-time settlement capabilities. Those at which transactions typically settle in four or more business days are the most interested of all, with 63 percent being “very” or “extremely interested.” This compares to 44 percent of Main Street SMBs that say that it takes two to three days for funds to settle. More than three in 10 Main Street SMBs that receive next-day funds are also “very” or “extremely interested” in real-time settlement capabilities.

FIGURE 8:

How Main Street SMBs’ current transaction settlement speeds impact their willingness to switch acquirers or payment processors

Share that cite select levels of interest in switching for real-time settlement capabilities, by settlement speed



Source: PYMNTS.com

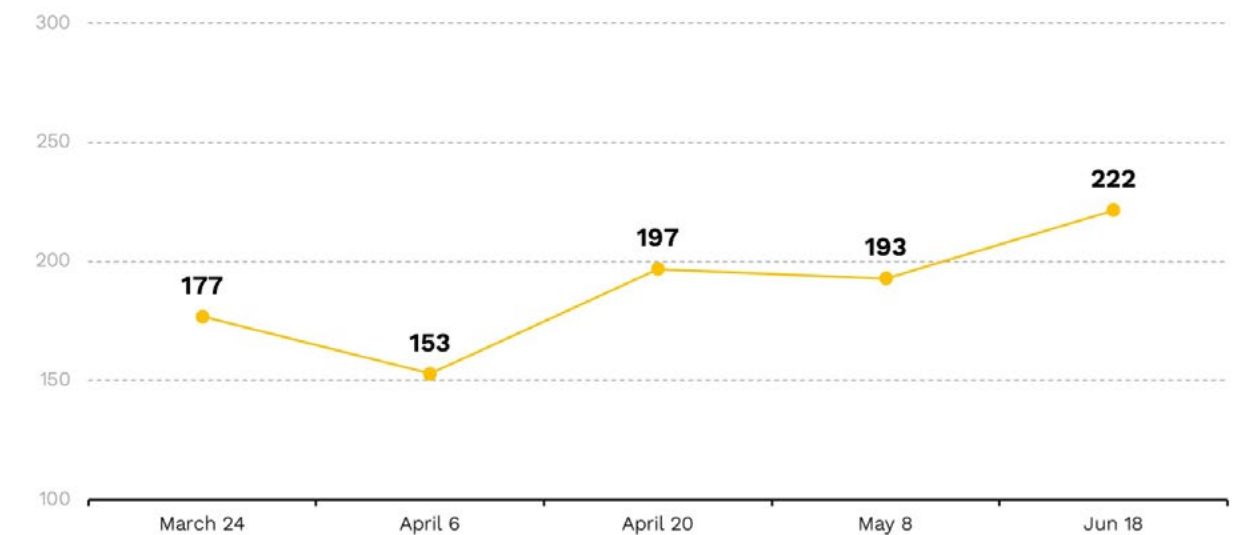
CASH FLOW MATTERS BECAUSE
THE AVERAGE MAIN STREET SMB
DOES NOT EXPECT ITS BUSINESS TO RECOVER
FROM THE PANDEMIC'S IMPACT
UNTIL AT LEAST Q1 2021.

We have seen Main Street SMBs come to grips with the pandemic's realities throughout the Main Street SMB study series. The average Main Street SMB now believes it will take 222 days — until the early part of Q1 2021 — before their sales will recover from the pandemic-related slump. That is in sharp contrast to what Main Street SMBs reported from March to May and serves as an indicator of how these Main Street SMBs view their financial stability.

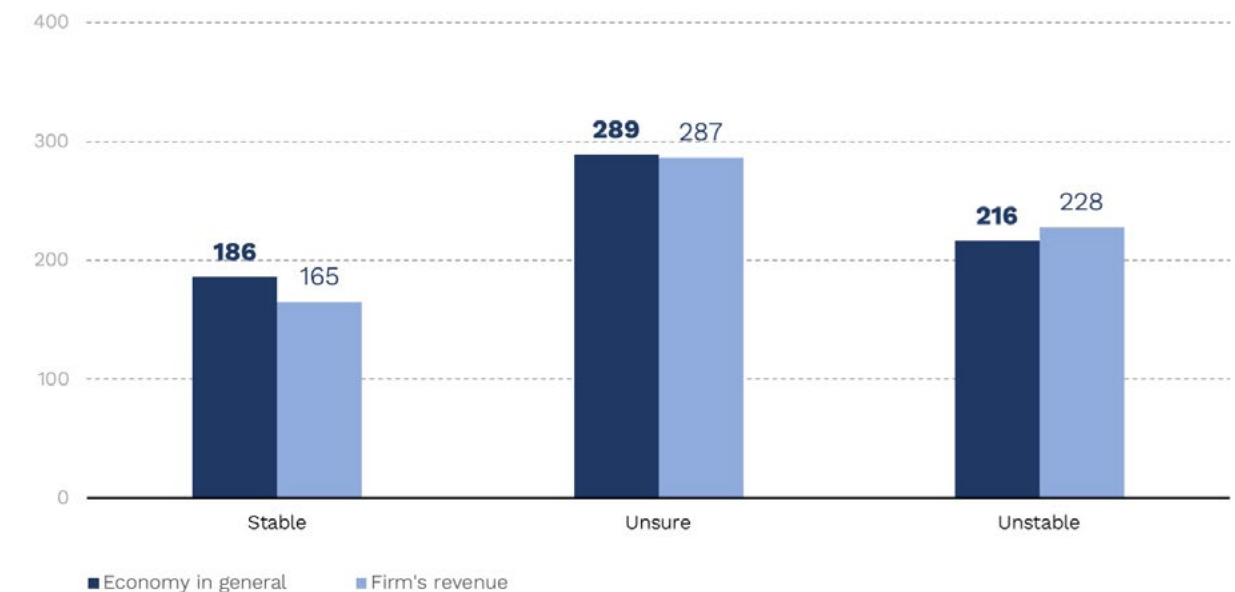
FIGURE 9:

How long Main Street SMBs expect the pandemic to impact their bottom lines¹

Average number of days Main Street SMBs expect it to take for their local economies and their revenues to recover



Average number of days SMBs expect it to take for their local economies and their revenues to recover, by stability



¹ Our study defines stable Main Street SMBs as those that are "very" or "extremely confident" that they will be able to remain open through the end of the pandemic, while unstable Main Street SMBs are "slightly" or "not at all confident" that they will be able to remain open. Those that report feeling "somewhat confident" are classified as unsure Main Street SMBs.

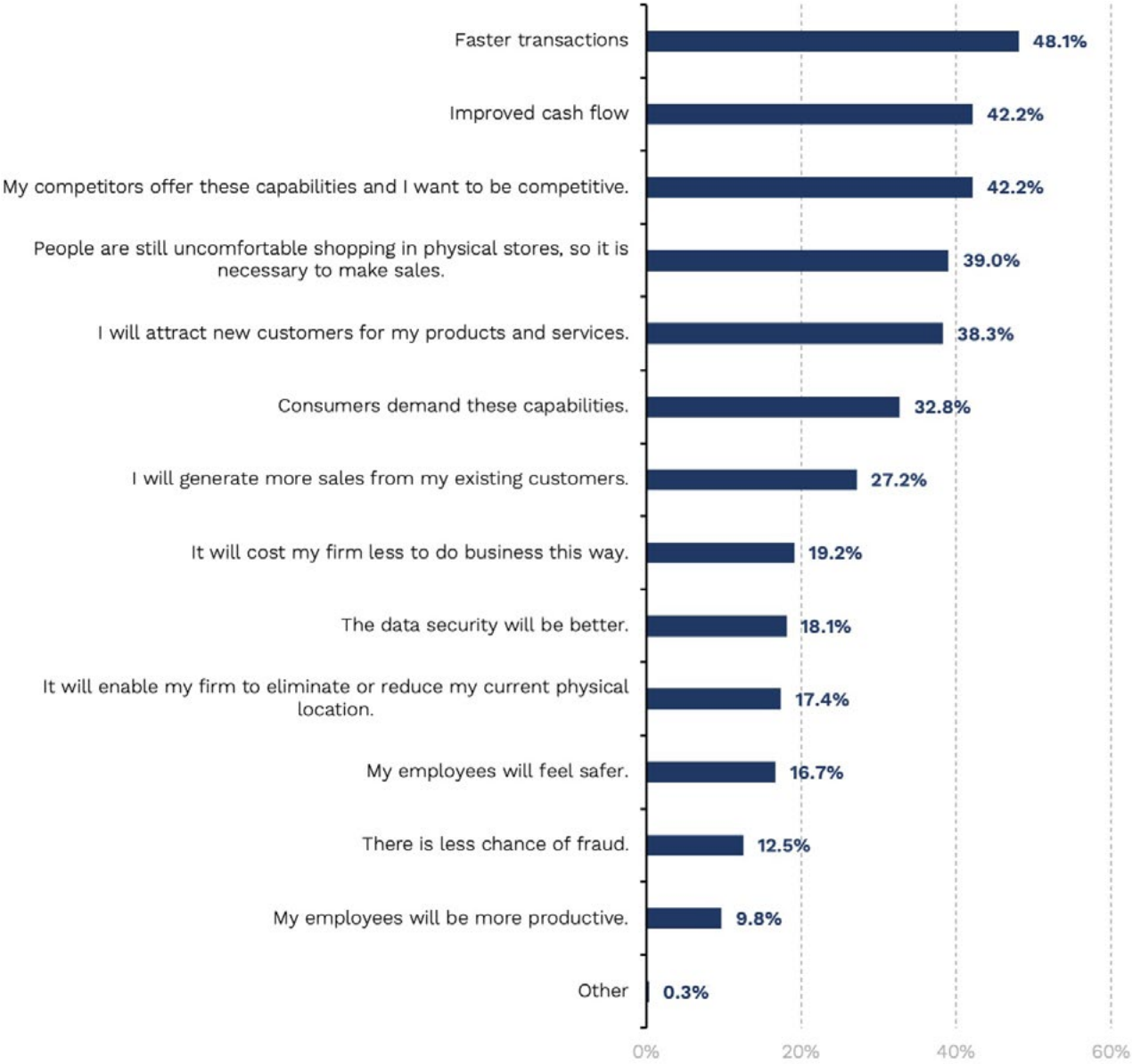
MAIN STREET SMBs ARE ADOPTING
DIGITAL METHODS **TO MAKE SALES
AND FILL CASH FLOW GAPS**
AS THEY RESTART THEIR BUSINESSES.

Main Street SMBs have quickly adopted a number of digital tools to boost sales, improve operating efficiency and make consumers feel safe. Main Street SMBs that characterize themselves as unsure about being able to stay open through the end of the pandemic report more reasons for adopting digital innovations than those that are either stable or unstable. Unsure Main Street SMBs are the most likely to have adopted digital innovations for faster transaction settlements, for example, with 59 percent citing this. Unsure Main Street SMBs are also the most likely to have adopted digital innovations to attract new customers and reach consumers who are still uncomfortable shopping in physical stores. These factors are cited by 45 percent and 48 percent of unsure Main Street SMBs, respectively.

Stable businesses are far less likely than unsure Main Street SMBs to cite all of these factors as motivators for enhancing their digital capabilities. Only 41 percent of Main Street SMBs that have adopted new digital tools that were stable before the pandemic began report adopting new digital capabilities to facilitate faster transaction settlements and just 40 percent report doing so to attract new customers.

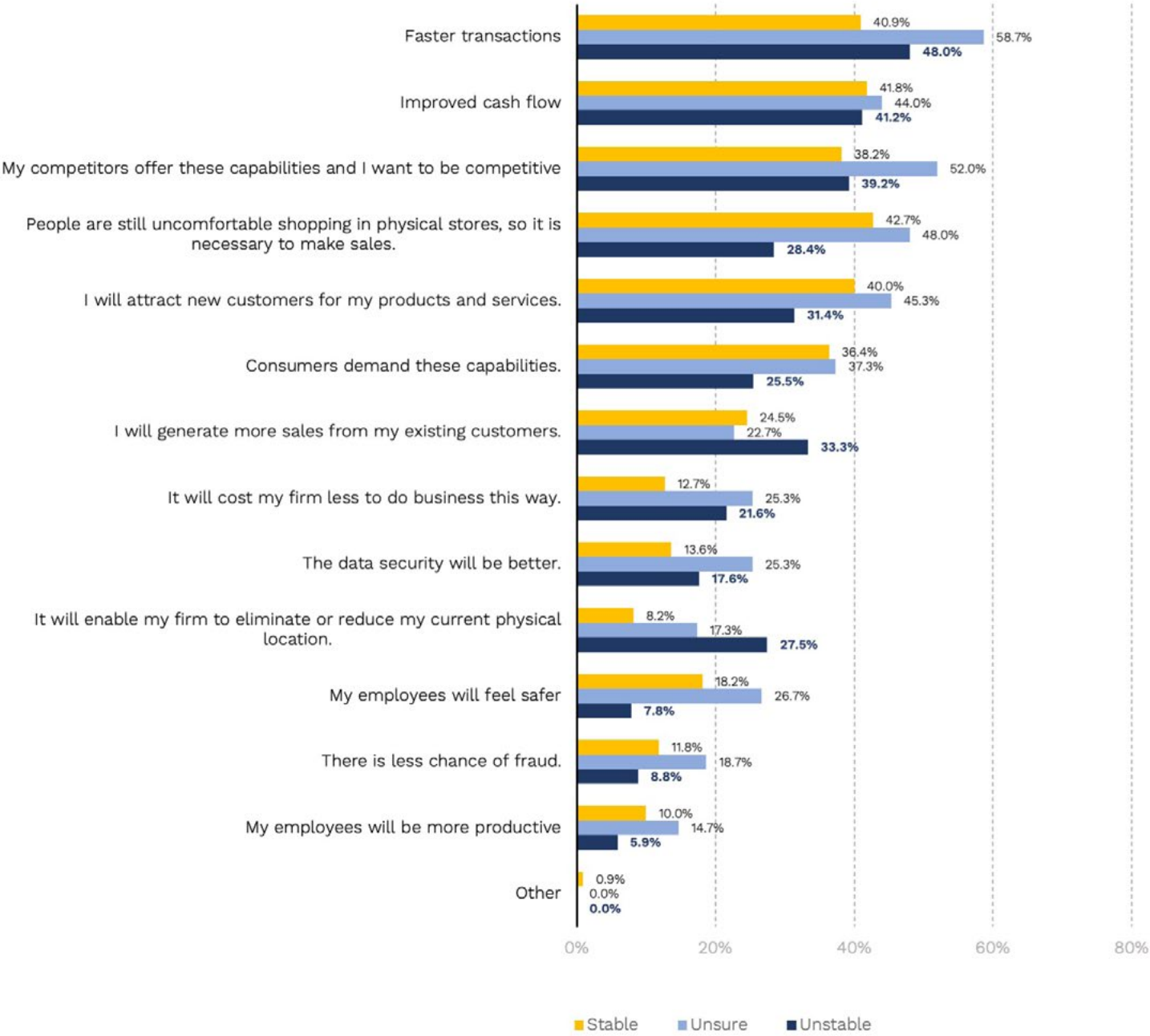


FIGURE 10:
Why Main Street SMBs have enhanced their digital presences during the pandemic
Share that cite select reasons for adopting digital capabilities



Source: PYMNTS.com

FIGURE 11:
Why Main Street SMBs have enhanced their digital presences during the pandemic
Share that cite select reasons for adopting digital capabilities, by pre-pandemic stability



Source: PYMNTS.com

THE ROAD TO RECOVERY

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CONCLUSION

The COVID-19 pandemic has radically altered the way Main Street SMBs across the United States operate. The widespread decrease in consumer spending has caused an equally pronounced cash flow crunch that the businesses down Main Street, U.S.A., are struggling to mitigate. Faced with the prospect of going another seven months before they expect their local economies and revenues to recover, Main Street SMBs are turning to an assortment of tools and strategies — including adopting new digital capabilities, delaying and speeding payments and considering switching POS providers for real-time settlement options — to survive and, if possible, thrive.

Many of these changes could be permanent. Not only have Main Street SMBs adopted tools such as digital purchasing options, invoicing and mobile order-ahead for curbside pick-up options, but a strong majority has added a wide array of new digital capabilities that they plan to keep long after the pandemic's impact on local economies and businesses has ended.

METHODOLOGY

PYMNTS issued a survey to 359 SMBs on June 18 as a follow-up to its March 23, April 6, April 20 and May 8 surveys, which examined how small U.S. firms were coping with cash flow shortfalls amid the COVID-19 pandemic. Our survey was limited to Main Street SMBs, those generating less than \$10 million in annual revenue that also maintain a brick-and-mortar presence in commercial areas. SMBs did not qualify if they only had physical stores in residential neighborhoods or if they were operated out of their owners' domiciles. The Main Street SMBs in our final sample hailed from 26 industries, with our analysis focusing on the frequency with which they have experienced cash flow shortages during the past four months, the technologies and strategies they have implemented to help mitigate these shortages and their interest in maintaining those operational changes after their local economies have recovered from the pandemic's impact.

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VISA

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