

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

December 2021

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 second 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



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
1-49 EE	2,058	2,116	1,834
1 - 4 EE	1,067	1,118	866
5 - 9 EE	481	447	414
10-24 EE	404	397	413
25-49 EE	106	154	141
50-499 EE	NA	179	179
50-150 EE		114	126
151-499 EE		65	53

Finding's stat tested @ 95%

Executive Summary

Employee Retention

- Finding qualified employees remains the key challenge of all ADP Small Business clients and increases dramatically with company size.

Wages

- Like September, virtually no clients are planning to decrease **employee wages** in the next 6 months.

Employee Work Location

- Four out of five companies with remote employees, feel they are managing remote employees well, believe they are doing a good job keeping remote employees engaged and think their employees are engaged

Prices and Revenues

- Less than half of clients have had to raise the prices they charge their clients but among those who have, two-thirds indicate the increases are permanent.
- 29% of companies report an increase to raise prices in the next 6 months while 37% of companies are unsure what they will do in the next 6 months
- Less than half of clients have had to raise the prices they charge their clients but among those who have, two-thirds indicate the increases are permanent.



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Quarterly
Small Business Client
Pulse Study

Challenges Business is Currently Facing

1-49 EEs



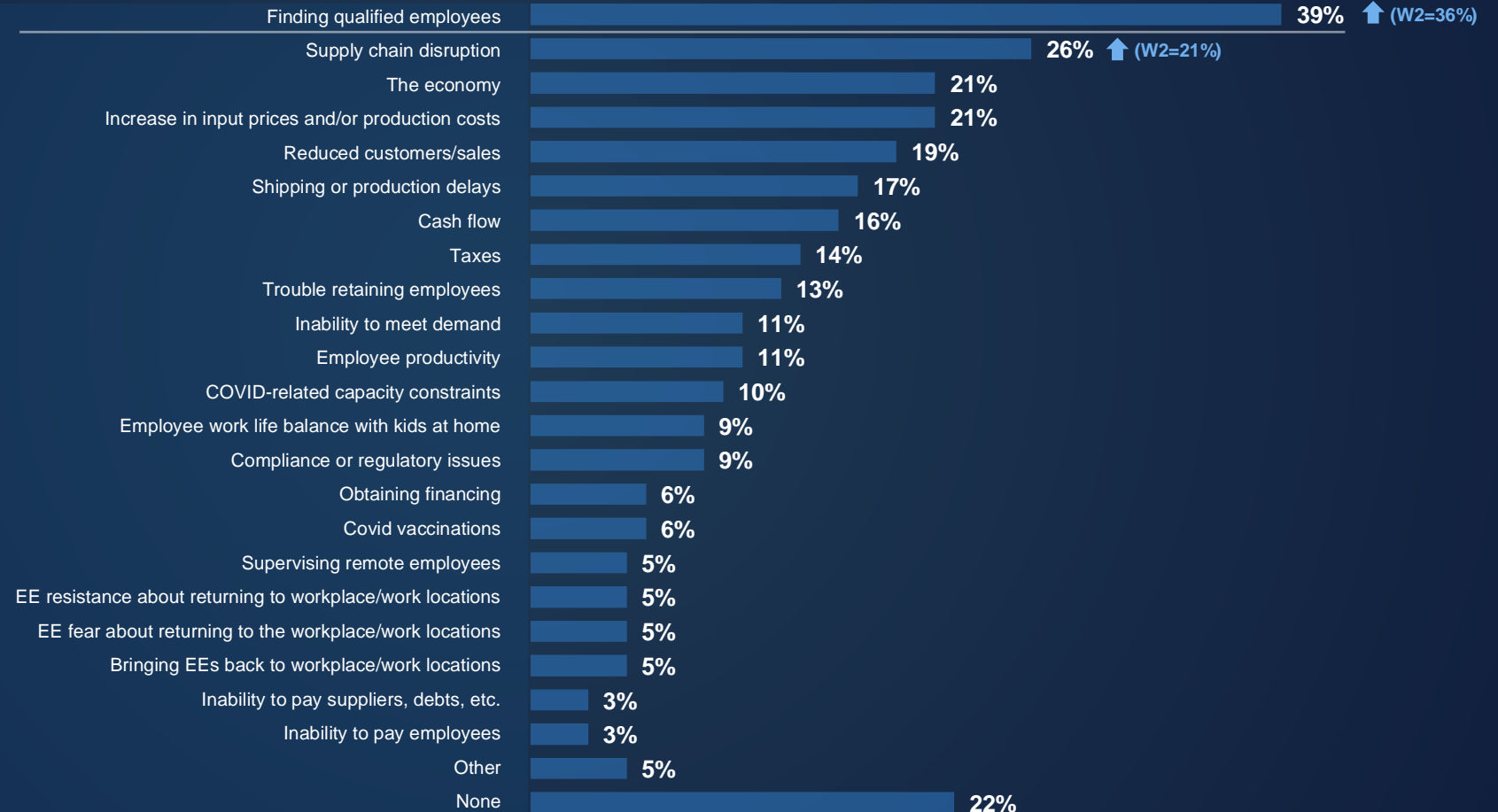
Finding qualified employees remains the overwhelming challenge facing small businesses.

The challenge caused by **Supply chain disruptions** continues to increase for small businesses with more than a quarter citing it as challenge and nearly one-fifth indicating it is a top challenge.

Challenge: 17% → 21% → 26%

Top: 12% → 15% → 19%

All Challenges



Q7. What challenges is your business currently facing?

Q8. You indicated that the following are challenges your business is currently facing. What are the biggest challenges your business is currently facing? (Please rank your top 3 challenges)

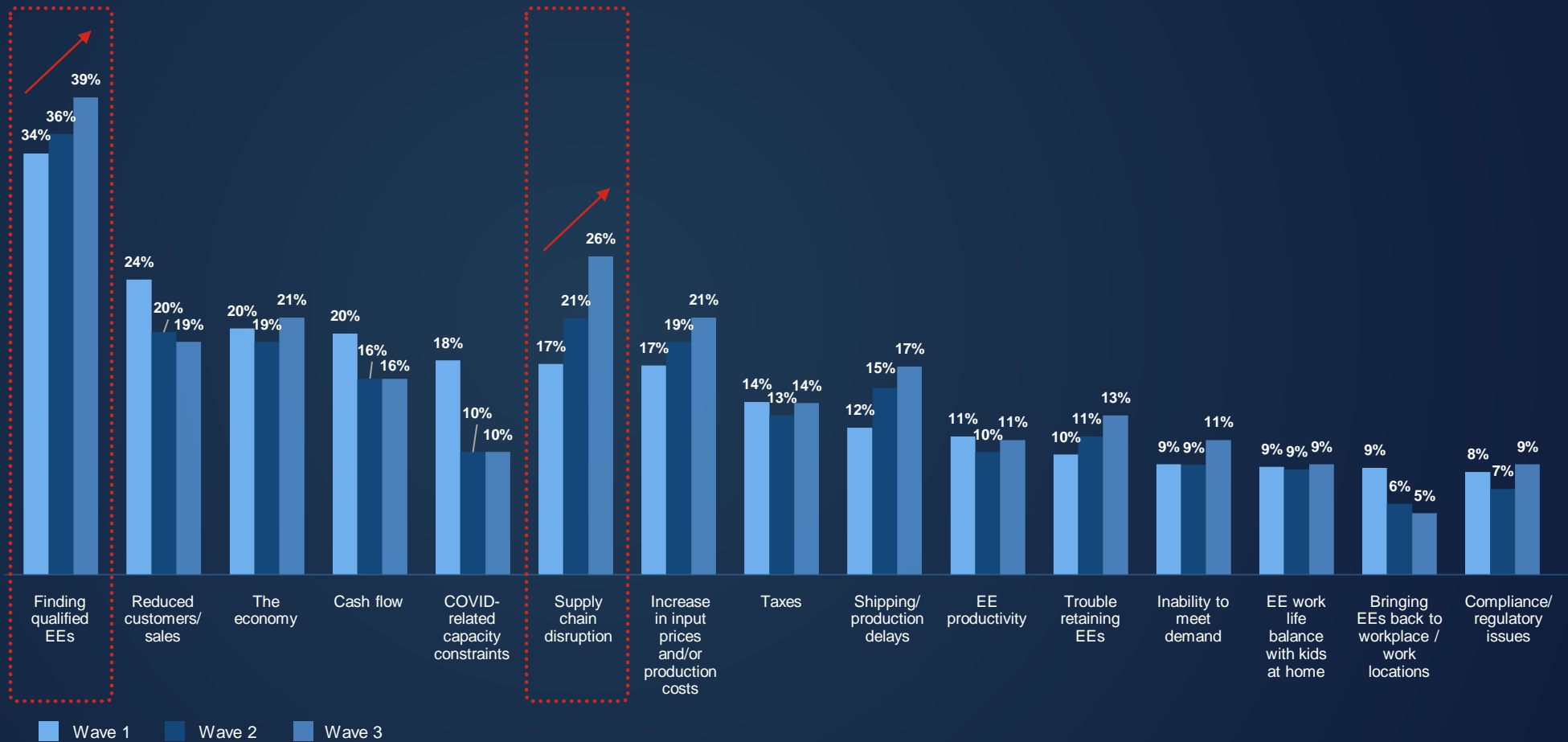
Challenges Business is Currently Facing (Top 15)

1-49 EEs



Finding qualified employees has increased significantly as a key challenge for small businesses from 3 months ago – nearly 2 out of 5 cite it as a top business challenge.

Supply chain disruption continues to see significant increases wave over wave.



Q7. What challenges is your business currently facing?

Challenges Business is Currently Facing



Finding qualified employees remains a key challenge all small businesses are facing and becomes more challenging as company size increases.

Employee retention continues to be more of a challenge in larger companies (25-499) with a third of companies with 50-499 citing it. Of note, now one-fifth of companies with 10-24 employees cite it (compared to only 14% in the prior wave).

	TOTAL 1-49)	1-4 EEs	5-9 EEs	10-24 EEs	25-49 EEs	50-499 EE
Finding qualified employees	39%	26%	46%	56%	51%	62%
Supply chain disruption	26%	19%	30%	35%	33%	26%
The economy	21%	21%	21%	19%	18%	11%
Increase in input prices and/or production costs	21%	16%	25%	27%	23%	14%
Reduced customers/sales	19%	22%	17%	15%	15%	7%
Shipping or production delays	17%	14%	21%	19%	17%	18%
Cash flow	16%	19%	14%	15%	9%	4%
Taxes	14%	17%	13%	12%	9%	5%
Trouble retaining employees	13%	7%	15%	20%	26%	34%
Inability to meet demand	11%	8%	13%	13%	12%	6%
Employee productivity	11%	7%	17%	15%	13%	12%
COVID-related capacity constraints	10%	9%	10%	14%	10%	13%
Compliance or regulatory issues	9%	8%	10%	9%	13%	11%
Employee work life balance with kids at home	9%	8%	7%	12%	11%	17%
Obtaining financing	6%	7%	5%	5%	1%	-
Covid vaccinations	6%	4%	5%	8%	10%	22%
EE fear - returning to workplace/work locations	5%	4%	5%	7%	9%	8%
EE resistance - returning to workplace/work locations	5%	4%	3%	9%	11%	12%
Bringing EEs back to workplace/work locations	5%	4%	5%	9%	6%	11%
Supervising remote employees	5%	4%	5%	7%	4%	7%
Inability to pay employees	3%	5%	2%	2%	1%	2%
Inability to pay suppliers, debts, etc.	3%	3%	3%	4%	3%	2%
Other	5%	6%	3%	4%	4%	8%
None of the these	22%	26%	22%	15%	18%	14%

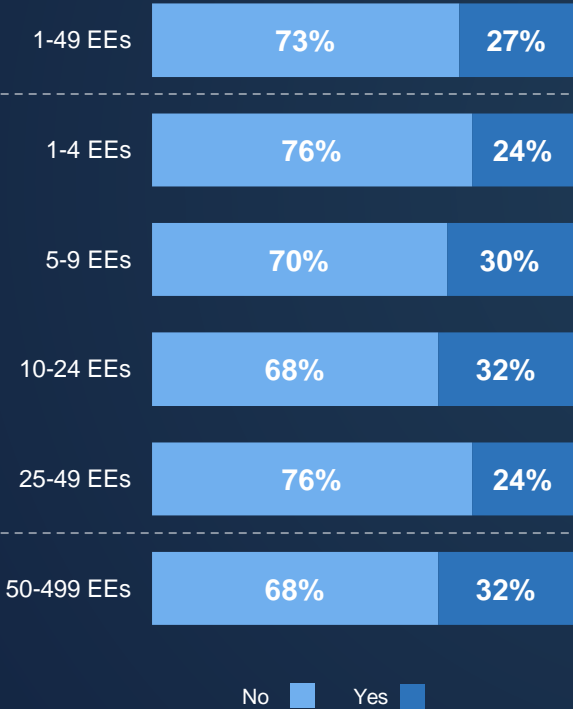
Q7. What challenges is your business currently facing?

Employee Skills



One quarter to a third of small business clients indicate the skills they look for in existing or new employees has evolved or changed in the last 18 months – specifically communication and interpersonal skills and problem solving.

Have Skills Looking for in Existing/New EEs Evolved/Changed in Last 18 Months



Skills Prioritizing Among Employees

	TOTAL 1-49 (B)	1-4 EEs (D)	5-9 EEs (E)	10-24 EEs (F)	25-49 EEs (G)	50-499 EE (C)
Base: Skills looking for changed	497 B	208 D	124 E	131 F	34* G	58* C
Any (net)	95%	96%	93%	96%	97%	88%
Communications and interpersonal skills	57%	53%	52%	69% DE	59%	47%
Problem solving	53%	53%	57%	51%	47%	59%
Service driven mentality	47%	46%	44%	50%	56%	41%
Technology skills (tech savvy)	43%	52% FG	43%	33%	29%	40%
Digital/social media skills	23%	28% F	19%	19%	12%	19%
Other	18%	17%	20%	15%	24%	17%
None of the above	5%	4%	7%	4%	3%	12%

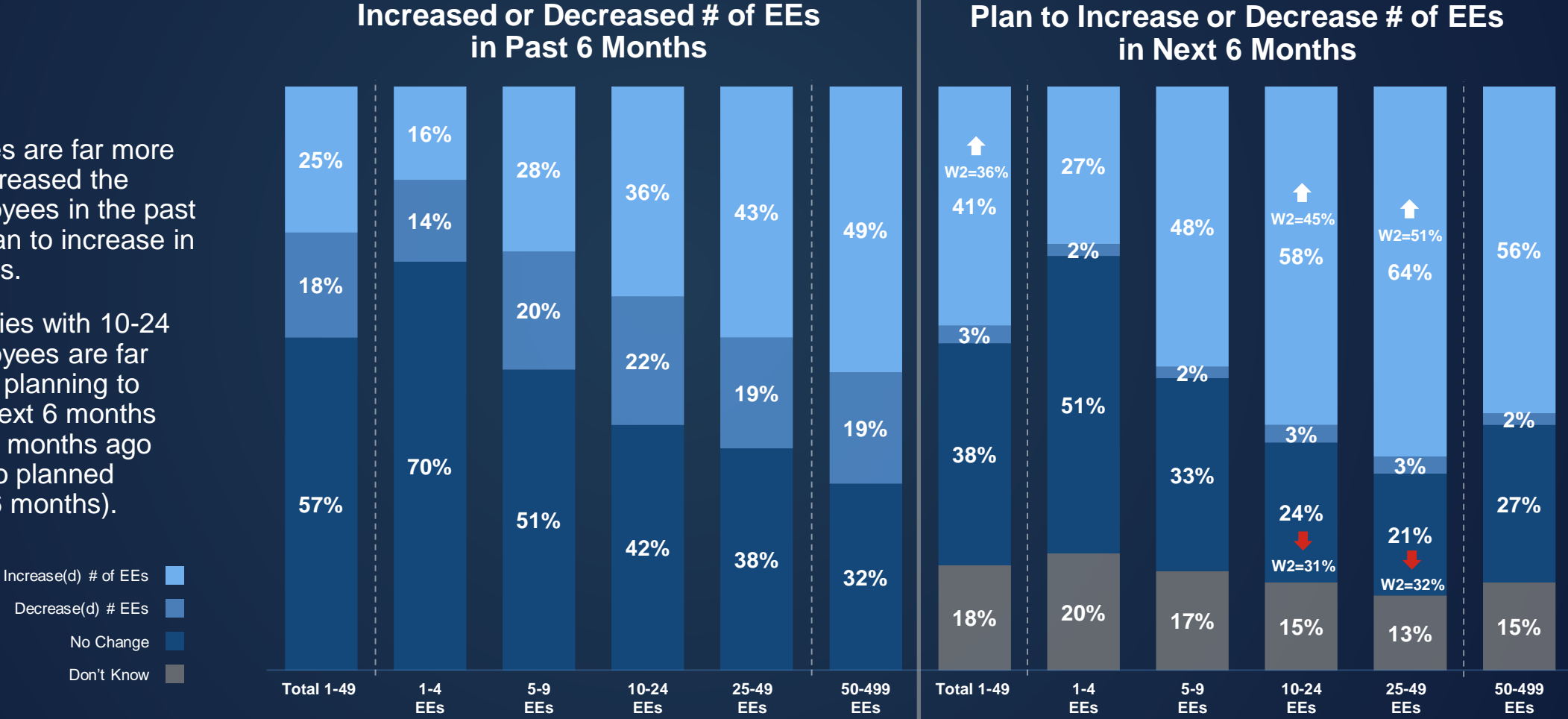
Q13. Have the skills you look for in existing or new employees evolved or changed over the last 18 months?
 Q14. Which of the following skills are you prioritizing among employees?

Number of Employees



Larger companies are far more likely to have increased the number of employees in the past 6 months and plan to increase in the next 6 months.

Of note, companies with 10-24 and 25-49 employees are far more likely to be planning to increase in the next 6 months than they were 3 months ago (reverting back to planned increases cited 6 months).



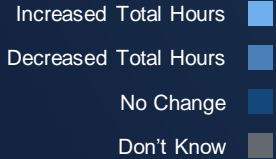
Q9. In the past six months, has your company increased or decreased the total number of employees?
 Q10. Does your company plan to increase or decrease the number of employees in the next six months?

Number of Hours Worked by Employees

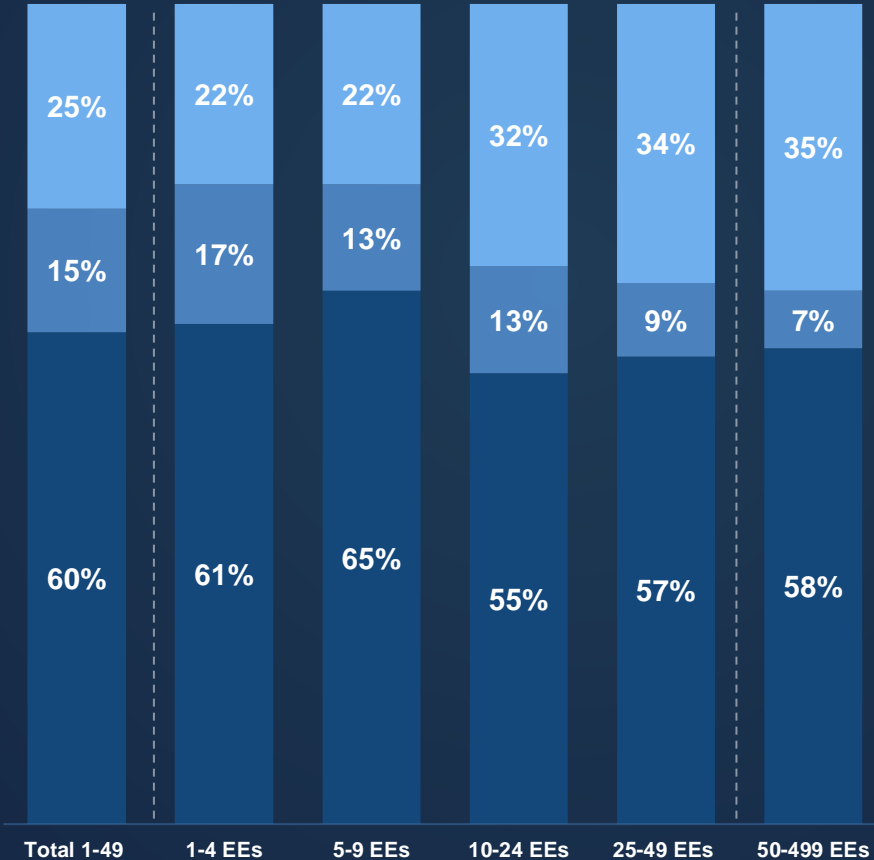


Overall, the majority of small businesses have not changed the number of hours worked by employees in the past 6 months and many have no plans to do so in the next 6 months.

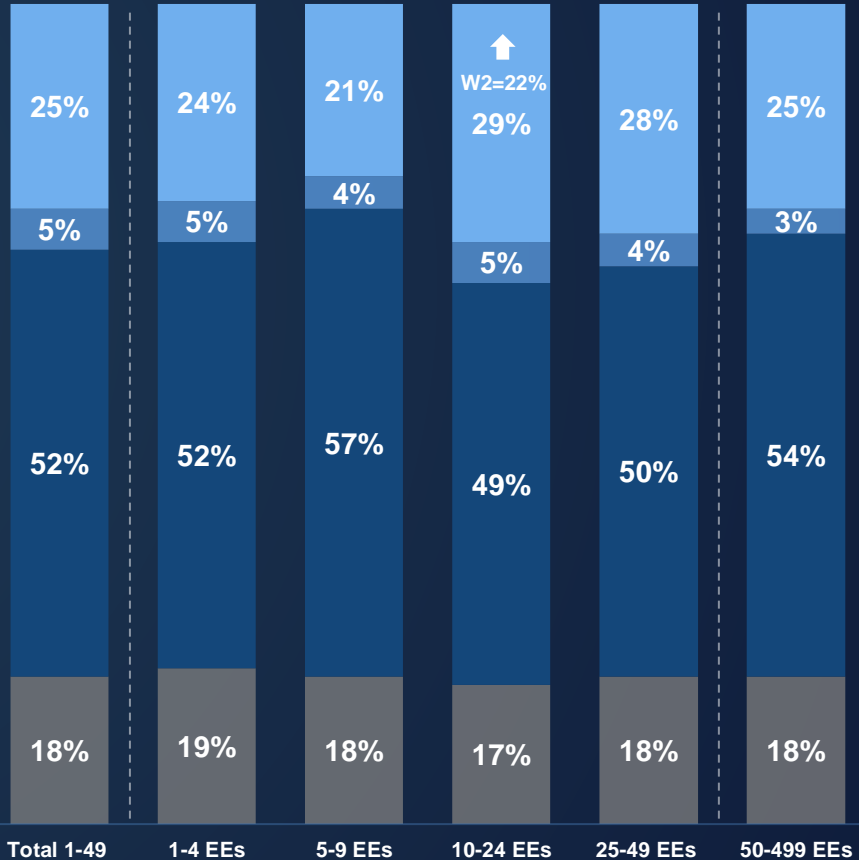
Companies with 10-499 employees are more likely to have increased hours and are more likely to be planning on increasing in the next 6 months.



Increased or Decreased # of EEs in Past 6 Months



Plan to Increase or Decrease # of EEs in Next 6 Months

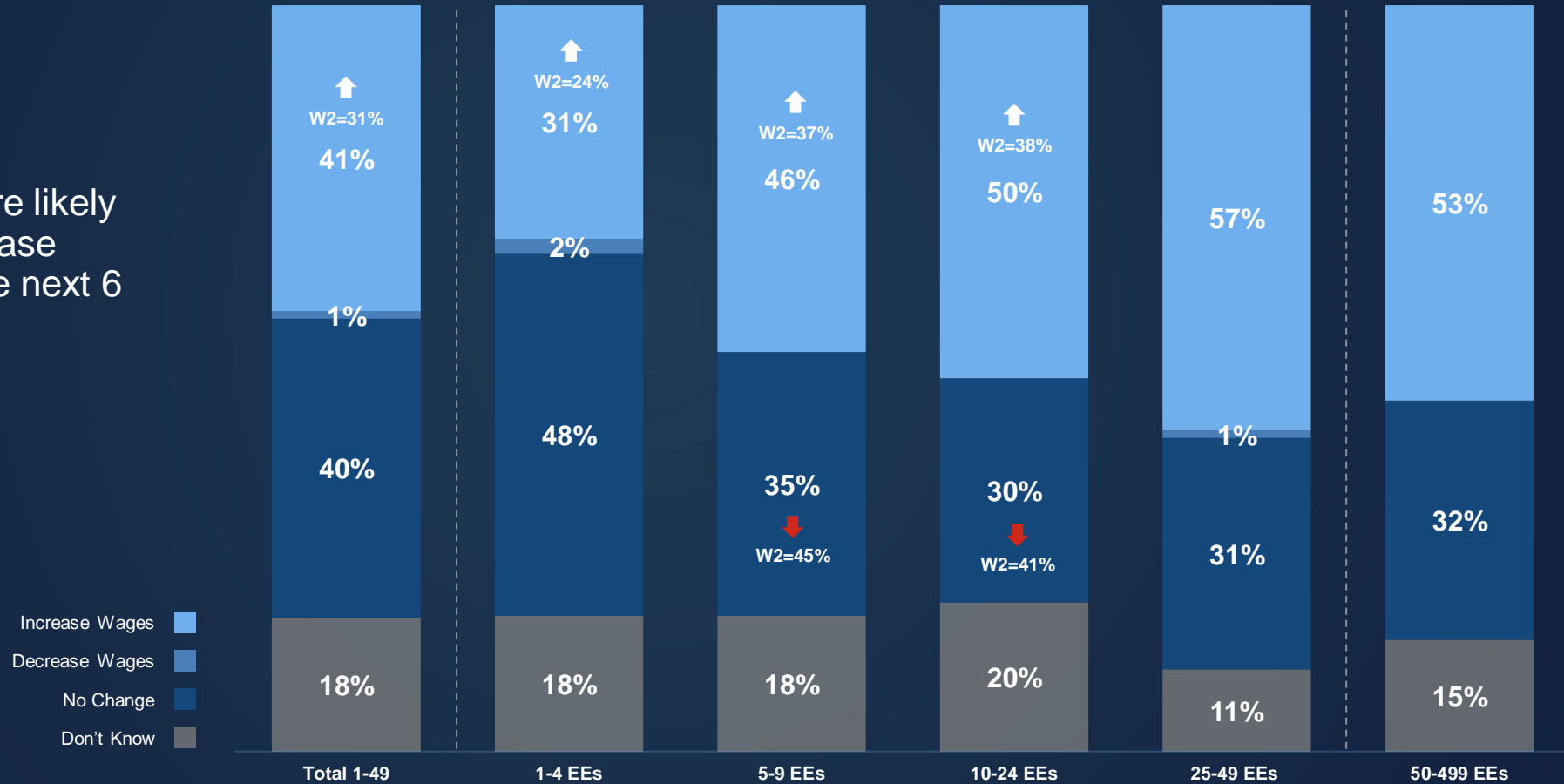


Q11. In the past six months, has your company increased or decreased the total number of hours worked by employees?
 Q12. In the next 6 months, does your company plan to increase or decrease the total number of hours worked by employees?

Increase or Decrease Wages in the Next 6 Months



Companies with 1-24 employees are far more likely to be planning to increase employee wages in the next 6 months compared to 3 months ago.



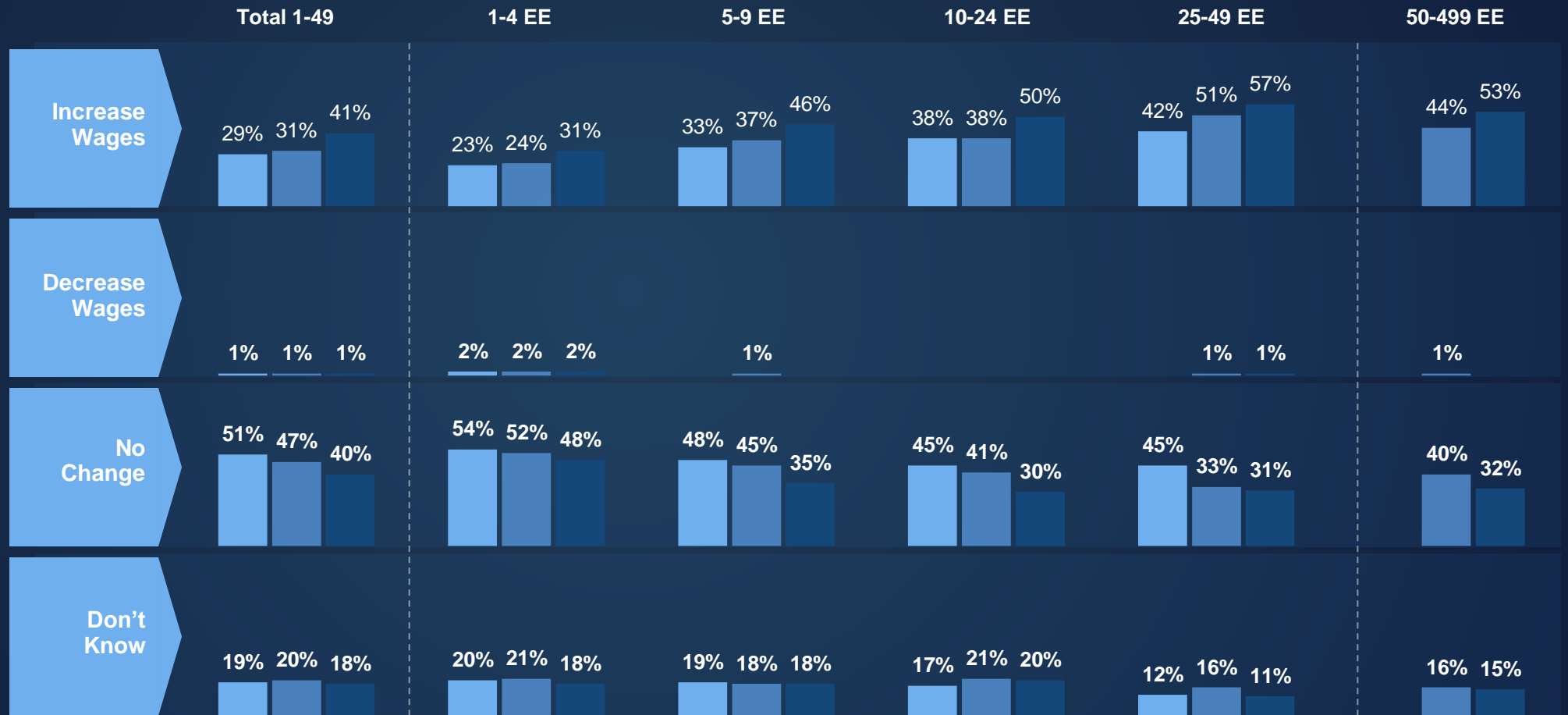
Q15: Does your company plan to increase or decrease employee wages in the next six months?

Increase or Decrease Wages in the Next 6 Months



Overall, clients are trending upwards when it comes to plans to increase employee wages in the next 6 months.

Q2 2021
Q3 2021
Q4 2021



Q15: Does your company plan to increase or decrease employee wages in the next six months?

Other Actions Taken in Past 6 Months



The issuing of increased pay/special bonuses is far more prevalent among companies with 5 or more employees.

Implemented health checks and requiring/encouraging work from the office was far more common among the largest companies (50-499 employees).

	1- 49 EE	1- 4	5-9	10-24	25-49	50-499 EE
Base: Total Respondents	2116	1118	447	397	154	179
Any (Net)	51%	43%	60%	57%	60%	64%
Special bonuses/increased pay	28%	17%	38%	37%	35%	43%
Implemented health checks	10%	7%	11%	12%	18%	21%
Increased face-to-face customer interaction	9%	9%	10%	7%	11%	11%
Increased PTO/sick time available to your employees	8%	4%	13%	12%	12%	8%
Required work from office	7%	6%	10%	7%	12%	17%
Encouraged work from office	7%	7%	6%	7%	9%	13%
Temporary layoffs	3%	4% F	3%	2%	2%	2%
Elimination of merit increases and bonuses	3%	4% E	2%	3%	3%	2%
Pay reduction	3%	5%	1%	*	-	1%
Permanent layoffs	2%	2%	2%	1%	1%	3%
Benefit reduction	2%	2%	1%	1%	1%	3%
None of the above	49%	57%	40%	43%	40%	36%

Q16: What other actions have you taken regarding your employees in the past 6 months?

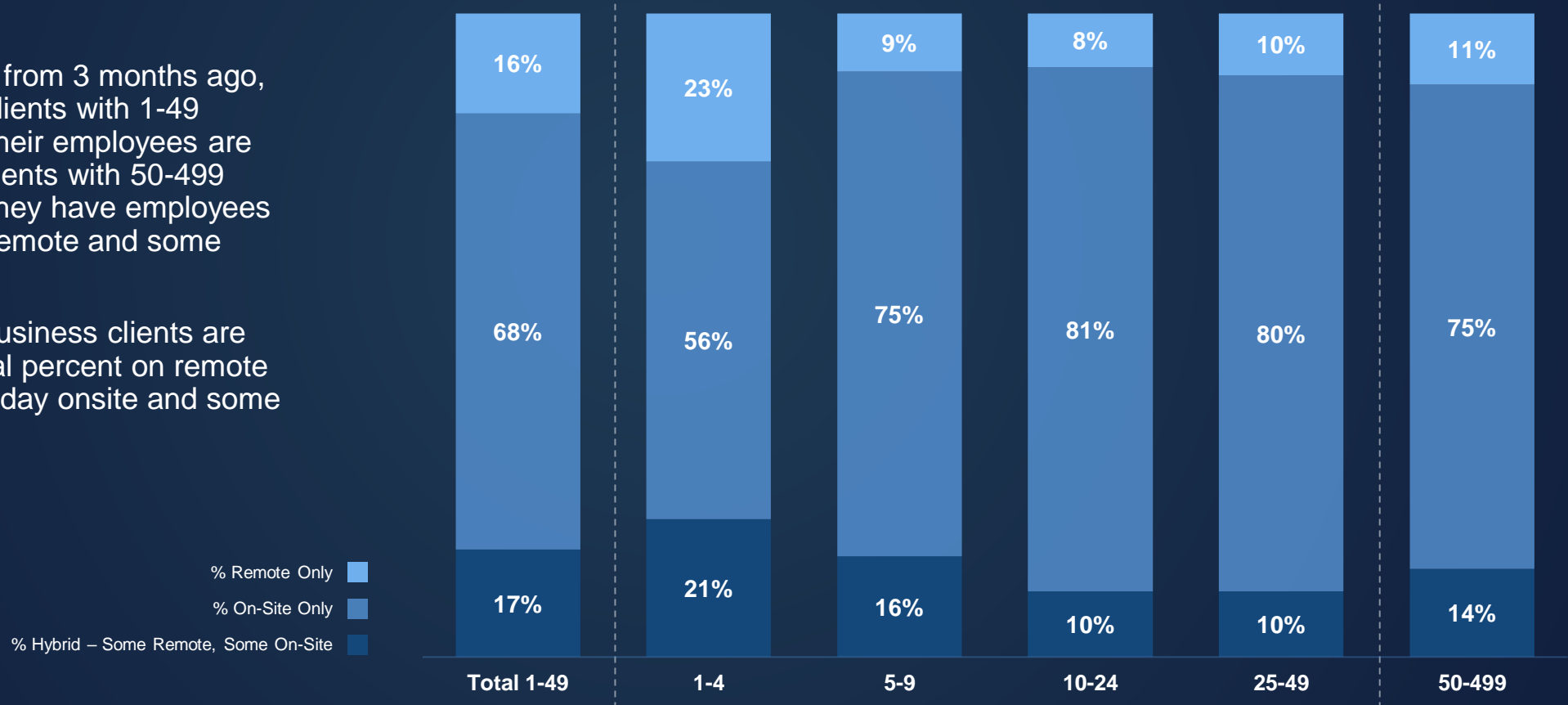
Employee Work Location



Consistent with stats from 3 months ago, about six out of ten clients with 1-49 employees indicate their employees are onsite only. Half of clients with 50-499 employees indicate they have employees working some days remote and some days onsite.

Two-thirds of small business clients are on-site only. An equal percent on remote only or hybrid (some day onsite and some days remote).

% of EEs Working Remotely vs. On-Site vs. Hybrid



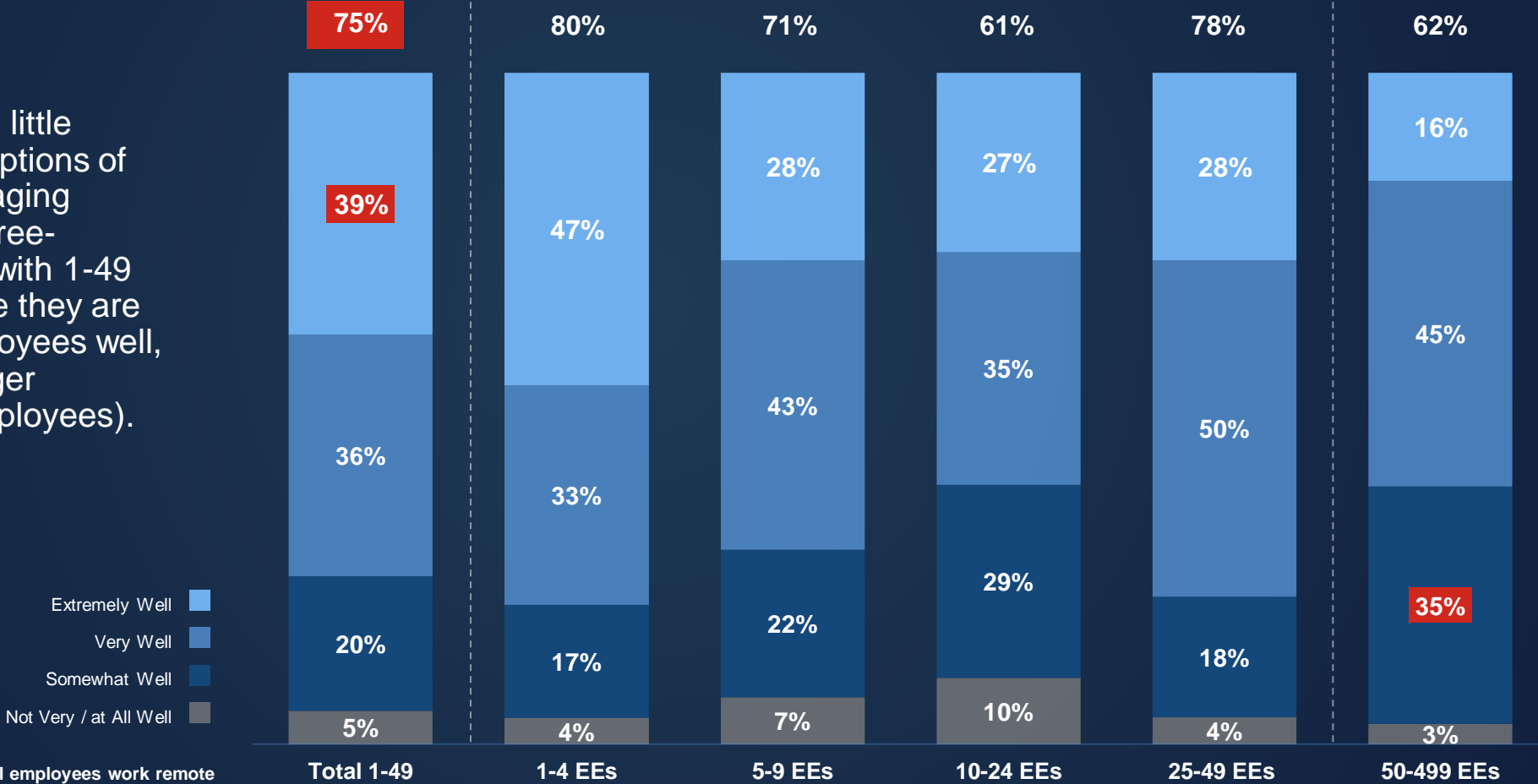
Q18: Are your employees working remote only, on-site only or both remotely and on-site?
 Q19: What percent of your employees work remotely versus at an on-site work location?

How Well Company Manages Remote Employees



Overall, there has been little shifting in clients' perceptions of how well they are managing remote employees. Three-quarters of companies with 1-49 employees feel they are they are managing remote employees well, much more so than larger companies (50-499 employees).

Extremely / Very Well



Base: Some or all employees work remote

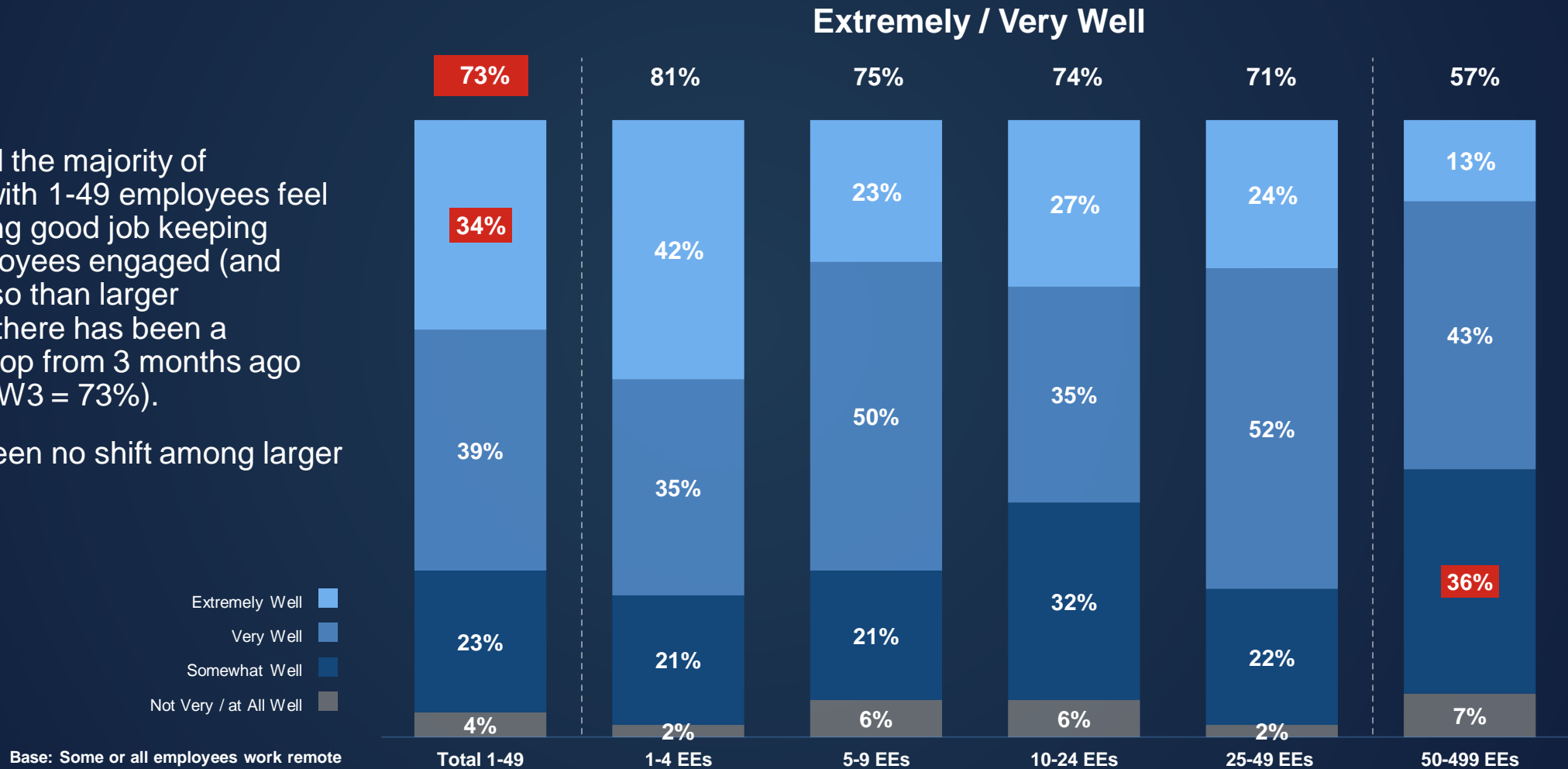
Q26: How well does your company manage remote employees??

How Well Company Keeps Remote Employees Engaged



While overall the majority of companies with 1-49 employees feel they are doing good job keeping remote employees engaged (and much more so than larger companies) there has been a significant drop from 3 months ago (W2 = 79%, W3 = 73%).

There has been no shift among larger companies.



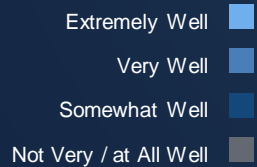
Q27: How well does your company keep remote employees engaged?

Rating Remote Employee Engagement

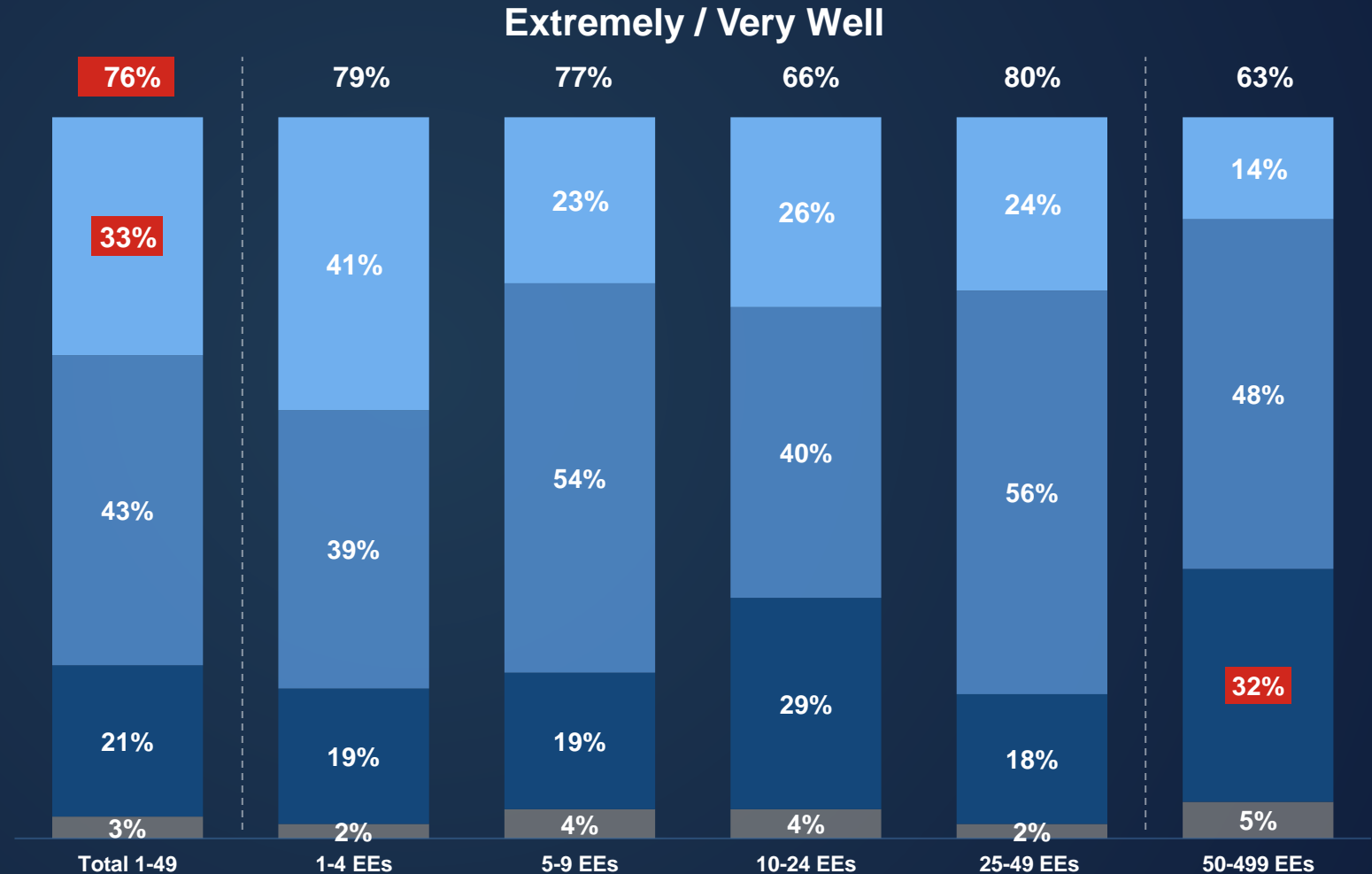


Overall, three-quarters of companies with 1-49 employees believe their remote employees are extremely or very engaged, a drop from the prior 3 months (W2 = 81%, W3 = 76%).

Remote employee engagement is perceived to be greatest in companies with less than 10 employees. Engagement in the smallest companies has dipped in the last 3 months (W2 = 85%, W3 = 79%).



Base: Some or all employees work remote

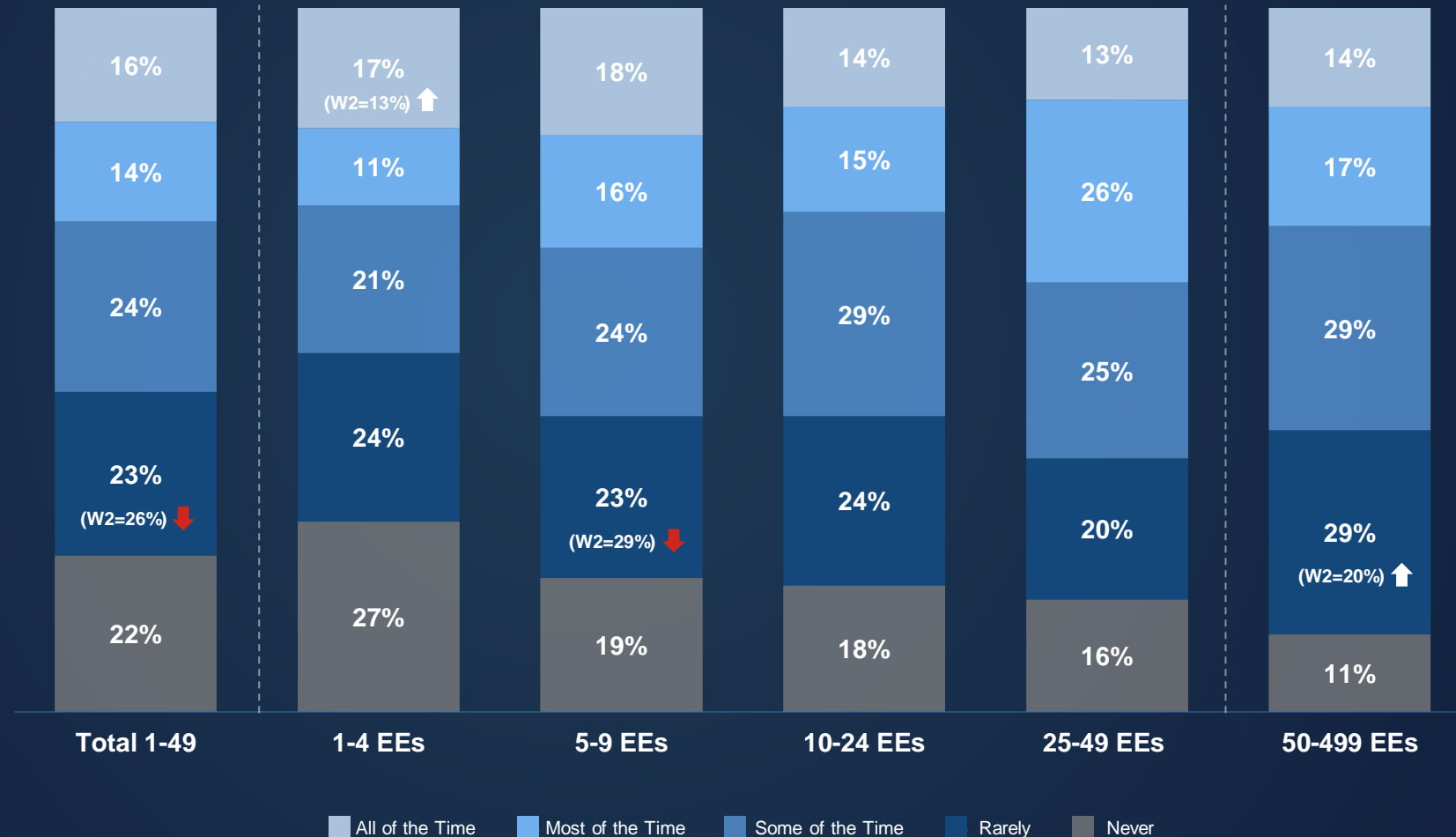


Q28: How would you rate the engagement of your remote employees?

Reliance on Accountant to Navigate Covid-19 Legislation



Small businesses don't rely on their accountant for help navigating COVID-19 legislation very often.



Q39. How much do you rely on your accountant for help navigating COVID-19 legislation, such as tax credit eligibility, loan assistance, paid leave, updating company policies, etc.?

Respondent Company Profile

Region	Total 1-49	1-4	5-9	10-24	25-49	50-499
Northeast	22%	24%	21%	19%	20%	18%
Midwest	16%	14%	17%	20%	22%	30%
South	31%	29%	34%	34%	32%	26%
West	31%	33%	29%	27%	26%	25%

Tenure	Total 1-49	1-4	5-9	10-24	25-49	50-499
Less than 1 year	3%	4%	3%	2%	1%	-
1 to less than 3 yrs	7%	10%	4%	4%	5%	2%
3 to less than 5 yrs	7%	8%	6%	6%	5%	1%
5 to less than 7 yrs	7%	8%	7%	8%	4%	3%
7 to less than 10 yrs	7%	9%	6%	5%	5%	4%
10 yrs+	68%	62%	73%	75%	81%	89%

Business Owner Profile	Total 1-49	1-4	5-9	10-24	25-49	50-499
Woman-Owned	26%	30%	26%	23%	16%	7%
Minority-Owned	15%	17%	13%	13%	13%	4%
Veteran-Owned	6%	7%	6%	7%	3%	5%
LGBTQ+-Owned	2%	3%	2%	1%	1%	-
Don't know	2%	2%	4%	2%	3%	4%
None of the above	57%	53%	56%	64%	71%	82%

Woman and
Minority Owned
5.4%

