

THE MEGAPHONE OF MAIN STREET:

Inflation & the Economy

SPRING 2022

presented by
SCORE 



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Executive Summary

After managing over two turbulent years with the COVID-19 pandemic, business owners now face the challenge of rising inflation. A January 2022 report from the National Federation of Independent Businesses (NFIB) shows 22% of business owners rank inflation as the most important and immediate problem they face. This represents a 20-point increase in ranking since the beginning of 2021, and the highest level since Q4 1981.ⁱ

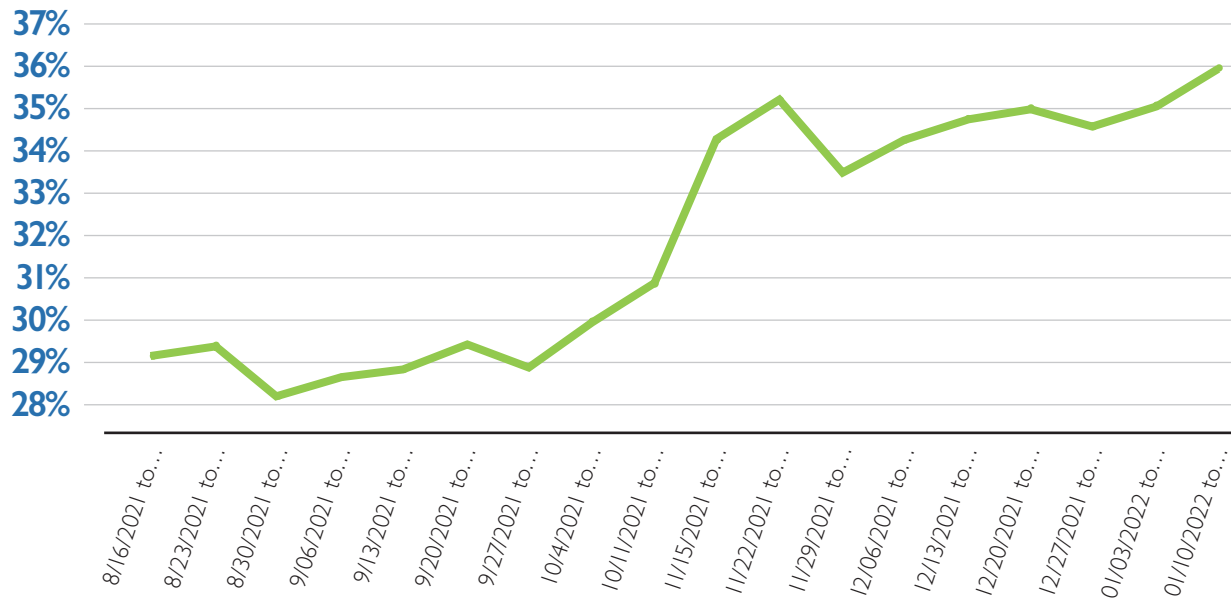
Single Most Important Problem

Problem	Current	1 year ago	Survey High	Survey Low
Taxes	14	19	32	8
Inflation	22	3	41	0
Poor Sales	4	11	34	2
Financing and Interest Rates	1	1	37	0
Cost of Labor	11	7	13	2
Government Regulation	11	15	27	4
Competition from Large Business	0	8	14	0
Quality of Labor	23	21	28	3
Cost/Availability of Insurance	4	7	29	4
Other	10	8	31	1

NFIB, Small Business Economic Trends. January 2022. <https://assets.nfib.com/nfibcom/SBET-Jan-2022-Final.pdf>

The impact of inflation on small businesses is also reflected in pricing trends. The U.S. Census Bureau issued weekly Pulse Data reports to track data on business owner sentiment during the pandemic. Prices for goods and services were tracked starting in the summer of 2021. The number of business owners reporting a large increase in what they paid for goods and services jumped from 28% in mid-August 2021 to 36% by mid-January of 2022. Anecdotal stories about the ways small business have struggled with inflation and rising prices are reflected in daily news reports.ⁱⁱ

Comparing now to what was normal before March 13, 2020, how have the prices this business pays for goods and services changed? (% responding “Large increase in prices”)



U.S. Census Small Business Pulse Survey <https://portal.census.gov/pulse/data/#weekly>ⁱⁱⁱ

In this study by SCORE, we ask a large sample of small business owners how they felt about the current economy and inflation outlook, how turbulent economic factors have affected their profitability, and what they have done to protect their businesses in response.

Part 1: The Economy, Inflation and Pricing – explores current business owner sentiment about the economy, inflation and pricing.

Part 2: Business Impact and Resolve – asks small business owners how they’re managing profits, sales and expenses in the current economy, and their response to business challenges to stay profitable.

Of the diverse pool of 1,327 survey respondents, SCORE analyzed responses from 1,199 current business owners in three stages of business: start-up, in business and exiting business. The businesses surveyed represent many industries and geographic locations throughout the United States. All respondents agreed to provide an honest reflection of their experiences and outlook.

About SCORE

SCORE is the nation’s largest network of volunteer, expert business mentors, with approximately 10,000 volunteers in more than 230 chapters and 1,500 communities nationwide. Since its founding in 1964 as a resource partner for the U.S. Small Business Administration, SCORE has helped more than 11 million current and aspiring entrepreneurs start, grow or troubleshoot a business through mentoring, workshops and educational services. In 2021 alone, SCORE volunteers helped create 25,084 new small businesses and add 71,475 non-owner jobs to the American economy.^{iv}

Key Findings

Part 1: The Economy, Inflation and Pricing

- Getting customers remains the top challenge for small business owners but cash flow, inflation and supply chain disruptions are growing concerns.
- Most business owners are worried about inflation. 30.5% list inflation as a top concern and another 62.5% are generally concerned as they keep an eye on rising prices.
- Due to continued economic uncertainty, three out of four business owners (76.4%) report feeling ambivalent about the economy – either somewhat positive, somewhat negative or neutral.

Part 2: Business Impact and Resolve

- Many small business owners (62.7%) have seen their profits decline over the past six months. Only 15.5% reported profits were higher than expected.
- Profits are declining because sales have declined for 58.6% of small business owners surveyed, and expenses have risen for 59.5%, compared to six months ago.
- Vendors and suppliers are charging 65.7% of business owners more than they were six months ago. More than half of business owners (53.5%) now pay more for utilities (including gas).
- Rising costs cause cash flow problems for one-third (35.9%) of the small business owners surveyed.
- To improve profitability, some small business owners are seeking more profitable clients, some are adjusting their product mix or improving technology, most are raising prices.
- 54.8% of business owners found it necessary to increase prices to match price increases in the market. All but 7.8% of those surveyed have raised prices by 5%-20%, with an average increase of 11%.

“As price increases and supply chain issues impact my customers, they have less to invest in our services. As inflation impacts our team, they need more cash to live.”

PART I:

The Economy, Inflation and Pricing

Getting customers is the top challenge for small business owners, but cash flow, inflation and supply chain disruptions are growing concerns.

When asked about current business challenges, business owners ranked getting customers (51.8%) and then cash flow (35.9%) as their top concerns, as shown below. What's changed over the last several months is the rise in concern for inflation (33.9%) and supply chain disruptions (30%), which are now challenging over one-third of business owners.

What are your top three business challenges right now?

Challenge	SCORE Megaphone Spring 2022	SCORE Megaphone Fall 2021
Getting customers	51.8%	38%
Cash flow	35.9%	NA
Inflation	33.9%	NA
Supply chain disruptions	30%	20.2%
Finding and retaining qualified workers	29.2%	63.4%
Access to financing	27.9%	29.3%
The overall economy	27.4%	NA
Taxes	14.9%	NA
Automation/technology	12.7%	NA
Regulations	10.7%	13.8%

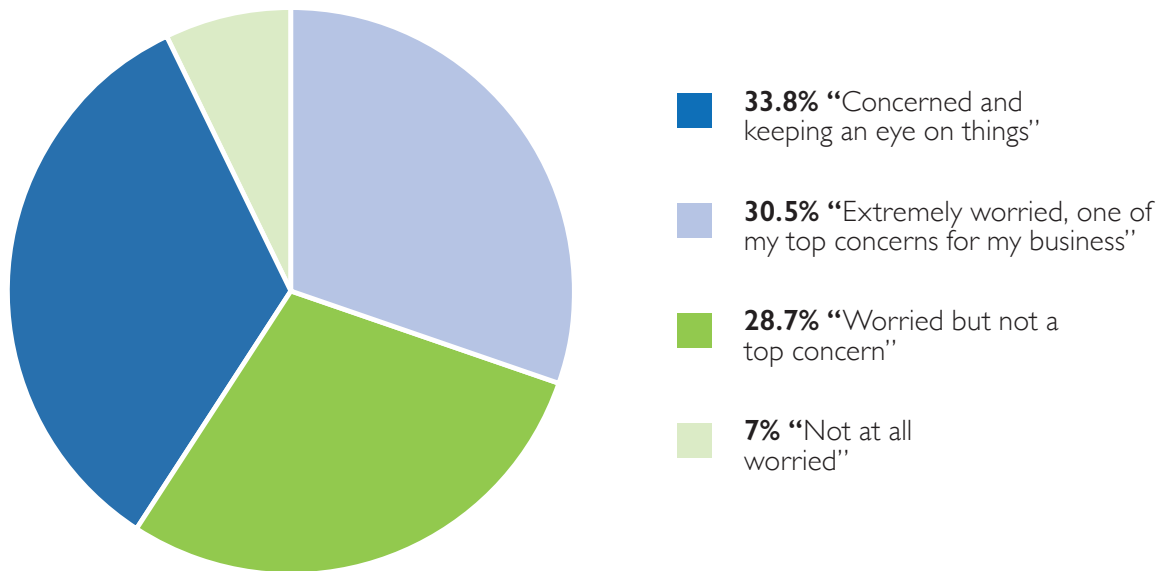
Other recent small business studies found similar results, with three out of four respondents experiencing supply chain issues . Of those surveyed for the December 2021 Small Business Majority report, 47% noted that supply chain issues forced them to increase prices; 46% said it limited their ability to acquire new inventory; 40% delayed fulfilling customer orders; and 16% said it disrupted their holiday sales plans.^{vi}

“Biggest single issues [for us] are supply chain and materials cost increases. Timely performance and contract completions are almost always delayed by the lack of quality products. Second issue is cost of materials. Third is lack of experienced, skilled labor and inflation that’s driving up labor rates both for employees and subcontractors. Fourth is rapid regulatory changes and the lack of certainty and clarity about compliance regulations and what agencies have authority over our business. Too many changes, too fast for a small business.”

Most small business owners are worried about inflation.

Nearly one in three (30.5%) business owners report feeling extremely worried about inflation and rank it as a top business concern. Another 62.5% are generally concerned about inflation, so they’re keeping an eye on rising prices. Only 7% of survey respondents were NOT worried about inflation at all.

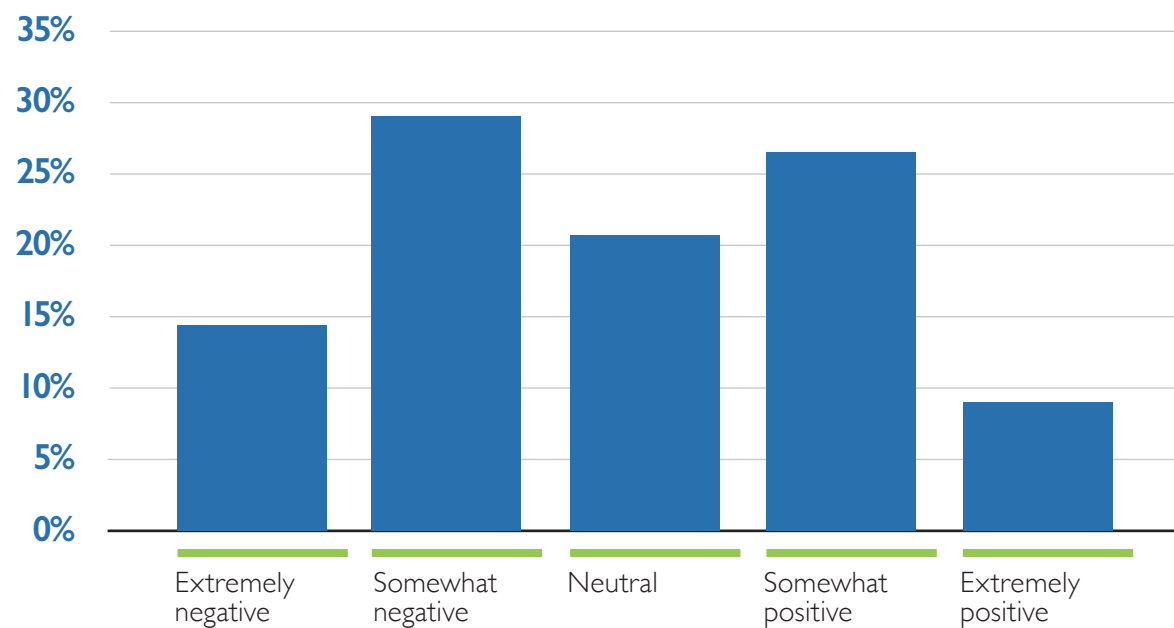
How worried are you about inflation?



Among small business owners, there's little consensus on the state of the economy.

Even with rising concerns about inflation, business owners are not expressing strong negative feelings about the economy. Notably, most survey respondents (76.4%) feel neutral or somewhat positive/somewhat negative about the economy. Only 9.2% feel extremely positive about how it's impacting their business and 14.4% feel extremely negative. This is likely because there is so much uncertainty in the economy as we question whether the pandemic is over, or not, and whether inflation and supply chain issues will be resolved soon, or not.

Overall, how are you feeling about the economy and its effects on your business?



“People are desperate for positive news, but there’s not clear data that we’re over this pandemic yet. It could bite us if we get another surge.”

“I’m actually doing quite well. There was a nice rebound after the first year of COVID. We now have slightly more work than we can comfortably handle. There just aren’t many people who can do the work.”

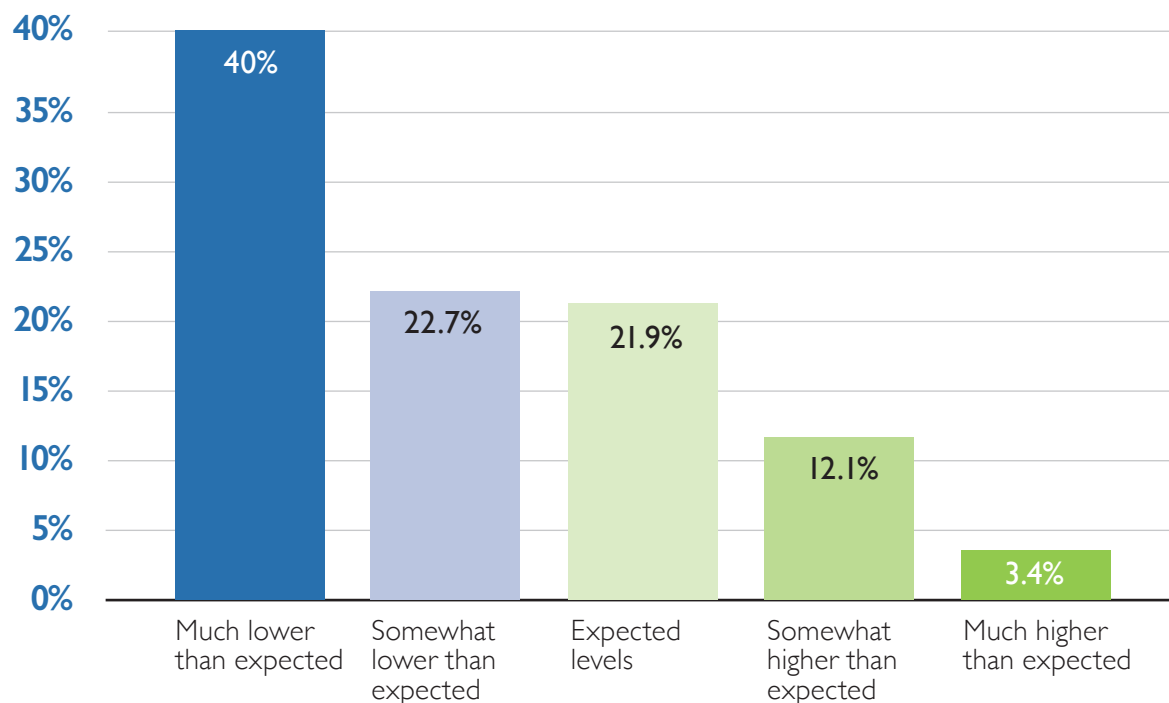
PART 2:

Business Impact and Resolve

Small business profits have been lower over the past six months.

Most small business owners (62.7%) have seen their profits decline to much lower than expected, or somewhat lower due to lower sales and higher expenses. Only 15.5% reported profits were higher than expected.

Over the past six months, profits have been:



“There aren’t enough people to hire and supplies are backed up, so my supplier’s customer service is at an all-time low and neither they nor I can find qualified workers. This means the few good guys I have are spread thin, including myself.”

Slower sales and increased expenses are impacting many small businesses.

Sales, prices, supplies, labor, the pandemic and global instability are all inter-related elements of our economy. In their comments, many business owners share how problems with labor shortages and supply disruptions have impacted their suppliers, which in turn, impacts them. Specifically, 58.6% of business owners report much lower or somewhat lower sales than expected, and at the same time report expenses being somewhat or much higher than expected (59.5%).

	Over the past six months sales have been:	Over the past six months expenses have been:
Much lower than expected	37.6%	5.8%
Somewhat lower than expected	21%	4.3%
Expected levels	21.9%	30.3%
Somewhat higher than expected	14.9%	37.3%
Much higher than expected	4.5%	22.2%

Business owners also note that both their clients and employees are struggling with rising prices. With less to spend, client-demand is decreasing for products and services.

“As price increases and supply chain issues impact my customers, they have less to invest in our services. [At the same time] inflation impacts our team, and they need more cash to live.”

Vendors and suppliers are charging 65.7% of business owners more than they were six months ago. Prices for utilities are higher, too.

65.7% of business owners surveyed are experiencing higher prices from vendors and suppliers. Over half (53.5%) are paying higher utility costs (including gas) and 21.3% will need to pay higher rent. One-third (32.3%) need to increase their own compensation from the business due to higher personal expenses, and 22.7% say employees are also asking for pay raises due to higher costs.

The result is that for many (35.9%), these higher costs are creating cash flow problems.

*Have you experienced any of the following effects from inflation?
(Check all that apply.)*

Higher prices from vendors/suppliers	65.7%
Higher utilities, including gas	53.5%
Problems with cash flow	35.9%
Need to increase my compensation due to higher personal expenses	32.3%
Customers demanding lower prices	23.4%
Current workers demanding pay increase	22.7%
Higher rent	21.3%
Ability to raise my prices as consumers expect increases at this time	19.6%
Higher financing expenses	16%
Competitors raising prices	11.6%
No effect	8.5%
More people returning to work which helps with getting new workers	1.6%

“I think that we, and most small businesses, are facing a number of new and costly items as we are still off nearly 50% from pre-COVID revenue. New regulations, increased wages, increased supply costs and significantly increased gas and utility prices = Not a fun time.”

To improve profitability, some small business owners seek more profitable clients, some adjust their product mix or improve technology, most raise prices.

Small business owners are known to be tenacious and find creative ways to adapt and thrive. To boost profitability and remain viable, many have taken active measures to combat the difficulties they're experiencing in the economy.

“Inflation and the rapid changes have made us confused and concerned about our pricing.”

What are some of the actions you have recently taken or plan to take to improve the profitability of your company? (Check all that apply.)

Price increase to match market	54.8%
Change in target customer	39.6%
Change in product mix	28.8%
Higher productivity through automation or process improvements	28.2%
Restructured financing	15.5%
Reduction in labor costs	13.7%
Renegotiating lower prices from suppliers	11.2%
Renegotiated rent/office space	8.5%

When asked what they're doing to improve profitability, over half (54.8%) of small business owners indicated they have increased prices to match price increases in the market. They are raising prices carefully and thoughtfully.

“[We are] increasing pricing delicately as to not dissuade current clients.”

With a constant eye for business survival, almost 40% of survey respondents say their strategy to stay viable has been to shift their aim and target more profitable clients and customers.

“I now have to find companies that have more money, because smaller ones can't afford to pay the rates of my services.”

“We are only focusing on the trades we like the most with the highest profit margin. We aren't offering many services we offered in the past because we have high demand for our work and can't hire anybody for a reasonable rate.”

More than one-third of small business owners (38.8%) changed their product mix to focus on more profitable products/services.

“I had to restructure my entire business from in-person workshops to virtual ones. I had to learn these technologies and change everything to a completely new operation.”

“Because of supply chain challenges, we will have to redesign our product.”

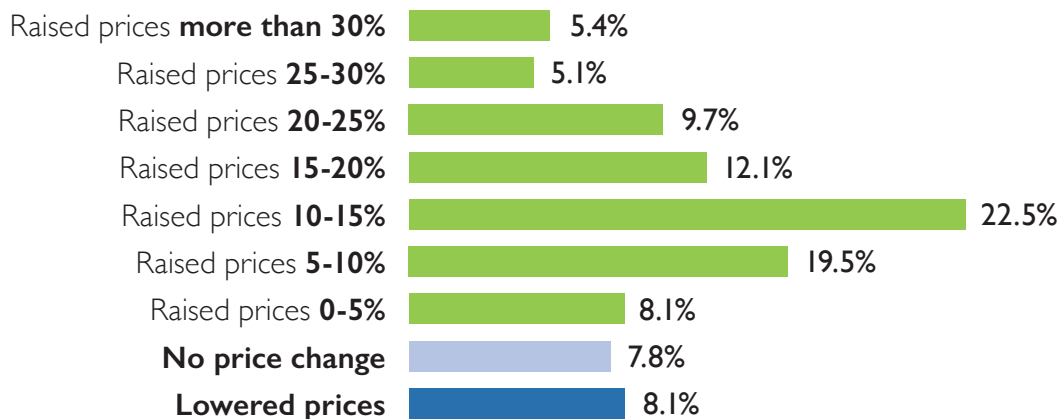
Many small business owners (28.2%) also report adopting new digital elements to their business model, which accelerated because of the pandemic; or they implemented automation or process improvements to enhance their work.

“[We’ve reduced] operating expenses, including rent. Functional automation and workflow systems would help increase our team’s ability to communicate, and more efficient equipment would increase our speed of service to our clients.”

On average, small businesses increased prices by 11%.

Most small business owners surveyed determined the best way to keep pace with rising inflation and prices would be to increase their own prices by 5-20%. Only 7.8% of business owners have not changed prices. On average, businesses increased prices by 11%.

How much on average have you changed prices?



“Right now, it’s very hard to ride the line between keeping up with price increases of competitors and charging unfair price increases to customers, all while still paying staff decent wages for hard work.”

Conclusion

While the U.S. economy shifts from a pandemic to endemic following two long hard years, new challenges face business owners in 2022. Hiring concerns, as seen in SCORE's *Fall 2021 Megaphone of Main Street: Small Business Jobs* report, have diminished -- though not disappeared. Now, business owners worry about inflation with links to increased costs for both supplies and labor. Global disruption and imbalance leave small business owners uncertain and concerned about their future.

As a result, business owners surveyed for this report experienced lower profits due to higher costs and lower sales. As usual, however, small businesses are finding ways to adapt. The majority have raised prices to respond to the market (increasing by 11% on average). Some business owners have shifted what they sell and who they sell to with a focus on more profitable products and customers. Others have taken advantage of automation and technology to streamline their work and increase efficiencies for a better customer experience. It is clear that entrepreneurs continue to be creative and tenacious.

2022, on the other hand, continues to be a year of great change. At the time of this survey, the war in Ukraine had not yet started. It will be important to monitor further economic shifts and those impacts on American small businesses.

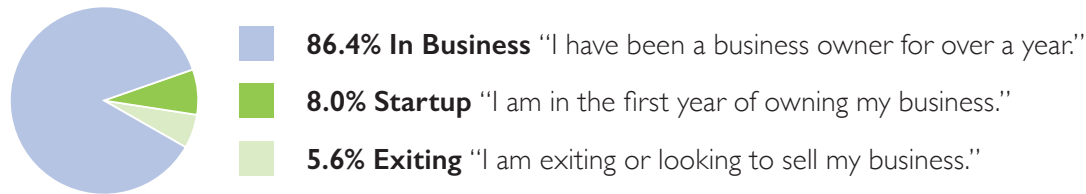
As the nation's largest source of small business mentoring and support, SCORE stands ready to help business owners adapt and thrive, despite ongoing challenges.

Methodology & Demographics

From Feb. 11, 2022 through Feb. 28, 2022, SCORE surveyed entrepreneurs who agreed to be contacted for research. From a master list of 14,716 people, 1,327 completed the survey for a response rate of 9%.

To capture the voices of current business owners through this study, respondents were asked to identify their current business stage. After screening, 1,199 were identified as current business owners in either the start-up, in business or exiting business stages.

Current business stage:



The following demographic questions are confidential and are used to help determine specific group needs.

Gender	Total Study	Age	Total Study
Female	61.8%	18-24	0.2%
Male	35.4%	25-34	3.3%
Non-binary	0.5%	35-44	12.8%
Prefer not to answer	2.2%	45-54	24.6%
		55-64	38.1%
		65+	19.8%
		I prefer not to answer	1.2%

Ethnic background (check all that apply)	Total Study
White	67.1%
Black or African American	20.3%
Of Hispanic origin or descent (such as Mexican, Puerto Rican, Cuban or other Spanish background)	7.5%
American Indian or Alaska Native	2.1%
Asian	3.9%
Native Hawaiian or other Pacific Islander	0.3%
Some other race	2.1%
I prefer not to answer	6%

Were you born a U.S. citizen?	Total Study
Yes	88.8
No	11.2

Please select the industry category that best fits your business:	Total Study
Agriculture, Farming, Fishing & Hunting	2.3%
Accommodation & Food Services	8.3%
Arts, Entertainment & Recreation	14.6%
Banking, Finance & Insurance	2.1%
Health Care & Social Assistance	12.2%
Home or Personal Maintenance Services	7.2%
Manufacturing & Industrial	10%
Nonprofit, Public & Professional Organizations	4.4%
Professional & Business Services	25.9%
Real estate, Rental & Leasing	2.6%
Wholesale Trade	4.1%
Technical & Scientific Services	3.9%
Transportation & Warehousing	2.2%

What were your company sales receipts in 2020?	Total Study
<\$50,000	42.5%
\$50,001-100,000	21%
\$100,001-\$250,000	13.3%
\$250,001-\$500,000	11.1%
\$500,001-\$1M	6.1%
\$1M-\$2.5M	3.4%
\$2.5M-\$5M	1.4%
\$5M-\$10M	0.6%
>\$10M	0.8%

How many years has your business been in operation?	Total Study
0-1 year	8.8%
2-5 years	40.3%
6-10 years	18.9%
11-20 years	15.5%
Over 20 years	16.5%

How many employees do you have (including yourself)	Total Study
One*	46.5%
2-5	34.9%
6-10	8.8%
11-20	5.3%
21-50	3.3%
50+	1.2%

Sources

ⁱ National Federation of Independent Business (NFIB). Small Business Economic Trends. January 2022. Accessed at: <https://assets.nfib.com/nfibcom/SBET-Jan-2022-Final.pdf>

ⁱⁱ Wall Street Journal. Daily. Accessed at: <https://www.wsj.com/news/types/small-business>

ⁱⁱⁱ US Census Bureau. Small Business Pulse Survey. March 2022. Accessed at: <https://portal.census.gov/pulse/data/#weekly>

^{iv} SCORE. Small Business Resilience Hub. Accessed at: <https://www.score.org/recovery/small-business-resilience>

^v Small Business Majority. Small businesses share views on current issues: vaccine mandates, supply chain disruptions and build back better. December 2021. Accessed at: <https://smallbusinessmajority.org/our-research/small-businesses-views-on-vaccine-mandates-supply-chain-disruptions-and-build-back-better>

^{vi} Ditto.

