

# SMB Owner Pulse Survey

Q2 2023



# Small and Medium Sized Business Banking Survey Overview

Conducted quarterly through Q1 2023, Monit has completed a national pulse survey of 300+ small business owners to better monitor shifts in sentiment, key financial indicators, changes in business priorities, and diagnose emerging needs. The Q1 '23 survey was conducted between April 4<sup>th</sup> through 5<sup>th</sup> 2023 and queried owners' perspectives of changes vs. the prior quarter.

## Key Highlights:

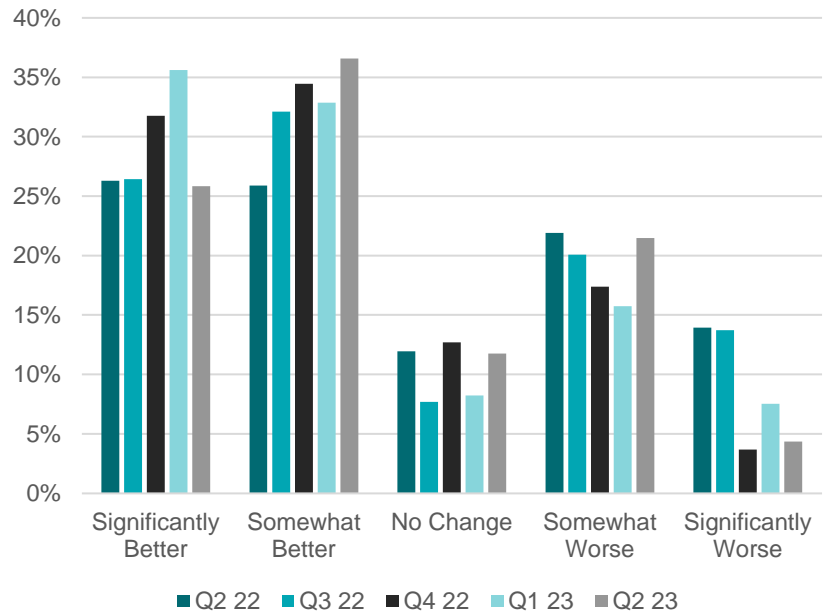
- SMB owners continue to be a **relatively optimistic group** with 62% reporting the economy/operating environment improved vs. prior quarter. Further, 58% of owners reported increased customer demand over the same time period
- SMB owner concerns remain consistent with the **Economic environment and Buyer/Customer Stability** remain their top two concerns, followed by **Interest Rates**.
- 57% of owners reported an **increased appetite to invest in growth**, down 9% from the prior quarter Q2 '22. Funding growth with cash-on-hand remained the most popular option, selected by 60% of respondents.
- 80% of Business owners reported focusing on their **receivables management** in response to changes in their operating environment
- 86% of **owners moved deposits** around in response to recent turbulence in the banking industry. This includes 31% moving deposits to an existing account at a different bank while 41.2% reported setting up and funding a new account.
- SMBs **continue to manage their cash well** as Cash Coverage and median cash on hand remains stable and above pre-pandemic levels

## Key Considerations to Banks:

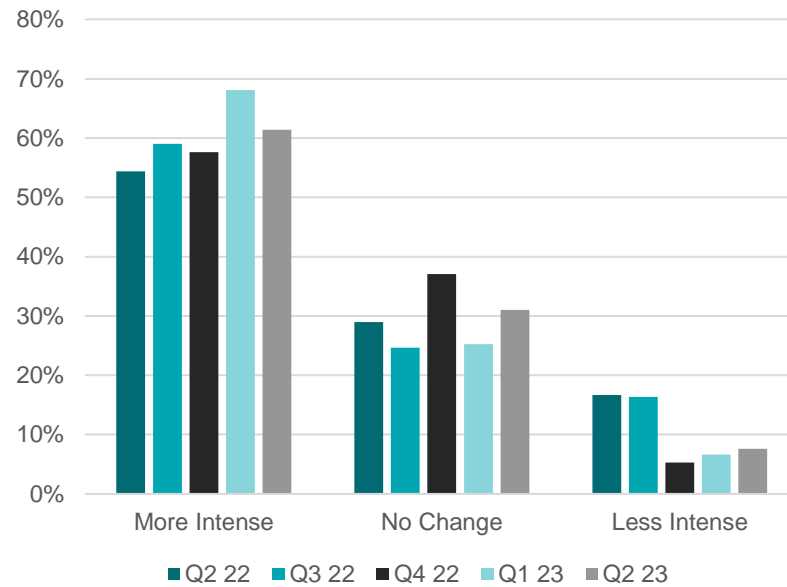
- 1 Optimistic owners are looking to grow their businesses. While lending remains an option to fund growth (49%), other services that will help them improve their cashflow and cash position are in higher demand with 60% reporting plans to self-fund growth.
- 2 Business owners are opening and funding accounts at new FIs. Banks must focus on winning and retaining the operating account position or risk slow erosion of lower cost deposits.
- 3 Improvements in receivables management continue to be a priority for business owners in response to the tougher operating environment. Banks with services and focused delivery models that aim to improve SMBs' operating costs and reduce cash collection cycles will be in a stronger position to win the operating position.

# Economic and Competitive Environment Sentiment

**Q1: Compared to prior quarter, how do you feel the current economic environment has changed?**



**Q2: How has your competitive environment changed compared to the prior quarter?**



## Key Observations

- 1 SMB owners' optimism continues to hold steady, with 62% responding the economy is "Somewhat better" or "Significantly better" vs. the prior quarter
- 2 While the percentage of business owners reporting a more intense competitive environment is down 7% vs. prior quarter, it is still the second highest result since the survey began in Q2 '22

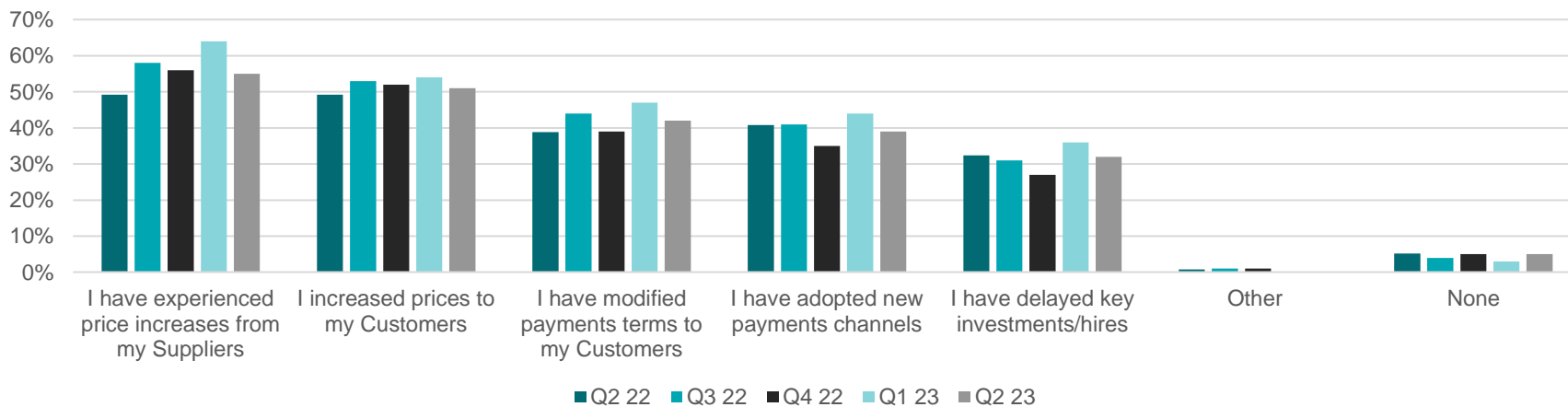
# Operating and Inflationary Environment Concerns

## Q3: What currently concerns you the most about the future of your business?

Forced Stack ranking	Q2 '22	Q3 '22	Q4 '22	Q1 '23	Q2 '23	Q/Q Change in Ranking
Economic Environment	1	1	1	1	1	--
Buyer/Customer Stability	5	3	2	2	2	--
Interest Rates*	N/A	4	3	3	3	--
Supplier Stability	2	2	4	4	4	--
Access to Credit/Funding	4	8	7	5	5	--
Competitive Intensity	6	7	5	6	6	--
Hiring/ Retaining a Skilled Workforce	3	5	6	7	7	--
Political Stability	8	9	7	8	8	--
Regulatory Environment	7	6	8	9	9	--

\* New category starting in Q3 2022

## Q4: How has the inflationary environment impacted your business over the past quarter?

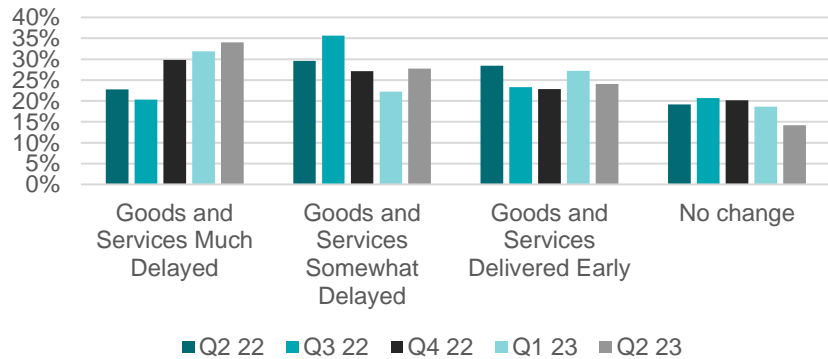


## Key Observations

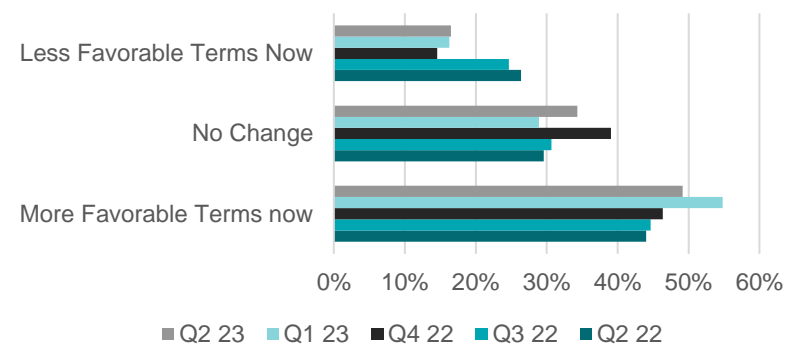
- 1 There were no changes in the stack ranking vs. prior quarter with the Economy has remaining as the #1 concern of business owners. Political Stability and Regulatory Concerns stayed as the lowest ranked concerns.
- 2 (Not explicitly detailed in text)
- 3 The inflationary environment continues to put pressure on owners, with 55% reporting higher prices from suppliers, down 9% from prior quarter
- 4 New Payment channel adoption remains a popular adaptation in response to inflationary concerns

# Suppliers and Labor Force Sentiment

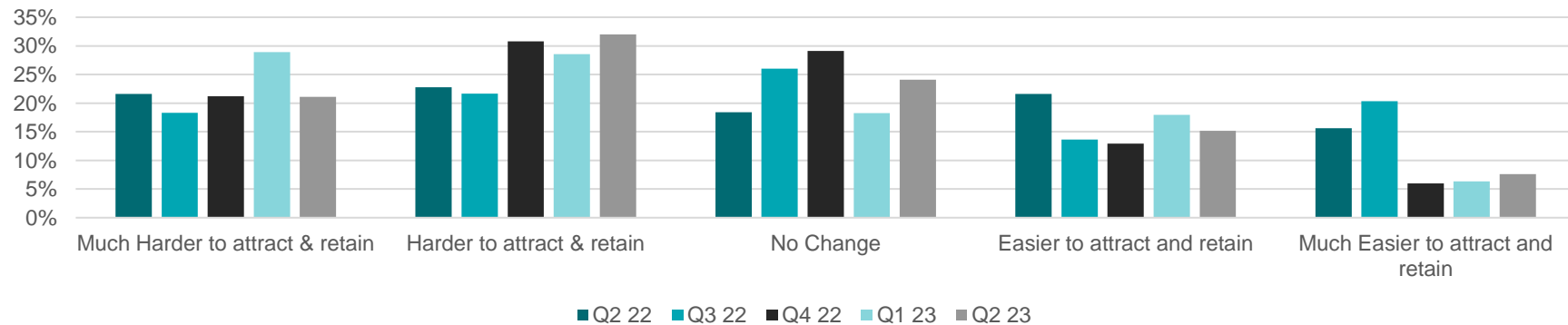
**Q5: Compared to the prior quarter, has the ability of your suppliers to deliver goods/services on time changed?**



**Q6: Have the payment terms you have with your suppliers changed compared to the prior quarter?**



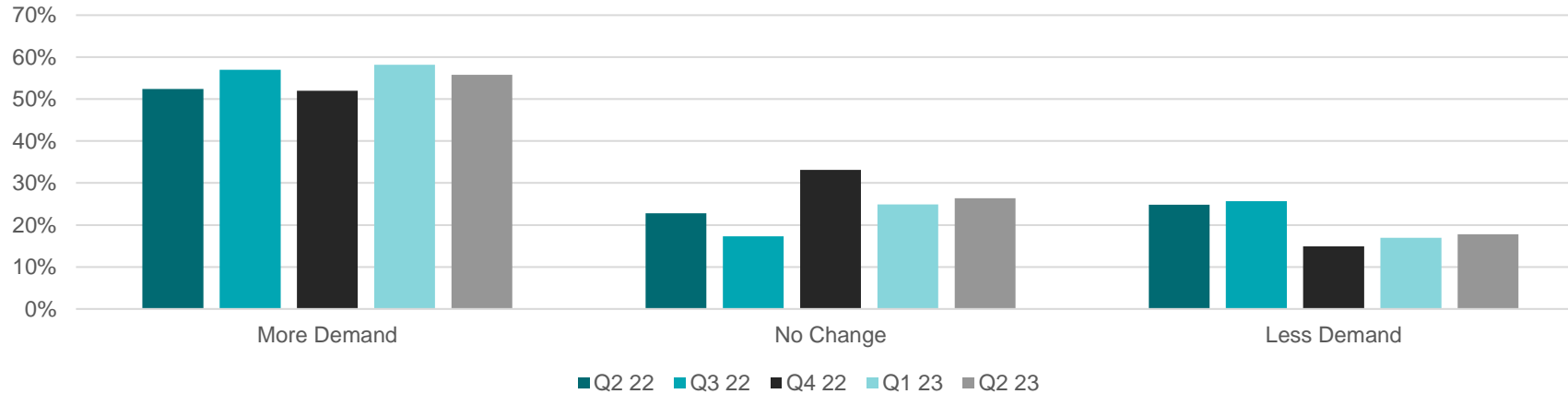
**Q7: Compared to the prior quarter, how has your ability to attract and retain employees changed?**



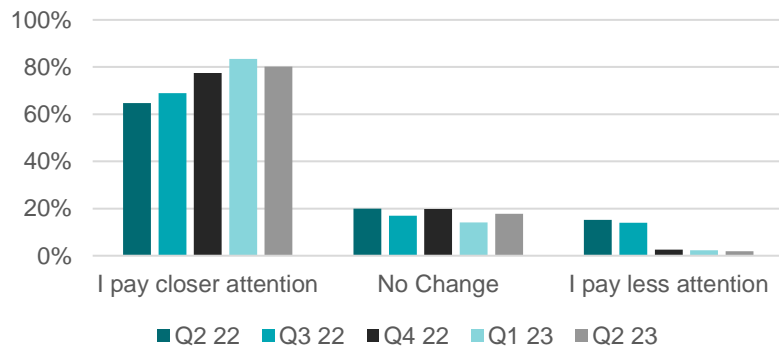
## Key Observations

- 1 62% of owners reported goods/services being “Much delayed” or “Somewhat delayed” up 8% vs. prior quarter
- 2 49% of owners reported more favorable payments terms compared to prior quarter, a continuation of the theme of payments adaptation
- 3 Challenges in the ability to attract and retain employees continues with 53% stating it is harder or much harder to attract and retain their workforce.

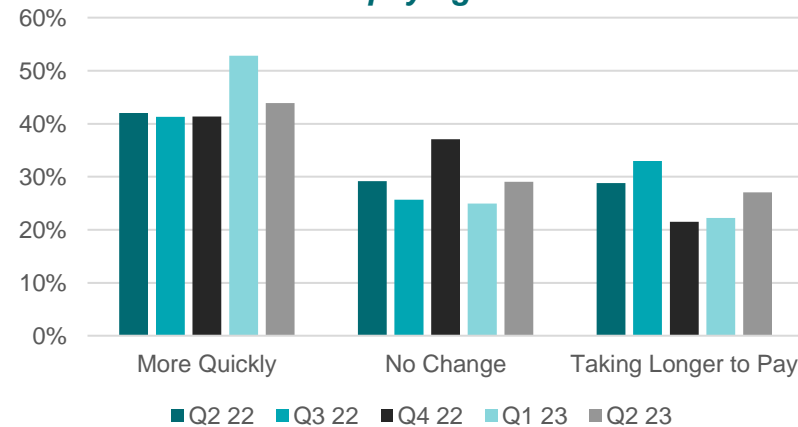
**Q8: Compared to the prior quarter, have you seen changes in customer demand?**



**Q9: Compared to the prior quarter, are there changes in your receivables management?**



**Q10: Compared prior quarter, are your customers paying:**

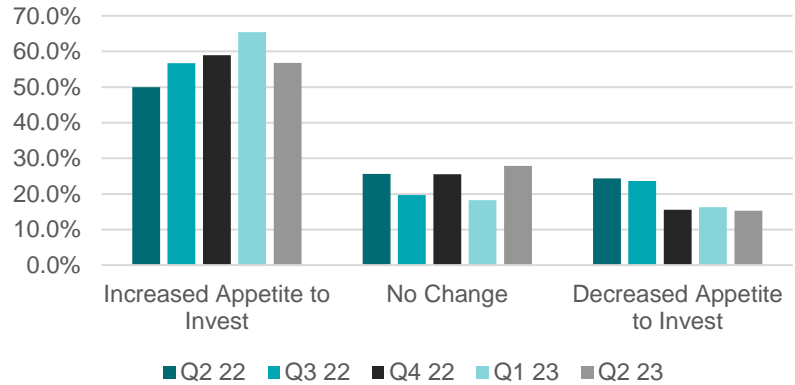


## Key Observations

- 1 Business owners' improved confidence in the economy is likely correlated with perceived increase in customer demand with 56% reporting an increase in the past quarter
- 2 80% of owners stated they are paying closer attention to their receivables management, up 19% since Q2 '22
- 3 Trends in customer payments have stayed consistent. Only 27% of owners reporting it was taking customers longer to make payment.

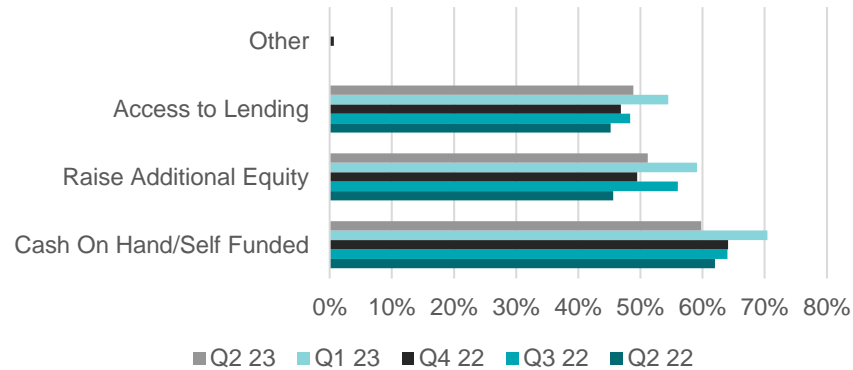
# Investment Appetite & Growth Funding

**Q11: Compared to the prior quarter, how has your appetite to invest in growth of your business changed?**



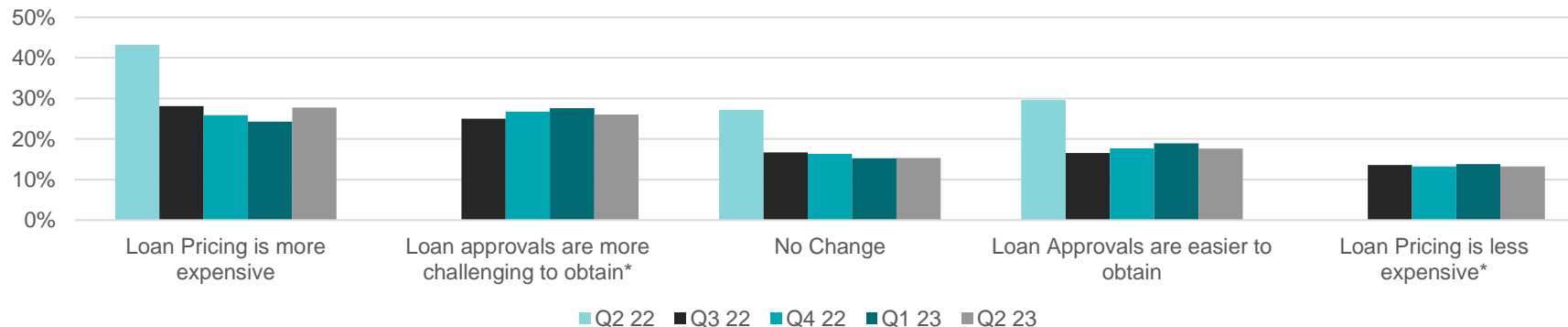
**Q12: How are you planning to fund business growth?**

Multiple selections allowed



**Q13: If borrowing to fund growth, how has the credit environment has changed since the prior quarter?**

Multiple selections allowed



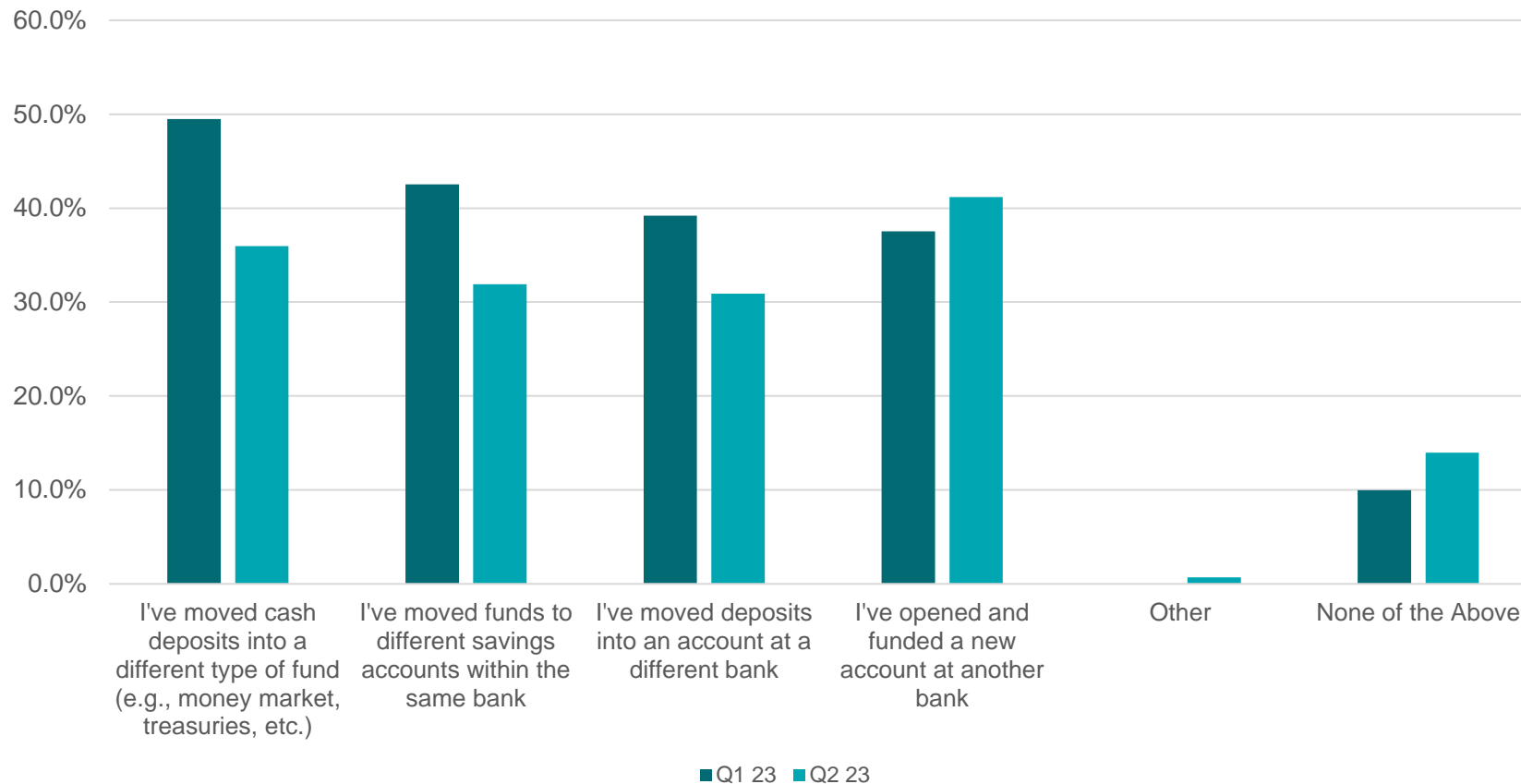
\* New responses added in Q3 22

## Key Observations

- 1 Owners are still looking to expand with 57% of SMB owners reporting an increased appetite to invest in growth.
- 2 Options for funding growth have remained consistent with cash on hand being the most popular option (60%). 49% of owners cited access to lending as part of their funding plans.
- 3 Lending concerns are consistent and relatively mild, with only 26% reporting loan approvals being harder to obtain and 28% reporting loan pricing being higher vs. the prior quarter

# SMB owners' response to recent bank industry turbulence

**Q14: How has the recent turbulence in the banking sector influenced how you manage your bank accounts?**



## Key Observations

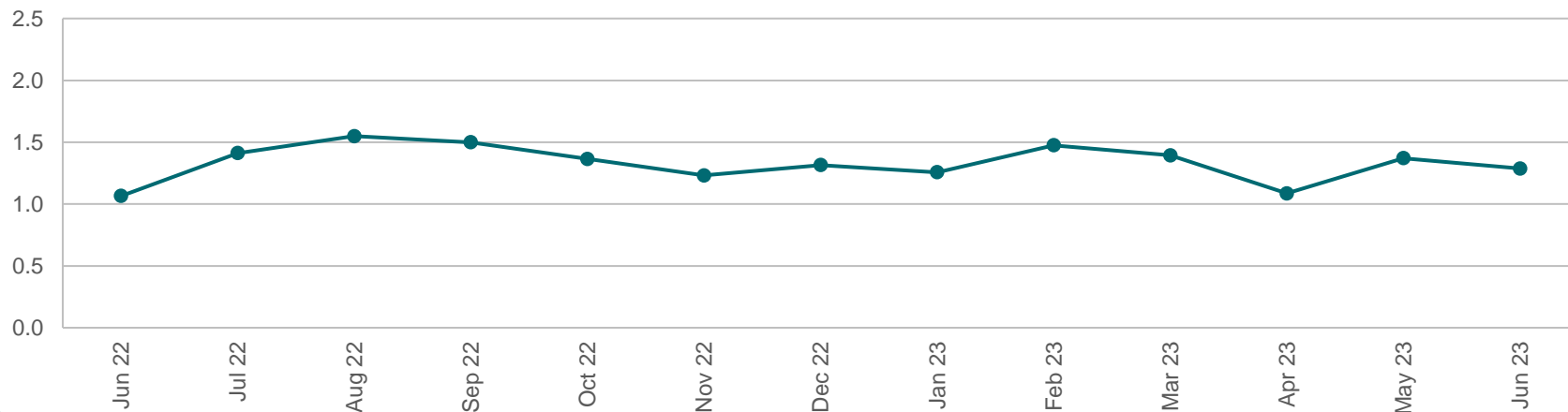
- 1 86% of business owners reported moving deposits in reaction to banking turmoil earlier in the year.
- 2 Money was very much in motion: 30.9% moving deposits into existing accounts at other banks, with a further 41.2% reporting opening and funding a new account at another bank
- 3 Business owners also moved money internally, with nearly 36% reporting moving cash internally into other account types such as money market or treasury accounts. This may be tied to chasing higher interest rates.



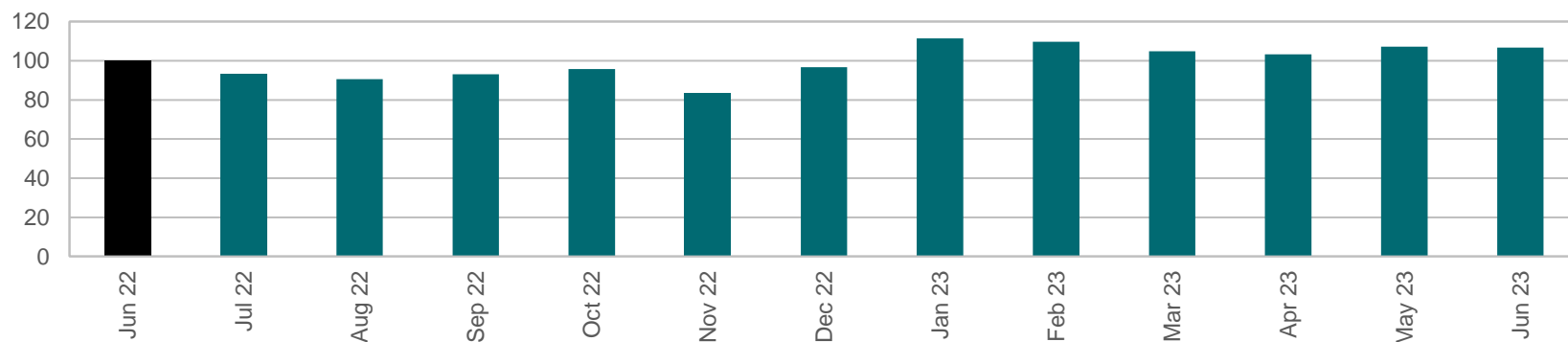
# Cash Coverage Trends

## Cash Coverage

Rolling 12-month view of Cash on Hand / 3mo Avg Expenses



## Median SME Cash on Hand Indexed to Jun 2022



## Key Observations

- 1 SMBs cash trends remain relatively stable over the prior year, yet still vulnerable to systemic shocks. Cash flow interruptions could pose challenges to business owners should receivables be delayed
- 2 Cash Coverage has remained relatively stable over the past year at 1.5X average expenses over the prior three months.