

## Letter from Norm Merritt

President & CEO



I'm pleased to share the Q2'2015 ShopKeep Small Business Index (SSBI), a quarterly report that provides valuable insights into the health of small businesses, and identifies new opportunities to improve their bottom

line. The results from our merchant survey and same-store sales data report that small businesses are booming, demonstrated by the fourth consecutive quarter of increasing revenue and growth.

In addition to reporting on trends in small business confidence, economic optimism and financial predictions, the findings in this index cover a variety of relevant and timely topics facing business owners. This quarter, we addressed public policy, hiring and payments technology - which all stand as large influencers to business operations for merchants across America for the remainder of the year.

Business success and financial confidence have remained on par with the previous quarter, with 79% of businesses owners having increased their revenue over the past six months, and 92% of business owners anticipating an increase in revenue over the remainder of 2015. In addition, this quarter's same-store sales data has brought an unprecedented statistic for the SSBI,

## Contents

---

1

Letter from Norm Merritt

4

Small Business Optimism and Economic Outlook

5

Financial Health and Growth

8

Wages and Workforce

11

Small Business Technology: EMV and Contactless Payments

## Letter from Norm Merritt

President & CEO

showing positive growth within all business categories and more than doubling last quarter's 11% YoY with a 23% average YoY increase in sales revenue. This 23% growth is more than six times the [forecasted national average](#).

This sustained growth of sales and profits will continue to elevate the influence of small businesses in the economy while increasing business confidence. The results of this index show that independent business owners associate starting a businesses with increased security and lower risk; small business confidence also remains strong as 96% of business owners expressed confidence in their business's current situation, and an impressive 98% expressed confidence in the success of their business one year from now.

Minimum wage continues to be a hot topic and SMBs have remained competitive in this regard, reporting an average wage of \$10.83, which is slightly above the \$10.29 [national average](#) and 49% above the \$7.25 [U.S. minimum wage](#).

One of the few areas of concern with the positive picture remains hiring. Sixty percent of ShopKeep Merchants are new business owners, and it is crucial that these new and existing SMBs have a qualified workforce at a local level to help grow their business. Job growth is on the rise, with 69% of small businesses planning to hire at least one additional employee over the next six months. Against the high level of optimism and growth, 50% of business owners have identified that finding and retaining a qualified workforce is a barrier for them to grow their current business operations.

## Letter from Norm Merritt

President & CEO

As we approach the upcoming EMV deadline in October, we surveyed our merchants to ascertain readiness. Sixty-two percent of business owners reported that they are prepared to accept EMV before the deadline, while others largely cited largely a lack of education and awareness as reasons for being unprepared.

SMBs must prioritize educating themselves further on EMV and contactless payments to future-proof their business. Our counter culture blog is one of many free resources to educate merchants as to [Why EMV Point of Sale Makes Dollars and Sense](#).

## Methodology

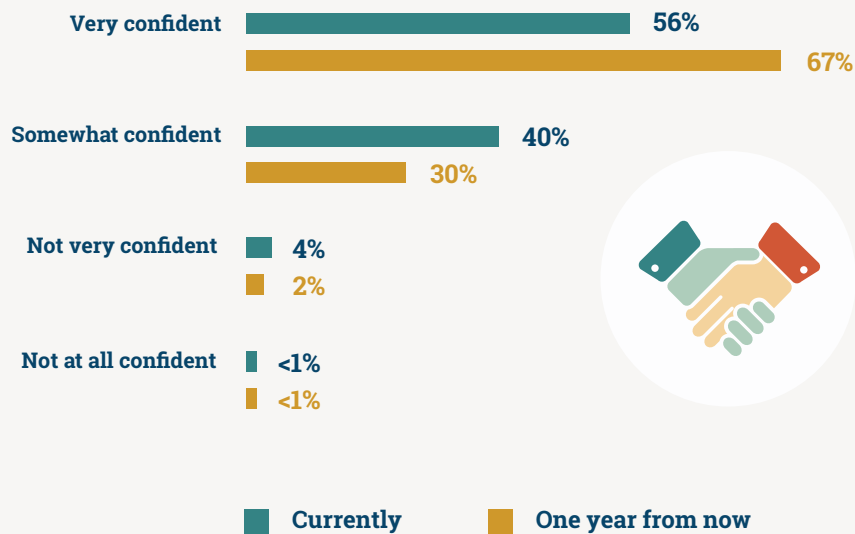
Results for the total data set of the ShopKeep Small Business Index are based on ShopKeep Merchants' same-store sales data and email surveys of 1,260 Merchants based in the United States, conducted during the period of June 13 - 27, 2015. For results based on the total sample of ShopKeep Merchants, one can say with 95% confidence that the margin of sampling error is +/- 2 percentage points.



## Small Business Optimism and Economic Outlook

The SSBI shows that overall confidence in small business has remained stable at 96% throughout 2015, and almost 98% of SMBs are confident in the success of their business one year from now.

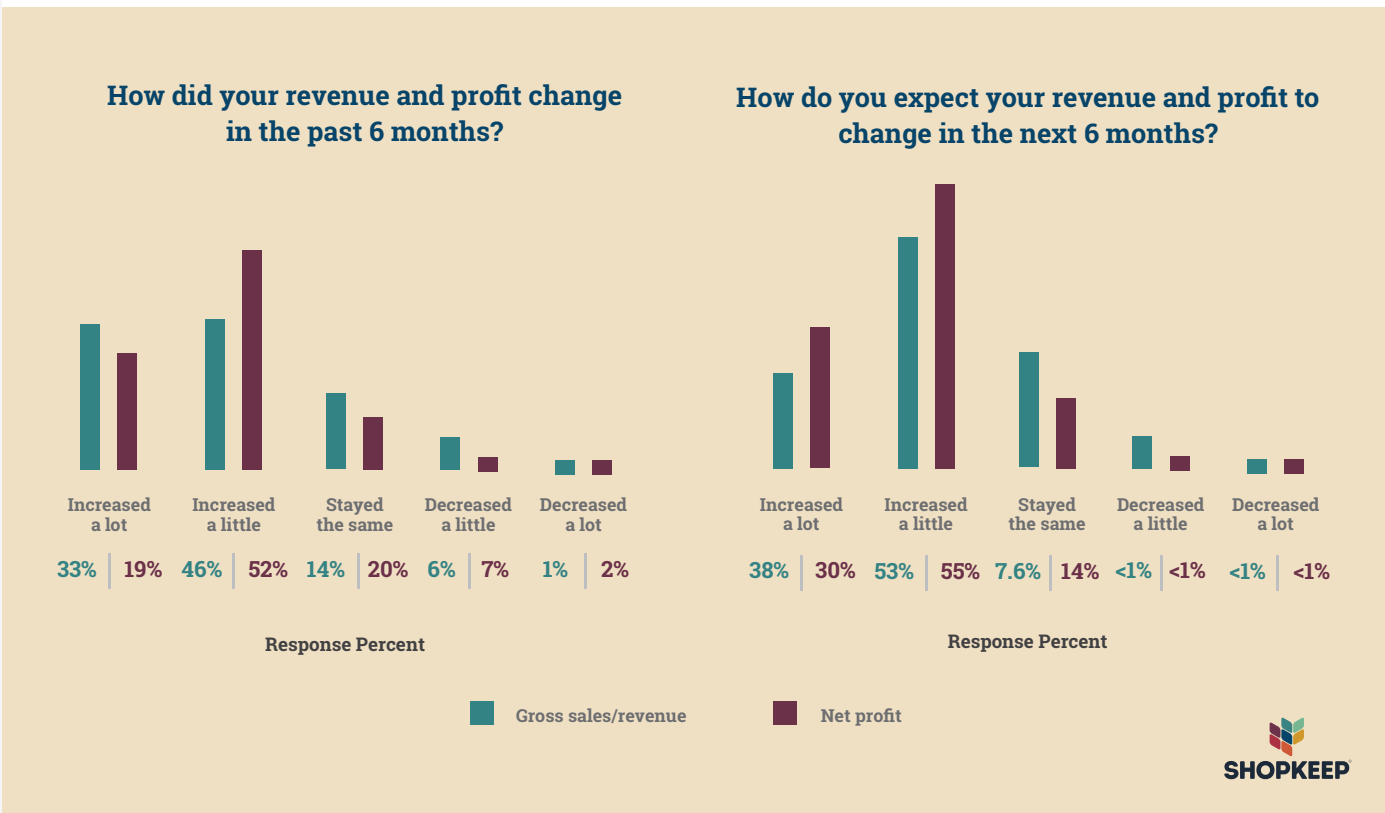
### Overall how confident are you in the success of your business?



Confidence in the economy has dipped 5%, now resting at 75%. While still a favorable number, only 39% of merchants believe that today's national economy is better off than compared to one year ago - almost 7% less than last quarter. The slight drop in optimism this quarter may be the result of several factors, including general sentiment regarding government policies and public issues, which is discussed in depth in the Wages and Workforce section. This index will continue to monitor developing trends such as these throughout the remainder of the year.

## Financial Health and Growth

Despite a dip in economic confidence, SMBs are demonstrating strong financial health as they continue to aggressively grow. Seventy-nine percent of business owners have increased their business revenue over the past 6 months and 71% have increased net profit. Revenue and profit projections through the end of the year are at an all time high, with a respective 92% and 84% predicting and increase.



The same-store sales data has shown positive growth this quarter within all business categories, including quick services restaurants (QSRs) Restaurants/Bars, and Retail - an unprecedented statistic for the SSBI. Small businesses experienced an average of 23.1% year-over-year increase in sales revenue; a staggering 11% increase from Q1.

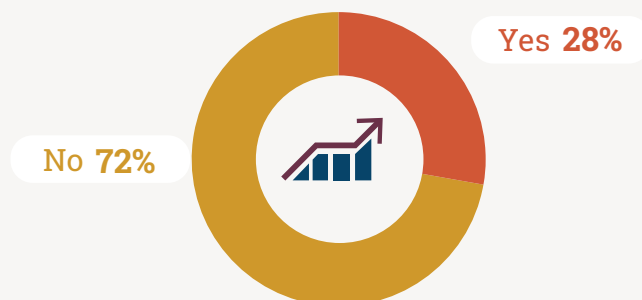
Coupled with a 15.4% increase in the number of transactions, we can infer that increases in revenue are strongly correlated to business growth, as opposed to business owners having fewer transactions with higher prices.

With strong revenue and profit growth and predictions, SMBs are expected to continue this trend, reporting strong business growth throughout the second half of 2015.

### Strategies for Success

One observation of particular significance is that while the data shows that merchants have increased and will continue to increase revenues and profit, it is through an increased number of sales transactions and not price increases. Sixty-two percent of SMBs have not raised prices in 2015, while 72% have no plan to increase prices for the remainder of this year.

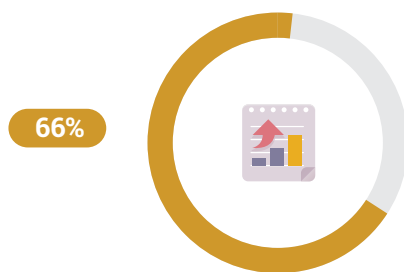
#### Do you plan to increase prices in the remainder of 2015?



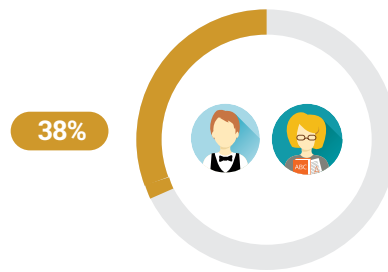
 SHOPKEEP

Instead of raising prices, SMBs remain focused on implementing sustainable approaches to growing their business; the most popular alternatives chosen are: increasing or implementing promotional marketing/advertising, expanding product line or services, hiring new employees, and expanding operations.

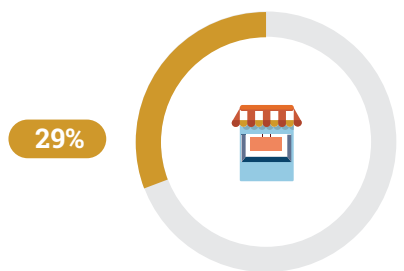
### Which of the following strategies will you use the most in the next 12 months to grow your business?



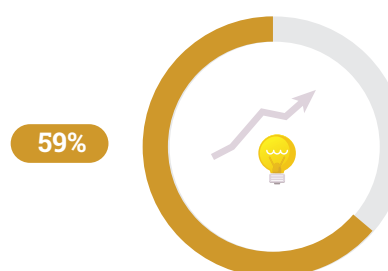
**Promotional marketing/  
new advertising**



**Hire new employees**



**Expand operations to new  
facilities/add additional stores**



**Expanding product line  
or services**

## Wages and Workforce

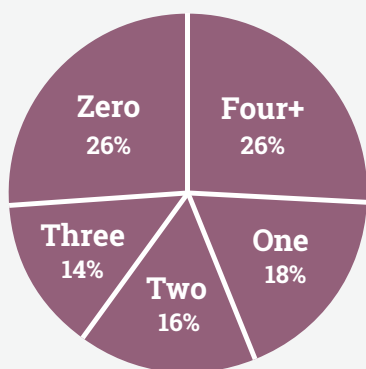
Nearly 89% of small business owners have at least one employee, and the growth of SMBs relies on adding more. This quarter the SSBI took a closer look at the factors that influence this aspect of a growing small business - its employees.

### I. Hiring Trends

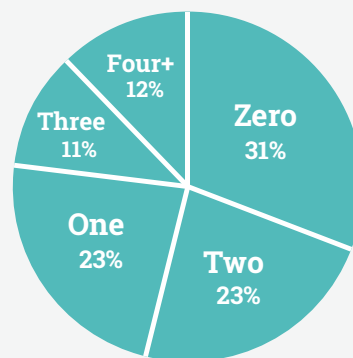
A majority of small business owners anticipate revenue to rise in the coming year, which means an increased need for employees. Sixty-nine percent of SMBs plan to increase their headcount in the coming months, with 12.5% planning to hire 4 or more new employees by the end of 2015.

Nationally, unemployment rates recently fell to 5.8%, down from 2013's 7.4%. If this trend continues, unemployment should fall an additional half a percentage point through the third quarter of 2015.

How many employees have you hired in the past 6 months?



How many employees do you plan to hire in the next 6 months?





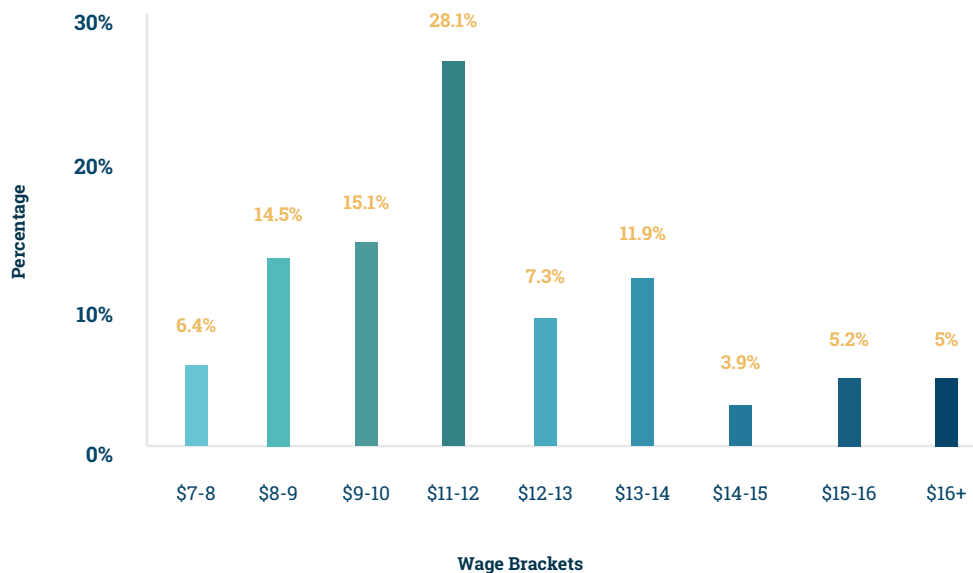
These reduced unemployment rates are overall a positive indicator for a growing economy, but it presents a tangible concern for small business owners as the availability of new staff decreases. As a result, 50% of owners have identified finding and retaining a quality workforce as a concern for their business operations.

By combining new insight gained from this survey with hiring trend comparisons from previous quarters, it is estimated that some of the decline in economic optimism may be a result of these concerns.

## II. Employee Wages

ShopKeep Merchants indicated an average wage of \$10.83, which is slightly above the \$10.29 national average, 49% above the \$7.25 U.S. minimum wage. In addition, 80% of small business owners don't feel pressured to raise employee wages in order to compete with national retail chain

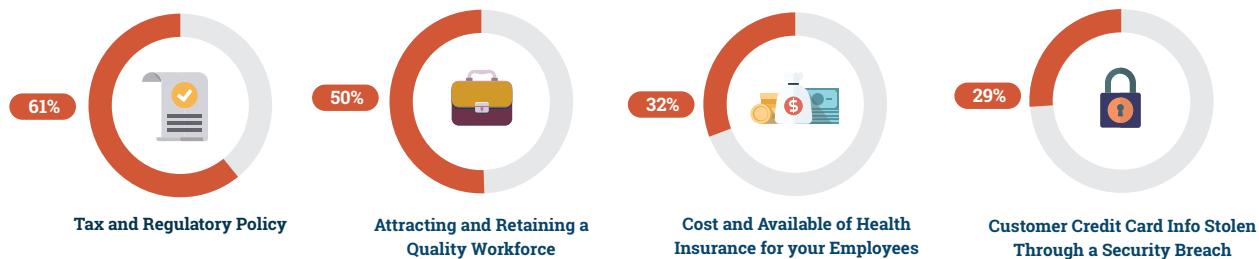
### What is the average hourly wages your employees receive?



wage policies. As cloud offerings have evolved, many small businesses are able to run smarter businesses, now having access to powerful business tools once only available to big-box retailers. This helps them remain competitive, in both hiring and business growth.

### III. Public Policy and Hiring Concerns

SMBs contribute to over half of the American economy and as such, their interests and concerns regarding public policy should be heavily weighed by governing bodies. Small businesses have indicated the below as top concerns for their business.



Our survey identified that 43% of employees are between 15-25 years old. For those SMBs who typically hire employees of this age range, the Patient Protection and Affordable Care Act (ACA) is less likely to draw concern, as this demographic has the option to remain on their parents' health-care plans until age 26. For example, only 32% of SMB owners have indicated concern with cost and availability of health insurance for their employees, and only 26% are concerned that the ACA will increase their operating expenses.

Another possible explanation for this decreased concern could be due to the fact that SMBs are hiring more part-time workers to get past the ACA requirements.

## Small Business Technology: EMV and Contactless Payments

*“ We plan on being prepared to take EMV payments by October to stay up to date with new technologies and proclaimed safer credit card practices. ”*

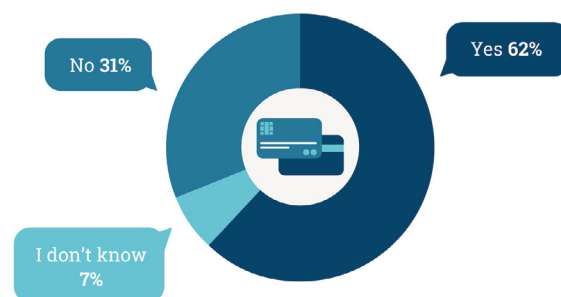
*—SK Merchant*

With the upcoming EMV deadline, business owners should make it a priority to understand the new chip and pin cards. After October 2015, all businesses that have not upgraded their payment processing equipment to be EMV chip card compliant will be paying 100% of any fraudulent credit card transactions - a liability that could put a small business owner's livelihood at risk.

Our survey indicated that currently 62% of small businesses are prepared to accept EMV chip cards in advance of the October 1 fraud liability deadline - a strong improvement from previous quarters. When asked why they will be ready, small business owners provided valuable insight, such as improved security, future-proofing their businesses, and already fully prepared with necessary hardware through ShopKeep and other providers. Sample responses include:

*“We received the [EMV] reader and want to give our customers the best possible experience in our store.”*

**Will your business be prepared to accept EMV chip cards in advance of the October 1, 2015 fraud liability deadline mandated by credit card companies?**



**SHOPKEEP**

*“It is imperative to keep up with new technology! Initially, what appears costly and a hassle is cheaper, easier and faster in the end!”*

While it's reassuring to see the majority of small business owners preparing for EMV, 31% are unsure or don't know enough about EMV to be ready:

*"Not educated on the necessary changes yet and what steps need to be taken to proceed."*

The remaining 7% of merchants who won't be prepared cited various situational issues, including business size, and waiting for technology improvements:

*"Since the Liability Act is not a hard and fast deadline, we will allow time for the EMV technology to become more efficient than where it currently stands. Liability is not a large concern for our cafes, in the terms set by the Act, and we are more focused on creating a structured and efficient experience for our customers."*

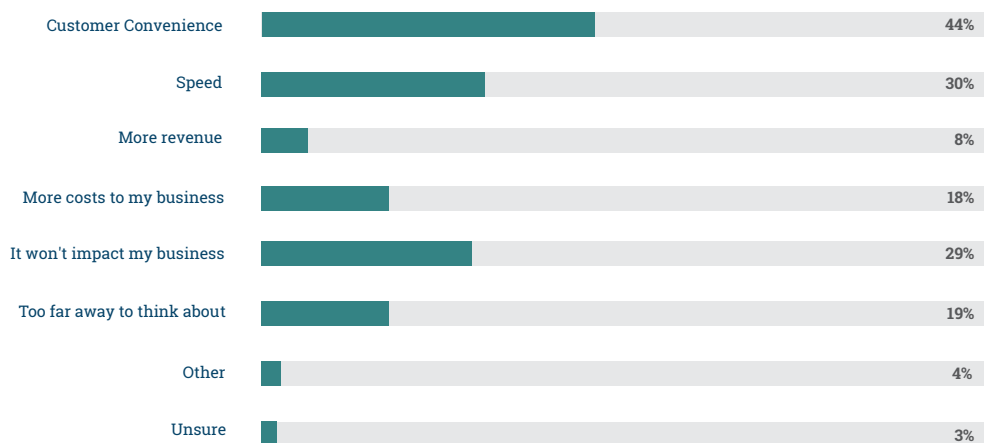
The EMV transition also serves as a catalyst for merchants to upgrade their business technology to accept new and upcoming payment types, including contactless payments such as Apple Pay. Each quarter we monitor adoption trends of contactless payments, and this quarter, an impressive 82% of merchants agree that contactless payments will boost business, stating reasons such as increased customer convenience, speed, and revenue.

*"[We are a] small business, I know most of my customers, not too concerned about fraud."*



**If you remember one thing, remember this: Any merchant who does not accept EMV cards by October 2015 may be held liable for any losses resulting from fraud.**

## How do you think contactless payments, such as Apple Pay or Google Wallet, will impact your business?



EMV and contactless payments are both still in their infancy, but as with most technology, it is expected to reach a point of exponential adoption in the coming years. As evidenced above, many small businesses have already jumped on board or are preparing to do so, but there are still many who have yet to make this transition.