



ShopKeep Small Business Index

Q3 2015

Letter from Norm Merritt

President & CEO



We are pleased to share our Q3 2015 ShopKeep Small Business Index, a quarterly report that provides valuable insight into the prevailing opinions, hopes and concerns of independent business owners. The findings in this index cover a variety of areas that affect our customers, including small business confidence, the holiday season, general business health, technology and data security, and marketing.

The holiday season marks one of the busiest times of the year for business owners. Seventy-six percent of merchants reported that they feel optimistic about the upcoming holiday sales, with 56% anticipating better sales than previous years. As we continue into the second half of 2015, we took a deeper look into what strategies and opportunities merchants are attributing this optimism towards, and also identified concerns that may impede their success for a stellar holiday season.

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The EMV deadline has been looming over the heads of independent merchants for months now, but despite the EMV liability shift date having already passed, this year's index indicated that 40% of merchants are still not prepared to accept chip cards. Additionally, more than 25% of merchants surveyed responded that they are unsure if they will be EMV-compliant or they will definitely not be before the end of the year. This suggested that many merchants may be taking a wait-and-see approach on EMV or may feel that the increased risk of fraud will be acceptable in the short-term.



METHODOLOGY

Results for the total data set of the ShopKeep Small Business Index are based on ShopKeep Merchants' email surveys of 879 Merchants based in the United States, conducted during the period of September 16-29. 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.

Holiday Season

Merchants are in better spirits this year, with 76% expressing optimism towards the upcoming 2015 holiday season, up from 68% from Q3 last year. Seventy-three percent of businesses owners expect seasonal sales to be better than or the same as last year, and 19% of respondents who have never before had their doors open during a holiday season are preparing for their first holiday season.

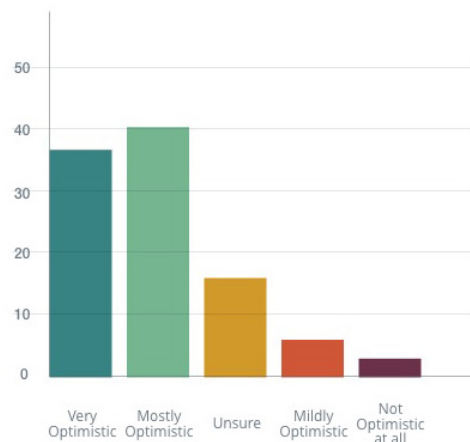
GEARING UP FOR THE SEASON

Merchants opt for working longer hours over hiring seasonal help

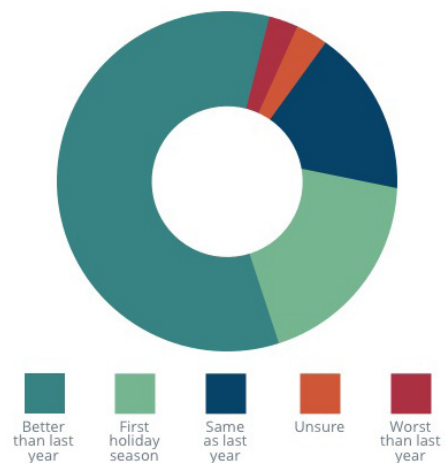
The holiday season can be both exciting and stressful for customers and merchants alike. During the holidays, most big box retailers hire seasonal help, and increase store hours which, while often costly, are primary tools for supporting the increase in holiday business. Interestingly, a majority of SMBs surveyed don't use either of these strategies during the holidays with only 27% hiring seasonal employees.

Black Friday continues to be one of the most popular days for shopping, with 71% of merchants planning to be open for this traditionally big-box retail holiday. Christmas Eve comes in second, with 56% of merchants who intend to be open. A majority of SMB's will keep their stores closed throughout Thanksgiving and Christmas Day - traditionally less commercial holidays.

How optimistic are you about upcoming 2015 holiday sales?

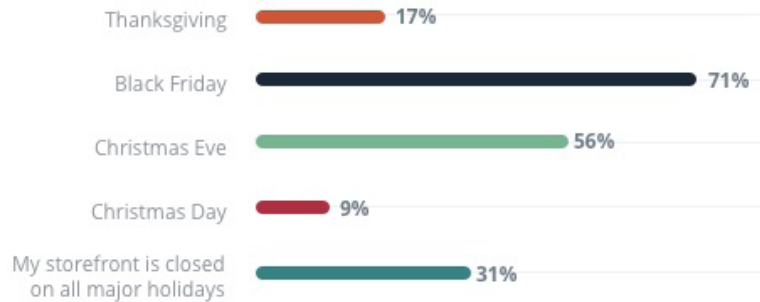


What are your sales expectations for the upcoming holiday season?

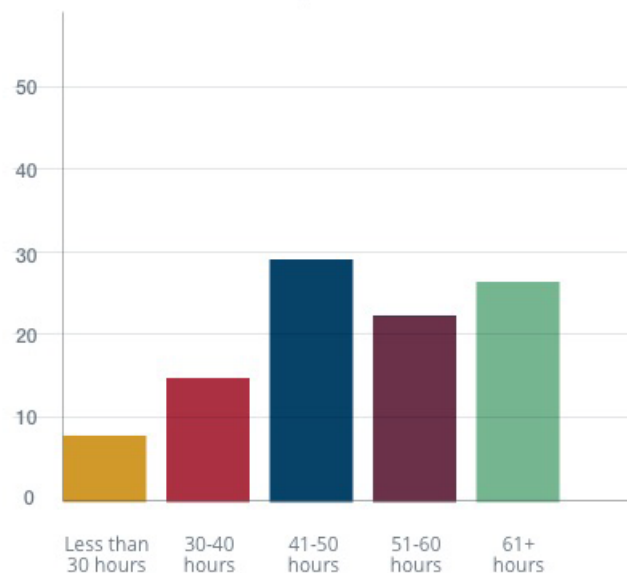


Business owners are no strangers to hard work; over 75% of merchants expect to work well over the standard 40 hours a week, with nearly 50% planning to work over 50 hours each week. Running and maintaining a small business during the holiday season is challenging, and merchants are rising up to the opportunity to work hard to be successful this holiday season.

Which holidays do you plan to be open on?



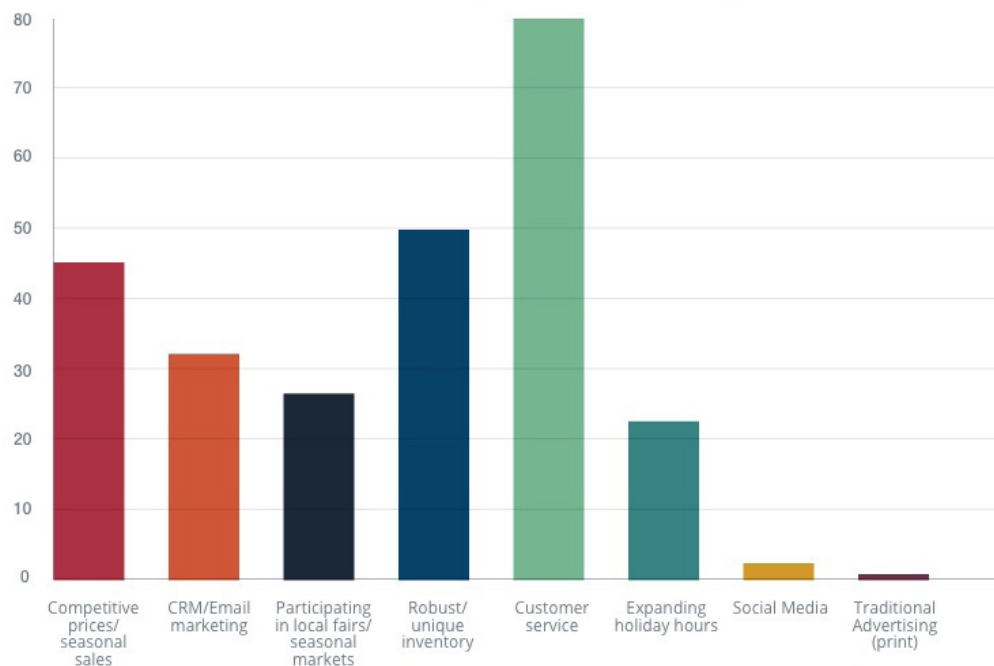
Approximately how many hours a week do you expect to work during the holiday season?



STRATEGIES FOR SUCCESS

The holiday season is not only one of the busiest times of year for merchants, it is also one of the most competitive. With so many options of where to shop these days, it's imperative that merchants focus on using the best strategies to attract customers and get ahead. Eighty percent of SMBs identified their customer service as one of their top strategies for attracting customers throughout the holidays. Unlike big box retailers, small businesses have the ability to foster strong relationships with their customers and are empowered with the flexibility to go above and beyond to deliver five-star service.

What strategies do you use to attract customers to your business throughout the holidays?



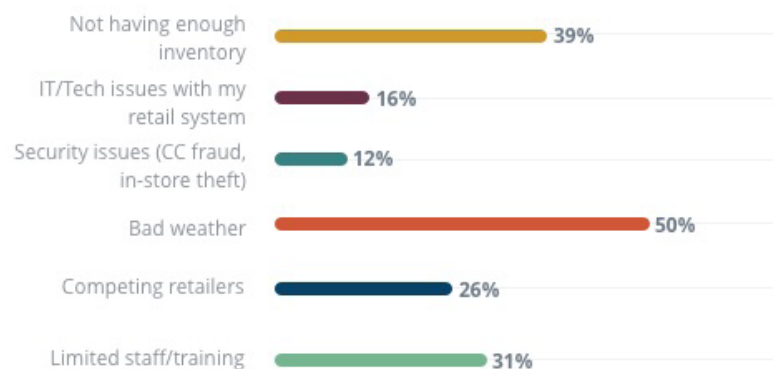
Nearly half of respondents reported that their robust or unique inventory is what they use to set themselves apart from competition, and 45% implement competitive prices and/or seasonal sales to draw in more customers.

CHALLENGES AND THE COMPETITION

While the busy holiday season has the potential to be a merchant's most profitable time of year, it does not come without its challenges and concerns. The biggest concern for merchants this season is bad weather, with 50% stating that as their number one concern. Many of these merchants depend largely on their brick and mortar location(s) and the nasty winter weather that prevents customers from traveling to these locations is a reality to losing customers who opt for online shopping. Aside from weather woes, 39% of merchants are worried about running out of inventory with the increased seasonal demand looming. As mentioned earlier, for 19% of respondents who reported the upcoming holiday season as their first yet, it will be a challenge to correctly forecast their likely increase in inventory.

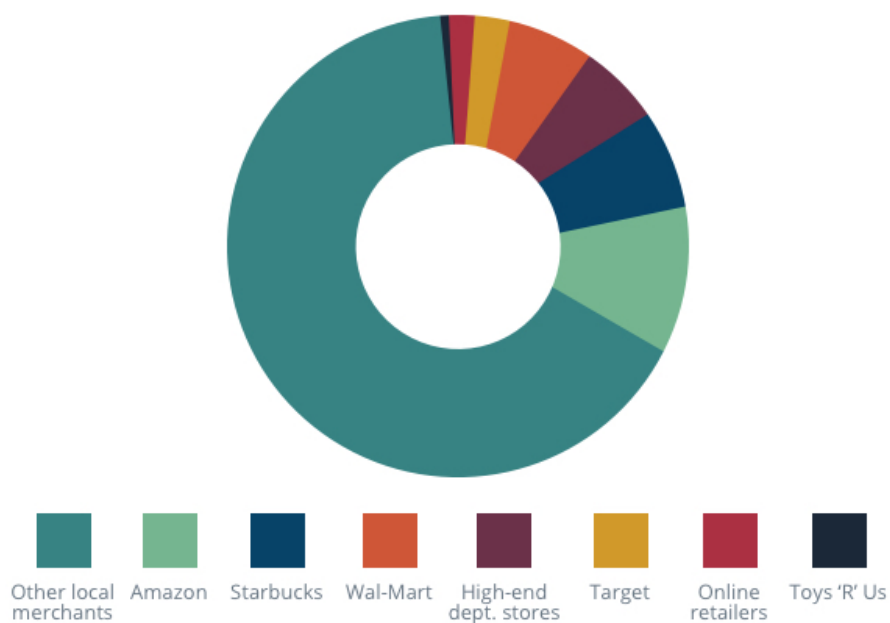


What are your biggest concerns for running your business during the holiday season?



With a seemingly endless supply of places for consumers to do their holiday shopping, who do SMBs consider their biggest competition - big box retailers, online, or other local merchants? Surprisingly, the results of our index show that an overwhelming 71% of local, independent businesses consider other local businesses as their biggest competitors during the holidays, while about 20% view their competitors to be large chain stores and franchises such as Wal-Mart, Target, and Starbucks. Lastly, 13% of merchants see Amazon, the leading online marketplace, which is also better equipped to handle bad winter weather, as their biggest competitor.

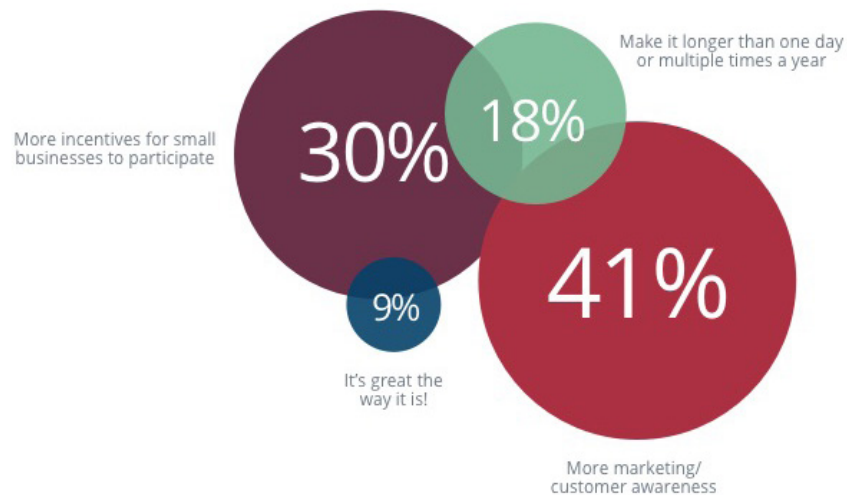
Which retailers do you consider your biggest competitors during the holiday season?



Small Business Saturday

Small Business Saturday is the American shopping holiday held on the Saturday after Thanksgiving, when the holiday season really gets into full-swing. Now in its fifth year, it is a counterpart to Black Friday and Cyber Monday, which feature big box retail and e-commerce stores, respectively. This year, 81% of merchants responded that they are planning on participating. Small Business Saturday has been gaining traction each year, and encourages more shoppers to support local small businesses for holiday shopping.

What would make Small Business Saturday more valuable to your business?



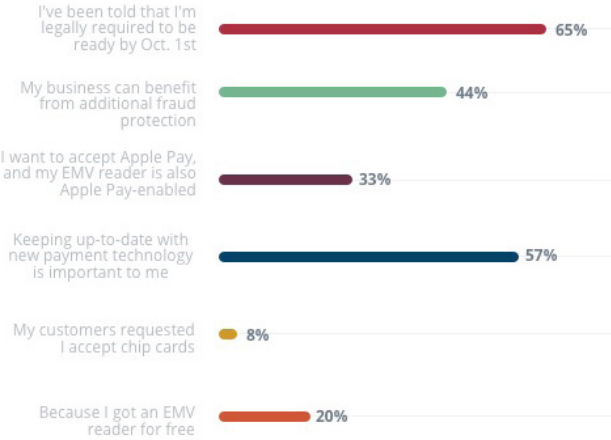
However, since this is still a relatively new holiday shopping day, there is plenty of room for improvement: Forty one percent of merchants argue Small Business Saturday would be more valuable to their businesses if there was more customer awareness around the day itself (i.e., marketing, and promotions), and 30% would like to see more incentives for SMBs to actually participate in order to help perpetuate Small Business Saturday. Another 18% would like to see more than just one day a year devoted to shopping at small and local businesses to help drive more awareness.

EMV Deadline

The EMV deadline has finally arrived, and only 61% of respondents indicated that they would be ready for the deadline. Nearly 40% who said they would not be ready by October 1st, 73% do plan to be EMV-compliant by the end of 2015, and 24% are undecided. Only 3% of merchants have no intention to be compliant by the end of 2015, so we expect small businesses to accelerate their EMV adoption plans throughout the rest of Q4 this year.

More than 65% of merchants surveyed indicated that they plan to be EMV-compliant because they believe it to be a legal requirement. Unfortunately this is a popular, but completely untrue myth. EMV compliance is not a legal requirement and curious merchants can learn more about EMV by reading ShopKeep's [EMV FAQ](#). Fortunately, many merchants have also chosen several other valid reasons to be EMV-compliant; 57% want to stay up-to-date with payment technology and 44% believe their business can benefit from additional fraud protection. There is also an increase in small business owners who are seeing the mobile payments trend and want to be prepared for and take advantage of this new payment option, with 33% planning to make the switch in order to be able to accept mobile payments such as Apple Pay.

Why do you plan to be EMV-compliant?



Do you plan to be EMV-compliant by the end of 2015?

