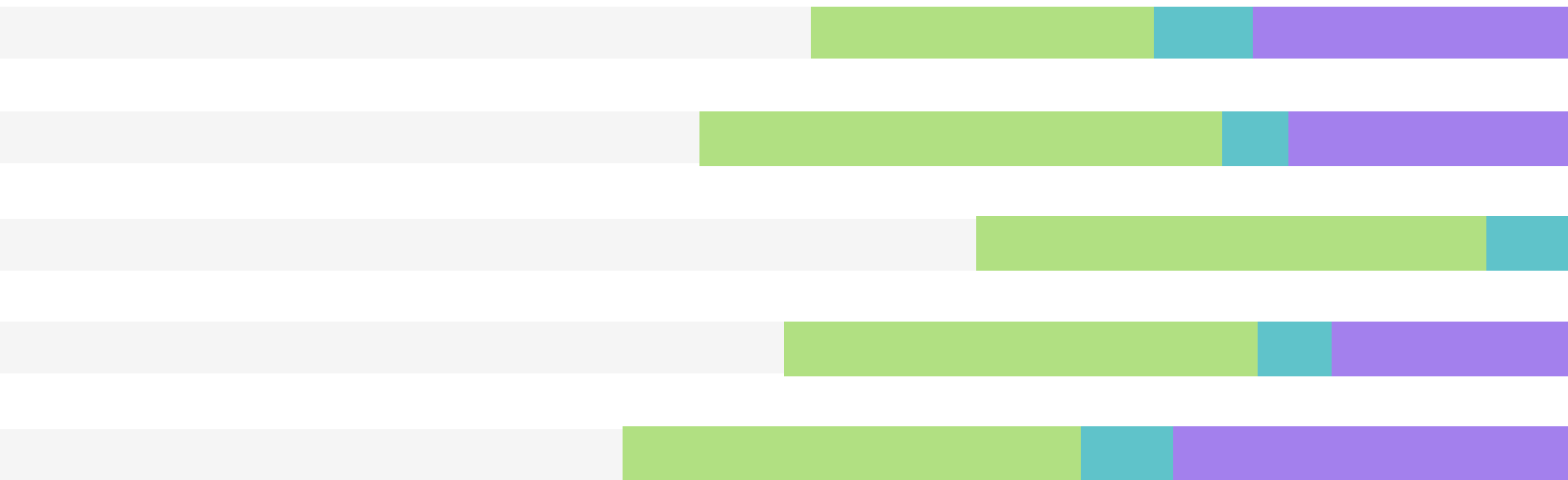


Navigating a Potential Recession: SMB Performance by Industry



Navigating a Potential Recession: SMB Performance by Industry

Introduction

The current economic climate is one dominated by uncertainty, especially for small and medium businesses (SMBs). PYMNTS' [Main Street Report](#) found that 65% of SMBs believe a recession will begin within the next 12 months.

However, the same report found that within the SMB economy, different sectors diverge in terms of their optimism, financing needs, and the financial health of their operations. For example, businesses in the food, entertainment, and hospitality industries were more likely to have a positive outlook about revenue growth over the next year.

Enigma's report dives deep into how some of these distinct segments of SMBs are faring. We analyzed the card revenues of millions of businesses across the retail, hospitality, and personal and consumer services sectors. Based on this analysis, we discuss:

The number of active businesses in the retail, hospitality, and consumer services sectors

Which sub-industries within these segments are growing

Average transaction size and revenue growth across these industries

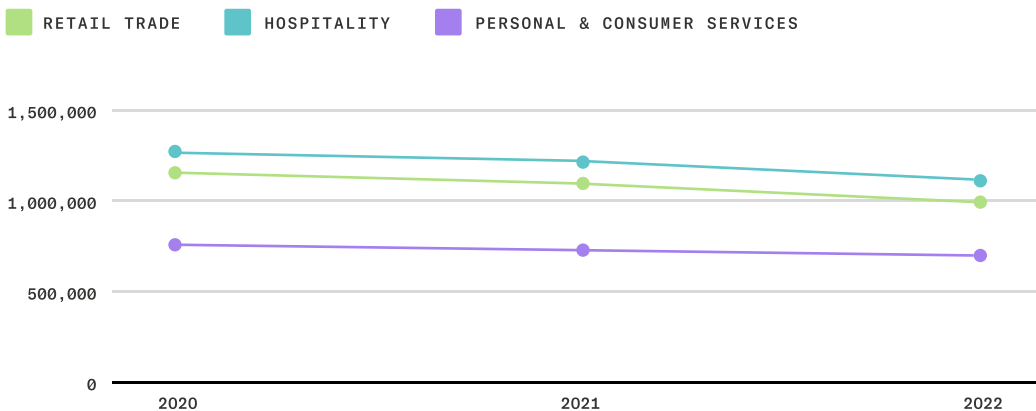
This report demonstrates that there are key differences in performance across SMB sectors. For banks, lenders, merchant service providers, and others serving the SMB economy, being able to identify which business segments are struggling vs. thriving will be crucial in the coming months. Our analysis found:

- The economy as a whole continues to grow, which is a boon to payment processors.
- Nominal growth varies by industry. Hospitality and Personal & Consumer Services saw the strongest nominal growth.

The Findings

Across all three industries, there was a slight decline in active businesses accepting card payments from 2020 to 2022.

Number of Active Businesses By Industry

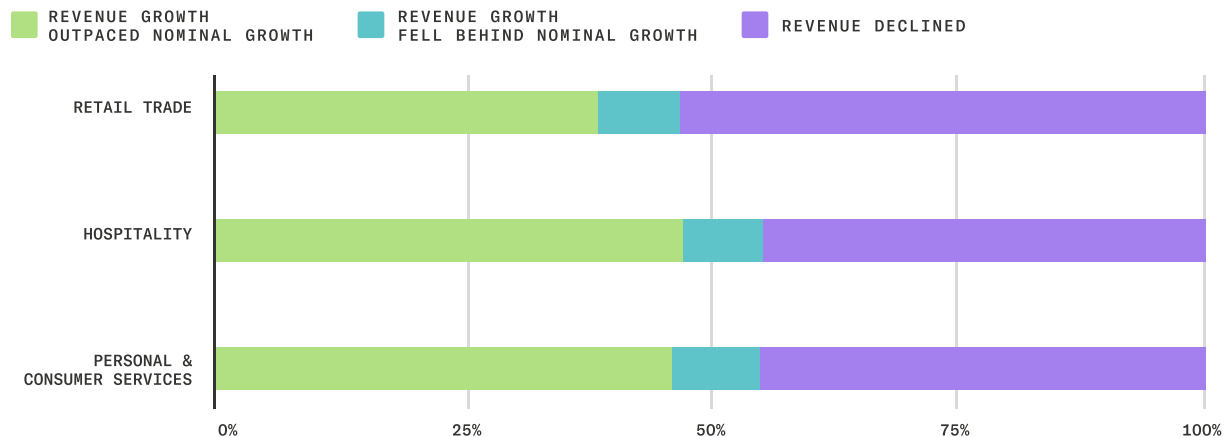


The decline was steepest in the retail trade industry (NAICS codes 44-45), which saw a 12.7% decrease in active businesses from 2020 to 2022. Even within a single industry, however, there were differences in the sub-industries at the 4-6 digit NAICS code level. For example, the number of active clothing stores (NAICS code 4481) only declined by 3.5% from 2020 to 2022.

Over 2022, inflation and nominal GDP both rose substantially. In all three industries, many businesses did not have revenue growth that kept pace with nominal GDP growth. Of the industries we analyzed, Personal and Consumer Services fared the best, with more than a quarter of all businesses seeing revenue growth that outpaced nominal growth.

Around half of all Retail Trade businesses in our report failed to keep pace with nominal growth. A minority of businesses in each industry saw revenue growth decline (e.g. revenue growth was less than 0).

Share of Businesses with Positive Revenue Growth, By Industry



When looking at average ticket size (the average amount of transactions made at a business), the sharpest increase was in Hospitality businesses, where the average ticket size grew 9.4% year-over-year from \$71.69 in 2021 to \$78.45 in 2022.

The average ticket size for the Retail Trade industry grew 7.3% and average ticket size for the Personal and Consumer Services businesses grew 6.8%.

For comparison, during the same period inflation grew around 8% and GDP grew around 7.4%.

INDUSTRY	AVERAGE TICKET SIZE (2021)	AVERAGE TICKET SIZE (2022)	YOY CHANGE
Retail Trade	\$266.90	\$286.38	7.30%
Hospitality	\$71.69	\$78.45	9.43%
Personal and Consumer Services	\$248.79	\$265.63	6.77%

Spotlight: Retail Trade

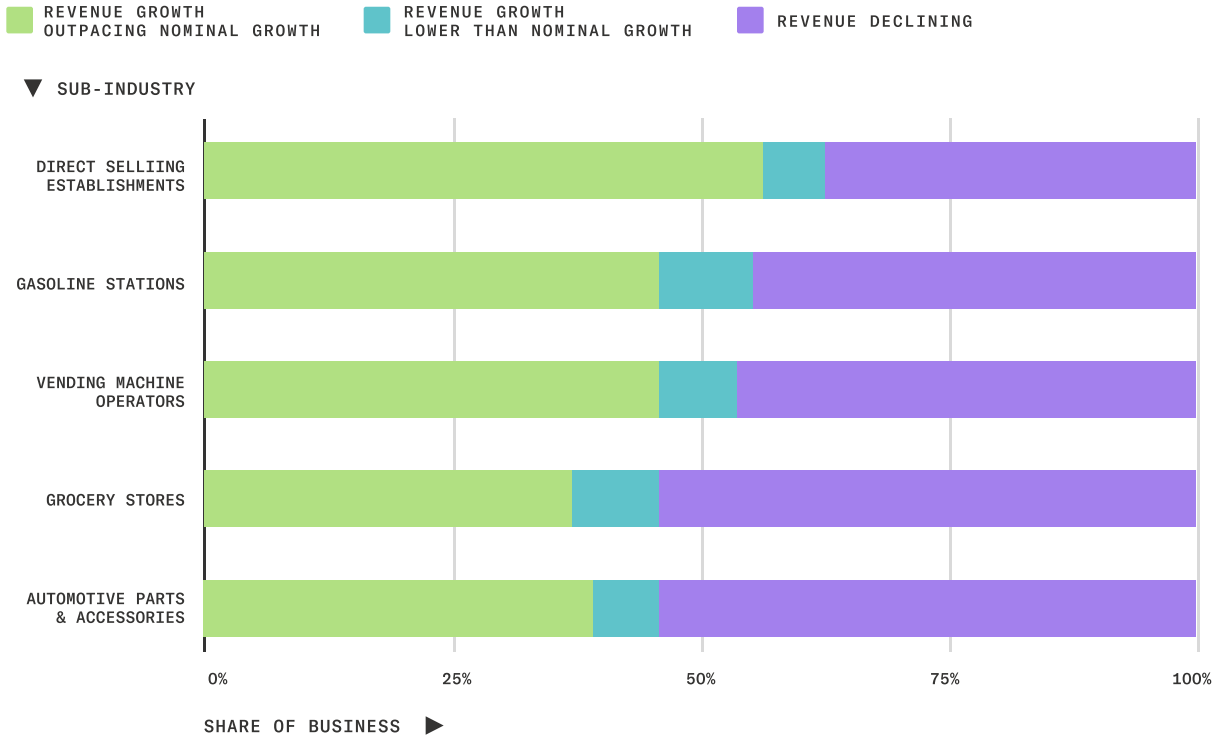
In retail trade, the top five sub-industries (by number of active businesses, or businesses that had at least one card transaction in the last 12 months) were Clothing Stores, Grocery Stores, Miscellaneous Store Retailers, Health & Personal Care Stores, and Automobile Dealers (table below).

5 Largest Retail Trade Sub-Industries

SUB-INDUSTRY	NAICS CODE	NUMBER OF ACTIVE BUSINESSES
Clothing Stores	4481	63,736
Grocery Stores	4451	60,874
Other Miscellaneous Store Retailers	4539	50,611
Health and Personal Care Stores	4461	45,649
Automobile Dealers	4411	39,264

We also analyzed the top five sub-industries by performance, as measured by card revenue growth of businesses in each sub-industry. When we looked at the top five sub-industries by revenue growth, different segments rose to the top.

5 Highest Growth Retail Trade Sub-Industries



Direct Selling Establishments were the best-performing, with more than 50% of businesses seeing revenue growth that outpaced nominal growth. In all of the sub-industries except Direct Selling Establishments, a minority of businesses saw card revenue growth keep up with nominal growth.

Gasoline Stations, Vending Machine Operators, Grocery Stores, and Automotive Parts & Accessories were the other Retail Trade segments with the most businesses seeing revenue growth.

While it was surprising to see such a high share of gasoline stations with declining card revenues, this may be explained by the decline of gas prices in 2022. Similarly, the high proportion of grocery stores with declining card revenues could be related to consumer shifting food spend to restaurants or a general consumer shift to purchasing groceries at non-grocers such as Wal-Mart, Amazon, and Costco.

Spotlight: Hospitality

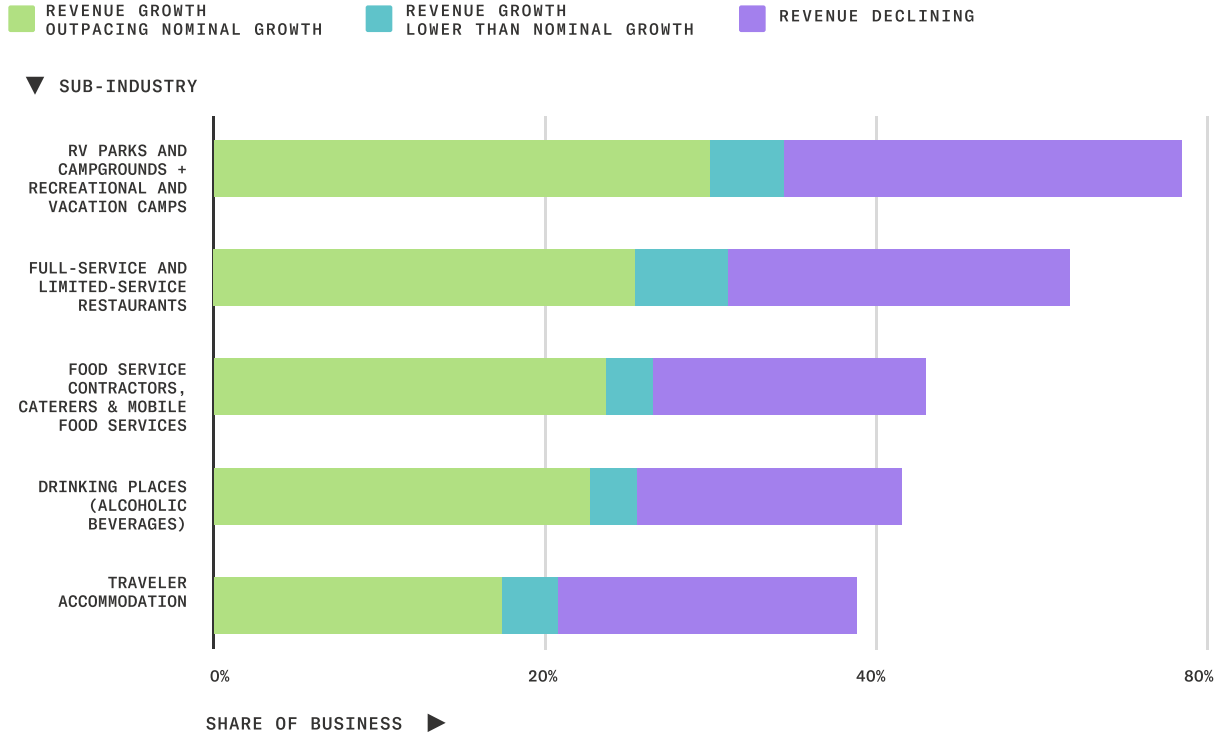
In Hospitality, the top five sub-industries (by number of active businesses, or businesses that had at least one card transaction in the last 12 months) were Restaurants, Traveler Accommodation, Drinking Places, RV Parks and Campgrounds, and Food Service Contractors & Caterers.

5 Largest Hospitality Sub-Industries

SUB-INDUSTRY	NAICS CODE	NUMBER OF ACTIVE BUSINESSES
Full-Service and Limited-Service Restaurants	7,225	439,990
Traveler Accommodation	7,211	33,667
Drinking Places (Alcoholic Beverages)	7,224	5,463
RV Parks and Campgrounds + Recreational and Vacation Camps	7,212	4,708
Food Service Contractors, Caterers & Mobile Food Services	7,223	1,636

When we analyzed the top five Hospitality sub-industries by performance, we see the same five segments in a slightly different order. Of the three industries we analyzed, this industry had the most overlap between the largest segments by number and the healthiest segments. We see that following the pandemic, the RV and outdoor recreation sub-industry continues to see solid growth.

5 Highest Growth Hospitality Sub-Industries



Spotlight: Personal & Consumer Services

In Personal & Consumer Services, the top five sub-industries (by number of active businesses, or businesses that had at least one card transaction in the last 12 months) were Barber Shops & Beauty Salons, Auto Repair, Religion Organizations, Laundromats & Dry Cleaners, and Other Personal Services.

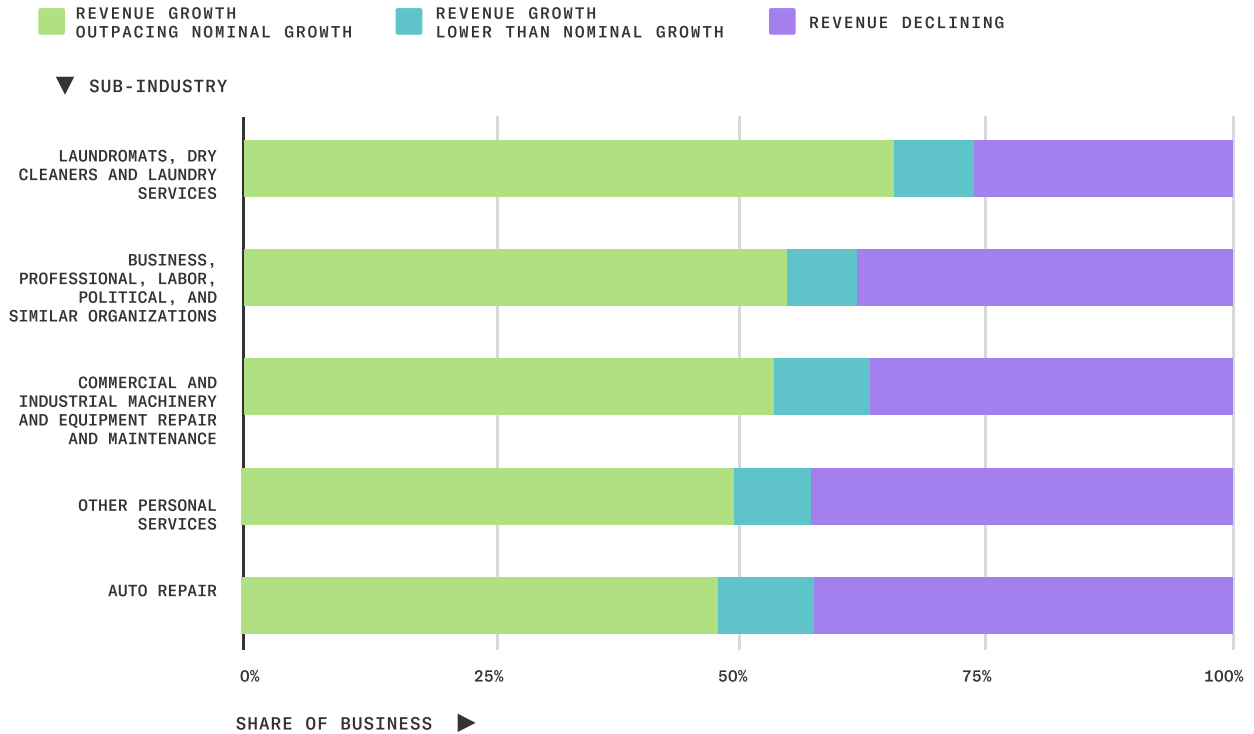
5 Largest Personal & Consumer Services Sub-Industries

SUB-INDUSTRY	NAICS CODE	NUMBER OF ACTIVE BUSINESSES
Barber Shops, Beauty Salons, Weight Loss Centers and Other Personal Care Services	8121	288,076
Auto Repair	8111	148,820
Religious Organizations	8131	50,478
Laundromats, Dry Cleaners, and Laundry Services	8123	21,737
Other Personal Services	8129	16,747

The Auto Repair, Laundromats & Dry Cleaners, and “Other” segments all appear in both the top five by number of businesses and the top five by revenue growth. The “Other Personal Services” category (NAICS code 8129) includes a range of miscellaneous personal services businesses such as parking garages and photo printing services.

Laundromats and dry cleaners had the most businesses with revenue growth outpacing nominal growth (65.8%). This marks the continued recovery of a segment hit especially hard by the Covid-19 pandemic. Repair and maintenance categories also make a strong showing in terms of revenue growth.

5 Highest Growth Personal & Consumer Services Sub-Industries



Conclusion

Our analysis demonstrates that while all SMBs are facing uncertainty, there are distinct differences in the revenues and revenue growth of different segments, even within the same industry.

For lenders, merchant services providers, and others providing services to SMBs, it will be increasingly important to have timely, accurate visibility into business financial health. Only then, can they make informed decisions about a small business’s needs and risk profile.

Data about real revenues from card transactions at businesses can play a key role in providing that visibility. Get in touch to learn more about Enigma’s data and how it’s helping companies find, underwrite, and grow their small business customers.

Get In Touch

Want to learn more about Enigma’s data about small business identity and financial health? Reach out to us at contact@enigma.com or [request a demo](#).

For media inquiries email press@enigma.com.

Methodology

The findings come from Enigma's database covering current and historical card revenues at more than 16 million businesses across the United States.

We analyzed more than 3.2 million businesses in the retail trade, hospitality and personal and consumer services industries. We defined these industries by the following NAICS codes:

- Retail Trade (44-45)
- Hospitality (72)
- Personal & Consumer Services (81)

We looked at annual card revenues from 2020 - 2022 at businesses matching these NAICS codes. When measuring revenue growth, we calculated 12-month (annual) growth year-over-year from December 2021 to December 2022. We compared raw revenue growth with the nominal GDP growth rate for the same period (7.4%).

We defined "active businesses" as businesses that had received at least one card transaction in the previous 12 months.

When analyzing sub-industries within each-segment, we examined businesses that matched 4-digit NAICS codes within each segment.