



## Higher Labor Costs Loom as 2022 Challenge for Main Street SMBs

By PYMNTS

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Inflation is everywhere.

For smaller businesses, the ones that make up the backbone of the U.S. economy, the balancing act of managing increased costs and operational efficiency is getting harder.

Modernizing a range of business processes can help.

As for the rising costs: The tight labor market is spurring firms to boost salaries and wages they pay workers, and indeed to keep them in place or attract them. The Labor Department's latest reading of the U.S. employment cost index shows that a seasonally adjusted measure was up 1% in the fourth quarter, as measured sequentially. The pace, as measured year over year, stands at 4%, the most marked acceleration over the two decades that the Labor Department has been tabulating the employment cost index.

It follows that as firms grapple with higher labor costs, they can raise prices on the goods and services they sell — up to a point, of course. It must be noted that wages are not rising as fast as overall inflation, where, depending on where you look, consumer prices are gaining in the mid to high single digit percentage points. For example, the consumer price index was up 7% in December, as measured from a year ago. For now, then, there are still margins to be squeezed from the fact that input costs are lagging behind the ability to increase prices.

But in the latest Main Street Index, we found that inflation has some place among firms' key concerns for the year that has just dawned.

### Employee Costs Top of Mind

Among the 765 U.S. business owners surveyed, approximately two-thirds of Main Street business owners expect solid sales growth in 2022.

But costs associated with employees (read: wages and related expenses) are a concern for about 29% of companies that glean a majority of sales online, and are a concern for almost a third of firms that have split their sales between online/offline channels. This comes even as 41% of respondents said they'd planned to raise wages.

A quarter of respondents said that had increased their prices in the past three months, which implies there's some wiggle room here for more firms to do so.

But we note, too, that reducing costs in the back office (or in the shop, or in the aisles) and the employee hours (they get paid for those hours, after all) spent on manual tasks can improve efficiency, and thus margins, in a way that can offset the higher costs.

As many as 29% of companies will look to invest in automation/robotization to streamline manual tasks and make them more efficient. Digitizing B2B payments, which improves cash flow up and down supply chains (and Main Street, too), plays a role in operational efficiency. **As noted in a separate PYMNTS study**, 76% of small- to medium-sized businesses (SMBs) say the pandemic has prompted them to enhance their digital payments capabilities.