

A photograph of a man and a woman in a shop or cafe setting. The man, on the left, has a beard and is wearing a light-colored button-down shirt over a dark t-shirt. He is looking towards the right. The woman, on the right, is wearing a red apron over a striped shirt and is smiling while looking at a laptop. She has her hand on the man's shoulder. In the background, there are shelves with various bottles and potted plants. A large teal graphic element is overlaid on the bottom left and top right of the image.

December 2023

The State of the Service Economy

A look at the post-pandemic health outlook and
consumer demand trends for North American
Service-Based Small Businesses

Evercommerce®

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Service-Based Small Businesses Are Resilient

Intro

Service businesses – companies that provide skilled labor or expertise as opposed to more tangible products – represent a massive number of businesses and jobs in the North American labor force and generate billions in revenue each year. In the U.S. alone, service businesses represent 77% of GDP, almost half of which is represented by small and medium-sized businesses (SMBs), and employ 50M people.¹ Businesses in the services sector also face unique challenges today, especially when it comes to shifting consumer expectations around technology and cost.

Despite the importance of businesses providing services, relatively little research has been done to study the current state of the service industry, including how businesses within this sector are faring as the world recovers from a global pandemic and where these merchants may be struggling to fulfill the needs of their businesses. To better understand this group – as well as where the services industry as a whole is trending – we surveyed some of the largest sub-sectors within the broader services industry within the United States and Canada, with a focus on healthcare, home improvement, professional services, financial services, field services, and other personal services.

This report relays the story of today's constantly shifting and evolving services industry across North America.

1. World Bank, *Small Business Administration and Management estimates*. North America consists of U.S. and Canada. SMBs include all firms with <500 employees.

Current Business Outlook of Services Merchants

We gained insight into the inner-workings of service merchants by asking them to evaluate what has changed in the last year.

Pandemic Recovery

A majority of services merchants had moderately to largely recovered from disrupted consumer spending and labor markets as evidenced by increases in demand for services, service pricing increases, and planned staffing growth.

Current Outlook

Over the past year, only 32% of merchants had to tighten inventory control and 30% had to operate with fewer employees, yet these numbers are higher for larger merchants.

Larger merchants also invested more heavily into technology that automates their business functions.

Field services merchants reported especially strong growth compared to last year, with 83% of field services merchants noting demand for their services had increased compared to an average increase of 61% across service business verticals.

Invoices are a big part of payments for many service industry merchants. How are invoices sent and paid for?

Payments

According to survey results, checks, ACH/EFT transfers, and credit/debit cards are most utilized by clients in the service industry. Cash is relatively more popular among smaller merchants, while financing options, digital wallets, and HSAs are more common among larger merchants.

Invoicing

While about half (53%) of merchants utilize some kind of POS system and about half (47%) benefit from online commerce, the majority of service merchants (66%) collect payment via invoicing.

Merchants in service verticals relied on invoicing processes to retrieve and track payment for their services. Invoices were primarily sent via embedded finance technology, which allows end users to easily navigate payment and store financial information like preferred methods of payment.

Merchants identified significant challenges around facilitating timely and full payments, citing economic pressures and inflation, illustrating a high demand for features such as embedded invoices as well as detailed and comprehensive invoice tracking software.

Current Business Outlook of Services Merchants

What kinds of business management tools are services merchants using?

Software and Business Management Tools Used

Most merchants were satisfied with their current business software and its level of customization. Survey results indicate that some merchants feel limited in their ability to find new business tools.

Merchants had the most interest in software capabilities that fall into the following areas of business management:

- **Operations Management:** Accounting and appointment scheduling
- **Analytics & Reporting:** Customer and historical sales analytics
- **Marketing & Loyalty:** Email and social media marketing
- **Employee Management:** Payroll, employee scheduling, and time clock management

Integrations

Few merchants had payments fully integrated into their software (26%). Over half were looking to increase their level of integration (57%).

How can payments be improved for services merchants?

Payment Improvements

Service merchants we surveyed selected options from a list of possible improvements, then ranked them by which improvements would have the greatest impact on their business.

As a whole, merchants felt that seamless integration of payments into their existing business management software would help them the most.

Achieving faster processing times was ranked a close second – often-delayed payments mean cash flow is a real issue for these merchants.

Facing higher-than-ever costs because of inflation and economic uncertainty, merchants ranked being able to surcharge to recoup credit card processing fees the third most-helpful improvement that could be made to their payment processing mechanics.

Current Business Outlook of Services Merchants

What's Next for the Services Industry?

Future Outlook

Demand for digital wallets and contactless payment options grew above and beyond demand for Buy Now, Pay Later (BNPL) and QR code based payment options – these payment methods will likely be more popular as payment trends in the services industry continue to evolve.

As service merchants looked ahead to the next year, they were most likely to consider increasing staff, exploring new business software, seeking additional capital, identifying new supply chain options, and developing a website. Very few planned to lay off staff or close their doors, indicating a strong future for the services industry.

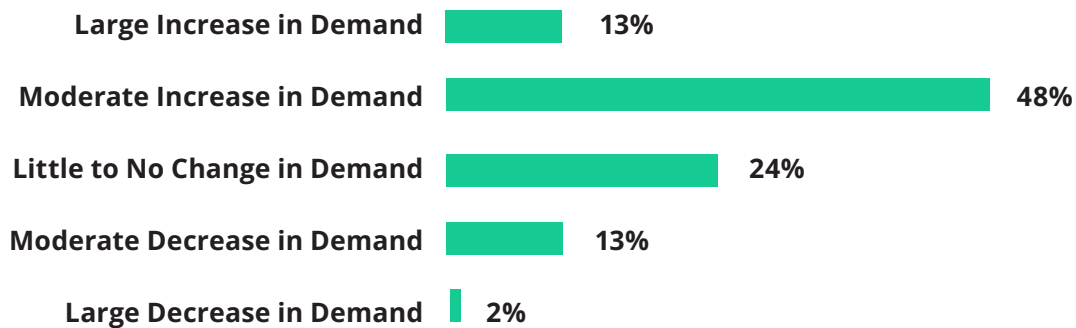
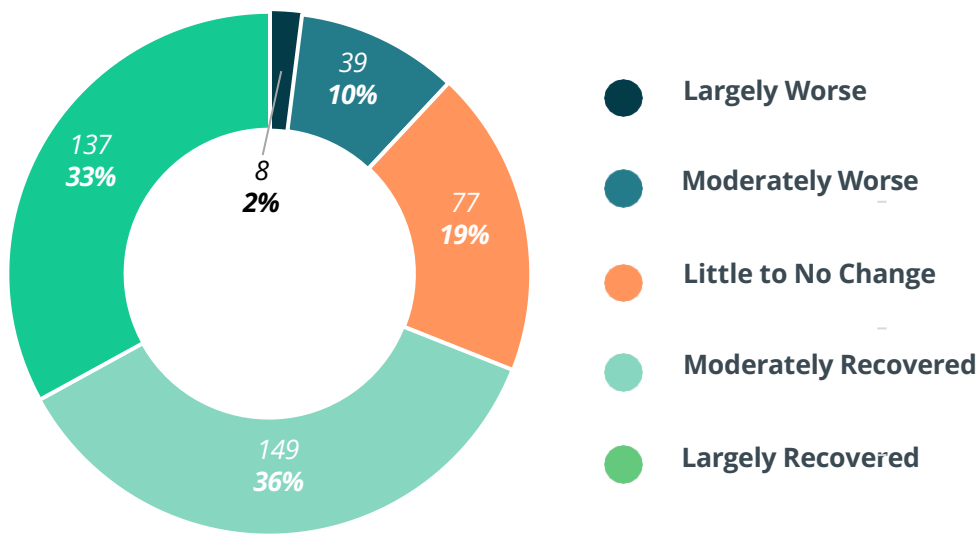
Merchants making over \$500,000 were more likely than their smaller counterparts to plan to hire more staff, explore new business software, and identify new supply chain options, while the smallest merchants were more likely to continue operating with the same staff, software, and supply chain processes. Merchants within this 'medium' tier of annual revenue may experience more targeted expansion than smaller merchants at this time.

Data and Insights

How has your business recovered from the COVID-19 pandemic?
Compared to last year, how has demand for your business's services changed?

69% of merchants reported moderate to healthy recoveries from COVID-related anomalies, while **31%** reported either no change or worsening conditions.

The same pattern can be seen in terms of demand for services – a majority of merchants experienced an annual increase in demand.



Data and Insights

Compared to last year, how has demand for your business's services changed?

Field services merchants reported the largest increase in demand from last year at **83%**, with merchants offering home improvement services also reporting growth above average (**68%**).

	Average	Field Service	Home Improvement	Healthcare
Increase in Demand	61%	83%	68%	55%
No Change in Demand	24%	8%	20%	32%
Decrease in Demand	15%	8%	13%	13%

Data and Insights

Have you adopted any new technologies over the past year to automate more of your business functions?

Almost half of merchants invested in **new automation** in the past year.

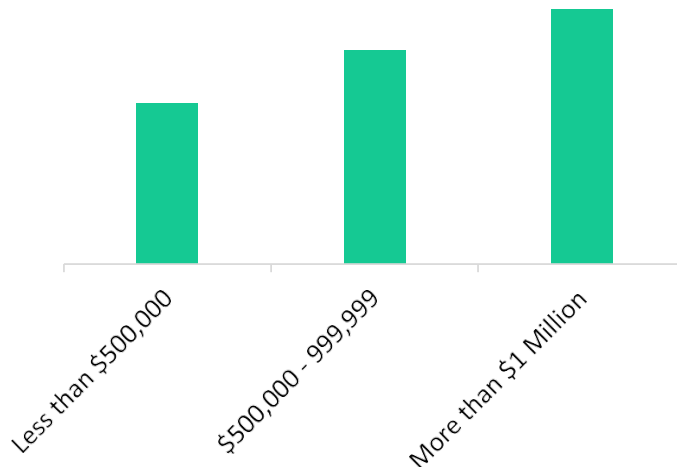
Larger merchants were more likely to invest in automation than smaller-sized merchants.



44%

Of merchants invested in automation in the past year

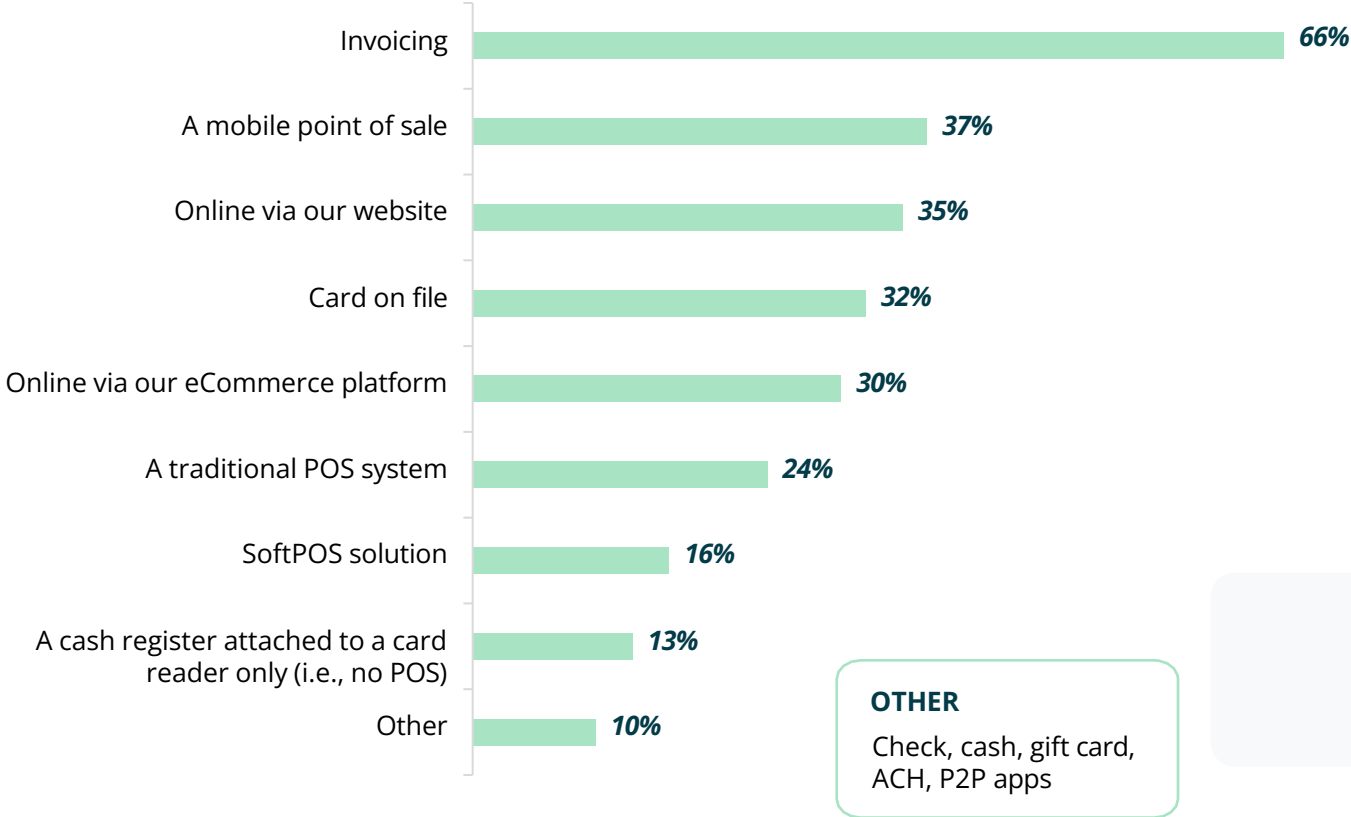
Merchant Size



Data and Insights

How do you accept payments from your customers?

Service merchants are most likely to use invoicing to collect payments from customers. About one-third utilize mPOS, online ordering, card on file, and eCommerce platform payments



Data and Insights

How do your customers typically pay for your services (i.e., revenue allocation by payment method)?

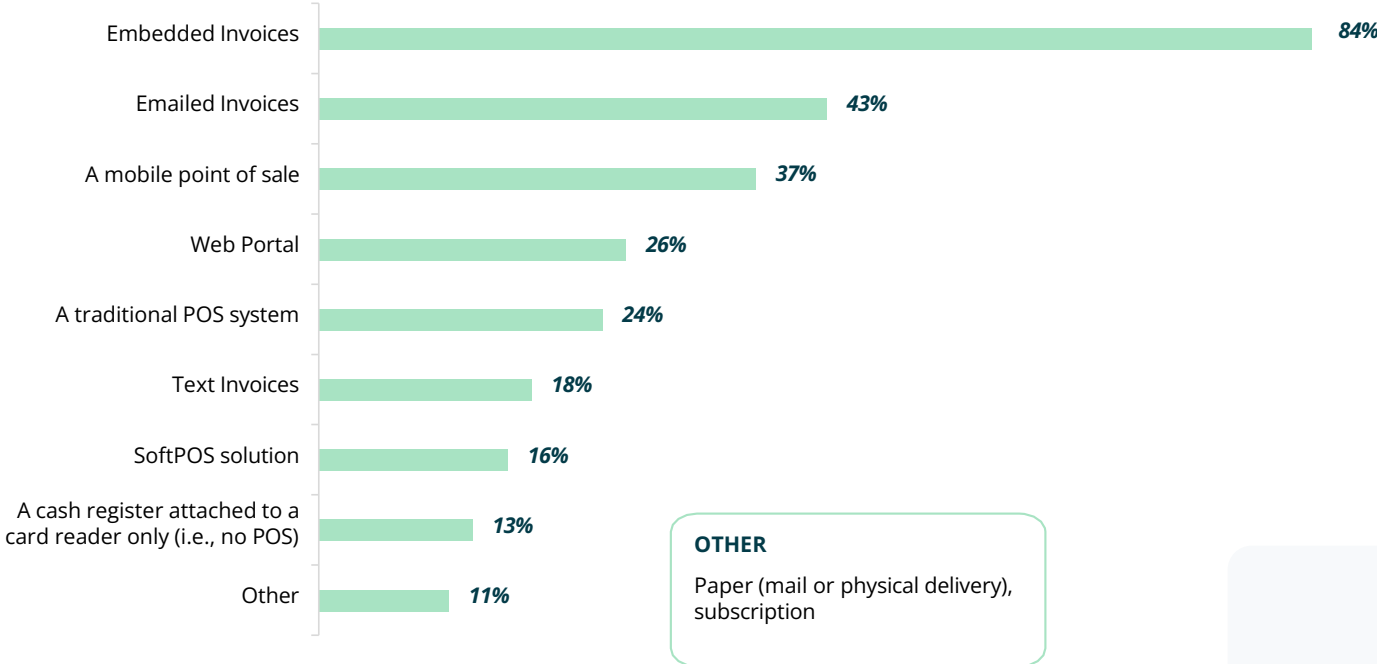
Credit/Debit, ACH, and Checks are the most popular methods of payment for service merchants. Small merchants are less likely to be equipped for digital wallets and financing options. Mid-level merchants are least likely to be equipped to handle HSA payments.

Payment Methods by Merchant size	Average Amount	Under \$500,000	\$500,000 – \$999,000	More than \$1 Million
Credit/Debit Cards	36%	38%	35%	34%
ACH/EFT	30%	32%	23%	31%
Checks	26%	25%	27%	26%
Cash	15%	17%	13%	12%
P2P	13%	12%	15%	11%
Financing Options	10%	7%	12%	12%
HSA	10%	13%	4%	9%
Crypto	9%	8%	8%	10%
PayPal	9%	9%	10%	8%
Digital Wallets	8%	4%	9%	11%

Data and Insights

How do you send invoices to your customers?

A vast majority of merchants utilize embedded invoices to request payment for services. Merchants are least likely to use texting capabilities to send and receive invoices. About a quarter utilize a web portal.



Data and Insights

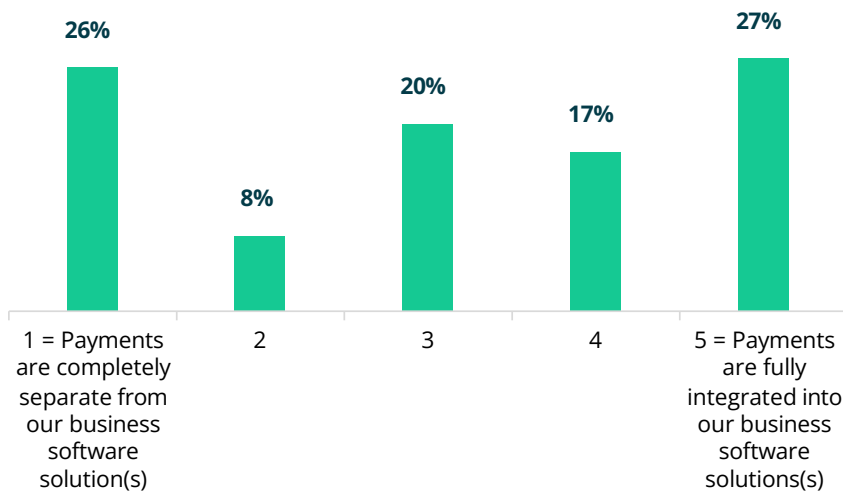
Are your current business software needs being met?
Are payments integrated into the software you use to manage your business?

Only **12% of merchants** reported their business software needs are not met. Meanwhile, about a quarter do not have payments integrated with their business software, about **50% have some level of integration**, and just over a quarter have fully integrated payments.



88%

Of merchants report their business software needs are being met

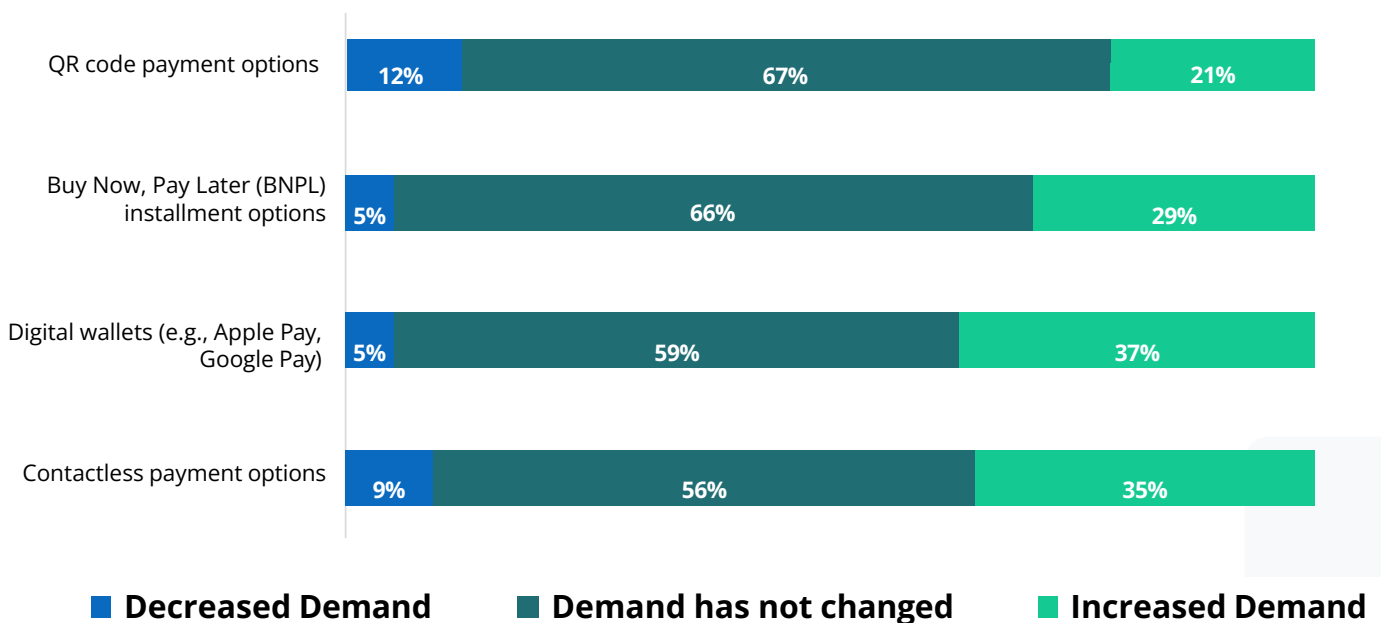


Data and Insights

Compared to last year, have you seen demand from your customers change for any of the following reasons?

In the service industry, demand has increased for digital wallets and other contactless payment options more so than QR codes (which are a form of contactless) and BNPL options.

Over half of merchants indicated “N/A” for QR code and BNPL options, which may indicate that there is less familiarity of these options in the market.

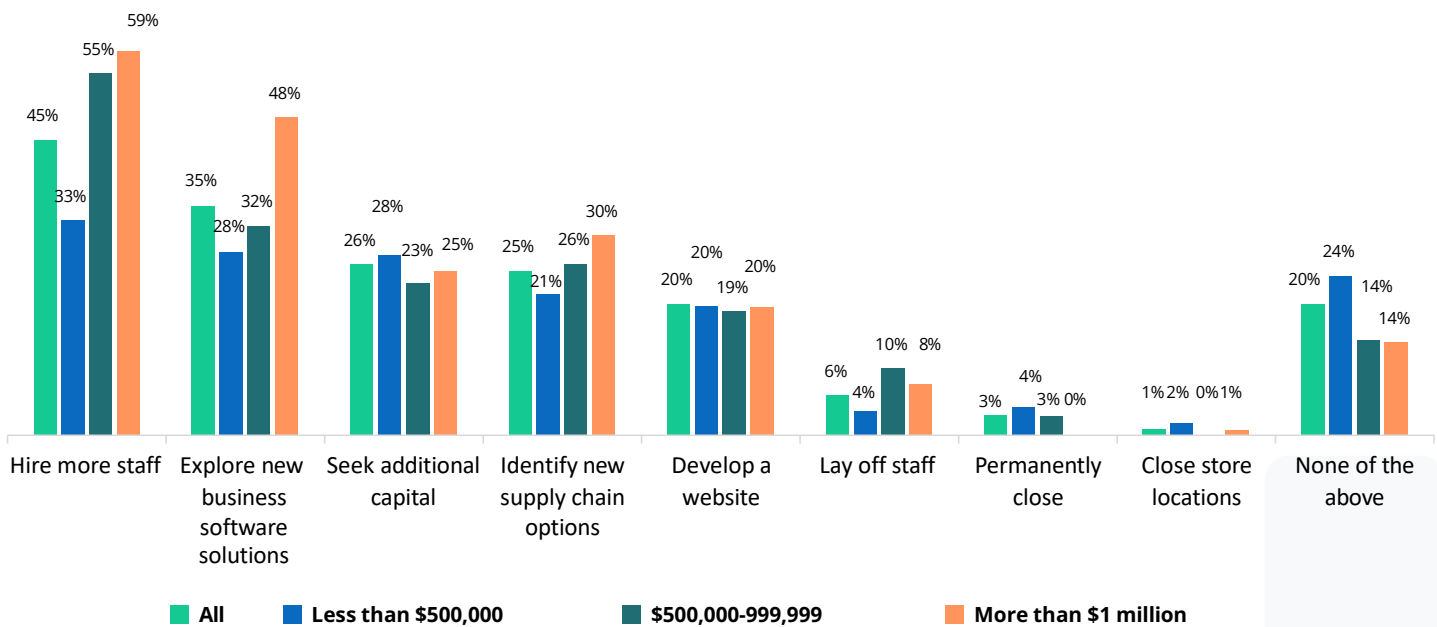


Data and Insights

In the next year, do you think your business will need to do any of the following?

Service merchants are most likely to consider hiring more staff, switch business software solutions, seek additional capital, pursue supply chain options, or develop a website in the next year.

Larger merchants are more likely to consider future changes to business strategy, while smaller service merchants are more likely to continue business-as-usual.



Methodology

This survey produced a representative sample with a 95% confidence level at a +/- 5% margin of error. This sample can produce generalizations and insights about the North American service industry. Key notes about the core audience of this survey are provided below.

The State of the Service Economy Report was completed in partnership with TSG (The Strawhecker Group), <https://tsgpayments.com/>.

GEOGRAPHY

The merchant sample consisted of 410 regionally-balanced businesses throughout the United States and Canada.

SIZE

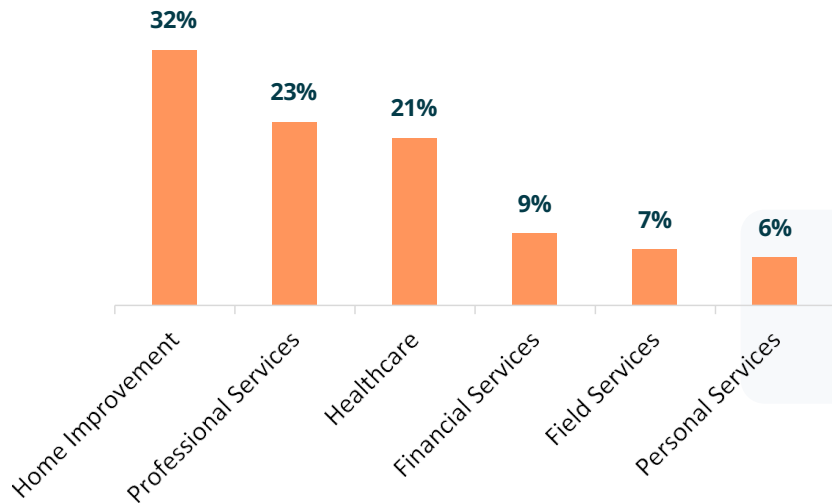
Merchants ranged in size in terms of number of employees and from \$34,999- \$5 million in revenue.

VERTICAL

Most merchants fell into the home improvement, professional services, and healthcare sub-verticals.

The State of the Service Industry Key Merchant Sub-sectors Surveyed (% of Sample)

**Chart numbers throughout this report may not sum to 100% due to rounding*



This report contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. All statements contained in this report that do not relate to matters of historical fact should be considered forward-looking statements, including without limitation statements regarding underlying trends in small to medium service businesses and the industries that EverCommerce serves and impacts from macroeconomic trends on EverCommerce's customers. These statements are neither promises nor guarantees, but involve known and unknown risks, uncertainties and other important factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements, including, but not limited to, EverCommerce's ability to accurately forecast trends in the SMB industries that it serves; EverCommerce faces intense competition in each of the industries in which it operates; the industries in which EverCommerce operates are rapidly evolving and the market for technology-enabled services that empower SMBs is relatively immature and unproven; EverCommerce is dependent on payment card networks and payment processors and if it fails to comply with the applicable requirements of its payment network or payment processors, they can seek to fine it, suspend it or terminate its registrations through bank sponsors; the inability to keep pace with rapid developments and changes in the electronic payments market or are unable to introduce, develop and market new and enhanced versions of software solutions; real or perceived errors, failures or bugs in solutions; economic and political risks, including the business cycles of clients and changes in the overall level of consumer and commercial spending; as well as the other factors described in EverCommerce's Annual Report on Form 10-K for the year ended December 31, 2022 and updated by its other filings with the SEC. These factors could cause actual results to differ materially from those indicated by the forward-looking statements made in this report. Any such forward-looking statements represent management's estimates as of the date of this report. While it may elect to update such forward-looking statements at some point in the future, EverCommerce disclaims any obligation to do so, even if subsequent events causes views to change.



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