

**ScotiaAdvice** 

**Path to Impact 2021:**

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# Operating in the New Normal

## **Methodology**

Scotiabank's annual Path to Impact Report was conducted by Maru/Blue on behalf of Scotiabank. A total of 901 completed surveys were collected from a random sample of small business owners from across Canada.

## **Legal Disclaimer**

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## View from the Bank

Canadian small businesses continue to face headwinds. The COVID-19 pandemic, uncertain markets, social unrest, and shifting public health guidance continue to pose challenges and preoccupy businesses looking to chart a course to recovery.

Despite this reality, the future for small businesses looks bright. That's what we heard from small businesses surveyed as part of the 2021 Scotiabank Small Business Path to Impact Report. In fact, more than half of businesses we surveyed told us they are doing as well, or better, than they were doing in 2019.

And even though many are back in business, small business owners know they won't be going back to the way things were. Consumer expectations have shifted. Labour shortages have now surpassed generating revenue as the main concern on the minds of small and medium size businesses owners. The cost of doing business continues to climb, and all signs point to rising inflation. Trends that were on the horizon in 2019, like digital transformation, have accelerated at a speed beyond anyone's expectations.

Small businesses across the country face the pressures and strains of starting and stopping in conjunction with shifting public health measures. This pandemic proves to be unpredictable as it continues to impact communities disproportionately across the country.

In this environment, small businesses need as much information as they can get to plan ahead and stay resilient. When businesses are facing significant uncertainty, trusted advice from a qualified advisor is more important than ever. While they are focused on the day-to-day operations of their businesses, an advisor can help them to see the big picture. Advisors can help small business owners prepare for potential challenges, position for the opportunities that lie ahead, and get them access to the tools they need to succeed including everything from business support programs, financing, to simply providing an independent and objective perspective.

With all levels of government working to support businesses throughout the pandemic, Scotiabank will continue to do our part to support Canadian businesses, and ensure that businesses continue to adapt and thrive as we move toward a period of economic growth not seen for more than a decade. Small businesses create wealth for so many Canadians. They innovate on new goods and services – and ensure we have access to them. They are the engines of employment – helping Canadians across the country to support their families. Small businesses generate government tax revenue that supports so many of the services Canadians use every day. They underpin our communities and give back to local organizations and groups. They are what helps create – and sustain – our prosperity and quality of life.

If you own a small business in Canada, whether it's a business passed down through generations, a passion project or a seed of a start-up, know that in the challenging and uncertain times that lie ahead, we are here to help you understand, adapt, and succeed. And to all others, please support small businesses in your communities – order-in from your neighbourhood restaurant, purchase supplies at that hardware store, use small businesses as your vendors. We may still be facing headwinds, but by working together, we can recover and rebuild stronger than ever.

Jason Charlebois,  
Senior Vice President, Small Business  
Scotiabank

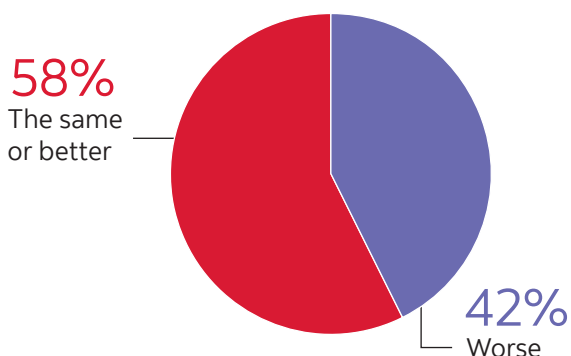
# Scotiabank: Path To Impact 2021

## Operating in the New Normal

In 2021, our definition of the “new normal” is simply our current reality. Eighteen months into the global pandemic, lockdowns, masking, sanitization, social distancing, and vaccine passports have become part of our routines, and part of everyday life.

Despite ongoing uncertainty and rising case rates across several Canadian provinces, business optimism is on the rise, and economies are beginning to bounce back. Our 2021 Path to Impact Report, which surveyed over 900 small business owners from coast to coast and from all walks of Canadian life, revealed that most small businesses (54%), say they are doing either the same, or better, than they were pre-pandemic.

### Small Canadian businesses now vs. pre-pandemic



This is particularly true of businesses owned by Black, Indigenous, and People of Colour (BIPOC), who have seen a substantial improvement in their small businesses, with 31% seeing an improvement over their pre-crisis performance, compared to 14% of their non-BIPOC counterparts. This extends to sentiment as well. Sixty-nine per cent of BIPOC business owners say they feel extremely or very optimistic about their business’ future, compared to 55% of non-BIPOC business owners.

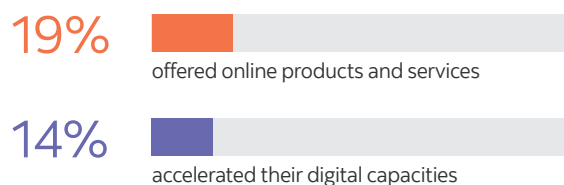
Although many businesses are doing just as well as they were pre-pandemic, the business environment has permanently shifted. Restrictions have lifted; however, consumer expectations have changed and they’ve come to appreciate the convenience and ease of e-commerce and online shopping, curbside pickups and door-to-door delivery, and the frictionless experience it provides.

In the new normal, these are table stakes – new businesses entering the market and small businesses looking to recover expeditiously will need to ensure their customers’ needs are at the centre of everything they do.

### A Big Shift

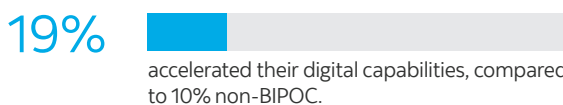
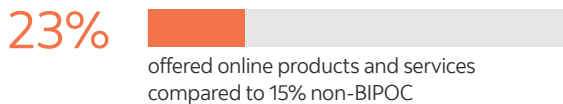
What does the new normal look like?

**It looks digital.** Many businesses had to pivot during the pandemic:



Among businesses enhancing digital capabilities – 40% enabled remote work, 37% launched an app or a website. About one-in-three of those businesses adapted their operations for remote work, with nearly the same number developing the capacity to meet virtually. We saw 30% partnering with digital service providers for sales and delivery, 29% launching a platform for tele-service and the same number implementing a cloud-based data platform.

**It looks diverse.** Businesses owned by BIPOC individuals required more credit during the pandemic – but they put that credit to good use. BIPOC-owned business owners consistently invested more into improving their firm’s competitiveness:



This advantage widens when it comes to more sophisticated digital capabilities, with 38% of those digitally progressive BIPOC-owned businesses investing in AI and analytics capabilities, compared to just 15% of their non-BIPOC counterparts.

And – most importantly – **it looks flexible.** Public health restrictions differ from province to province in Canada, with each jurisdiction creating their own approach to tackling the challenges of the pandemic. Successful businesses in this new normal have taken an approach that allows them to thrive under any of these conditions and adapt quickly when circumstances change.

## Facing Future Challenges

Business owners are ready to face future challenges with more confidence: more than three-quarters of business owners (77%) feel well equipped to survive a future wave, and they are increasingly optimistic about the future. This is especially true of businesses in Quebec (84%) and Atlantic Canada (87%). The number of businesses anticipating short term challenges has also declined. Only 46% anticipate short term changes to finances and staffing, compared to a whopping 81% back in August 2020.

But dealing with those challenges will require continued pivoting and adaptation. That means that business owners will need financing. The small business community agrees with half of business owners surveyed (51%) expecting to need more financing in the coming year.

Notably, larger small businesses – those with over \$1M in revenue – see the need for financing much more than smaller businesses (those with under \$500k in revenue). And 68% of those larger businesses foresee needing financing, compared to only 30% of smaller businesses.

Part of this may be due to larger businesses needing to make larger investments to pivot their operations. Yet, pair this with the overall increased uptake of government benefits and greater use of external advice and the picture becomes clear: larger businesses are investing to remain competitive and are making use of the tools available to them. Smaller businesses, by comparison, risk falling behind.

These challenges are compounded by the challenge of systemic barriers faced by BIPOC business owners. 47% of the BIPOC business owners we polled reported experiencing systemic barriers that put their business at a disadvantage, including inability to access sufficient funding, a lack of market experience, or even outright discrimination.

Although the mood of business owners in the summer was optimistic, as summer has given way to fall – and potentially another winter with a surge in COVID cases – it is easy to feel that the challenges may be insurmountable.

But it doesn’t have to be this way.

## Advice Matters

Business owners may be optimistic, but the overall macroeconomic environment is uncertain: firms from coast-to-coast report record demand for labour. In August, according to Statistics Canada, the inflation rate hit 4.1% - an 18-year high, and a rate unmatched by our neighbours to the south or peer countries in Europe.

And businesses are feeling it. Although the business owners we polled say that the state of business is better today than it was in 2020, 35% of businesses report being challenged by high costs of materials and supplies, and 28% report cash flow/funding concerns.

Now more than ever, when operating a small business in a complex and uncertain environment, advice matters. Small Business advisors can help plan and prepare businesses for increases in the cost of inputs to help make informed pricing decisions. They can help gain access to the capital needed to grow business operations, hire staff, and enhance their digital capabilities.

We know that 79% of business owners turned to someone for financial advice over the last year, but only 36% of business owners turned to an advisor through a financial institution for business advice during the pandemic – but those who did saw their situation improve. Business owners surveyed in the 2021 Scotiabank Path to Impact Report confirmed that they are doing better than pre-pandemic (23%), up 10% compared to small business owners who were asked the same question in the last year's report.

Advisors help with more than just securing funding. They can point small business owners towards support programs such as the Canada Emergency Business Account or Canada Emergency Wage Subsidy. Larger businesses were more likely to have taken advantage of these programs throughout 2020, which has put them on a stronger and more competitive footing throughout 2021.

This advice proved particularly important for BIPOC-owned businesses. In 2020, BIPOC business owners were more likely to have taken advantage of a variety of relief programs, with slightly higher numbers of BIPOC-owned businesses taking advantage of the Canada Emergency Business Account (26% vs 24%), Canada Emergency Wage Subsidy (24% vs 19%) and Canada Recovery Benefit (24% vs 18%) compared to their non-BIPOC counterparts – and significantly higher numbers of BIPOC businesses taking advantage of less-used benefits, such as loan programs from Export Development Canada (EDC) or Business Development Canada (BDC) (20% vs 6%), the Canada Emergency Commercial Rent Assistance Program (20% vs 7%) or simply asking to defer payments (19% vs 11%).

And as the pandemic persists, that advice will be more important than ever.

# Ready for the Future

Whether it's changes to restrictions or inflation rate fluctuations, businesses need to be ready for anything. Whether a business is large or small, the following five steps will help ensure that it can handle whatever the future brings:

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## 1. Build a Business for the New Normal

The pandemic will not be around forever – but consumer expectations have permanently shifted. The pandemic has supercharged the e-commerce landscape. Touchless payments, contactless pick-ups, mail-in returns, and same-day deliveries are now expected. Businesses that invested and continue to invest in their digital capabilities are better positioned to withstand future headwinds, and prepare themselves for expected growth in the second half of 2021 and throughout 2022.

## 2. Be flexible, as things can change

Small businesses know it better than most: just when we think we are done with the virus, it can rear its ugly head again. It remains possible that pandemic restrictions could be implemented again. In an environment so uncertain, flexibility is key. Small businesses need to offer multiple channels to do business and maintain a range of touchpoints with key customers, so that when one channel is closed, the others remain open.

## 3. Pick up all tools that are offered

Our research shows that those businesses that took advantage of government support programs in 2020 were in a much better position in 2021 – they were not only able to survive, but they were also able to make the necessary investments to adapt to the current environment. If your business is to thrive, you need to take advantage of every tool you can in order to succeed.

## 4. Look everywhere for talent and for customers

A new, digital business environment means new markets to service and new sources of talent. Consider broadening your reach beyond your immediate environment, not just for sales, but for recruitment. Remote work is quickly becoming part of the new normal, and your next great employee might live miles away.

## 5. Get a trusted advisor

You don't have to navigate a complex, and constantly-changing, environment alone. A trusted small business advisor – whether a financial institution, a consultant or even a close friend – can provide valuable advice and an independent perspective. Further, knowledgeable advisors can point you towards the government support programs you need to survive – and give you access to the financing you needed to invest, pivot and succeed.