

**ScotiaAdvice** 

**Path to Impact 2023:**

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**Resilient Small  
Business Owners  
optimistic for the  
future despite  
headwinds**



## View from the Bank

**In spite of year-after-year economic turbulence and uncertainty both here in Canada and around the world, our country's small businesses remain strong and optimistic as they look ahead to 2024.**

With small businesses being the engine of our economy and an employer of over 10 million people in Canada, I'm encouraged by the findings of this year's *Scotiabank Small Business Path to Impact* survey. Canadian small businesses continue to show remarkable resilience while increasingly adopting a resourceful mindset. It's this resilience and resourcefulness that is empowering businesses to confront stubbornly high inflation and steep interest rates head-on.

Even as financial challenges continue to occupy the minds of a majority of business owners across the country, small business owners say the state of their business has improved since 2022. This finding has been a constant over the past three years as the small business community showed incredible resilience in overcoming a myriad of challenges. What's more, most Canadian enterprises say they are now doing better or at least as well as they were doing two years ago.

However, what I find particularly noteworthy is the multitude of distinct challenges and opportunities small businesses are facing today. The survey clearly illustrates that small businesses are a diverse group. The needs of a small business can significantly differ depending on factors such as its size, longevity, geographical location, and the background of its leadership, whether it's a third-generation Canadian or someone who recently arrived in Canada.

While overall optimism about the future state of business remains high (66%), this year's survey found that business optimism is even higher among business owners who identify as Black, Indigenous, and People of Colour (74%).

As businesses grapple with the increased costs of materials, many are focused on reducing costs and increasing sales through new channels. Some enterprises are driving revenue and trying to meet demand marked increasingly by the need for convenience through enhanced digital capabilities. Most interestingly, this year's survey finds that many business owners no longer fear the rise of Artificial Intelligence (AI), instead seeing it as a competitive advantage that will help them further streamline their operations.

The complexity of challenges and opportunities facing small businesses is not new. Small businesses have always been as diverse as the Canadian landscape itself, but in a challenging economic environment where every dollar counts, advice isn't one-size-fits-all. In 2023, tailored advice from an advisor who understands your business and growth objectives matters more than ever.

For the business ventures just starting out on their journey, or those who are well-established in their respective communities, no matter the size or scope, Scotiabank Small Business Advisors are here to help business owners manage the day-to-day impact of inflation while keeping focused on the bigger picture to help them grow and succeed over the long-term.

**Jascha Jabes**  
Vice President, Small Business  
Scotiabank

# Scotiabank: Path to Impact 2023

Resilient Small Business Owners optimistic for the future despite headwinds

## Business Optimism Despite Challenging Economy

Despite the challenging economic environment experienced throughout 2023, small business owners remain optimistic and resilient as they look ahead to 2024. Two thirds of small business owners say they are extremely or very optimistic about the future of their businesses (66%).

This sentiment is significantly higher among business owners in the Atlantic provinces (83%), as well as in Saskatchewan and Manitoba (82%). However, the majority of business owners surveyed in Ontario say they are equipped to handle a possible recession, whereas less than half in the Atlantic felt equipped (75% vs. 48%).

Indeed, most business owners report their state of business has improved since last year and more than three quarters (76%) say they are doing better or the same as two years ago when the COVID-19 pandemic had not yet subsided. This is up from 75% in last year's survey, and 54% the year before.

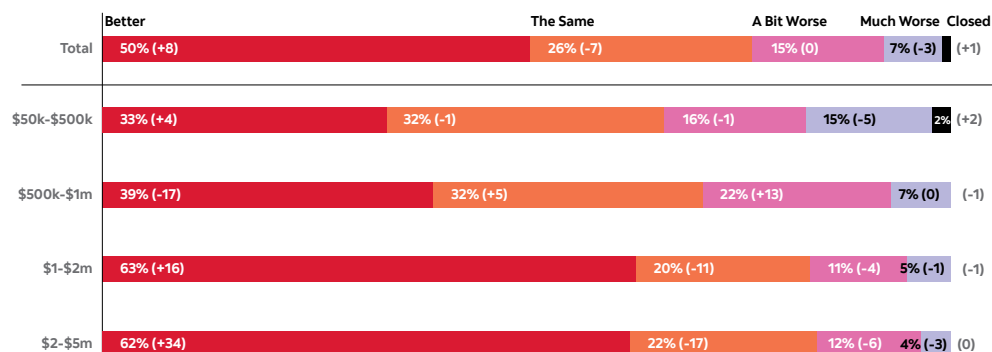
This is especially true for larger companies where more than four-in-five of those with revenue of more than \$1 million report they are doing better or the same as two years ago (\$1M-\$2M (83%) and \$2M-\$5M (84%)). For half of Canadian businesses, revenues and sales have increased in the last two years and these business owners expect this increase to last beyond 2023. As a result of these encouraging trends, fewer small business owners foresee needing more financial support to maintain business operations in the future than in previous years.

 **55%**

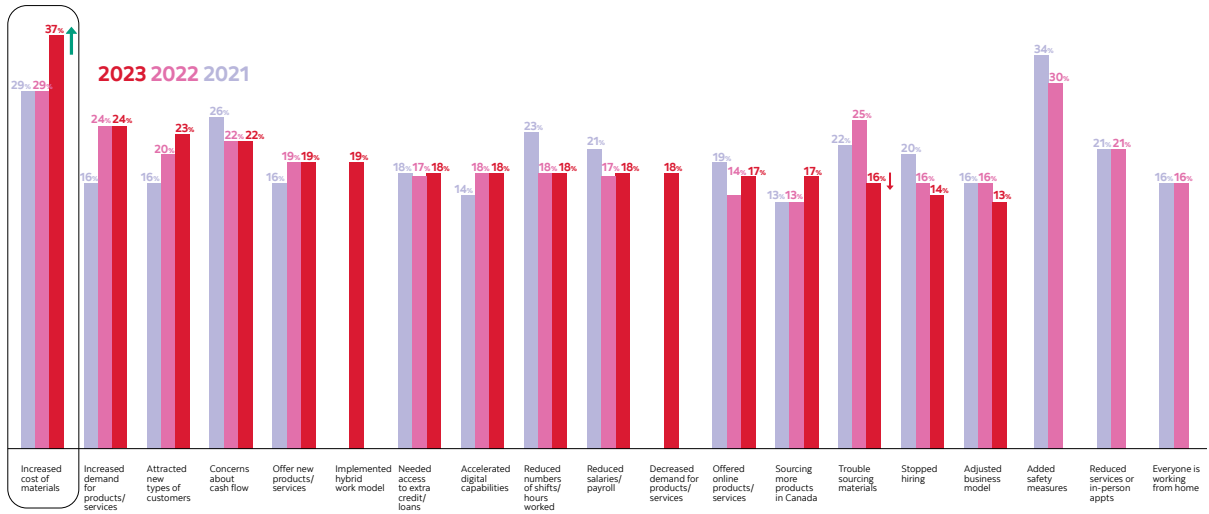
**of Small Business Owners are challenged by increases in cost due to inflation OR rising interest rates.**

48% in 2022 \_\_\_\_\_

## Current State of Business Compared to Two Years Ago



## Impact of Last Two Year's Events on Business Operations



Financial challenges also continue to be top-of-mind for business owners in Canada. More than half of small business owners (55%) say they're being confronted with increased materials costs due to inflationary pressures or continually rising interest rates. This figure is up seven points from last year, when just under half (48%) of business owners said they felt pressure due to these increased costs.

Post-pandemic, the reality is that Canadian businesses, like those around the world, continue to be impacted by the increased costs of materials; fortunately, they are now less likely to have trouble sourcing those materials than during the height of the pandemic.

Ontario business owners are the most likely to say they anticipate financial difficulties in the year ahead (15%), compared with those in Saskatchewan and Manitoba who are least likely to anticipate financial difficulties (5%).

Nevertheless, business owners in Ontario are also most likely to expect an increase in business, growth or sales (tied with British Columbia at 11%), whereas business owners in Quebec are least likely among provinces to say the same (5%).

Further encouraging trends include modest increases in the number of Canadian businesses sourcing products domestically (17% in 2023 vs. 13% in 2022), which has led to new types of customers by offering more online products and services. Lastly, in 2023, there was a downward trend in the number of businesses that stopped hiring (14% in 2023, down from 20% in 2021) showing promise for labour force stability.

## How Businesses Are Adapting to Economic Conditions

In a challenging economic environment, Canadian businesses' financial priorities are chiefly aimed at cutting costs and increasing sales through new channels. In short, businesses are adopting a resourceful mindset against difficult economic headwinds.

In 2023, cutting costs wherever possible was a top financial priority for nearly all small businesses in Canada, specifically with small business owners in Ontario more than any

other province. In fact, cost-cutting measures were ranked the number one priority for all businesses except for those enterprises earning \$500K–\$1M a year. These larger revenue businesses likely have a greater ability to adapt before needing to cut costs and are more likely to prioritize increasing loans and securing capital over the next three months.

### Top Business Financial Priority by Company Revenue Size

Priority Ranked #1	\$50k-\$500k	\$500k-\$1m	\$1m-\$2m	\$2m-\$5m
Cutting costs wherever possible (8%)	14% #1	9%	11% #1	15% #1
Increasing amount/balances of existing loan(s) and credit balances (7%)	2%	11% #2	9% #3	8%
Increasing sales through additional channels (7%)	10% #2	12% #1	10% #2	10% #3
Decreasing debt and loan balances in existing business/personal accounts (6%)	5% #3	7%	7%	8%
Applying for new loan accounts/lines (6%)	4%	9%	11% #1	10% #3
Securing capital to continue business operations (6%)	2%	8%	10% #2	11% #2
Changing personal investment allocation (6%)	4%	10% #3	10% #2	7%

## Enhancing Digital Capabilities and Leveraging Artificial Intelligence

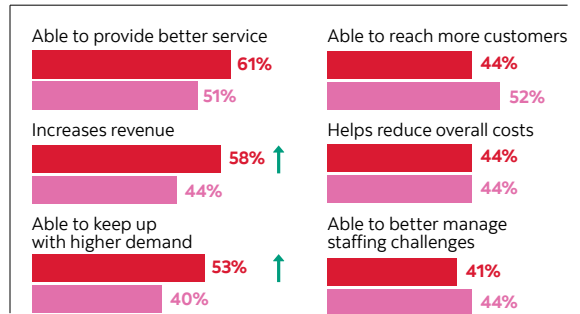
As small business owners continue to focus on enhancing digital capabilities, significantly more owners say that digital enhancements are helping them with increasing revenue (58% in 2023 vs. 44% in 2022) and keeping up with higher demand (53% in 2023 vs. 40% in 2022). For example, remote and hybrid work arrangements have empowered more business owners to innovate by implementing robotics and cloud-based data platforms. Over the past year, 18% of Canadian business owners have accelerated their digitization efforts.

It appears that many Canadian business owners no longer fear the rise of AI, instead seeing it as a competitive advantage that will help them further streamline their operations. AI technology (44%) and better access to financial advice (43%) are the top tools business owners believe would help them effectively grow their businesses. Business owners in Quebec were the most likely to consider integration of AI technology to sustain or grow their business (48%), with those in British Columbia being the least interested (39%).

**18%** of business owners have accelerated digital capabilities **18%** in 2022

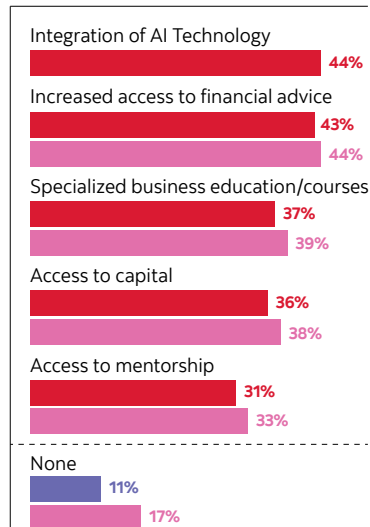
## How Enhancing Digital Capabilities is Helping Businesses

2023 2022



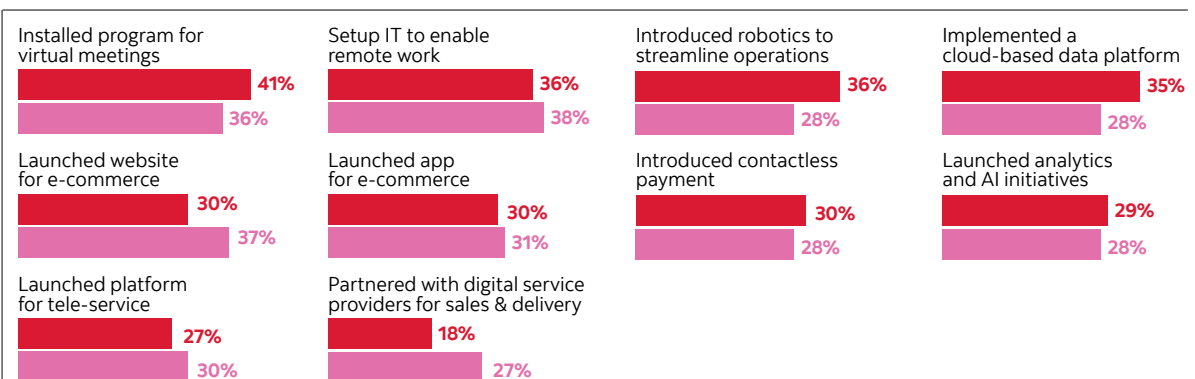
## Support That Would Help Grow the Business

2023 2022



## How Businesses are Enhancing Digital Capabilities

2023 2022



## Differing Financing Needs for Small and Large Businesses

When it comes to the financing needs of small businesses in 2023, a conflicting picture emerges.

On one hand, fewer business owners anticipate needing more financial support from government or other sources to sustain business operations. On the other hand, half of small business owners still feel they will need financial support to continue business operations (51%).

When we take a closer look, it's the larger businesses with revenue above \$500K that are less likely to say they need more financing (-50 points over 2022). The financial need is growing among smaller businesses with revenue \$50K-\$500K (+12 points over 2022).

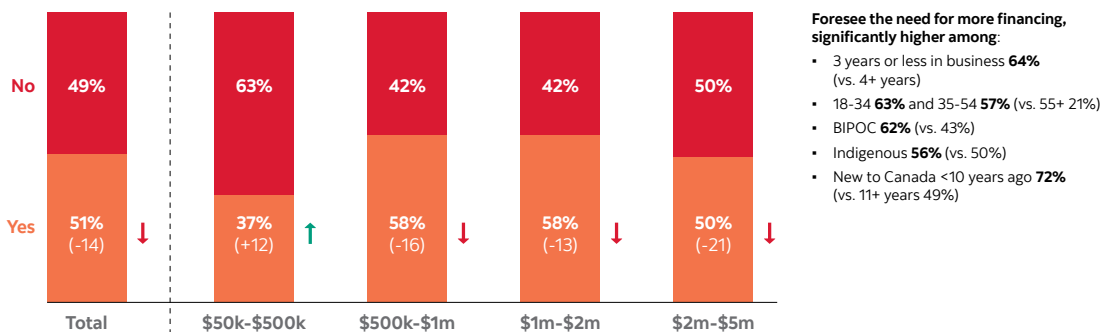
A generational divide also emerges. Business owners who are aged 18-34 foresee the need

for more financing compared to business owners who are over the age of 55 (63% vs. 21%).

Business owners who anticipate needing additional financing say they will require support from the *Canada Small Business Financing Program* (CSBFP), an increase online of credit limits and advice or support on cash management.

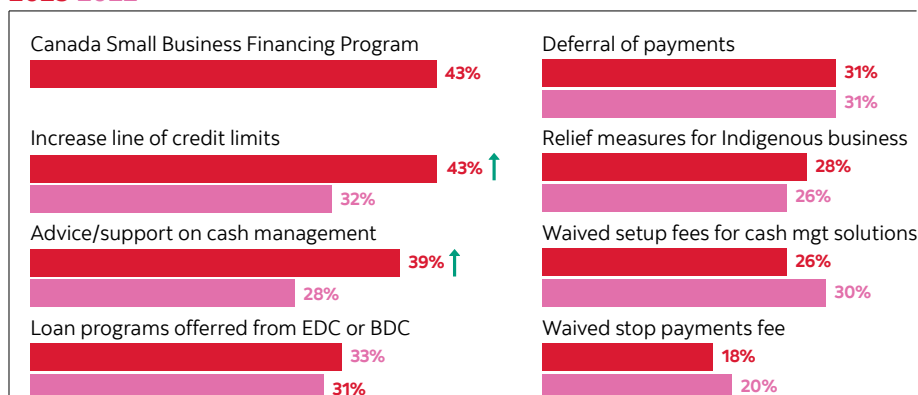
Finally, about one in three small business owners in Canada reported having an outstanding Canada Emergency Business Account (CEBA) loan. Notably, having an outstanding CEBA loan was significantly higher among businesses in Ontario compared to those located in British Columbia (34% vs. 19%). Nevertheless, most business owners (84%) with an outstanding CEBA loan say they intend to pay it back by this year's deadline.

## Foresee Needing More Financial Support to Continue Business Operations in the Future



## Types of Financial Support Business Will Require

2023 2022



## Optimism Stronger Among BIPOC-Owned Businesses but Risks Remain

Black, Indigenous and People of Colour (BIPOC) business owners continue to feel more optimistic about the current and future state of their businesses compared to non-BIPOC business owners.

**↑ 56%**

**of BIPOC business owners say the company is doing better now than two years ago**

vs. **47%** of Non-BIPOC owners

**↑ 62%**

**of BIPOC business owners say sales and revenue have increased as a result of the events of the past two years**

vs. **44%** of Non-BIPOC owners

For example, more than half of BIPOC-owned businesses (56%) say their enterprises are doing better today than two years ago (vs. 47% for non-BIPOC owners); 62% report business' sales and revenue have increased over the past two years (vs. 44% for non-BIPOC owners).

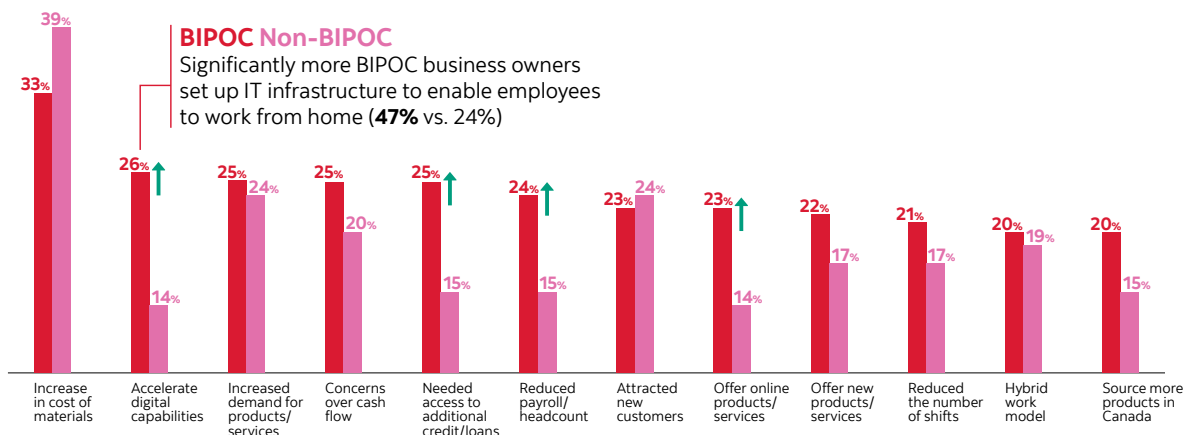
Moreover, nearly three quarters of BIPOC business owners are feeling extremely

optimistic or very optimistic about their company's prospects (vs. 61% for non-BIPOC business owners).

Despite this optimism, nearly a quarter of BIPOC-owned businesses have experienced systemic barriers that have put their business at a disadvantage such as access to funding and discrimination. They are also more likely to experience negative financial impacts to their business when compared to non-BIPOC-owned. Specific challenges include needing access to credit and reducing payroll. In response, our survey found that significantly more BIPOC business owners set up IT infrastructure to enable employees to work from home (47% vs. 24%).

When it comes to advice, BIPOC business owners are more likely to turn to a bank for financial advice. For example, more than a third of BIPOC business owners turned to digital advice resources (37%) or an advisor (36%) through their bank but only a quarter of non-BIPOC business owners did – instead turning to their accountant or friends/family. In addition, BIPOC business owners are also significantly more likely than non-BIPOC owners to turn to industry associations (28%), insurance companies (28%), a specialized course (26%), a mentor (17%), or other digital resources (14%).

### Impacts on Business Operations in the Past Two Years





# The Evolving State of Small Business Advice

As financial challenges continue to be top-of-mind for small business owners due to sustained inflationary pressures and high interest rates, it's important that small businesses of diverse business models, shapes and sizes are aware of Scotiabank's tailored advice offerings. This is particularly true as businesses increasingly seek out advice via online platforms. The challenges and opportunities that lie ahead for small businesses in 2024 are not one-size-fits-all.

No matter the present concern, or potential opportunity for growth on the horizon, businesses need to fully consider the challenges and opportunities that await them. Scotiabank can play a key role providing businesses – large and small – with tailored advice.

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## 1. Ensure access to capital to help grow or sustain your business and protect your cash flow.

It's never too early to start a conversation with your small business advisor about your financing options. Whether it is increasing your line of credit, managing cash flow, planning CEBA repayments, or getting more information about loan options, your Small Business Advisor can help you ensure that your business is set up for continued success.

Writing a business plan can seem like a daunting task, but a business without a plan is prone to making reactive or even emotional decisions that could be detrimental in the long run. Before you talk to a Small Business Advisor, consider using [Scotiabank's Small Business Planning tool](#), available at [Scotiabank.com](#). This step-by-step tool will guide you through all the stages of building your business plan, with helpful tips and definitions throughout the process. Once your plan is complete, you can save and print it, and even bring it to a Scotiabank Small Business Advisor who can review it, provide feedback, and help you understand your financing options.

Scotiabank can also offer guidance on a number of grant and subsidy options for small business owners through programs like the [Scotiabank Women Initiative](#) and the [Black Entrepreneurship Fund](#). These programs aim to remove

barriers and provide entrepreneurs from underrepresented groups with access to capital.


## 2. Secure financing options to help sustain future impact

With financial challenges continuing to occupy the minds of business owners, with more than half of small business owners (55%) saying they are challenged by increases in costs due to inflation or rising interest rates, it's never been more important to make sure your business is as streamlined as possible.

With small businesses ranking cost cutting as their number one priority, a Scotiabank Small Business Advisor can offer advice to support your businesses' unique needs and help meet your financial goals.

## 3. Invest in digital tools, including AI, to find efficiencies and streamline operations

If you use messaging services for your business, you are capable of using Artificial Intelligence. Whether you need support drafting a customer email, information on sales channels, or contacting information for a vendor, AI Technology can cut time and costs for your business. The time you invest in learning how to use it will provide significant dividends.



With small business owners increasingly taking advantage of digital advice resources, online services like [Scotia Advice+ \(Advice+\)](#) continue to provide value to the small business community across Canada. Launched in 2020, the online service offers customers and small businesses a range of new options as they seek financial advice during uncertain economic times.

The Advice+ platform responds to the increasing digitization of the banking experience by offering small business clients step-by-step guides to financial planning, investing, budgeting and other advisory services.

#### **4. Lean on experienced and knowledgeable banking advisors for tailored advice**

With financial challenges top of mind, small business owners are continuing to reach out for personalized financial advice through digital resources and from their Advisor.

Small Business Advisors can help you navigate a variety of topics including cash flow management, advice on how to pay back loans, and can introduce you to innovative [Advice+ tools](#) such as the [Small Business Solutions Builder](#) to help determine the best solutions based on your business needs.

## **Methodology**

Scotiabank's annual Path to Impact Report was conducted on behalf of Scotiabank by Maru Public Opinion and its sample and data collection experts at Maru/Blue. A total of 1,691 financial decision makers at Canadian businesses with annual revenue between \$50,000 and \$5 million responded to the survey between June 26 and August 11, 2023. The survey was conducted in both English and French.

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