

ScotiaAdvice 

The New Path to Impact:

Facing the Future with Cautious Optimism



View from the Bank

We know that many Canadian business owners go into business to make an impact on their community, yet they often face a number of obstacles along the way. In any given year, those challenges can be access to financing, hiring/staffing, managing cash flow, scaling up, dealing with unforeseen competition and much more. This year, it was different.

On top of all of the usual challenges, business owners were thrown the biggest curve ball, the COVID-19 pandemic. Many businesses were forced to pivot to find new ways of delivering their products and services, reduce staff to accommodate less demand and some were forced to close their doors. And the ripple of impact varied from sole proprietors to larger businesses.

As we moved through the re-opening stages, province by province, businesses started to rebuild and recover by opening their doors, physically and virtually, to welcome customers again in a way that was safe for employees and customers. Many Canadians welcomed the chance to support their local businesses for their everyday essentials, health and wellness needs, favourite foods and much more. And over 75% of Canadians now say they try to support local businesses in their community whenever possible.¹

With the summer months behind us and the pandemic still with us, our customers and our research tell us that small businesses are cautiously optimistic about their future. Nearly seven in 10 businesses say they are better equipped to survive a second wave, with their top priority being turning to alternate channels to increase sales and revenue.

As case numbers start to increase once again across Canada, it's clear the need for ongoing support is greater than ever. We applaud the federal government for extending a hand up to small businesses across Canada with essential programs like the Canada Emergency Wage Subsidy (CEWS), which has extended into next summer, and expanded eligibility for Canada Emergency Business Account (CEBA). CEBA, especially, has given many business owners that peace of mind to be able to keep their operations going or prepare for what's to come. We encourage the government to continue investing in businesses of all sizes as they face more challenges ahead. And more importantly, the undeniable resilience of Canadian business owners has proved it's money well spent.

Canadian business owners, especially small businesses, are the foundation of our economy and critical to our recovery. It's difficult to predict how the next six months will unfold, but we do know there will be obstacles to overcome. So, whether you're building your passion project into a business or looking for new ways to continue operating, it is now more important than ever to have a plan in place to chart a new path forward, weather any storms ahead and thrive in a post-pandemic world.

Jason Charlebois,
Senior Vice President, Small Business
Scotiabank

¹ Research conducted by Maru/Blue on August 24, 2020. A total of 1,509 completed surveys were collected from a random sample of panel members across Canada

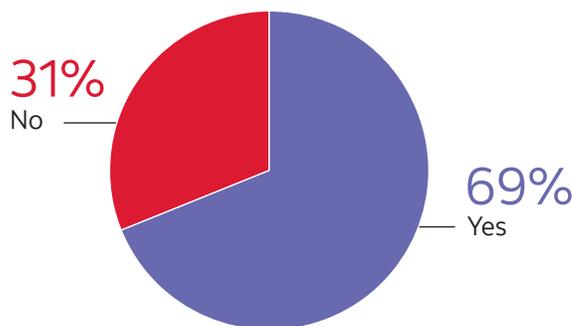
Cautious optimism among small businesses, despite COVID-19

How are Canadian small business owners feeling after more than six months of pandemic conditions that prompted social distancing, public lockdowns and an unprecedented economic slowdown?

While a clear majority of business owners faced a downturn in sales and revenue when COVID-19 struck, a large contingent express optimism about the future of their business, thanks in part to their efforts to adapt and transform their business to shifting realities. Those are among the findings of a recent Scotiabank survey of 500 small business owners across Canada².

The research paints a clear picture of small business resiliency with more than two-thirds of those surveyed saying their business is better equipped to survive a second wave of the pandemic, and their top priority now is to increase sales through additional channels over the next three months.

Business is better equipped to survive a second wave



The Impact of COVID-19: Obstacles and Opportunities

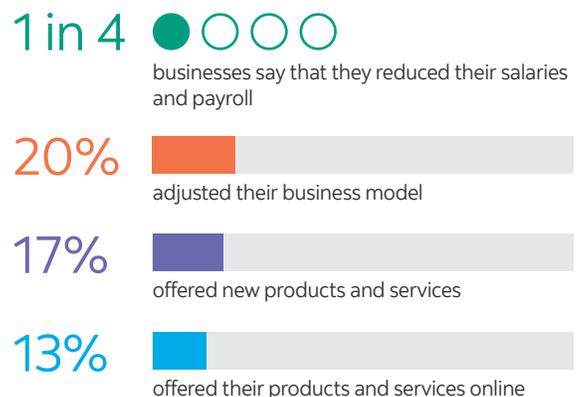
The nationwide lockdown forced businesses to pivot their operations in unprecedented ways, from offering curb-side pickup to bolstering their digital channels. The immediate impact of the pandemic was significant on small businesses of all sizes and as a result, 60% say their business sales and revenues decreased and 31% say they have concerns about cash flow.

Two-thirds (62%) state that their businesses are in a worse situation than pre-crisis. With 50% pointing to declining revenues, 27% say their operations have been significantly affected although they remain open. In contrast, 29% state that they have not been significantly affected and remain open.

The survey confirmed that sectors like food/beverage, accommodation and manufacturing have seen the most significant impact on their operations and revenue. While financial and insurance companies and construction firms say their business is about the same as before the crisis.

Adapting to changing times

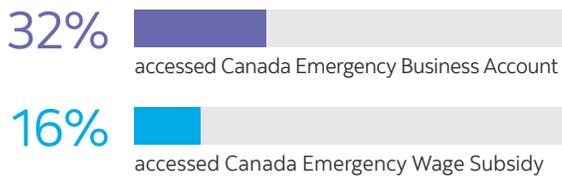
From the onset, financial institutions and the government at all levels stepped in to provide support for small businesses. And while two-thirds of business owners leaned into the various relief programs available, many also looked at ways to reduce costs internally by lowering salaries and payroll, switching to online service offerings, or adjusting their business models. Over 30% of larger businesses turned to their financial advisor for advice, while smaller firms turned to friends and family.



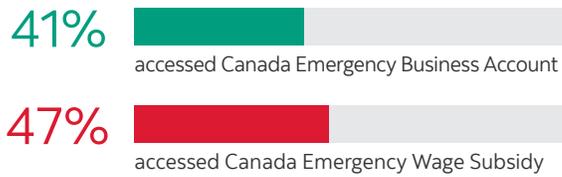
² Research conducted by Maru/Blue on behalf of Scotiabank from August 28-September 3, 2020. A total of 500 completed surveys were collected from a random sample of small business owners across Canada.

Among those businesses that sought relief programs, 37% say they accessed the Canada Emergency Business Account (CEBA) and the Canada Emergency Wage Subsidy (CEWS), while 16% requested a deferral of loan payments. Larger businesses were more likely to access relief programs than smaller businesses, which is due in part to the eligibility requirements for those with lower revenue or payroll.

Business owners with \$50,000 to \$500,000 in revenue:



Business owners with \$2 million to \$5 million in revenue



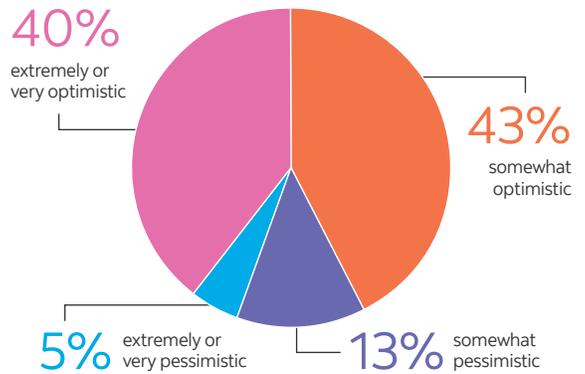
1/3 of business owners sought no relief programs at all

While these relief programs and support were often crucial, the majority of respondents appear confident that the worst is behind them, with 63% of small business owners saying they do not foresee the need for additional financing to continue their operations. This viewpoint was more widespread among smaller versus larger enterprises, which may be due to lower overhead, fewer staff and a higher reliance on digital channels.

A New Path Forward

Despite the impact COVID-19 has had on business owners nationwide, there is an underlying optimism about their ability to survive in the future. Over 40% of business owners say they are 'extremely optimistic' or 'very optimistic' about the future of their business.

And nearly seven in 10 businesses believe they are better equipped to survive a second wave of the pandemic, with smaller businesses (70%) and those on the larger end (75%) leading the pack.



However, this optimism was not equally shared among all businesses, since three in 10 business owners expect continued financial difficulties in the short term including reduced revenue, less work, lower consumer spending and slower overall growth. Among those who say they will need more financing, 55% say they would require CEWS, which was recently extended to summer 2021 to better support businesses and Canadians returning to work.

Most industries state they are better equipped to survive a second wave of the pandemic – however, this sentiment is lower in the construction industry where 55% of business owners are prepared versus 69% on average (all industries). Over the next three months, the priority for business owners is on driving revenue through additional channels, decreasing balances and re-allocating personal investments.

“The resiliency of Canadian business owners has been commendable. Whether they’ve pivoted their business to rely more on digital channels, taken advantage of relief programs or adjusted their business model to serve today’s market, they’ve had to find creative ways to survive,” says Jason Charlebois, Senior Vice President, Small Business, Scotiabank. “While there is no way to predict the next six months, now is the time to chart a new path forward. Start with a plan, seek advice early, use the resources available, and be ready to pivot. Those actions offer the greatest chance of survival in a post-pandemic world.”

“Support for small businesses during COVID-19 has been integral to keeping the economy and the country strong and Scotiabank applauds the federal government for extending a hand up to small businesses across Canada with essential programs,” said Dan Rees, Group Head of Canadian Banking, Scotiabank.

5 Steps on the Path to Recovery

1. Stay Resilient

Focusing on ways to sustain your business and stimulate sales. While economic recovery and consumer spending are trending in the right direction now, we are still far from a full recovery. That means staying the course and remaining resilient. Continue to manage expenses, explore new revenue streams, and use digital channels to reach new and existing customers. Be prepared to scale up when the time is right.

2. Use Available Resources

If you anticipate continued financial difficulties in the short term, such as reduced revenue and consumer spending and/or slow overall growth, explore the support programs available to see if you qualify. These include government programs such as the Canada Emergency Wage Subsidy, the new Black Entrepreneurship Program, Bank programs like The Scotiabank Women Initiative or connecting with business associations like the Canadian Federation of Independent Business. There are options for every size and stage of business growth.

3. Build up your A-Team

Having a strong relationship with your financial advisor is important for any small business, but especially to navigate the ongoing impact of the pandemic. A good advisor can look at your entire portfolio to see where you might be able to free up capital or better manage cash flow. Set up quarterly meetings and empower them to focus on your finances, so you can focus on running your business. Explore a wide range of advice options by visiting the new ScotiaAdvice+Centre.

4. Double Down on Digital

The top priority for small business owners in the coming months is to increase sales through additional channels. Allowing customers to access products and/or services online can help small businesses attract a broad audience while providing a more convenient shopping experience. Embracing digital solutions also means looking at how you can:

- a. Automate customer payments through your bank or a variety of payment solutions available.
- b. Leverage social media to generate awareness and offers to your target audience.
- c. Use technology to make everyday business tasks easier, like automating supplier payments and real-time wire tracking.

5. Be Ready to Pivot

With the changes this year has brought, it's important to review your business model. Ask yourself: Does it still work in this environment? Where can I pivot to alternate channels like online or curbside pickup? Finding alternative opportunities can save a business. That extends beyond just reviewing the business model to:

- a. Evaluate the business' cash flow and working capital position to make sure your debt is structured properly and there's sufficient working capital.
- b. Be prepared with supplies, such as bulk ordering PPE for employees, and potentially customers, in advance.
- c. Address operating costs to balance against any sustained sales and revenue declines.