

**ScotiaAdvice** 

**Path to Impact 2022:**

---

# Operating in the New Normal

## **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 806 financial decision makers at Canadian businesses with annual revenue between \$50,000 and \$5 million responded to the survey between August 26 and September 1, 2022. The survey was conducted in both English and French.

## **Legal Disclaimer**

This Report is provided for information purposes only. It is not to be relied upon as financial, tax or investment advice or guarantees about the future, nor should it be considered a recommendation to buy or sell. Information contained in this Report, including information relating to interest rates, market conditions, tax rules, and other investment factors are subject to change without notice and The Bank of Nova Scotia is not responsible to update this information. References to any third-party product or service, opinion or statement, or the use of any trade, firm or corporation name does not constitute endorsement, recommendation, or approval by The Bank of Nova Scotia of any of the products, services, or opinions of the third party. All third-party sources are believed to be accurate and reliable as of the date of publication and The Bank of Nova Scotia does not guarantee its accuracy or reliability. Readers should consult their own professional advisor for specific financial, investment and/or tax advice tailored to their needs to ensure that individual circumstances are considered properly, and action is taken based on the latest available information.



## View from the Bank

**Over the past year, Canadian small business owners have shown immense resiliency against a turbulent economic environment.**

Having seemingly pushed past the worst of the pandemic, many are reporting the state of business overall has improved but a full recovery is being delayed by new challenges not least of which are inflation and rising interest rates.

That's just a fraction of what we learned from small businesses surveyed as part of our 2022 Scotiabank Small Business Path to Impact Report. We also heard that small businesses are now faced with new challenges from an inflationary environment.

Despite the difficulties of the last two plus years, Canadian small businesses say they have survived the worst and feel the state of business has improved. In fact, four in ten small business owners report their business is doing better now than two years ago, and up significantly since our report from last year. We also heard that nearly half of business owners report their sales and revenue have significantly increased this year, with their products and services increasingly in demand from a revitalized, post-pandemic consumer market.

We had hoped that this year's report would be a story of a full recovery to pre-pandemic conditions – but it was not to be. While financial constraints have decreased this year and fewer owners are reporting cash flow concerns, companies are now facing contemporary challenges due to the rapid increase in inflation and rising interest rates. Among small business owners that are challenged by increases in costs due to inflation, four in ten say inflation is having a critical or significant impact on their current business operations. As supply chain issues persist, businesses are still having trouble sourcing materials. While it's good to see that customer demand has rebounded, meeting that demand continues to be

a factor for businesses who can't find, or afford, the labour they need.

Nevertheless, businesses owners report they are optimistic about the future state of their business despite that the outlook may be dotted with roadblocks. In this ever-evolving environment, there is so much outside the control of a small business, so it's more important than ever that they understand and pull the levers they can control.

With all that's happening, it's no surprise that this year, more small business owners have turned to someone for advice. To help navigate these choppy waters, business owners should seek out credible advice and support. Advisors are there to ensure business owners protect the companies they've worked hard to build, helping them adapt to global economic challenges and chart a path forward. In fact, those who turned to a financial advisor report that they are doing better than those who did not.

Our team at Scotiabank continues to help guide small business owners, whether it's taking advantage of Scotiabank's small business solutions builder, or simply how to open a business bank account. 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.

**Jason Charlebois**  
Senior Vice President, Small Business  
Scotiabank

# Scotiabank: Path to Impact 2022

## Building from the Past, Advice for the Future

### The Road to Recovery

There's no denying the difficulties small businesses have faced over the last two years – but the future looks bright despite the current challenges posed by inflation.

Building from lessons learned over the past few years, business optimism is on the rise. The state of business has improved from a world of government restrictions, dramatically reduced retail footprint, employee layoffs, and even ceasing operations, altogether.

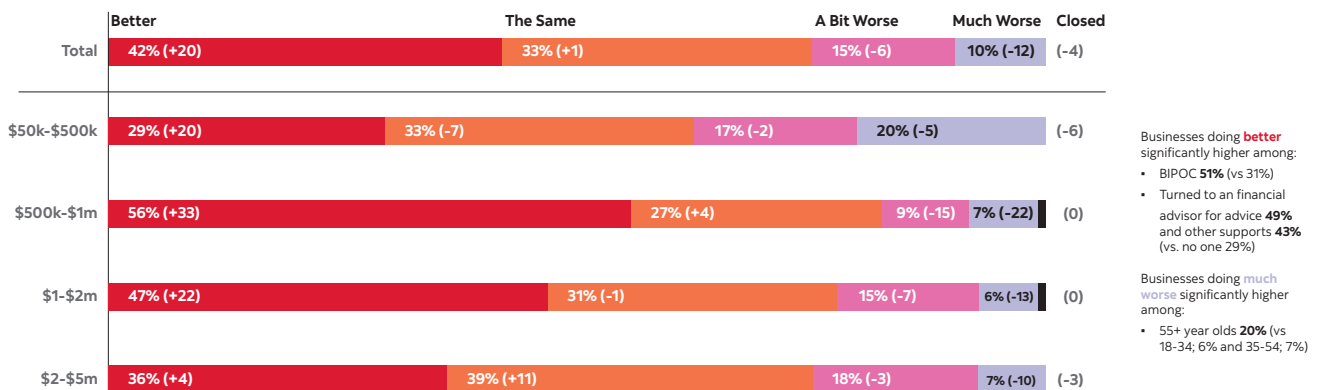
A significant three quarters (75%) of businesses say the state of their business is the same or better compared to two years ago. This is a notable increase from 54% last year and is especially the case for businesses with pre-pandemic revenues between \$500K to \$2M. Additionally, of Black, Indigenous, and other People of Colour (BIPOC) businesses, more than half (51%) say their businesses are doing better now than two years ago. Almost three-quarters of BIPOC business owners (73%) are feeling extremely optimistic or very optimistic about the future of their business. This is up from 69% last year.

But not all businesses are feeling upbeat. Right now, a quarter of those surveyed report that things are worse. While this is an improvement compared to last year (42%), it's still cause for concern.

Business owners are also seeing gains in other areas. Nearly half (46%) of business owners report that their sales and revenue have increased in the past two years. Fewer business owners are now reporting cash flow concerns, while others are reporting an improved demand for their products and services. And with a sturdier financial standing, business owners are now better placed to invest in expanding their digital capabilities, which is undoubtedly key to maintaining success in an increasingly digitized commerce world.

However, there are several economic issues colliding simultaneously that business owners will have to navigate. The tricky balancing act of the financial fallout of the pandemic and present-day pressures means businesses are increasingly looking for advice to help stay ahead of the curve.

### Current State of Business Compared to Two Years Ago



Q4. Which of the following BEST describes the current state of your business? (Select the one that most applies to your business)  
 Base: Started business at least 3 years ago, \$50-500k revenue (n=154); \$500-1m (n=150); \$1m-\$2m (n=206); \$2m-\$5m (n=239)

## The Impacts of Inflation

Running a business right now is more expensive than ever before, and there's no denying the impact of inflation on just about everything. The flour that goes into the pasta at the local Italian eatery is pricier. The gas to deliver fresh vegetables has increased. The materials to produce clothing staples at a local clothier have also gone up, and business owners, coast-to-coast, are certainly feeling the pinch.

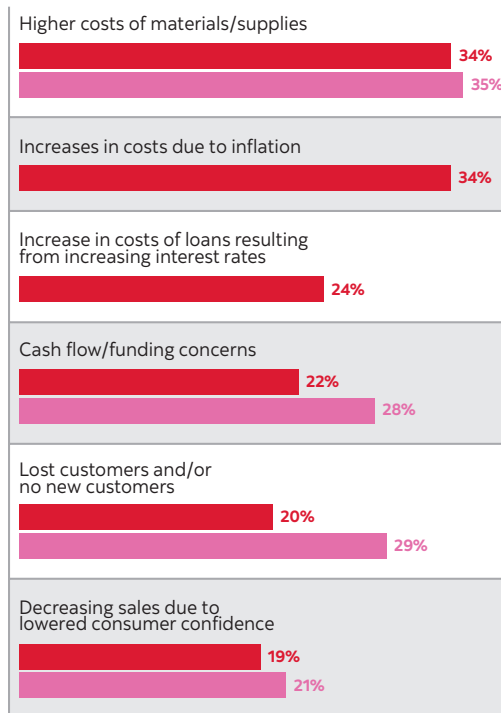
With many small business owners already grappling with labour shortages and supply chain issues, add into that, current inflationary pressures, and the problem becomes managing where those extra costs end up – with many business owners struggling with the conundrum of how to keep customers coming back, without adding the costs to *their* plates.

Inflation hit a decades-long high of 8.1 per cent in June 2022, falling to 7.6 per cent in July and down slightly again to 7.0 per cent in August.

Financial challenges due to the rise in prices everywhere continue to occupy the minds of business owners today. Of those surveyed, owners are most concerned about the higher cost of materials and supplies (34%) and increases in costs due to inflation (34%). It's obvious Canada's battle with inflation is taking a toll.

Among those small business owners being hampered by inflation (34%), four in ten (41%) say inflation is having a critical or significant impact on their current business operations.

### Current Financial Challenges Businesses are Facing



■ 2022 ■ 2021

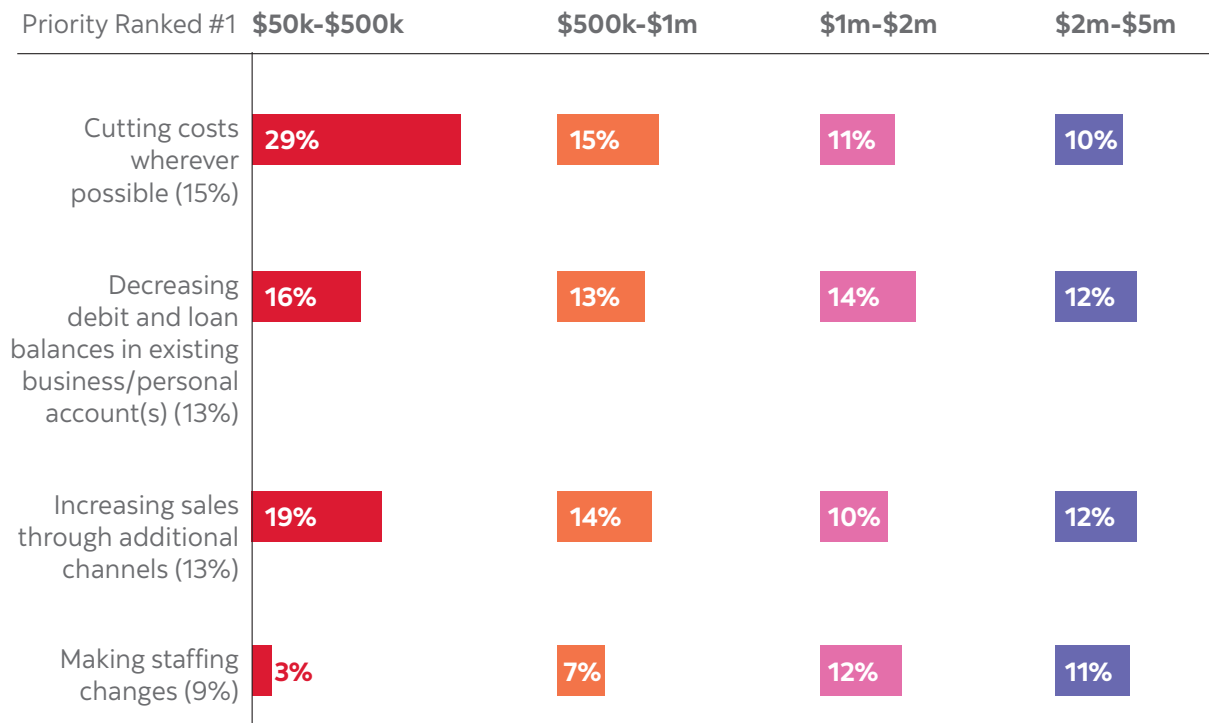
- BIPOC **29%** (v 41%)
- BIPOC **25%** (v 45%)
- BIPOC **28%** (v 20%)



### Impact of Inflation

- **59%** Moderate Impact
- **37%** Significant Impact
- **4%** Critical Impact

## Top Business Financial Priority by Company Revenue Size



As businesses look to the future, financial priorities are mixed among different sized companies – something financial institutions are entrusted to traverse. Among smaller-sized businesses, their primary focus for the next three months will be on cutting costs and finding efficiencies, wherever possible, with a secondary focus on increasing sales through additional channels.

Meanwhile for slightly larger businesses, the spotlight shines equally on cutting costs and increasing sales through additional channels, though not as significantly as smaller-size companies.

### Peak Interest in Interest Rates

Small businesses in Canada are also facing headwinds when it comes to the volatility of the rising interest rate. Whether it's an experienced business owner or someone just starting out, the process usually requires borrowing funds. Those loans, now more than ever, weighed down by

the cost of borrowing, can mean the difference between charting a path to success or struggling to stay operational.

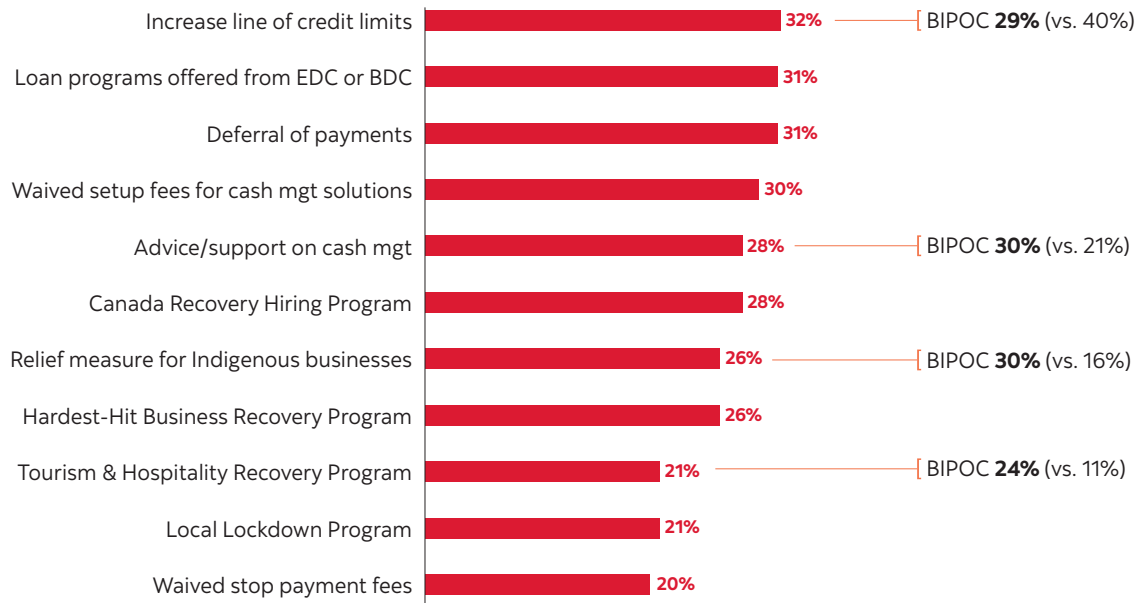
Although interest rates aren't as significant of a concern for small business owners when compared to the impacts of inflation, according to our latest survey, nearly a quarter of those surveyed (24%) say it's a current challenge. And among those impacted, nearly half (47%) say it's having a critical (5%) or significant (42%) impact on their business.

With several rate hikes so far this year, coupled with inflation and various other economic concerns, two thirds of business owners (65%) foresee needing more financing in the future to continue their business operations, and that need is greater among larger businesses. This number is also significantly higher among BIPOC business owners at 87%.

## Types of Financial Support Businesses Will Require

**65%** SBOs foresee needing financial help

Significantly higher among **BIPOC 87%**



The types of financing vary as well, with a third of survey respondents (32%) saying they'd need an increase in their line of credit limits, with another third (31%) saying they'd need a deferral of payments.

## The Labour Shortage and Supply Chain Crunch

When the pandemic hit, many businesses were forced to either close or drastically reduce in-person traffic, meaning many had to make substantial staffing cuts. However, there are now new labour forces at play. Employers no longer need to make staffing cuts, but are, instead, struggling with large-scale shortages, and an increasingly competitive labour market to source and recruit talent with the necessary skills and qualifications. This is evidenced in our survey, where a quarter of respondents (25%) say their businesses are currently being challenged by sourcing and hiring talented staff. They are also concerned about employee stress and burnout (23%).

While finding and keeping good workers has always been an uphill battle, in this current environment, it is making a pandemic recovery

more and more difficult. To compensate for this, some small businesses are working at reduced capacity, restaurants have had to close for lunch service, or close early on weeknights, and other merchants have shrunk their operating hours because of the staffing shortage.

Additionally, more than a quarter of small business owners (27%) say supply shortages and long delays are another issue they are facing. The cost of moving products from point A to point B has always been top of mind for owners, but with continued disruptions to the supply chain, markedly increased freight costs, and other logistical speedbumps remaining, small businesses are having to pivot.

Despite these obstacles, business owners are still optimistic about the future state of their business. The majority say they are better equipped today to handle and survive another wave of the pandemic (83%), and 81% say they are prepared to handle a possible recession.

There are ways to mitigate all these hurdles, and Scotiabank is here to help business owners see beyond them.

## Advice Matters

As business owners continue to be challenged by high inflation, interest rate hikes and labour and supply chain issues, taking advice from a trusted source is now more critical than ever before.

Encouragingly, 90% of business owners have turned to someone for advice or support over the past two years. Although sources are diverse, half turned to advice through their financial institution, either with an advisor in person or through their bank's digital resources. A quarter (25%) of business owners sought out advice monthly from their financial advisor, and nearly half (49%) checked in every quarter.

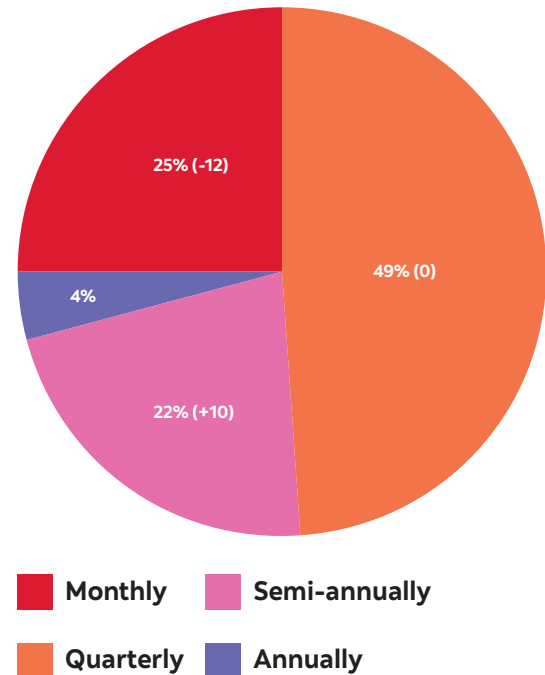
Advisors can help with more than just securing funding or pointing a business owner in the right direction. They are also there for everyday needs. The survey found that of those who turned to their financial institution or a trusted advisor for advice, 49% say they are doing better. In comparison, of those who did not seek out credible advice, only 29% say they are doing better.

While businesses are eager to look to the future, they also recognize more support can help them grow. The majority (83%) of small business owners surveyed say support or tools would help to sustain or grow their business in the future, with nearly half (44%) saying increased access to financial advice, would be beneficial.

With the pandemic pressures easing and new challenges on the horizon, banks too have had to adjust advice offerings for this ever-evolving financial environment. Among the big five banks, Scotiabank received the highest score for Advice Satisfaction, making it the leading bank for advice among customers. Three-quarters (77%) of small business owners who are Scotiabank primary customers said they are satisfied with the advice they have been given, up 35 points since last year. Overall satisfaction with Scotiabank has also improved among primary customers, up 19 points since last year.

As the economic landscape continues to shift and shape into something new, Scotiabank and its team of Small Business Advisors will continue to prove they are committed to small business owners, and to help ensure they are able to adapt to whatever the future holds.

**Frequency of Turning to a Financial Advisor  
(turned to advisor through financial institution, n=209)**





# Ready for the Future

No matter the present concern, or potential crisis on the horizon, businesses need to be adaptable and ready for anything. Whether it's fluctuations with inflation, rising interest rates, or staffing issues related to the labour market shortage, the steps below can help all businesses – large or small – tackle whatever roadblocks may pop up ahead.

---

## 1. Proactively explore financing options

If you feel your business needs additional financing to withstand future economic headwinds, it's best practice to be proactive, and start those conversations with your small business advisor sooner than later. Whether it be increasing your line of credit, exploring additional loan programs, or finding support by identifying and applying for government-based assistance programs, your Small Business Advisor can help you plot a course of action to make sure your business is best placed for continued success.

## 2. Don't let wasteful practices affect your bottom line

With increasing inflationary pressures, and a myriad of other contemporary economic challenges, it's never been more important to make sure your business is as streamlined as possible. With 29% of small businesses ranking cutting costs wherever possible as their number one immediate priority, talk to your Small Business Advisor today about where you can find efficiencies in your organization's operations to make sure you are maximizing your revenue.

## 3. Stay ahead of the curve on trends and have a contingency plan

As a business owner, it's vital to plan ahead and anticipate any changes to the business environment, whether in your marketplace/sector, in your local community, or in your personal life. More than 80% of small businesses surveyed said they received some form of financial relief from the government during the pandemic. Some of those relief loans are set to come

due next year so it's important to work on a repayment strategy now. With the possibility of a recession, continued interest rate volatility, increase in freight costs, and continued supply chain disruptions likely to remain, a contingency plan is one of the best lines of defence.

## 4. Keep digital top of mind

The global economy and advances in technology have created a huge world market, with an array of opportunities for commerce, sourcing labour talent and marketing your business to new customers. What's more, not all businesses need a storefront. A strong digital presence can mean a lot of the overall operations can be conducted from your own home, and remote and hybrid work options have demonstrated they're here to stay. Scotiabank can also help you navigate the evolving world of digital capabilities now available.

## 5. Spot new opportunities

Evolving and learning from past successes and failures is a great way to grow and can provide a renewed spark and excitement in your business. Revisit your existing products and services and explore if there is a place to add something new. Paying attention to trends in your industry and staying on top of current news can be great sources of inspiration. Be open to uncovering new opportunities and seek out the advice of a Small Business Advisor, who can help you plan your next big idea.