



Scotiabank Small Business Path to Impact 2024

Navigating the Future: Succession and Success in the Digital Era



View from the Bank

As a generational shift approaches for small business owners, there is a significant opportunity to enhance digital capabilities and modernize operations.

Our small business landscape is on the cusp of exciting transformations. How we navigate this change now will determine whether it unlocks even greater opportunities and strengths for all small businesses.

This year's *Scotiabank Small Business Path to Impact Survey* examines two interconnected challenges in Canada's small business landscape: the impending retirement or exit of business owners – many of whom are Baby Boomers – and the greater need for digital transformation.

We are about to witness a momentous shift in ownership. About one-third of businesses Scotiabank surveyed plan to sell or otherwise exit between now and 2030.

However, not all small businesses are ready.

Many are struggling with succession planning and lagging in their digital transformation efforts, both of which are putting a successful transition of ownership at risk.

From this year's survey, we learned that close to half of small business owners do not have a digital transformation plan in place. This lag not only makes it harder to address immediate challenges such as rising costs and consumers' increasing digital expectations but also jeopardizes the long-term health and viability of the businesses, thereby reducing their appeal to potential buyers.

Digitalization goes beyond consumer-facing interfaces — it's about reimagining business models and strategies for the future and providing new revenue and value-producing opportunities, which can transform our small business landscape.

Digital tools like online banking, payment platforms, inventory management, and more enable small businesses to step back and focus on what matters: growing their business and having an impact by not only fostering innovation within their respective industries and creating local job opportunities, but also by driving customer engagement through improved operational efficiency.

Small business owners are the heart of innovation for our society. Every day, we see how our clients are embracing fast-paced digital changes, recognizing the immense opportunities they present. That's why Scotiabank's Small Business Advisors are dedicated to offering tailored advice to help them navigate their business finances and optimize their operations in this new digital era.

A diverse and dynamic small business community is the backbone of Canada's economy. It's imperative that they are empowered to not only survive but thrive in a rapidly evolving landscape, even as they hand their businesses over to the next generation. Together, we can turn challenges into opportunities and build a stronger, more resilient future for Canadian small businesses.

Pouya Zangeneh (He/Him)

Senior Vice President, Small Business Scotiabank

Meet Your Navigators on the Path to Impact

This report features insights from three Scotiabank Small Business Advisors who offer valuable real-world perspectives from experience in the field.



Yacoub Boumali (He/Him), La Salle, QC

Yacoub Boumali is a Small Business Advisor at Scotiabank with over six years of experience in the financial sector. Since joining Scotiabank in 2022, Yacoub specializes in helping small businesses scale up and transition to medium and large-scale operations. He has been a mentor in small business, helping his peers with policy and procedure and general small business knowledge. Yacoub is passionate about helping small business growth and his holistic approach to client advisory has established him as a trusted advisor, helping numerous businesses achieve their short-term and long-term goals.



Kevin Miller (He/Him), Peterborough, ON

Kevin Miller is a Senior Small Business Advisor at Scotiabank with over five years of experience in the financial sector. Since joining Scotiabank in 2019, Kevin has progressed through various roles, from Personal Financial Advisor to his current senior position in the Small Business team. Kevin specializes in helping small businesses scale up and transition to medium and large-scale operations. He has been instrumental in implementing key programs like Scene+ and contributes to national Diversity, Equity, and Inclusion initiatives. Kevin is passionate about financial education and is currently running monthly financial literacy seminars for Indigenous youth. His holistic approach to client advisory has established him as a trusted advisor, helping numerous businesses achieve their short-term and long-term goals.



Yusuf Abdullah (He/Him), Vancouver, BC

Yusuf Abdullah is a seasoned Small Business Advisor at Scotiabank managing a diverse portfolio of over 400 clients. He excels in risk assessment, financial analysis, and providing tailored solutions. Yusuf also champions the Scotiabank Women's Initiative, supporting women-led businesses. His empathetic approach and leadership skills have consistently driven client success. Yusuf's achievements include several top performance awards and active involvement in community volunteering with a local Food Bank and other local initiatives.



The Succession Tsunami: Preparing for a Generational Shift

Over the past few years, the alarm bells warning of a small business “succession tsunami” have been growing louder. In 2023, the Government of Canada estimated that more than 75% of small business owners will retire within the next 10 years.¹

About half of the primary decisionmakers at small and medium-sized businesses are between 50 and 64. Another 12% are 65 or older.²

Given more and more leaders are entering their golden years, it's perhaps not surprising that this year's *Path to Impact* survey found that **close to half of small business owners plan to sell or otherwise exit** their

businesses within the next decade, with a **third (31%) planning to do so by 2030**. Just under half (45%) plan to sell in six or more years. It's a shift that represents a major opportunity for those willing to take over – whether they be younger generations, new Canadians or even other retirees looking for a second act.

The significant transformation already underway serves as an important cue for current small business owners to be thinking ahead about how to benefit from their hard work as they make their exit.

Yet, it may not be happening enough.

48% Close to half of small business owners plan to sell or otherwise exit their business in the next decade.

¹ Canadian Federation of Independent Business. “The Succession Tsunami: Preparing for a decade of small business transitions in Canada.” <https://www.cfib-fcei.ca/en/research-economic-analysis/succession-tsunami-preparing-for-a-decade-of-small-business-transitions>. Accessed September 16, 2024.

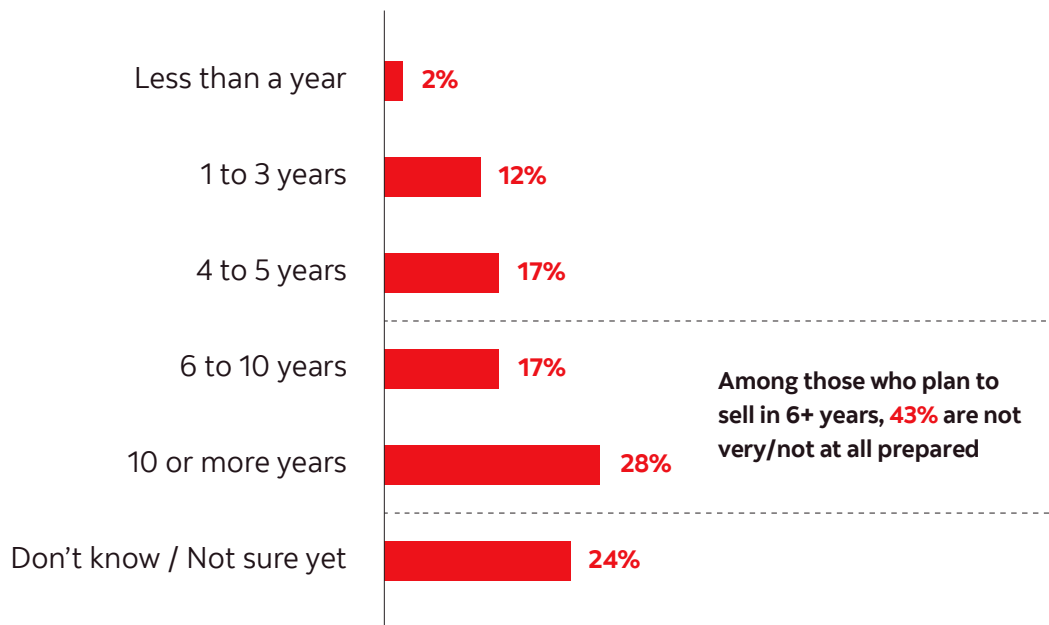
² Innovation, Science and Economic Development Canada. “SME Profile: Ownership demographics statistics.” <https://ised-isde.canada.ca/site/sme-research-statistics/en/research-reports/sme-profile-ownership-demographics-statistics/sme-profile-ownership-demographics-statistics#bookmark4-1>. Accessed September 16, 2024.

Among those we polled who plan to sell in six or more years, **43% of them are not very prepared**, or not at all prepared. In addition, one in four (24%) don't yet know when they plan to sell or transition ownership. For owners early in their journey, that's understandable – but for others closer to retirement or otherwise ending ownership, it's a reminder to start preparing sooner rather than later.

43%

of owners who plan to sell or exit their business in six or more years are unprepared.

Approximately when do you plan to sell or exit your business? (among total sample)



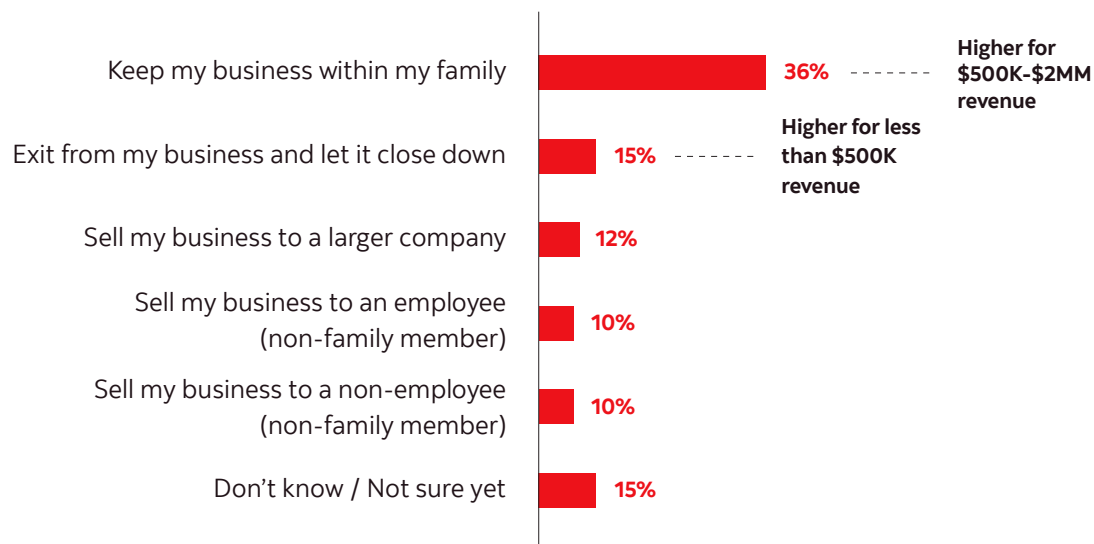


Planning for Succession

Thinking about how to prepare starts by understanding what exactly you are preparing for.

What are you planning to do with your business when you retire or exit?

(among total sample)



The most common succession plan option is keeping the business within the family, with 36% reporting plans to do so – an unsurprising finding given just over half (54%) of small businesses polled are family-owned.

“Often, when a young person takes over from those nearing retirement, it’s a family business,” says Yacoup Boumali, a Scotiabank Small Business Advisor. “These businesses typically have a legacy of being passed down through generations.”

However, about **one in three do actually plan to sell** – some to a larger company and others to non-family members (either an employee or someone else).

If they don’t have someone in the family to take over the business, the biggest challenge is finding the right fit. “It’s not only about the money,” Boumali

says. “Sometimes, a big corporation wants to buy the business, but the owners decline because they don’t share the same passion.”

Despite the prevalence of family-owned businesses, **more than a third of businesses polled (35%) said they do not have a succession plan in place at all**, with businesses with under \$500,000 in annual revenue being least likely to have one.

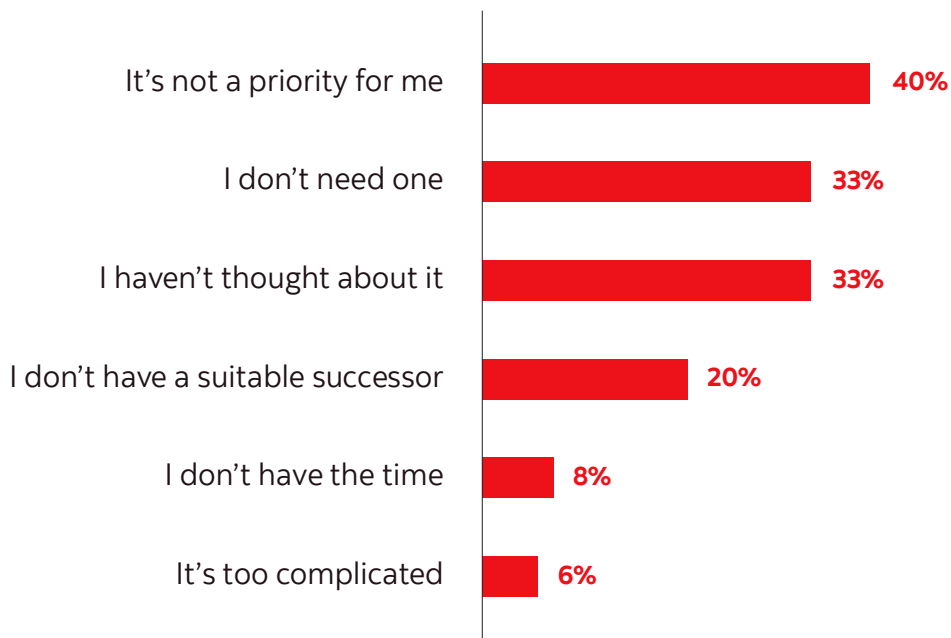
The top reasons for not having a plan in place are that it’s not a priority (40%), they don’t need one (33%) or simply haven’t thought about it yet (33%).

Concerns about the shorter term – namely, the economic climate and higher costs – may also be taking precedence. Inflation and a possible recession were the top-ranked concerns for the next 12 to 24 months, followed by supply chain disruption, labour shortages and cyberattacks.

35% of businesses polled do not have a succession plan in place at all.

Reasons For Not Having A Succession Plan in Place

(among small businesses that do not have a succession plan in place)



Increased costs (including for materials and supplies and capital costs) plus cash flow and funding challenges are all on the minds of small business owners, according to this year's Path to Impact findings.

As a result, business owners are looking to cut expenses, boost productivity and increase sales through additional channels, all of which can push longer-term planning further down the to-do list.

The Digital Transformation Gap

Meeting short-term challenges while still meaningfully planning for the future, including a transition in ownership, takes a concerted modernization effort.

“In 2024, if you don’t digitalize, your business is going to suffer”

Yusuf Abdullah,

Relationship Manager at Scotiabank

Along with meeting customer and employee demands for more digital experiences, small business owners can uncover efficiencies and cost savings, plus reach new customers and more by enhancing their digital capabilities (more on this below). Digital capabilities can influence the overall health and productivity of a business and ultimately, it's attractiveness to potential new owners.

Many small business owners already recognize this. Nearly half of those we polled **(45%) say it's critical to modernize their business through digital transformation to help with its sale/transition.**

Yet, nearly as many **(46%) say they don't have a digital transformation plan in place.** That's lower among businesses with under \$499,000 in revenue (32%).

“Digitalization is not only an industry issue. It's a generational issue,” says Boumali. “When speaking to clients about digitalization, there are challenges with the older generation who aren't comfortable online. There's a lack of trust there and it's hard to change their mind.”

When Baby Boomer owners struggle to meet the demands of the digital age, tech-savvier individuals often step in to rejuvenate the business. “I have

a client who sold their business out of fear of digitalization,” says Abdullah. “A younger employee scooped the business up and found success within six months.”

Millennials in particular are adept at transforming businesses digitally, almost flipping them for increased value – much like updating and reselling a house for profit.

Ultimately, selling businesses that are less digitally mature usually means leaving money on the table.

Businesses without a digital transformation plan in place may be less productive and less profitable, or simply even seen as outdated, dissuading potential buyers. Even for those taking over a family business, the burden of modernizing can be a big one to bear.

When it comes down to it, without a plan to modernize, small business owners may face their worst-case scenario – closing their doors for a final time, much sooner than anticipated.

Small Business Advisors can play a crucial role in helping small business owners modernize their businesses before selling. By doing so, they can maximize their profits, providing more funds for their next venture or a more comfortable retirement.

45%

of small business owners say it's crucial to modernize their business through digital transformation to help with its sale/transition.



Consumers Want to Keep Small Businesses Going Strong

Small businesses appear and disappear in Canada every year, for a number of reasons. Ideally, though, healthy small businesses can change hands seamlessly and continue to add to a growing landscape.

Among the small business owners surveyed this year, 15% plan to just exit from their business and let it dissolve. This can have damaging consequences for Canada's economy and the fabric of our communities.

Our poll of Canadian consumers this year reinforces this, with 61% saying that supporting their local community is the primary reason they choose to shop at small businesses over larger competitors.

Additionally, consider this: for every dollar Canadians spend at a small business, 66 cents stays local, six times more than at a multinational, creating a local multiplier effect that strengthens social ties, supports local businesses, and fosters mutual investment in community well-being.³

“People don’t want to see small businesses close. It’s not just about losing services or products; it’s about losing the economic vitality and entrepreneurial spirit that drives our nation.”

Pouyah Zangeneh,
Senior Vice President,
Small Business Scotiabank

61%
of Canadian consumers say supporting their local community is the primary reason they choose to shop at small businesses over larger competitors.

³ Scotiabank. “Keeping Loonies Local.” Scotiabank Advice Centre, <https://www.scotiabank.com/ca/en/small-business/advice-centre/increasing-profits/posts/keeping-loonies-local.html>. Accessed September 11, 2024.



Unlocking the Benefits of Digital Transformation

Canadian small businesses have heard it before: they have lower levels of digital maturity than their larger counterparts and as a result, lower productivity. The lag is not hard to understand. Small business owners are up against greater time and resource challenges, which can make modernizing difficult.

That makes it even more impressive that many small businesses have built some momentum. Despite nearly half lacking digital transformation plans, the *Path to Impact* survey shows most are making tangible improvements in some way.

Specifically, **71% of small businesses have enhanced their digital capabilities in the past three years,**

through upgraded software (36%), hardware (35%), and security (25%).

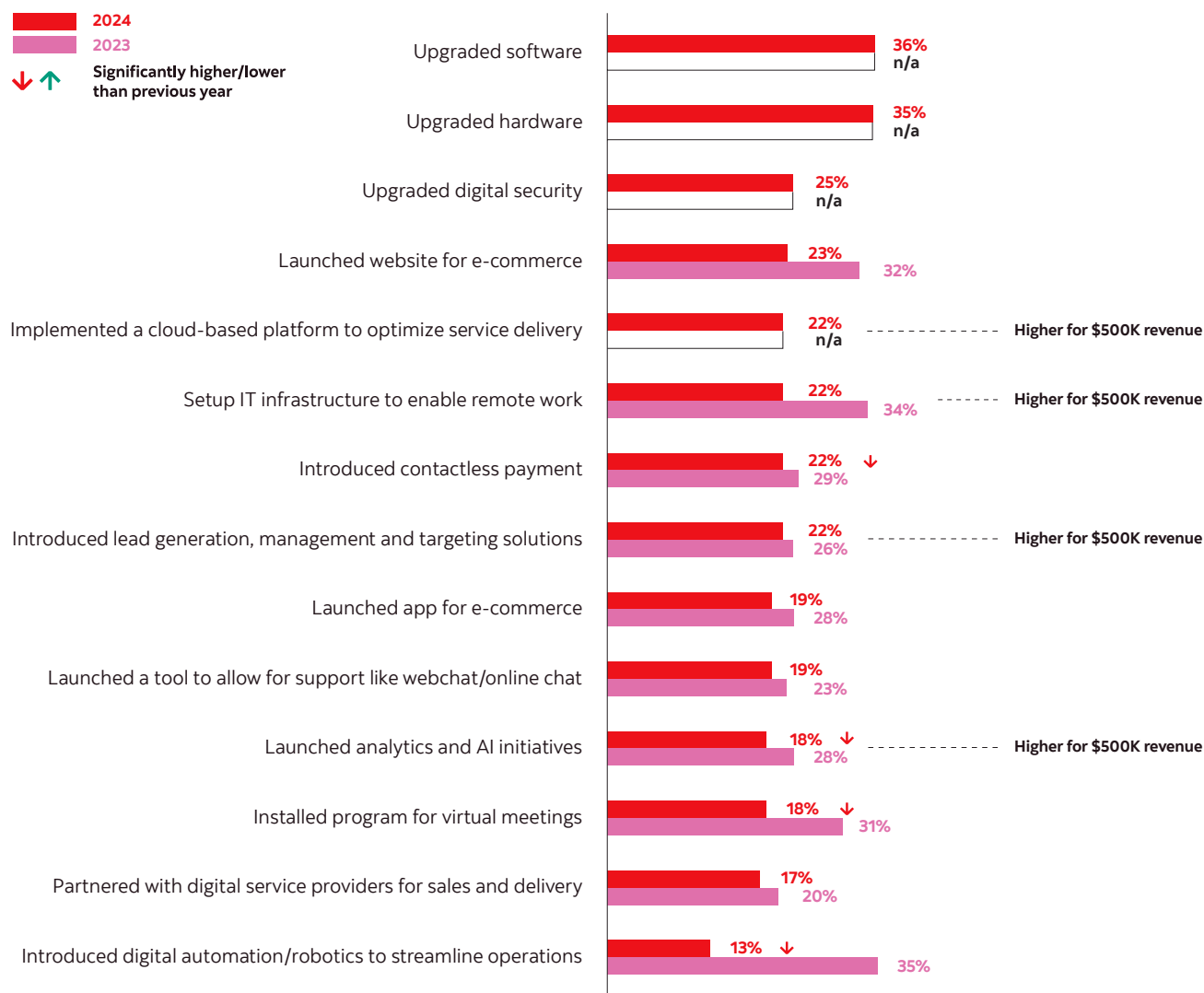
While the initial shift to digital was in many ways driven by pandemic restrictions, small and medium-sized enterprises (SMEs) continue to invest in digitalization, recognizing its value even after global conditions improved and the world reopened.

This includes implementing cloud-based platforms to optimize service delivery, introducing lead generation solutions, launching analytics/AI initiatives, and digital automation/robotics to streamline operations.

71% of small businesses have enhanced their digital capabilities in the past 3 years.

How have you enhanced your digital capabilities

(among small businesses that enhanced digital capabilities in the past 3 years)



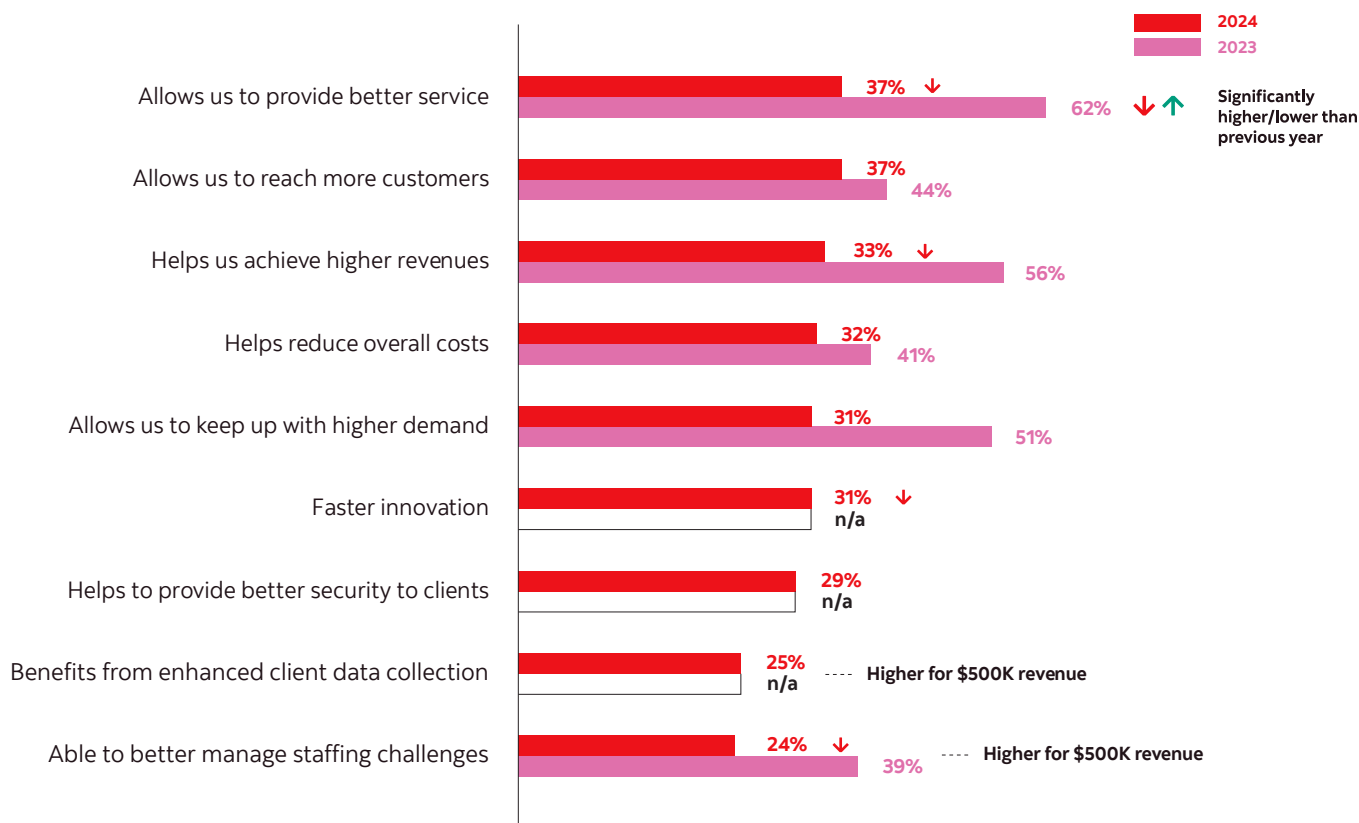
Small business owners are also showing openness to innovative support strategies, with **40% saying the integration of AI technology is a tool that would help them sustain or grow their business**. More importantly, those who have made strides, are reaping the rewards – from wider customer reach to increased revenues, reduced costs, ability to meet higher demand and faster innovation. Small businesses that have enhanced their digital capabilities in the last three years have reported the following benefits:

- Providing better service (37%)
- Reaching more customers (37%)
- Achieving higher revenues (33%)
- Reducing overall costs (32%)
- Keeping up with higher demand (31%)
- Innovating faster (31%)

40% of small business owners say AI technology would help them sustain and grow their business.

How has enhancing your digital capabilities helped your business?

(among small businesses that enhanced digital capabilities in the past 3 years)



In other words, digital capabilities are offering up solutions to the very challenges small business owners report being most concerned about in the short term.

Added to that, growing customer bases and boosted revenues make small businesses a more attractive

target for potential buyers. So, whether an owner is ready sell or transition ownership now or are more focused on the shorter view, digital transformation is a clear way to build a healthier business.



A Deeper Look: How Digitalization Builds Succession-Ready Small Businesses

For the **more than a quarter (28%) of small businesses who have not enhanced their digital capabilities in the last few years**, it may be time to reconsider.

“The transformation doesn’t just happen with a flick of a switch. It’s a three-to-five-month transition, but setup is easy and straightforward and Scotiabank Small Business Advisors will help along the way,” says one of those advisors, Kevin Miller.

The benefits of embracing digital technologies are clear and compelling for small businesses looking to thrive in today’s digital economy. Digitalization offers small business owners a powerful set of tools to enhance their operations, increase their reach, and secure their future – including transitioning to new ownership seamlessly.

1. Cost Efficiencies

Digitalization offers significant cost savings for small businesses across various operations. Online transactions and wire transfers are typically cheaper than their in-branch counterparts, while digital processes can dramatically reduce time spent on administrative tasks.

For instance, Boumali’s client who is a massage therapist now uses e-transfers for automatic deposits, streamlining payments. Similarly, direct deposits are more efficient

and cost-effective than physical cheques. Even tax payments become easier and potentially less costly when done digitally.

“Customers are excited about saving money and time,” Boumali says. “They don’t like coming to the branch when they can do it from home.”

2. Enhanced Security

In an increasingly digital world, cybersecurity may be the most significant advantage of digital transformation. Fraud protection technologies substantially reduce exposure to fraud, providing business owners with greater security. This enhanced safety is crucial for protecting the business that owners have worked so hard to build.

3. Increased Customer Awareness

Digital transformation can dramatically boost a business’s visibility and customer pool. For example, through improved search engine optimization (SEO) and digital marketing strategies, businesses can reach a wider audience and attract more customers. As Abdullah notes, this increased online presence “can generate thousands of dollars more per month.” This method of increasing revenue can be a game-changer for small businesses looking to grow and expand.



Small Business Readiness: Tools and Tips from Small Business Advisors

Whether you are planning the next chapter for your business, building its momentum or in the earliest stages of new ownership, there are tools and tips to help.

Scotiabank has a strong network of Small Business Advisors to provide specialized advice tailored to your business's unique needs. These advisors are equipped to help you manage cash flows, understand loan repayment strategies, and leverage various financial tools. Their expertise can be invaluable

in securing your business's financial health and navigating complex financial landscapes.

After all, for many small business owners, business is more than just a source of income. It's their passion, legacy, and deeply personal.

Here's what our Small Business Advisors suggest:

Tap into digital tools for comprehensive business planning

Scotiabank's [Small Business Planning Tool](#) is designed to help you navigate through the initial stages of drafting a comprehensive business plan.

This interactive resource guides you through each stage of creating a comprehensive business plan, offering helpful tips and explanations along the way. Once completed, you can save and print your plan, then bring it to a [Scotiabank Small Business Advisor](#)

for review, feedback, and a discussion about your financing options.

[Scotia Advice+ Centre for Business](#), launched in 2020 to support customers and small businesses navigating uncertain economic times. This online platform aligns with the growing trend of digital

ScotiaAdvice 

banking, providing small business clients with step-by-step guides for financial planning, investing, budgeting, and other essential services.

The [Small Business Solutions Builder](#) can also help you identify the most suitable banking solutions for your specific business needs

Finally, embrace digital transformation by integrating services like [ScotiaConnect](#) and partnership with Chase for [Merchant Services](#). These platforms

offer comprehensive payment processing solutions and advanced online reporting to help manage transactions and streamline operations. The shift towards online commerce is accelerated with competitive rates, enhanced security, and the convenience of managing business finances anytime, anywhere.

Look for support that meets your unique needs

Every business owner is different. And when it comes to dealing with advice, our Small Business Advisors have different approaches to help you plan your vision and meet your financial goals.

For his part, Miller likes to play devil's advocate, helping clients work through every detail of their business plan.

"I had a client come in and say she wanted to open an ice cream store. She knew what she wanted but was trying to work out the details before writing a full business plan. We talked through a lot of complications and situations: financing, lease-hold improvements, how often it will be open, payroll, etc. She ended up opening a pop-up truck because she realized that she couldn't leave her 9-5, support her family and deal with a startup. It worked out very well because her kids are helping her with it and it's very successful."

But it's not always this easy. Sometimes, there's a grey area to wade through before you can give your best advice. "I always ask for an honest account of their financial situation so I can help create a full strategy. Then, I look at all the red flags and figure out how to turn them into green flags," Boumali says. "This is the hardest when customers have bad credit. But I can work with them on a plan to help rebuild their credit, and Scotiabank has tools to help."

Along with digital planning tools and customized advice, Scotiabank also offers support on several grant and subsidy options 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.

Start planning for succession early

Our small business advisors can't emphasize enough the importance of planning ahead enough. "The earlier you speak to me, the earlier I can help by connecting you with the right resources across the Bank, like private banking and family wealth options," says Miller.

Small Business Advisors working with Scotia Wealth Management provide business transition planning

support including succession strategies and/or exploring sale options. Ensuring a smooth transition involves strategic planning and expert wealth advice, safeguarding the future of your business and maintaining its legacy.

Small Business Survey Methodology

The *Scotiabank Small Business Path to Impact Survey* was conducted on behalf of Scotiabank by Maru Public Opinion and its sample and data collection experts at Maru/Blue. A total of 663 financial decision makers at Canadian businesses with annual revenue between \$50,000 and \$5 million responded to the survey between July 12 and 22, 2024. The survey was conducted in both English and French.

Consumer Survey Methodology

This Maru Public Opinion survey conducted on behalf of Scotiabank was undertaken by the sample and data collection experts at Maru/Blue. 1,530 randomly selected Canadian adults who are Maru Voice Canada online panelists were surveyed from August 23rd to August 24th, 2024. The results of this study have been weighted by education, age, gender, and region (and in Quebec, language) to match the population, according to Census data. This is to ensure the sample is representative of the entire adult population of Canada. For comparison purposes, a probability sample of this size has an estimated margin of error (which measures sampling variability) of +/- 2.5%, 19 times out of 20. Discrepancies in or between totals when compared to the data tables are due to rounding.

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