



Canadian
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Business
Data Lab

Laboratoire de données
sur les entreprises



A Portrait of Small Business in Canada: Adaption, Agility, All At Once.



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ABOUT THE BUSINESS DATA LAB

In February 2022, the Canadian Chamber of Commerce launched the Business Data Lab (BDL) to help businesses boost their performance with granular insights on rapidly changing business trends. Established in collaboration with Statistics Canada and with financial support from Innovation, Science and Economic Development Canada, the BDL's main objectives are to advance Canadians' understanding of business conditions and to democratize data. To support better decision-making and improve business performance, the BDL shares its insights across the Canadian Chamber of Commerce network. This consists of chamber organizations representing over 200,000 Canadian businesses.

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MESSAGE FROM THE CHIEF ECONOMIST

A core mission of the Business Data Lab is to enhance understanding of business conditions in Canada. While the importance of small businesses to Canada's economy is undeniable — there are 1.3 million of them employing over 11 million people — there is still much we don't know about them. Until now, our BDL outputs have incorporated lots of data and insights about small business, but this is our first report that focuses exclusively on them.

A key contribution of this report is to unpack the traditional black box of small businesses — defined as those with 1–99 paid employees — into three more detailed subcategories (that we call “micro,” “scale” and “mature”), which reveal significant heterogeneity of experiences among these groups.

It turns out that understanding these nuances is important, especially the distinctions that emerge for micros, which are the most common firm type and represent the majority (57%) of businesses in Canada.

This report is full of insights. It not only illustrates where various small business groups are located, by geography and sector; it also provides a detailed look at several business ownership categories, including women, immigrants to Canada, visible minority groups, Indigenous, persons with disabilities and LGBTQ2+ community members. While there are some bright spots, this report underscores that work remains to develop a truly inclusive and representative landscape of small businesses in Canada.

The COVID-19 pandemic was difficult for everyone, but particularly small businesses, which were hit hard in terms of business growth, employment, revenue, and debt. Unfortunately, the current context of slowing global growth and high interest rates designed to control inflation means the near-term business outlook is not great for micro businesses. At the same time, these companies



made some of the biggest leaps forward when pandemic health restrictions prompted a rapid acceleration of digital adoption for firms and consumers. I am optimistic that these qualities of resilience and perseverance will continue, despite the challenging context.

I encourage you to dig into this BDL report. I'm sure you will learn something new about small businesses in Canada.

Stephen Tapp
Chief Economist

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1 Introduction

Time and again, research has emphasized the role of small businesses and entrepreneurs in driving economic growth, creating meaningful employment and fostering innovation. Small businesses are a major contributor to Canada's economy, but they are also often more vulnerable to shocks and downturns. And even though over two-thirds of employees in Canada work for small businesses¹, there remains a wealth of unexplored data and questions, with notable knowledge gaps in our understanding of this crucial bedrock of the economy.

With the worst of the pandemic now behind us, the lingering effects on small businesses continue. Even as they hoped to catch their breath from major economic forces working against them, businesses now face a significant slowdown, which brings the very real possibility of a recession.

In this report, we explore the following questions:

- What is the current state of small businesses in Canada?
- How is the small business context evolving?
- How can small businesses be better positioned to thrive in this rapidly changing environment?

We answer these questions by drawing from a variety of data sources, including custom tabulations from Statistics Canada's Canadian Survey on Business Conditions (CSBC)², Environics Analytics' Opticks eShopper database³, as well as public sources. The results, we think, offer some new perspectives and insights and provide a comprehensive, yet nuanced, look at small businesses in Canada.

We show that the experiences of small businesses in Canada are far from homogeneous. Existing divergences among small businesses

have been exacerbated by the pandemic as well as by challenging macroeconomic conditions. Small businesses continue to grapple with slower business growth, weaker employment, lower revenue and increased debt. Even more, large gaps remain in business ownership representation for a variety of equity-seeking groups.

At once, the ongoing technological revolution is transforming how business is done. But it has also catalyzed the necessary evolution of small businesses to meet evolving consumer and market needs and to remain competitive. And, while economic and technological shocks will always be a constant feature of our world, demands on small businesses to adapt and innovate alongside wider green and digital transitions are continuing to intensify.

Our findings reiterate that policymakers, will need to carefully consider new strategies and approaches that can better strengthen small business in Canada and ensure the continued nurturing of this indispensable segment of our economy. That means acting with agility to adopt new technologies and processes and striking a fine balance of rapid and broad government support in the short term, with longer-term structural interventions. All this underscores the gravity of enabling and equipping small businesses for success in a complex environment.

Herein, our aim in this report is to understand how various types of small businesses in Canada — with distinct and intersectional characteristics such as size, industry, age and majority ownership — are navigating these complexities. At a time when Canada's per capita economic growth is shrinking, and with major questions about labour shortages, weak productivity, increased debt and costs, immigration and the inclusion of women and minority groups, a better understanding of small business is not only opportune; it is fundamental.

2 The Current State of Small Business



2.1 UNPACKING TRADITIONAL DEFINITIONS

Heterogeneity within Small Businesses

Small businesses in Canada are traditionally defined as “business establishments that have 1 to 99 paid employees.”⁴ This definition is based on readily observable employment data⁵, which simplify comparisons with medium- and large-sized enterprises. Unfortunately, such a broad definition glosses over the tremendous heterogeneity among small businesses. Therefore, for the purposes of this report, wherever data permit, we break down the usual definition of “small businesses” into three subcategories:

MICRO
BUSINESSES

1 - 4
employees

SCALE
BUSINESSES

5-19
employees

MATURE
BUSINESSES

20-99
employees



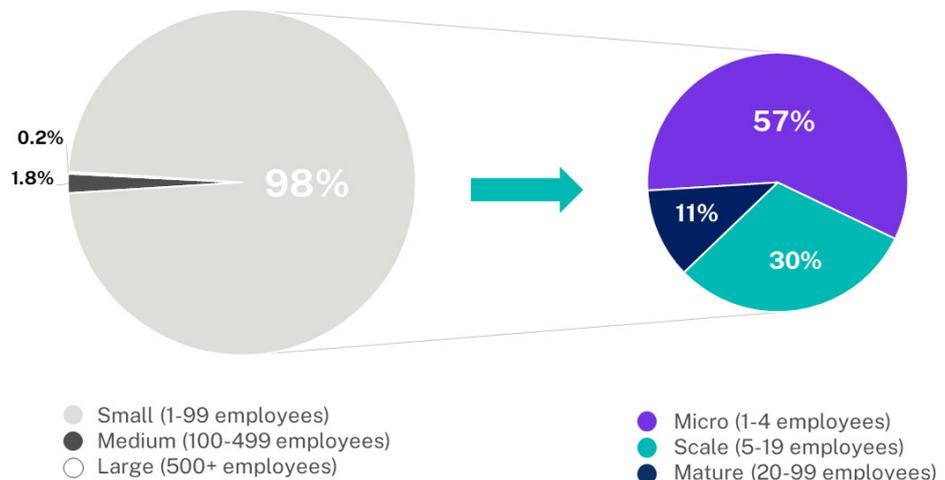
Canada’s business landscape is primarily populated with small businesses, most of which are very small “micro” firms.

Our starting point is the simple, yet powerful observation that Canada’s business landscape is primarily populated with small businesses, most of which are very small “micro” firms (Figure 1). To add numbers to this observation, in June 2023 there were 1.35 million businesses in Canada with paid employees. The overwhelming majority (1,322,687 of these businesses, representing 98% of the total) were conventionally classified as “small” businesses, which collectively employed over 11 million people. Only 1.8% of businesses were “medium” sized (24,181 businesses with 100–499 paid employees), and the remaining small fraction, just 0.2%, were “large” (3,202 businesses with 500 or more employees).

Digging further into the “small business” category reveals that micro firms are by far the most common businesses type in Canada (accounting for 57% of all firms), followed by scale (30%) and then mature (11%) businesses. In fact, if all businesses in Canada were sorted by employment size, the median⁶ firm would have fewer than five employees, which underscores the importance of improving our understanding of the business realities of all small firms, but especially micro firms.

Figure 1: The overwhelming majority of businesses in Canada are small.

Distribution of businesses in Canada, by firm size, per cent of total.



Source: Statistics Canada. Table 33-10-0661-01 Canadian Business Counts, with employees, December 2022; BDL calculations.



Geographical Distribution of Small Businesses

Perhaps not surprisingly, the bulk of small businesses are in the four most populous provinces of Ontario, Quebec, British Columbia and Alberta. However, examining the number of businesses per capita (i.e., adjusting for vast population differences) shows there are proportionately more businesses located in Yukon, Prince Edward Island and Western Canada (British Columbia, Alberta and Saskatchewan) than elsewhere (see Table 1)⁷. In addition to Newfoundland and Labrador and the Northwest Territories, these provinces and territories have a higher-than-average concentration of small businesses per capita (on average more than 33 small businesses per 1,000 individuals).

Table 1: There are more small businesses per capita in western Canada and on the coasts.
Small businesses per capita, by province/territory and firm size, number of businesses per 1,000 people.

	Small	Micro	Scale	Mature
Canada	33	19	10	4
British Columbia	39	22	12	4
Alberta	37	22	11	4
Saskatchewan	35	20	12	4
Manitoba	30	16	10	4
Ontario	32	19	9	3
Quebec	31	17	10	4
New Brunswick	32	17	11	4
Nova Scotia	30	16	10	4
Prince Edward Island	40	22	13	4
Newfoundland & Labrador	35	21	11	3
Yukon	43	22	16	5
Northwest Territories	34	13	14	7
Nunavut	17	7	6	4

Source: Statistics Canada. Table 33-10-0661-01 Canadian Business Counts, with employees, December 2022; BDL calculations.

Industry Distribution of Small Businesses

Of course, small businesses are also not distributed evenly across industries. Nearly half of all small businesses are in the following four industries: professional, scientific and technical services; construction; retail trade; and health care and social assistance (Table 2). There are some differences in the concentration of small businesses in their industry rankings. For example, for micros, the most common type of firm is found in professional services (18% of the total), followed by construction (14%). For scale businesses, retail trade is the front runner (at 17%), followed by construction (12%), accommodation and food services and health and social (11%). Finally, for mature firms, retail trade and accommodation and food services are the most common (at 16%).

Understandably, professional services are often a natural fit for the smallest enterprises, as they rely primarily on human capital to create unique business services, with lower barriers to entry. In contrast, the larger among small businesses are more clustered in activities in retail trade as well as accommodation and food services. While these industries have higher barriers to entry such as higher start up costs, need for inventory accumulation and more regulations, they also reflect economies of scale in production, when delivering more standardized consumer-focused products.

Note that there are few small businesses in activities that naturally operate at larger scales. Here, public sector industries include utilities, public administration and education, while private sector industries include mining and energy, administrative services and management of companies.

Table 2 : Small businesses are most common in professional services, construction, retail trade and health care.

Small businesses per capita, by industry and firm size, share of total.

	Small	Micro	Scale	Mature
Accommodation, food services	7%	3%	11%	16%
Administrative services	0%	0%	0%	1%
Agriculture, forestry	4%	5%	3%	2%
Arts, entertainment, recreation	2%	1%	2%	2%
Construction	13%	14%	12%	8%
Educational Services	2%	1%	2%	2%
Finance, insurance	3%	3%	4%	4%
Health care, social assistance	11%	11%	11%	11%
Information, culture	2%	2%	2%	2%
Management, Companies	0%	0%	0%	1%
Manufacturing	4%	3%	5%	8%
Mining, oil and gas	1%	1%	0%	1%
Other services	9%	10%	9%	4%
Professional services	13%	18%	8%	7%
Public Administration	1%	0%	1%	2%
Real estate	5%	7%	3%	2%
Retail trade	12%	8%	17%	16%
Transportation, Warehousing	6%	8%	3%	4%
Utilities	0%	0%	0%	0%
Wholesale trade	5%	4%	6%	6%

2.2 SMALL BUSINESS OWNERSHIP IN CANADA



There are also important differences regarding ownership⁸ of private sector businesses, particularly of small firms, by traditionally underrepresented groups in Canada ([Table 3](#)). See [Annex A](#) for more detailed results by category of small business size. In fact, among the traditionally underrepresented groups we consider, women have the largest gap in business ownership relative to their population share. There are also significant ownership gaps for persons with disabilities, visible minorities (which are disaggregated further below) and Indigenous persons.

Table 3 : Immigrants to Canada are the only equity-seeking group with a more-than-proportional representation of business owners.

Majority ownership of private sector small businesses in Canada, by underrepresented/equity-seeking groups.

Majority Ownership	Private Sector Businesses (Thousands)	Share of Businesses by Majority Ownership (%)	Share of Population (%)	Business Owner Representation Gap (Percentage points)
All	1,033.0	100	--	--
Immigrant to Canada	263.9	25.5	23.0	-2.5
Visible minority	198.6	19.2	26.5	7.3
Woman	183.4	17.8	50.9	33.1
LGBTQ2+	34.5	3.3	4.0	0.7
Person with a disability	22.7	2.2	22.0	19.8
Indigenous	22.5	2.2	5.0	2.8

Note: As of Q2 2023, population from the 2021 census, **overrepresented** and **underrepresented** as per population shares. Sources: Statistics Canada, Canadian Survey on Business Conditions; 2021 census; and additional sources.

Immigrants to Canada

Canada is in the midst of welcoming its highest rates of immigrants in several decades. This will have dramatic effects on the labour force, but also on entrepreneurship, because business ownership and self-employment rates are higher among immigrants than among the Canadian-born population.⁹ Indeed, immigrants to Canada own a disproportionate share of private sector businesses (263,850 businesses, or 25.5% of all private sector businesses) compared with their share of population (23%). One strong factor is immigrants' high share of micro businesses (30%), in contrast with their underrepresentation in both scale and mature enterprises.

Women

Another shift that will also continue playing a significant role in reshaping the Canadian economy is the role of women in the labour market. By way of social distancing and mobility restriction measures, the past few years have offered women more flexible work arrangements, encouraging them to find more in-demand and higher-paying jobs.¹⁰ Government efforts to increase the availability of affordable childcare have also helped women's labour force participation to rebound. With the transition back to the office, barriers that perpetuate gender-based differences in labour force participation threaten this progress.¹¹ And, as Canada's labour force continues to grapple with challenges of an aging population, skill shortages and lagging productivity, it raises the larger question of how to preserve and sustain these trends.

Persons with a Disability

Another underrepresented group in terms of business ownership (2.2%) compared with their share of the population (22%) is persons with a disability. Given the prevalence of disability, this gap signals tremendous untapped potential for entrepreneurship, but also one with significant potential effects on socio-economic outcomes, including labour market participation.

LGBTQ2s+

The LGBTQ2+ population (4% of Canada's total population) is also somewhat underrepresented as business owners (3.3%), lagging most as owners of mature businesses (0.6%; [see Annex A](#)).





The groups that are most underrepresented as business owners in Canada include Black, Filipino, Latin American, Arab and Southeast Asian.

Indigenous People

Business ownership is a core lens on underrepresented groups' opportunities and abilities to generate their own-source revenues, create jobs and invest in communities in ways that align with their objectives for development. For Indigenous people, this is crucial to their survival in a way that preserves their culture and identity and expands their inclusion and contribution to Canada's economic growth — currently valued at \$50 billion. Still, although they are 5% of the country's population, Indigenous people's share of businesses owned remains less than half of that (2.2%), although they appear to be doing better on ownership of mature businesses, the largest type of small business ([Annex A](#)).

Visible Minorities

Examining the various subcategories of visible minority-owned businesses, only South Asians (which includes Indian, Pakistani and Sri Lankan-owned businesses) and Koreans have more representation in business ownership, than their population shares ([Table 4](#)). Conversely, the groups that are most underrepresented as business owners in Canada include Black, Filipino, Latin American, Arab and Southeast Asian (which includes Vietnamese, Cambodian, Laotian and Thai).

Table 4 : South Asians and Koreans are the only visible minority groups with higher representation among business owners than their population shares.

Majority ownership of private sector small businesses in Canada, by visible minority group.

Majority Ownership	Private Sector Businesses (Thousands)	Share of Businesses by Majority Ownership (%)	Share of Population (%)	Business Owner Representation Gap (Percentage points)
All	1,033.0	100	--	--
Visible minority	198.6	19.2	26.5	7.3
South Asian	82.1	7.9	7.1	-0.8
Chinese	48.0	4.6	4.7	0.1
Black	16.5	1.6	4.3	2.7
Filipino	6.9	0.7	2.6	1.9
Latin American	10.5	1.0	1.6	0.6
Arab	14.4	1.4	1.9	0.5
Southeast Asian	6.3	0.6	1.1	0.5
West Asian	8.1	0.8	1.0	0.2
Korean	7.5	0.7	0.6	-0.1
Japanese	2.5	0.2	0.3	0.1

Note: As of Q2 2023, population from 2021 census, **overrepresented** and **underrepresented** as per population shares. Sources: Statistics Canada, Canadian Survey on Business Conditions; 2021 census; and additional sources.

When digging into the shares of micro, scale and mature businesses that are majority owned by these visible minority groups, several nuances emerge. For instance, while the share of all sizes of private sector businesses owned by Chinese is remarkably close to the share of Chinese in the population, they are especially underrepresented in mature-sized enterprises (1.2% vs. 4.7% share of population). Korean owners remain slightly underrepresented in both scale-sized enterprises (0.5%) and mature small businesses (0.1%) compared with their share of the population (0.6%). Japanese business owners, in contrast, are overrepresented in these two categories but underrepresented in the share of micro firms (0.1%) compared with their share of the population (0.3%). Arabs are underrepresented as owners of micro businesses (1.8%) and scale businesses (0.6%) compared with their share of the population (1.9%).

Overall, examining these trends allows us to better formulate a picture of how much work is needed to develop a truly inclusive and representative landscape of small businesses in Canada.



3 Macroeconomic

Context



Many of the pre-existing challenges that plagued small businesses persisted and, in certain cases, were exacerbated during the pandemic. In general, the body of evidence shows that the smaller the firm, the bigger the problems.

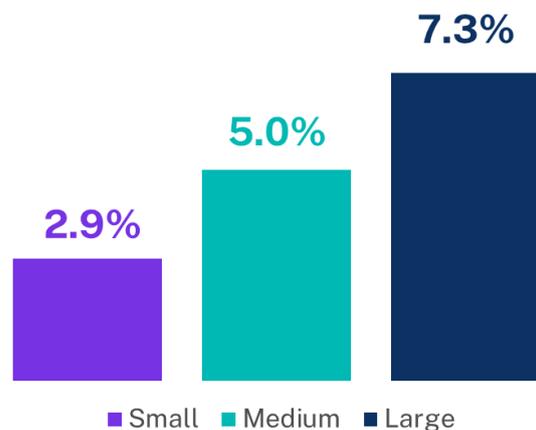
During the pandemic, small businesses had slower business and employment growth, were more likely to face significant revenue declines and debt constraints, as well as difficulties adopting new technologies. These challenges not only continue to haunt small businesses well beyond the lifting of restrictions, but further hamper their ability to cope with tumultuous economic conditions.

3.1 BUSINESS GROWTH

Starting with changes in the number of active businesses in Canada by firm size, smaller-sized businesses performed worse over the course of the pandemic. The most recent data (June 2023) show that, compared with pre-pandemic conditions in December 2019, the number of businesses increased by 7.3% for large firms, 5.0% for medium firms and only 2.9% for small firms ([Figure 2](#)).

Figure 2: Business growth through the pandemic was slowest for small businesses.

Percentage change in number of businesses with employees, by firm size, Canada, June 2023 versus December 2019.



Source: Statistics Canada. Table 33-10-0717-01 Canadian Business Counts, with employees, June 2023; Table 33-10-0222-01 Canadian Business Counts, with employees, December 2019; BDL calculations.



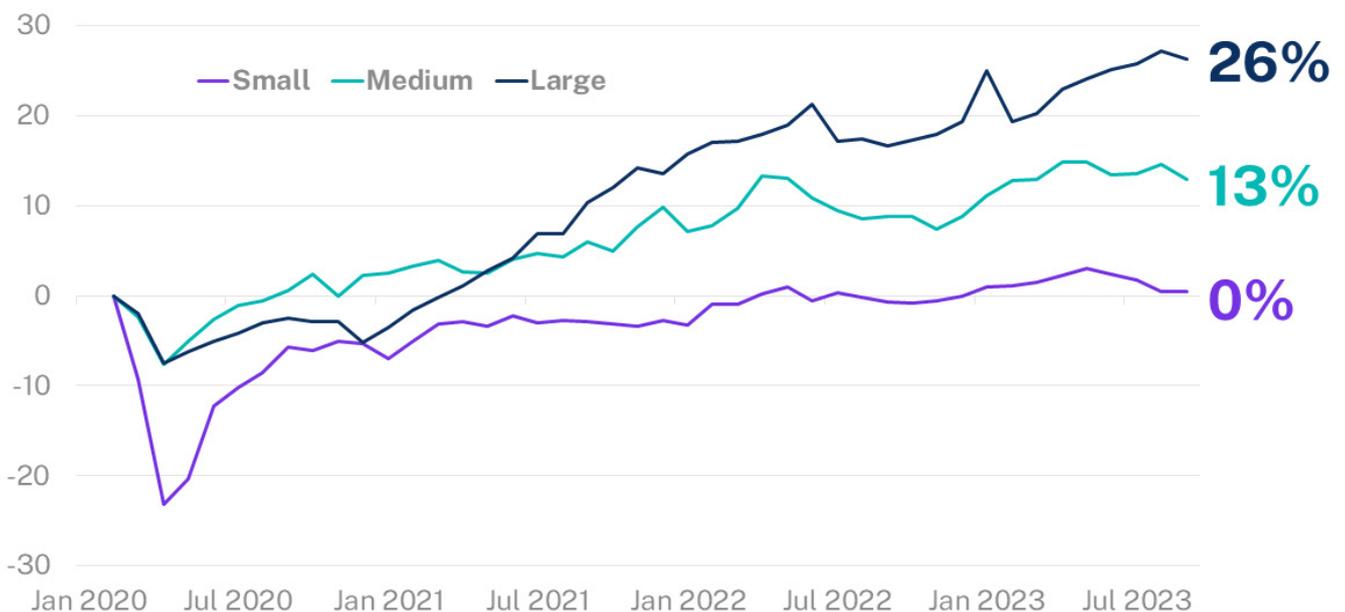


3.2 EMPLOYMENT

Employment data show the disproportionate toll of the pandemic on industries where small firms are concentrated, such as accommodation and food services; arts, culture and entertainment; professional services; and retail trade. As a result, in April 2020, employment at smaller firms was hit hardest. Indeed, it was essentially unchanged over three and a half years, and by June 2023, was by far the slowest to recover. In contrast, employment at medium-sized firms was up by 13% and at large firms a remarkable 26% (Figure 3).

Figure 3: Small businesses were hit hardest by unemployment.

Percentage change in net employment, by firm size, Canada, February 2020–June 2023.



Source: Statistics Canada. Table 14-10-0067-01 Employment by establishment size, monthly, unadjusted for seasonality (x 1,000); BDL calculations.

3.3 REVENUE AND BUSINESS DEBT

At peak of the pandemic and the start of 2021, according to data from the Q1 2021 CSBC, over 60% of firms experienced a decline in revenues in 2020 relative to 2019. Furthermore, nearly one-third of Canadian businesses registered a revenue drop of 30% or more over the same period.¹² Still, small businesses were almost twice as likely to have experienced a drop in revenue in 2020 compared with medium and large firms (100 employees and above), and they expected further declines in sales and profitability.¹³ Additional business surveys showed that having better business capabilities in place, earlier in the pandemic, to conduct online sales, especially amidst many storefront closures, helped to moderate export as well as domestic sales.¹⁴

Data from the Q1 2022 CSBC survey and reported revenues in 2021 versus 2019 showed that the same patterns endured by breadth, with more small firms affected, and depth, where those affected were hit harder. More than half of firms (52%) were still reporting lower revenues (55% for micro, 51% for scale, 41% for mature and 35% for medium-to-large firms). The share of businesses reporting revenue declines of 25% or more were higher for micro enterprises (31%) than for scale (27%) and mature (23%) firms and lowest for medium-to-large firms (14%).

It is no surprise then, that by the end of 2022, according to the CSBC, almost one in four (23.2%) private sector businesses reported that their debt loads had increased over the course of the pandemic. Pandemic debt increases were more common for small businesses and those owned by underrepresented groups. These same groups were also more likely to report that their business could not take on additional debt. Debt constraints have consistently been a bigger concern for the smallest businesses — specifically, micro and scale businesses; see [Figure 4](#).

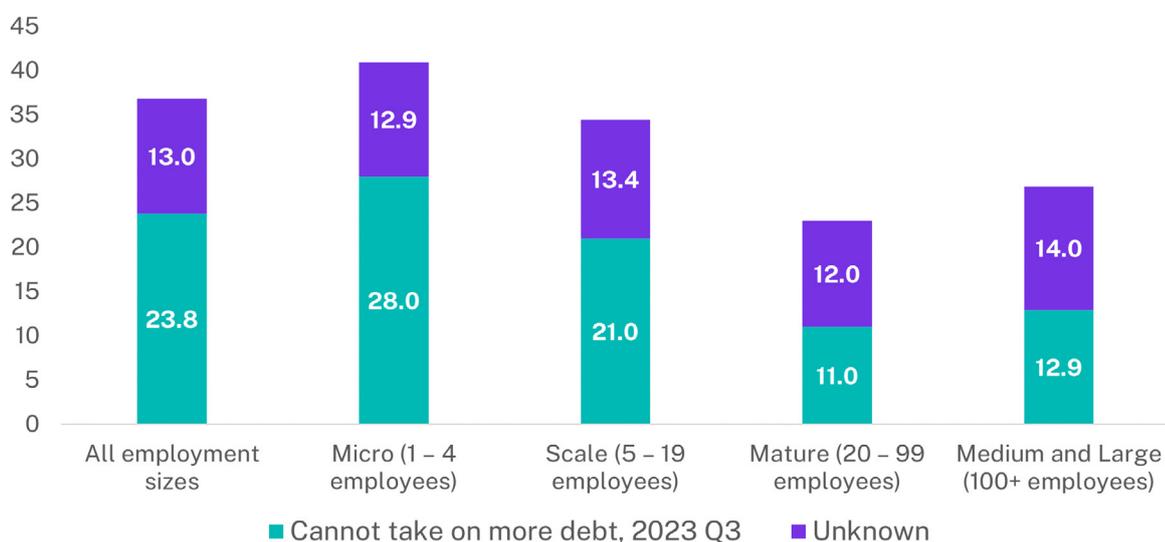
The CSBC also shows that the top reasons small businesses are unable to apply for more debt are unfavourable interest rates, lack of confidence or uncertainty in future sales and lack of cash flow. On average, one in 10 or more younger micro and scale firms cited interest rates for their inability to take on debt, which has steadily increased in 2023 ([Figure 5](#)).



One in four private sector businesses reported that their debt loads had increased over the course of the pandemic.

Figure 4: Debt constraints are tighter for smaller firms.

Ability to take on debt, by firm size, Canada, Q3 2023.



Source: Statistics Canada, Canadian Survey on Business Conditions, Q3 2023; BDL calculations.

Figure 5: Higher interest rates are a key reason young micro and scale companies cannot take on more debt.

Reasons for inability to take on debt, Q1 to Q3 2023.



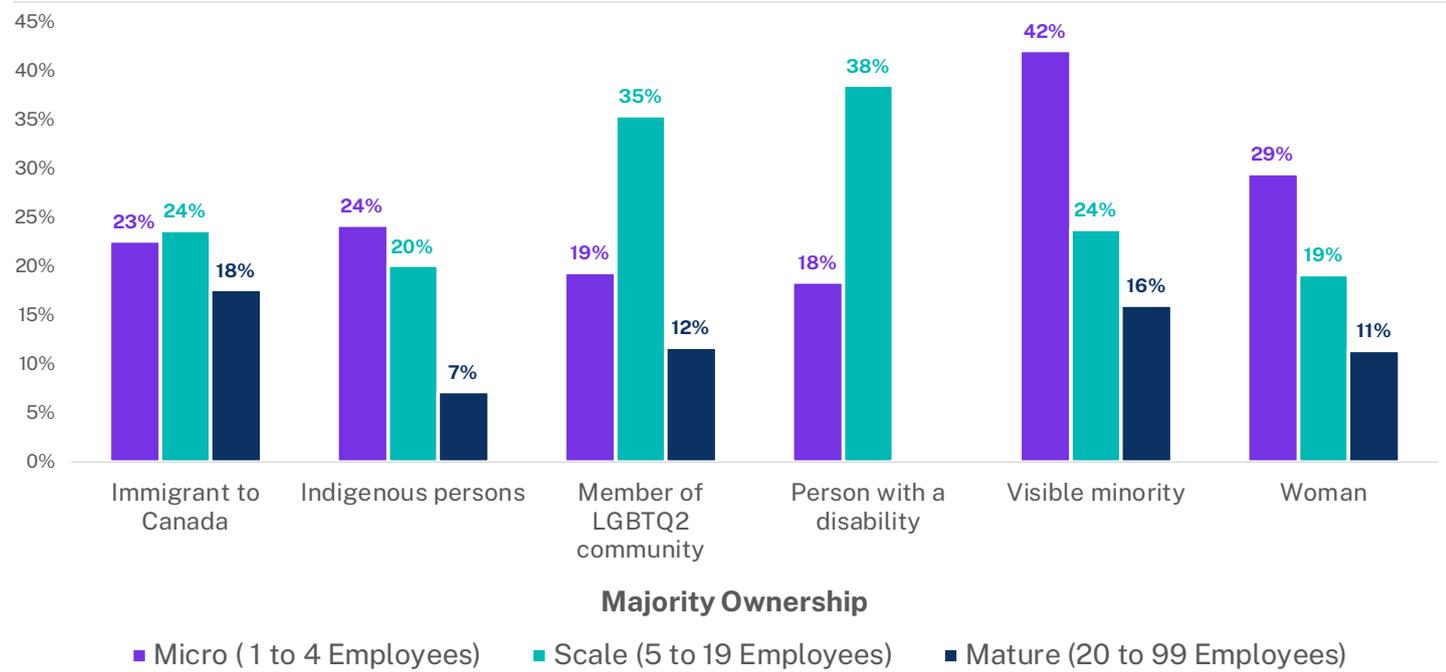
Source: Statistics Canada, Canadian Survey on Business Conditions, Q1-Q3 2023; BDL calculations.

In many sectors where small businesses are highly concentrated, those same patterns persist. Approximately three in 10 micro businesses or more in accommodation and food services (38%), construction (34%), professional services (31%), retail trade (30%) and wholesale trade (26%) reported an inability to take on debt. The same is true for scale and small-sized firms, albeit to a lesser extent. And at least one in four micro and scale businesses owned by visible minorities, immigrants, women and Indigenous people were also more likely to report debt challenges ([Figure 6](#)).

While pre-pandemic low interest rates and pandemic government support programs such as the Canadian Emergency Business Account (CEBA) allowed small businesses, especially, to cushion the initial shocks of the pandemic and navigate these elevated debt levels and continue to remain profitable, this is no longer the case. To bring inflation back to target, the Bank of Canada has hiked its policy rate 10 times for a cumulative 4.75 percentage points since March 2022. CEBA repayment deadlines are fast approaching, and many firms are experiencing difficulties paying back these loans.

Figure 6: Micro and scale firms owned by underrepresented groups reported the highest likelihood of inability to take on debt.

Ability to take on debt, by underrepresented group ownership, Canada, Q1 to Q3 2023.



Source: Statistics Canada, Canadian Survey on Business Conditions, Q1-Q3 2023; BDL calculations.



4 Tech Adoption

and Going Digital



4.1 CLICK AND MORTAR: SMALL BUSINESSES' E-VOLVED CONSUMERS

In 2019, the International Data Corporation boldly predicted that the global economy would achieve “digital supremacy” by 2023, accounting for more than half of total global gross domestic product. In other words, we would see most of the world’s economic growth “driven by products and services from digitally transformed enterprises.”¹⁵ Unbeknownst to them (and us) at the time, we were on the precipice of a quantum leap in digital transformation and technology adoption that vastly differed from any other period in history, even the dot-com boom. One main reason was that firms, irrespective of size, across all sectors and essentially all over the world, were adopting and revolutionizing the way they did business.

Indeed, businesses are not the only ones experiencing substantial change: the way consumers shop also continues to evolve rapidly. Traditional, physical, in-person marketing strategies that once fueled the pipeline for firms to build their customer bases and promote their products now demand the supplementation of new channels for advertising and consumer reach. The advent of new technologies and the rise and ubiquity of social media are challenging and changing how businesses reach consumers online.

We studied Environics Analytics’ Opticks eShopper¹⁶ powerful dataset to glean insights

into how consumers are using the latest technology in their purchases. The results further emphasize the challenge businesses face today to meet consumers’ desire for personalized online interactions, while, in many cases, maintaining physical store locations.

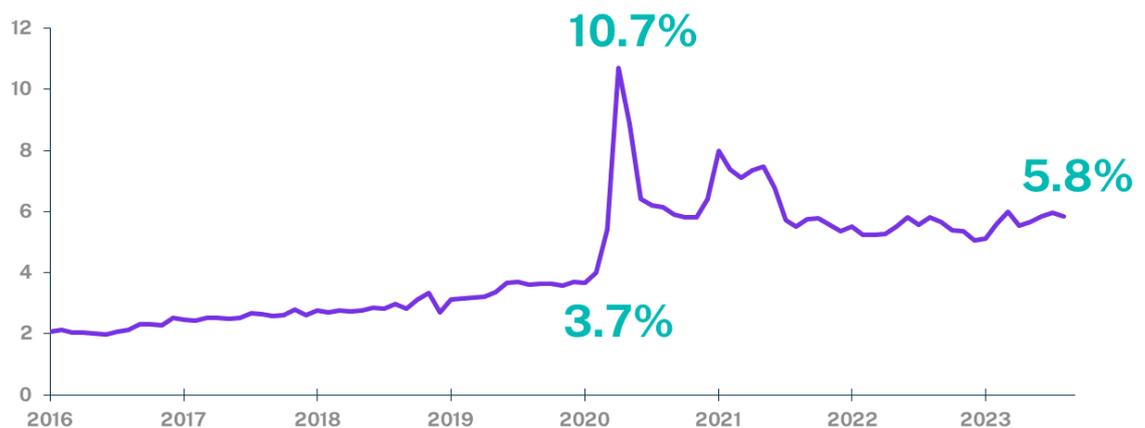


The advent of new technologies and the rise and ubiquity of social media are challenging and changing how businesses reach consumers online.

Accelerated Online Shopping

Official Canadian retail sales data show that e-commerce enjoyed a massive spike early in the pandemic as activity migrated online. Sales essentially doubled in a short time, and the share of total retail sales from e-commerce increased rapidly from 3.7% in January 2020 to peak of 10.7% just four months later in April 2020. With the lifting of pandemic related restrictions and stores have reopened for in-person shoppers, this figure has since moderated to 5.7%. Still, since these data do not capture Canadian online purchases from other countries, the reality was likely an even larger increase.

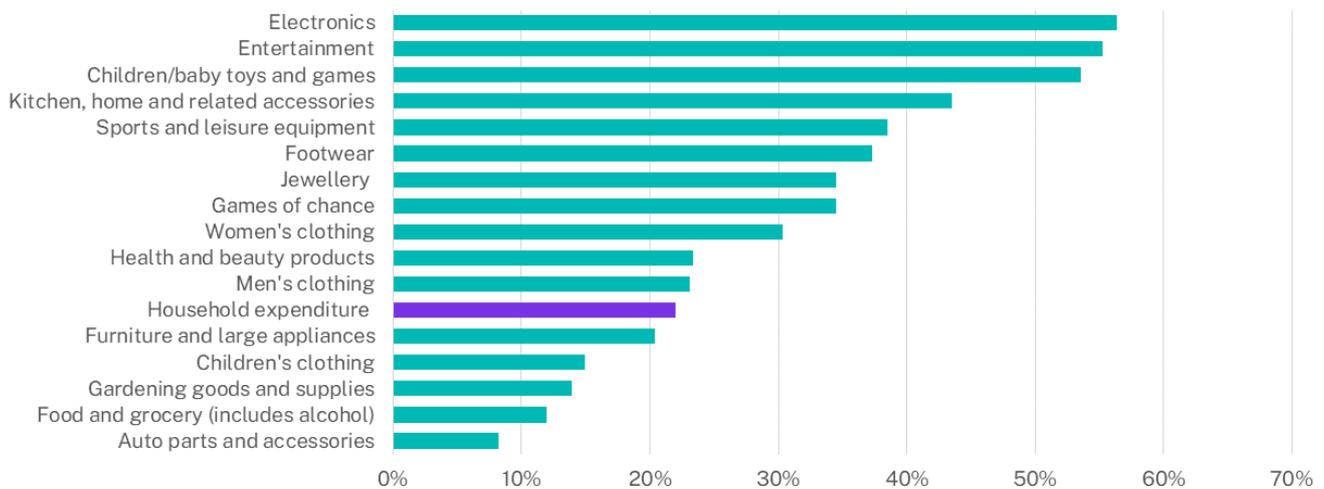
Figure 7: A massive spike in retail sales conducted online occurred early in the pandemic.
Retail e-commerce sales as a share of total retail sales, Canada, 2016–2023.



Source: Statistics Canada, Retail Trade Survey, Table 20-10-0056-01 Monthly retail trade sales by province and territory (x 1,000); BDL calculations.

Figure 8: Products with highest shares of online spending include electronics, entertainment and children's toys.

Share of total expenditure in product category online, Canada, 2022.



Source: Environics Analytics and J.C. Williams Group ClickSpent 2022; BDL calculations and analysis.

Early in the pandemic, many believed the importance of physical stores might quickly wither away. Almost immediately after containment measures were lifted, however, many Canadian shoppers were keen to get back into stores. For many products, the enduring desire to experience and assess items or try on clothing sizes and options, combined with the diversity of selections in retail stores, meant that businesses continued to draw shoppers back into stores.

Nonetheless, in the Environics Analytics dataset, which provides excellent detail on product categories, several products continued to have at least 22% of total household spending conducted online ([Figure 8](#)).

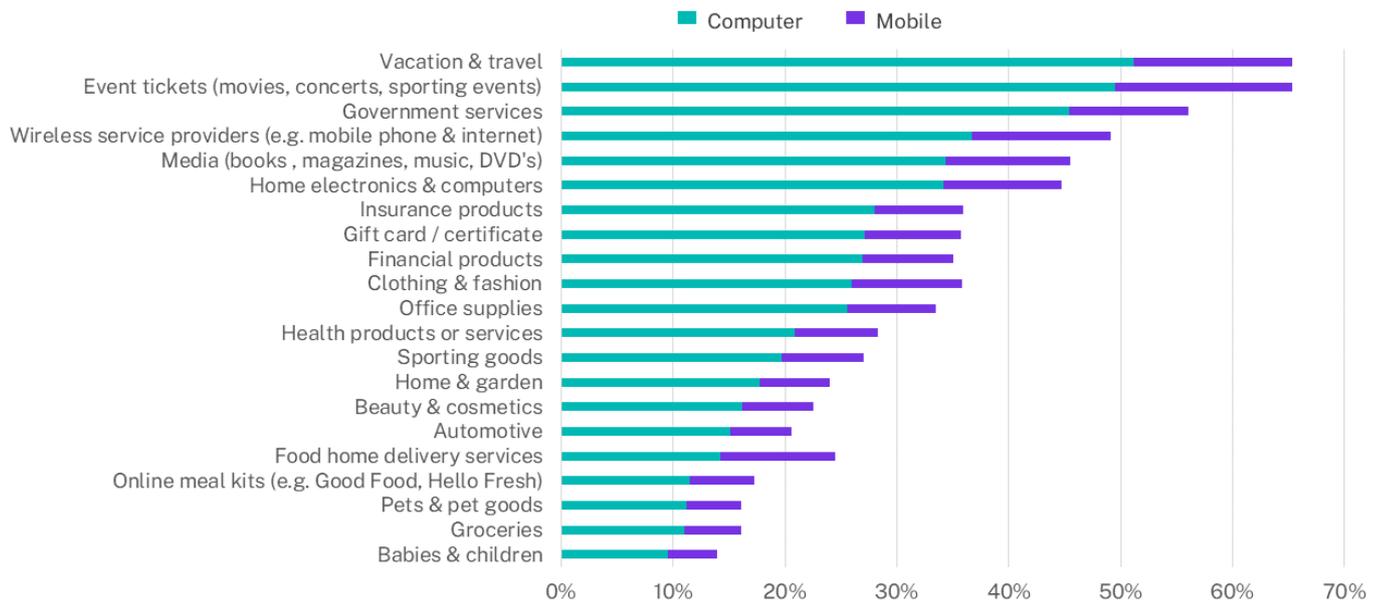
Products with a Strong Preference to Purchase Online

Relatedly, for many product categories, Canadians report strong preferences for making their purchases online (using either a computer or mobile device), such as vacations and travel, event tickets, government services, wireless services and media, electronics, as well as financial and insurance products ([Figure 9](#)). Note that these online preferences apply in several industries where small businesses in Canada are highly concentrated. In comparison, on average, roughly 75% of Canadian shoppers reported that they still visit physical stores for items such as groceries, clothing, automotive, electronics, home and garden and health products. Indeed, while we saw ways in which the pandemic upended consumers' shopping in-person shopping habits, the fact that these preferences have since modified is likely down to a number of factors. These include preference to view or test certain products prior to purchase, lengthy delivery times and costs, reduction in health and safety restrictions and measures, and enjoyment of in-store shopping compared to online when it came to these products.



Figure 9: Canadian consumers prefer online shopping for vacation and travel, event tickets and government services.

Share of Online Purchases via Computer and Mobile Device by Product Category, Canada, 2023.



Source: Environics Analytics Opticks eShopper Powered by AskingCanadians; BDL calculations and analysis.





Online Research Before Buying

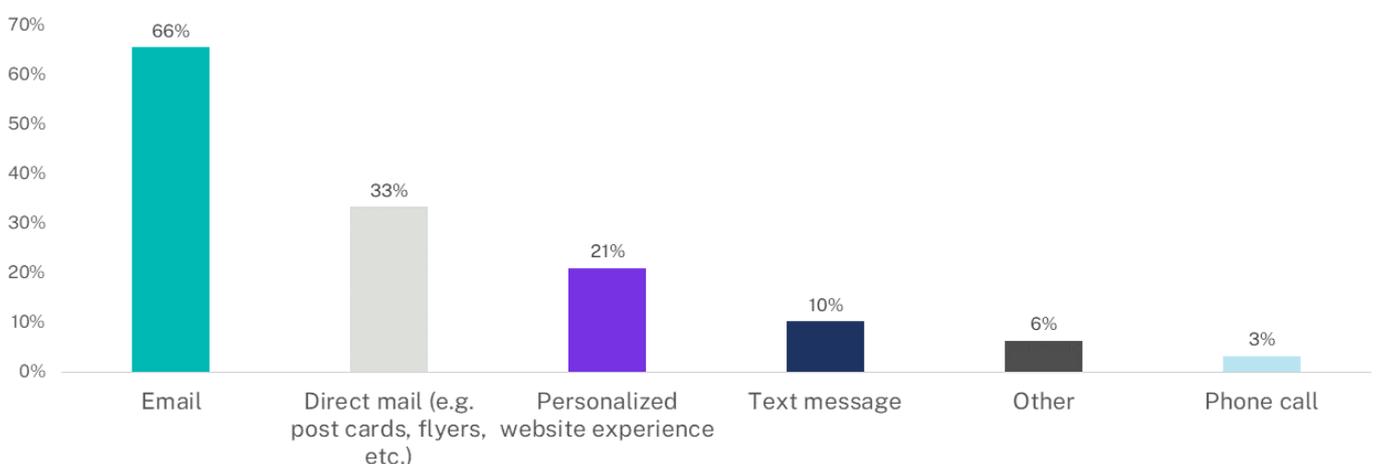
Further driving home the importance of having an enticing online commercial presence, 83% of Canadian retail shoppers reported they conduct online research before they visit a store, and 8% made a purchase online from a retailer with a physical location nearby. Accordingly, this could be further motivation for small retail businesses to invest in their online presence and visibility, maintaining accurate and engaging digital information, and actively managing and growing their online reputations. By doing so, they could effectively capture the attention of potential customers during the research phase of purchasing and ultimately drive more foot traffic to their stores and boost sales in both domains.

Reaching Customers Online

Almost 70% of consumers reported a strong preference for online promotional tools such as email marketing, while 15% cited a personalized website experience (Figure 10). Small businesses are increasingly recognizing the effectiveness of email marketing campaigns and are investing to build and maintain their email distribution lists. Still, despite living in a digital age, direct mail such as flyers and post cards remain effective ways for many Canadian consumers (particularly older ones) to receive promotional information.

Figure 10: There is a clear preference for specific media for receiving product promotions from favourite retailers.

Consumers' preferred medium for receiving retailers' promotional information.



Sources: Environics Analytics Opticks eShopper Powered by AskingCanadians; BDL calculations and analysis.

4.2 DIGITAL ADOPTION

More generally, the past few years' major impact extends beyond the digitization of businesses. It continues to reorient customer and supply-chain interactions, modernize internal operations and increase the digital channels and product offerings.

In spite of how much more heightened and challenging the disruptions of the pandemic were for small business — as they were more likely to grapple with strained budgets and generally lacking the digital skills comparable with those of larger firms — we saw their adoption and incorporation of technology increase. In fact, our 2021 analysis shows that small businesses of all sizes, ages and industries were investing in technology to better access data and applications from their computers, tablets, or mobile phones — whether in the office or on the road — to increase their connectivity with their customers and employees. Still, it is evident that the size of businesses plays a role in their ability, not only to adopt technology, but also to adopt a diversity of technology tools.

Collaboration Tools, Cloud Computing and Security

While it is not surprising to see adoption of digital technologies increase by business size, the more interesting trends are visible when examining the data for small businesses by age and industry. For instance, at the peak of the pandemic in 2021, a higher proportion — approximately 20% for micros and over 50% for mature firms — of older small businesses (those that had been operating for more than 20 years) adopted collaboration tools such as Zoom, Microsoft Teams and Slack ([Figure 12](#)).

Small businesses more than 11 years old — particularly 25% or more of scale and mature sized-firms — reported investments in cloud and on-demand computing services such as those using the internet to access software, computing

power, or storage capacity through, for example, Microsoft 365, Google Cloud and Dropbox, as well as security software tools including anti-virus, anti-spyware, anti-malware and firewalls. This finding shows small businesses' adaptability and agility as these accelerated shifts online made them more vulnerable and susceptible to cyber-attacks.¹⁷ Statistics Canada data also show that small businesses increased their expenditure on cyber security prevention and detection by, on average, \$9,000 more in 2021 than in 2019.¹⁸

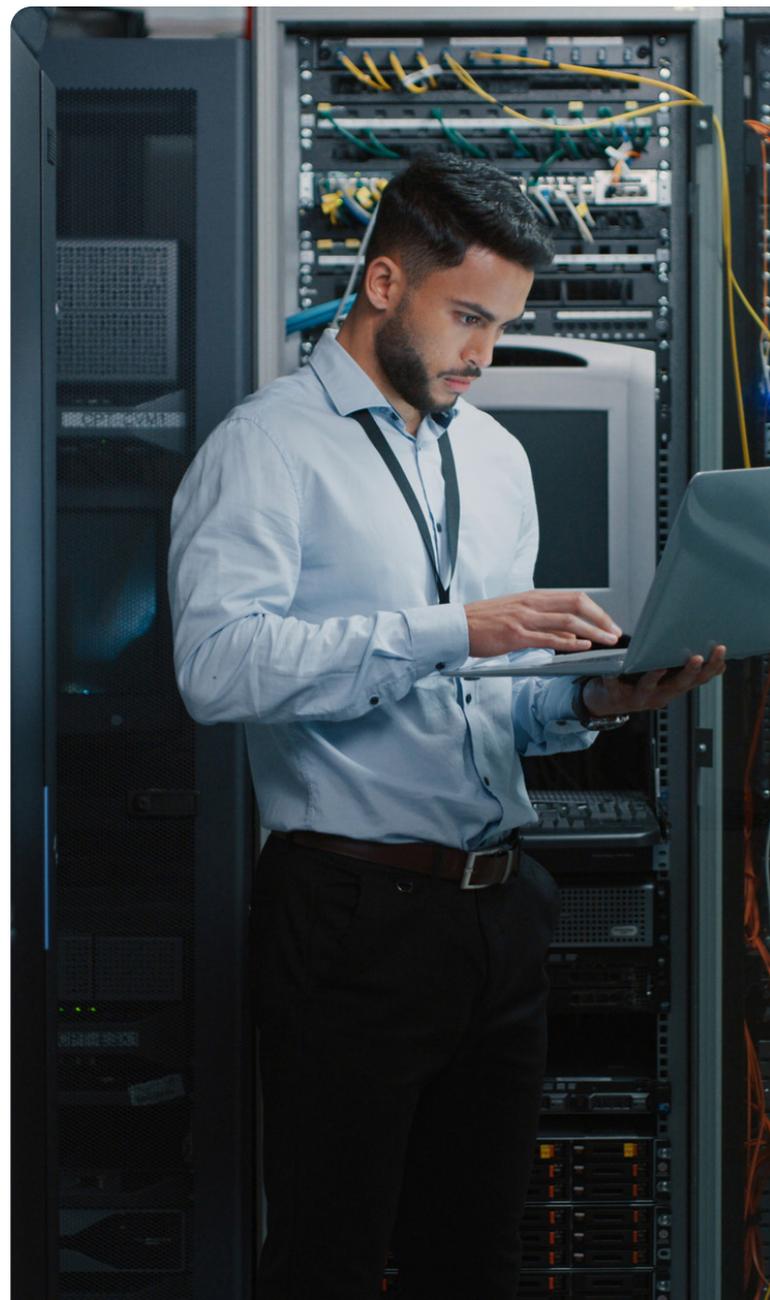
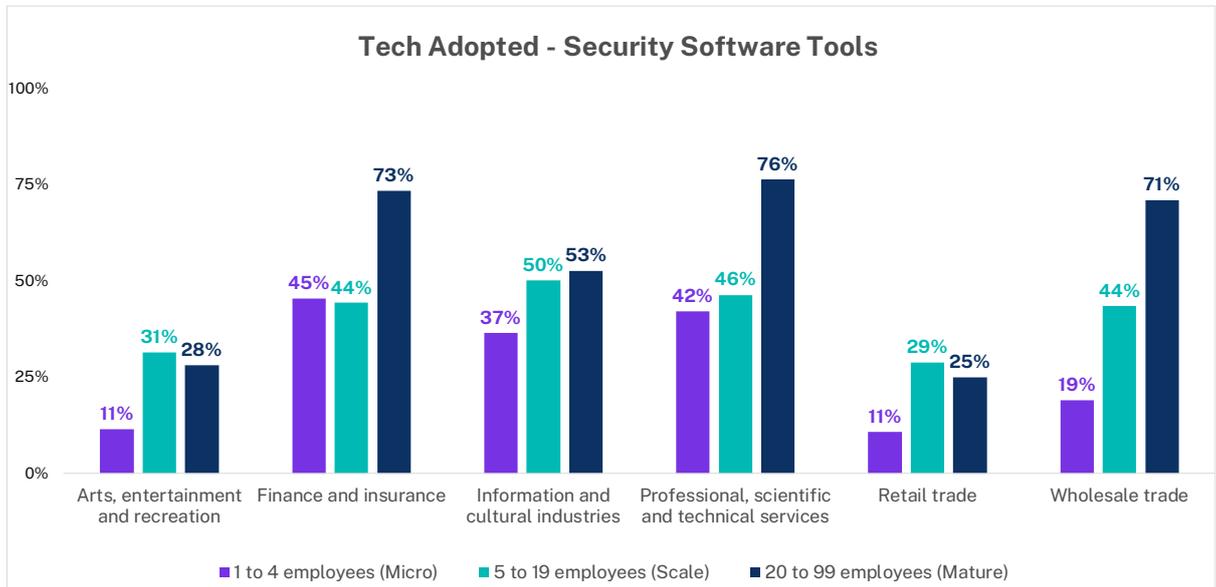
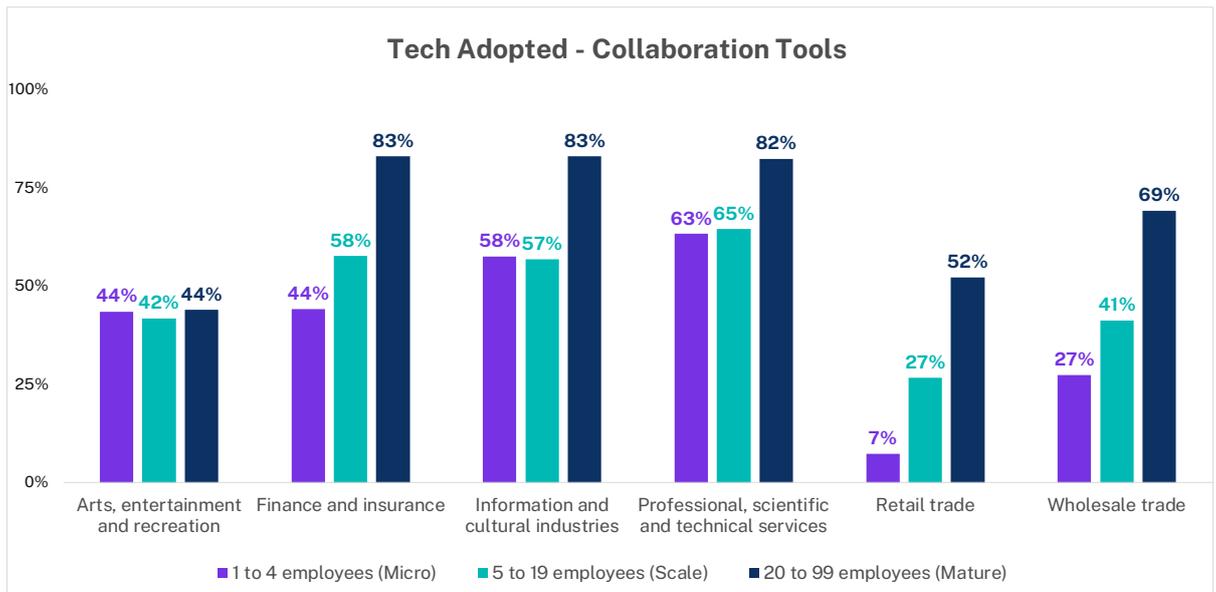
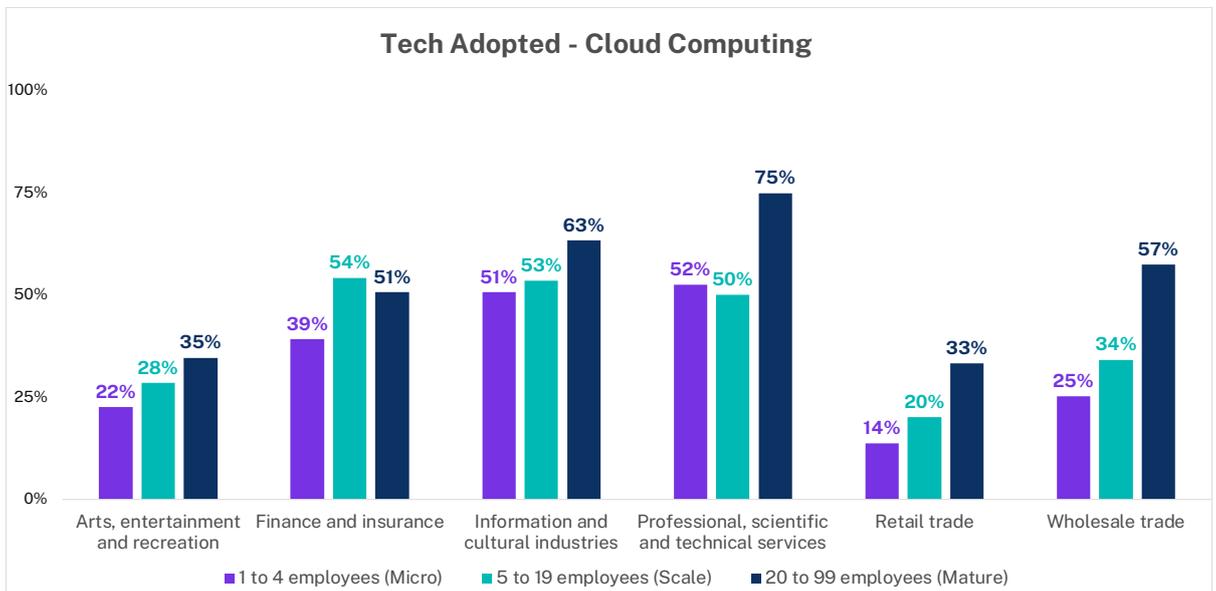


Figure 11: Industry variation for technology adoption is visible by firm size and type of technology tools.

Share of total number of firms reporting technology tools adopted, by size, Canada, 2021.



Source: Statistics Canada, Canadian Survey on Business Conditions, Q1 2021; BDL calculations.



In addition to age, variation by industry also showed a strong trend in technology adoption ([Figure 11](#)). Reported adoption across all industries and all technology tools increased by business size where micro firms averaged 12%, followed by scale (16%) and then mature firms (22%). Small businesses — particularly scale and mature — in finance and insurance; information and culture; professional services and wholesale trade were consistently among those reporting the highest adoption rates at peak pandemic in Q1 2021: 40% to 80% of scale and mature firms invested in cloud computing, collaboration or security software tools. This was markedly less than their integration of technologies such as task automation, artificial intelligence and machine learning and digital technologies to move their business operations or sales online, where adoption averaged 5% to 10%. Out of listed technology tools, micro firms reported the highest technology adoption rate for collaboration tools — an average of 47% in those industries as well as arts, entertainment, and recreation — compared with the all-industry average of 27%.

Interestingly, data by ownership show a clear trend: 40% or more scale and mature firms owned by members of LGBTQ2+ communities and persons with a disability invested highly in cloud computing, collaboration or security software tools and technologies. Approximately half or more of mature businesses owned by women, immigrants and visible minorities reported adoption of collaboration tools. Still, when we compare the adoption of averages by firm size and across all industries with those of visible

minorities and underrepresented groups, we see that the latter consistently lags across all three small business sizes. Even more notable is the gap in average technology adoption for those groups for the technologies that small firms reported the highest adoption in: collaboration tools, cloud computing and security software tools.

There were also striking disparities in businesses' plans to adopt technology in the year ahead. Small businesses of all sizes — micro (18%), scale (20%) and mature (23%) — across all industries and all technology tools reported adoption plans, while more than half of small businesses reported plans to adopt digital technology to move their business operations or sales online. Business age appeared to be slightly more of a factor for scale and mature businesses.

Across all industries, a higher proportion of small businesses planned to invest in artificial intelligence (AI) and digital technologies to move their businesses online. While 62% of micro firms (compared with an average of 55% for all small firms) expressed plans for the latter, 30% of mature firms were keen on investing in AI compared with the all-industry average of 24% for all small businesses. Scale and mature businesses were more likely to adopt multiple technology tools, especially those in finance and insurance, professional services and wholesale trade. Small businesses in high-contact industries such as arts, entertainment and recreation, as well as health care and social assistance, reported plans to increase technology incorporation across a range of tools.

5 The Future of Small Business in Canada



Our findings exemplify the considerable variation of the experiences of small businesses over the recent tumultuous years. They also indicate that divergences likely have increased the gaps between the different dimensions of “small.”

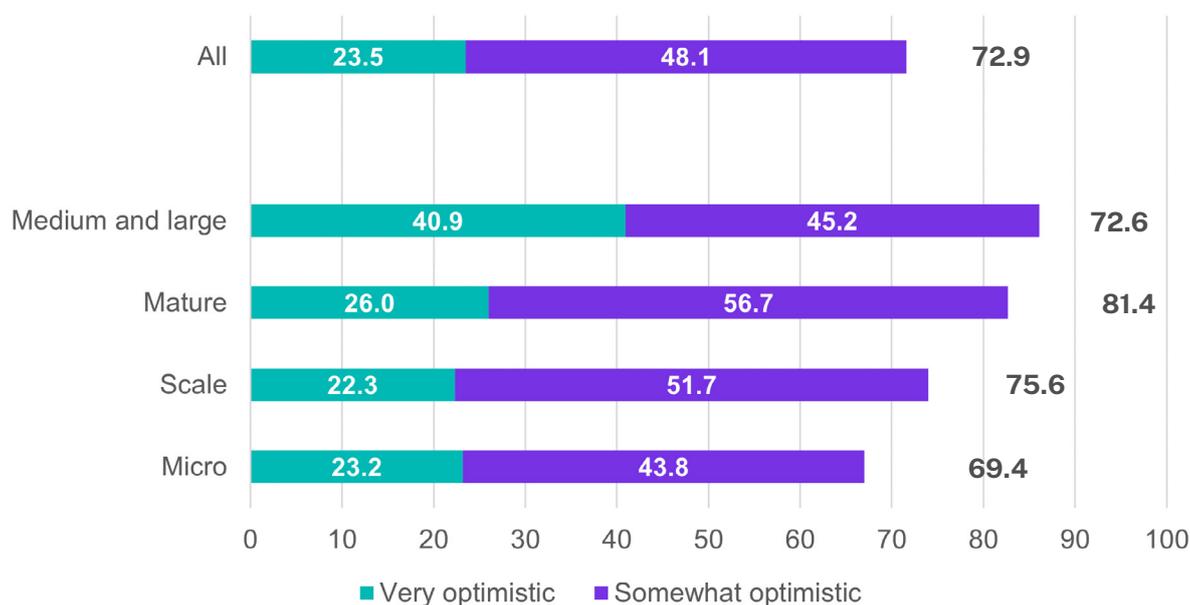
Outlook

We have seen that small businesses are the most sensitive to economic obstacles and technological evolution. As the analysis in this report shows, Canadian micro businesses (those with four employees or fewer) have had different behaviours and experiences. Their location, ownership by visible minority groups, the industries they are concentrated in, technological adoption and investment, financial health, ability to face ongoing economic challenges and the way they interact with their consumers are all areas that come to light. This is sobering when we look at how size and other characteristics of small businesses factor into their outlook – an area about which the CSBC surveys businesses each quarter.

In the most recent iteration of the survey (Q4 2023), micro firms had the weakest outlook (Figure 12). They have had consistently lower expectations for sales, selling prices, expenses, profits and employment compared with other sizes of small firms (see Annex B). The Bank of Canada’s Business Outlook Survey notes that micro firms’ prices are “influenced disproportionately by competitive markets and demand conditions” compared with mature firms’ prices, which are “affected more by pass-through of both commodity prices and labour costs and their own actions to address margins.”¹⁹ In addition to their severe financial and labour constraints, micro and scale firms tend to be extremely reliant on earnings, personal savings and credit cards compared with mature firms that can better access traditional bank loans and trade credit.

Scale and mature enterprises are more optimistic about future sales but are more concerned with pressures on costs and prices. For their part, mature firms have a better outlook for sales, investment and employment.

Figure 12: Smaller firms are less optimistic about the year ahead.
 Business outlook, next 12 months, by employment size, % of respondents.



Source: Source: Statistics Canada, Canadian Survey on Business Conditions, Q4 2023; BDL calculations.

Adaption and Agility Amid Continued Uncertainty

The meteoric acceleration in digital transformation over the past three years has tested, re-operationalized and altered the economic and technological landscape in which small businesses compete. With one era of global upheaval in our rearview and another with as many uncertainties ahead, a bright light from the data is the nimbleness of small businesses. However, even with their impressive resilience, agility and adaptability in leveraging the appropriate technologies to stay connected with customers and to streamline their operations, the reality is that small businesses remain strapped for funding, resources and exposure. Micro enterprises, in particular, which play a critical role in bolstering purchasing power, raising incomes and creating jobs in the Canadian economy, remain especially vulnerable.

In tandem, small business consumers have evolved more than ever. Small businesses need to invest in their online visibility, maintain accurate and engaging digital information and actively manage their online reputation. Doing so will enable them to effectively capture the attention and interest of potential customers during the research phase, ultimately driving more foot traffic to their physical stores and boosting sales. Still, it is not a one-size-fits-all approach, as we see that consumers are neither exclusively online nor merely shopping in physical stores alone. These competing factors have placed a magnified burden on small businesses' decision-making. In addition to towing a delicate line of ensuring they do not incur long-term financial ramifications, they are also under pressure of continuously invest in their operations to lower costs, increasing productivity, and enhance operational efficiency, all in the midst of a particularly strenuous economic climate.



Other Enablers of Evolution: Data and Policy

The evolution of small businesses in this new era will demand more investments in building multichannel sales to build firms' audience and brand awareness. Data and research have a role to play in revealing behavioural and psychographic consumer as well as enterprise trends within specific markets and industries, but they should be democratized.

And while economic and technological shocks will always be a constant feature of our world, demands on small businesses to adapt and innovate alongside these wider green and digital transitions will only intensify. Ensuring that adequate financial, operational and regulatory support measures boost the resilience of small businesses — especially micro and scale firms — is imperative.

The federal government has been actively trying to boost entrepreneurship, but this needs to be empowered by a nuanced understanding of the gradation of small businesses' experiences. The lessons we have learned from analyzing the data in this report reiterate how government support is fundamental to the survival of small businesses and to ensuring their inclusive recovery and growth. But such support also necessitates more granular policies, tools and instruments that emphasize the common experiences of micro, scale and mature businesses across diverse underrepresented ownership groups and in various sectors.

Improving access to finance, particularly for resource-constrained micro and scale enterprises, to underpin recovery and digital and green transitions in a difficult economic landscape should be coupled with a reduction of red tape and administrative burdens. This should also extend to broad-based liquidity supports. As debt continues to afflict small businesses, especially micro and scale firms, the debt burden could be limited by developing a broader range of financial interventions, including grants and forms of finance that enable and prioritize longer-term repayment patterns and delaying the start of debt repayments.

There are also lessons for policymakers. The tenants of “building back better” can be instilled to future-proof regulations surrounding small businesses, monitor and evaluate their ongoing impact as well as bolster small businesses' start-up and survival in challenging times. This requires a fine balance of rapid and broad emergency support in the short term, with longer-term structural interventions which are aimed at facilitating the continuing adoption of and adaptation to new technology.



Annex A

Small Business Ownership by Equity-Seeking Groups

Across all sizes of small businesses, underrepresented groups remain disproportionately behind in ownership compared with their population shares.

Private sector small businesses in Canada, by majority ownership by underrepresented and equity-seeking groups.

Majority ownership	Private-Sector Businesses (Thousands)	Micro Private-Sector Businesses in Thousands (Share of Micro)	Scale Private-Sector Businesses in Thousands (Share of Scale)	Mature Private-Sector Businesses in Thousands (Share of Mature)	Share of Businesses by Majority Ownership (%)	Share of population (%)
All	1,033.0	582.3 (56.4%)	321.4 (31.1%)	110.1 (10.7%)	100%	--
Immigrant to Canada	263.9	175.4 (30.1%)	71.3 (22.1%)	15.3 (13.8%)	25.5%	23.0%
Visible minority	198.6	125.8 (21.6%)	56.1 (17.5%)	16 (14.5%)	19.2%	26.5%
Woman	183.4	114.2 (19.6%)	55.7 (17.3%)	12.1 (11%)	17.8%	50.9%
LGBTQ2+	34.5	21.5 (3.7%)	12.2 (3.8%)	0.66 (0.6%)	3.3%	4.0%
Person with a disability	22.7	15.5 (2.7%)	5.4 (1.7%)	1.7 (1.6%)	2.2%	22.0%
Indigenous	22.5	7.4 (1.3%)	8.5 (2.6%)	6.4 (5.8%)	2.2%	5.0%

Note: As of Q2 2023, population from 2021 census, **over-represented** and **under-represented** as per population shares. Sources: Statistics Canada, Canadian Survey on Business Conditions; and 2021 Census and additional sources.

While a few bright spots exist for visible minorities in micro, scale and mature small businesses, for most there is still a long way to go.

Private sector small businesses in Canada, by majority ownership by visible minority groups.

Majority Ownership	Private-Sector Businesses (Thousands)	Micro Private-Sector Businesses in Thousands (Share of Micro)	Scale Private-Sector Businesses in Thousands (Share of Scale)	Mature Private-Sector Businesses in Thousands (Share of Mature)	Share of Businesses by Majority Ownership (%)	Share of population (%)
All	1,033.0	582.3 (56.4%)	321.4 (31.1%)	110.1 (10.7%)	100%	--
Visible minority	198.6	125.8 (21.6%)	56.1 (17.5%)	16 (14.5%)	19.2%	26.5
South Asian	82.1	51.9 (8.9%)	21.8 (6.8%)	8.0 (7.3%)	7.9	7.1
Chinese	48.0	28.2 (4.8%)	18.4 (5.7%)	1.3 (1.2%)	4.6	4.7
Black	16.5	11.0 (1.9%)	4.9 (1.5%)	0.5 (0.5%)	1.6	4.3
Filipino	6.9	4.7 (0.8%)	1.7 (0.5%)	0.4 (0.4%)	0.7	2.6
Latin American	10.5	9.5 (1.6%)	0.5 (0.2%)	0.5 (0.5%)	1.0	1.6
Arab	14.4	10.4 (1.8%)	1.9 (0.6%)	2.1 (1.9%)	1.4	1.9
Southeast Asian	6.3	4.0 (0.7%)	1.8 (0.6%)	0.5 (0.4%)	0.6	1.1
West Asian	8.1	3.2 (0.5%)	4.8 (1.5%)	0.07 (0.1%)	0.8	1.0
Korean	7.5	5.6 (1.0%)	1.3 (0.5%)	0.09 (0.1%)	0.7	0.6
Japanese	2.5	0.8 (0.1%)	1.0 (0.3%)	0.7 (0.6%)	0.2	0.3

Note: As of Q2 2023, population from 2021 census, **over-represented** and **under-represented** as per population shares. Sources: Statistics Canada, Canadian Survey on Business Conditions; and 2021 Census and additional sources.

Annex B

Small Business Near-Term Outlook, by Firm Size

Micro outlook: systematically lower expectations for sales, selling prices, expenses, profits, employment.



Source: Statistics Canada's Canadian Survey on Business Conditions, Q1-Q4 2023; BDL calculations and analysis.

Scale outlook: better outlook for sales, more pressure on costs and prices.



Source: Statistics Canada's Canadian Survey on Business Conditions, Q1-Q4 2023; BDL calculations and analysis.

Mature outlook: better outlook for sales, investment and employment.

Expected change, next three months
Balance of opinion



Source: Statistics Canada's Canadian Survey on Business Conditions, Q1-Q4 2023; BDL calculations and analysis.



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