

eBay Canada SMB Optimism Index

Report Summary

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A message from Andrea Stairs

Managing Director, eBay Canada

Small and medium-sized businesses (SMBs) are a critical part of our economic fabric. They make up 99.7% of Canadian employers¹ and plan to invest \$111 billion in our economy this year alone², making their success a top priority for the government and the broader business community.

Technology – and the Internet in particular – has allowed entrepreneurs to take part in global trade without the high capital investments previously required. The result? More inclusive trade.

As a technology company that enables SMBs to reach buyers across the country and around the world, we wanted to take a pulse on their level of optimism. Are they confident in what the future holds for their business?

We surveyed retail SMBs across the country (those who sell goods) to create the first-ever eBay Canada SMB Optimism Index, scored out of 100 from very pessimistic to very optimistic. The Index reveals that SMBs in Canada are fairly optimistic, with a score of 74.

Some groups scored higher on the Index scale, such as exporting SMBs with a score of 79. This group also reported an average of nearly 60% more in sales than non-exporting SMBs, and the majority of them (70%) also believe there are new market opportunities compared to only 36% of non-exporting SMBs.

Embracing multiple sales channels also fuels optimism. Omni-channel SMBs scored 77 on the Index, compared to 72 for single-channel businesses. However, not all sales channels are created equal: Omni-channel SMBs who use digital channels scored higher on the Index (77) than those who don't (73).

Further, 89% of SMBs that sell through digital sales channels expect to grow their sales, compared to 76% of SMBs that are not online.

Other factors influencing SMB optimism include region of operation (Quebec indexes the highest at 79; Atlantic indexes the lowest at 72) and maturity of the business (operations less than five years old indexed at 78, whereas those more than 20 years old indexed the lowest at 73).

As for challenges, the top three worries for SMBs are the value of the Canadian dollar for purchasing business inputs (34%), low margins (33%) and tough domestic competition (32%).

We also surveyed our own Canadian eBay commercial sellers, and they had a directionally higher Index score average of 76. This could partially be explained by the fact that 98% of them report that they export and 68% sell through multiple channels. That said, they face many of the same challenges as the rest of Canadian SMBs.

At eBay, we see proof every day that resourceful, hard-working Canadians can channel their optimism into successful, resilient businesses. As we look to the New Year – and our country's 150th birthday – I look forward to seeing the Canadian entrepreneurial spirit continue to shine.



Andrea Stairs
Managing Director, eBay Canada

¹ Innovation, Science and Economic Development Canada 2015

² BDC: Investment Intentions of Canadian Entrepreneurs 2016

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Taking a Pulse on SMB Optimism

Small and medium-sized businesses (SMBs) are critical drivers in the Canadian economy as employers and catalysts to innovation. Understanding their outlook provides valuable insight into what could lie ahead for our country’s business environment.

So how are Canadian SMBs feeling about the road ahead?

Focusing on retail SMBs, the inaugural **eBay Canada SMB Optimism Index** plots optimism scores on a scale from very pessimistic (0-15) to very optimistic (91-100). The Index reveals that Canadian retail SMBs are quite optimistic with an **overall score of 74**.

The Index is based on the reactions of retail SMBs to four key statements:



Overall, I am optimistic about my business prospects for 2017.



Canada is a good country in which to run a small or medium-sized business.



I believe there are new market opportunities for my business, either domestic or international.



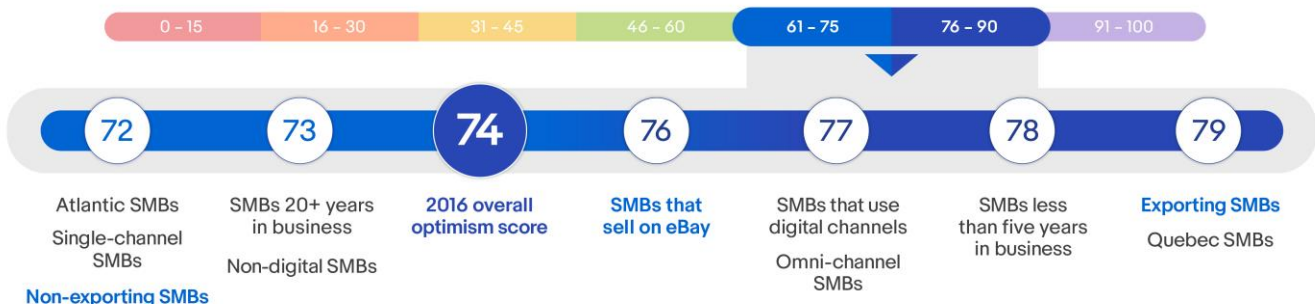
I’m encouraged by new technologies and innovations that will have a positive impact on my business.

In addition to measuring overall optimism, we looked at different factors that influence levels of optimism, such as: where the business is based, how long they have been operating, whether or not they export, and which sales and marketing channels they take advantage of both on and offline.

We found that the most optimistic SMBs are those that export, sell through multiple channels, use digital channels, and have been in business for less than five years. Regionally, Quebec-based SMBs are the most optimistic in the country.

Conversely, indexing lower are SMBs who do not export, those who sell from only one channel, and those who have been in business for 20+ years. Atlantic-based businesses project the lowest optimism levels nationally.

SMB Optimism Index:



Unpacking Optimism

To dig deeper on the state of the nation for Canadian retail SMBs, participants were asked a series of questions on current and expected challenges in 2017, their use of technology, their ability to compete for business, and their perceptions on how the current state of the Canadian economy and decisions from the Canadian government impact their business. The following sections provide key highlights and detailed percentage breakdowns. To draw directional comparisons, we also surveyed Canadian SMBs who sell on eBay.

The State of the Canadian Economy for SMBs

Is Canada a good place to run a small or medium-sized business? The answer, according to SMBs: Yes and no.

While more than half (54%) of SMBs believe the current state of the Canadian economy is good for their business, they don't necessarily feel supported by government. Only 38% of SMBs believe the Canadian government makes decisions that help their business.

Despite the current economic challenges facing the province of Alberta, 63% of respondents in the Prairies believe that Canada is a good place to run a small or medium-sized business – the highest compared to other Canadian regions. However, only 31% of them agree that the government makes decisions to help their business. On the contrary, 58% of Quebec-based SMBs feel they are supported by the Canadian government's decisions.

Other highlights:

- 59% of female-led SMBs agree or strongly agree that Canada is a good place to run a small or medium-sized business, compared to 55% of male-led SMBs.
- 63% of SMBs in the Prairies agree or strongly agree that Canada is a good place to run a small or medium-sized business, followed closely by 62% of Quebec SMBs, and 61% BC-based SMBs. This is in contrast to less than half of SMBs in Ontario (49%), and the Atlantic (45%).
- While SMBs that have been in business for less than five years are among the most optimistic, only half (50%) believe that Canada is a good place to run an SMB, compared to 59% of companies who have been in businesses for 20 years or longer.
- 45% of exporting SMBs believe the Canadian government makes helpful decisions for their business, which is significantly higher than the 33% of non-exporters who believe so.
- Half of SMBs (50%) surveyed believe the current value of the Canadian dollar is good for their business; exporters (66%) believe this the most.

SMBs Hesitant to Try Exporting, but Are More Optimistic Once They Do





SMBs are highly confident in their ability to compete locally (91%), but they are not as sure about their ability to achieve success internationally (50%). Interestingly, those who have tried their hand at international expansion are vastly more confident: 86% of exporting SMBs believe they can compete successfully beyond Canada, suggesting that once an SMB starts to export, they generally realize their ability to sell to foreign markets.

SMBs who do export are more optimistic about *both* their domestic and international prospects, with 57% believing that they will find untapped domestic opportunities, compared to 41% of non-exporting SMBs.

Other highlights:

- Exporting SMBs reported nearly 60% more revenue than non-exporting SMBs.
- 63% of SMBs that sell through digital channels believe they can compete successfully internationally; even more of them who sell through online marketplaces (71%) are confident they can compete successfully on an international scale.
- More than two-thirds (68%) of Quebec-based SMBs believe they can compete successfully internationally, which is significantly higher than businesses in Ontario (49%), the Prairies (44%) and BC (44%), as well as directionally higher than Atlantic-based SMBs (52%).
- 52% of male-owned SMBs believe they can compete successfully internationally, versus 43% of female-owned SMBs.
- 55% of SMBs owned by those that are 18-44 years old believe they can compete successfully internationally, compared to 49% of SMBs owned by those that are 45+.

The exporting SMB:

	The average exporting retail SMB sells to six countries		45% of retail SMBs export internationally (including the U.S.)
	The top export market for retail SMBs is the United States – nine in 10 SMBs that export do to the U.S.		Continental Europe and the U.K. are the next most popular markets that retail SMBs export to

SMBs See Technology Adoption as Key Business Driver, but Not All Can Afford It

The majority of SMBs (68%) agree that technology and innovations are critical to their success, and nine in 10 know which technologies are right for them, yet more than a quarter (26%) don't believe they can afford to implement them. Those SMBs who have invested in technology expect to continue to see rewards. For example, most businesses (86%) that sell through online marketplaces expect to grow their sales, and the average annual sales of SMBs that use digital sales channels are almost 20 per cent higher than those who don't.

The top three technologies SMBs want to invest in for future growth are: digital advertising and marketing (40%); software improvements (33%); and e-commerce (28%). Retail SMBs are the least interested in investing in hardware improvements (20%), mobile payments (17%), and mobile commerce (15%).

Other highlights:

- 76% of SMBs that sell through digital channels agree that incorporating these technologies and innovations is critical to their success. In contrast, only 58% of SMBs that sell through non-digital channels agree with this sentiment.
- SMBs that sell via digital channels are roughly twice as likely to prioritize e-commerce, social commerce, digital advertising and marketing, mobile commerce and mobile payments for future growth than those that haven't introduced digital channels to their business yet.
- Of those SMBs that have invested in e-commerce, 35% claimed that it positively impacted their business. More than two-thirds of SMBs (69%) that sell through online marketplaces said e-commerce has positively impacted their business, which is significantly higher than all other sales channels.
- More than twice the number of exporting SMBs (53%) have seen positive impacts from their investments in e-commerce technology than non-exporting SMBs (25%).
- Half (50%) of Quebec-based SMBs believe they know how to use technologies that are right for their business, which is significantly higher than the rest of Canada: Ontario (35%), BC (32%), the Prairies (26%), and the Atlantic (23%).

SMBs Reported Positive Momentum in 2016

By August of this year, more than one-third (36%) of retail SMBs reported increasing their product offering, and 29% had seen an increase in company profits. Also, 11% said they had increased their employee headcount; a significant success considering 83% of surveyed SMBs reported having 10 employees or less. Those who export outperformed non-exporting SMBs in every category by double-digit gaps.

SMB 2016 Performance:*

2016 Performance indicators	SMBs	Exporting SMBs	Non-exporting SMBs	Omni-channel SMBs	Single channel SMBs	Male	Female
Increased employee headcount	11%	<u>16%</u>	7%	<u>14%</u>	7%	11%	10%
Increased range of products offered	36%	<u>44%</u>	31%	40%	31%	37%	31%
Increased international sales	10%	<u>24%</u>	2%	<u>14%</u>	6%	10%	10%
Increased domestic sales	28%	31%	26%	31%	24%	28%	26%
Increased company profits	29%	32%	27%	28%	29%	29%	27%
Increased number of sales channels	16%	<u>24%</u>	12%	<u>22%</u>	10%	18%	10%
Increased online presence	22%	<u>29%</u>	18%	<u>31%</u>	13%	19%	<u>30%</u>

SMBs Have a Balanced View of 2017

Looking ahead, SMBs are more optimistic about their business performance in every category for 2017. Retail SMBs expect to see growth in company profits (51%) and domestic sales (49%).

SMB 2017 Growth Expectations:*

2017 Performance indicators	SMBs	Exporting SMBs	Non-exporting SMBs	Omni-channel SMBs	Single channel SMBs	Male	Female
Increase employee headcount	16%	<u>26%</u>	11%	<u>21%</u>	11%	16%	16%
Increase range of products offered	41%	<u>53%</u>	33%	<u>51%</u>	30%	40%	43%
Increase international sales	25%	<u>55%</u>	8%	<u>35%</u>	15%	25%	23%
Increase domestic sales	49%	<u>58%</u>	45%	<u>62%</u>	37%	46%	<u>59%</u>
Increase company profits	51%	53%	50%	<u>56%</u>	47%	51%	54%
Increase number of sales channels	28%	<u>38%</u>	22%	<u>39%</u>	18%	27%	31%
Increase online presence	41%	<u>54%</u>	33%	<u>54%</u>	28%	38%	<u>49%</u>

* Underlined numbers signify the figure is significantly higher than the adjacent statistic in the corresponding coloured column.

2017 Challenges on the Horizon:

However, a healthy dose of optimism doesn't negate challenges for Canadian SMBs. Approximately one-third of SMBs face the following growth challenges: the value of the Canadian dollar for purchasing business inputs (34%), low margins (33%), and tough domestic competition (32%).

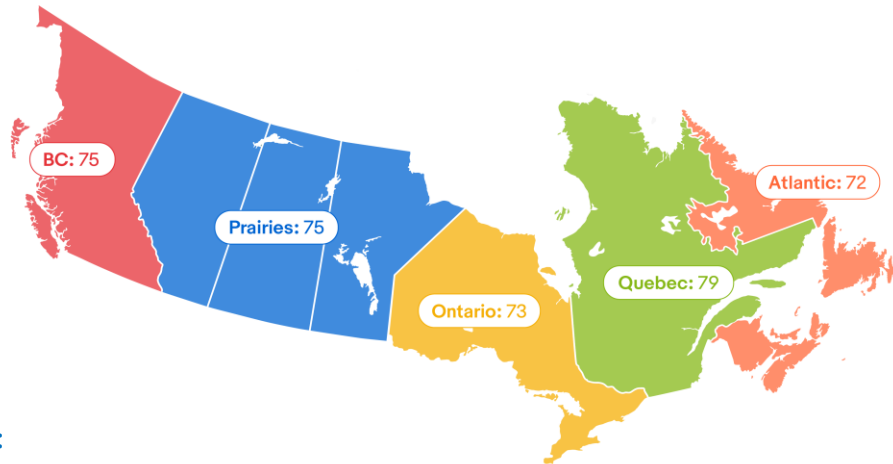
Other highlights:

- One in three companies headquartered in Ontario (34%) and Quebec (32%) believe the small customer base in Canada is a challenge to achieving growth. This is significantly higher than SMBs in BC (17%) and the Prairies (13%), and directionally higher than SMBs in the Atlantic (19%).
- 34% of companies who have been operating for less than five years find that access to capital investment is one of their greatest challenges, significantly higher than those in business for 5-10 years (14%), 11-20 years (18%), and 20+ years (14%).
- 39% of SMBs that sell through digital channels say the value of the Canadian dollar for purchasing business inputs is a challenge, versus 29% of SMBs that sell through non-digital channels and say the same thing.
- 35% of non-exporting SMBs say that tough domestic competition is a challenge, compared with only 26% of exporting SMBs who feel this way.
- 52% of SMBs based in the Atlantic indicate tough domestic competition as a challenge to growing, which is significantly more than their counterparts in Quebec (27%), the Prairies (26%), and BC (25%), and directionally higher than SMBs in Ontario (36%).

SMB Optimism Varies Across the Country

Not all regions are created equal: Quebec-based retail SMBs are exceptionally optimistic, while those in Ontario and the Atlantic region index six and seven points lower, respectively.

Regional Index Scores:



Other highlights:

- 68% of Quebec-based SMBs believe they can compete successfully internationally, which is higher than all regions across Canada.
- 41% of Ontario-based SMBs expect to find new opportunities for their business in untapped markets within Canada, which is directionally lower than their counterparts in other provinces.
- SMBs in the Prairies are less ambitious about expansion plans than their regional counterparts: nearly half (47%) don't intend to explore opportunities beyond their current selling market(s), which is directionally higher than SMBs in all other regions.
- 23% of BC-based SMBs indicate that access to affordable technology is a challenge to growing, more so than their counterparts in other provinces.
- SMBs in the Atlantic region are the least optimistic about business prospects in 2017 (42%).

SMB 2016 Performance and 2017 Expectations Regional Comparison:*

Performance indicators	2016						2017					
	SMBs	BC	Prairies	ON	QC	Atlantic	SMBs	BC	Prairies	ON	QC	Atlantic
Increased employee headcount	11%	10%	11%	9%	15%	6%	16%	17%	13%	11%	30%	16%
Increased range of products offered	36%	37%	31%	33%	52%	29%	41%	41%	30%	41%	56%	39%
Increased international sales	10%	11%	6%	11%	15%	<1%	25%	25%	15%	26%	33%	29%
Increased domestic sales	28%	27%	25%	28%	38%	19%	49%	54%	46%	46%	52%	61%
Increased company profits	29%	31%	20%	28%	<u>45%</u>	16%	51%	54%	42%	51%	64%	52%
Increased number of sales channels	16%	10%	12%	17%	<u>29%</u>	10%	28%	23%	20%	24%	47%	42%
Increased online presence	22%	24%	16%	21%	27%	26%	41%	38%	28%	41%	55%	55%

* Underlined numbers signify the figure is significantly higher than the adjacent provincial/regional statistics.

eBay SMBs More Optimistic Than Retail SMBs

While Canadian eBay SMB results in this report are directional, they highlight trends similar to the ones reported by retail SMBs. However, eBay SMBs skew slightly more optimistic, with an Index score of 76 (versus 74 for SMBs). This might partially be explained by the fact that 98% reported that they export and 68% reported that they were multi-channel – two factors that correlate with higher optimism scores among retail SMBs.

eBay SMBs are also confident in their ability to succeed: Most eBay sellers believe they can compete internationally (86%), compared to half (50%) of retail SMBs who believe they can compete outside of Canada. The biggest growth challenges for eBay SMBs are Canada's relatively small customer base (40%), tough international competition (33%), the value of the Canadian dollar for purchasing business inputs (32%), and low margins (32%).

Other highlights:

- 63% of eBay SMBs surveyed believe there are new domestic or international market opportunities, which is significantly greater than 48% of retail SMBs.
- 93% of eBay SMBs surveyed expect to grow their sales across both domestic and international markets, which is significantly higher than retail SMBs (81%).
- The majority of eBay SMB sales come from exports versus 39% of retail SMBs in general.
- 74% of eBay SMBs surveyed expect to find new opportunities in the U.S. in 2017, which is significantly higher than the 28% of SMBs overall.
- 70% of eBay SMBs have positively benefitted from investments in e-commerce, versus 35% of SMBs overall.

Methodology

The online survey, facilitated by MARU/Vision Critical Research & Consulting, was conducted between August 3rd and August 30th, 2016. SMB sample respondents were sourced from The Angus Reid Forum panel, while eBay Canada SMBs were sourced directly through the company. The sample consisted of 427 SMBs as well as 117 commercial eBay sellers from across Canada. The margin of error for the sample of SMB's is +/- 4.7%. The margin of error for the sample of eBay sellers is +/- 9.7%. To qualify for the survey, SMBs had to indicate a minimum revenue of \$13,000 CAD annually, and indicate that they don't have more than 99 employees. eBay sellers had to indicate a minimum revenue of \$13,000 CAD annually, but no parameters were set for number of employees.

For More Information

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