

ebay



eBay Canada SMB Optimism Index

Report Summary

October 2017



A message from Andrea Stairs

Managing Director, eBay Canada



Canadian small and medium-sized business (SMBs) are the economic backbone of our country. They employ 90% of the private sector workforce¹ and generate roughly a third of our country's overall GDP². Clearly, their economic success is intrinsic to our country's success.

Technology, particularly the internet, has expanded SMBs' commercial environment, allowing businesses of any size, from anywhere, to reach customers across the country and around the world. In making trade more inclusive, the internet has created extraordinary opportunities for Canadian SMBs.

As a technology company whose success depends on the success of millions of small businesses, eBay has a vested interest in understanding how SMBs perceive the opportunities and challenges facing them.

For our second annual eBay Canada SMB Optimism Index, we surveyed retail SMBs across the country. As we did last year, we used survey responses to create optimism scores out of 100. This year's overall Index score is 75 – one point higher than last year, which indicates that, despite political and economic disquiet around the globe, optimism among SMBs is trending positively in Canada.

Embracing online sales continues to correlate with optimism. And, SMBs who are online are significantly more likely to believe that there are new market opportunities for them and to trust that new technologies and innovations will have a positive impact on their businesses.

Exporting SMBs are also once again one of the most optimistic groups. However – and notable given current NAFTA negotiations – nearly a third of this group (30%) are not confident in the Canadian government's ability to negotiate trade deals that will benefit their businesses.

We also analyzed other factors, including: gender (women indexed higher than men); region (Atlantic Canada moved from being the least optimistic region in 2016 to one of the most optimistic this year); and age (Millennials are by far the most optimistic).

New this year, we looked at proximity to an urban centre and found that urban SMBs were the most optimistic at 76, and rural SMBs scored the lowest at 73.

Consistent with last year, the most common challenges SMBs face are tough domestic competition (37%) low margins (36%) and a small customer base in Canada (34%). Unfortunately, more SMBs are experiencing these challenges this year.

Once again, we also surveyed our own Canadian eBay commercial sellers who had a directionally higher Index score. This eBay group was far more likely to export (96% compared to 38% for retail SMBs), and significantly more likely to be optimistic about future sales growth (56% compared to 14%).

Despite challenges, the Canadian entrepreneurial spirit continues to shine strong. With this optimistic momentum, the time is ripe to support inclusive trade measures to help SMBs reach their full potential.



Andrea Stairs
Managing Director, eBay Canada

¹ Government of Canada, Key Small Business Statistics, June 2016

² Government of Canada, Key Small Business Statistics, June 2016

State of the Nation

SMB Optimism in Canada Today



Small and medium-sized businesses (SMBs) are vital to the Canadian economy and serve as catalysts for this country's innovation and growth. Understanding SMB owners' outlooks on everything from business prospects to new technologies can therefore offer valuable insight into Canada's overall business environment.

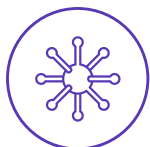
For the second year in a row, eBay Canada's SMB Optimism Index takes a deep dive into the perspectives of retail SMB owners from across the country. The Index plots optimism scores on a scale from very pessimistic (0-15) to very optimistic (91-100) and is based on the reactions to four key statements:



Overall, I am optimistic about my business prospects for 2018.



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

This year, the Index reveals that Canadian retail SMB owners are slightly more optimistic with an increase in the overall score from 74 to 75. This is a positive sign for Canada, given political and economic uncertainties around the globe.

In addition to measuring overall optimism, we looked at different factors that influence the levels of optimism, such as: where the business is based (both in region and, new this year, urban vs. rural), gender and age differences, whether a business exports or not, and which sales and marketing channels are most frequently used, both online and offline.

Key Index Findings in 2017

Gender and Age: Women who run SMBs are more optimistic (78) than men (73). Women were also more optimistic than males last year, but the gap has since widened; optimism among women increased three Index points this year, while optimism among men decreased by one.

Millennials are a huge contributor to overall SMB optimism as they are the most optimistic entrepreneurial age group at 83 points on the Index. Those aged 35-44 (Generation X) are the second most optimistic at 77, while SMB owners aged 45-54 are the least optimistic of the group, at 71.

Location: Quebec, Atlantic Canada and Saskatchewan/Manitoba all tie for most optimistic regions in Canada (77). Quebec went down two Index points from last year, while Atlantic Canada jumped an incredible five full points – last year they were the least optimistic region. This year, SMBs located in Alberta lag behind the rest of the country at 70.

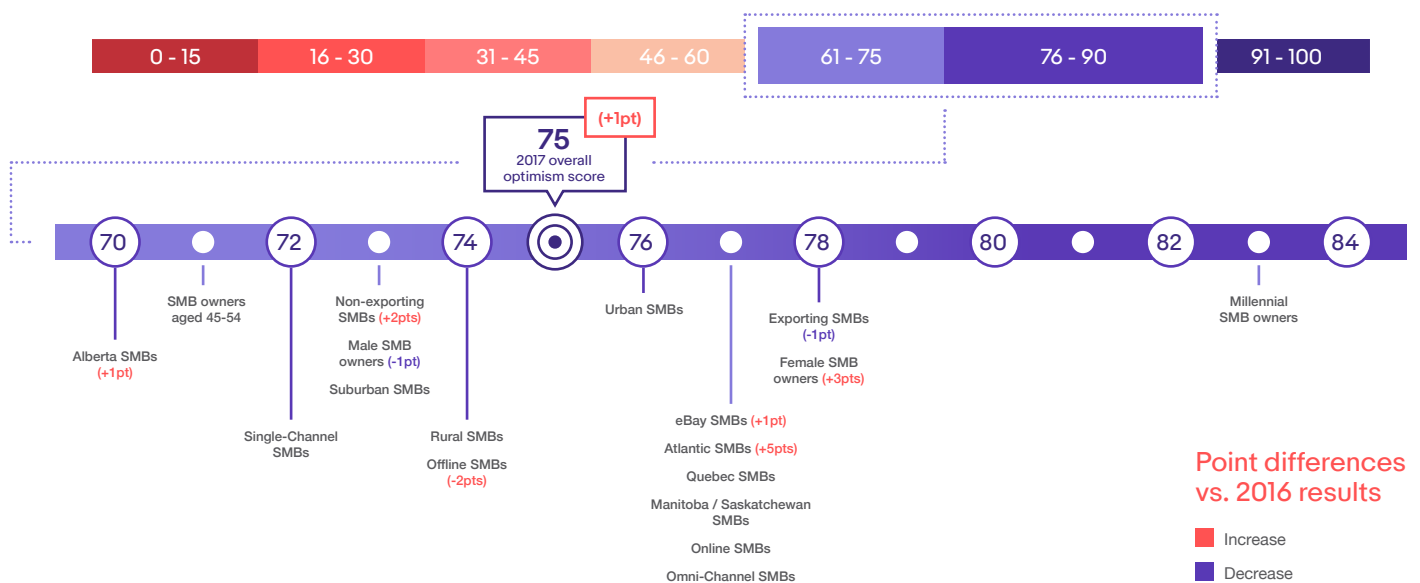
In terms of a businesses' location in either an urban, suburban or rural part of the country, the study found that SMB owners located in urban areas are more optimistic (76) than those in rural (74) or suburban areas (73), who both fall below the overall average.



Sales Strategies and Channels: Exporters, one of the most optimistic groups last year, continue to be much more optimistic (78) than non-exporters (73). However, their optimism has decreased since last year by one Index point, compared with non-exporters' optimism, which has increased by two.

Businesses who sell through more than one sales channel – referred to as omni-channel businesses – also remain one of the most optimistic groups, steady from last year's score at 77, compared to single channel (72), which remains unchanged as well. Online entrepreneurs in general scored 77 again this year, while offline businesses dropped two Index points to 74.

To draw directional comparisons, we also surveyed a portion of the Canadian eBay commercial seller community. Once again, these entrepreneurs accumulated a higher Index score than the average Canadian retail SMB, at 77. This is a one-point gain from last year.



SMB Optimism: A Deep Dive

The sections that follow provide additional highlights and detailed percentage breakdowns of questions asked of Canadian retail SMBs to further explore optimism, including: current perceptions of the state of the Canadian economy and government decisions impacting their businesses; current challenges as well as expected challenges for 2018; SMB owners' use of technology; perceived ability to compete for business; and new this year, what fulfills and motivates retail SMBs about being entrepreneurs.

We've also included a comprehensive review of regional differences, and a full comparative analysis of Canadian eBay commercial sellers.

Doing Business in Canada Today and into 2018

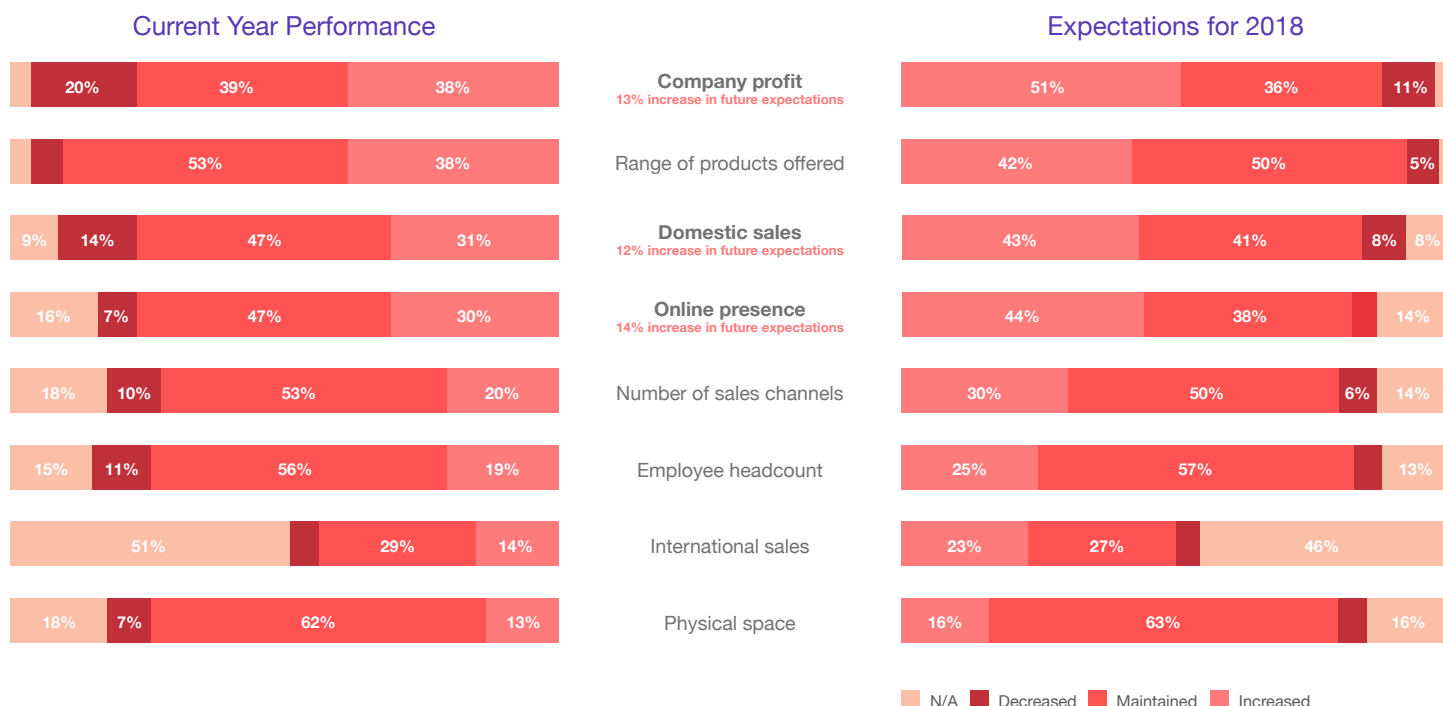


Is it a good time to be a retail SMB owner in Canada? Overall, yes. Even though SMBs' confidence in whether they can compete in their local market is down slightly from last year, more SMBs are optimistic this year about the current state of the Canadian economy as a whole being good for their businesses (70% vs. 54% in 2016), and their belief that Canada is a good country in which to run a small or medium-sized business (76%) has not changed.

Looking ahead to 2018, 76% of SMB owners remain optimistic about their business prospects with more than a quarter (26%) strongly agreeing with the statement. Although nearly one in five (17%) don't see any growth areas for their business, most SMB owners (58%) expect to grow their sales within Canada, which is up slightly from last year.

In fact, small retailers expect a much bigger increase in domestic sales in 2018 compared to international sales. This is perhaps a reflection of the fact that less than two thirds of SMBs have confidence in the Canadian government to negotiate international trade deals that would benefit the economy (64%) or their own business (58%). We dive deeper into SMBs' views on exporting – and their continued reluctance to do so – in the next section: The View Outside (p. 6).

SMB Current Performance and Future Expectations



Interestingly, women who run SMBs are more likely than men to be optimistic about prospects for 2018 (83% vs. 70%), and see Canada as a positive business environment (81% vs. 73%). Perhaps this is because women are also more likely to indicate that they are over-performing on company profit year-to-date than their male counterparts (45% vs. 33%), and that they expect their company profits to increase in 2018 (57% vs. 47%).

Other Highlights:

- Looking at years in operation, SMB owners of the youngest businesses (3 years or less) are most likely to believe that the current state of the Canadian economy is good for their business.
- SMBs located in urban centres (39%) are more likely to indicate that they are over-performing on domestic sales year-to-date than rural (32%) and suburban (22%); same goes for international sales (16%, 11%, and 13%, respectively). This trend continues in terms of expectations for 2018.
- Generation X SMB owners are the most likely to be over-performing on international sales (19%), and Millennials are most likely to be over-performing on domestic sales (40%), online presence (39%) and company profit (52%)

The View Outside

SMBs and Global Exports



Even though Canadian SMB owners are more optimistic about their domestic sales versus international sales, those who export continue to be much more optimistic overall than non-exporters, and are equally as confident about their ability to compete domestically as their counterparts. In fact, those SMBs who have tried exporting are far more optimistic when it comes to competition from international retailers (79%) than those who sell strictly within Canadian borders (41%). Exporters are also significantly more likely than non-exporters to be confident in the government's ability to negotiate trade deals that will benefit the economy (74% vs. 58%) and their business (70% vs. 50%). Yet despite optimism being linked to exporting, most Canadian retail SMBs (62%) still do not sell beyond Canada's borders. These retailers are more likely to sell offline and through a single channel (typically a physical store). This trend is consistent throughout this year's findings, as many have not taken the jump online and seem not to have the desire to expand their operations beyond their current scope.

Other Highlights:

- Women running SMBs are more likely to be confident than men in the government's ability to negotiate international trade deals that will benefit the economy (67% vs. 62%) or their business (65% vs. 52%).
- Millennial SMB owners are more than twice as likely to believe they can successfully compete internationally (79%) than those 65+ (36%).
- The most established SMBs, those in operation for 20+ years, are the least likely to be confident in their ability to successfully compete internationally (46%). Meanwhile, the least established SMBs, those in business three years or less, are the most confident (73%). They are also the most confident in competing locally (95%).

A Snapshot of the Exporting SMB

Of all the firms in Canada that export, over 90% are considered small businesses³. Nearly one third of exporting retail SMBs (30%) state that at least half of their sales come from outside of Canada. The U.S. is three times more likely to see Canadian retail SMB exports than their nearest competitor, Continental Europe (31% vs. 11 %). Further, 82% of those SMBs who export, do so to the U.S.



38% of retail SMBs export internationally, including the U.S.
Down 7% pts since 2016.



Average exporting retail SMB sells to 12 countries.
Doubling since 2016.



Top Export market is U.S.; 8 in 10 who export do so to the U.S.
Versus 9/10 in 2016.



Continental Europe and the UK are the second and third most popular.
Same as in 2016.

³ Foreign Affairs, Trade and Development Canada. 2012. "Canada's State of Trade: Trade and Investment Update."



Millennials and the owners of the youngest businesses (1-3 years in operation) report the highest percentage of sales from exporting (40% each). Interestingly, there is no correlation between the number of employees in a company and its number of export markets. However, there is a correlation between a company's employee count and the amount it exports: The smaller the employee base, the more likely it is that the majority of a company's sales are from exports.

Other Highlights:

- There is a correlation between age of the entrepreneur and exporting – the older the entrepreneur, the less likely they are to export. For example, 21% of entrepreneurs aged 65+ export, whereas 51% of Millennials export.
- Women-run and online SMBs have a larger average percentage of sales (36% and 34%, respectively) coming from outside of Canada than their counterparts.
- SMBs located in suburban areas are most likely to export (47%), and those in rural areas are least likely (20%).

International Business Growth into 2018 and Beyond

While there remains a continued reluctance to export, those that do are more optimistic about growing their businesses in 2018. In fact, four times as many exporters expect to grow sales both within and outside of Canada compared to non-exporters (27% vs. 6%) – though this is down significantly from last year (43% vs. 7%).

Other Highlights:

- Companies three years old or less are twice as likely to expect to grow their sales from outside of Canada than those companies 20+ years in operation (16% vs. 8%).
- A majority (60%) of SMBs expect to find opportunities in new markets in 2018. Of those, untapped Canadian markets (38%) edge the U.S. market (28%).
- More than 60% of SMBs with two to 10 employees intend to expand into new markets, making them the most likely out of the different sizes of businesses.



How SMB Retailers Reach Their Customers



Currently in Canada, a slight majority of retail SMBs sell their products across multiple channels (i.e. are omni-channel), with the average number of channels being three. That means almost half of Canadian SMBs (46%) are operating their businesses through a single channel.

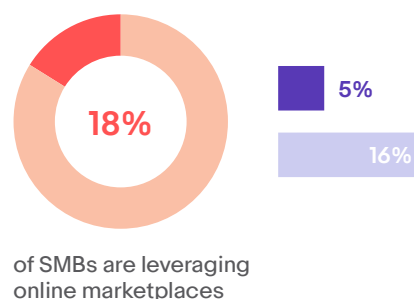
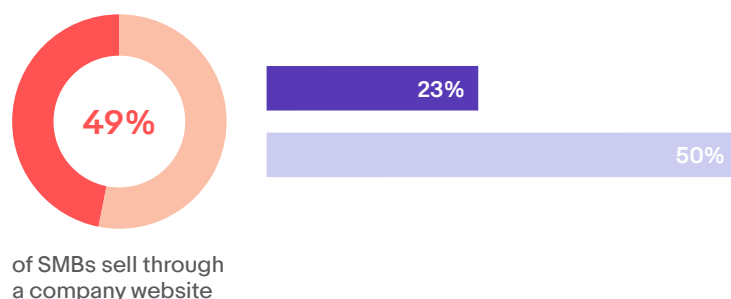
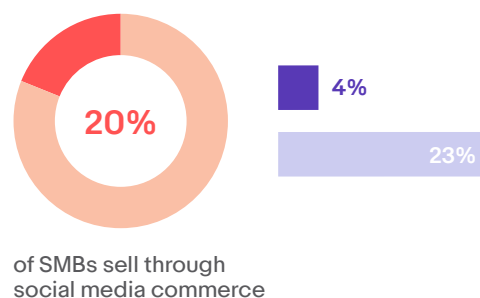
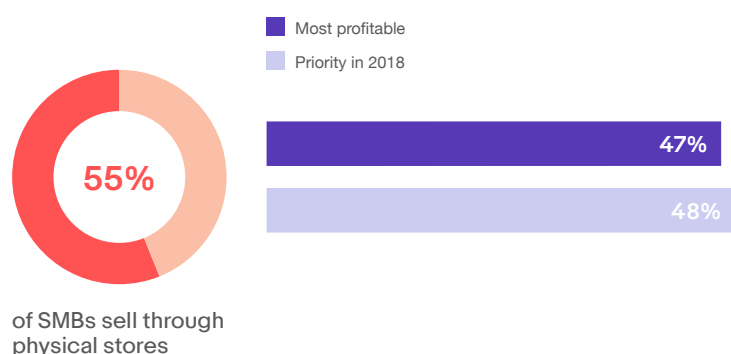
Yet small retailers who sell products through multiple channels are more likely than their single-channel counterparts to be optimistic about their 2018 business prospects (81% vs. 70%) and new domestic and international opportunities (76% vs. 56%). In fact, omni-channel SMBs are more than four times as likely to anticipate growth in sales from both within and outside of Canada than single-channel SMBs (21% vs. 5%). They are also only half as likely to expect flat sales growth for next year (11% vs. 23%). Notably, this group is more likely to have an online presence and not rely solely on a brick-and-mortar store.

Other Highlights:

- SMBs that are online are significantly more likely to leverage two, three and four sales channels. In contrast, offline SMBs are twice as likely to be single-channel (41% vs. 21% online).
- Online sales are important to young entrepreneurs and young businesses: Millennial SMB owners are the most likely out of all age groups to rank their company website as their most profitable sales channel (37%). The same goes for businesses that have been running for three years or less (35%).
- SMBs most likely to operate with a single sale channel are businesses that: are run by men, have a single employee, don't export, are not online, operate in rural areas or are located in Alberta.

Profitability and Prioritization of Sales Channels

Overall, frontline channels like physical stores (47%) and company websites (23%) are most likely to be ranked as the top profitable channels for business owners, while, social commerce sites and online marketplaces are most likely to be seen as complementary profitable channels. However, small retailers are showing a notable increased sense of priority for online channels heading into 2018.





Other Highlights:

- SMBs that export are nearly three times as likely to indicate that their online marketplace is their most profitable sales channel than those who don't export, but are equally as likely to see their physical store and their company website as the most profitable.
- Despite more access to foot traffic, small retailers in urban markets are much more likely than their suburban and rural counterparts to prioritize digital channels over physical ones in the future, with one caveat – rural SMBs are the most likely to invest in social commerce (25%).
- SMB owners of businesses three years old or less are the most likely to prioritize a company website (70%) and online marketplaces (23%) for their sales channels.

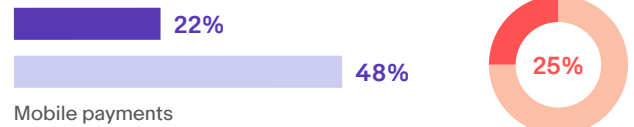
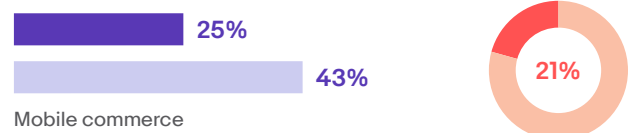
Technology Investments and SMB Growth

The right technology can be a game-changer for SMBs, from investments in hardware improvements to mobile commerce and more. Similar to findings from 2016, most Canadian retail SMBs (93%) know what technology is right for their business, but more than a quarter (26%) can't afford it. That said, this year retail SMB owners are placing an increased emphasis on technology as an imperative to business success: 76% agree that incorporating new technologies and innovations into their business is critical to their success, versus 68% in 2016.

The top technology investments that have had positive impacts on SMBs have all significantly increased in likelihood since last year: social commerce (63% vs. 23% in 2016), e-commerce (58% vs. 35%) and digital advertising and marketing (58% vs. 41%). It makes sense, then, that these three sales channels are also top priority investment areas for growth in 2018.

Areas of Focus for Technology Investments

- No current investment
- Agree current investments are positively impacting their business
- Plan to invest for future growth





Other Highlights:

- SMBs that export or are omni-channel are more likely to see a positive impact across all types of technology investments than their domestically focused or single-channel counterparts.
- Urban SMBs (65%) and women (63%) are most likely to agree that their e-commerce investments have had a positive impact on their businesses.
- Millennial SMB owners, who overall embrace new technology more than their older counterparts, are also the most likely to believe they can afford technologies that are right for their businesses, and that incorporating new technology and innovations into their businesses is critical to their success.

The Entrepreneur Life

What Motivates and Challenges SMBs?

This year, we wanted to delve into SMB owners' reasons for starting a business, if entrepreneurial life is fulfilling these reasons, as well as challenges they see in their businesses reaching its full potential.

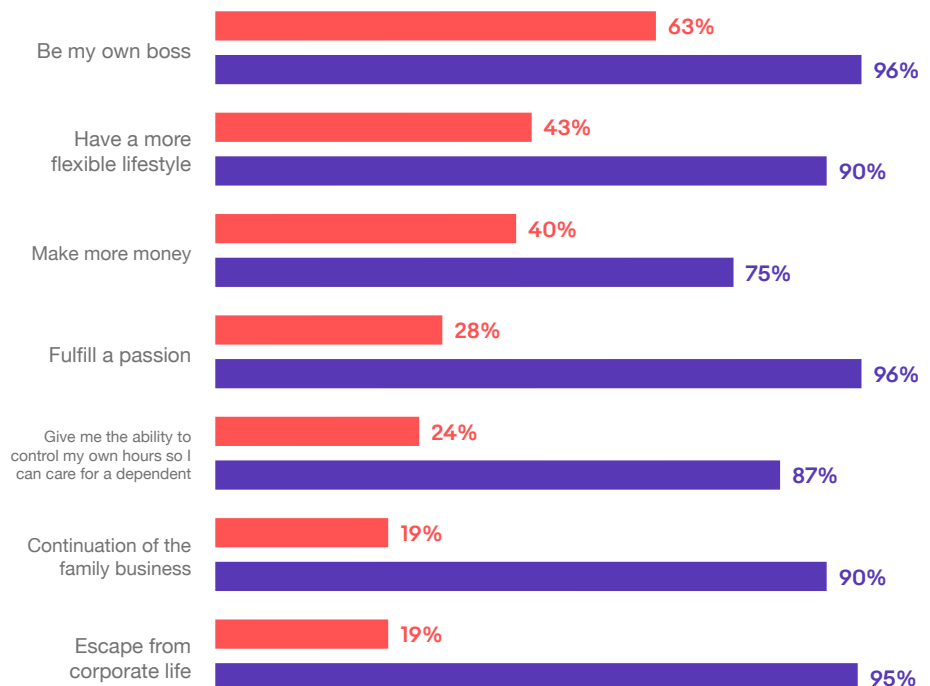
Overall, when asked why they started their own business, small retail owners were most likely to indicate the desire to be their own boss (63%) or have an increased sense of flexibility in their lifestyle (43%). Interestingly, both reasons were more likely to be selected than monetary ones (40%).

The desire to be their own boss was also twice as likely to be the reason for starting their own business than to fulfill a passion (28%). One quarter of SMBs (24%) started their business to have the ability to control their own hours to care for a dependent.

The good news is that most Canadian retail SMB owners (90%) say they are fulfilling the reasons why they started their businesses.

Reasons for, Fulfillment of Owning a Business

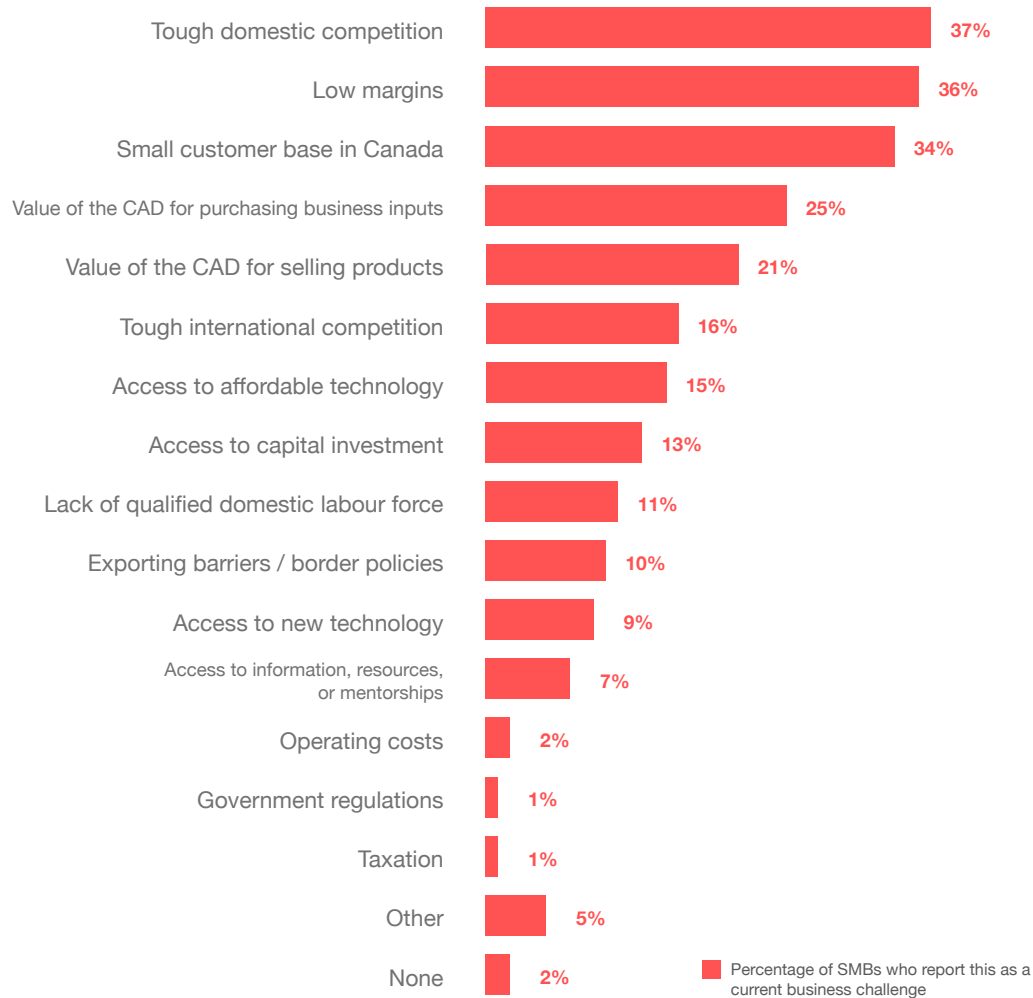
- Reasons for starting a business
- To what extent you are fulfilling this reason





But being an entrepreneur does not come without its trials. Consistent with last year, the most common challenges retail SMBs face are tough domestic competition (37%), low margins (36%) and small customer base in Canada (34%). Low margins are most likely to be the top growth challenge for 2018.

Headwinds for Canadian SMBs



Other Highlights:

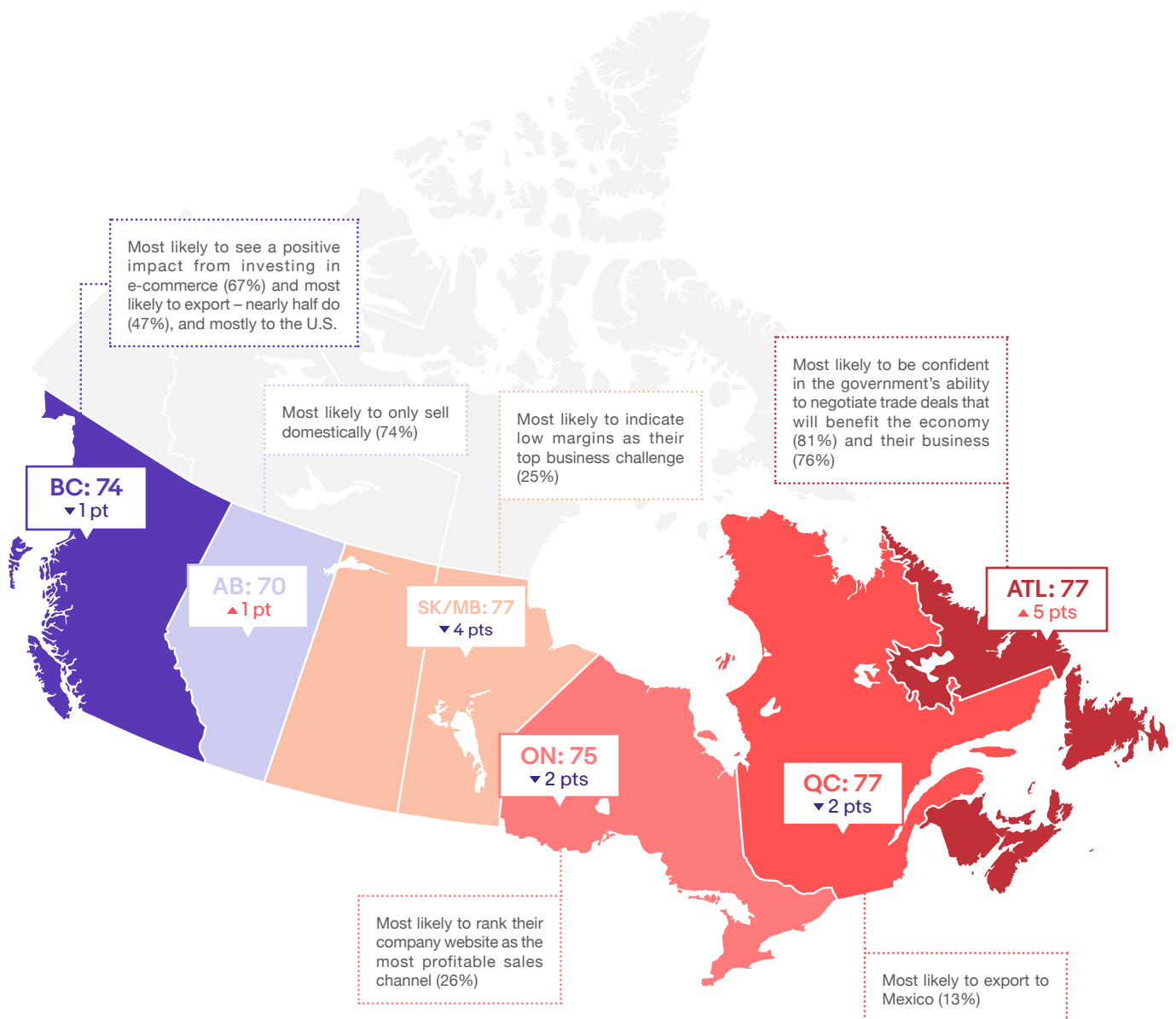
- Women who run SMBs (35%) are more likely than their male counterparts (24%) to have started their business to fulfill a passion, while men are more likely to continue with a family business (22% vs. 17% of women).
- Millennial SMB owners are the least likely to start their own business to be their own boss (45% vs. 73% of those aged 55-65). However, they are the most likely to start a business to make more money (48%) or continue a family business (33%).
- SMBs located in suburban areas are most likely to indicate tough domestic competition as a business challenge (43%); urban SMBs are most likely to indicate low margins and small customer base in Canada. Meanwhile, rural SMBs are most likely to indicate access to capital investment (17%), lack of qualified domestic labour force (18%) and access to information, resources or mentorships (9%) as challenges.

SMB Optimism Across the Country

Regional Deep Dive



When it comes to optimism across Canada, not all regions are created equal. This year, SMBs in Atlantic Canada are among the most optimistic, in terms of their overall score on the Index scale: an incredible feat considering last year they were the region with the lowest score. On the flip side, Albertans are the least optimistic (meaning the least likely to agree to the Index questions) except when it comes to Canada being a good country in which to run a small or medium-sized business – Ontarians were the least likely to agree to that question.



A Comparative Analysis of eBay Commercial Sellers



For this report, commercial sellers on eBay are defined by the same parameters as retail SMBs. While Canadian eBay commercial seller results are directional, they highlight trends similar to those reported by retail SMBs. However, consistent to last year, eBay commercial sellers skew slightly more optimistic with an Index score of 77, two points higher than retail SMBs overall.

Notably, eBay sellers export at a much higher rate, with the vast majority (96%) selling products outside the Canadian market (compared to 38% of retail SMBs). Top markets for this group, in terms of the number of sellers that export to them, include the U.S. (95%), Continental Europe (59%) and the UK (59%). They are also much more likely than small retailers to be confident in their ability to compete at an international level (78% vs. 55%), and are slightly more optimistic about the current state of the Canadian economy as being good for their business (79% vs. 70% of retail SMBs).

Looking ahead to 2018 business priorities, eBay commercial sellers place more emphasis on prioritizing online marketplaces (78%) ahead of other channels, and the majority (56%) expect to grow their business from both international and domestic customer bases (compared to 14% for retail SMBs).

Other Highlights:

- While it's not surprising that eBay commercial sellers are twice as likely to sell through online channels than offline ones, they are also more likely to sell through a physical store (34%) than a company website (31%).
- eBay commercial sellers are more likely than retail SMBs to have started their business to make more money (55% vs. 40%), and they are fulfilling this goal at a higher rate (84% vs. 75%, respectively).
- eBay commercial sellers are slightly less likely than retail SMBs to be confident in the Canadian government's ability to negotiate international trade deals that will benefit the economy (61% vs. 64%) but are on par when it comes to these trade deals benefiting their own business.





Methodology

A survey of 502 Canadian small retailers with \$13,000 in 2016 sales and a maximum of 99 employees and 169 eBay sellers with \$13,000 in 2016 sales was completed online between July 18 to August 15, 2017 using Leger's online panel, **LegerWeb**.

A probability sample of the same size would yield a margin of error of +/-4.4% for small Canadian retailers, and +/-7.5 for eBay sellers (assuming 10,000 sellers), 19 times out of 20.

For more information



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