



Impacts of the new U.S. administration on Canadian SMEs

Survey results

Research and Market Intelligence at BDC
July 2017



Table of contents

01 Executive summary

02 Detailed results

03 Respondent profile

04 Context, objectives and methodology

05 References



Executive summary

Background of the study

This study presents the results of a survey on the impacts felt or expected by Canadian small and medium-sized enterprises (SMEs) following the change of administration in the U.S. that took place at the beginning of 2017. Since the context is constantly evolving and, to an extent, might have influenced the way respondents answered the survey, the Research and Market Intelligence Team monitored events related to the U.S. during the time that the survey was in the field—that is, from **May 30 to June 11, 2017**.

Some of the main events during that period were the following:

- A speech given by German Chancellor Angela Merkel was perceived as a sign of the increasing deterioration of relations between Germany and the U.S. Although Merkel did not mention President Trump by name, her remarks followed a series of meetings with the U.S. President.
- The percentage of U.S. voters wanting Congress to impeach President Donald Trump increased from 38% to 43% in one week.
- President Trump announced the withdrawal of the U.S. from the Paris climate accord.
- The Governor of California and the President of China signed an agreement to work together on climate change.
- A U.S. government intelligence report revealing that Russian hackers had attacked at least one U.S. voting system was leaked to the press.
- Former FBI director James Comey testified to a U.S. Senate panel regarding the ongoing investigation into Russian interference in the U.S. presidential election.
- The U.S. Treasury Secretary said that his top priority this year is to reach a tax-reform deal.



Executive summary

Survey highlights

The survey covered the following subjects:

- impacts of the change of administration in the U.S. (impacts felt and impacts foreseen within the next two years)
- amplitude of experienced impacts
- amplitude of foreseen impacts
- negative impacts
- positive impacts
- respondents' confidence in their ability to face negative impacts
- strategies used to deal with negative impacts
- strategies considered to deal with negative impacts

IMPACTS: FELT AND FORESEEN

The recent change of administration has already touched 37% of Canadian SMEs and is expected to touch 59% of them within the next two years.

- An important percentage of large companies have some kind of relationship with firms in the U.S. Moreover, the proportion of businesses having some kind of relationship with U.S. firms increases as we move up the scale, in terms of sales and number of employees.
- Larger companies, in terms of both sales and number of employees, are much more likely to have been touched by the change of administration in the U.S. In fact, the proportion of businesses affected is highest among those with 100 employees or more (59% affected, directly and/or indirectly) and lowest among firms with fewer than five employees (32%). The same observation can be made in terms of revenue: 54% of businesses with revenues of \$5 million or more reported being affected by the change of administration, compared to 28% of companies with revenues under \$250,000.
- When we asked entrepreneurs and business leaders if they expected the change of administration to have an impact on their business over the next two years, the earlier observations were amplified. Over 80% of companies with 100 employees or more (81%) and seven out of 10 firms with revenues of \$5 million or more (71%) foresee certain impacts over the next couple of years. The proportion of companies expecting certain impacts also increased among smaller firms (among firms with fewer than five employees, 54% foresee being affected, and 49% of firms with revenues under \$250,000 foresee being affected).



Executive summary

Survey highlights

IMPACTS PERCEIVED: AMPLITUDE

Although two-thirds of respondents feel they have not been touched by the change of administration in the U.S., overall, three times more businesses have been negatively affected (26%) than positively affected (9%).

- Impact amplitude seems influenced by company size. As such, results clearly show that larger firms, in terms of both sales and number of employees, are much more likely than their counterparts to say they have been affected.
- Interestingly, larger firms are much more likely than smaller ones to have been negatively affected, but they are also more likely to have been positively affected.

IMPACTS PERCEIVED: FORESEEN AMPLITUDE

Company size (in terms of sales and number of employees) played an important role when respondents were asked to anticipate the amplitude of the impacts of the new administration in the U.S. over the next six months to three years.

- Roughly one-third of respondents foresee negative or very negative impacts over the next six months to three years.
- Although the cumulative percentage of respondents expecting negative or very negative impacts remains relatively the same over this period, the proportion of very negative increases and the proportion of negative decreases.
- Once again, larger businesses have a bleaker outlook than smaller companies do.

NEGATIVE IMPACTS

Respondents have been or expect to be negatively affected by price increases and loss of clients.

- The three most-mentioned negative impacts felt or expected due to the change of administration in the U.S. were **increases in the prices of good and services** (45%), followed by **loss of clients** (29%) and **increases in the prices of raw materials** (25%).



Executive summary

Survey highlights

POSITIVE IMPACTS

For respondents positively affected, these impacts relate to new clients and/or new partnerships with companies from the U.S.

- The most-mentioned positive impacts either felt or foreseen were the **ability to attract more/new clients from the U.S.** (29%) and **new partnerships with U.S. businesses** (21%).

Several [business media sources](#) have alluded to the potential positive impact of the U.S. immigration ban, which could help Canadian businesses attract skilled workers, especially in technology-related sectors.

FEELING EQUIPPED TO AVOID OR MINIMIZE IMPACTS

A majority of respondents feel well equipped to minimize or avoid negative impacts of the change of administration in the U.S.

- Overall, 63% of respondents feel **well equipped** to minimize or avoid negative impacts of the change of administration in the U.S. Sentiment regarding their ability to deal with the changes is relatively similar, regardless of company size.
- On the other hand, 37% of respondents feel poorly equipped. Among the reasons for this feeling are the fact that respondents have no control over the changes that a new administration in the U.S. is bringing about, and that they are unable to anticipate the effects these changes will have on their business and on the market in general. In addition, they feel their business lacks the financial means to invest and be more competitive.

STRATEGIES USED TO MINIMIZE OR AVOID NEGATIVE IMPACTS

Respondents seem to be focusing more on local markets, and on developing or renewing partnerships and alliances, to minimize or avoid negative impacts of the new administration in the U.S.

- The three most-mentioned strategies used to minimize or avoid the negative impacts of the change of administration in the U.S. were **increasing participation in local markets** (38%), followed by **developing partnerships and/or alliances** (24%) and **renewing partnerships and/or alliances** (20%).



Executive summary

Survey highlights

STRATEGIES CONSIDERED TO MINIMIZE OR AVOID NEGATIVE IMPACTS

Market diversification, development or renewal of partnerships, and operational restructuring are the strategies respondents are most likely to have considered using to minimize or avoid negative impacts of the change of administration in the U.S.

- The five strategies respondents were most likely to have considered using to minimize or avoid the negative impacts of the change of administration in the U.S. were **developing partnerships and/or alliances** (32%), **increasing trade with other countries** (31%), **increasing participation in local markets** (26%), **restructuring operations** (22%), and **renewing partnerships and/or alliances** (20%).



02.

Detailed results



Detailed results

Impacts of a new administration in the U.S.

PERCEIVED IMPACTS

- Results show that, so far, 8% of business have been **directly affected** by the new U.S. administration, 19% have been **indirectly affected**, and 10% have been affected in **both direct and indirect** ways.
 - A significant percentage of companies with annual sales of \$5 million or more (20%) have been both directly and indirectly affected.

FORESEEN IMPACTS

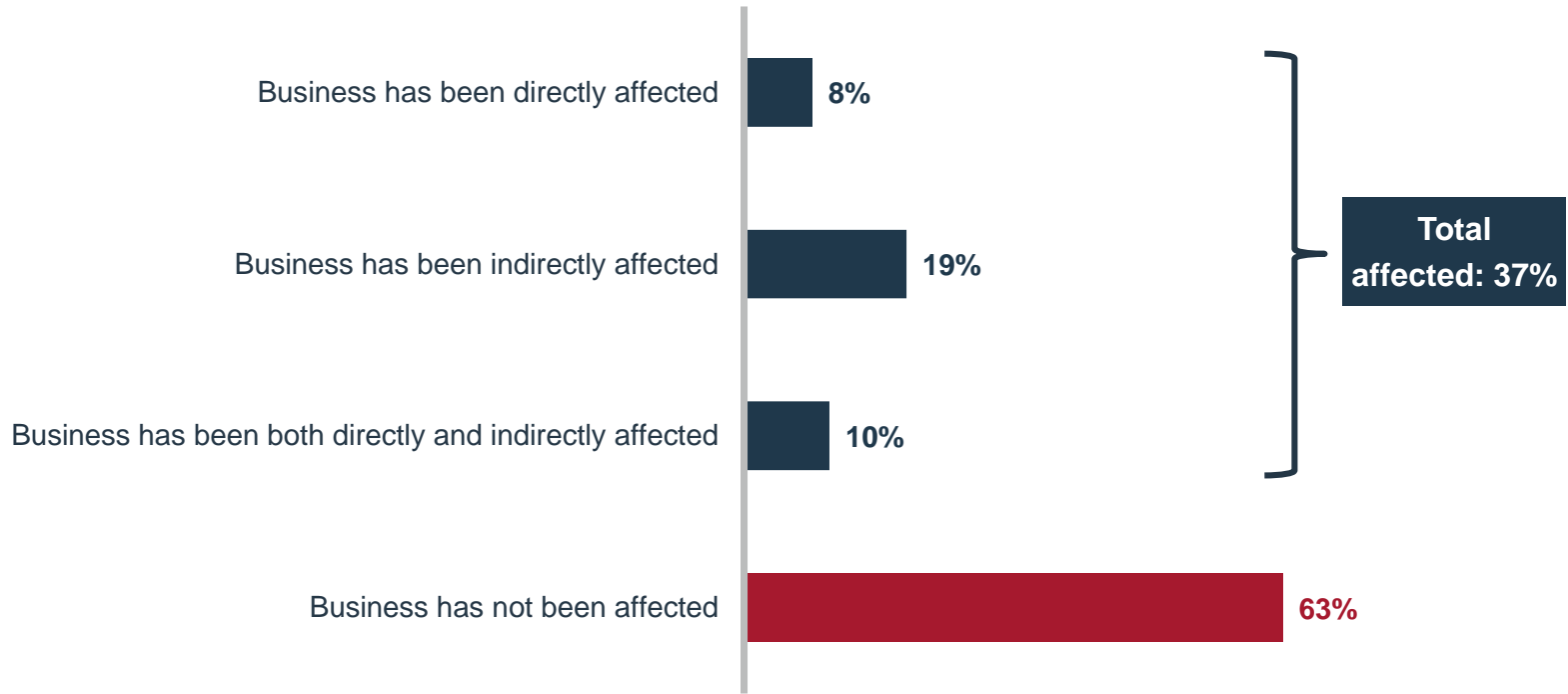
- As for the **foreseen impacts** of the change of administration in the U.S., 15% of respondents think their business will be **directly affected**, 27% expect to be **indirectly affected**, 18% expect to be **both directly and indirectly** affected, and 41% do not expect any impact on their business.
 - Almost one-third (30%) of companies with annual sales of \$5 million or more expect to be significantly affected, both directly and indirectly.
 - Most companies that have already been affected expect to be affected in the future, too. Over 90% of affected companies expect additional impacts in the coming months and years.



Detailed results

Perceived impact of a new administration in the U.S.

Has your business **been affected**—directly or indirectly, positively or negatively—by the recent change of administration in the United States?



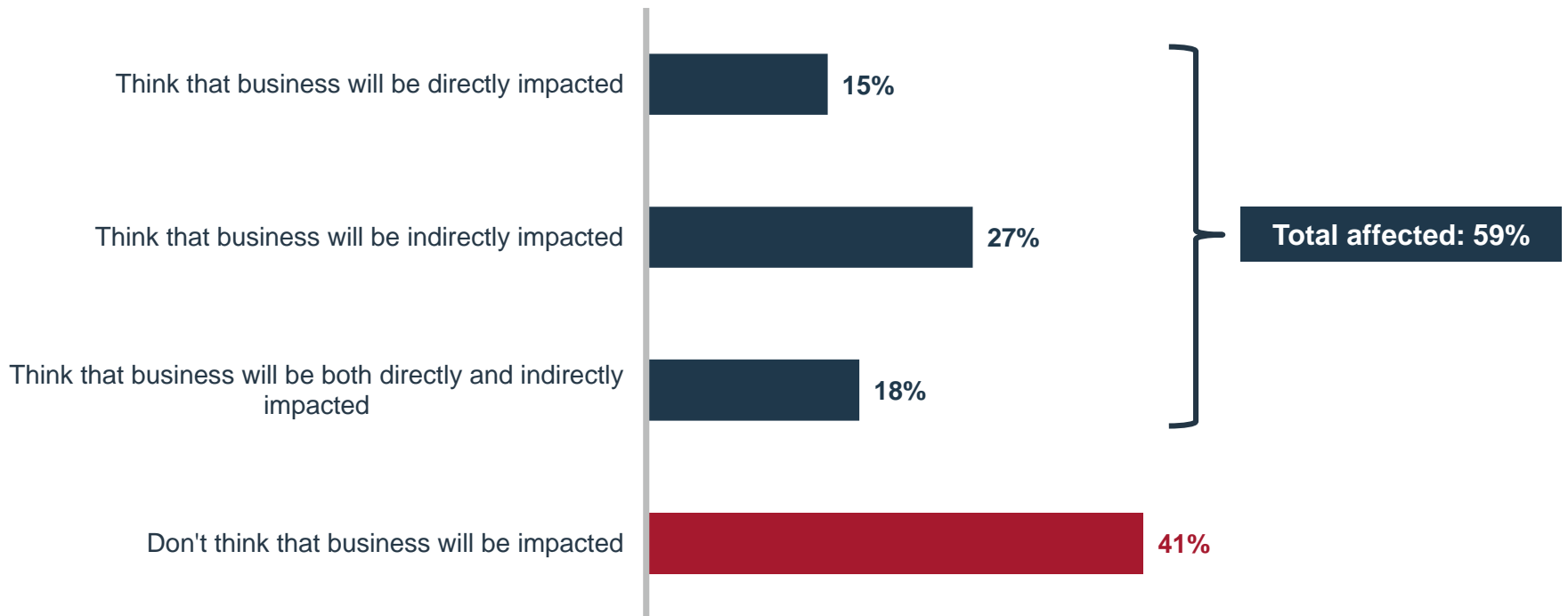
Base: All respondents (n=716). Those who didn't know or preferred not to answer were excluded from the calculation base.



Detailed results

Foreseen impact of a new administration in the U.S.

Do you **foresee** your business **being affected** by the recent change of administration in the United States within the next two years?



Base: All respondents (n=721). Those who didn't know or preferred not to answer were excluded from the calculation base.



Detailed results

Impact amplitude

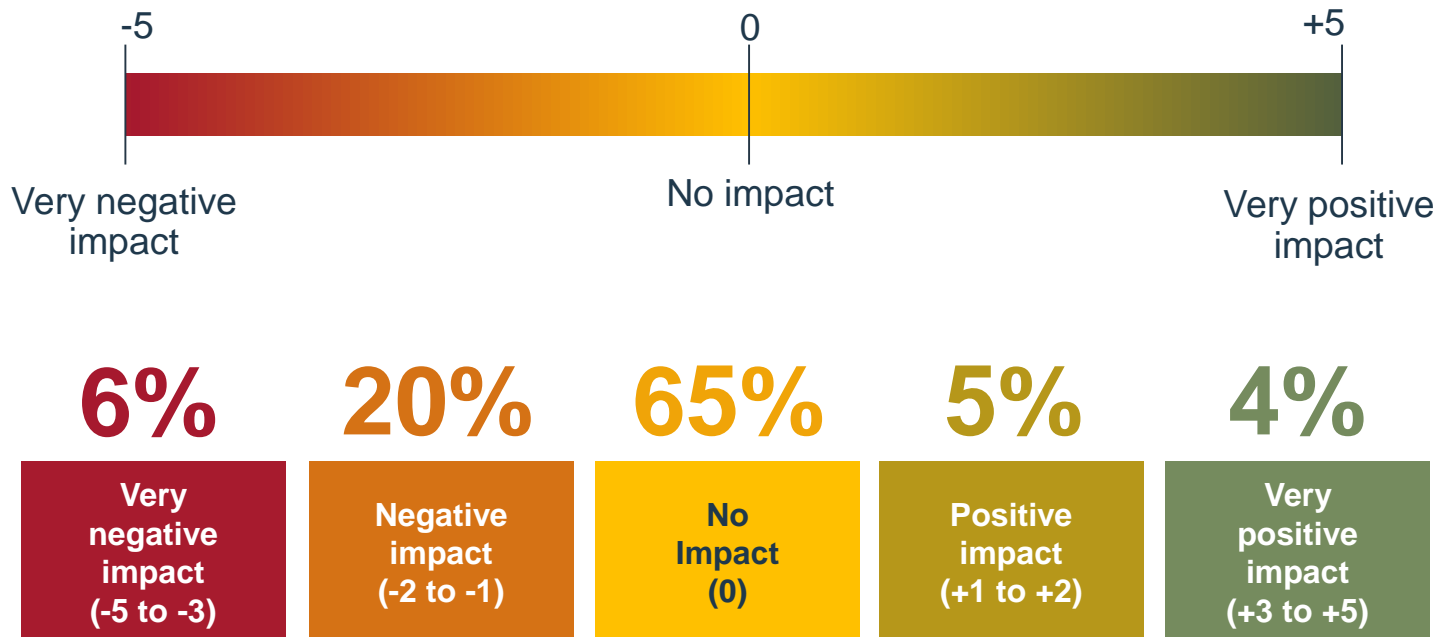
- Almost two-thirds of respondents (65%) said they have **not been affected**, whereas 26% of respondents have felt **negative impacts** and 9% have felt **positive impacts**. Impact amplitude correlates to company size.
- Relatively small firms are much less likely to have been affected by the change of administration in the U.S.
 - A significant percentage of companies with sales under \$250,000 per year (76%) and those with sales between \$500,000 and \$999,999 annually (70%) have not been affected.
- Company revenue seems to play a role in the amplitude of the negative impacts of the change of administration in the U.S.
 - A significant proportion of companies with sales of \$5 million or more per year (33%) have felt negative impacts from the change of administration in the U.S.
 - Although the aforementioned numbers are not statistically significant, the more employees a business has, the more likely it was to report negative impacts. Indeed, the proportion of negatively affected business is highest among companies with more than 100 employees (46%) and lowest among firms with fewer than 5 employees (20%).
- Positive impacts are also related to the size of the company, in terms of sales and number of employees.
 - A significant proportion of companies with 50 to 99 employees (13%) reported very positive impacts.
 - A significant proportion of companies with 20 to 49 employees (12%) and those with annual sales of \$5 million or more (10%) reported positive impacts.



Detailed results

Impact amplitude

What was the **impact on your business** of the recent change of administration in the United States?



Base: All respondents (n=691). Those who didn't know or preferred not to answer were excluded from the calculation base.



Detailed results

Foreseen amplitude of the impact

- Within the **next six months**, 33% of respondents expect to be **negatively affected**, whereas 14% expect a **positive impact** within the same timeframe.
 - A significant proportion of companies with sales of \$5 million or more (39%), companies with sales between \$2 million and \$4,999,999 per year (36%), and companies with five to 19 employees (33%) said they expect negative effects within the next six months.
 - A significant percentage of companies with 50 to 99 employees (8%) foresee very positive impacts.
 - Among business already touched by the change of administration in the U.S., 6% expect very positive impacts, 14% expect positive impacts, 48% expect negative impacts and 14% expect very negative impacts.
 - A significant percentage of product-oriented companies (21%) are unsure to what extent their business will be affected.
- Within the **next seven to 12 months**, 35% of respondents expect **negative effects** and 12% expect **positive outcomes**.
 - Results show that 36% of companies reporting sales of \$5 million or more, 35% of those with \$2 million to \$4,999,999 in sales, and 33% of companies with five to 19 employees expect to be negatively affected within the next seven to 12 months.
 - Among businesses already touched by the change of administration in the U.S., 9% foresee very positive impacts, 41% foresee negative impacts and 22% foresee very negative impacts.
 - A significant percentage of product-oriented companies (21%) are uncertain about the extent of the effects they will experience.



Detailed results

Foreseen amplitude of the impact (cont'd)

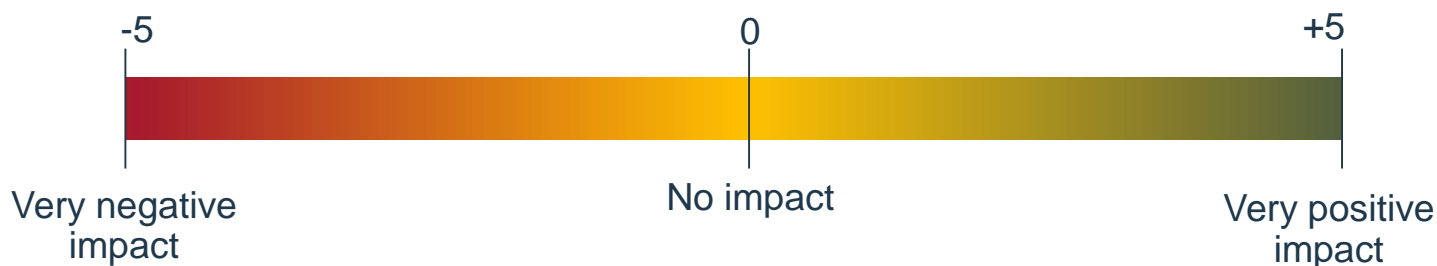
- One-third of respondents (33%) expect to be **negatively affected** by the change of administration in the U.S. over the next **13 to 23 months**. During this timeframe, 11% of respondents foresee a **positive impact**.
 - A significant percentage (29%) of companies with annual sales between \$2 million and \$4,999,999 expect to be negatively affected.
 - Among businesses already touched by the change of administration in the U.S., 9% expect very positive impacts, 11% expect positive impacts, 27% expect negative impacts and 30% expect very negative impacts, while 20% are unsure.
 - A significant proportion of product-oriented companies (23%) do not know the extent of the effects they will experience.
- The change of administration in the U.S. will bring **negative impacts** over the next **two to three years**, according to 31% of respondents, whereas 12% foresee **positive effects**.
 - Among businesses already touched by the change of administration in the U.S., 11% expect very positive impacts, 10% expect positive impacts, 25% expect negative impacts and 26% expect very negative impacts, while 23% are unsure.



Detailed results

Foreseen amplitude of the impact

In your opinion, to what extent **will your business be affected** by the recent change of administration in the United States in the future?



Time period	Very negative impact (-5 to -3)	Negative impact (-2 to -1)	No impact (0)	Positive impact (+1 to +2)	Very positive impact (+3 to +5)	Do not know
Next 6 months (n=719)	6%	27%	41%	11%	3%	12%
Next 7 to 12 months (n=718)	10%	25%	41%	8%	4%	12%
Next 13 to 23 months (n=717)	15%	18%	41%	7%	4%	15%
Next 2 to 3 years (n=717)	15%	16%	41%	6%	6%	16%

Base: All respondents. Those who didn't know or preferred not to answer were excluded from the calculation base.



Detailed results

Negative impacts of a new administration in the U.S.

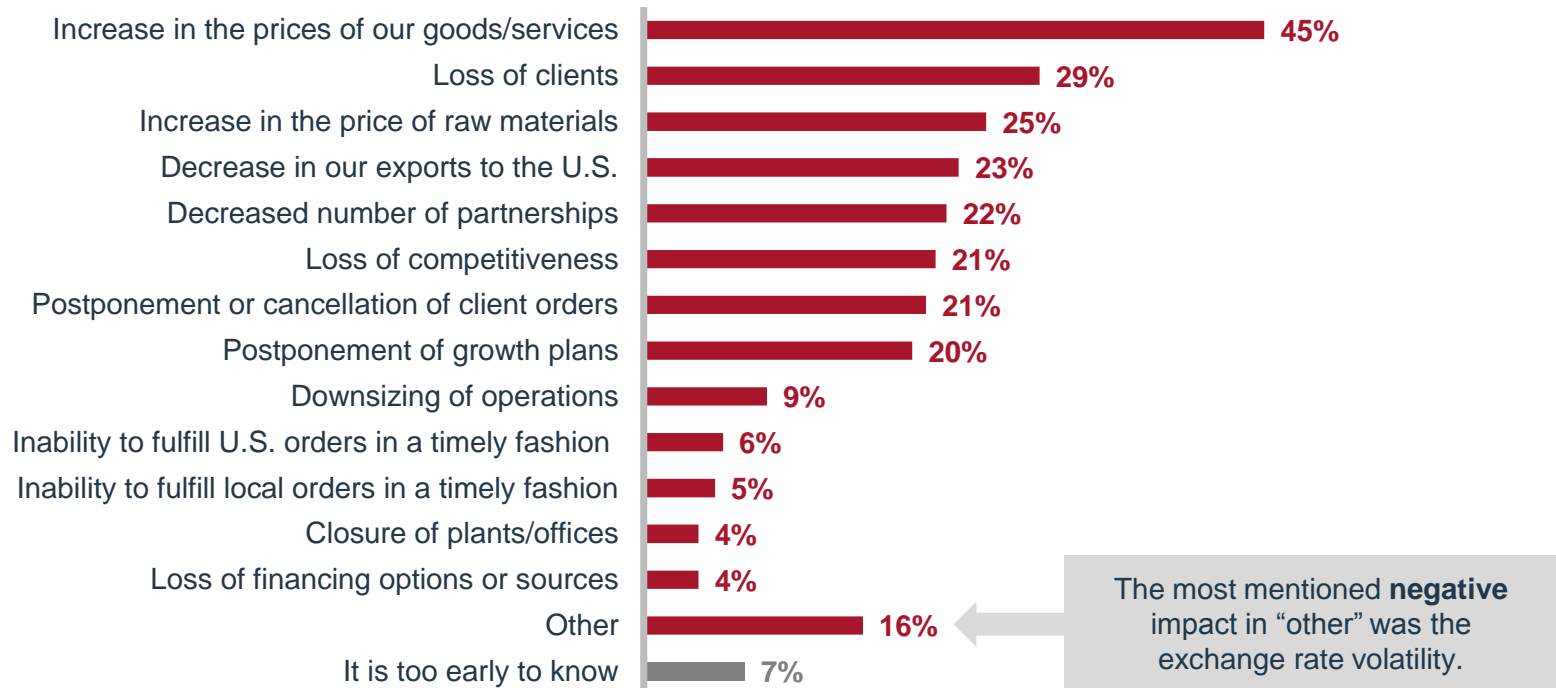
- The three most-mentioned negative impacts felt or expected following the change of administration in the U.S. were **increases in the prices of good and services** (45%), **loss of clients** (29%) and **increases in the prices of raw materials** (25%).
- Business that have already been affected by the change of administration in the U.S. mentioned the following negative impacts:
 - loss of competitiveness (26%)
 - postponement or cancellation of client orders (26%)
 - downsizing of operations (13%)
 - inability to fulfill U.S. orders (8%)
 - closure of plants or offices (6%)



Detailed results

Negative impacts of a new administration in the U.S.

You said that the recent change of administration in the United States have already affected or may affect your business negatively. What are some of these **negative impacts**?



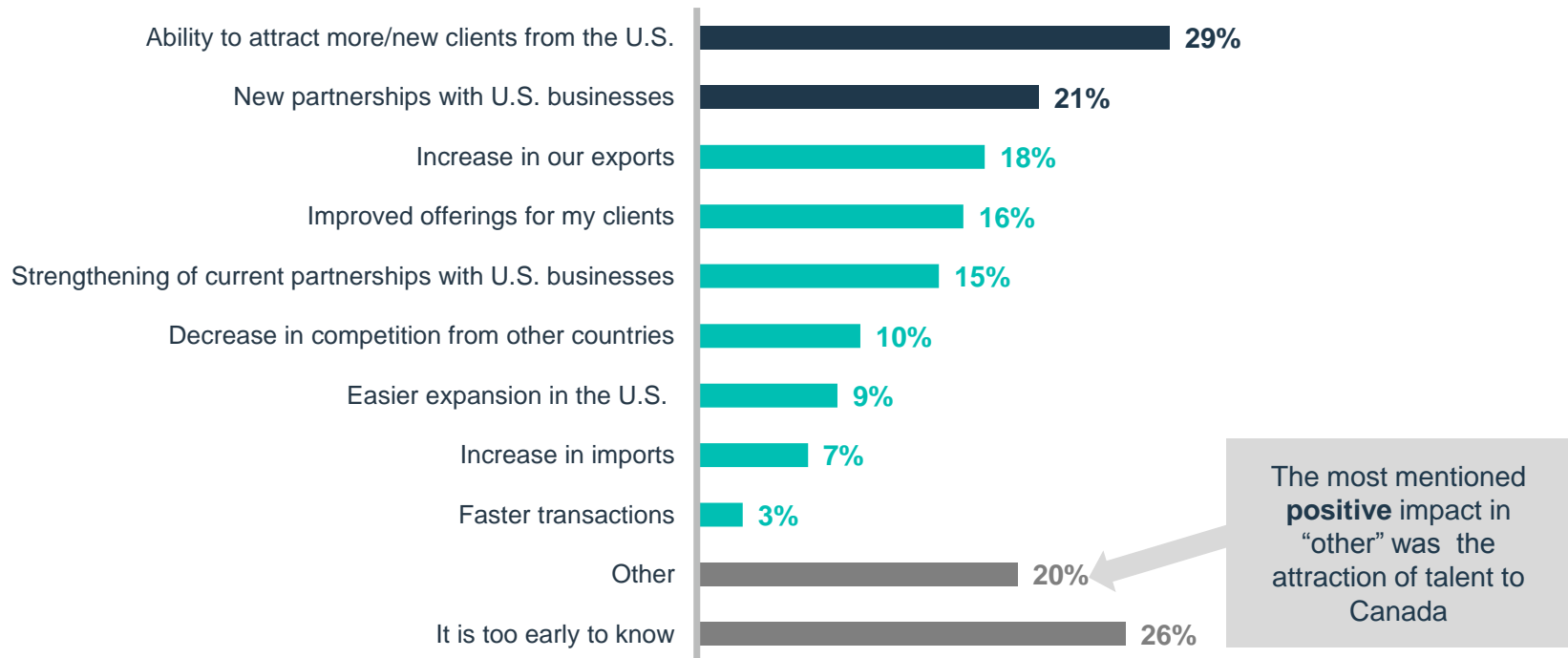
Base: Respondents who have been or expect to be negatively affected by the recent change of administration in the U.S. (n=318). Those who preferred not to answer were excluded from the calculation base. Multiple answers allowed.



Detailed results

Positive impacts of a new administration in the U.S.

You said that the recent change of administration in the United States has already affected or may affect your business positively at some point. What are some of these **positive impacts**?



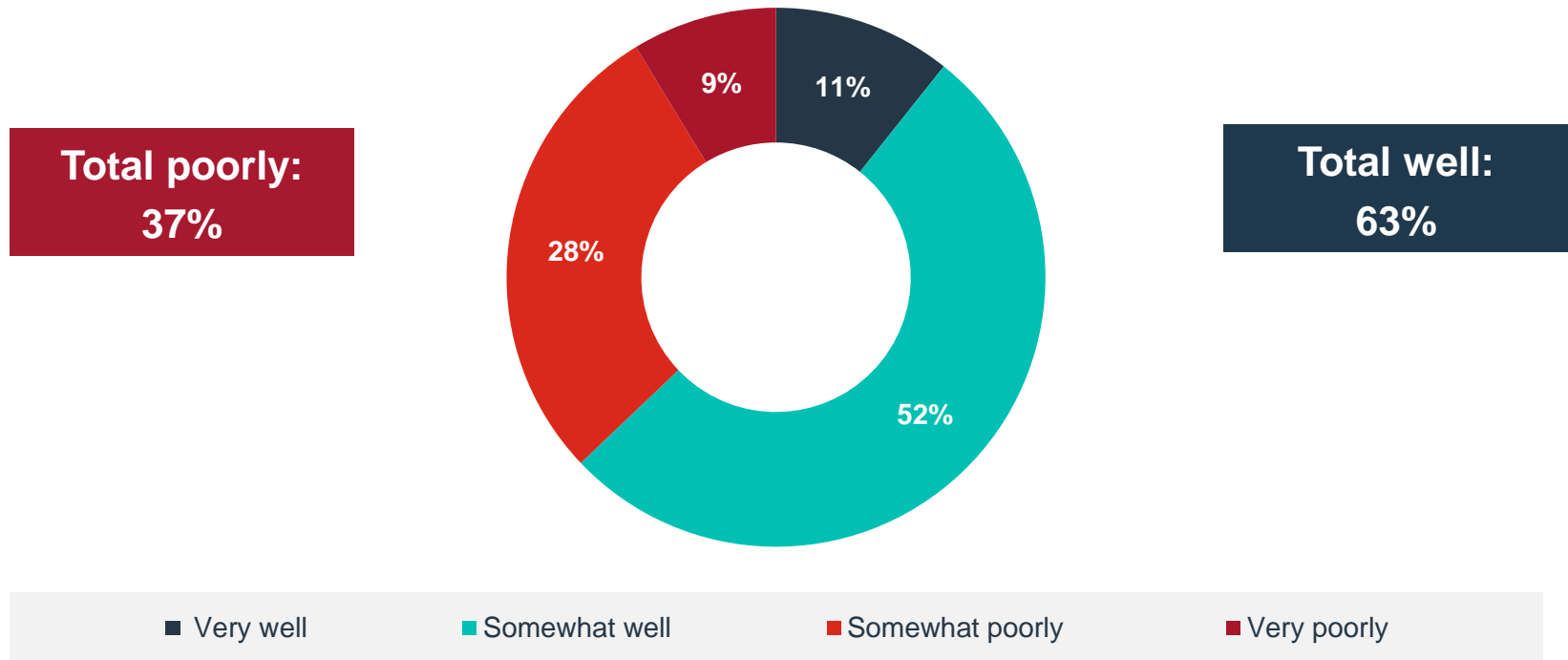
Base: Respondents who have been or expect to be positively affected by the recent change of administration in the U.S. (n=147). Those who preferred not to answer were excluded from the calculation base. Multiple answers were allowed.



Detailed results

Feeling equipped to minimize or avoid negative impacts

Currently, how **well equipped** is your company to minimize or avoid the negative impacts on your business of the recent change of administration in the United States?



Base: Respondents who have been or expect to be negatively affected by the recent change of administration in the U.S. (n=286). Those who preferred not to answer were excluded from the calculation base.



Detailed results

Reasons why respondents feel ill equipped to minimize or avoid negative impacts

Although most respondents feel well equipped to minimize or avoid negative impacts, those who feel otherwise believe they have no control over the changes a new administration in the U.S. is bringing about. As a result, they are unable to anticipate the effects these changes will have on their business and on the market in general. Another reason they feel poorly equipped to face the new challenges is that they lack the financial means to invest in improving their competitiveness.

- We asked respondents who feel poorly equipped to minimize or avoid negative impacts following the change of administration in the U.S., to explain their reasons for these views. Three reasons were the most frequently cited.
 - **They depend directly on U.S. business**, whether they supply U.S. companies or import raw materials from the U.S.
 - **These respondents lack the financial means** to invest in new technologies, to grow and compete in the U.S. market, or simply to overcome the challenges brought about by the change of administration in the U.S.
 - **The changes in the market are difficult to anticipate** and even harder to control. The change in the administration in the U.S. and the new policies coming out of it are expected to influence American consumption habits, something that is expected to affect Canadian businesses directly and indirectly.



Detailed results

Strategies used to minimize or avoid negative impacts

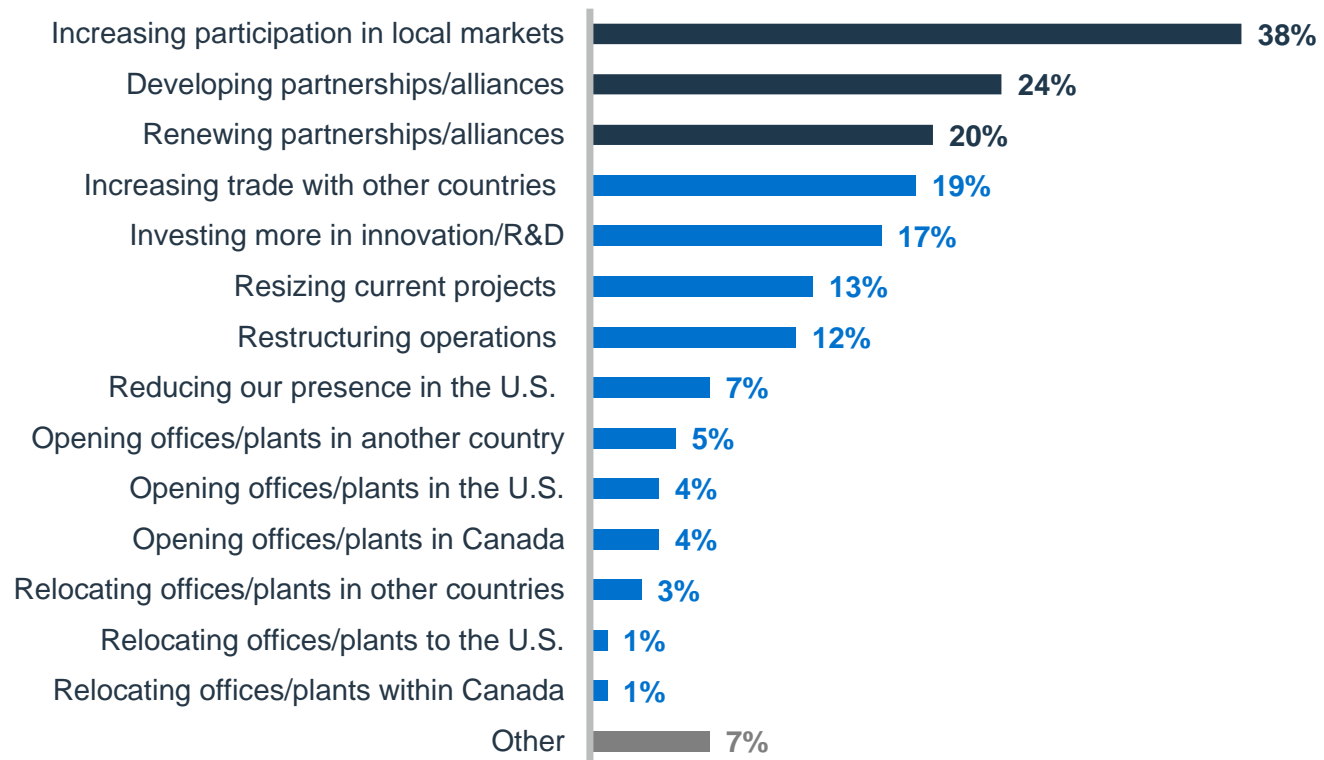
- The three most-mentioned strategies used to minimize or avoid the negative impacts of the change of administration in the U.S. were **increasing participation in local markets** (38%), followed by **developing partnerships and/or alliances** (24%) and **renewing partnerships and/or alliances** (20%).
 - Results show that 34% of respondents in Quebec and 31% of companies with sales of \$5 million or more have increased trade with other countries.



Detailed results

Strategies used to minimize or avoid negative impacts

What **strategies** has your company or have you already used to minimize or avoid these negative impacts?



Base: Respondents who have been or expect to be negatively affected by the recent change of administration in the U.S. (n=321). Those who preferred not to answer were excluded from the calculation base. Multiple answers allowed.



Detailed results

Strategies considered to minimize or avoid negative impacts

- The five strategies that respondents were most likely to have considered to minimize or avoid the negative impacts of the change of administration in the U.S. were **developing partnerships and/or alliances** (32%), **increasing trade with other countries** (31%), **increasing participation in local markets** (26%), **restructuring operations** (22%) and **renewing partnerships and/or alliances** (20%).
 - A significant percentage of companies with sales under \$250,000 (44%) have considered increasing trade with other countries.
 - Near one in five businesses that have already been affected by the change of administration in the U.S. have considered investing more in innovation and R&D (18%).



Detailed results

Strategies considered to minimize or avoid negative impacts

What strategies are you **considering** to minimize or avoid these negative impacts?



Base: Respondents who have been or expect to be negatively affected by the recent change of administration in the U.S. (n=321). Multiple answers were allowed. Those who didn't know or preferred not to answer were excluded from the calculation base.



03.

Respondent profile



Respondent profile

Region



B.C. and North

16%

Prairies

21%

Ontario

36%

Quebec

20%

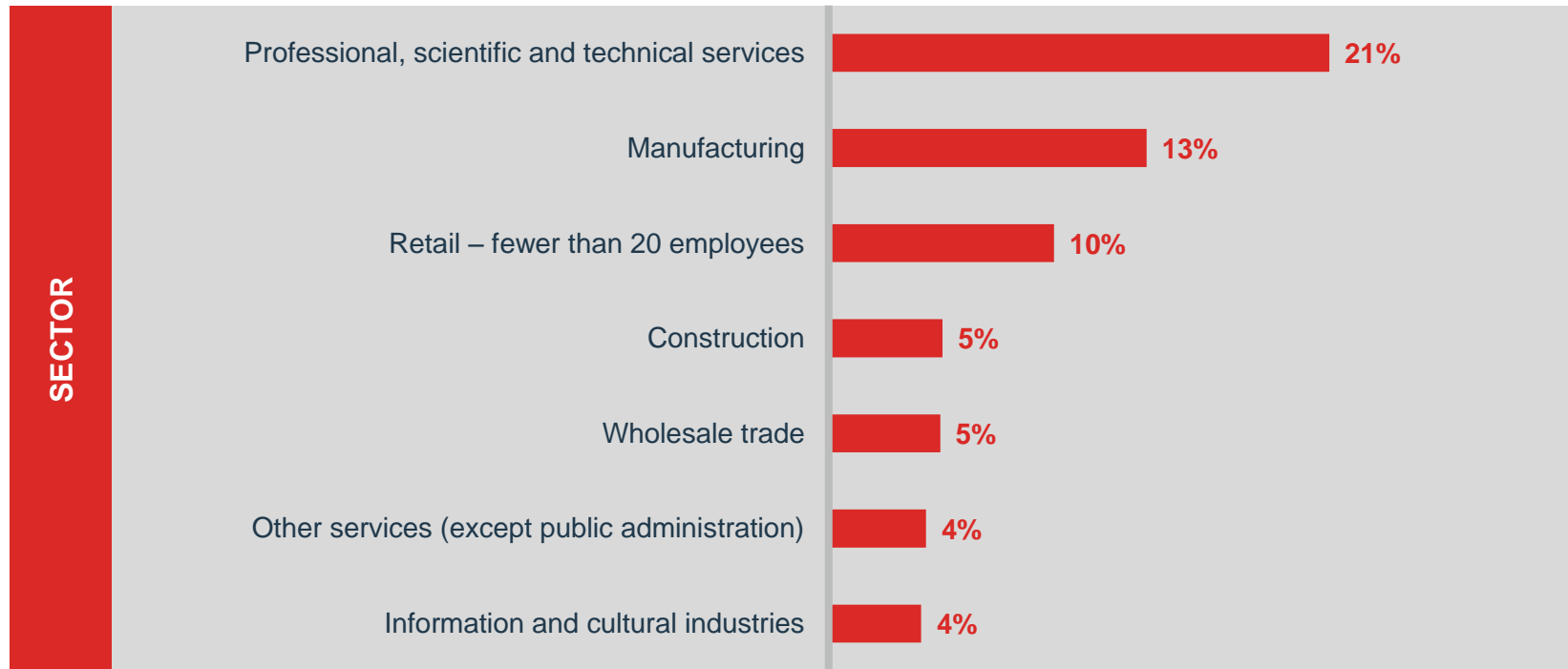
Atlantic

7%



Respondent profile

Sector of activity



Base: All respondents (n=732). Only sectors comprising a minimum of 4% of respondents are shown.



Respondent profile

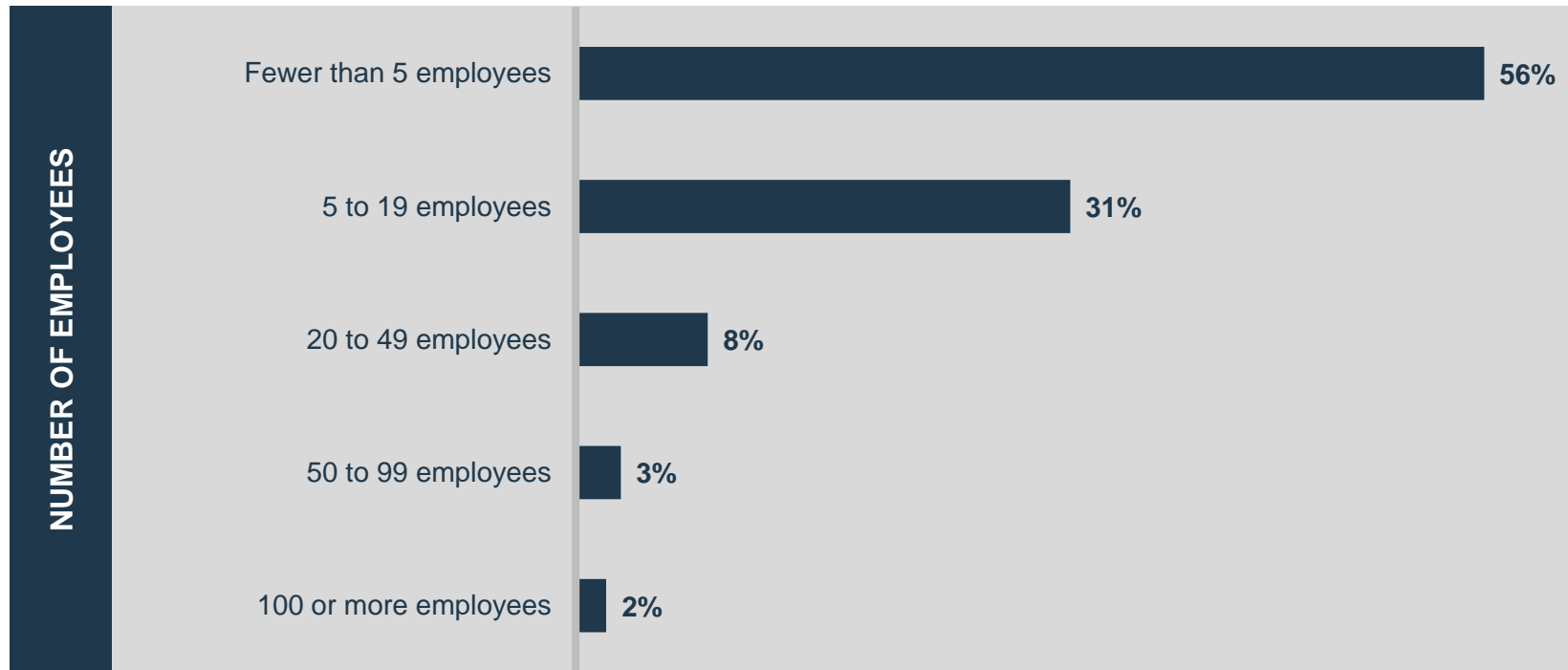
Business relations with the U.S.





Respondent profile

Number of employees

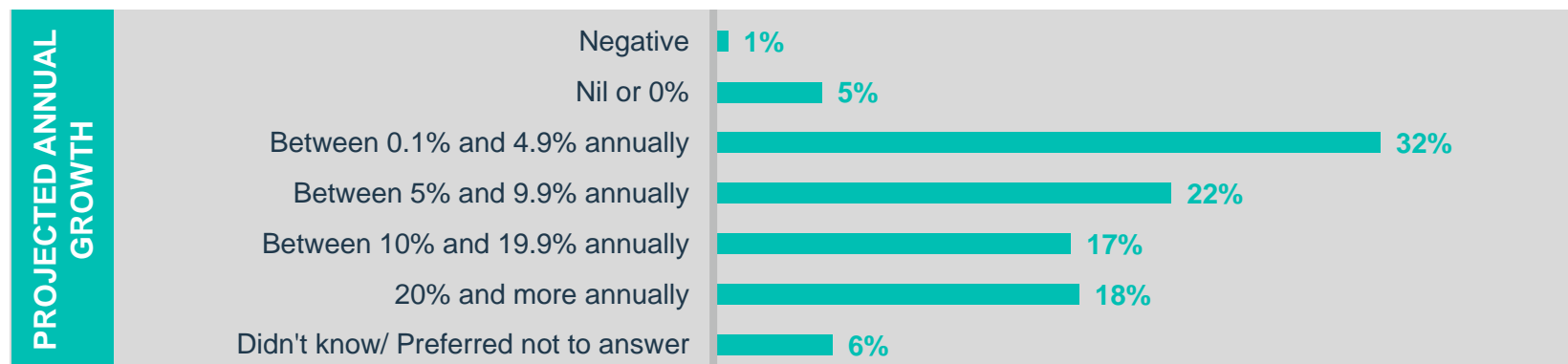
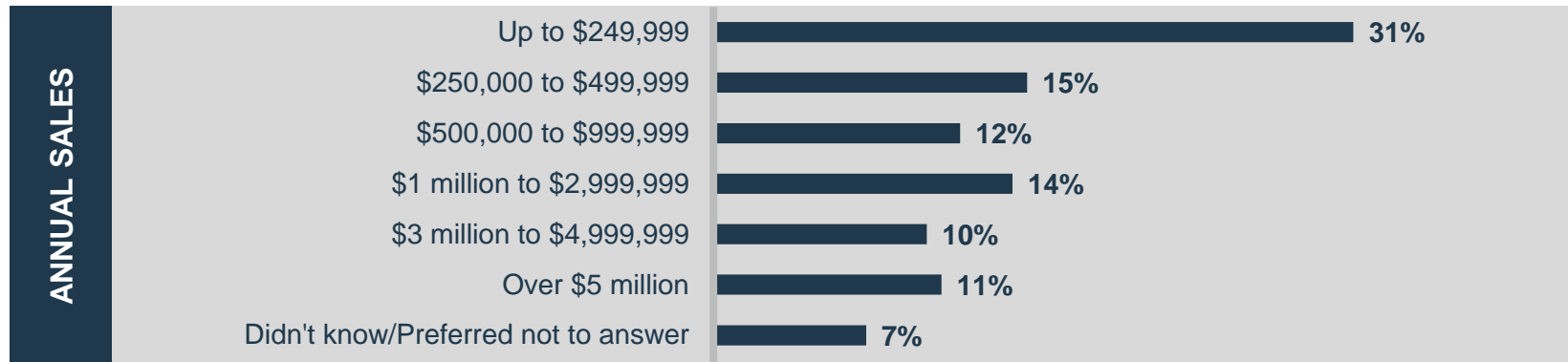




Section 03

Respondent profile

Annual sales and projected growth





04.

Context, objectives and methodology



Context, objectives and methodology

Context and objectives

- The Research and Economic Analysis team at BDC sought to take the pulse of Canadian entrepreneurs' with respect to the recent change of administration in the U.S.
- The goal of this survey was to gather relevant information to better understand entrepreneurs' realities and as such, to be able to respond to their needs.

Methodology

- **Survey methodology:** Online.
- **Respondent profile:** Entrepreneurs and decision-makers from the BDC Viewpoints Panel.
- **Sample size:** 732 respondents.
- **Maximum margin of error:** ± 3.6 percentage points, 19 times out of 20.
- **Survey dates:** May 30 to June 11, 2017.
- **Data processing and analysis** were performed by the BDC Research and Market Intelligence team.



05.

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Thank you.

Research and Market Intelligence

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