The Response

How Entrepreneurs Are Adapting to the Pandemic
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**On cover:**
Savannah Tardif
President and Founder
Be-U Cosmétiques
As we all know, the world changed dramatically in spring 2020. Operating in an enviable economic environment before that date, businesses and consumers alike have been impacted by the lockdown. The global health crisis has led to one of the largest economic crises in history. Fortunately, governments have implemented exceptional measures to help citizens and businesses maintain and relaunch their activities. We are currently on the road to a slow recovery.

In this new business environment, many Canadian entrepreneurs are showing ingenuity in adapting to post crisis challenges. This report outlines the five priorities that small and medium-sized enterprise (SME) leaders across the country intend to pursue over the next few years. The purpose of the report is to inspire all entrepreneurs and help them put their businesses back on track to prosperity. This report also demonstrates that there are opportunities for businesses of all sizes.

While the situation remains uncertain, it is important to remember that all crises ultimately pass. It is therefore essential that Canadian entrepreneurs position themselves now to take advantage of current and future business opportunities.

Pierre Cléroux
Vice President, Research and Chief Economist

“While the situation remains uncertain, it is important to remember that all crises ultimately pass.”
Highlights

Canadian entrepreneurs have been forced to adjust to deal with the COVID-19 pandemic, and they have risen to the challenge. Faced with new health rules, a long lockdown and physical distancing, they have found ways to prepare for the future and take advantage of new consumer and work habits. While everyone is monitoring how the pandemic is evolving, entrepreneurs are already responding by implementing five business priorities to help them succeed in this new context.

Based mainly on a survey of 1,000 Canadian SMEs, this report aims to present each of these five business priorities to help them succeed in this new context. It also presents practical advice and business cases. To help entrepreneurs better understand the need for action, this study also summarizes the pandemic’s impact on Canadian SMEs and the business environment in which they now operate. Overall, our findings are clear: with the exception of some small businesses that are being slow to prepare for recovery, many Canadian entrepreneurs are looking to the future and expect to adapt and modernize in order to prosper, as the following findings show.

87% of Canadian entrepreneurs are confident they will make it through the crisis.

56% of consumers have made more purchases online since the crisis began.

21% of small SMEs do not plan to make any changes to their business practices in the current pandemic environment. This proportion is only 4% among large SMEs.

Among Canadian entrepreneurs preparing for recovery:

4/10 intend to consolidate their financial position and want to increase their investment in technology within three years

6/10 will make telework a business practice

1/4 plan to make reviving growth after the crisis a priority
SMEs hit hard by the crisis
In June, three months into the pandemic, Canadian SMEs reported being affected by the health crisis in the following ways:

- **76%** reported a decline in revenues and profits
- **46%** had reduced their staff
- **39%** were further in debt

**Canadian entrepreneurs are confident**

Canadian entrepreneurs are generally confident that they will be able to weather the crisis created by the pandemic. The most confident are those with annual company sales of $2 million or more, who have five or more employees, whose business was growing before the crisis, and who have been in business for 10 years or more. Conversely, entrepreneurs in the accommodation, food service and oil sectors are less optimistic.

**Will your company still be in business a year from now?**

- **Definitely**: 51%
- **Probably**: 36%
- **Probably not**: 6%
- **Definitely not**: 1%
- **Don't know**: 6%

The new business environment
New working and consumption habits

The health crisis has changed Canadian consumer habits. Some trends are new, while others have accelerated in response to the crisis. Canadian entrepreneurs should keep in mind those changes if they want to successfully relaunch their businesses.

The five priorities of entrepreneurs in response to COVID-19
The five priorities for entrepreneurs in response to COVID-19

Entrepreneurs' five priorities given the business environment

The health crisis has changed Canadian work and consumer habits. While things remain uncertain, entrepreneurs are taking advantage of the new business environment. Many of them are already getting back on their feet and have begun to relaunch their businesses. What actions do they plan to implement to revive growth?

To help all Canadian entrepreneurs prosper, the following pages will detail how those who expect to be in business a year from now are planning to adapt. Here are the five priorities of those who are confident about the future of their business one year from now.

1. Restoring their financial health (39%)
2. Taking advantage of technology (27%)
3. Focusing on remote work (25%)
4. Selling online (24%)
5. Reviving growth (23%)


* Percentages express the proportion of respondents who indicated this priority. The choices were multiple but limited to three priorities. Therefore, the total exceeds 100%.
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Nearly 4 in 10 entrepreneurs will prioritize financial recovery after the crisis.

1
Restoring their financial health

The pandemic has greatly affected Canadian SMEs’ finances. Many experienced a drastic drop in revenues while their costs fell only marginally. An imbalance between cash inflows and outflows has forced some to take on more debt. As a result, the proportion of SMEs whose debt accounted for 25% or more of annual revenues more than doubled, from 10% to 22%. To prosper tomorrow, the time to clean up the balance sheet is today.

To achieve this, entrepreneurs are first seeking to reduce their operating costs. Those working in wholesale trade, accommodation and food service are among the most likely to put this goal at the top of their list.

Controlling cash flow and reducing debt is also a priority. Real estate and leasing businesses are among the most likely to reduce their debts.

Some businesses are also planning to set up a contingency fund. This would represent an average of seven and a half months’ revenue. Entrepreneurs who have been in business for 15 to 24 years are more likely consider setting up such a fund.
Taking advantage of technology

Many entrepreneurs are determined to modernize their businesses and make them more productive by investing in technology. They have clear reasons for getting started, have a solid strategy for success and are ready to tackle the challenges ahead.

Bigger company, bigger investments

Entrepreneurs who are among the most likely to prioritize investments in technology are those who run companies with annual revenue of at least $10 million. Businesses in professional, scientific, technical and financial services are also more likely than others to plan to invest in technology.

What is driving entrepreneurs to invest in technology in the wake of the COVID-19 crisis?

- Increasing competitiveness: 58%
- Staying in business: 46%
- Following industry trends: 41%
- Reducing costs: 41%
- Expanding: 24%
- Attracting or retaining employees: 20%
- Compensating for labour short ages: 14%
- Other: 6%

The five priorities for entrepreneurs in response to COVID-19 - Taking advantage of technology

Challenges facing entrepreneurs investing in technology

- Need to train employees: 45%
- Lack of internal expertise and knowledge: 43%
- Minimal or slow return on investment: 32%
- Increased debt: 31%
- Financial risk for the company: 24%
- Difficulty accessing financing: 15%
- No particular challenges: 8%
- Other: 3%


Operational benefits entrepreneurs expect to derive from technology investments

- Allowing workers to practise physical distancing and telework (e.g., computer platforms): 47%
- Optimizing processes and reducing costs (e.g., ERP system, real-time data collection, artificial intelligence): 45%
- Improving customers’ online experience (e.g., chatbots, virtual or augmented reality, more user-friendly website, data capture): 40%
- Maintaining or reducing the number of workers (e.g., robotization, automation): 19%
- Increasing production capacity (e.g., robotization): 18%
- Digitizing supply chain: 14%


40% of entrepreneurs are determined to increase their investment in technology within three years.
Productive pandemic

How this entrepreneur used her downtime to build for the future

Deborah Foster-Stahle was like many Canadian entrepreneurs hit by stay-at-home measures due to the COVID-19 pandemic. The lockdown instantly eliminated 65% of revenues at Foster-Stahle’s quickly growing company, OfficeInc! Corp., in Barrie, Ontario, which rents office, meeting and kitchen space to businesses and other organizations.
Much of her income had come from clients who rented the various meeting rooms, including her 550-square-metre space for events. Indoor events with in-house catering were restricted for several months to control the spread of the virus. “It was pretty lean in terms of revenue,” Foster-Stahle says.

Foster-Stahle quickly adapted the premises to her clients’ needs. She changed meeting room layouts, installed automated hand-sanitizing stations and added directional signage to facilitate physical distancing, for example. It also helped that she was able to hang on to clients that provided essential services and continued renting office space at OfficeInc!

**Used downtime to think strategically**

Just before the pandemic hit, Foster-Stahle had started a BDC strategic planning consulting mandate. She used the downtime to think more strategically about her business. With help from her coach, she honed plans to expand her office-space concept to other cities, through franchising or licensing.

The reflection also convinced Foster-Stahle to invest in new technologies to help take her business to the next level. She decided to invest in new accounting software. She’s also pursuing another coaching mandate with BDC to improve her financial management.

Finally, Foster-Stahle invested in new sales and marketing systems to help her team gain sales leads and organize follow-ups. Thanks to all her efforts, Foster-Stahle not only kept her business chugging along; she even managed to recover lost revenue. “I’m pretty optimistic,” she says. “I don’t tend to stay in a negative place. We’re building back stronger right now.”

“Because I had more time, I could focus on important but less urgent projects that I may not have worked on otherwise.”

- Deborah Foster-Stahle, President, OfficeInc! Corp.
The five priorities for entrepreneurs in response to COVID-19

### Focusing on remote work

Canadian entrepreneurs want to continue to integrate remote work into their business practices. Not only does working from home go hand in hand with physical distancing, but employees are also asking for it. Whether or not remote work will continue or become more important will depend, however, on the sector: a higher proportion of information technology and telecommunications entrepreneurs, as well as those in professional, scientific and technical services, will rely on remote work. The same can be said for those in finance and insurance.

#### Proportion of SMEs relying on remote work:

<table>
<thead>
<tr>
<th></th>
<th>Pre-crisis</th>
<th>Post-crisis</th>
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<tbody>
<tr>
<td></td>
<td>51%</td>
<td>60%</td>
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</tbody>
</table>

#### Reasons why entrepreneurs continue to permit remote work

- Allowing for physical distancing: 57%
- Responding to employee requests: 45%
- Reducing employee travel time: 44%
- Following industry trends: 33%
- Attracting or retaining employees: 27%
- Reducing real estate costs (offices or production space): 27%
- Reducing environmental footprint: 19%
- Other: 2%

The five priorities for entrepreneurs in response to COVID-19 - Focusing on remote work

Five positive impacts of remote work

Proportion of Canadian entrepreneurs who believe that remote work will have a positive impact on the following:

- The organization’s ability to innovate: 55%
- Employee productivity: 52%
- Employee motivation: 49%
- The ability to attract employees: 44%
- Corporate culture: 34%


On the whole, Canadian entrepreneurs are comfortable with allowing workers to work remotely. Only one in five, for example, believe that remote work will have a negative impact on their company’s innovative capacity or on employee productivity or motivation.

Some business leaders also want to review work schedules to reduce on-site employee attendance. They are also planning to rearrange their workspaces to allow distance between workstations and to reduce the number of common areas.

As a result, 18% of business leaders believe their workspace needs will decrease. In the longer term, if remote work continues to grow in popularity, this proportion may well increase further.
The five priorities for entrepreneurs in response to COVID-19

4

Selling online

Companies that were already selling online were less affected by the lockdown.

This is a strong indication of the importance of e-commerce in the current and future business environment. For the time being, the companies that intend to put their shoulder to the wheel are those that have realized there is an urgent need to act and have already begun to turn the corner: 75% of companies that want to increase their online sales already have an online presence.

Canadian entrepreneurs do not intend to limit themselves to a single strategy to increase online sales. Instead, they intend to increase their efforts in several areas to achieve their goals. For example, companies are planning to improve their websites, become more active at social media and set up targeted promotional campaigns.

14%

Proportion of SMEs that made at least half of their sales online before the pandemic saw their revenue increase during the crisis, compared to only 8% of those that made less than half of their sales online.
The challenges of the online shift

Selling online means adopting new practices—an adjustment that requires knowing where to focus the company’s efforts.

Entrepreneurs are aware of the challenges ahead, and they are already well positioned to take advantage of e-commerce opportunities.

- Proportion of entrepreneurs relying on online sales who foresee an increase in their need for storage space: **28%**
- Proportion of entrepreneurs relying on online sales who say they need to gain expertise and knowledge in the field: **33%**
- Proportion of entrepreneurs who say they have not yet found a way to make online sales profitable: **30%**
Case study

Betting big on e-commerce

This young entrepreneur is seeing rapid growth

Before the health crisis that hit the country in March, less than a third of Be-U Cosmétiques’ sales were online. But founder and CEO Savannah Tardif was already planning on changing things.

Her young company founded in 2018, in Montreal, manufactures and sells skin care products. With a strategy based on a personalized offer, she launched her second website in summer 2019. While the first site only sold the company’s body products, the new website allowed her to offer a broader range of products, notably adding facial care products.
This investment has proven very profitable for Ms. Tardif. Online sales increased her turnover tenfold in the months following the beginning of the pandemic and show no signs of slowing down.

**Increasing sales tenfold using the Web**

Customers who visit the new Be-U Cosmétiques site are invited to answer questions about their skin. Is it dry? Sensitive? Radiant? Are the pores enlarged? The idea, explains Tardif, is to recommend the right product and the right care routine to the right person. “We see ourselves as an online cosmetician,” she says. “We want to offer advice online that customers would receive in-store.”

This strategy already made sense before the pandemic, when online sales seemed to be the way of the future, but in the face of the crisis, it has proven crucial. “At one point, our in-store sales dropped to almost zero,” explains Tardif.

Online sales have helped the company gain momentum despite this slowdown in in-store sales. At the beginning of fall, after lockdown had been in place for several months, Be-U Cosmétiques’ online sales represented 80% of the company’s turnover. The company was also planning to use e-commerce to increase its sales elsewhere in the country.

“When the pandemic hit, it helped that we already had an online presence,” Tardif says. “We didn’t need to rush to set up a website. We already had a strategy.”
The five priorities for entrepreneurs in response to COVID-19

Reviving growth

Many Canadian businesses have experienced a significant drop in revenue as a result of the pandemic. Canadian entrepreneurs now want to rectify the situation and refill their order books.

Among entrepreneurs who expect to still be in business a year from now, nearly a quarter are prioritizing expansion after the crisis. Some see great acquisition opportunities. Others want to take advantage of a sector that is still doing well. One thing is certain: entrepreneurs are not losing sight of growth.

In the wake of the crisis, many entrepreneurs realized the importance of diversifying their clientele and their offer to ensure their business is robust. This is especially the case for entrepreneurs running businesses with annual revenue of less than $2 million. Those with annual revenue of over $10 million are more inclined to say that they are in an enviable financial position and that there are currently good acquisition opportunities, particularly in the real estate and leasing services sector.

### Reasons for entrepreneurs to revive growth after the COVID-19 crisis

<table>
<thead>
<tr>
<th>Reason</th>
<th>Percentage</th>
</tr>
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<tbody>
<tr>
<td>Ensuring company’s survival</td>
<td>50%</td>
</tr>
<tr>
<td>Diversifying company’s customer base</td>
<td>47%</td>
</tr>
<tr>
<td>Diversifying company’s service offer</td>
<td>42%</td>
</tr>
<tr>
<td>Company’s sector is doing well</td>
<td>39%</td>
</tr>
<tr>
<td>Good acquisition opportunities available</td>
<td>26%</td>
</tr>
<tr>
<td>Enviable financial position compared to competitors</td>
<td>26%</td>
</tr>
<tr>
<td>Other</td>
<td>1%</td>
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The brakes on growth

Entrepreneurs seeking growth have already done their homework and understand the challenges ahead. Over 56% of them are aware that the uncertain economic environment could make things difficult. Two out of five companies also mention the risk of a second wave. Entrepreneurs also expect to face more ordinary challenges, such as difficulty finding labour and financing.

28% of entrepreneurs seeking to revive growth who report difficulty finding labour.

24% of entrepreneurs seeking to revive growth find that access to financing is more difficult. Entrepreneurs who run businesses with 100 or more employees and those who have been in business for less than five years are more likely to face this challenge.

Only 15% of leaders seeking growth say they are facing no particular challenges.
Some small businesses are slow to adapt to the new business environment.
Some small businesses are slow to adapt to the new business environment. Small SMEs are more likely to have no plans for post-crisis recovery. In some cases, this is because they have been less affected by the pandemic. In others, inaction seems to have taken over. Weaker financial health prior to the lockdown seems to partially explain the inaction of some small businesses. In addition, fewer of them are benefiting from online sales. Adopting business practices that take into account the trends presented in this report could prove to be the key to the recovery and growth of these businesses.

21% of small SMEs do not plan to make any changes to adapt to the health crisis, compared to 4% of large SMEs.

Some small SMEs stand out through inaction and weak online presence:

- Small SMEs planning to make changes: 45%
- Small SMEs not planning to make changes: 34%
- Online sales: 24%
- Zero or negative sales growth before the crisis: 22%

Large SMEs, large projects

Strategies prioritized by Canadian SMEs in response to COVID-19, by company revenue

- Small SMEs (< $2 million)
- Mid-sized SMEs ($2 < $10 million)
- Large SMEs ($10 million or over)
- All SMEs

1. Improving the company's financial position
   - Small SMEs: 38%
   - Mid-sized SMEs: 46%
   - Large SMEs: 38%
   - All SMEs: 39%

2. Increasing investment in technology
   - Small SMEs: 27%
   - Mid-sized SMEs: 24%
   - Large SMEs: 45%
   - All SMEs: 27%

3. Increasing use of telework
   - Small SMEs: 21%
   - Mid-sized SMEs: 34%
   - Large SMEs: 45%
   - All SMEs: 24%

4. Increasing online sales
   - Small SMEs: 21%
   - Mid-sized SMEs: 31%
   - Large SMEs: 24%
   - All SMEs: 31%

5. Reviving growth
   - Small SMEs: 20%
   - Mid-sized SMEs: 31%
   - Large SMEs: 34%
   - All SMEs: 23%

6. No change
   - Small SMEs: 21%
   - Mid-sized SMEs: 8%
   - Large SMEs: 4%
   - All SMEs: 18%
Expert advice

Keep a tight rein over your finances

Public health and economic uncertainty is expected to persist for several quarters. To ensure the sustainability of your business, tight management of your cash flow is critical. Among other things, we suggest creating a weekly cash flow plan. To create your plan, list all your anticipated cash inflows and outflows over a period of at least three months. The purpose of this exercise is to determine how much working capital you’ll need and try to avoid any unpleasant surprises. It will also equip you with supporting documentation in case you need to apply for a working capital loan. Another good idea is to set up a contingency fund to cover several months of operating expenses.
2

Plan your technology investments

Investing in technology can help you improve the client experience, make your employees’ jobs easier and enhance your productivity. In the current context, these benefits can be critical to the survival of your business. On the other hand, a poorly crafted plan for technology investment can disrupt your day-to-day activities and put a strain on your finances. Taking the time to define a technology roadmap will help you identify the most promising directions for your company and help you avoid costly mistakes.

3

Adapt your management practices to teleworking

Leading a team remotely requires new tools and management habits. This makes it more essential than ever to set clear objectives for your employees and explain how their roles fit in with the company’s overall strategy. Developing a results-oriented culture is important for effective remote management. You should also strive to maintain contact with your employees by scheduling regular meetings.
Choose an e-commerce strategy that suits your business model

Competition, cost structures and distribution models are not identical online and offline. Shipping costs, inventory management and order fulfilment logistics are just a few of the challenges posed by e-commerce. Take the time to review your business strategy thoroughly to ensure you’re meeting your customers’ needs and setting your company up for success on the Web.

Listen to your customers to plan your growth

In today’s rapidly evolving world, it’s important to stay abreast of your customers’ needs. Ask yourself, “What do my customers want right now, and how can I meet their needs?” Asking for regular customer feedback will give you a better idea of the level of demand for your products or services. It can also help you identify any necessary changes to your service offering as well as the most favourable growth opportunities for your business.
Conclusion

Opportunities to be seized

The COVID-19 crisis has hit the economy hard. Canadian entrepreneurs have been affected, but many are adapting to better prepare for recovery.

The lockdown has resulted in a change in consumer habits, and these habits are likely to take root. Teleworking and online shopping, for example, were already gaining popularity before the crisis. The pandemic has accelerated these trends. A return to the pre-lockdown situation is unlikely.

To prepare for the recovery of their businesses, Canadian entrepreneurs are planning to implement five strategies. First, they plan to put their finances in order and take advantage of technology. They then plan to focus on teleworking and online sales. Lastly, Canadian entrepreneurs are planning to set their sights on growth.

Canadian entrepreneurs are in “solution mode” and have begun to take action to prepare for the future and succeed in the new business reality.

Some small businesses, however, are less likely to implement coping strategies in the context of the health crisis. If they want to take advantage of the recovery and reverse the negative impacts of the pandemic on their sales and profits, they have every reason to take advantage of new trends.

SMEs should take advantage of new trends to prosper in the coming years.
Data and methodology

This report is based on the extensive literature published since the beginning of the public health crisis, as well as interviews with academic, consulting and marketing research experts. In particular, the authors consulted experts from McKinsey, KPMG, PwC, Léger and HEC.

The data presented were derived mainly from two surveys conducted by BDC. The first focused on post-lockdown business trends and priorities and was conducted among 1,000 SME leaders in June 2020.

The second survey was conducted in May and June 2020 among 2,000 Canadian consumers. The results for some questions were compared with those in similar surveys conducted in 2013 and 2019 with a comparable number of consumers to note the evolution of and changes in certain trends.
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