



**Study**  
November 2020

# Profit From E-Commerce

How to Compete in the Online Marketplace





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**“E-commerce provides all companies with new business opportunities.”**

# Message from the Chief Economist

The upward trend in e-commerce is nothing new. The pandemic has accelerated an already growing phenomenon and made e-commerce indispensable. Online sales will inevitably continue to rise once the health crisis is over. It is estimated that the global e-commerce market will grow to US\$39 trillion by 2023.

E-commerce creates new business opportunities for all companies, regardless of size or sector. It also requires them to review their business models. While nearly 85% of Canadian consumers buy online, only 46% of Canadian small and medium-sized enterprises (SMEs) plan to sell in the virtual marketplace. Those who were already selling online before the pandemic have fared better than others.

Nevertheless, e-commerce has its challenges. For example, 22% of SMEs that

sell online see no sales growth. The arrival of new players and the omnipresence of the e-commerce giants have increased competition. This makes it critical to implement the strategies best suited to your business.

These are just a few of the findings uncovered in our research and presented in this report. In addition to describing the current state of e-commerce, our primary objective is to share the online strategies that our experts consider to be best suited to the reality of Canadian SMEs.

We hope this advice will help you take advantage of all the opportunities available to you online.

**Pierre Clérout**  
Vice President,  
Research and Chief Economist



# Highlights

## E-commerce is a must

- The global e-commerce market will reach US\$39 trillion by 2023.
- Nearly 85% of Canadian consumers buy online.

## Online sales help businesses grow

- Nearly 80% of businesses that are very active online saw their sales increase before the pandemic.
- Canadian SMEs that sold online during the pandemic were less affected than others.

**Too many entrepreneurs are slow to make the shift**

Only

**46%**

of SMEs plan to sell online after the crisis.

## Five factors for successful online sales

1. Providing a good customer experience.
2. Developing the right skills.
3. Ensuring profitability.
4. Delivering on time.
5. Financing investments.

## Five steps to sell online

1. Understand your market.
2. Know your customers.
3. Review your partnerships and business model.
4. Develop your skills.
5. Define your objectives and optimize your efforts.

# Online sales: A must

## A trend that began long before the pandemic

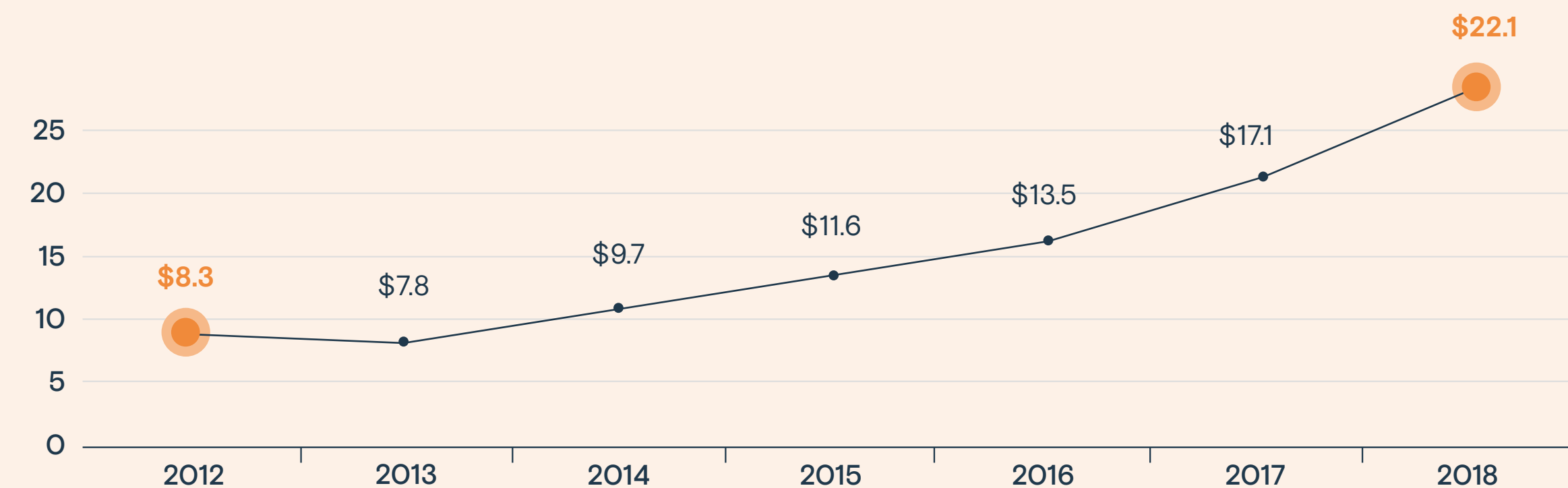
The online shopping craze is not a result of the COVID-19 pandemic.

E-commerce sales and employment were on the rise before the lockdown measures that hit Canadians in early spring 2020.

Between 2012 and 2018, online retail sales almost tripled.

**Figure 1**

E-commerce retail sales, 2012 to early 2018 (\$ in billions)



Source: Statistics Canada.

A job-creating sector

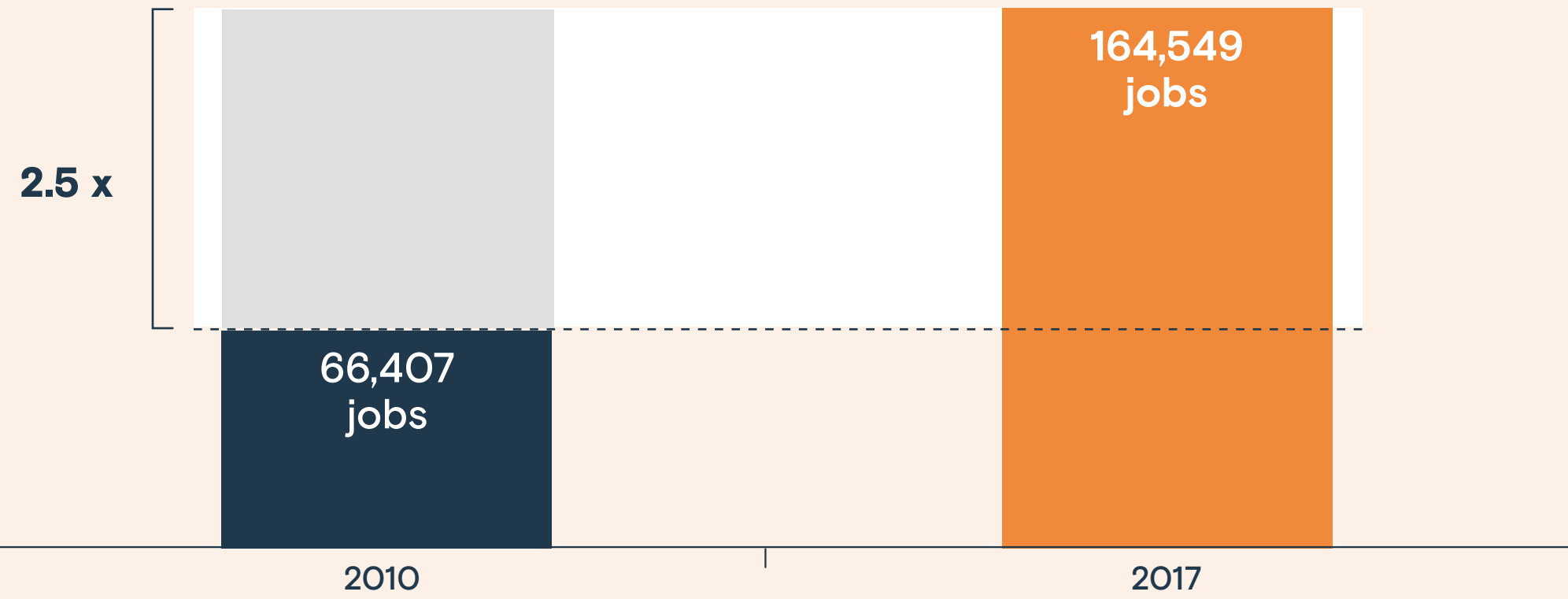
Employment in the sector has also grown at a staggering rate.

The number of Canadians working directly in e-commerce more than doubled between 2010 and 2017, the most recent year for which data are available<sup>1</sup>.

1. In comparison, total employment in Canada increased by 10.4% during this period.

Figure 2

Employment in e-commerce, 2010 vs. 2017



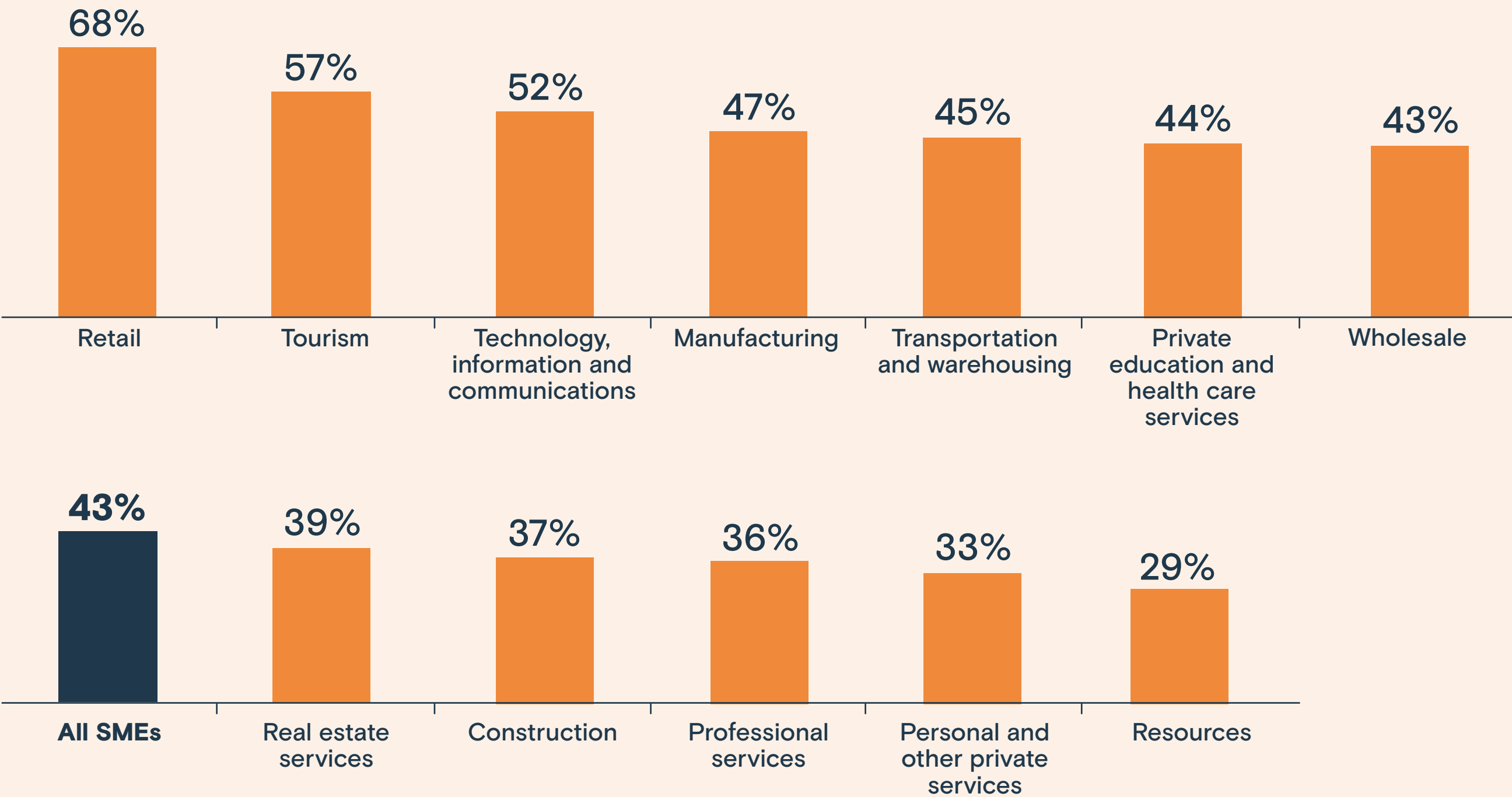
Source: Statistics Canada.

E-commerce occurs in all sectors

E-commerce is not reserved exclusively for retailers. Data from a recent BDC survey indicate that, at the beginning of 2020, just under half of SMEs were selling online. After retailers, businesses in the tourism and the technology, information and communications sectors were the most likely to generate a portion of their revenue online.

Figure 3

Businesses generating a portion of their sales\* online, by sector (%)



\*Includes SMEs that generate over 1% of their sales from e-commerce.  
Source: BDC, Survey on the Impact of COVID 19 on Canadian SMEs, June 2020.

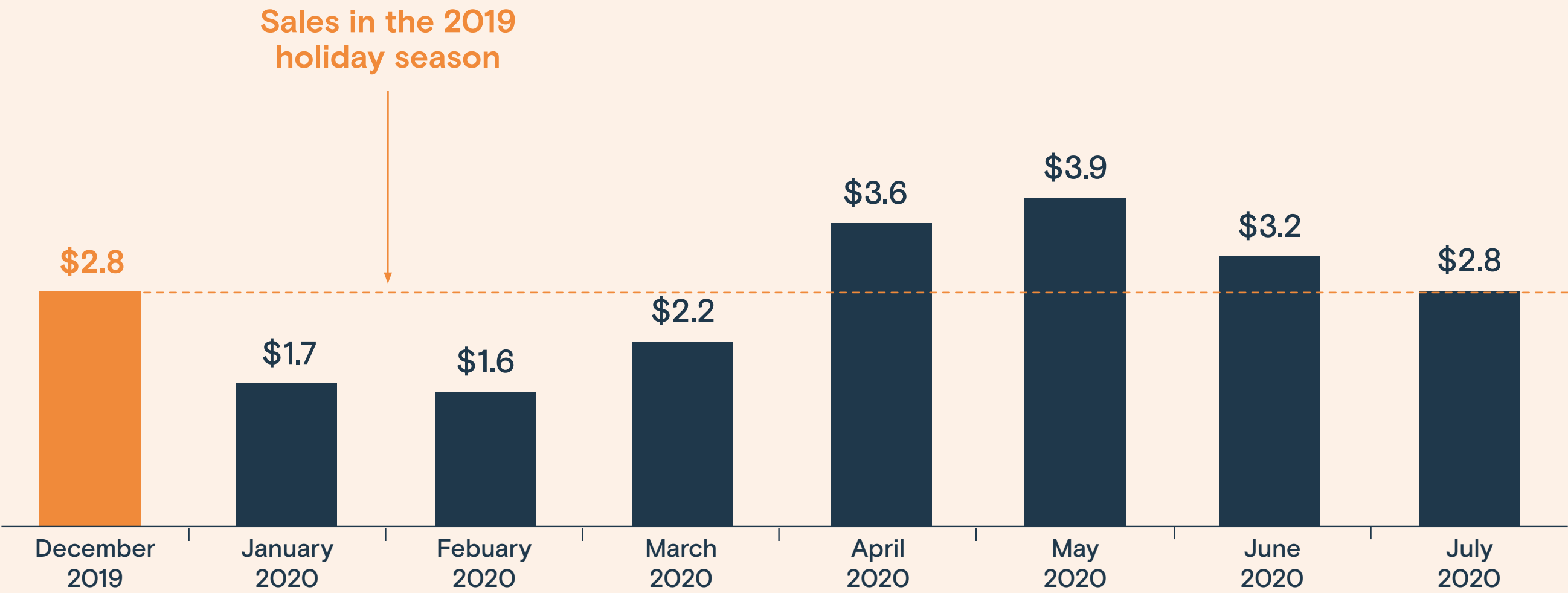
The COVID-19 crisis has caused online sales to skyrocket

The popularity of e-commerce exploded with the lockdown and remains high, despite the reopening of retail stores.

In each of the first four full months of the health crisis (for which data are available), online sales met or exceeded those for the 2019 holiday season (December 2019), which is generally the busiest time of the year.

Figure 4

E-commerce retail sales, unadjusted (\$ in billions)



Source: Statistics Canada.



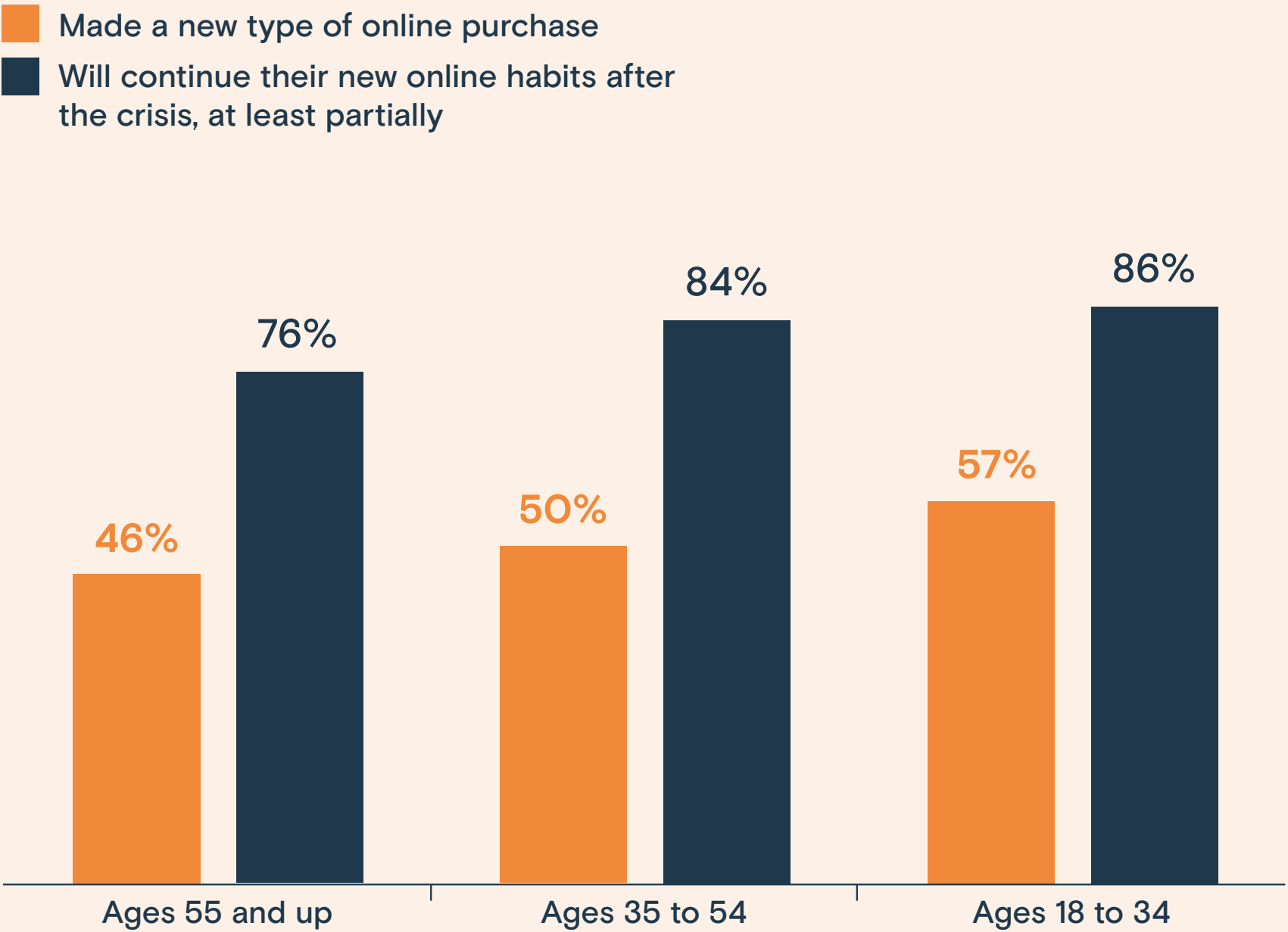
New online consumption habits will persist

Nearly 85% of Canadians were already buying online before the pandemic. During the lockdown, consumers had to adjust their habits—for example, by buying their groceries online.

Half of Canadians have made at least one new type of online purchase since the beginning of April, across all age groups.

Canadians have developed a taste for e-commerce. According to a poll conducted over the summer, eight out of 10 Canadians who made an online purchase for the first time during the pandemic intend to continue shopping online after the crisis.

Figure 5  
New online consumption behaviour among Canadians (%)



Source: Léger, The Commercial Shift: Consumer Behaviour During and After the Pandemic, Phase 3 (n = 4,015), June 15 to June 24, 2020.

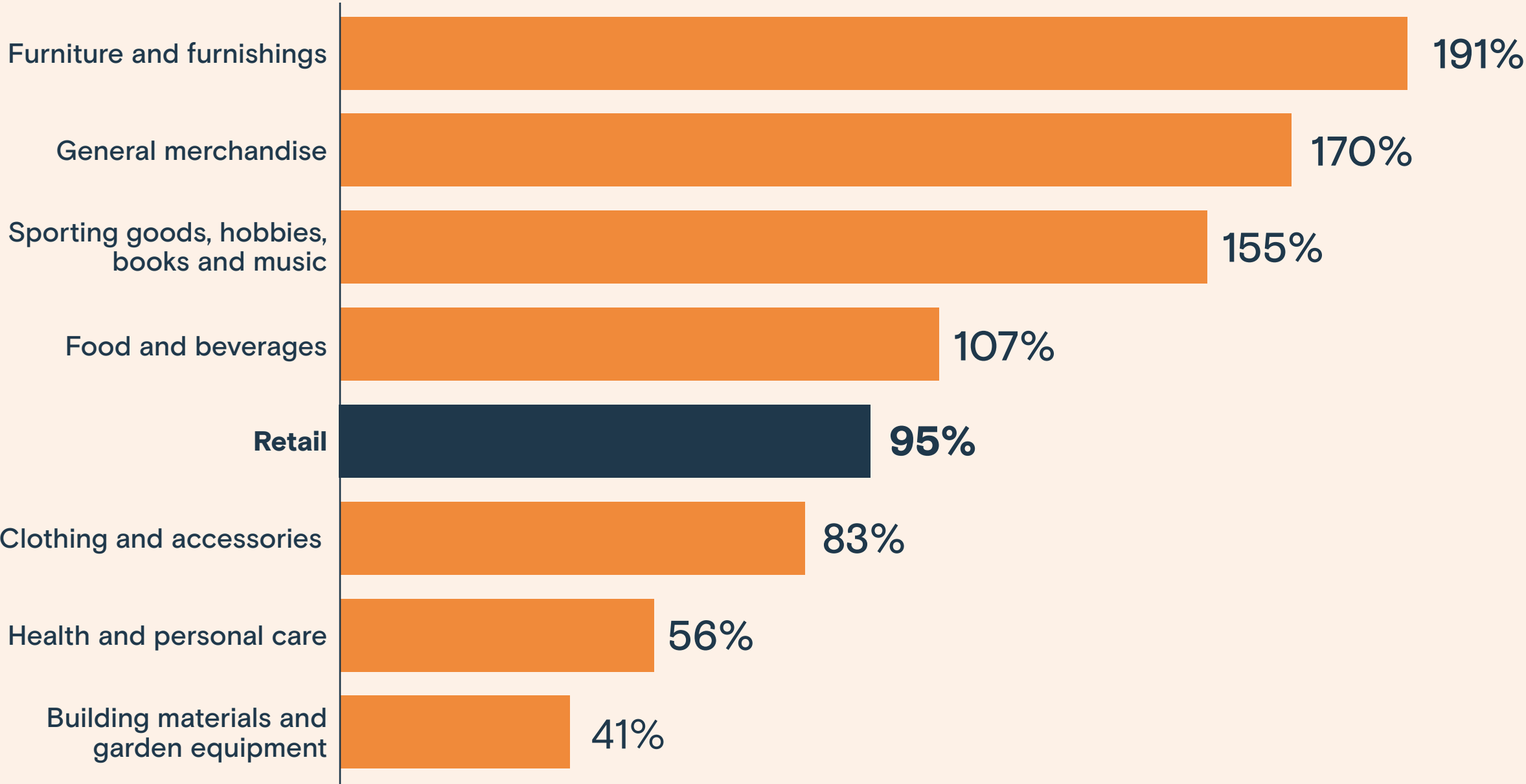
Some products are better suited to e-commerce

Canadians are more likely to buy certain goods online, and those goods are found primarily in big-box stores.

That being said, the restrictions associated with the lockdown led many SMEs to reinvent their business model. Businesses modified their products and services to adapt them to e-commerce and take advantage of this trend.

Figure 6

E-commerce sales growth between February and April 2020 (%)



Source: Statistics Canada.



# US\$39 trillion

**Estimated size of  
the global  
e-commerce  
market in 2023.**

Source: Forrester.



Entrepreneur story

No.Mi.No.U

Pivoting to  
e-commerce

## How a Vancouver retailer turned her lockdown challenge into an opportunity

When Julianna Charlton closed her retail locations because of the COVID-19 shutdown, her company first turned to e-commerce as a survival tool. But after a month of explosive and record-breaking sales in April, their perspective on e-commerce changed forever.

“Ironically, April was our busiest month ever, just from e-commerce,” says Charlton, founder and CEO of NoMiNoU.

“We banded together and did some aggressive online marketing campaigns and we offered some promotions. The online sales went through the roof.”



The Vancouver-based company makes athleisure wear based on both original artwork created by Charlton's late mother, as well as contemporary Indigenous, Canadian and international artists.

By taking the budget originally set aside for trade shows and redirecting it to online marketing, NoMiNoU has found a new international audience for its distinctively Canadian apparel.

"Our international e-commerce sales have tripled," says Charlton. "We're getting orders from Australia, London, Dubai."

### **Find your niche**

Following her brand's success overseas, Charlton decided to launch an e-commerce platform based in Germany. She discovered that German customers love NoMiNoU's locally-made and environmentally-friendly clothing.

"They're fit, they're healthy, they love made-in-Canada, and they're huge advocates for indigenous cultures and art," she says.

Although NoMiNoU had an active e-commerce site before the pandemic, retail and wholesale had been the company's main sales channels in past years. This changed when Charlton shifted her marketing budget to online marketing, which allowed e-commerce to surpass brick-and-mortar sales.

Charlton attributes her success to her company's strong backstory. NoMiNoU's emphasis on artist collaboration and sustainability appeal to customers who want to make purposeful purchases.

"It's important to identify a niche and then quickly adapt to it," she says. "Even though we're selling virtually, it's important to feel real."



**"I think the new normal will be people shopping online."**

- Julianna Charlton, founder and CEO, NoMiNoU

# Too many entrepreneurs are slow to make the shift

## Online presence drives performance

A BDC study published in the summer of 2019 showed that being active online—for example, by providing information about your company, or advertising or selling your products—is highly correlated with improved financial results.

Businesses that are active online have higher profit and sales growth and export more than similar businesses that do not sell online.

**Figure 7**

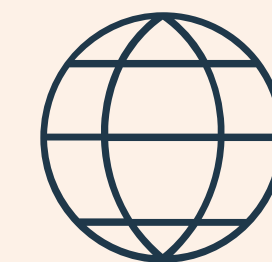
Impact of online presence on business performance



**1.7 times**  
more likely to see  
**higher sales**  
growth



**1.5 times**  
more likely to see  
**higher profit**  
growth



**2.8 times**  
more likely to  
**serve**  
**international**  
markets

Source: BDC, Expand Online: Strategies to Boost Sales, Profits and Exports, Montreal, July 2019.

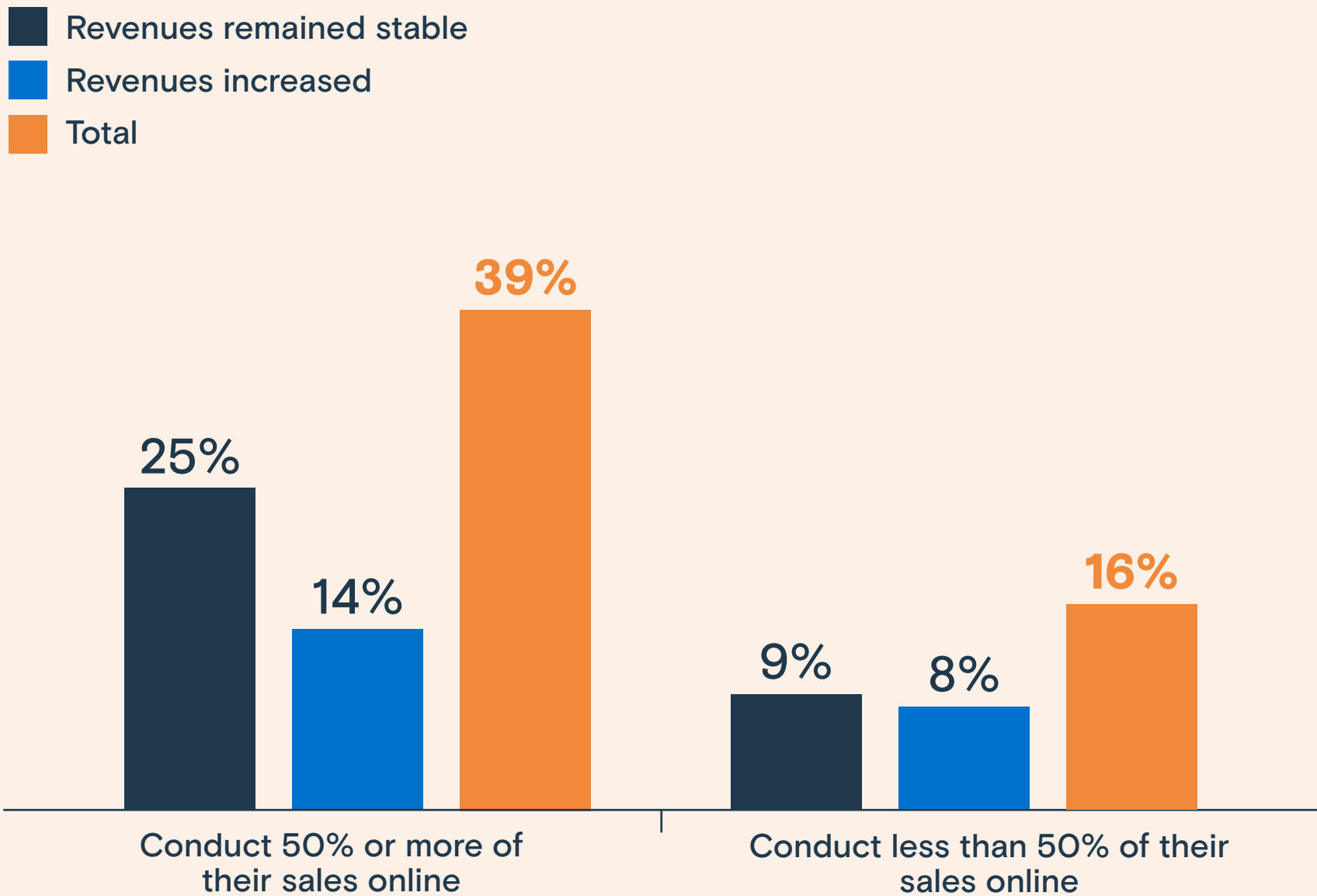


Businesses that sell online are more resilient

Another recent BDC study shows that businesses that conduct over half of their sales online outperformed others during the lockdown period.

Here is a sign of resilience in times of crisis: 39% had maintained or increased their revenues, compared with only 16% of businesses that were less engaged.

Figure 8  
Businesses that have seen their sales increase or remain stable during the crisis



Source: BDC, Survey on the Impact of COVID 19 on Canadian SMEs, June 2020.

**While nearly 85% of Canadians buy online, our survey of SME executives reveals that:**


**Fewer than 25%** will prioritize e-commerce in the next year.

**Only 46%** of SMEs plan to sell online after the crisis, 3 percentage points more than at the start of the crisis.

**Only 15 %** believe that online sales will increase significantly in their sector over the next three years.

Sources: Statistics Canada (Table 22-10-0085-01); and BDC, Survey on the Impact of COVID 19 on Canadian SMEs, June 2020.





Entrepreneur story

# Growth accelerator

## How online sales contributed to this surveillance camera manufacturer's hypergrowth

Nearly 17 years ago, Yan Gagnon entered the world of business when he decided to market a surveillance camera he designed and manufactured while he was working toward his bachelor's degree in electrical engineering. He quickly realized that the most lucrative market was in hunting cameras used to monitor game in a given area. It became Gagnon's first target after he started his Spypoint brand.



The company, now called GTX, grew quietly during its first decade. Then, in 2016, GTX developed cameras that could send images via cellular network. Consumers raved about this innovation, and business took off. In 2019, GTX decided to develop a second market by creating the Vosker brand, under which it manufactures security cameras.

The Victoriaville, Quebec-based company faced one remaining challenge: How to reach consumers around the world?

### **New brand, new approach**

The answer lay in e-commerce. The company began selling Vosker products on Amazon and on its own website in the spring of 2019. The results were instantaneous... and spectacular. In one year, sales increased by 200%.

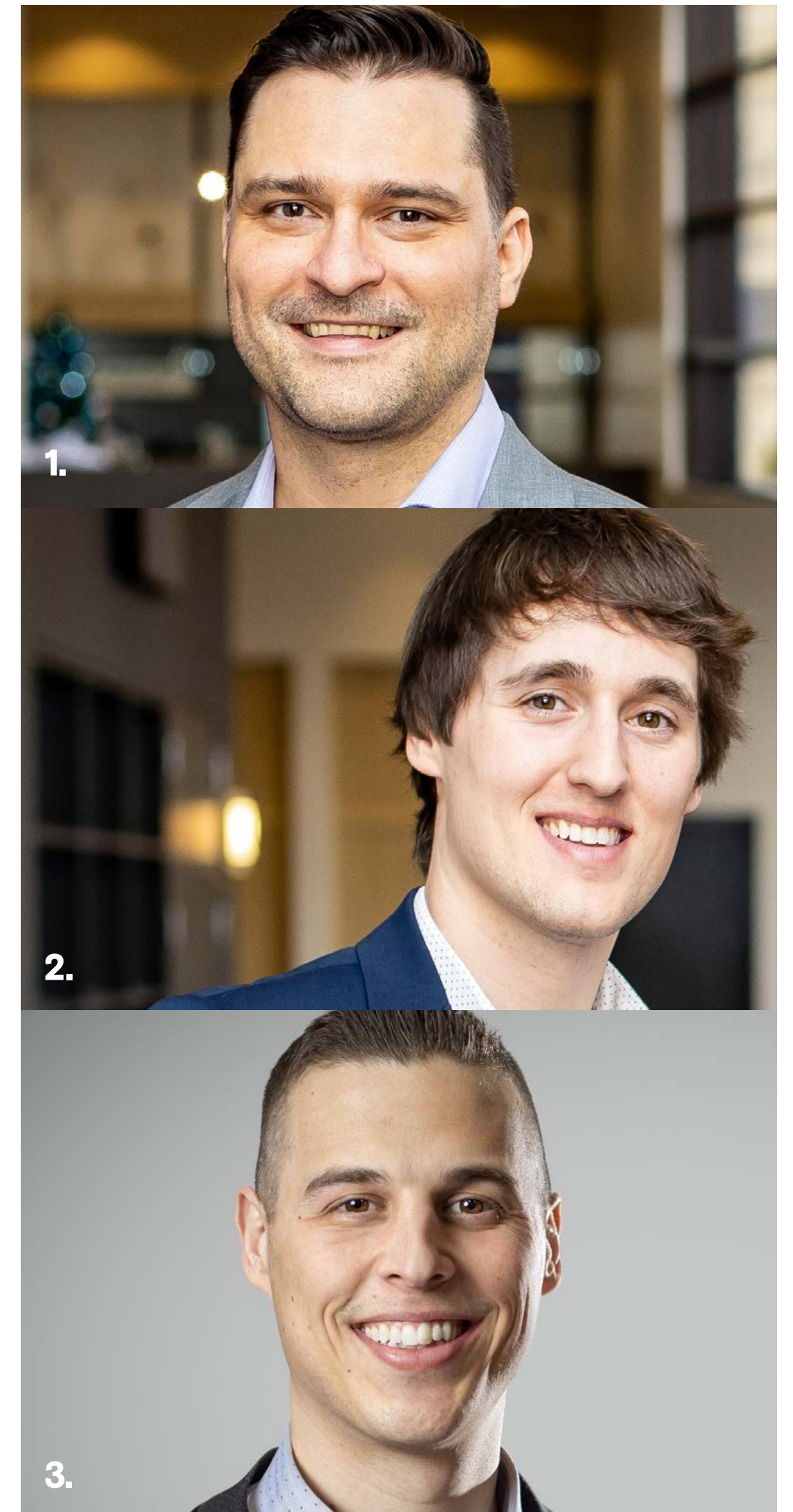
Encouraged by its success with security cameras, the business decided to apply an adapted

version of its approach to hunting cameras. It began selling on Amazon through preferred sellers, a handful of sellers identified as official Spypoint brand retailers.

It was another resounding success. "Our sales exploded. If we look at our most popular and affordable product, the Spypoint Link Micro cameras, we see that online sales increased by 3,000% in one year," says Jean-François Boyer, Vice President of Corporate Development at GTX.

The company's overall revenues are expected to increase by 30-40% in 2020, compared with 2019. The portion of sales generated online is expected to reach about 20% under the Spypoint brand and 70% under the Vosker brand.

Confident with his success to date, Boyer confirms that online sales will naturally be at the heart of GTX's approach going forward.



**1. Yan Gagnon:**  
CEO

**2. Jimmy Angers:**  
Executive Vice President,  
Strategy and Innovation

**3. Danny Angers:**  
Executive Vice President,  
Corporate Development



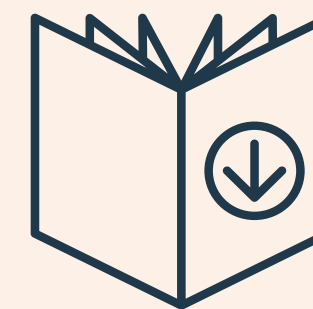
## **Direct to consumers: A rising trend**

E-commerce enables many manufacturers, distributors and suppliers to sell directly to consumers. On top of the business-to-business (B2B) and business-to-consumer (B2C) business models is B2B2C or D2C, meaning “direct to consumer” sales.

In addition, a number of turnkey solutions enable manufacturers to sell online and deliver their products directly to consumers around the world.

# 48%

**of businesses that  
have launched a B2B  
e-commerce platform  
have succeeded in  
expanding their market  
and selling directly  
to consumers.**



You can download Sana Commerce's white paper, [Changing Business Models: The Shift to B2B2C and D2C Sales](#), for more details on D2C sales.

# Solutions to entrepreneurs' challenges

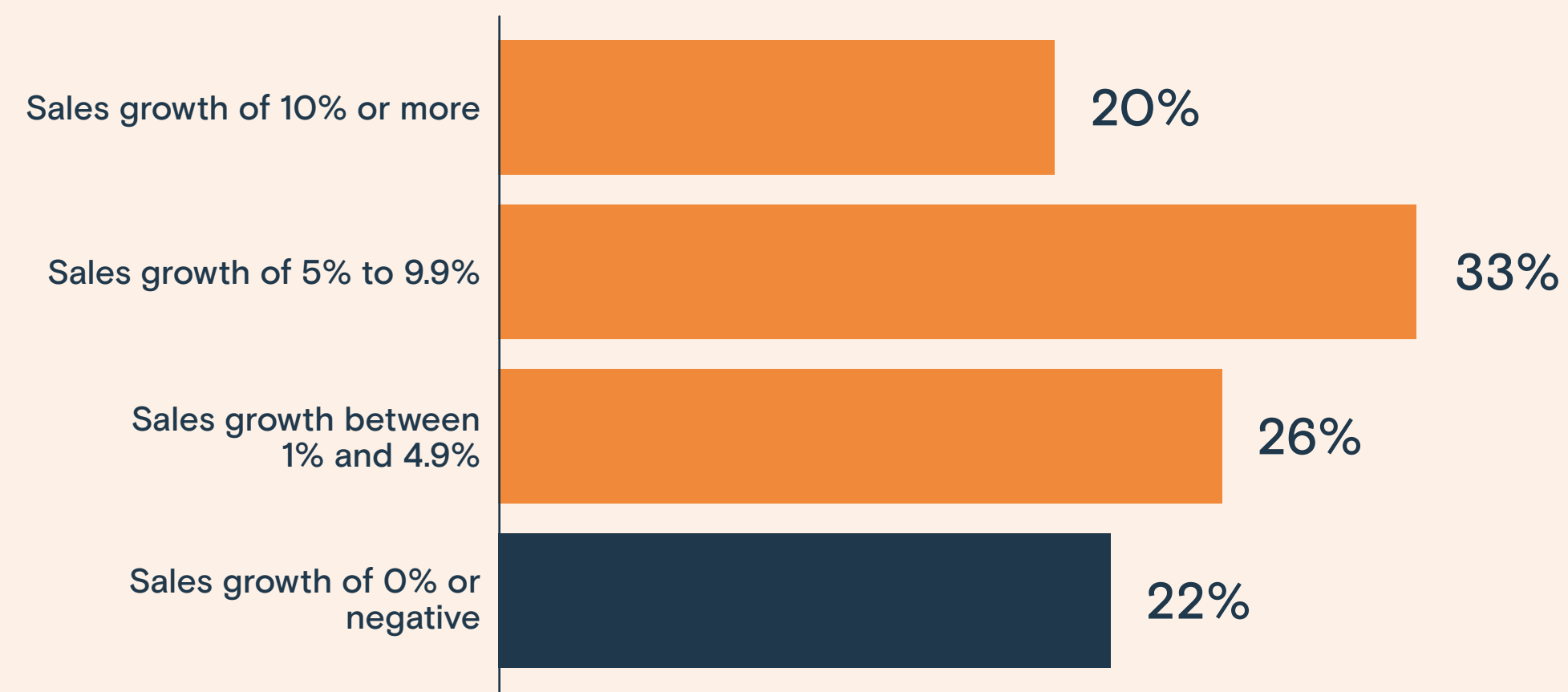
## Online sales help businesses grow

The SMEs that are most engaged in e-commerce are able to profit from it.

Among those that generate over 50% of their sales online, nearly 80% saw their annual income increase in the 12 months before the COVID-19 crisis began.

**Figure 9**

Sales growth in the 12 months preceding the COVID-19 crisis among businesses generating over 50% of their sales online



Source: BDC, Survey on the Impact of COVID-19 on Canadian SMEs, June 2020.



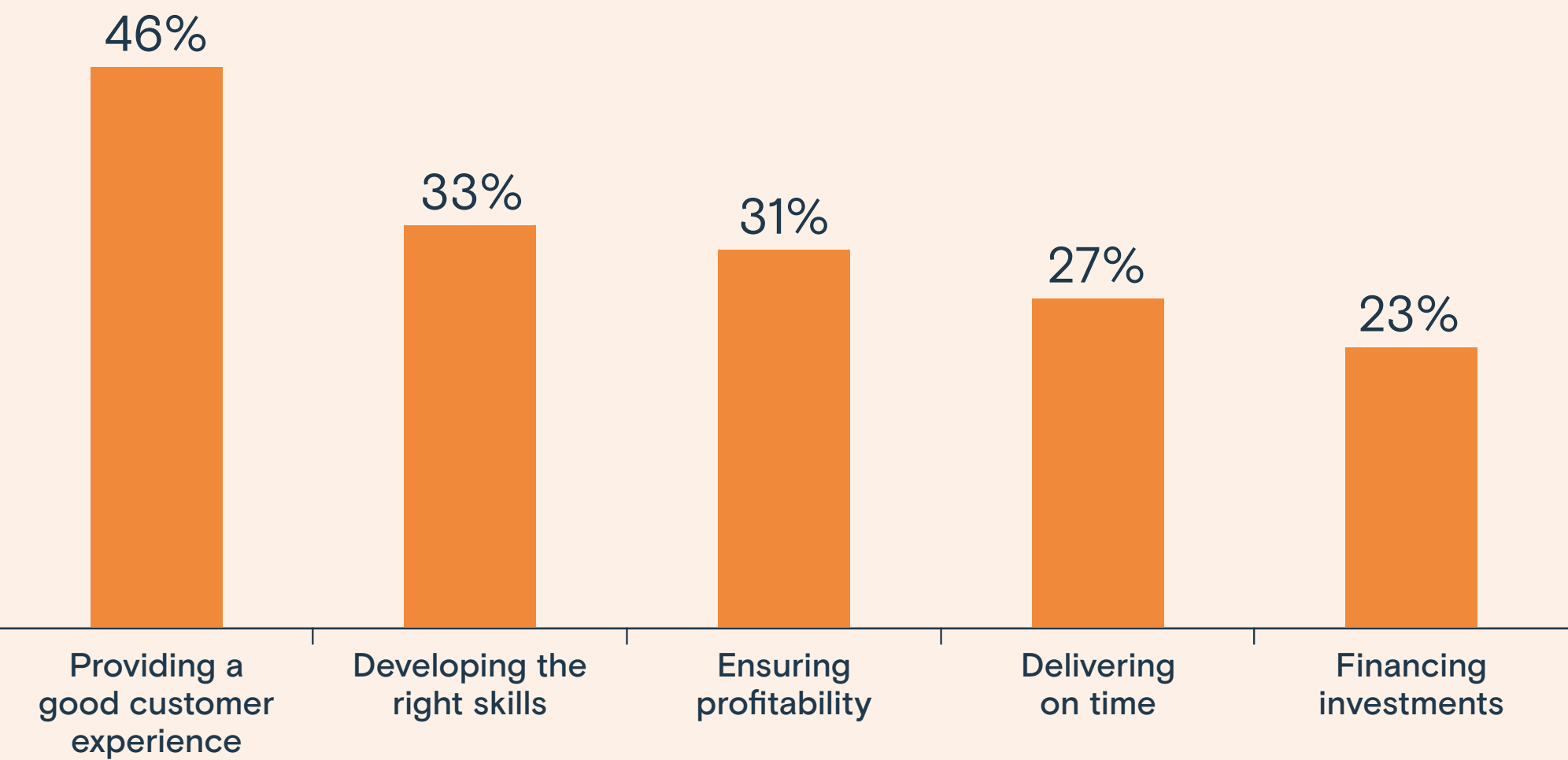
**Businesses face a number of challenges to being profitable online**

Online competition is fierce and requires wise investment. Without the right approach, efforts may be in vain. It is therefore important for businesses to find their niche and set themselves apart.

Our survey of Canadian SME owners reveals that businesses that decide to sell online face a number of challenges to doing so profitably.

The following pages examine these challenges and propose solutions to them.

**Figure 10**  
Main challenges of selling online according to entrepreneurs



Source: BDC, Survey on the Impact of COVID 19 on Canadian SMEs, June 2020.

# ① Providing a good customer experience

## The online experience requires a different approach

### Challenges

- The loss of the face-to-face customer relationship makes it hard to provide attentive and personalized service.
- It is difficult to compete with the delivery speed and seamless transactions of the e-commerce giants.
- Certain complex products or services require sales force support that is difficult to offer online.
- Other products need to be tried before being purchased, which makes customers hesitant during the buying process.

### Solutions

- The key to success is understanding your customers' experience, to make the buying process smoother.
- For example, you could offer the following:
  - a modern and responsive interface
  - detailed product descriptions
  - clear return policies
  - simple payment options
  - a live chat option
  - personalized product recommendations
- It is also important to create an online marketing strategy that will help you understand your customers better and thus build loyalty.
- Constantly update your website to adapt to new trends and changing offers from your competitors.

## ② Developing the right skills

**It is important to understand the language of e-commerce to manage your online growth**

### Challenges

- The strategy and jargon of e-commerce can be difficult to understand. This complicates decision-making for entrepreneurs, who generally do not have the time to learn the nuts and bolts of doing business online.
- Responsibility for e-commerce is often delegated to experts who may not have a complete picture of the company's activities.
- It is difficult to train or recruit employees and lead a web team when you are not familiar with the basics.

### Solutions

- Work with specialists, consultants or even students to help you launch your online store.
- Watch the free training courses at [Shopify Compass](#) or check out our [eBook on e-commerce](#).
- Don't underestimate the value of "For Dummies"-type books. These books are written by experts in their field, are easy to understand and get straight to the point.
- Make sure you have a 360-degree view of what e-commerce means to your business, on both the front end and back end.
- Take some time to familiarize yourself with the [e-commerce tools](#) that will help you build an online store and track your results.



## ③ Ensuring profitability

**Before you get started, you will need to estimate all of your projected costs and investments**

### Challenges

- Some products are ill-suited to online sales, while others face fierce competition.
- For some SMEs, the explosion in demand following a web launch can lead to delays and soaring operating costs.
- For others, the demand is not there, despite major investments.
- A number of recurring expenses can erode margins, such as the following:
  - costs of shipping and returns
  - web developer salaries
  - marketing budgets
  - rights and licences
  - online payment fees

### Solutions

- Next, establish the level of sales you hope to achieve, to determine when you can expect to break even.
- To avoid the unexpected (delays, costs, unsuitable products), create your digital business model, which will help you do the following:
  - identify which products to sell online, at what price and to which clientele
  - list all the costs and establish sales projections
- adapt your business to online sales (e.g., technology needs, production capacity)
- define your objectives and establish your action plan
- Target your clientele using analytical tools and launch online marketing campaigns to acquire paying customers.
- Measure your performance and optimize your strategy to ensure profitability.

## ④ Delivering on time

**Operational efficiency and choosing the right shipping partner are critical to success**

### Challenges

- Some SMEs do not have the staff required to process the volume of online orders, resulting in shipping delays.
- It can be challenging to ship goods profitably without a large number of orders.
- Going back and forth to the post office several times a week takes a lot of time, without adding any value to the offering.
- Finding a good partner to process and ship orders and to ensure the quality of the service provided is a challenge.
- A number of packages get lost during shipping, which increases costs.

### Solutions

- Make sure you have the capacity and computer systems you need to manage your inventory and to prepare and ship orders on time.
- If necessary, hire a consultant to help you define your processes and workflows, or turn to outsourcing.
- To find a good shipping partner, consider established players, as they are generally more reliable than newer firms.
- Another solution is to partner with other companies in your area to arrange a local delivery service.
- Keep your customers informed about the status of their orders.



# ⑤ Financing investments

**Multiple financing solutions can be adapted to the company's needs.**

## Challenges

- The investment needed to launch online operations can be significant.
- Start-up costs are an obstacle, especially in more traditional sectors or B2B environments.
- Financial institutions are cautious about lending money to invest in a website.
- The money invested in e-commerce often comes from a line of credit or asset refinancing.
- Determining the type of project in which to invest is a real headache:
  - There are many options with a wide variety of features.
  - The associated costs vary widely.
  - Managers do not always have the knowledge needed to make these choices.

## Solutions

- The investments can be significant, amounting to tens of thousands of dollars. However, you may be able to finance these investments without pledging assets as collateral.
- A number of government grants are also available to SMEs.
- Maximize your chances of getting a loan by doing the following:
  - having a clear plan
  - getting quotes for your project
- A consultant can help you identify the grants available to your business and write a plan that will convince your bank to grant the financing.



# Overcoming constraints

## How an education company uses its online services to access new markets

Jennifer Turliuk was in a difficult position. Social distancing measures were preventing her company, MakerKids, from offering its STEM classes and day camps for kids. With school closures leaving many parents wondering how to fill their kids' time, Turliuk had to quickly pivot to offer courses virtually.

Over the space of one weekend, Turliuk and her team created a live, virtual classroom and moved all their classes online.

"Kids can access our content and our amazing instructors from

the comfort of their own home," says Turliuk, founder and CEO of MakerKids.

Based in Toronto, Turliuk's company teaches kids about robotics and coding using games like Minecraft. Designed and created by industry professionals and makers, the classes promote social interaction as well as tech skills.

Turliuk was initially worried about losing revenue and keeping employees, but she was reassured by the customers' enthusiasm for the new virtual classrooms.

"When we launched virtual, families responded quite positively and wanted to keep their memberships with us, and new families wanted to sign up."

## Reaching for the next goalpost

Before MakerKids went virtual, it could only reach clients already based in Toronto. The online classes have allowed Turliuk to draw in new students from a much wider market.

"For the business it's meant being able to have an addressable market that's not just Toronto, but is in fact worldwide," says Turliuk.

Demand for MakerKids's virtual classes is increasing, and more clients are signing up every week. Turliuk believes that some families will stick with virtual classes even after in-person courses become available.

Looking ahead, she wants to offer a mix of in-person and online



programs as the company's next step.

"I think like a lot of other entrepreneurs," says Turliuk. "It's kind of like, 'Okay, now this goalpost has been reached, what's the next one?'"



# E-commerce roadmap

**Online success requires a structured approach adapted to the reality of your business**

No matter what stage of the process you are at, our e-commerce roadmap will help you successfully launch your online business and take it to the next level.

## The e-commerce roadmap



# 1

## Understand online sales in your sector

The first step in developing an online sales strategy is to understand your market.

Observe the actions of market leaders and your direct competitors to understand their positioning and best practices.

For example, if you are an athletic shoe retailer, visit the website of [Altitude Sports](#), [Decathlon](#), [Footlocker](#) and other major market players to dissect their strategy:

- How do these companies stand out?
- Who is their target clientele?

- What online promotions do they have?
- What are the main features of their websites?
- What can you learn from these companies?
- How can you set yourself apart?

# 2

## Get to know your customers and their online preferences

Second, identify your key customers and get to know them better.

- What do they buy online?
- How do they behave on the web?
- What products interest them?
- What features are they looking for in a website?

Next, go a little further to understand what makes them unique.

For example, a spa or beauty products retailer might discover that women between the ages of 25 and 34 tend to buy online and women aged 45 to 54 prefer to buy in-store. This information will help the company improve its website and online marketing to increase sales.



### ③

## **Review** your relationships with your business partners and your business model

How will your online sales initiative affect your business relationships with various partners?

For example, manufacturers are increasingly looking to sell directly to consumers.

If you are a retailer, you need to make sure you add value. For example, you could offer advice or tutorial videos, or after-sales or installation services.

You must also manage your inventory and delivery times to respond appropriately to demand.

Launching a transactional site is almost like starting a new business. You will need to develop a business model that will be competitive on the web.

### ④

## **Develop** new skills internally

Bringing your business online requires the company's managers and employees to develop new skills. Here are the three areas of expertise your firm will need to develop.

### **Management of the transactional website**

You will need a technical team to create and maintain your transactional website.

### **Digital marketing**

While the basics of marketing will remain the same, you will need to put the necessary technology in place to collect and analyze customer data.

### **Delivery and logistics**

You will need to acquire capacity and systems or to outsource order fulfillment, shipping and inventory management.

5

## Define sales objectives and optimize your efforts

Prepare three-year financial projections to establish the profitability of your online sales project and set your financial goals.

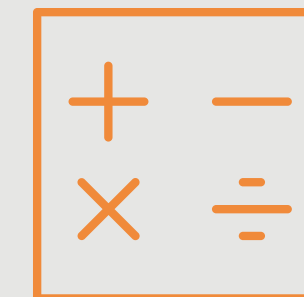
Establish optimistic and pessimistic sales scenarios, and determine your break-even point.

In addition, don't downplay the importance of change management and the creation of a digital culture as success factors for your business.

Finally, never stop optimizing your efforts and improving yourself by taking advantage of the data you collect about your customers' habits.



Consult our study on the digital shift.



Measure your digital maturity level using our free self-assessment tool.



# Perform a financial analysis

**E-commerce is often more costly than expected. We strongly recommend that you perform a complete financial analysis before launching an online store to ensure your profitability.**

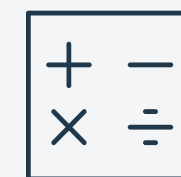
This analysis must take into account anticipated revenues—given the size of your web market—and all the associated costs, such as the following:

- costs of shipping and returns
- web developer salaries
- marketing expenses (for example, Google AdWords) and other customer acquisition costs

→ rights and licences for the chosen platform

→ online payment fees

This financial analysis will enable you to determine whether your online business will be profitable, taking into account desired prices and sales volumes.



**Download our tool to help you perform this financial analysis.**



# Surf the digital wave

## An inescapable shift

The ongoing COVID 19 crisis has radically changed the world in which we live. The use of e-commerce has been a real lifeline, allowing many Canadians and businesses to continue to function in these uncertain times.

E-commerce is now well entrenched in the habits of Canadians. To survive, Canadian entrepreneurs must learn how to sell online profitably.

## The keys to success

To do so, you will need to take a structured approach adapted to the size and sector of your business.

**You will also need to be creative in order to develop a successful web business model.**

**We suggest that you follow the five steps of our e-commerce roadmap**

1. **Understand** online sales in your sector.
2. **Get to know** your customers and their online preferences.
3. **Review** your relationships with your business partners and your business model.
4. **Develop** new skills internally.
5. **Define** sales objectives and optimize your efforts.



# Data and methodology

**The statistics presented in this study are based primarily on a BDC survey conducted in June 2020 among 1,000 owners or decision-makers of Canadian small and medium-sized businesses, as well as data from Statistics Canada, Léger and Forrester.**

The data used to produce this report were processed and analyzed by the Business Development Bank of Canada's Research and Economic Analysis team.

## **BDC survey**

The data from this survey have been weighted by region and business size to ensure that the statistical results are as representative as possible of all Canadian SMEs. Self-employed individuals, businesses with 500 or more employees, and organizations operating in the public sector were excluded from the survey.

The maximum margin of error for a probability sample of 1,000 respondents is  $\pm 3.2$  percentage

points, 19 times out of 20. Since the survey was conducted online among a non-probability sample, this information is provided for reference only.





## Make the move to online sales

As Canada's bank for entrepreneurs, BDC has the expertise to guide your business. If you want to create your online store or are already well established, our specialists can help you optimize your online presence.

- Explore our advisory services on e-commerce and digital marketing.
- Learn about the financing available for investing in your online activities.



**For more information, contact us or visit your nearest BDC Business Centre.**

1-888-INFO-BDC (1-888-463-6232)  
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