



Study – October 2024

4 Key Trends Shaping the Future of Canada's Businesses



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Message from the → Chief Economist



Pierre Cléroux
Vice President, Research
and Chief Economist, BDC

A rapidly changing business environment

Over the past five years, small and medium-sized enterprises (SMEs) have had to adapt to several crises: the COVID-19 pandemic, the 2021-2023 global supply chain crisis, rising inflation, labour shortages and rapid technological change—including a rapid rise in e-commerce and conversational artificial intelligence (AI).

Entrepreneurs responded by investing in technologies such as new websites (52%) and online payment methods (40%). They also made gains in controlling their energy consumption (27%) to reduce costs while limiting their greenhouse gas (GHG) emissions.

In the post-pandemic period, labour shortages forced SMEs to implement more efficient ways of working (35%).

Change remains on the agenda

The next five years will remain challenging for entrepreneurs, who will need to keep adapting to a fast-changing business environment.

Our research indicates that rising costs, changing consumer preferences, skilled worker shortages and the imperative of adopting new technologies will remain crucial for business success in the coming years.

This study explores these trends and aims to offer tools to help entrepreneurs ready their businesses.

Highlights

Structural economic shifts over the last five years will impact entrepreneurs for years.



SMEs continue to feel the pinch of high costs

75%

of entrepreneurs say rising costs has affected their business

71%

expect this trend to persist



Consumers are becoming more budget-oriented

44%

generally seek out the lowest price possible

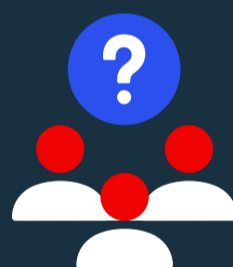


66%

are willing to pay extra for locally produced goods

50%

are willing to pay extra for environmentally-friendly products or services



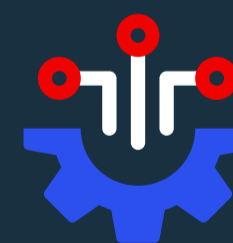
Labour shortages remain an issue

Compared to the last five years



88%

of businesses think it will be just as hard or harder to find employees over the next five years



Technology to the rescue

82%

of businesses already consider technology critical to their business

38%

of SMEs think new technologies will disrupt their ways of doing business in the next five years

4 key trends shaping Canada's future business environment

In an era where change is the only constant, businesses must always prepare for evolving challenges. To help entrepreneurs stay on top of these developments, we conducted a survey which highlighted four key trends that will shape the business landscape over the next five years.

1.

Increased costs

75% of businesses have already felt the impact of rising costs and 71% expect this trend to persist.

2.

Evolving customer preferences

39% of businesses say they have had to adapt to changing customer preferences in the past and 46% anticipate significant changes ahead.

3.

Labour shortages

While a slowing economy has eased short-term labour concerns, 41% of entrepreneurs believe labour shortages will disrupt their business in the next five years.

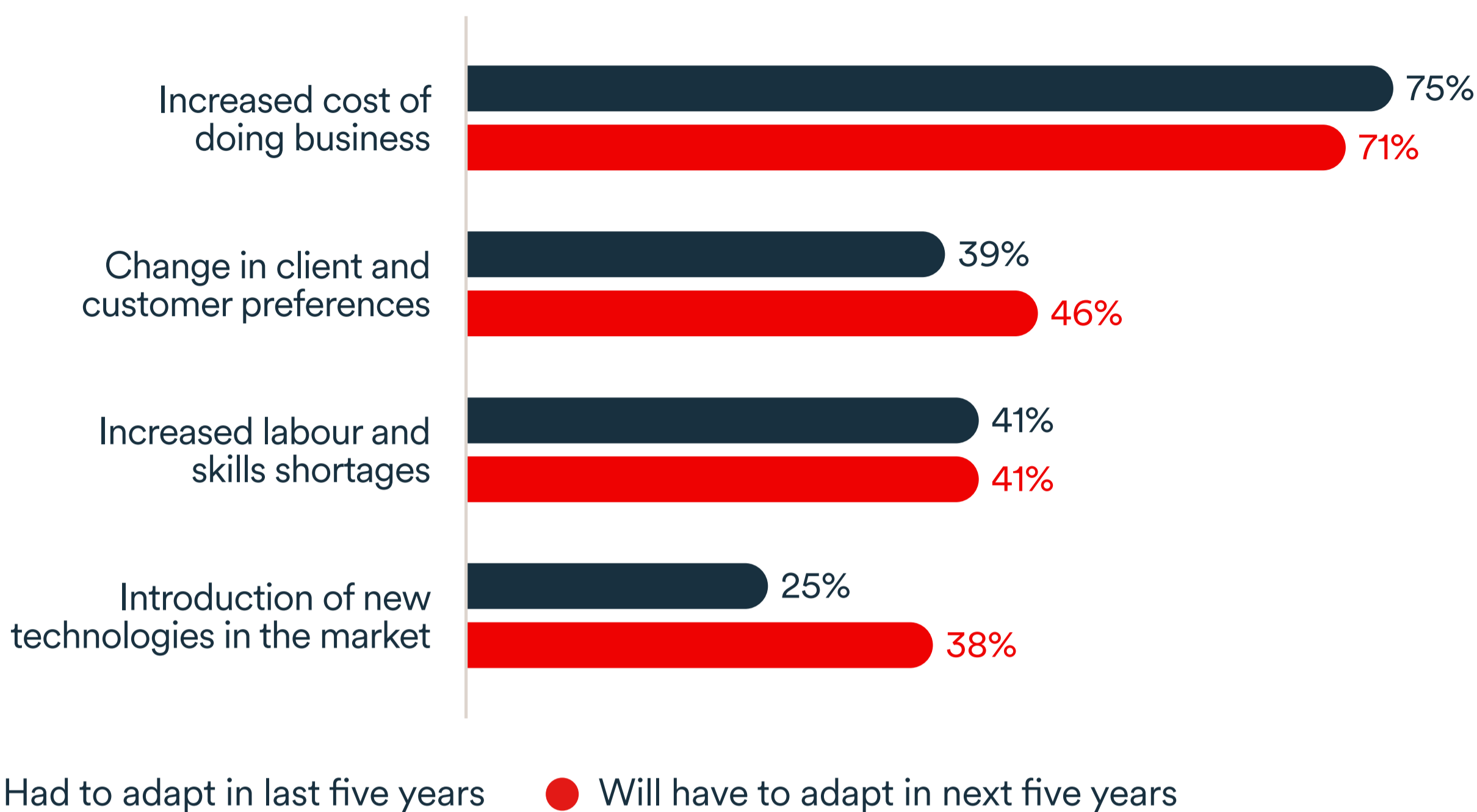
4.

Technology adoption

The pace of technological change is accelerating. 38% of businesses say adapting to new technologies will disrupt their businesses in the next five years. Only 25% of entrepreneurs say they've had to adapt to technological change in the recent past.

This report delves into these trends, providing insights and strategies for businesses to not only survive but thrive in this dynamic environment.

Figure 1: Past and expected business disruptions for Canadian entrepreneurs



Source: BDC, SMEs' outlook on major trends and challenges survey, June 2024, n= 1,278

Increased costs

The price increases that occurred in 2021 and 2022 significantly affected businesses and will continue to impact how they do business. The industrial product price index (IPPI), which tracks the price of products at factory gates, increased by 35% between Spring 2020 and Spring 2022. The index has never increased at such a rate and pace.

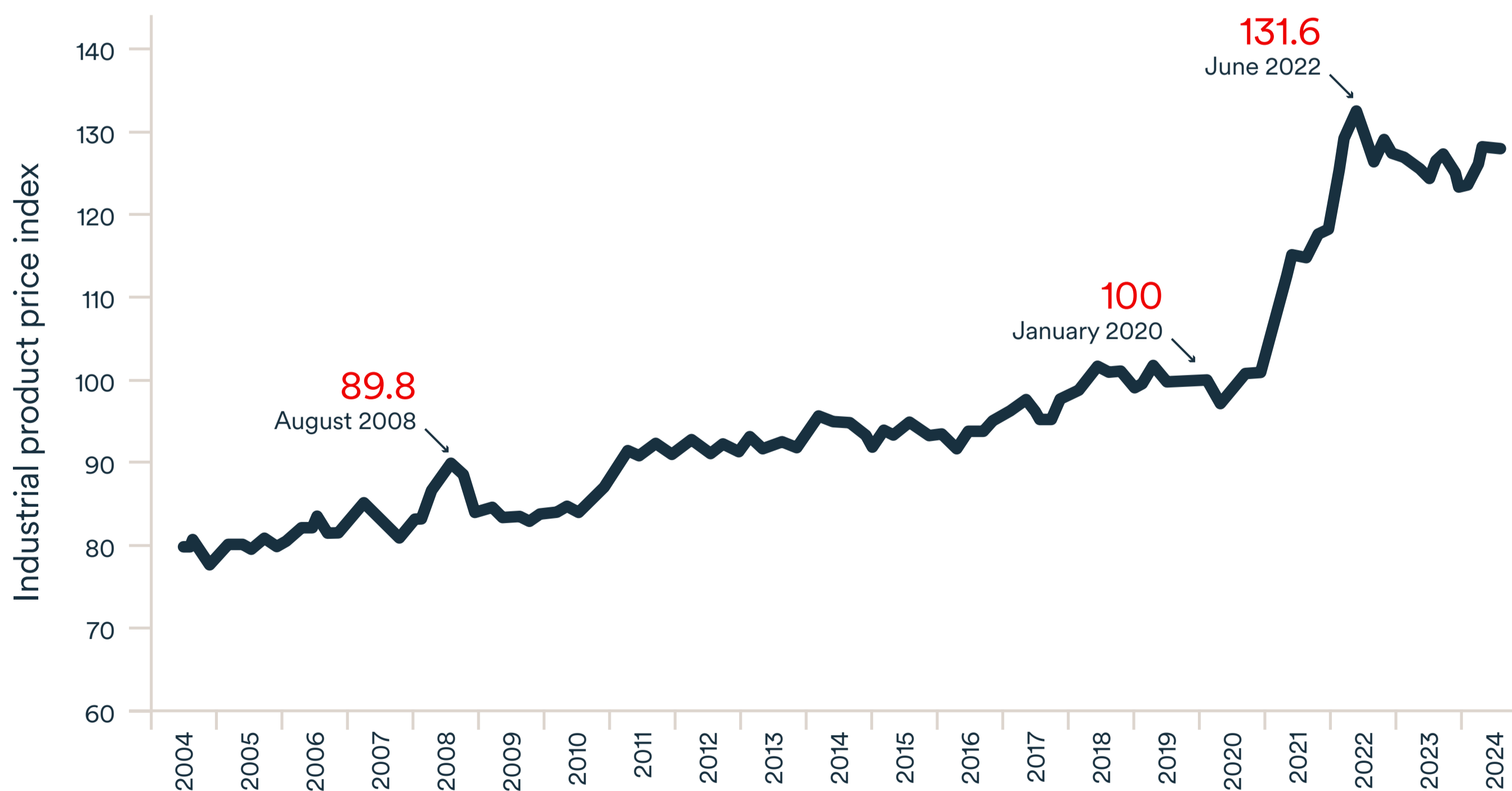
For context, the last comparable increase of the IPPI was over a 20-year span between 2000 and 2020. While the index has since come down slightly, prices remain significantly higher than what they would have been if the pre-pandemic trend had continued.

As shown in a previous BDC study, higher labour, energy and material prices had a significant negative impact on most businesses.

While some input prices have and will come down, the price of energy will likely remain elevated as extreme weather events affect electricity output, increased electricity demand continues to wait for new investments, and geopolitical situations maintain gas prices above the pre-pandemic average. Labour costs are also expected to remain elevated as demand for skilled workers outpaces supply.

In this context, monitoring and optimizing energy consumption can be an efficient way to control costs while reducing GHG emissions. In fact, entrepreneurs who faced rising costs planned to reduce energy consumption more than those who did not (32% vs 21%). While most businesses adopting measures to reduce GHG emissions are doing it to align with their values, many (41%) also do it to reduce costs.

Figure 2: Industrial product price index, January 1st, 2020 =100



Source: Statistics Canada, Industrial Product Price Index

Inflation and interest rates will come down

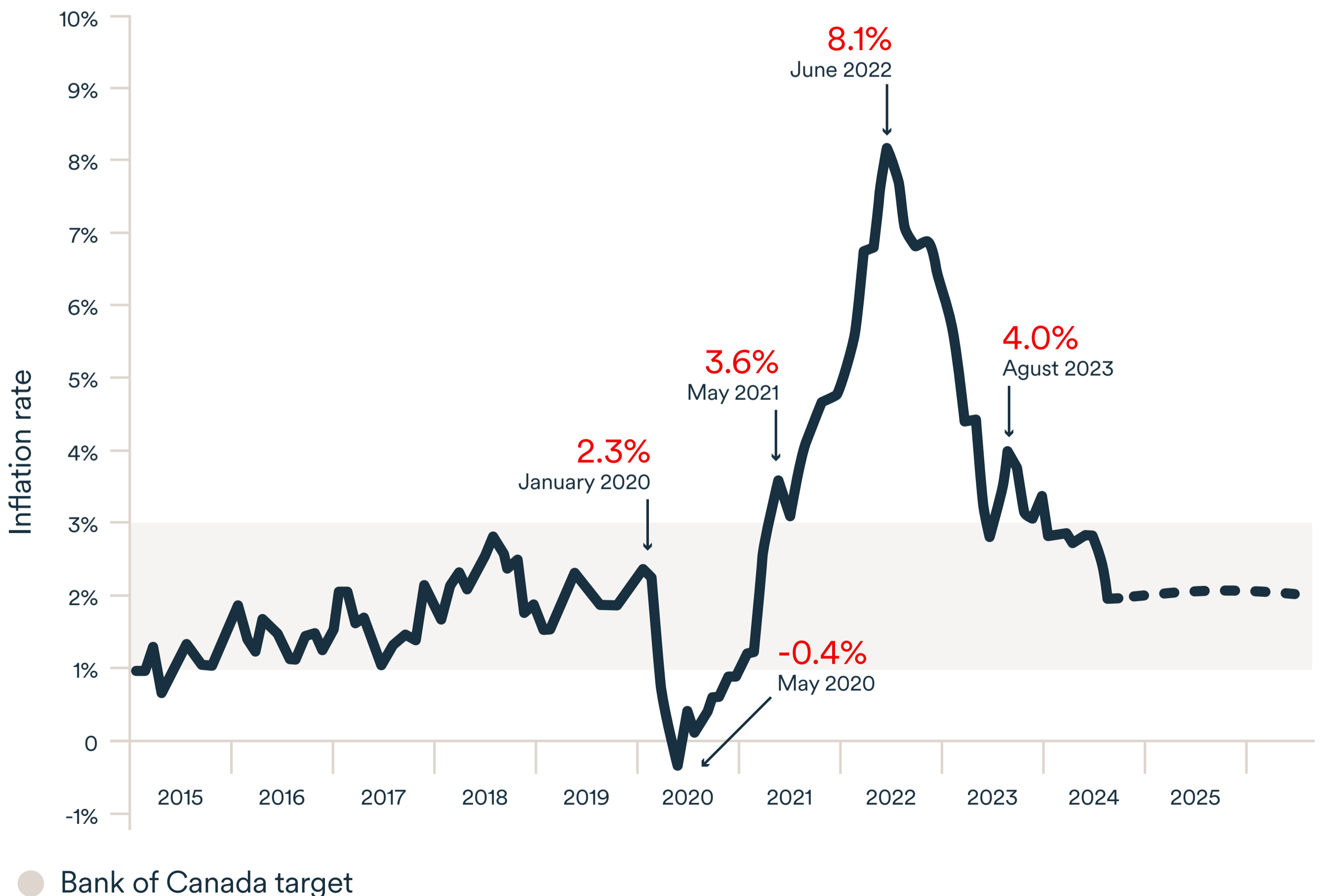
As inflation comes down, the cost of doing business will increase at a slower rate. However, inflation coming down will not lower prices. It only means that prices will grow at a normal rate—between 1% and 3% per year. Moreover, this is an average and inflation for some products or services might be higher. For example, climate change could affect prices for specific agricultural products.

Slower inflation should lower the speed at which input costs rise for businesses, but it will also make it more challenging for companies to increase their prices. According to the Bank of Canada, consumers are expecting prices to increase at a slower pace than last year (4% vs. 5%), which means that businesses will have less room to increase their prices without consequences. Moreover, actual inflation should be lower than what consumers are expecting.

Interest rates, which have significantly impacted the Canadian economy in recent years, are finally coming down as inflation moderates. Well-timed rate decreases should avoid an important recession and create growth opportunities for businesses.

As rates come down, investing in cost-saving technologies becomes more affordable. This is an excellent way to protect against future cost pressures. For example, a recent [BDC study on AI](#) showed that 35% of businesses that have implemented a chatbot said it helped them reduce costs.

Figure 3: Inflation rate in Canada, percentage



Source: Statistics Canada, Consumer Price Index

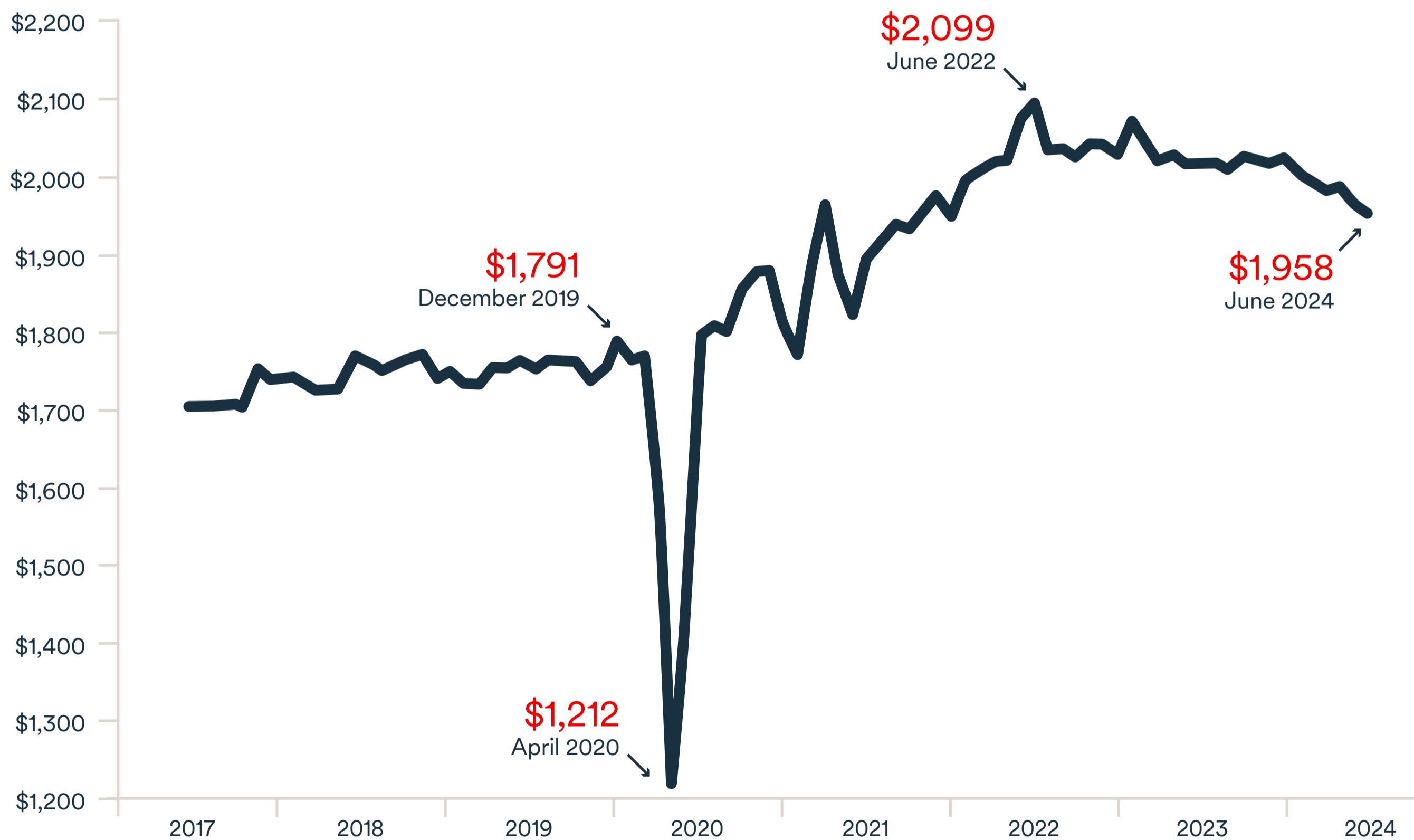
Evolving customer preferences

With higher costs of living and increasing debt loads, consumers are becoming more careful in how they spend their money. Households often compare prices and choose the cheapest option to mitigate the effect of strong inflation.

Last year, a BDC survey found that 44% generally seek the lowest possible price when buying goods and services.

Retail sales per capita have declined by 5% since summer 2022 as many Canadians are dealing with a tighter budget. In this context, maintaining competitive prices is often key to attracting and retaining clients.

Figure 4: Average retail sales per Canadian aged 15 years and older



Source: Statistics Canada, Monthly retail trade sales

Many consumers are willing to pay more for local and green products

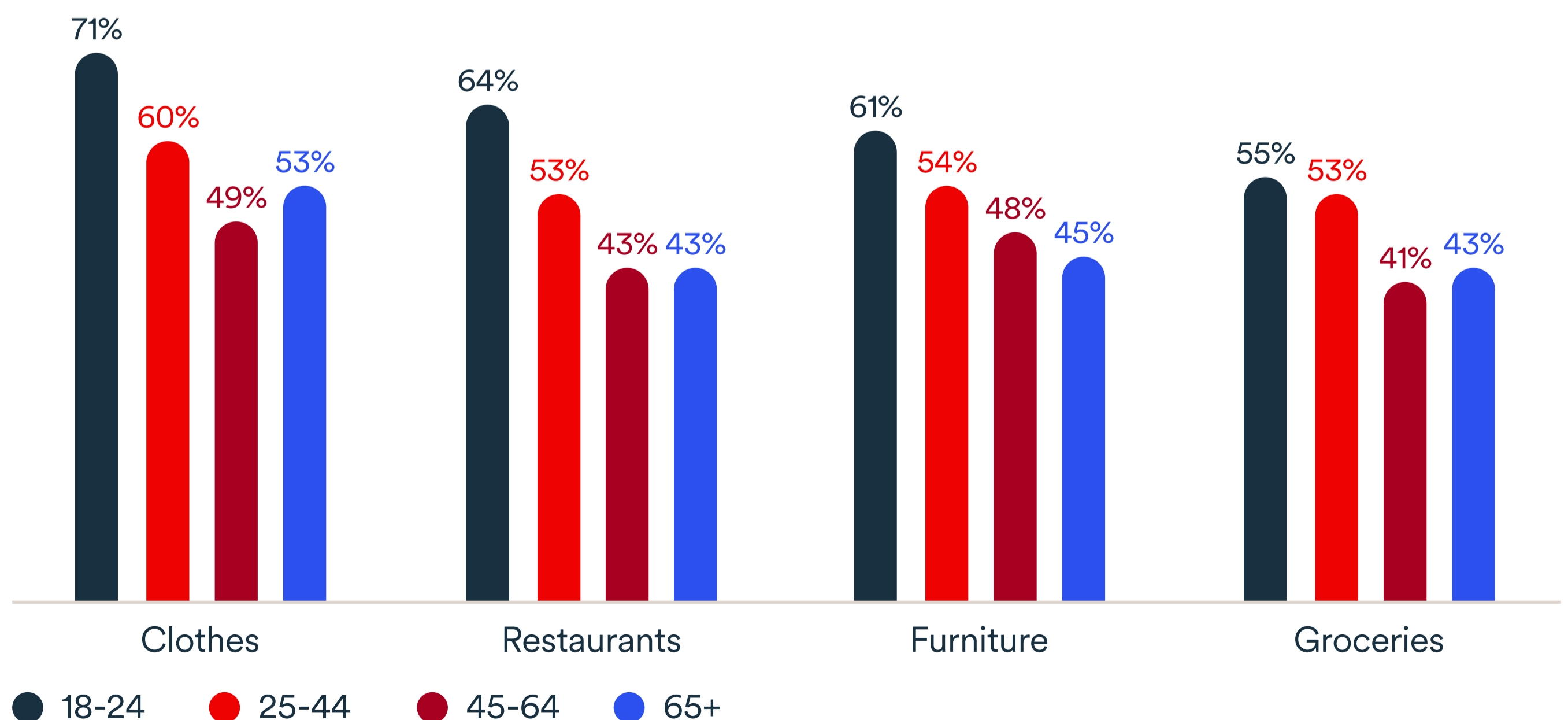
According to a recent survey of over 1,500 Canadians, about two-thirds (66%) of Canadians are willing to pay extra for locally produced products, and 50% are willing to pay extra for environmentally-friendly products or services.

- This situation creates opportunities for businesses wishing to differentiate themselves and attract more customers. More than a third of consumers are willing to pay at least 10% extra for locally-produced groceries, clothing, furniture, and to eat at restaurants.
- Adult members of the Gen Z generation (Zoomers) born between 1997 and 2012 are significantly more likely to pay extra for environmentally-friendly clothes, shoes and accessories (71% compared to 54% for other generational cohorts). A third of Zoomers would pay more than 10% extra for green fashion, and one in ten would pay more than 20% extra.

- Similarly, 64% of Zoomers are willing to pay more for a restaurant with environmentally-friendly practices compared to only 47% of other generational cohorts.

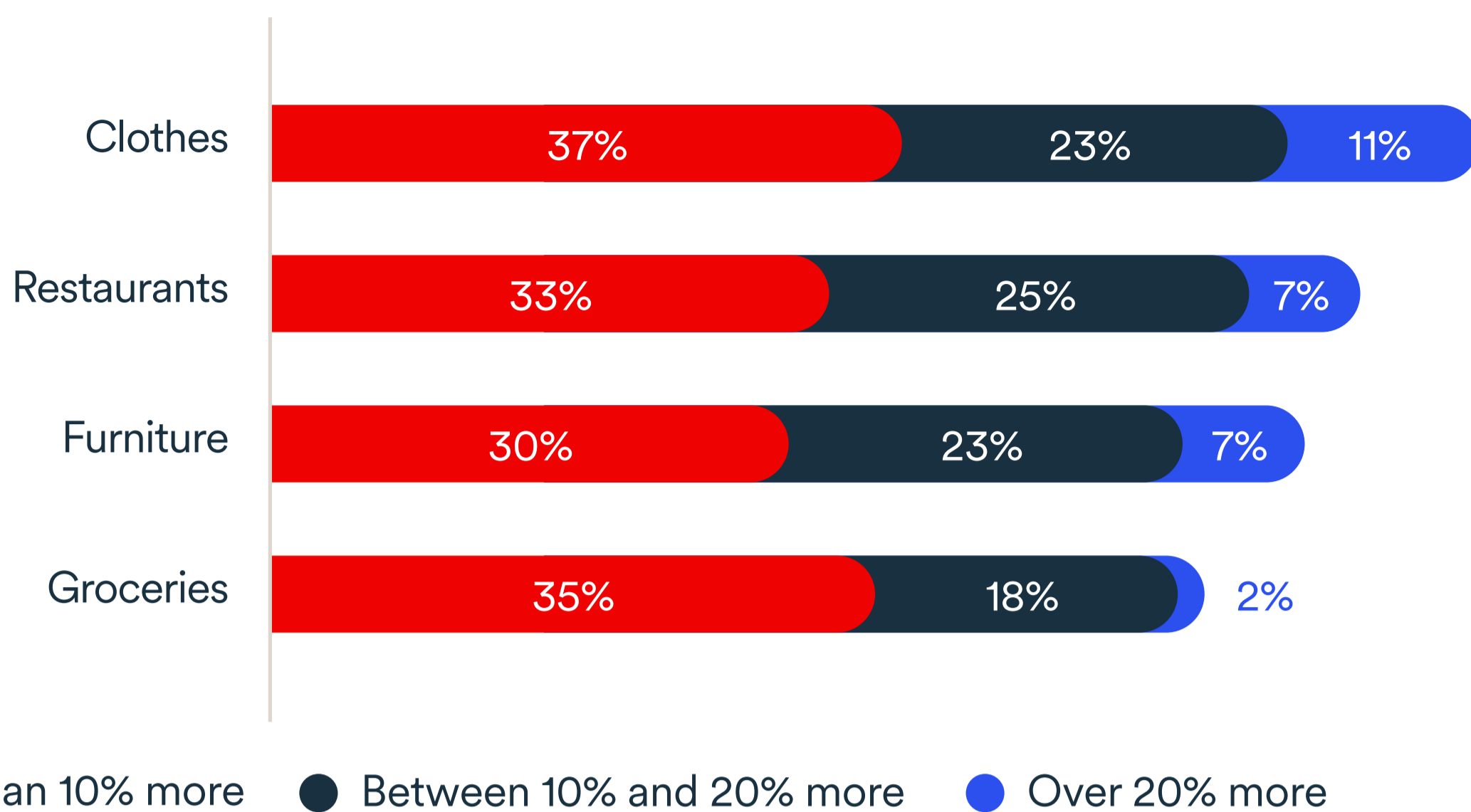
Considering that all Zoomers will be adults by 2030, the market for environmentally-friendly products and services will likely continue expanding. A commitment to green practices will be a great way to attract and retain these new consumers.

Figure 5: Percentage of consumers willing to pay extra for environmentally-friendly products



Source: BDC, Survey on Canadian consumers, August 2024, n= 1,503

Figure 6: Additional amount Gen Z consumers are willing to pay for green products



Source: BDC, Survey on Canadian consumers, August 2024, n= 1,503

Major buyers are looking at ESG criteria

Adopting environmental, social and governance (ESG) practices can also be a great way to attract new clients, specifically larger organizations.

A [previous BDC study](#) forecasted that 92% of major buyers would require their suppliers to disclose at least one ESG criterion by 2024. Meanwhile, 75% planned to increase their ESG requirements for suppliers.

Reporting on your ESG efforts is increasingly necessary to enter the supply chain of large companies. In 2022, 59% of suppliers had to disclose some ESG criteria to at least one buyer. This is expected to rise to 72% by 2025.

The main ESG criteria of major buyers:

➔ Reduced energy consumption

Large organizations are increasingly estimating their GHG emissions and having low-emitting suppliers is an advantage.

➔ Social integration initiatives

This can also help businesses hire and retain employees.

➔ Procedures to manage environmental risks

Good practices to manage environmental risks can help reduce potential harm to people's health and the environment.

Table 1: Percentage of major buyers requesting information on ESG criteria

Environmental

Reduced energy consumption	68%
Environmentally responsible packaging choices	49%
Reduced raw material consumption and improved waste management	48%
Reduced greenhouse gas (GHG) emissions in shipping	43%
Reduced toxicity of emissions, waste, etc.	43%
Use of clean energy sources	37%
Formal commitments to reducing GHG emissions	33%
Reduced water consumption	33%
Ecodesign of products and services; lifecycle analysis	29%
Initiatives to improve biodiversity	25%
Use of electric or hybrid vehicles	25%
Promotion of sustainable commuting among employees	19%


Social

Managers or employees from diverse backgrounds (Indigenous, visible minorities, LGBTQ2+, etc.)	69%
Social integration initiatives (for people living with disabilities, etc.)	64%
Community investments	56%
Support for employee volunteering	35%


Governance

Procedures to manage environmental risks	70%
Support for the mental and physical health of employees	43%
Sustainable development policy	41%
Procedures to manage social risks	40%
Sustainability-related certification	38%
Sustainability training for employees	34%

Source: BDC, Sustainability survey of major buyers, November 2022; n=121.

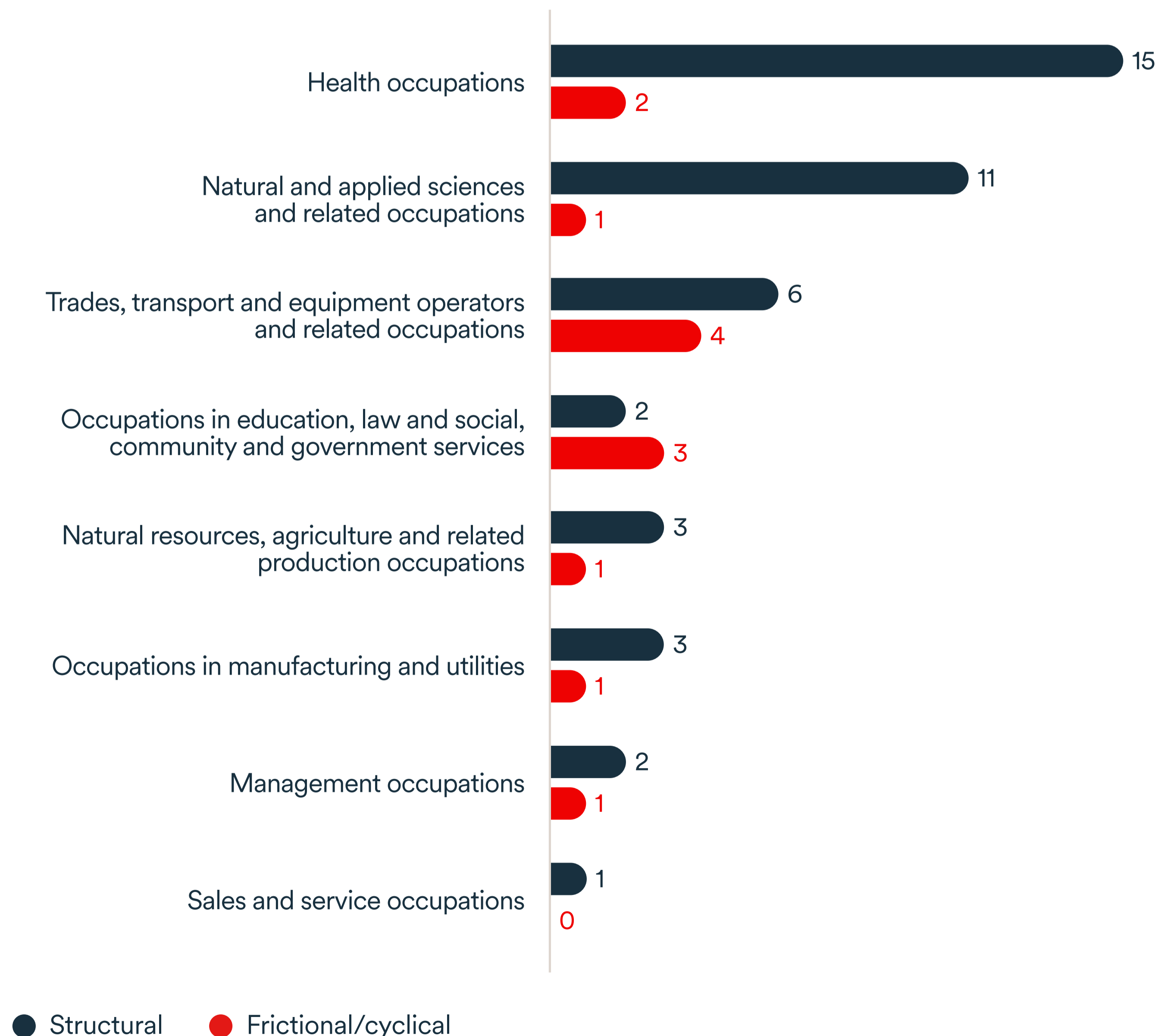
Labour shortages

Despite a slowing economy in 2023 and 2024, and a sharp spike in immigration, labour shortages remain a significant challenge that is expected to persist over the next decade.

The Canadian Occupational Projection System (COPS) projects that 56 occupations will face shortages from 2022 to 2031, with 43 of these being long-lasting structural shortages (five sectors more than in 2019-2021).

The largest number of shortages will occur for the health; natural and applied sciences; and trades, transport and equipment operators occupation groups.

Figure 7: Number of occupations in shortages by status (2022-2031)



Source: Employment and Social Development Canada, Canadian Occupational Projection System 2022-2031

Our survey shows that a majority of Canadian companies are facing persistent labour challenges

68%

have struggled to find employees in the past five years.

88%

expect similar or greater difficulties in the next five years.

63%

found that candidates did not have adequate skills for the job.

Over the next decade, COPS estimates that half the job openings will come from workers retiring. As these people leave the job market, they will take valuable expertise and industry knowledge with them. These departures will only exacerbate a situation where 52% of businesses report difficulties finding employees with the necessary industry knowledge or experience.

Additionally, nearly 70% of future job openings will require post-secondary education or management skills, which are areas currently reporting the lowest unemployment rates, making it even harder to find qualified candidates.

Efficiency and technology to fight labour shortages

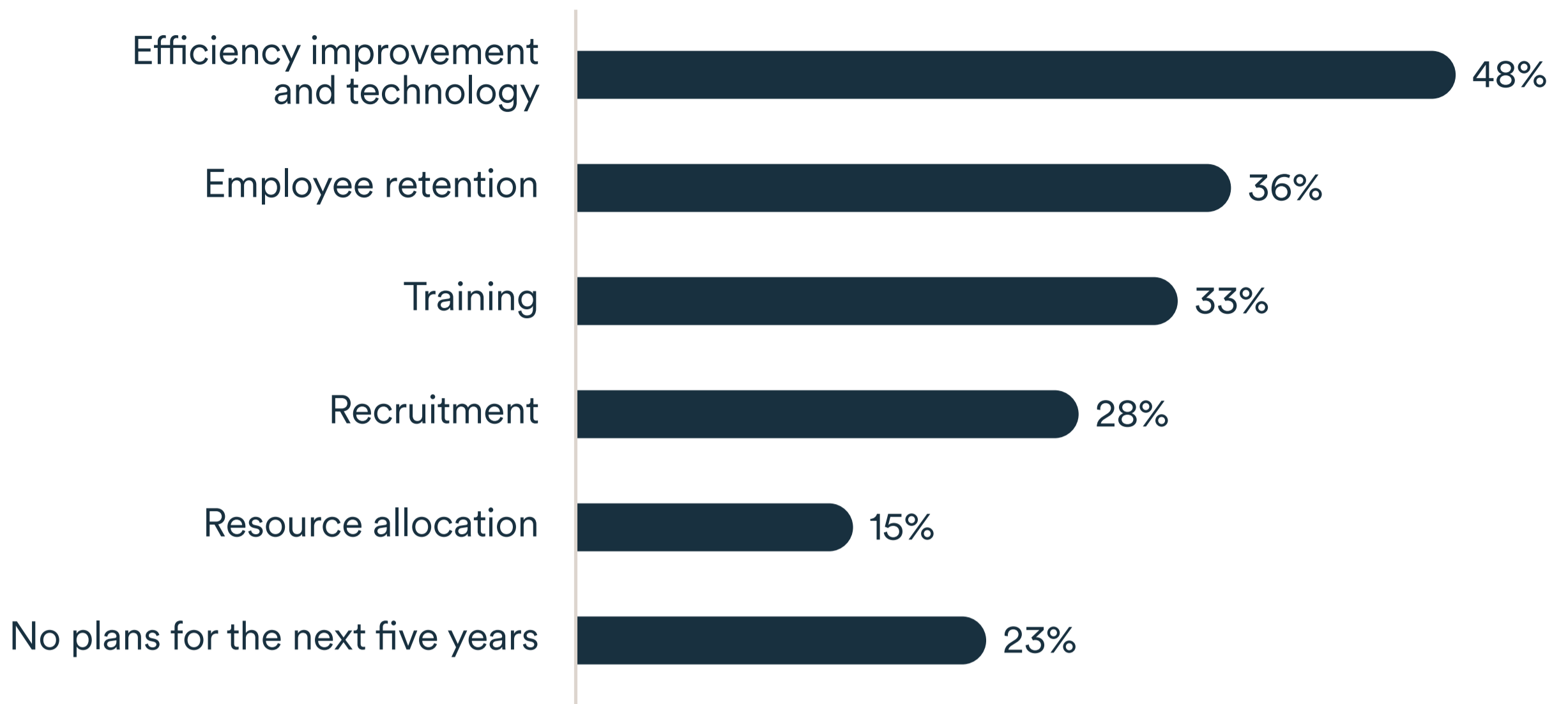
Businesses are already taking action to address labour and skills shortages.

For instance, 77% plan to adopt at least one measure within the next five years.

The focus is on:

- efficiency improvements
- technology
- employee retention
- training

Figure 8: Planned actions to respond to labour challenges over the next five years



Source: BDC, SMEs' outlook on major trends and challenges survey, June 2024, n= 1,278

Entrepreneurs are on the right track with these solutions. However, among businesses anticipating worsening labour challenges, 33% are not planning strategies for hiring, training, or retaining employees.

This highlights a significant gap in preparedness, primarily among small businesses of less than 100 employees.

Top strategies for dealing with labour shortages



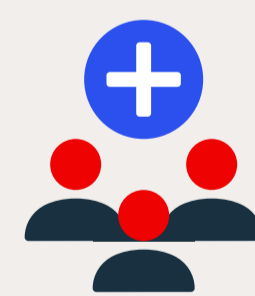
Technology and automation

can reduce the time employees spend on repetitive or low-value tasks. This makes it possible to produce more with less employees.



A people strategy

with competitive compensation, growth opportunities and a positive culture can help attract and retain talent.



Expanding the hiring pool

by upskilling candidates through training, forming partnerships with universities and schools, and hiring diverse workers can help ease labour and skills shortages

Technology

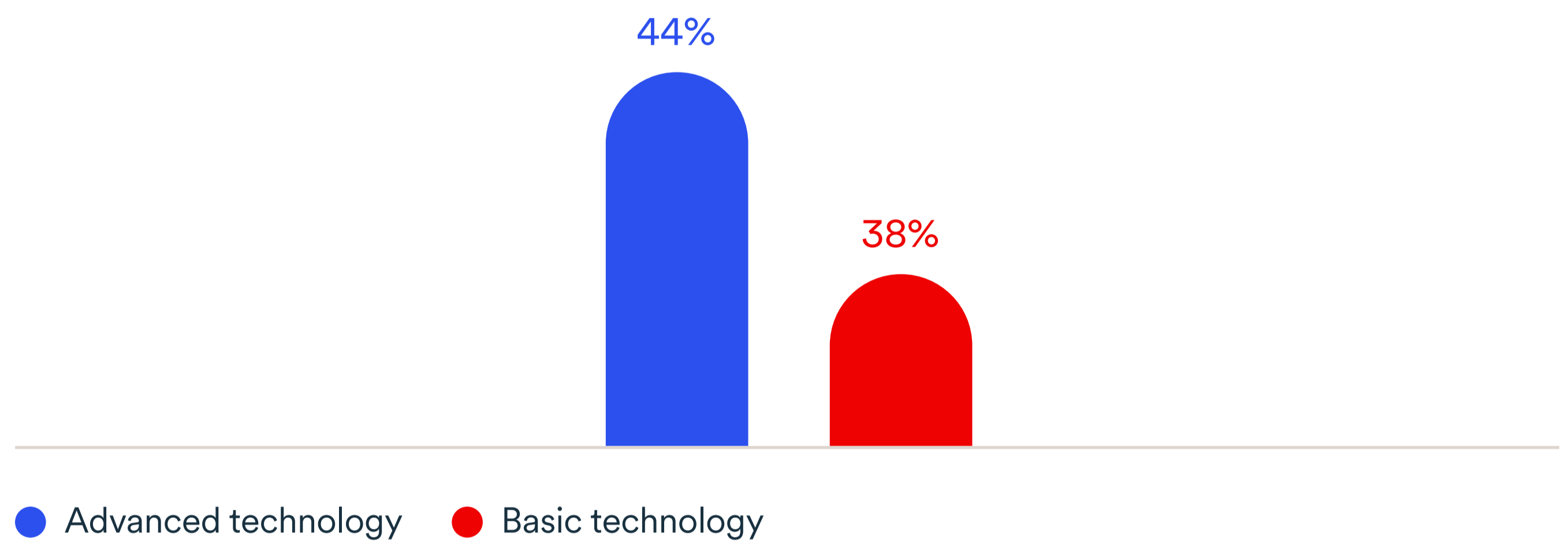
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adoption

Technology is rapidly transforming the business landscape. 82% of businesses say it has played a critical role in shaping operations over the past five years.

Advanced tools like automation software, cloud computing, and cybersecurity systems also have a larger impact than basic technologies such as websites and online payment platforms.

Figure 9: Percentage of businesses saying technology has become very critical, by type of technology



Source: BDC, SMEs' outlook on major trends and challenges survey, June 2024, n= 1,278

A 2023 study by BDC highlighted the importance of technology and automation in mitigating rising costs.

Emerging technologies like AI are also transforming businesses. In a recent survey, 97% of AI users reported benefits.

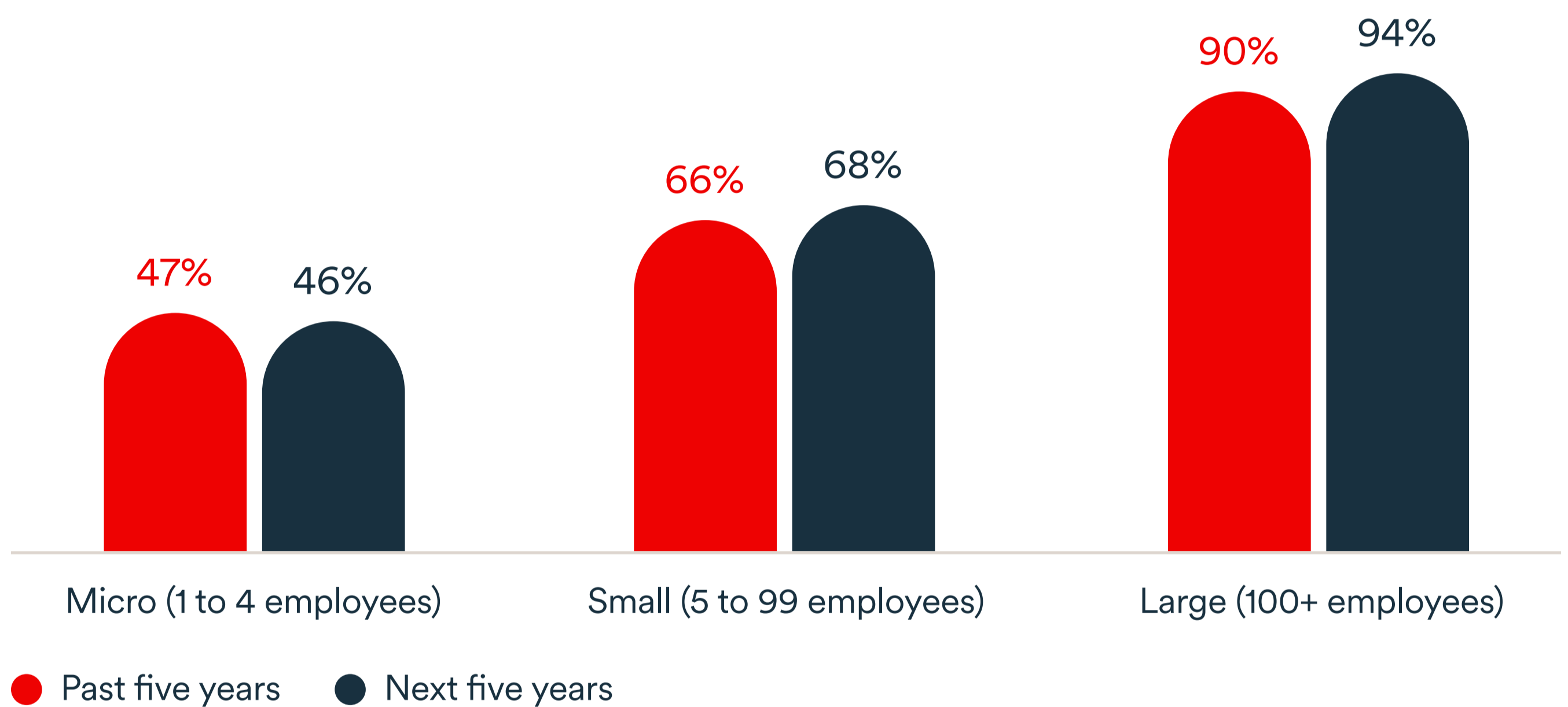
According to SMEs who use it, AI not only has the potential to save time and improve efficiency (44%), but it can also enhance customer service, growth, forecasting and marketing efficiency.

Small businesses have some catching up to do

Investment in advanced technology is expected to continue, but there is a rising disparity between small and large businesses. Large businesses have invested more in advanced technology over the past five years.

There is currently a 43% gap in advanced technology adoption between large and micro businesses. This gap will increase to 48% by 2029, since 94% of large companies plan to adopt advanced technologies in the next five years, compared to 46% of micro businesses.

Figure 10: Percentage of businesses that adopted and plan to adopt advanced technologies



Source: BDC, SMEs' outlook on major trends and challenges survey, June 2024, n= 1,278

A lack of investment in technology by smaller companies could further widen the productivity gap between small and large businesses. The [Bank of Canada notes that investments in digital technology can boost business productivity](#) through automation, improved information access, and more efficient use of capital. A business's productivity directly affects its profit margins: higher productivity allows them to produce more using fewer resources.

In the last five years, 66% of small and micro businesses invested in expanding their Web presence and offering online payments—helping them catch up to larger businesses in these areas.¹

Investing in and integrating other new technologies is crucial if smaller businesses want to keep up with the competition.

Investing in technology doesn't have to be expensive. Solutions exist for businesses of all sizes. Between 2020 and 2022, micro-businesses invested around \$10,500 in automation technology, while large businesses invested around \$627,700, on average.² Many AI tools are even free, offering various easy solutions for cost-conscious business owners. Although not all solutions yield the same results, starting with a solution adapted to your needs and means can still help improve your bottom line.

1 Statistics Canada, Survey of digital technology and Internet use, 2013, 2019 and 2021

2 BDC, SME Automation Survey, respondents who invested in technology, n=664, February 2022



From left to right : Moe Demyati, COO;
Jamil Demyati, Sales Director;
Ed Demyati, General Manager Jenna Foods

Jenna Foods

Technology feeds growth in this family business

Moe Demyati's family has been in the food business for more than 100 years—and he and his brothers, Ed and Jamil, are keeping up the tradition. “Our grandfather and father were in the food business,” says Demyati, COO of Jenna Food Products. “So when we moved to Canada from Syria in 2014, we decided to grow our own food business here.”



Jenna Food Products imports and distributes Middle Eastern and international foods, selling everything from pre-cooked rice to pickles and frozen pastries. Its customers are big-box retailers, restaurants and specialty grocery stores across Canada.

“The conclusion was that we needed to invest in an ERP system to help our company grow and reach the forecasts for the future.”

Investing in the right technology

A distribution business like Jenna Food Products has a lot of moving parts—from importing and inventory to bookkeeping and sales. So, when he and his brothers decided to expand, they knew they needed to make some changes.

Working with BDC experts, they completed an analysis of the company’s IT infrastructure and determined what technology they would need to support a bigger operation.

The company had been using a popular accounting software that caters to small businesses. But it couldn’t cope with the volume of transactions or help them manage an inventory of products with expiry dates.

“You need a system that can help you visualize the numbers daily and manage the workflow and inventory efficiently,” says Demyati.

An enterprise resource planning (ERP) system is software that integrates all of a business's data into a single system that manages everything from inventory to finances to human resources. But that was just the beginning.

“You can get the best software, but if you don't have the right team, you will not be successful. Because the know-how and implementation process is also significant.”

Getting the right team

An ERP system changes the culture of a company and its workflow, says Demyati. That meant once they'd launched the system, they would need to train current staff on the technology and hire new staff who were tech-savvy.

Demyati says it wasn't easy to find workers with the computer skills he was looking for. But he says having an ERP system in place was a selling point.

“They were attracted by the fact that we had this system because they wanted to learn ERP software, especially young graduates,” he explains. “They understand that a company that has invested in such a system is going to provide them with excellent skills that can support their growth as employees.”

Demyati and his brothers have also worked hard to create a work culture that makes people want to stick around. The company provides health benefits, a gas allowance, and discounted prices on its products. They even offer a daily free lunch—which the entire team sits down and eats together.



Providing benefits for the company and its customers

Although Demyati admits that implementing an ERP system has meant some “pain and challenges,” he says it’s already beginning to pay off. Less than a year in, the resulting efficiencies are already translating into a 20% to 30% reduction in the company’s operating costs.

And implementing the ERP hasn’t just improved the company’s bottom line. It will also benefit customers.

Many Canadians have been hard hit by inflation in recent years and the company has had to do more promotions to maintain its sales.

They’ve also seen an increase in the sales of bulk value packs. As the price of food has risen, they’ve also chosen to maintain the prices of certain products by reducing the amount of food offered in the package.

Demyati believes their technology investments have allowed them to remain competitive in these hard times. 🏹

“If we are more efficient, we're better able to control costs. So, we can do much more with the same or similar overheads. I believe that will give us the opportunity to provide better prices.”

Moe Demyati, COO,
Jenna Food Products



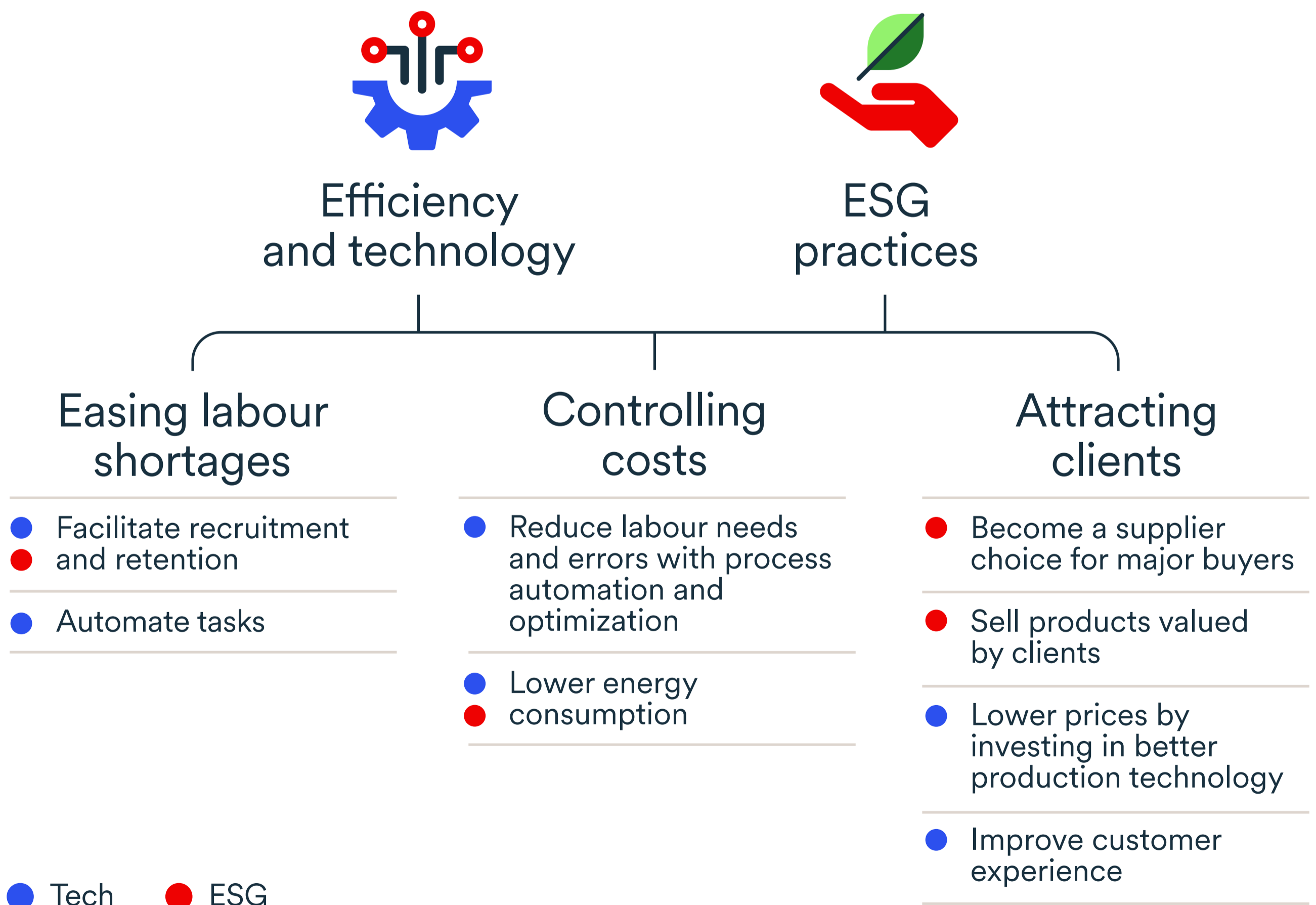
Act now: Prepare for the future

The four trends explored in this report will shape the future for Canadian business owners. They will also interact with one another. Building a holistic view can help you make better decisions to overcome these challenges.

The rapid pace of technology adoption, in particular, will continue to disrupt how businesses operate, but it is also a key to tackling many of the other trends highlighted in this report.

Additionally, embracing ESG principles will open new opportunities, while measures aimed at reducing energy consumption can help control costs.

Figure 11: Potential actions to thrive in Canada’s future business context



Top solutions for tomorrow's challenges



Create a technology plan

Planning ahead can help you identify the steps needed to become more efficient with technology. A plan is crucial to equip yourself with the right tools for the right job.



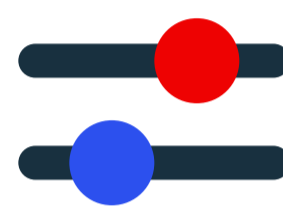
Develop ESG practices

Major buyers and smaller clients increasingly value modern ESG practices. Diversity, equity and inclusion (DEI) policies can also help attract talent from diverse backgrounds and expand your pool of candidates.



Do your research and seek advice

A solid strategy requires good input, especially for areas in which you are less knowledgeable. Take the time to research solutions or approaches that fit your needs and ask for advice from experts or other entrepreneurs around you.



Optimize your energy consumption

Lowering energy use can decrease GHG emissions, reduce costs and attract clients and employees.



Streamline your processes

Focusing on processes before investing in technology can help identify and eliminate inefficiencies and bottlenecks. This can maximize the impact of technology, leading to cost savings, stronger employee engagement and better data quality.



Build a people strategy

Think about creating a total rewards strategy. This includes offering competitive salaries and benefits, creating a positive culture, offering growth opportunities and providing training.



Implement proactive cost management

Investing in an accounting system that allows you to track your budget and profit can help optimize cost and revenues throughout the year and support your strategic decisions. Many software can help you move away from spreadsheets to adopt more efficient budgeting practices.



Improve your operational efficiency

Invest in technology to modernize your business and optimize current resources. Better efficiency can help control costs, reduce waste and enable growth.



Rumble Boxing

Knocking out inflation

Plenty of people enjoy working in Alberta’s lucrative energy sector. But Cissy Chen wasn’t one of them. “I found that the nine to five—or actually, eight to six—office job was kind of boring,” she says. “I wanted something more challenging. Something entrepreneurial.” She left her office job and founded Rumble Boxing in Calgary in 2016. Rumble brings together high-intensity boxing workouts with group fitness, offering what it calls a “fight club meets nightclub vibe.”



Today, there are close to 10 studios in Calgary, Toronto and Vancouver. The business employs 300 full-time, part-time and contract staff.

“We could have grown much faster, but we are very disciplined about sticking to our economic model: We do not go above a predetermined threshold when it comes to how much we will pay for rent.”

A one-two punch from rental costs

Rental costs for commercial real estate began to skyrocket just as Chen was trying to grow Rumble. Chen has had to get creative to keep her finances on track.

The first part involves playing a good waiting game. “We’re very patient and specific when it comes to location selection,” she says.

Secondly, Chen realized that by strategically building up her brand, she could expect to secure prime locations for a good price. “Landlords want our brand in their premium buildings,” she says.

Finally, Rumble strongly emphasizes sales to cover costs and keep growing. But that’s a constant battle, says Chen, because of the rising cost of living.

“Consumers are struggling with costs too,” she says. “We need to absorb some of these increases as a business while maintaining our product quality, which can be difficult.”

“We break down the roles and responsibilities to adapt to employees’ needs instead of asking them to conform to what we want as a company.”

Avoiding a body blow from high turnover

Along with rent, labour is a key cost struggle for Rumble. Chen has found it harder to attract employees since the pandemic. “We lost some talent to COVID-related trends, like remote work, career change and other disruptions,” she says.

The average employee only sticks around for about 18 months, says Chen, and replacing people is expensive. She pegs the cost of onboarding each new employee—including training and development—at about \$2,000. With a staff of 300, that can add up.

In the past, Rumble expected employees to work full-time, with career trajectories and plans, says Chen. “But these days, some want to work only 15 or 20 hours a week. Some are students, while others are holding down two or three jobs because of the rising cost of living, and some just want to expose themselves to different things.” Rumble has broken down roles and responsibilities to adapt to employees’ needs and create a culture they appreciate.



Knocking down high costs with technology investments

Rumble has embraced various types of technologies to cut costs and add efficiencies. These investments have helped the business thrive and grow despite the economic and labour pressures it faces:

- ➔ **Customer relationship management (CRM) software**
and a booking platform help to streamline and automate client communications.
- ➔ **Chatbots powered by artificial intelligence (AI)**
answer entry-level inquiries efficiently.
- ➔ **Website analytics**
like Google Analytics, inform the business's strategy. Chen says the analytics have improved, helping the business target specific demographics.

- ➔ **Logistics software**
for warehouse management and procurement on the retail side reduce manual work and administration. Rumble also sells products directly to clients at its locations, such as boxing gloves, hand wraps, branded merchandise and more.
- ➔ **An internally developed key performance indicator (KPI) system**
helps with company performance management by yielding data to inform quick business decisions.

Chen says that website analytics have increased Rumble's marketing efficiency by about 20%, while logistics software has led to a 25% to 30% increase in shipping accuracy and timeliness. ⬅

“Just keep moving,
and remember
that the dark
days will pass.”

Cissy Chen, Owner,
Rumble Boxing



Methodology

Survey of business owners and decision-makers

An online survey of 1,278 business owners and business decision-making members of the Angus Reid panel was conducted for this study. The survey was conducted between June 7 and June 18, 2024. The BDC Research and Market Intelligence team performed data processing and analysis.

For a probabilistic sample of 1,278 respondents, the maximum margin of error is ± 2.7 percentage points, 19 times out of 20. However, as this survey is based on a non-probabilistic sample, this information is provided for reference only.

Results were weighted by region and number of employees to be representative of the Canadian SME population.

Consumer survey

A survey of 1,503 members of the Canadian general population was carried out in August 2024 using Angus Reid's Forum, a proprietary panel of Canadians.

For a probabilistic sample of 1,503 respondents, the maximum margin of error is ± 2.5 percentage points, 19 times out of 20.

However, as this survey is based on a non-probabilistic sample, this information is provided for reference only. Results of this study were not weighted.



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