

Digital Commerce:

How Canadian Small Businesses are Growing and Trading Internationally



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Executive Summary

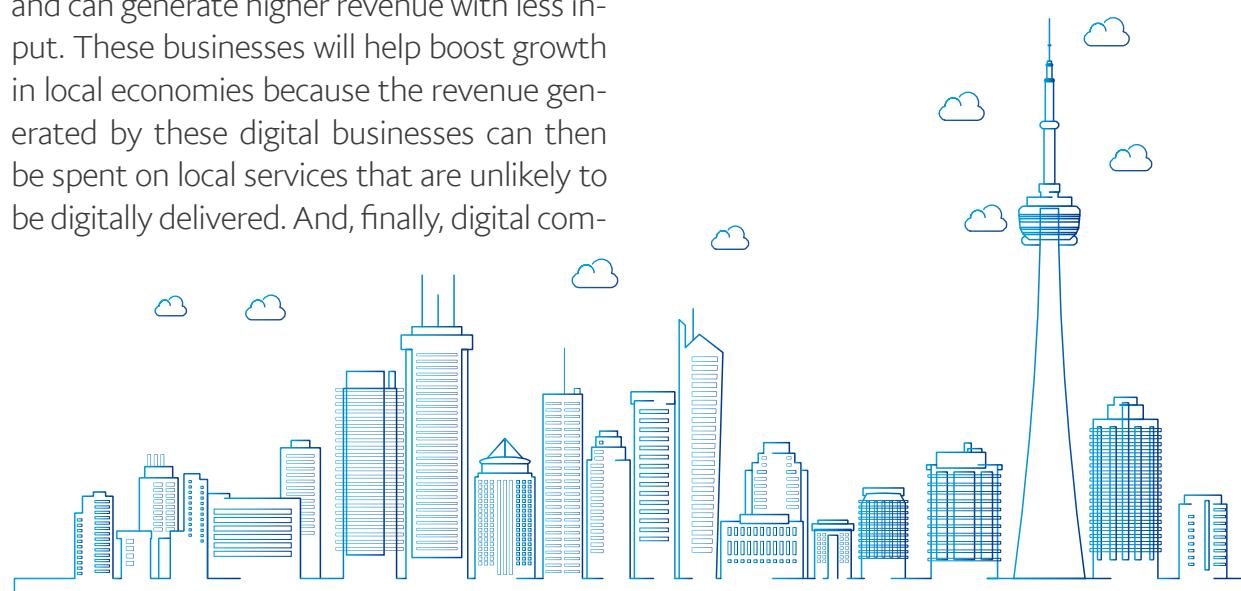
Canada is a global powerhouse in important trade sectors including automobiles, financial services, energy, forestry and more. But the landscape is shifting. The global trade environment is rapidly evolving due to the proliferation of technology, in particular internet and mobile technology. Every business and consumer are now walking around with an entire global supply chain, distribution network, retail store and transaction platform in their pockets. This transformative technology creates opportunities for even the smallest of businesses to effectively reach customers across Canada and around the world, really for the first time in history.

Despite the immense opportunity presented by the adoption of technology, only one in five Canadian businesses sells online.¹ As Canada looks to create a diverse and inclusive economy with a wide variety of trade partners, more Canadian businesses must embrace digital solutions. Digital small businesses are more efficient than traditional businesses and can generate higher revenue with less input. These businesses will help boost growth in local economies because the revenue generated by these digital businesses can then be spent on local services that are unlikely to be digitally delivered. And, finally, digital com-

Digital small businesses are more efficient than traditional businesses and can generate higher revenue with less input.

merce adoption expands Canada's economy, making Canadian businesses front and centre in the minds of consumers around the world.

As a global e-commerce ecosystem leader and a champion for Canadian entrepreneurs, PayPal sees firsthand how digital solutions can help Canadian businesses harness the power of the digital economy to innovate and grow their businesses. For the first time, PayPal is releasing proprietary insights from our over 250,000 merchant customers in Canada to demonstrate that a thriving digital commerce ecosystem leads to greater trade, employment and income opportunities for all Canadians.



28x

How much digital small businesses grew in 2017, compared to traditional small businesses the prior year.*



10%

How much more export growth digital small businesses in Saskatchewan had in 2016/17, compared to non-exporting businesses.

30%

Of digital small businesses export to 3 countries or more, while only 11% of traditional exporters sell to more than one market.*



Digital small businesses are not only selling to US and Mexico, but also to China, the UK, Japan, and Australia.

We analyzed in depth a sample dataset of 4,000 digital small businesses in Canada, defined as those who sold more than \$30,000 and less than \$3 million per year using PayPal between 2016 and 2017, derived from our full merchant database of over 250,000.

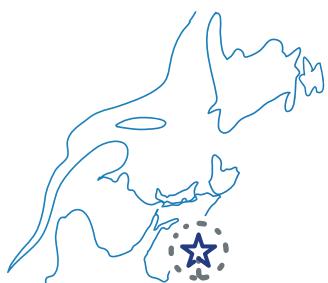
63%

Of digital small businesses export compared with 12% of traditional small businesses.*

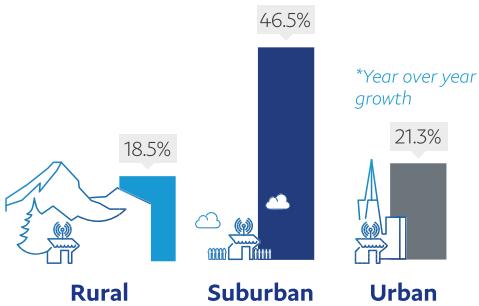


18.6%

Overall increase in number of digital small businesses in 2016/17.



Digital small businesses in Nova Scotia saw 47% growth year-over-year from 2016 to 2017, while businesses in Manitoba saw 30% growth. In Ontario, businesses saw 26.2% growth.



Rural, suburban and urban small businesses all leverage the Internet to facilitate growth.

Our Base for Insights

We analyzed in depth a sample dataset of 4,000 small businesses in Canada, defined as those who sold more than \$30,000 and less than \$3 million per year using PayPal between 2016 and 2017, derived from our full merchant database of over 250,000. This small business dataset was fully anonymized from any personally identifiable information. We will refer to these businesses throughout report as "digital small businesses."



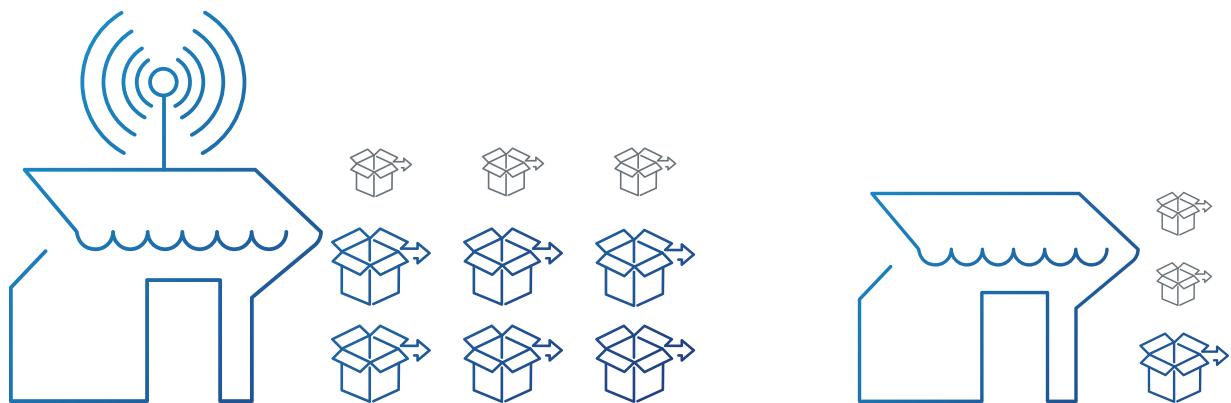
Noteworthy Findings

E-commerce accelerates growth for Canadian small businesses

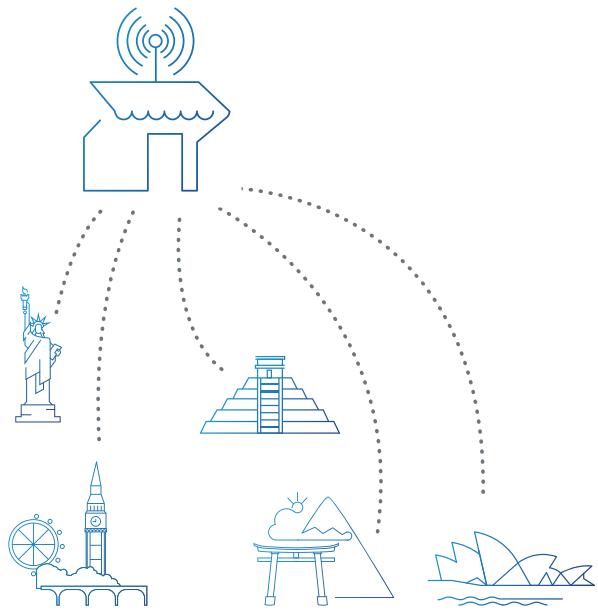
- Canadian digital small businesses grow far faster than their offline counterparts. In 2017, they grew over 22 per cent year-over-year. Comparatively, Statistics Canada reported that in 2016 (the last year for which data is available) non-financial industries grew less than 1 per cent year-over-year.
- More and more small businesses in Canada are jumping in to the global digital marketplace. Between 2016 and 2017, the number of digital small businesses grew by 18.6 per cent.



Selling online opens global export opportunities



- Digital small businesses export at unprecedented rates. Sixty-three per cent of Canadian digital small businesses export. Statistics Canada data demonstrates that only about 12 per cent of Canadian small- and medium-sized businesses export goods and services.
- Digital small businesses that export grew more than digital small businesses that only sold within Canada. Exporting businesses saw 3 per cent more growth between 2016 and 2017 than non-exporting businesses.

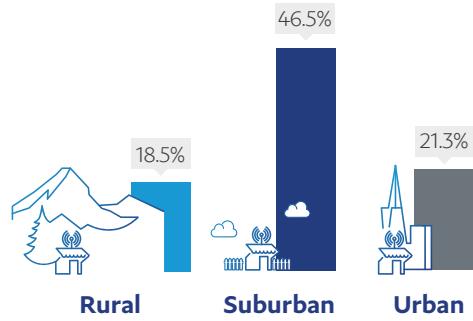


- While the United States and Mexico are two of the top 10 export corridors for digital small businesses, they are also looking beyond North America and selling into China, Great Britain, Japan and Australia.

E-commerce builds strong local economies

- Rural, suburban and urban small businesses all leverage the Internet in the same ways to grow. Digital small businesses located in rural parts of Canada grew about 18 per cent between 2016 and 2017, while urban businesses grew about 21 per cent. Suburban businesses outperformed and grew at 46 per cent year-over-year.

- Digital small business growth is seen across Canada. For example, small businesses in Nova Scotia saw 47 per cent growth year-over-year from 2016 to 2017, while businesses from Manitoba saw 30 per cent year-over-year growth.

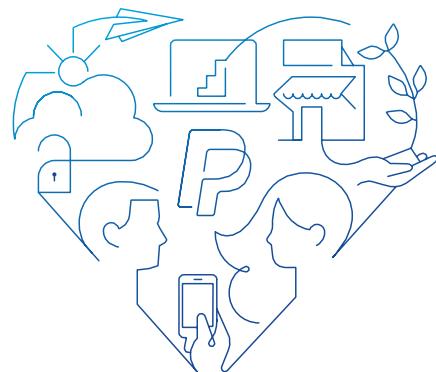


- In a deep-dive on Saskatchewan, we found that some of these trends were even more pronounced. Digital small businesses from Saskatchewan grew an astounding 55 per cent year-over-year in 2017. Those that exported grew even faster at 61 per cent.

Digital Commerce Unlocks Growth Opportunities for Small Businesses

Small businesses are the lifeblood of the Canadian economy. Statistics Canada data from 2015 (the last year that it was available) reports that small- and medium-sized businesses (SMEs) represent 98 per cent of all Canadian businesses and employ over 8.2 million individuals in Canada.² These businesses are the job creators, innovators, and entrepreneurs.

Small businesses have been an essential part of the decade-long recovery in Canada in the wake of the financial crisis.³ But, the Organization for Economic Cooperation and Development (OECD) finds that in the last few years, small business dynamism and productivity growth has started to wane.⁴ The OECD finds that small firms embracing cutting edge technology are continuing to grow, while those that do not are falling behind.⁵ PayPal data from 2017 echoes these findings, showing that only 17 per cent of Canadian small businesses are online.⁶ According to eMarketer, Canadian e-commerce spending is expected to reach \$42 billion this year, meaning small businesses are leaving money on the table.⁷



Despite a lag in e-commerce adoption, data from PayPal demonstrates the positive impact that digitization can have and is having on Canadian small businesses. Digital small businesses are growing by leaps and bounds. In 2017, Canadian digital small businesses grew over 22 per cent year-over-year.⁸ In 2016 (the last year for which data is available) Statistics Canada reported that non-financial industries grew less than 1 per cent year-over-year. Moreover, e-commerce sales in Canada have been projected to grow at about 12 per cent per annum from 2014 to 2019.⁹ Digital small businesses are vastly outpacing those expected growth rates.

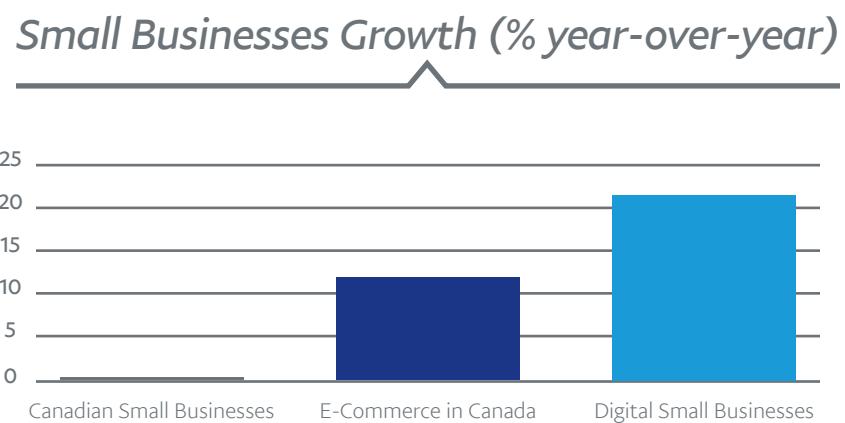
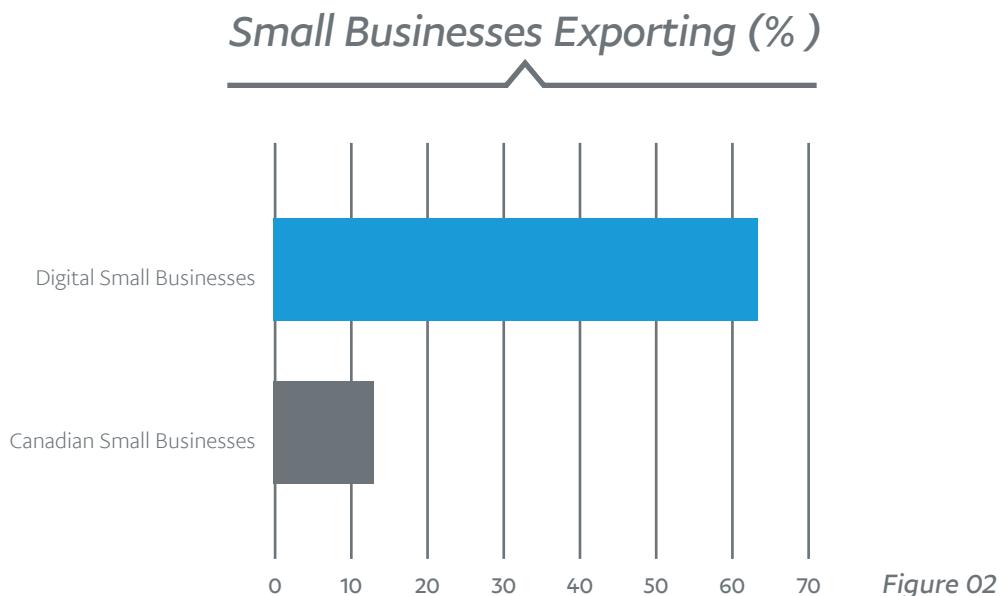


Figure 01

Digitization Enables Small Business Global Trade

Trade has always been a challenge for small businesses in Canada. The high fixed costs and multitude of complexities associated with trade have created barriers to entry that many small businesses struggle to overcome. In 2014, just 73,000 small and medium businesses (less than 12 per cent) exported goods and services, according to Statistics Canada.¹⁰ Some provinces, however, export even less. For example, only 1.5 per cent of small businesses in British Columbia exported in 2015.

In contrast, digital small businesses export at far higher rates than traditional small businesses. More still, these businesses also grow about 3 per cent faster than digital small businesses that do not export. Almost two thirds of Canadian digital small businesses export (Figure 02).



Digital small businesses help to diversify Canadian trade. Ninety per cent of traditional Canadian small- and medium-sized businesses that do export, do so only to the United States.¹¹ However, digital small businesses export around the world. Over 35 per cent of digital small businesses export to more than one market; and almost one in three export to three markets or more. There is one digital small business that exports to 80 countries around the world.

The United States and Mexico are two of the top 10 export corridors for digital small businesses.² Digitization helps these small businesses to diversify beyond North American markets and sell to consumers and businesses around the world.

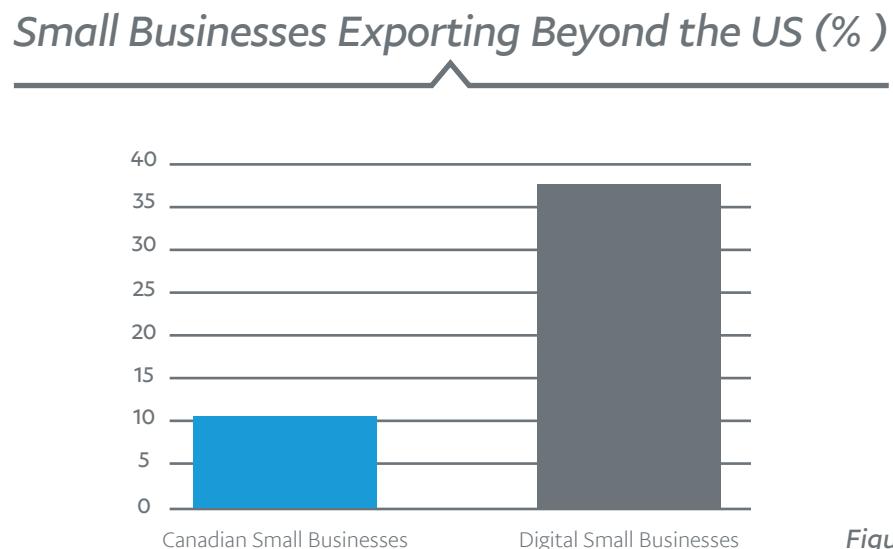
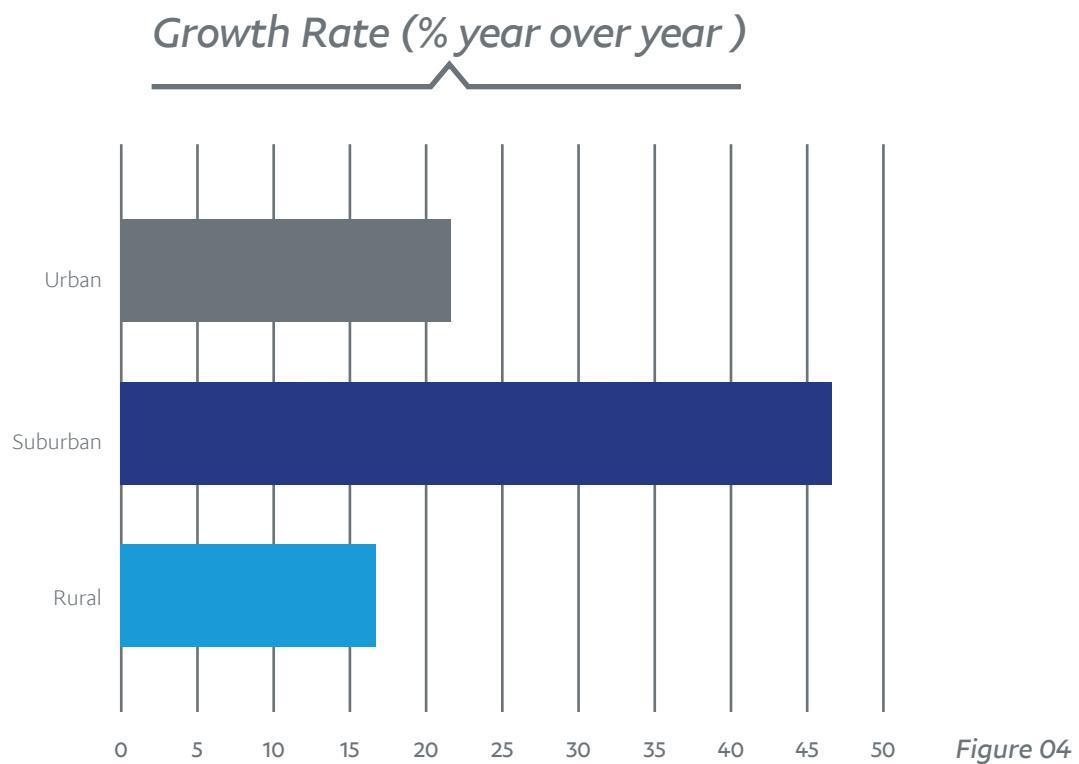


Figure 03

Bringing Local Economies into the Digital Ecosystem

Digitization can lead to more inclusive growth and trade by expanding opportunities to traditionally underserved small businesses. Eighty-one per cent of Canada's population is urban,¹³ and so urban small businesses have traditionally had more access to customers and therefore seen higher growth rates. But now, the internet enables businesses, no matter where they're located, to have access to expanded customer bases and associated growth. As a result, rural and suburban small businesses have been able to grow in the

same way as their urban counterparts. More specifically, digital small businesses located in rural parts of Canada grew 18 per cent between 2016 and 2017, while urban businesses grew at 21 per cent. Suburban businesses grew the most, at a staggering 46 per cent year-over-year (Figure 04).



The leveling of the playing field between urban and rural businesses is perhaps the most important aspect of the digital transformation. For the first time in history, rural businesses can access the same set of customers as urban businesses. The implications of this new form of inclusive commerce are transformative. A business can now enjoy the revenue benefits of moving to a major urban centre while remaining local, and bringing that revenue back to its local community.

Moreover, a provincial analysis reveals that small businesses across Canada are enjoying the benefits of digitization. In Nova Scotia, for example, digital small businesses grew 47 per cent year-over-year from 2016 to 2017, while businesses from Manitoba saw 30 per cent year-over-year growth (Figure 05).

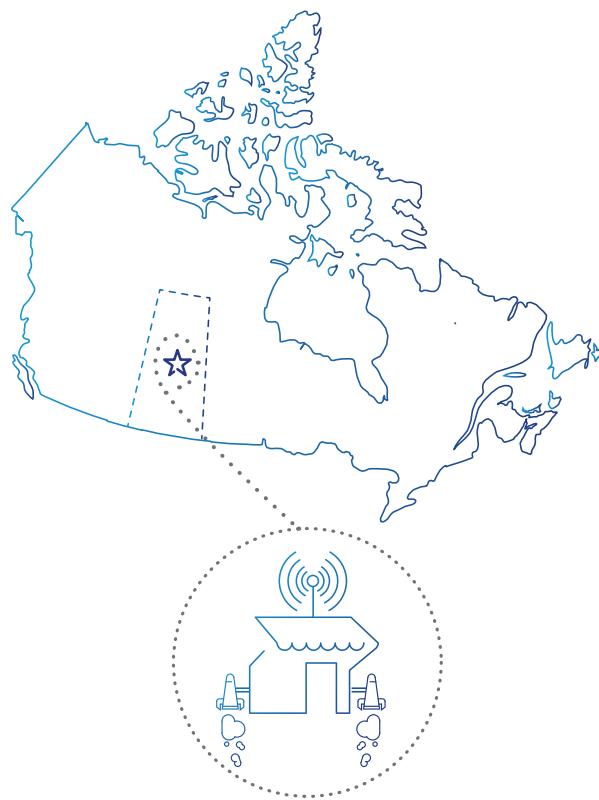
<i>Province</i>	<i>Growth 2016 to 2017</i>
ON	26.2%
QC	13.4%
BC	20.7%
NB	-3.3%
NT	161.1%
AB	20.5%
NL	17.4%
SK	55.8%
MB	30.1%
NS	47.1%
PE	6.2%
YT	-2.3%
Weighted average	22.4%

Figure 05

Case Study: Saskatchewan

A deeper analysis of Saskatchewan demonstrates the incredible impact of digitization on small businesses in Canada. Small businesses make up 99 per cent of the businesses in Saskatchewan, and are responsible for 31 per cent of the province's GDP.¹⁴ These businesses grew by 3 per cent year-over-year in 2016.¹⁵ This is far above the national average of less than one per cent, but still pales in comparison to the growth rates for digital small businesses.

Digital small businesses from Saskatchewan grew an astounding 55 per cent year-over-year in 2017. Those that exported grew even faster at 61 per cent. Almost 40 per cent of these exporters sell to three or more markets around the world. These exporters came from rural, suburban and urban parts of Saskatchewan.



Challenges Remain but Opportunities Await

- Digital literacy remains a challenge for small businesses. Over 40 per cent of Canadian small businesses still don't have a website and less than one in five Canadian small businesses accepts online payments.¹⁶ The federal government set up a program in 2017 to focus on digital literacy for entrepreneurs, but far more can be done.¹⁷ Public private partnership could help to bring the latest technology solutions directly to those entrepreneurs that need it most. The public sector already has inroads to these businesses through training and lending programs. Partnering with technology companies on digital education could yield tremendous benefits.
- Small businesses continue to have concerns with taxes and regulations. World Bank statistics indicate that Canada is one of the top places to launch a new business. Canada, and specifically provinces like Ontario, have enacted tax reforms that have reduced rates for small businesses.¹⁸ These regulatory changes can be important growth drivers for small business.
- Customs, duties, and paperwork are a concern because they are disproportionately complex for small businesses to take on. Simplifying and digitizing these procedures for small businesses could yield enhanced growth and trade.

Conclusion

The digital revolution is transforming small businesses all across Canada. These digital small businesses enjoy enhanced growth, extensive exporting, and the ability to locate their businesses in local communities. Challenges remain on the path to ubiquitous use of digital technology among small businesses economy, but opportunities abound for how to resolve those challenges. If we can enable all Canadian small businesses to embrace digitization then we can expect to create a more inclusive economy that benefits all businesses, regardless of size or location.

Provincial Breakouts

This section looks at particular provinces in Canada and provides breakouts of our analysis of digital small business from 2016-2017.

Saskatchewan

Growth	55.8%
Growth by Exporters	61.4%
Share that Export	44.8%
Share that reach more than 3 markets	39.4%
Urban Growth	67.2%
Suburban Growth	12.0%
Rural Growth	-27.2%

Ontario

Growth	26.2%
Growth by Exporters	28.7%
Share that Export	63.9%
Share that reach more than 3 markets	33.1%
Urban Growth	26.4%
Suburban Growth	28.2%
Rural Growth	18.4%

British Columbia

Growth	20.7%
Growth by Exporters	24.2%
Share that Export	70.5%
Share that reach more than 3 markets	31.3%
Urban Growth	16.8%
Suburban Growth	81.2%
Rural Growth	9.8%

Nova Scotia

Growth	47.1%
Growth by Exporters	31.5%
Share that Export	66.1%
Share that reach more than 3 markets	26.4%
Urban Growth	45.8%
Suburban Growth	29.8%
Rural Growth	79.5%

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- ² Government of Canada, Key Small Business Statistics - June 2016
- ³ Benjamin Tal, Canadian SMEs – The Cycle and Beyond, October 10, 2017
- ⁴ OECD, Policies for Strong and More Inclusive Growth in Canada (2017)
- ⁵ Id.
- ⁶ PayPal Canada 2017 SMB Landscape Study
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- ¹⁶ CIRA, The State of E-commerce in Canada (March 2016)
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- ¹⁸ KPMG, Ontario Drops Small business Tax Rate for 2018