



To advance the conversation on digital entrepreneurship in Canada, [Startup Canada](#), the national rallying community and voice for Canadian entrepreneurs, uncovers how Canadian small business owners (SBOs) leverage technology to start, operate and scale their businesses. The first in a four-part research series, this report highlights the greatest barriers to digital adoption for these businesses; and includes opportunities to address these barriers and encourage greater digital adoption rates amongst SBOs.

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# TABLE OF CONTENTS

<b>TABLE OF CONTENTS</b>	<b>1</b>
<b>EXECUTIVE SUMMARY</b>	<b>2</b>
<b>RESPONDENT PROFILE</b>	<b>4</b>
<b>1. DIGITAL ADOPTION AMONGST SBOS</b>	<b>5</b>
<b>2. BARRIERS TO DIGITAL ADOPTION AMONGST SBOs</b>	<b>7</b>
<b>3. RECOMMENDATIONS TO INCREASE SMALL BUSINESS SUCCESS</b>	<b>9</b>
<b>FINAL REFLECTIONS</b>	<b>11</b>

## EXECUTIVE SUMMARY

Small business owners (SBOs) in Canada are early adopters of new digital technologies, but are struggling to keep up with the rate of change and turnover in this technology. Seventy percent of those surveyed consider themselves to adopt new technologies before the majority of society, with 24 per cent considering themselves innovators in the space. Over 93 per cent of those surveyed have an online presence, and 69 per cent consider the adoption of new digital technologies to be extremely important to the success of their company. However, despite being profitable in the long-term, for small business owners the return on investment of digital adoption isn't immediate. For companies wherein time, resources and finances are precious commodities, this presents shorter-term, day-to-day challenges.

Digital onboarding, implementation, maintenance, and effective utilization of new digital technologies requires significant upfront investment for small business owners. Forty-three per cent of SBOs identified costs related to training, updating and maintaining digital technology as a main barrier to technology adoption, with the amount of time required to adopt new technologies close behind at 36 per cent. Twenty-five percent cited lack of awareness, low comfort level and high complexity as a main barrier with 22 per cent regarding online privacy and reliability as a major barrier.

With these challenges come opportunities to advance the rate of digital technology adoption amongst small businesses in Canada. Feedback from survey, interview and focus group respondents highlight the opportunity for industry, government and non-profit support organizations to bridge the digital adoption gap. Sixty per cent of respondents indicated that interactive how-to guides would be most effective to improve understanding of digital technologies. Fifty per cent of respondents also called for video tutorials. Additional opportunities highlighted by SBOs include virtual training available to every SBO when and where they need it; and, incentives for SBOs to both up-skill their teams and hire new employees with in-demand digital skills.

## **INTRODUCTION**

Advances in technology, the Internet and digital tools have made it easier than ever for early-stage companies to startup, validate their offerings, expand their customer base, and improve efficiencies. Each of these factors have increased the capacity of young companies to create jobs, reduce costs and spur a higher speed of innovation and product development. It opens small businesses up to new markets and value chains beyond their backyard to limitless global opportunities. The world has never experienced a higher rate or speed of technological change than is experienced today, and companies that can't keep up run the risk of being left behind. Early-stage companies recognize this, but the rate of change and the sheer number of technology platforms, tools and solutions present unique challenges for small business owners (SBOs).

Globally, Canada ranks 15 of 139 countries for its competitiveness behind the United States, and a number of Nordic countries including Sweden, Norway among others. The World Economic Forum also ranks Canada 21st on this list for technological readiness and 31st for Canada's level of technology absorption. The same report also shows Canada already lags, but is in a downward trend when it come to innovation and business sophistication. For Canadian companies to reverse this trend and remain globally competitive as they start and scale, the rate of technology readiness and adoption must be addressed.

To advance the discussion on digital entrepreneurship in Canada, Startup Canada, the national rallying community and voice for Canadian entrepreneurs engaged over 600 SBOs across various sectors, business phases, demographics and geographies to uncover how Canadian SBOs leverage technology to start, operate and scale their business. The first in a four part research series, this report highlights the greatest barriers to digital adoption for these businesses and opportunities to encourage greater digital adoption rates amongst SBOs to increase their competitiveness.

## **METHODOLOGY**

The study was conducted between January 18 and February 3, 2017 through a series of five focus groups in Ottawa, ON, Bay of Quinte ON, Durham, ON, Fredericton, NB and Revelstoke, BC in partnership with Startup Bay of Quinte, Startup Durham, Knowledge Park Fredericton and Startup Revelstoke. The focus groups informed the development of an online survey that engaged 613

respondents of all ages from across Canada. Based on the findings of the survey researchers interviewed a random sample of 25 respondents to dive deeper into the findings. The margin of error for a representative sample of this size (n=613) is 1.96 percent within a 95 percent confidence interval. This report summarizes the results of the research.

## **RESPONDENT PROFILE**

Thirty-nine per cent of respondents are between the ages of 18 and 35, 31 per cent are between the ages of 36 and 54 and 5 per cent are over the age of 65. Fifty-four per cent of survey respondents self classify as male, 45 per cent as female, and one per cent self classify as other. Thirty-five percent of respondents were born outside of Canada.

The survey saw respondents from 11 Provinces and Territories. Across Canada, the largest number of respondents reside in Central Canada, accounting for 62.5 per cent of all surveyed; an additional 17.5 per cent of respondents reside in the Prairie Provinces; 12 per cent reside in Western Canada, and; 1 per cent reside in the Atlantic Region and Territories respectively. An additional 1 per cent of respondents reported their residence to be outside of Canada.

Respondents represent a wide spectrum of industries from consulting and professional services to informational tech, retail, entertainment, services and agriculture. Forty-five percent of respondents run startup companies, 26 percent run growing companies, 17 percent run mature companies, nine percent are not yet incorporated and three percent are operating declining companies.

Thirty-one percent of companies have been in operation for less than one year; 39 per cent of companies have been in business for 1-3 years, 13 per cent of business have been in business for 3-5 years; nine per cent of business have been in business for 5-10 years; and, seven per cent have been in business for more than 10 years.

## 1. DIGITAL ADOPTION AMONGST SBOS

SBOs use technology across many factions of their business. Eighty-six per cent of SBOs regard digital technology adoption as extremely or very important to their company's success; and, sixty-nine percent consider themselves to be among the first to adopt a new technology solution. With a high reliance on technology to carry out day-to-day business functions, some SBOs consider the success of their small business to be contingent on technology.

### MARKETING & SALES ACQUISITION AMONG TOP TECH USES

Digital networks have vastly expanded potential market opportunities for small businesses, enabling them to reach customers world-wide. The large majority of SBOs (93 per cent) have an online presence. Seventy-four per cent of them indicated they use digital technology including software programs and mobile applications to make sales and convert customers. Seventeen per cent indicated they do not use digital technology for this purpose, but they want to and plan to in the future. Only nine per cent of respondents indicated they do not use digital technology to make sales.

“Online sales are growing leaps and bounds for us,” **said Jennifer Lebrun, Founder and Owner of ULAT Dryers Balls**, a company that manufactures and sells handmade Canadian wool dryer balls in Parksville, British Columbia. “Having really robust, simplified and cost-effective tools to use has helped us to expedite our sales. Digital adoption is a profitable activity for my company.”

**Lara Osseiran, Co-Founder of Montreal-based Taste Buds Boutique**, a digital food marketplace that specialises in promoting local artisans, also uses technology to put her products in the hands of customers. “All of our transactions take place online, and our business is very much driven by social media and digital marketing.”

### SBOS RELY ON DIGITAL TECHNOLOGIES FOR INTERNAL OPERATIONS

Sixty seven per cent of respondents use digital technology to manage the internal operations of their company, including for human resources and financial management. Nineteen per cent don't use digital technologies for these purposes and 15 per cent of respondents don't use it but want to in the future.

“The majority of my work is done online,” said **Pat Mussieux, CEO and Co-Founder of Steps2Happiness**, a London, Ontario-based company that specializes in business mentoring and coaching. “My clients are all around the world, so we have monthly meetings and live stream training using digital technology tools.”

## **EARLY STAGE COMPANIES MORE LIKELY TO ADOPT NEW TECH**

Early-stage companies are three times more likely than more established companies to integrate digital adoption into their supply chains and feel confident in using new digital technologies. This can be attributed to the high propensity of early-stage companies to test, refine and take risks to validate their products and services.

“In our experience, the value and urgency of adoption is correlated with the various stages of business development and less with the skills and buy-in needed for implementation,” says **Mary Doyle, Co-Founder of KAP Innovation**, a software management, consulting and program development company based in Belleville, Ontario. “If a business is established with a solid customer base, there is little urgency to spend time developing an online presence despite the value attributed to having one.”

While overall, SBOs are high adopters of new digital technology, a demographic divide persists. Women are 20 per cent less likely to leverage digital technologies when operating their business than men. In comparison to born-Canadians, digital adoption rates are two times higher amongst immigrant SBOs in Canada. Immigrant SBOs are also more likely to both leverage digital technologies in their companies and invest in digital skills building.

## 2. BARRIERS TO DIGITAL ADOPTION AMONGST SBOs

Misinformed investments, misplaced use of staff time and security breaches can all have an immediate and direct impact on a small business' bottom line. It's no surprise then, when it comes to adopting and integrating new digital technologies, time, cost, lack of awareness, comfort level, online trust and vulnerability are among the main barriers faced by SBOs.

### TIME IS MONEY

With the fast pace of technology innovation and product turnover, tools and platforms quickly become obsolete. This can quickly become expensive for SBOs on a tight budget. Forty-four per cent of SBOs highlighted the high cost and time (38 per cent) associated with updating and maintaining new technology platforms within their companies as a main barrier to digital adoption.

“Many entrepreneurs, myself included, are told they need the latest online technology, and end up spending money on tools that cannot be used efficiently within their businesses,” **Edwin Frondoza, the Toronto-based founder of Slingshot VoIP**, a cloud-based phone service.

**Laura Lake, Founder of Sustyleable Design**, a Halifax, Nova Scotia-based company that promotes health through design agrees: “It's difficult to justify allocating large amounts of a small budget for all sorts of tools that change every year. It can be especially difficult when today, a product bought last year is outdated and can be found for much cheaper than when you picked it out.”

For SBOs like **Jodi McDonald, President and Founder of Keystone Labs** in Edmonton, Alberta, challenges manifest in the time it takes to research an oversaturated digital market of tools when the outcome is uncertain.

“We're a really small team, and every moment of every day has value,” said McDonald. The time it takes to train staff on how to use tools effectively and the time to keep up with content development in an environment in which there is high-pressure to constantly push out new content are also factors.

“The digital tools are not my biggest expense,” said **Diane Bull, owner of Style Trend Clothiers**, which carries clothing and accessories in its Revelstoke, British Columbia shop and in its online store. “It’s my time, and all of the content creation needed to have this online presence.”

Added labour costs can place strain on the time, finances, and human resources required to keep up with increased demand. New sales help companies to scale, but some small companies run the risk of being pushed into a premature growth phase because of this increased demand.

While for the majority of SBOs digital adoption is extremely or very important to their company’s success, the results of new technology are felt in the long-term after shorter term challenges like cost and time constraints are overcome.

### **SBOs HIGHLY SKILLED, BUT TECH TURNOVER CREATES CHALLENGES**

Small business owners are at the forefront of innovation. The majority of them, seventy-one per cent to be exact, believe their team has the skills necessary to adopt and implement new digital technologies. Twenty-five per cent of SBOs, however, indicated a lack awareness of digital technologies or a low comfort level with new technologies as main barriers to digital technology adoption. Web development, design, coding risk assessment and SEO are key skills identified by SBOs as ones their team lacks to effectively implement new digital technologies. Seventy-one percent of SBOs indicate digital literacy and skills building is integrated into professional development, but 56 per cent spend just 0-2 hours per week on digital literacy.

“Technology changes so fast,” said **Jennifer Lebrun, Founder and Owner of ULAT Dryers Balls**, a company that manufactures and sells handmade Canadian wool dryer balls in Parksville, British Columbia. “I used to work in a high tech company, and there were always internal sessions provided to us. But for someone who’s a small business owner or part of a small company, it’s hard to keep up.”

When it comes to technology, the time and business costs associated with adopting, integrating, maintaining and upskilling team members on how to use digital tools are among the greatest challenges faced by SBOs.

## **RATE OF SECURITY BREACHES LOW, BUT PRIVACY AND VULNERABILITY FEARS REMAIN**

Twenty-two per cent of SBOs identified online privacy, cybersecurity and reliability are also among the top barriers to digital adoption, though only eight per cent indicated their company had been affected by a security breach, identity theft or other crime. SBOs highlighted the risk and fear of putting themselves “out there” through online platforms as a key consideration when adopting and integrating new digital technologies into their businesses. Participants also highlighted the fear of sharing too much is counterbalanced by the fear of sharing too little and losing customer interest.

“Social media means sharing your own personality, and sometimes the clients I work with are not comfortable with this,” said **Laura Bowley, the Founder of Salon Creative Communications** in Belleville, Ontario that provides social media, marketing and webinar support.

In addition to this level of vulnerability, SBOs highlighted copyright issues as another challenge. **Arjan Mundy**, a graphic designer with an advertising agency in Burnaby, B.C. has experienced this first-hand. “Copyright laws are very difficult to enforce,” he said. “Startups often don’t know how copyright works, and it’s also hard to tell what’s copyrighted and what isn’t.” Protecting intellectual and creative property rights are a concern for SBOs when embracing digital and connected technologies.

## **3. RECOMMENDATIONS TO INCREASE SMALL BUSINESS SUCCESS**

Considering the challenges of time, cost, skills, privacy and vulnerability faced by SBOs when assessing, adopting and keeping up with high technology turnover, there are opportunities for industry, government and non-profit organizations to support SBOs to harness opportunities and increase competitiveness through digital technologies that have a positive impact on their bottom line.

## ACCESSIBLE TRAINING

Live-stream events that allow SBOs to tune in from anywhere, and that cover topics from basic introductory courses to advanced cloud-based skills are in demand. Sixty per cent of SBOs indicated that interactive how-to guides would be most effective to improve understanding of digital technologies. Fifty per cent of SBOs also called for video tutorials, workshops and community initiatives. Virtual conferences, career fairs, and digital adoption toolkits can also be made available to SBOs to access where and when they need it.

“Conferences that are held around these topics would be great.” **said Vicki Zhou, Co-Founder and Marketing Manager at Calgary-based ClickDishes**, a restaurant mobile app, that streamlines all aspects of dining. “Opportunities like this could also motivate local companies to broaden their views on technology.”

## HIRING & SKILLS-BUILDING INCENTIVES

For a small business, the wrong hire can be costly. The right one, however can help an SBO both make money and save money if they have the right skills. Small business owners can be incentivized to make the right hires, and to upskill their existing team through hiring and skills-building incentives. Such incentives are particularly important for women-owned enterprises that are less likely to leverage digital tools to manage and operate their business.

“I’ve worked with students who graduated from information and technology courses, giving them a job for six months thanks to a co-op incentive,” **said Michael Oelck**. “During these six months, they developed the technology I needed and they got experience in the job market.”

Accessible training, as well as skill-building and hiring incentives can address top barriers faced by SBOs when adopting and maintaining digital technologies including time, cost, lack of awareness, comfort level, online trust and vulnerability.

## FINAL REFLECTIONS

The rate of technology innovation has never been higher, and has created unprecedented opportunities for startup and small business SBOs. It has also opened SBOs to new challenges as they struggle to keep up with the rate of change and technology turnover. Already early adopters of technology, early-stage SBOs in particular face high risks when adopting and integrating new technologies into their company. From time and cost trade-offs, capacity concerns, keeping team members up-to-date on digital literacy and business vulnerabilities that come with relying on digital networks, SBOs balance these challenges with the reality that digital technologies are necessary to remain competitive.

It is incumbent upon industry, government and non-profit organizations as well as SBOs themselves to take a cross-sectoral, collaborative approach to support Canadian small business owners to address the challenges associated with researching, adopting, and maintaining digital technologies. As innovation efficiencies improve, the speed of change will also improve, and accordingly, challenges for small business owners will increase. A collaborative approach can create the conditions for Canadian SBOs to keep ahead of digital technology trends and use new tools to keep them competitive and profitable.