



Money matters

Navigating the impact of economic conditions on the cash flow of Canadian small businesses



About this report

This report is based on the collated responses from an online survey conducted in English only, with 1033 small to medium sized businesses (with up to 50 employees) across Canada, recruited from one online market panel. Responses were collected by Insights Exchange between June 29 - July 7 2023.

The information and commentary in this report is a guide only and should not be taken as taxation, financial or legal advice – we recommend you always check with an independent expert that what you're doing is right for you and your business.

Note

- All \$ amounts referred to in this report are in Canadian dollars
- In some tables, percentages may not add up to exactly 100% due to rounding
- In some tables, percentages may add to more than 100% where participants could answer more than option

Definitions

- **Small business**

For the purpose of this report, when we use the term 'small business', we mean businesses with up to 50 employees.

In this report, we also have referenced small businesses by their business size:

- **Sole trader** with no employees (excluding the founder / owner)
- Small businesses with **2-9 employees** (including the founder/owner)
- Small businesses with **10 to 50 employees** (including the founder/owner)

Introduction

Small businesses are the heartbeat of the Canadian economy. However, amidst global economic uncertainties, they are also at the epicentre of the country's economic challenges today. As inflation casts a notable shadow over various sectors, small businesses in Canada are grappling with cash flow challenges that are reshaping the way they operate, and their ability to grow and thrive.

The backdrop in Canada is complex: inflation remains a spectre despite its moderation, and the question of an impending recession continues to loom. The fastest rate hiking cycles in Canada's history are double edge swords for businesses. They're designed to curb inflation pressures but are also a threat to small businesses' debt payments, day-to-day cash flow stability and long term growth.

Amidst this ambiguity, it's telling that 53% of small businesses we surveyed in Canada report that inflation has noticeably affected their cash flow management in the past six months. Many Canadian small businesses also believe they will continue to see an impact in the coming months.

Cash flow challenges are more than just balance sheet discrepancies; the data reveals they're deeply personal struggles for small business owners. The inability to pay themselves, coupled with the emotional and physical ramifications - stress, anxiety, sleep deprivation, and reduced time with loved ones - paints a poignant picture of the sacrifices and struggles inherent in entrepreneurship.

Despite these headwinds, the spirit of entrepreneurship and innovation shines through. A remarkable 78% of small businesses respondents exude confidence in their financial wellbeing, with an encouraging 35% describing themselves as "super confident". This optimism, juxtaposed against a backdrop of economic pressures, is testament to the tenacity and resourcefulness of Canadian small businesses.

In fact, small businesses are adapting and innovating when it comes to cash flow management. A combination of revenue-raising and cost cutting approaches are being taken by small businesses to manage cash flow challenges over the last 12 months. The use of accounting software, employed by 31% of small businesses as their core cash flow management tool, is particularly noteworthy.

While many still rely on traditional cash and credit methods for payments, a sizable portion of small businesses are exploring digital payment methods to get paid easier and faster. Perennial barriers persist, with two in five (41%) small businesses saying expensive fees are a barrier to new payment methods. More can be done to help small businesses digitise their operations and access the data and insights they need to make faster financial decisions and offer flexible payment options, to grow and thrive.

This is where Xero comes in. We recognise the central role of effective cash flow management in the success of a small business. Our suite of tools, including Xero Analytics, offer real time financial insights for small businesses and their advisors to better manage cash flow and measure financial performance. By giving small businesses trusted and insight data to help them understand where they are now and where they might be in the future, we aim to be a trusted partner in their journey.

The current economic uncertainty underscores the vital importance of financial resilience for small businesses. It's more crucial than ever for small businesses to have robust tools and strategies at their disposal. We hope by sharing these insights on how small businesses are currently managing their cash flow it helps them to spot the opportunities and mitigate the risks ahead of time.

After all, as the pulse of our economy and community, we all have a role to play in creating an environment that supports small businesses to boost their financial confidence and wellbeing.



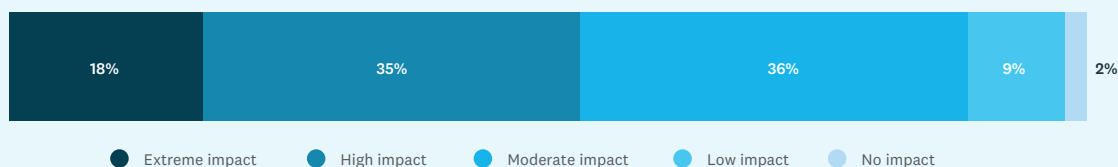
Leigh O'Neill
EGM Money, Xero

Businesses are facing cash flow challenges

Inflationary pressures continue to bite at small businesses

Small businesses in Canada are bearing the brunt of stubborn inflation, with over half (53%) of small businesses owners surveyed citing that inflation has highly impacted their cash flow management in the past six months. Only 1 in 10 (11%) say they have experienced little or no impact of inflation in the past six months. Over half (53%) believe they will continue to see a high impact in the coming 6 months.

How would you rate the impact of inflation on your cash flow management over the past 6 months?



At the same time, supply chain disruptions are affecting many small businesses, with 35% of small businesses saying supply chain delays have had an extreme or high impact on their cash flow over the past six months. Small businesses in the accommodation and hospitality industries are significantly more impacted than others, with 53% saying supply chain delays have had an extreme or high impact.

Despite these challenges, almost half (48%) of Canadian small business owners we surveyed are positive and on track with achieving their business financial goals. Over one in three (36%) believe they are able to absorb financial shock. However, this financial resilience and confidence varies among small businesses.

Sole traders and small businesses with 2-9 employees are less confident about achieving their goals or their ability to absorb financial shocks, compared to businesses with 10 to 50 employees. Over half (60%) of businesses with 10 to 50 employees feel they are on track to achieve their financial goals, compared to 43% of businesses with 2-9 employees and 37% of non-employing businesses.



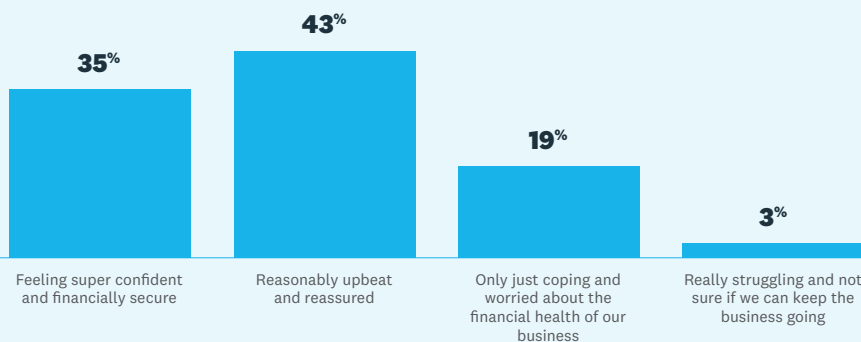
Additionally, 45% of businesses with 10 to 50 employees claim they can absorb financial shocks, compared to 30% of small businesses with 2-9 employees who claim they can.

However, these concerns are not impacting their feelings about business solvency. Small businesses of all sizes show similar levels of concern, with 44% saying they are concerned about their business's financial future.

The survey found that 44% of small business owners were worried about their personal financial future, irrespective of their business size or industry. It appears to be a reflection of the business's recent experience of the impact of inflation over the past six months or cash flow issues in the past 12 months. But small business owners appear more worried about their personal financial future.

Small businesses are marred by challenges but buoyed with optimism, with over three quarters (78%) of small business owners showing some level of confidence in their financial wellbeing. This optimism could be that many small business owners are taking proactive steps and pulling different levers to manage their cash flow to weather the storm and take advantage of new business opportunities.

Thinking about being a small business owner and your financial wellbeing, what statement would best describe yourself at this time.



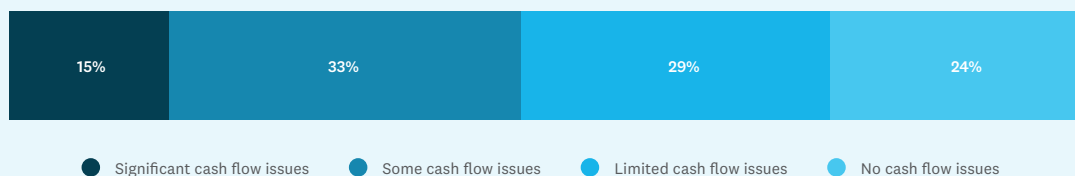
Tip: Feeling in control of your businesses finances and cash flow can have a positive flow-on effect to your financial wellbeing and confidence. **Better financial management starts with planning and forecasting**, to keep track of finances coming in and out of your business. Working with an accountant can help you create a financial plan and budget that works for you. Good accounting software can create charts of inflows (sales of goods or services) and outflows (accounts payable) for your business.

The financial and personal impact of cash flow crunches

Given the economic challenges, it's not surprising then that 48% of small businesses in Canada have experienced at least some cash flow issues in the past 12 months. Small businesses in the financial services, accommodation & hospitality and creative professional services industries are the most affected, with around two in three claiming they have had some or significant cash flow issues.

Concerningly, there appears to be an age gap, with 58% of small business owners under 35 years of age experiencing cash flow issues in the past 12 months. This compares to four in ten (43%) of 35-54 year old business owners, and falls again for one quarter (26%) of business owners over 55.

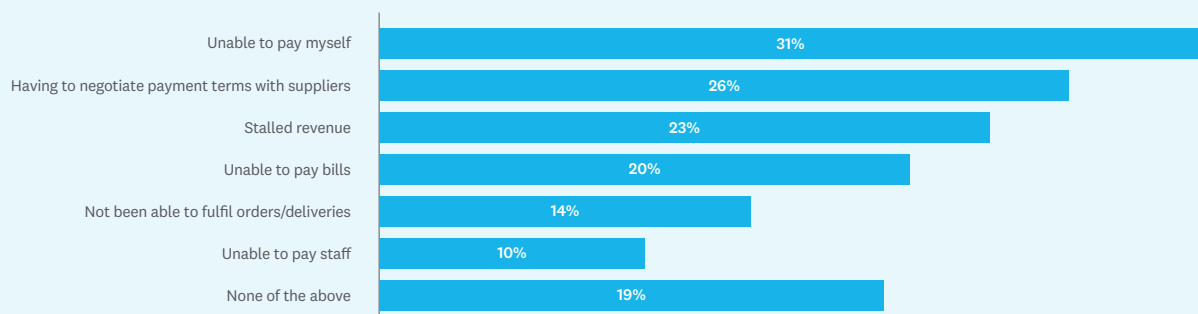
In the last 12 months have you experienced any cash flow issues? I.e you could not pay your bills when they were due, stalled revenue?



Cash flow is the very essence of business growth. As a result of cash flow issues over the last 12 months, small businesses experienced needing to dig into their paycheck (31%), having to negotiate payment terms with suppliers (26%), stalled revenue (23%) and being unable to pay bills (20%).

“I had to delay payments to suppliers and have been unable to make remittances.”

In the past 12 months, have you experienced any of the following cash flow issues?



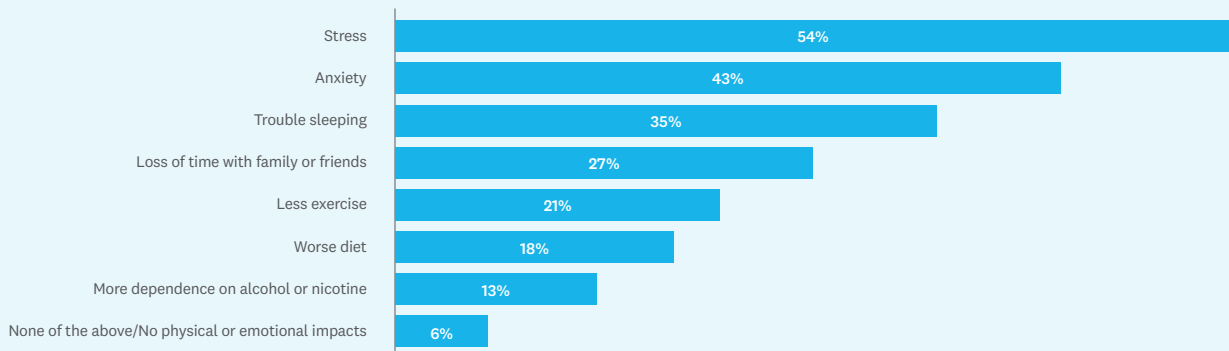
“I’ve had to take reduced pay/hours, and I am worried about business continuing to operate.”

“Sometimes I can’t sleep and I can’t eat because of the stress.
My family is getting worried about me.”

Cash flow issues aren’t merely a financial challenge; they’re deeply personal for small businesses. Many small businesses we surveyed have felt the emotional and physical impacts of cash flow management, the top three being stress (54%), anxiety (43%) and sleepless nights (35%). The emotional toll of meeting financial obligations, paying bills and keeping the business going is also spilling into their personal lives, with 27% missing out on time with family and friends and 21% doing less exercise.

“I had to get a therapist, but money was already low, so I have a lot of stress about paying bills. The stress due to the inconsistency in the cash flow has affected my hours of sleep, trying to find a solution and an answer to find a balance.”

What are some of the emotional and physical impacts of cash flow management you have experienced over the past 12 months?



Tip: Health and wellbeing is important for small business owners, but sometimes it can be hard to know where and how to get the right support needed. For those wondering where to look, **Xero offers a range of free wellbeing education courses in [Xero Central](#)**. There are also a variety of online small business resources for workplace mental health and wellbeing, including government helplines.

“I’ve had to make difficult decisions on which of my staff members to let go. We’re a relatively small team so each and every cut hurts senior management significantly and also negatively impacts employee morale.”

Measures taken by business owners to manage cash flow crunches

Pricing strategies utilised in the current market conditions

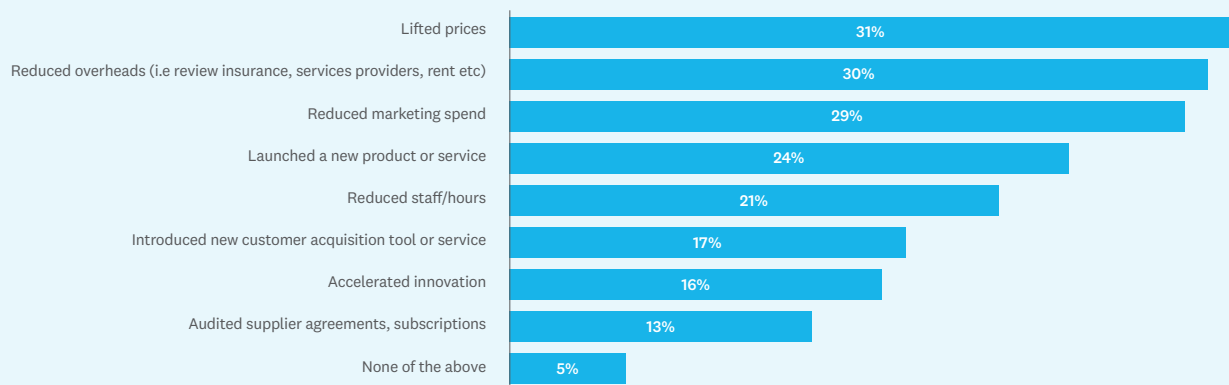
Given the challenges and pressures that diminishing cash flow has on small businesses, managing cash flow in the business is a priority for 88% of small business owners. However, only one in five (19%) of the businesses surveyed deemed it a very strong priority.

Interestingly, the sentiment surrounding cash flow management does not always correlate with actual experiences. Prioritisation of cash flow management remains consistent, irrespective of whether a small business faced cashflow challenges in the past 12 months. However, small businesses that felt the pinch of inflationary pressures prioritised cash flow management more fervently.

Over half (54%) of small business owners have increased their prices in the past 12 months, and 33% are considering raising prices in the next 12 months. Only 13% of small business owners haven't raised the prices and don't have any plans to do so in the next 12 months. Of the businesses who increased their prices, less than half (43%) sought advice from an accountant or bookkeeper.

The top reasons to increase prices over the past 12 months were to minimise the impact of rising costs / supplies (44%), to make a profit (35%) and to accelerate growth (34%). Additionally, increasing prices (31%), reducing overheads (30%) and reducing marketing spend (29%) were the top measures taken by small businesses to stimulate revenue or cut costs over the past 12 months.

What are the different ways you have stimulated revenue and/or cut costs during the last 12 months?



Small businesses in Canada rely on a number of levers to try and help them manage their cash flow. This includes credit cards (22%), using their own savings (22%) and increasing prices (21%) in equal measure.

Tip: Increasing prices is a difficult decision and can be a fine balance between making enough of a profit while not deterring customers. **If you have a new service or product** in the pipeline, you can **use this as an opportunity to reset your pricing**. Speak to an accountant or bookkeeper if you're unsure, as they can help you understand your costs and refine your pricing strategy.

CASE STUDY

How Goldilocks turned sticky cash flow situations into sweet success



Amy Hall and Brett Higson
Goldilocks Wraps

Goldilocks Wraps is a small business with a big vision: to tackle plastic pollution around the world.

Amy Hall's sustainability journey began during her time volunteering for a shark conservation project in Fiji, where she saw the devastating impacts of plastic pollution in the ocean. Inspired to change, Amy went looking for an eco-friendly alternative to plastic and was introduced to the concept of beeswax wraps in Australia.

Returning back home to Canada, Amy was dismayed not to be able to find beeswax wraps anywhere and was spurred into action to find a way to manufacture them locally. What was intended to be a Christmas gift for her family went on to become a novel solution for reducing single-use plastics in households. As Amy recalls, "I started selling them at a local farmers market and sold out within two hours. That was the first time I had that light bulb moment that this could really take off."

A chance encounter with Goldilocks's now Director of Operations, Brett Higson, paved the way for a partnership grounded in shared values and complementary skills. Brett's operational expertise and finance background dovetailed with Amy's creative talents, setting the stage for a business poised to make a difference. The pair recognised the importance of being a paperless company early on.

"We incorporated the business in 2018 and immediately hired a bookkeeper. That's where Xero came in," Brett explained. "We wanted to be paperless, as I had experienced working in spreadsheets and going to my accountant's office to manually print off and sign things, and I didn't want to do that."

"The first thing I did was take Amy's paperwork from the first six months of running her business as a sole proprietor, put it into spreadsheets and gave it to our accountant who put it straight into Xero. We've never looked back. We can easily go through our monthly income statements and compare them to the previous year. It's amazing to have a digital bank for our entire five years of business."

In addition to custom invoicing, Brett says Xero gives them a snapshot on the health and state of their business to help with financial decision making. "Xero is where we go to get a deeper understanding of our business and how to manage things such as our marketing budget. It gives us a clear view on month over month, where we are spending money and where we might need to reallocate money."

Another benefit of using Xero is its easy integration with other apps, including Shopify, **"We have set up Shopify's A2X directly into Xero, so we're able to track our purchases and product sales. So each year when we reconcile our year end inventory, we know that it's accurate. It also automatically captures the GST and PST, to take away the entire logical headache of adding up receipts and taxes."**

From experiencing an ecommerce boom during COVID-19 lockdowns, Goldilocks is now experiencing new challenges, amid a more difficult economic environment. "2020 was our skyrocket year, with so much cash in the system. We really moved early on digital ads. Now things are pretty sleepy; consumer spending habits are changing and our sales are definitely a lot slower," said Brett.

Like other small businesses, Brett and Amy took decisive action to better manage their cash flow. As Brett explained, **"We've been forced to be a much more efficient team from an operational standpoint. We're in an office now that is cheaper than our space before, because we successfully negotiated a better rent deal. We also engaged with our long standing suppliers to negotiate extended payment terms. This allowed us to push out our payments to 90 days, when they were typically 30 days."**

Refinancing debt and securing funding has also put Goldilocks in a strong cash position. "One of the things that we were very proactive about was refinancing some of our debt that we had. During COVID-19, we put money into a GIC and now we're making interest off of it, which helps with our cash flow as well. We also renegotiated some of our loans, to stretch them out over longer time periods."

When it comes to navigating the current economic realities, Amy believes planning is critical. "We've been doing more long-term planning. I think people can get caught up in not seeing an immediate payoff, particularly for something like marketing. You may need to plant those seeds in July, knowing that those returns might not come until November, but it will be more fruitful in the long run."

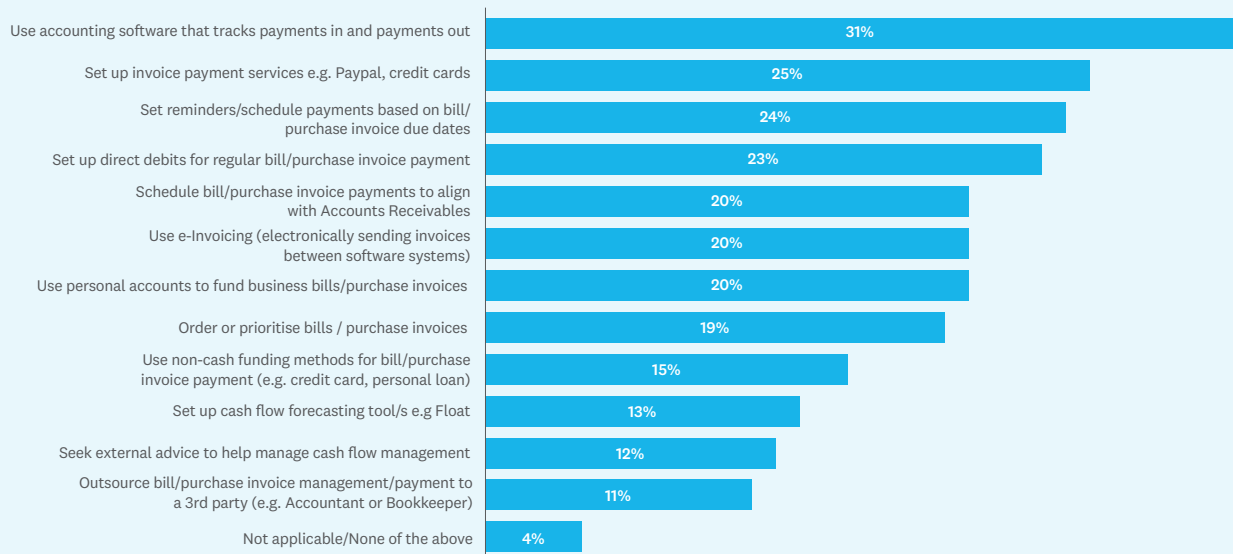
Listening to your customers and staying true to your values is also vital to grow, as Amy says, "The actions you take need to be in alignment with what you do as a business, staying true to your values and mission. Really listen to your community and your customers, and tune in to what is going on. Because the whole point of having a business is to serve people and to help them solve a problem."

Accounting software critical for cash flow management

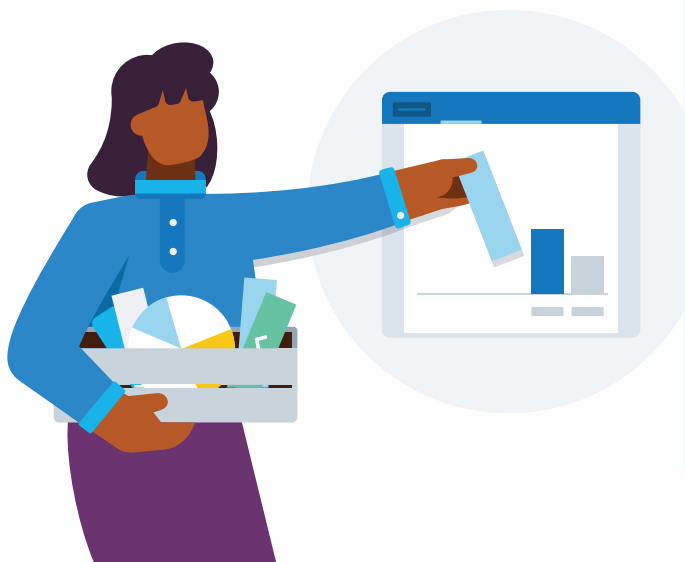
The survey found that 90% of small business owners check their cash flow at least once a week, with more than one in three checking daily (36%). Small businesses who recognise they have cash flow issues, or have concerns about prevailing economic conditions on their past / future cash flow, are investing more time in managing it. These businesses are more likely to spend 3+ hours each week on cash flow management.

Using accounting software is the top way small businesses manage their cash flow, with 31% relying on this method. This is followed by setting up invoice payment services (25%), setting reminders and scheduling payments based on invoice due dates (24%) and setting up direct debits for invoices (23%).

Which of the following measures do you take to manage cash flow within the business? Please select all that you have undertaken in the last 6 months



Tip: Cash flow forecasting helps you navigate your financial future with clarity and confidence. With the right tools, **cash flow forecasting is effective in identifying potential shortfalls in advance, allocating resources more efficiently and addressing potential challenges before they become critical.** In Canada, Xero Analytics Plus is available to customers on established and premium plans, and uses data from your Xero account to analyse trends, give better forecasts and actionable insights.



CASE STUDY

How Micacchi Architecture moved from structural pains to financial gains



Robert Micacchi
Founder at Micacchi Architecture

Robert's passion for architecture took him to cities like London, Vancouver, Rome, and finally, Toronto. After years of experience working at established firms, he launched his own venture, Micacchi Architecture, in 2018. From creating permits for basements in the early days to now designing 24-storey condos, Robert has scaled his business to a team of eight, handling around 30 projects each year.

The journey of running his own business has not been without its challenges, especially when it came to managing the finances. Robert initially struggled with tracking everything in Excel, a tedious task that would eat up hours every month. As Robert recalls, "It would take two or three days a month just to reconcile everything and created anxiety around wondering where my business was at."

A switch to a web-based software, Wave, improved things but was still not ideal. This was until Robert's friend and accountant David introduced him to Xero. Robert said that Xero stood out with its sophisticated reporting, integration capabilities and innovative approach. **"Xero is more passionate and innovative than the previous accounting software we were using. The business report, summary of a project or a statement of accounts that Xero produces is much more sophisticated."**

While Robert leans on David for the in-depth financial analysis, Xero has allowed him to stay connected to the broader financial picture of

his business. With Xero, he feels a sense of reassurance, being able to get a comprehensive picture of his firm's financial health anytime he needs.

"Each month David creates custom reports that show the cash flow in and out of the business. We also have full visibility on the accounts receivable and invoices owed, and can send payment reminders. Xero takes the anxiety out of it. Whether it's good or bad, the most valuable thing to me is to be able to just know accurately what's happening in the business, and Xero helps me do that much better."

With the real-time financial insights provided by Xero, Robert is able to make more informed financial decisions, including hiring staff and transitioning to new office space to support the firm's growth. As Robert said, **"Xero is feeding us the information and that helps us make decisions about everything."**

Robert believes other small business leaders and entrepreneurs should prioritise their financial health, as it goes hand in hand with their own personal health and wellbeing. "Protect your mental health. A good part of that is understanding your financial situation so you can take back control."

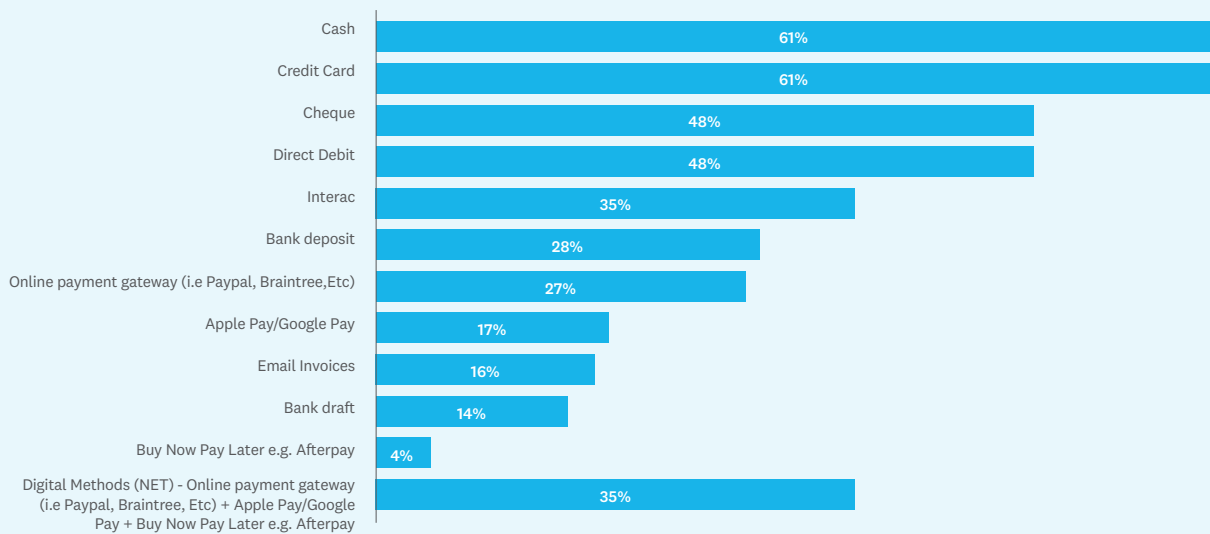
Having a good accountant also makes the difference, as Robert shares, "I call David our micro-CFO. Our business is very tech-forward and I like that David is the same when it comes to accounting."

Businesses are exploring new digital payments, while perceived fees deter others

Small businesses are utilising various payment strategies to improve their cash flow management. One in three (35%) small businesses are using digital and online payment gateways, including PayPal, Apple/GooglePay, Afterpay and other BNPL & e-invoices. However, the majority favour traditional payment methods including cash (61%), credit card (61%), cheque (48%) and direct debit (48%).

This could be due to the perceived barriers of “newer” payment methods. For those not using new digital approaches to payment collection, expensive fees are the biggest, with two in five (41%) of small business owners identifying this as the main barrier, consistent for all business sizes. Interestingly, one third (29%) said they don’t know enough about these new methods.

What types of payment methods do you currently accept?



Tip: Think about how you can make it easier for your customers to pay you. **Adding a ‘Pay now’ button to online invoices** in Xero using one of our partners like Stripe or GoCardless **gives your customers the flexibility to pay the way they want to.** It also helps you get paid twice as fast, reduces the administrative burden with one integrated solution and means you spend less time chasing payment.





Beautiful business