Study - June 2023

How to Cope with Inflation and Remain Profitable

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It is based on survey data, an econometric analysis and public information that have been analyzed and interpreted by BDC. Any error or omission is the sole responsibility of BDC. All figures in this study have been rounded. Reliance on and use of the information herein is the reader’s responsibility.

Message from the Chief Economist

Pierre Cléroux
Vice President, Research and Chief Economist, BDC

"Businesses that use technology to modernize their processes, those that reduce their carbon footprint, and those that make full use of their financial data were more likely to be highly profitable and show strong revenue growth, despite the challenging environment of the past year."

The business environment is changing: Higher and more volatile costs will become the new normal. While inflation is expected to return closer to its target, an ageing population, the energy transition and uncertainty about globalization will continue to put pressure on some business costs.

Businesses must adapt to this new environment to ensure they can survive. Failing to adopt a cost mitigation strategy is associated with poorer financial performance. Yet, more than a quarter of SMEs—particularly those in the service sector—have not yet developed a strategy.

While there is no way to avoid rising costs, it is clear that investing to support revenue growth is a strategy that drives results.

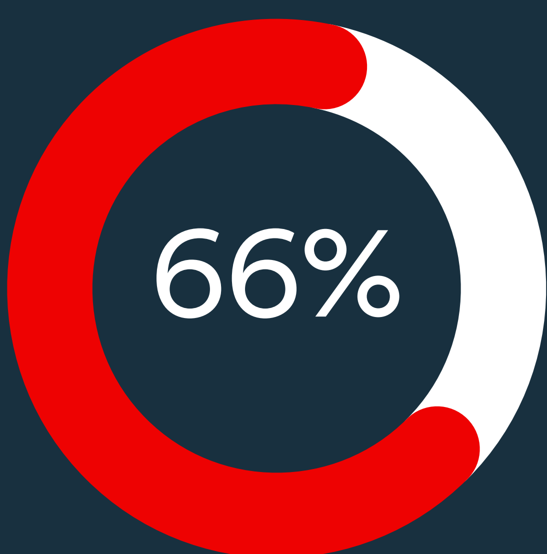
Businesses exposed to international trade can also benefit from reviewing their supply chain strategy.

While the current economic uncertainty may postpone certain strategic decisions, careful consideration of your company's options is essential. The same is true for the smart investments that will support its long-term survival.

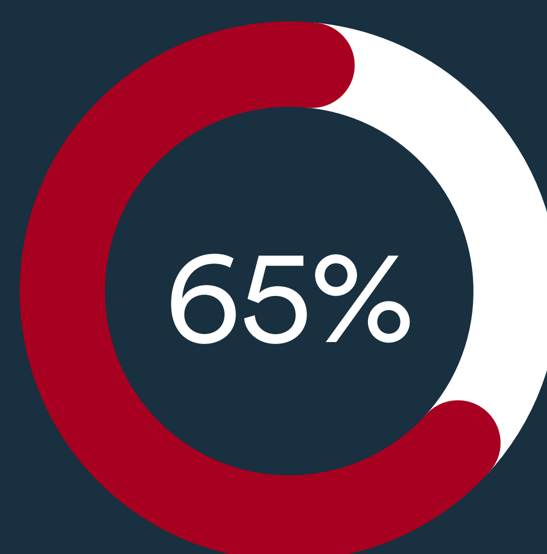
Highlights

We surveyed 1,500 small and medium-sized enterprises (SMEs) to understand how the rising cost of doing business is affecting them and what strategies they can implement to cope with it.

The cost of doing business has increased more than expected



of businesses have seen their costs increase more than expected over the past year

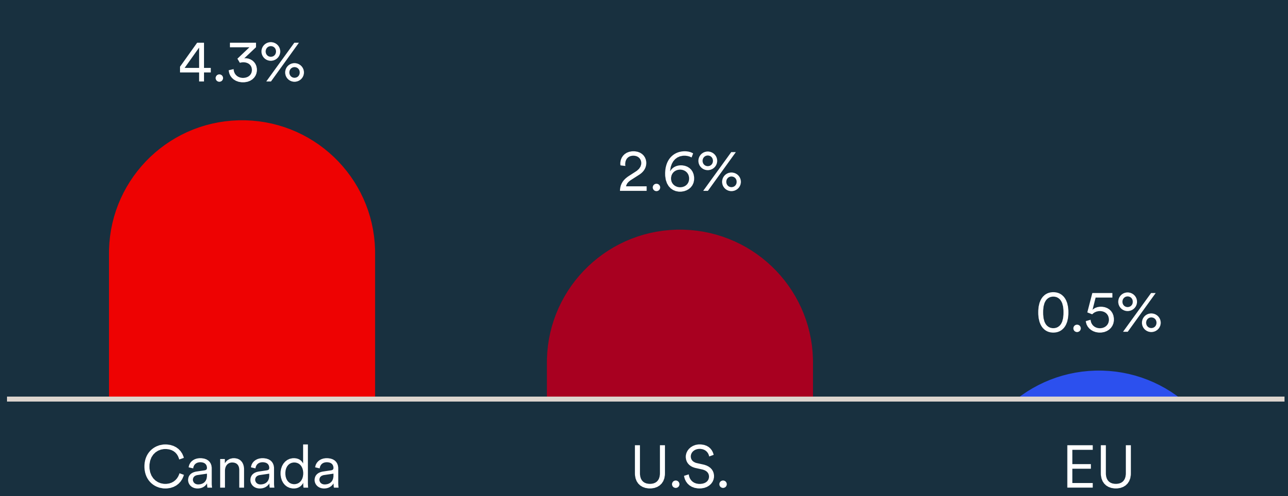


say this impacted them negatively

Cost pressures will remain in the years to come

An ageing population is putting a strain on businesses

Growth in labour costs per hour worked in 2021



The energy transition increases the risk of greenflation

57%

expect climate change to increase their costs over the next three years

Globalization is evolving

68%

of SMEs engaged in international trade have implemented strategies to improve their resilience

79%

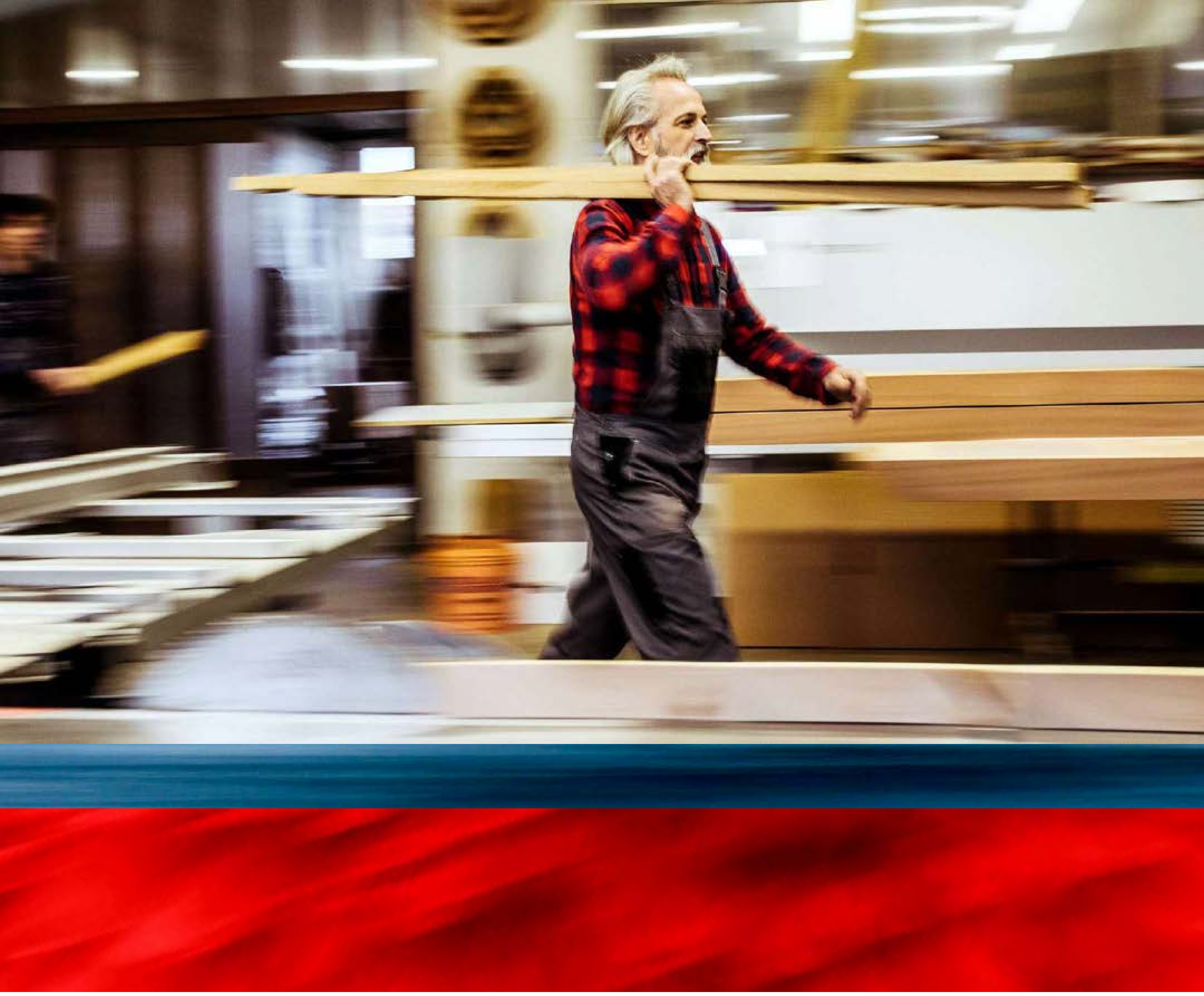
of those businesses believe these strategies will increase their costs

3 strategies to improve your company's performance

1. Modernize your processes by using technology

2. Reduce your carbon footprint

3. Implement proactive cost management

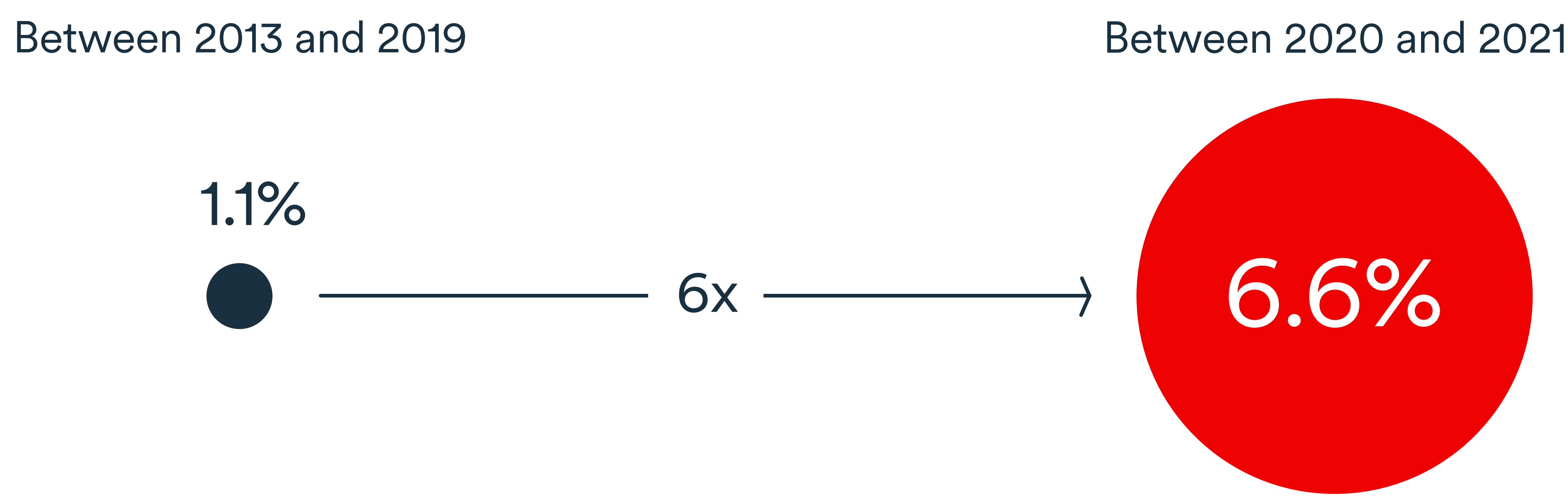


Higher than expected cost increases

The cost of doing business for Canadian SMEs has increased significantly in recent years. Unit cost[1] increased by an average of 6.6% between 2020 and 2021, which is six times the average annual growth of cost between 2013 and 2019 (Figure 1).

The cost of key inputs to production, such as raw materials, manufactured goods, wages and interest rates, continued to rise rapidly in 2022.

Figure 1: Average annual growth in unit cost for Canadian businesses

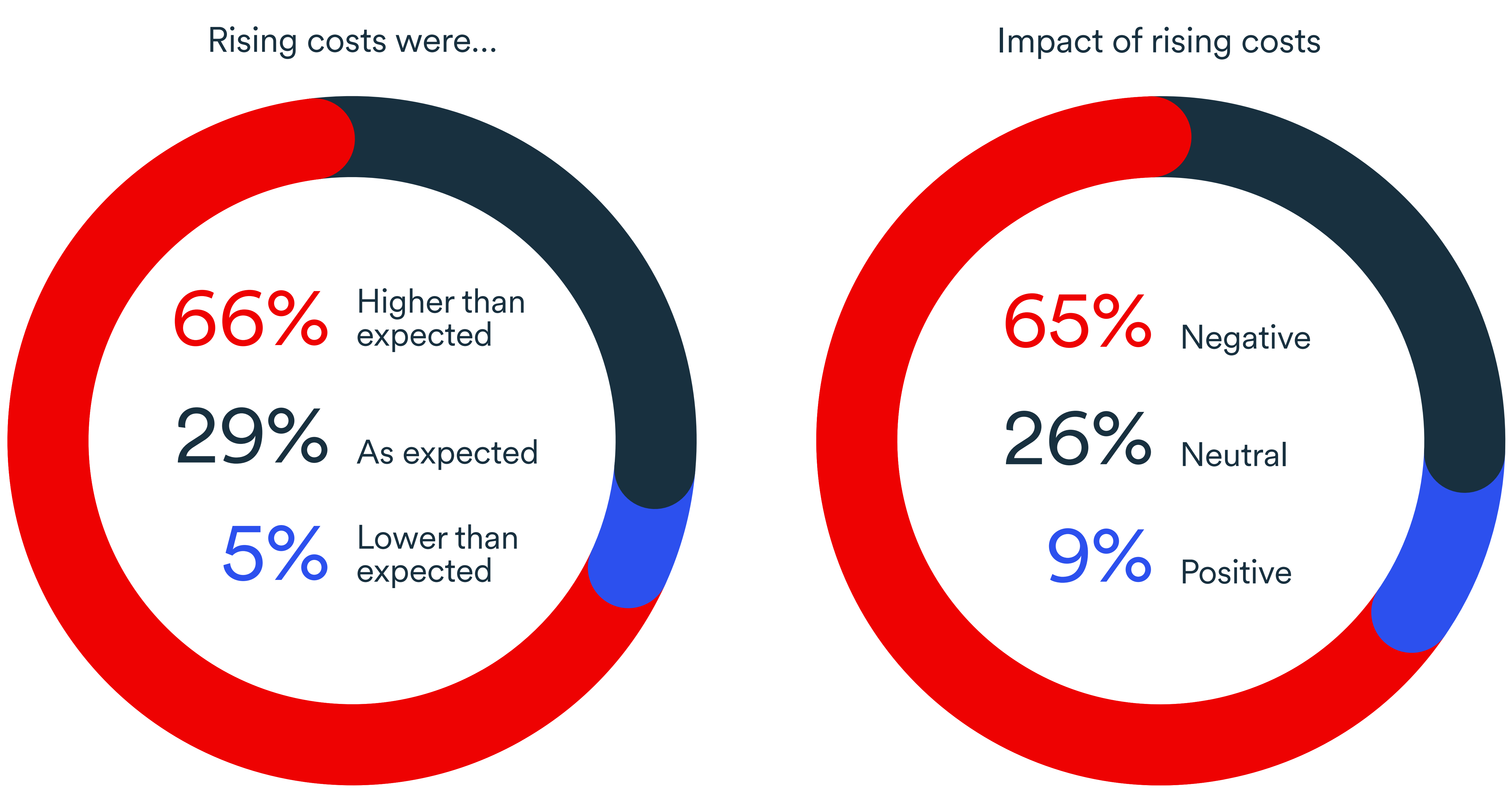


Source: BDC, based on data from Innovation, Science and Economic Development Canada.

This increase has caught businesses by surprise, with 66% of businesses reporting that their costs have increased more than expected over the past year (Figure 2).

While the majority of businesses have responded to this shock by raising prices or reducing expenses, 65% of those surveyed feel that the increase in costs has had a negative impact.

Figure 2: Impact of rising business costs on SMEs over the last 12 months (% of SMEs)



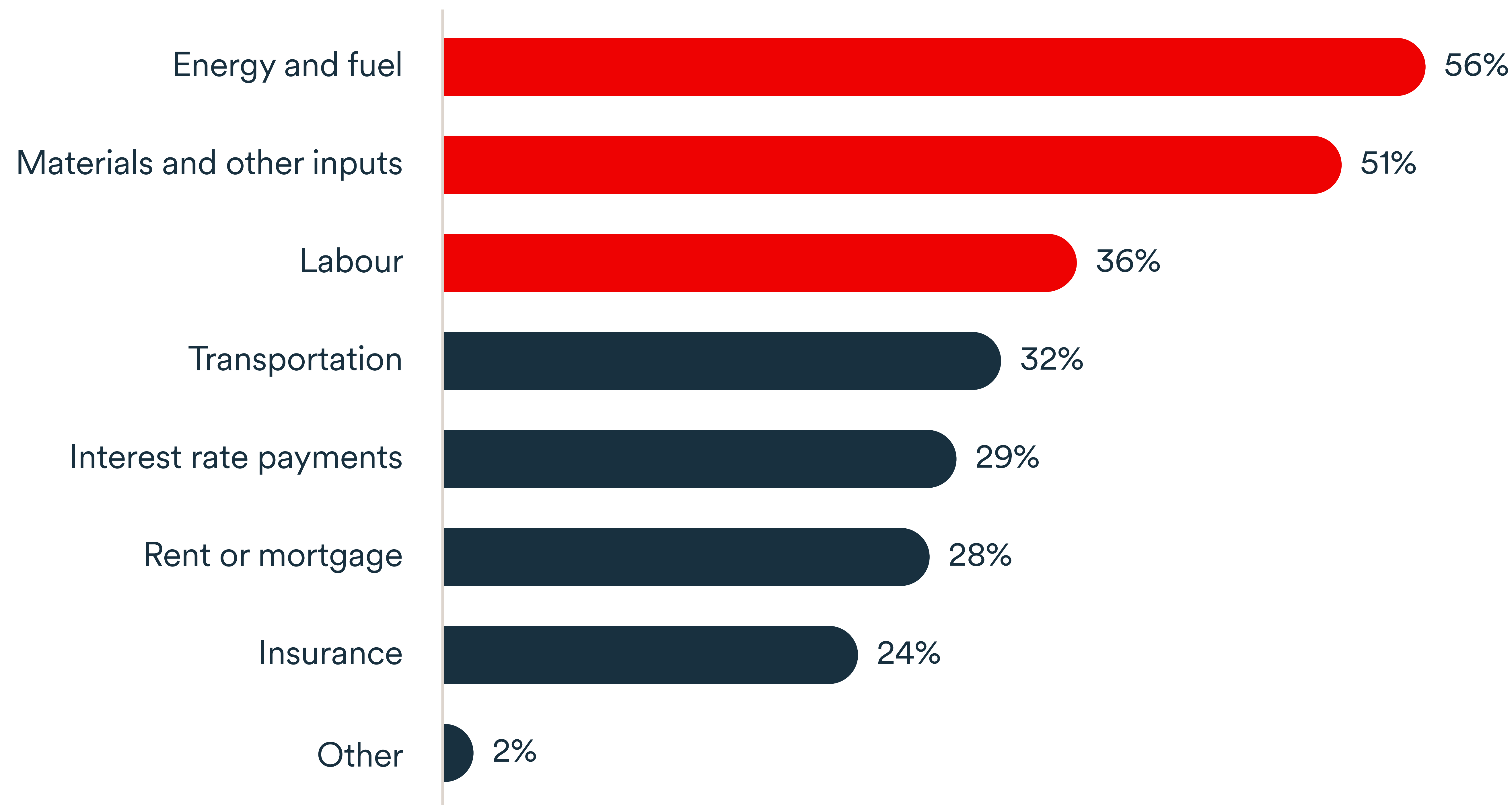
Source: BDC, Cost of Doing Business in Canada Survey, January 2023, n=1,226.

1. The cost per unit of production is the total cost incurred to produce one unit of a given product. It includes the cost of raw materials, labour, machinery and energy, overhead and other production-related expenses, divided by the total number of units produced.

Rising costs of energy, labour, and materials and other inputs account for much of the increase in the cost of doing business.

In fact, just over half of the businesses affected by rising costs point to energy, and materials and other inputs, as elements driving the negative impacts of cost increases (Figure 3). More than a third cite labour costs.

Figure 3: Cost categories with an important negative impact according to businesses



Note: Respondents could select more than one answer.

Source: BDC, Cost of Doing Business in Canada Survey, January 2023, n=771.

A return to low and stable costs is unlikely

After surging in 2021 and 2022, inflation has come down slightly in recent months. However, a return to pre-pandemic conditions of low and stable cost increases is not very likely.

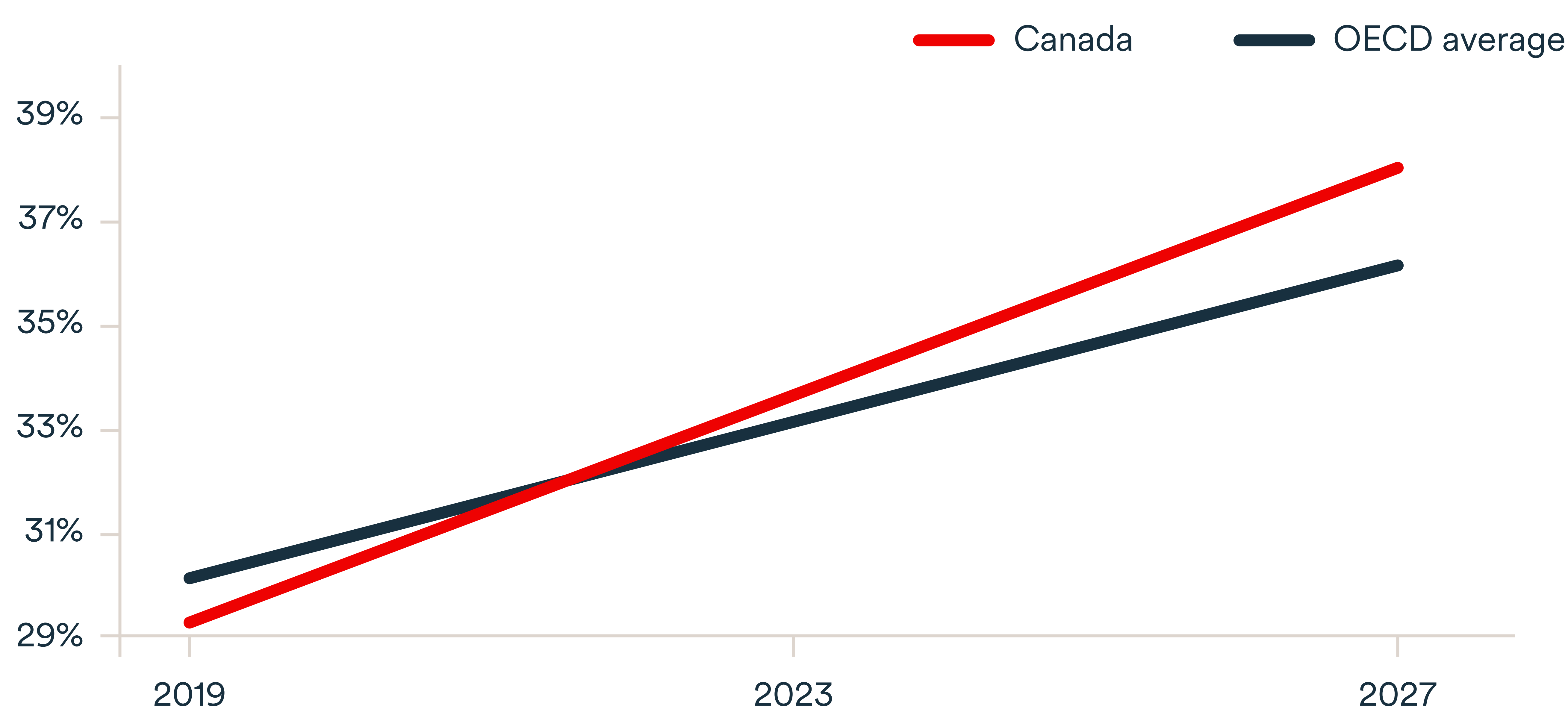
Instead, we expect upward pressure on some business costs to persist over the long term. These pressures will be driven by three trends.

Trend 1.
An ageing population will continue to put pressure on labour costs

Canada has one of the fastest-ageing populations among members of the Organisation for Economic Co-operation and Development (OECD).

The OECD projects that Canada will have 38 seniors for every 100 people of working age (ages 20 to 64) by 2027, exceeding the OECD average (Figure 4).

Figure 4: Old-age dependency ratio (number of people aged 65 and over for every 100 people aged 20 to 64)

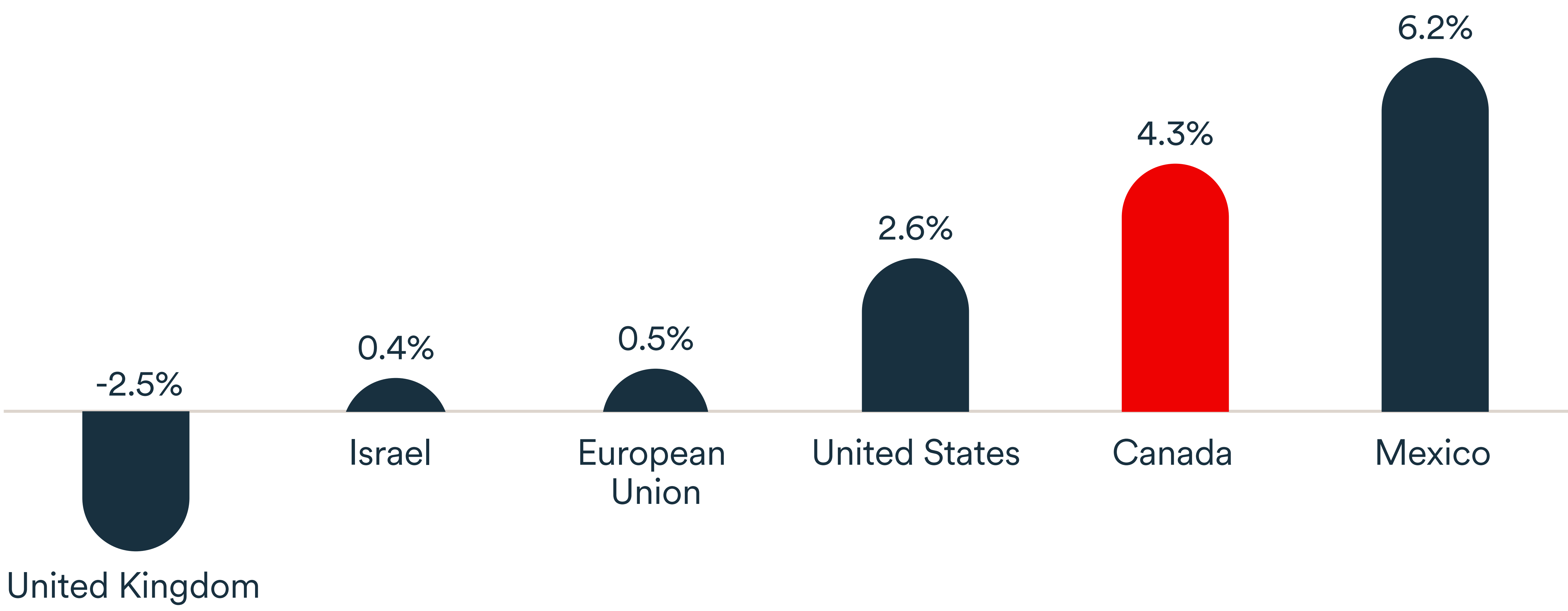


Source: BDC, based on data from the Organisation for Economic Co-operation and Development.

Canada's ageing population will present several challenges for businesses. Retirements will increase, and the influx of young people into the workforce will be insufficient to replace them. The issue of labour scarcity is therefore expected to persist and put pressure on labour costs.[2]

In fact, Canada saw one of the largest labour cost increases among OECD member countries in 2021 (Figure 5).

Figure 5: Annual growth in labour costs per hour worked for selected OECD countries in 2021 (%)



Source: BDC, based on data from the Organisation for Economic Co-operation and Development.

2. K. BODNÁR and C. NERLICH, The macroeconomic and fiscal impact of population ageing, Francfort-sur-le-Main, *ECB Occasional Papers Series, No. 2022/296*, June 2022; J. BOIVIN, *Aging Gracefully: Canada's Inevitable Demographic Shift*, Ottawa, Bank of Canada, April 4, 2012.

Trend 2.
The green transition could drive up the cost of energy and certain key materials

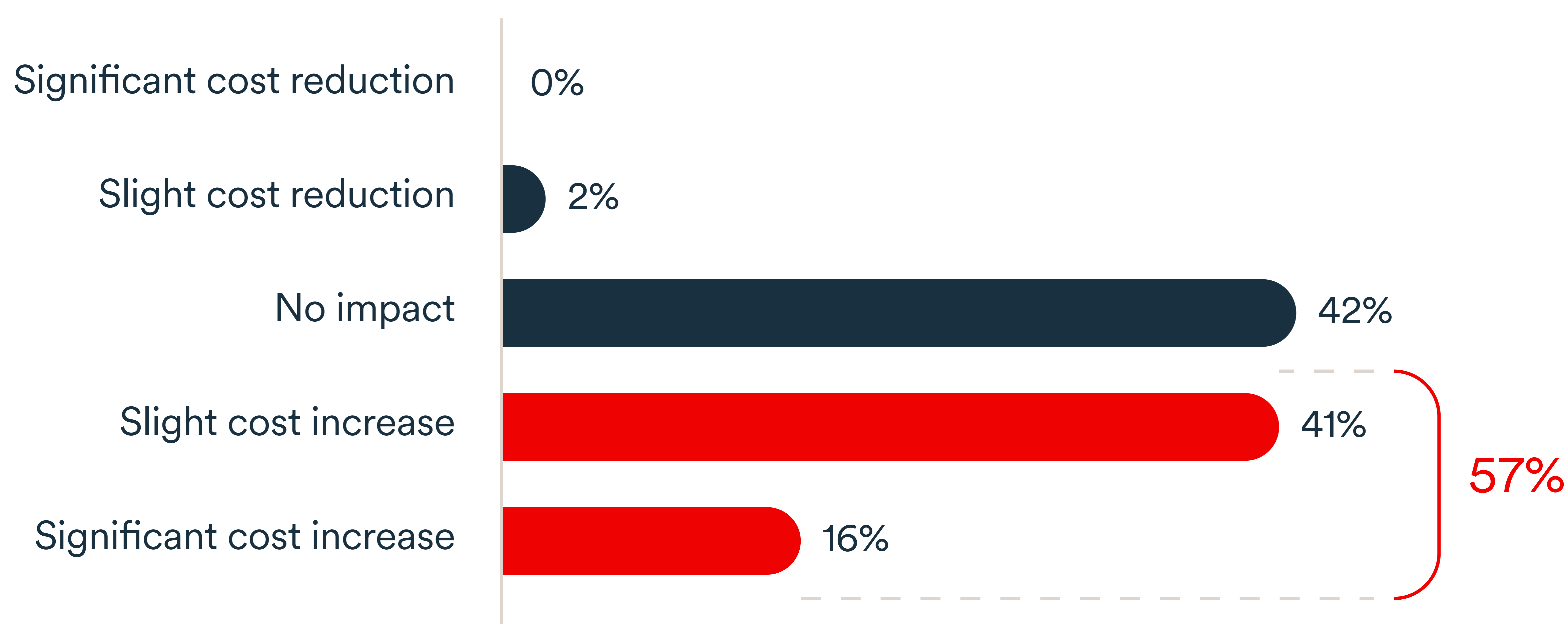
Massive investments are still needed to reach the carbon neutrality target by 2050. The Government of Canada estimates that an average of $60 billion to $140 billion per year will be required to achieve this goal. Much of this investment will come from the private sector.[3]

A high demand for materials critical for this transition combined with limited supply could drive up prices (greenflation). The International Energy Agency estimates that demand for critical materials could be four to six times higher in 2040 than it was in 2020.[4] In addition, the price of carbon in Canada, which is expected to rise from $65 per tonne in 2023 to $170 in 2030, is likely to have cost implications for businesses that do not reduce their carbon footprint.

The majority of SMEs expect climate change to increase their costs over the next three years, with 16% fearing a significant impact (Figure 6). About 40% still believe their costs will not be affected. Nevertheless, experts expect the energy transition will have an inflationary effect. The International Monetary Fund estimates that this transition could add 0.1 to 0.4 percentage points to global inflation.[5]

Ultimately, the impact on business costs will depend on investment planning. An early, planned and gradual transition could minimize greenflation, while a sudden and abrupt transition would put significant pressure on certain prices.

Figure 6: Anticipated impact of climate change on the cost of doing business over the next three years (% of SMEs)



Source: BDC, Cost of Doing Business in Canada Survey, January 2023, n=1,368

3. Government of Canada, *Budget 2023*, March 28, 2023.

4. International Energy Agency, *The Role of Critical Minerals in Clean Energy Transitions*, May 2021.

5. International Monetary Fund, Near-Term Macroeconomic Impact of Decarbonization Policies, *World Economic Outlook: Countering the Cost-of-Living Crisis*, October 2022.

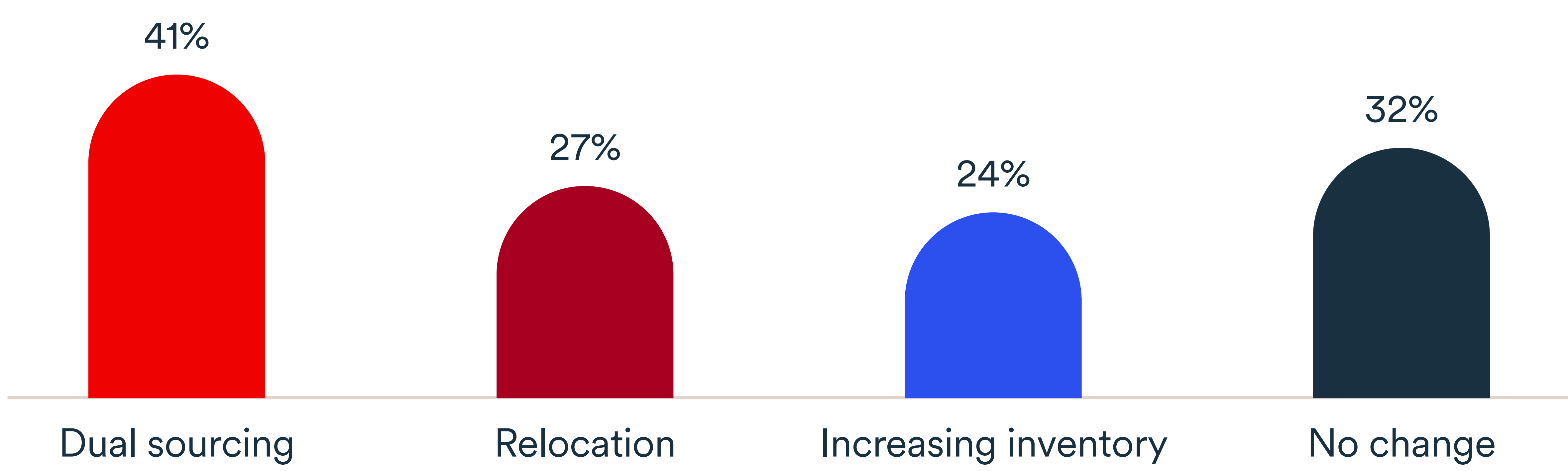
Trend 3.
Faltering globalization could hurt importing and exporting companies

Globalization seems to be in transition. Two phenomena in particular could adversely affect companies exposed to international trade.

Globalization helped companies reduce their costs and boost their productivity.[6] However, since 2010, there has been an escalation in geopolitical tensions while restrictions on international trade have increased, and there is no indication that this trend will be reversed. The gains of globalization are not necessarily lost, but it would be surprising to see additional benefits in terms of cost reduction.

In addition, disruptions to global supply chains in recent years highlighted the fragility of the current ecosystem. Companies are beginning to rethink their business model, focusing more on risk resilience than cost reduction. Among businesses engaged in international trade, 68% have already implemented a supply chain strategy to improve their resilience (Figure 7).

Figure 7: Percentage of businesses engaged in international trade by supply chain strategies implemented in the past three years



Dual sourcing: Sourcing from multiple suppliers for the same product or service.

Relocation: Bringing all or part of a company's operations back to Canada or moving them to a region closer to its market or considered less risky.

Note: Respondents could select more than one answer.

Source: BDC, Cost of Doing Business in Canada Survey, January 2023, n=1,097.

6. Mark CARNEY, *The Implications of Globalization for the Economy and Public Policy*, Bank of Canada, February 18, 2008.

However, resilience strategies are more costly. For example, 79% of businesses that have implemented a supply chain strategy expect it to increase their costs (Figure 8).

Even so, greater resilience reduces the risks associated with international trade and revenue losses from potential disruptions.

Figure 8: Expected impact of implementing supply chain strategies (% of SMEs)

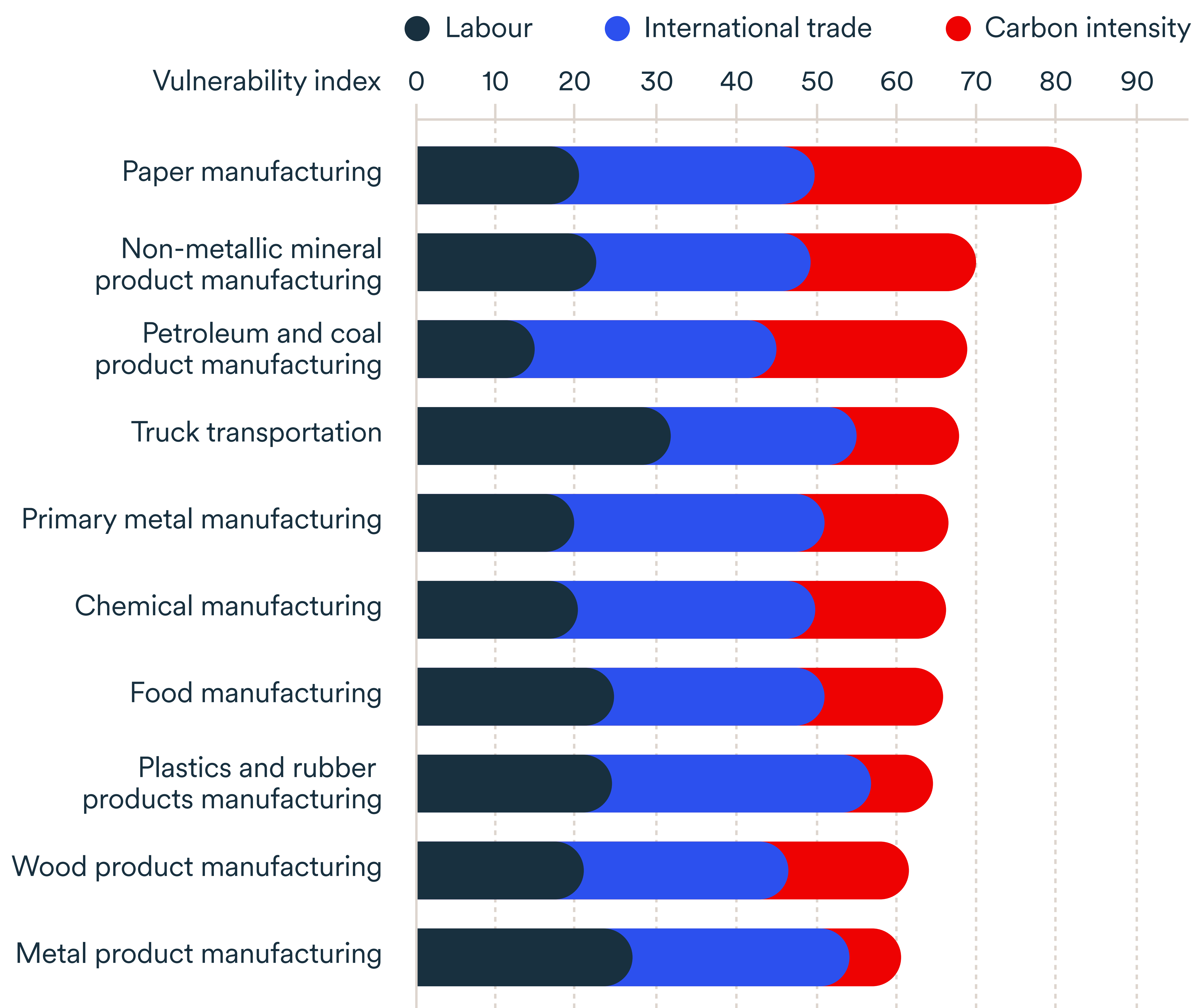
Source: BDC, Cost of Doing Business in Canada Survey, January 2023, n=781.

Some industries are at greater risk

We built a vulnerability index to understand which sectors would be most affected by the costs trending upward.

This index shows that the most vulnerable sectors are manufacturing and truck transportation (Figure 9).[7]

Figure 9: Industries most vulnerable to cost pressure and contribution of each trend, 100 = most vulnerable industry



Source: BDC, based on data from Statistics Canada, Global Affairs Canada and Innovation, Science and Economic Development Canada.

Of the 10 most vulnerable industries, nine are manufacturing subsectors. These are generally more exposed to international shocks because of their greater dependence on imports and exports. They will have to invest in the resilience of their value chain in addition to addressing the demographic and climate challenges.

The transportation sector may also experience increased cost pressures, as the truck driver shortage is expected to persist. The investments required for the energy transition are also a factor. The issue of labour scarcity more broadly affects the service sector.

7. The index excludes the health, education, utilities and public administration sectors. Further details on how this index was constructed are provided in the “Methodology and definitions” section.

Airwood Flooring Accessories

Looking for internal efficiencies

Rising labour costs, competition from imports, spikes in raw material prices and energy costs are just some of the financial challenges Airwood Flooring Accessories has faced head on in recent years.

Airwood, based in Niagara Falls, Ont., is specialized in the production of high-quality, Canadian-made products.

Carmi and Mike Mooser, Airwood's co-owners, want to be fair and competitive employers, and grow their company ambitiously yet sustainably. It isn't easy in an economy that is putting pressure on SMEs.

"We see these costs constantly rising and sometimes it can be volatile," Carmi says.

“These are costs that we can’t pass on to our customer. We have to absorb them as a business, and they cut into the margin. To address these challenges, we’re looking at our internal processes to find efficiencies.”

Carmi Mooser, co-owner,
Airwood Flooring Accessories

Focusing on financial management practices and efficiency

Mike, who has a background in accounting, keeps a close eye on the company’s finances. He reviews the data on a daily, weekly, monthly, quarterly and annual basis.

“Mike is always looking at the numbers—sales, bottom line, margins, fixed costs, variable costs. We have to anticipate where new sales are taking us and what we have the capacity to do at any given moment,” Carmi says.

In 2019, the company was experiencing growth pains and needed to optimize its output. The Airwood team undertook a process mapping project with BDC to identify ways to make their operations more efficient.

The couple realized employees were putting a lot of efforts into moving unfinished product around their facility, which was inefficient work they were paying for.

“It really cemented the reality that we needed to find suitable tech that could essentially offline as many of those touchpoints as possible,” Carmi says.

New equipment was a game changer

Carmi and Mike decided to take out a loan with BDC to invest in a new CNC wood milling machine that includes a tool changer. The machine makes it possible to work on a panel of wood in one spot rather than several.

“It reduced the touchpoints from 22 to 12. We have so much more capacity to cut a panel multiple times as opposed to taking it on carts around the shop and cutting it in different processes on different machines,” Carmi says.

With the new equipment, they redesigned workflows and cross-trained employees to work in other areas, creating a more versatile workforce. They also doubled their production capacity and increased revenue by 30%.

Technology and sustainability on the drawing board

Increasing the technology on the shop floor is a priority over the next two years. The company signed up for the Canada Digital Adoption Program (CDAP) and recently completed the assessment process with a BDC advisor. “We’d like to online an ERP program that would allow us to harness the data available in our equipment. It can help give us insight into ways we can improve efficiency in our processes even more,” Carmi says.

The ERP would also help with financial management. “We have glorified spreadsheets that contain our daily, monthly, quarterly and yearly budgets. The data is useful but isn’t in real time, so we have to manipulate those spreadsheets by adding in lumber costs this month, payables, receivables, etc. It requires a lot of manipulation on our part because the system can’t extrapolate that information. An ERP system could have a program that lets us know the margin today and what it costs to make this product in real time.”

While decarbonization is something Airwood is looking at, Carmi says more energy-efficient processes will require an investment in a new facility. To reduce their reliance on fossil fuels and volatile energy costs, they would install in-floor radiant heating, solar panels and have an improved dust collection system that would significantly reduce energy consumption.

“We’re optimistic about the future growth of our business. We’re planning two- to five-year growth phases. If things are as bright as we hope they will be, we’ll be prepared.”

Carmi Mooser, co-owner, Airwood Flooring Accessories

SMEs are taking action

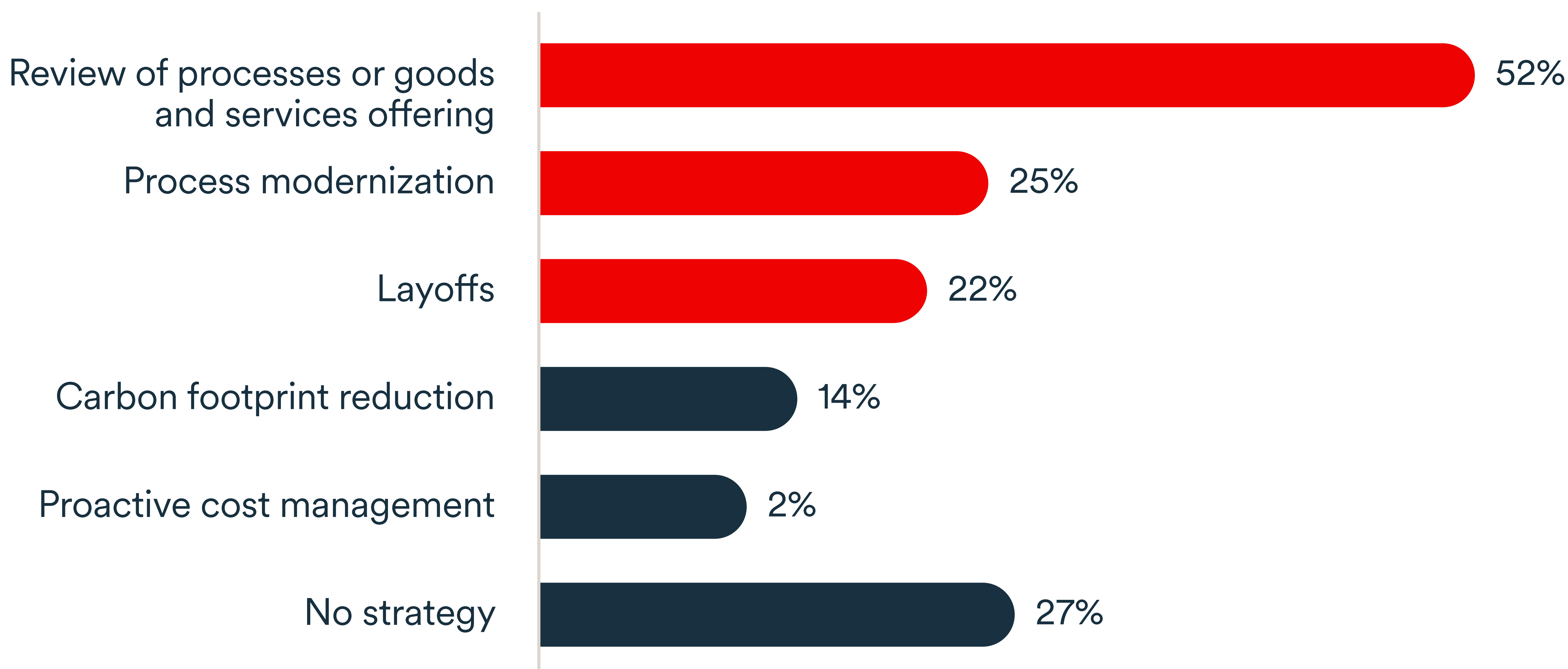
An ageing population, decarbonization of the economy and the potential decline in globalization are structural issues that will not be easily solved and will put pressure on businesses over the long term.

The majority of businesses have already implemented strategies to mitigate the impact of rising costs (Figure 10). Just over half of them have reviewed their internal processes or their goods and services offering. Many have also invested in technology for modernization and in reducing their carbon footprint.

However, a significant proportion (22%) have had to reduce their workforce to weather this difficult period. More than a quarter of businesses have not implemented a strategy and have no plans to do so—this proportion is higher among businesses in the service sector.

No matter what efforts were made, companies generally faced higher costs. This observation leads us to reassess the purpose of cost mitigation strategies. The solution is not necessarily cost reduction, but rather to focus on productivity so that revenue growth outpaces the growth in expenses.

Figure 10: Percentage of businesses that have implemented a strategy to mitigate the impact of rising costs over the past three years



Note: Respondents could select more than one answer. We use the term "proactive cost management" here whereas our survey referred to "implementing a robust accounting system."

Source: BDC, Cost of Doing Business in Canada Survey, January 2023, n=1,124.

3 strategies to cope with rising costs

Using econometric methods,[8] we estimated the impact of the strategies SMEs have selected to cope with rising costs on performance in terms of revenue growth, outperformance relative to the sector and profitability.

1.

Modernize your processes by using technology

Improves business efficiency and helps revenue growth outpace rising costs.

2.

Reduce your carbon footprint

Helps cut energy costs, improves efficiency and provides access into a wider market.

3.

Implement proactive cost management by using your financial data

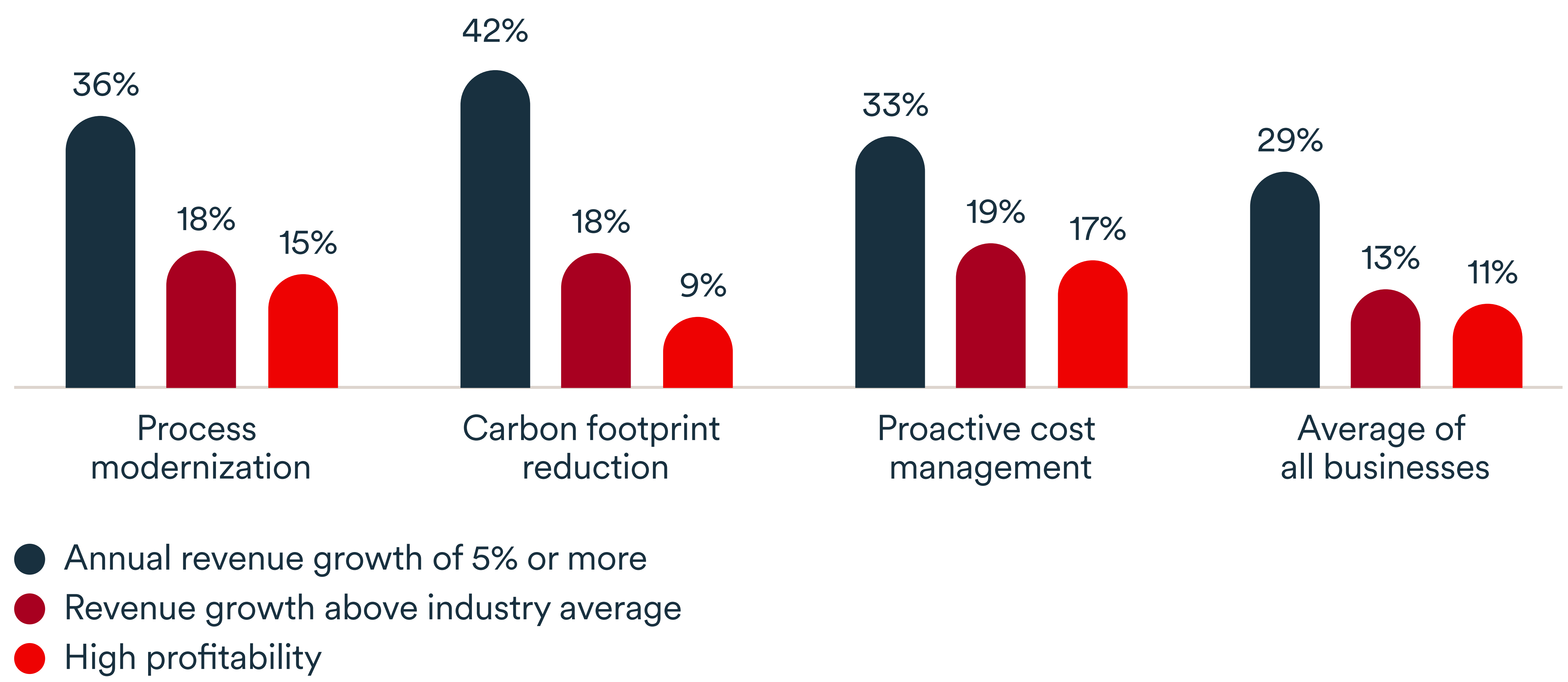
Enables regular monitoring of financial performance—this supports strategic decision-making and helps optimize costs and revenues throughout the year.

8. Details of the results are presented in the “Methodology and definitions” section.

Businesses that have implemented at least one of these strategies are performing better than those that have not, despite the general rise in costs.

For example, nearly 20% of them experienced above-average growth for their sector over the past 12 months, compared to 13% for all businesses (Figure 11).

Figure 11: Percentage of businesses that showed strong performance over the past year by strategy implemented



Note: We use the term "proactive cost management" here whereas our survey referred to "implementing a robust accounting system."

Source: BDC, Cost of Doing Business in Canada Survey, January 2023, n=1,237.

The econometric analysis also provides us with some interesting findings. Businesses that have adopted technology to modernize their processes or reduced their carbon footprint over the past three years are more likely to have shown strong growth in the past year than those that have not, regardless of sector or size.

In an environment of uncertainty and high interest rates, it can be tempting to put off strategic thinking. Our research shows, however, that taking action to mitigate rising costs can contribute to profitability.

Process modernization	4.4%	more likely to have shown strong growth in the past year
Carbon footprint reduction	7.7%	more likely to have shown strong growth in the past year

Layoffs and inaction are not conducive to growth

In a context of labour scarcity, layoffs should be seen as a last-resort solution to rising costs. Inaction can also be detrimental.

Businesses that reduced their workforce or did not implement a strategy to mitigate rising costs over the past three years generally encountered financial difficulties in the past year.

Compared to other businesses, those that made layoffs were, in the past year:

11%	more likely not to be profitable
16%	more likely to have been adversely affected by rising costs
10%	less likely to have seen positive growth
8%	less likely to outperform within their sector

Compared to other businesses, those that did not take action to mitigate rising costs were, in the past year:

7%	less likely to have shown high growth
6%	less likely to outperform within their sector

Businesses that sell services are less likely to implement cost mitigation strategies, but they also have more limited options. These businesses are highly dependent on labour to deliver their services directly to their customers, which limits the activities they can optimize and modernize.

Nevertheless, solutions that apply to their reality exist. These include software to automate part of their operations or the implementation of a system to regularly check their financial health.

These results underscore the importance of responding to a changing environment and planning a strategy to cope effectively with rising costs. Better preparation could save you from having to make tough choices and let your company’s performance suffer.

Hornby Organic

Automating production to keep up with explosive sales growth

Some businesses pursue automation to cut costs. Others to boost efficiency. Hornby Organic did it because it had no choice. The business had to automate or run out of space to grow.

The Vancouver Island maker of organic energy bars and other snacks was enjoying explosive 50% annual sales growth, but it was operating out of a tight 370-square-metre space and couldn't find anything bigger due to limited space availability in the region.

“Our approach has always been to have a smaller team and pay them above-average wages and enjoy the benefit of more long-term staff.”

Irah Vet, co-founder,
Hornby Organic

With an expanded facility off the table, Hornby co-founders Cayleigh Rees and Irah Vet only had one option: to invest heavily in automation and digital technology.

“It’s very tricky to find industrial space,” Rees says. “We had to keep automating to accommodate the growth in the space we’re in.”

12-fold sales growth with same workforce

The company’s relentless focus on automation has paid off handsomely. Sales have shot up an astonishing 12-fold since 2017, the year Hornby embarked on its first automation project. The company managed this impressive growth without needing to add to its production team of six employees.

For Hornby, the biggest impact from inflation has been significantly increased costs for freight and product ingredients. The company’s high margins allowed it to absorb some of those cost increases, while new automation investments have brought down expenses in other areas.

Automation helped retain valued employees

The company doesn’t have to worry as much about losing valued employees to higher-paying jobs elsewhere because its high margins allow it to generously remunerate workers.

“Our approach has always been to have a smaller team and pay them above-average wages and enjoy the benefit of more long-term staff,” Vet says. “Because of this, we haven’t felt the labour cost pressure as much.”

Vet emphasizes, however, that the business doesn’t use automation to reduce its workforce. Instead, automation has allowed Hornby to increase engagement by giving workers more interesting jobs and reducing repetitive tasks.

“Automation helps us grow our revenues rather than decrease our labour force,” he says. “We’ve never automated and then said, ‘Okay, well, that position is gone.’”

Real-time data improved decision making

A big game-changer came when the company bought an enterprise resource planning (ERP) system, software that allows a business to manage all of its functions and see key real-time data in a centralized platform.

Again, the complexity of such a system seemed daunting at first. “When we were starting out, we knew ERP systems could be very costly to implement,” Rees says. “It was another added expense we were on the fence about adding.”

But Vet and Rees decided to plunge ahead just the same with a new-to-market cloud-based ERP system and were quickly surprised by the impact on their business. “It was a huge benefit for us immediately,” Rees says.

The system allowed Hornby to track costs, inventory, sales and finances in real time, providing them with a much clearer picture of the business and allowing them to make better-informed decisions.

It also reduced employee time needed to input data from one system into another.

“As we grew, we were finding it troublesome that our accounting was up to date, but our inventory didn’t reflect that since we were only doing monthly inventories and not adjusting daily for what was shipped out,” Rees says.

“As a result, our profit and loss data was not really accurate. Having that real-time data and knowing it’s accurate have been huge for our decision making and cash flow. We feel better informed,” she concludes.

“If there are cost increases, it’s reassuring to know if we’re maintaining our margin—or if we’re losing a bit of margin, we can see where and how.”

Cayleigh Rees, co-founder, Hornby Organic

How to remain profitable

Modernize your processes by using technology

You might assume that automation involves purchasing sophisticated and expensive machines, but that is not necessarily the case. You can use simple machines and inexpensive software to automate repetitive, routine or time-consuming tasks.

By using the right equipment or software, you can automate your activities and:

- generate more revenue by saving time and focusing your resources on higher value-added tasks
- improve the profitability of your business by minimizing errors and enhancing the quality of your goods and services

Modernizing your processes doesn't have to be complicated.

- Start by setting clear and realistic objectives.
- Identify the processes that would benefit most, such as customer relationship management, inventory management and payments.
- Choose the technology best suited to your needs and context.
- Develop an implementation plan that will help you maximize the use of your new tools.
- Seek advice to inform your decisions throughout the process.

BDC can help you carry out and finance your modernization project

The Canada Digital Adoption Program offers a grant of up to $15,000 to develop a digital adoption plan as well as an interest-free loan of up to $100,000 to implement it.

Start the process

Reduce your carbon footprint

Reducing a company's carbon footprint or greenhouse gas (GHG) emissions usually starts with measures to reduce energy consumption.

These measures can contribute to profitability in several ways:

- reduced electricity or fuel costs
- enhanced productivity through more energy-efficient equipment and machinery
- improved satisfaction for customers and employees, who increasingly look for environmentally-friendly products and services
- access to a wider market—a recent BDC study found that 68% of major buyers ask their suppliers to disclose information about their energy-efficiency practices
- reduced exposure to greenflation risk

Companies of all sizes have access to a number of programs and resources to help them carry out their carbon footprint reduction projects.

Natural Resources Canada provides a list of financial incentives and programs available in Canada.

Learn more

Implement proactive cost management by using your financial data

Your company is a gold mine of information. You can improve your performance by using this information to your advantage.

Proactive cost management involves leveraging the data you already collect and consists of:

- implementing a robust monitoring and accounting system
- monitoring the financial health of your business with performance indicators
- analyzing and operationalizing your data—for example, you can proactively manage your costs, analyze your profitability, optimize your taxes, establish a pricing strategy, reduce waste and make investments

Day-to-day monitoring of your financial data allows you to measure the health of your business throughout the year. This makes it easier for you to identify the challenges and opportunities that lie ahead and to avoid unpleasant surprises at the end of the year.

The BDC Advisory Services team can guide you in setting up a regular monitoring and accounting system to improve the use of your internal data.

Learn more

Strategies that contribute to strong performance

Modernize your processes by using technology

Strategy

Use technology to automate repetitive, routine or time-consuming tasks.

Benefits

Prioritizing high-value-added activities that generate more revenue and minimizing errors.

Reduce your energy footprint

Strategy

Implement measures to reduce energy consumption or GHG emissions.

Benefits

Reduce energy costs, increase efficiency and identify new opportunities.

Implement proactive cost management

Strategy

Implement a rigorous and detailed system of all costs and revenue sources with performance indicators that are monitored frequently.

Benefits

Improve cost control and keep close tabs on the company's financial health. Enables you to respond proactively to changes and identify challenges and opportunities

Methodology and definitions

This study is based on the analysis of an online survey and public data as well as an econometric analysis.

Survey

We developed a questionnaire to evaluate the impact of rising costs on businesses since 2022 and the strategies they have implemented to cope with them. The survey was conducted online by Sago from January 30 to February 10, 2023, among 1,500 Canadian SME owners. The results were weighted by region and number of employees in order to be representative of the Canadian SME population.

For a probability sample of 1,500 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 as an indication only.

Econometric analysis

We asked Aviseo to conduct an econometric analysis of the survey data to identify the most effective strategies in the context of rapidly rising costs. More specifically, Aviseo examined the relationship between the strategies implemented and the company's performance in terms of the impact of costs, revenue growth, performance relative to the sector and profitability. The analysis also takes into account a number of control variables, such as the company's size, sector and region.

The econometric analysis was conducted in two stages:

1. Multivariate logit models were used to isolate the impact of the strategies on the four performance metrics. Strategies were evaluated individually and in aggregate. The results control for company size, sector, region, number of years in business and owner characteristics, such as gender, age and identity (diversity group membership). These models make it possible to evaluate which strategies are associated with strong performance at a 95% confidence level.
2. A multiple correspondence analysis (MCA) was subsequently performed to construct a performance index and identify factors associated with strong performance. Given the multidimensional aspect of a company's performance, this method makes it possible to construct a financial performance index and isolate the effect of the strategies on the company's overall performance. This analysis also makes it possible to identify the characteristics of the higher-performance groups using clustering methods. This enabled us to qualify what certain groups have in common. For example, higher-growth, more profitable companies are more likely to invest in three strategies: automation, carbon footprint reduction and a robust accounting system.

Results of the econometric analysis

The tables below present the results of the econometric analysis. They show the increased likelihood of a company to exhibit one of the performance measures according to the strategy implemented, compared to other companies.

For example, compared to other businesses, companies that have not implemented a cost mitigation strategy were 7% less likely to experience revenue growth of 5% or more.

Table 1: Impact of individual strategies on the likelihood of strong business performance on each metric (%)

	Strategy	Revenue growth (5% or more)	Outperformance vs. the sector	High profitability	Positive cost impact
Cost mitigation	Automation	4.5	3.1	1.0	0.2
	Digitization	1.9	-2.0	0.5	1.5
	Carbon footprint reduction	6.1	1.8	1.1	2.5
	Leveraging of financial data	2.3	-2.1	3.4	-0.1
	Removing unprofitable products	-3.6	-4.7	-2.7	-5.2
	Revision of processes	-2.6	-1.9	-3.8	-3.3
	Workforce reduction	-11.6	-9.5	-8.4	-6.7
	No strategy	-7.0	-5.6	0.0	-0.6
Supply chains	Increasing inventory	5.6	3.1	1.8	0.0
	Dual sourcing	-0.4	0.3	-0.1	-2.5
	Reshoring	1.9	3.2	0.7	0.6
	Nearshoring	-2.2	0.7	-2.6	2.3
	Friendshoring	4.3	1.8	1.2	3.3
	No strategy	-3.4	-2.6	-1.7	-1.9

● 95% confidence ● 90% confidence

Source: Aviseo

Table 2: Impact of aggregated cost mitigation strategies on the likelihood of strong business performance on each metric (%)

Strategy	Revenue growth (5% or more)	Outperformance vs. the sector	High profitability	Positive cost impact
Technologies	4.4	2.7	2.8	0.9
Carbon footprint reduction	7.7	3.4	1.2	2.2
Internal adjustments	-1.4	-1.6	-2.1	-1.3
Workforce reduction	-10.4	-8.3	-8.5	-8.5

● 95% confidence ● 90% confidence

Note: The "Technologies" category includes automation and digitization, and "Internal adjustments" includes the review of processes and service offerings and the leveraging of financial data.

Source: Aviseo

Table 3: Impact of aggregated supply chain strategies on the likelihood of strong business performance on each metric (%)

Strategy	Revenue growth (5% or more)	Outperformance vs. the sector	High profitability	Positive cost impact
Redundancy	6.0	0.6	-1.6	-3.7
Relocation	8.9	0.3	-3.2	1.6

● 95% confidence

Note: The "Redundancy" category includes dual sourcing and increasing inventory, and "Relocation" includes reshoring, nearshoring and friendshoring.

Source: Aviseo

Analysis of public data

This study is also based on the analysis of data published by several organizations. These data were used to analyze global economic and demographic trends as well as financial trends of Canadian SMEs. We also used data from Statistics Canada, Global Affairs Canada and Innovation, Science and Economic Development Canada to construct a vulnerability index.

Construction of an index of vulnerability to trends affecting business costs

To construct the vulnerability index, we identified the main variables affected by each of the trends, namely:

Ageing population	Share of business spending on labour in 2021 and average job vacancy rate from 2018 to 2022
Energy transition	Direct and indirect GHG emissions for every $1,000 of production
Globalization	Global supply chain disruption vulnerability index created by Global Affairs Canada

These variables were broken down by industry according to the second level of the North American Industry Classification System (NAICS) and to the third level for the transportation and manufacturing sectors given their heterogeneity.

For each trend, we gave a score of 100 to the most vulnerable industry. The scores of the other industries decline in proportion to the score of the most vulnerable industry. This enabled us to establish an order with a continuous score from 0 to 100. We calculated the average of the scores on the three trends to obtain the overall vulnerability index.

Get help with rising costs

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