



DEFYING GRAVITY

Building a Scaleup Ecosystem

A REPORT COMMISSIONED BY WORLD TRADE CENTRE TORONTO

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CREDIT

Today, the Toronto region is being defined globally by our talent and innovation. Tomorrow, our success will be defined by our ability to commercialize innovation and to scale home-grown businesses from all sectors.

While our region has fostered a healthy ecosystem of incubators and accelerators focused on startups in the region's booming tech sector, we lack similar scaleup support and resources for SMEs in all sectors interested in growth opportunities – at home and abroad.

Since the September 2017 relaunch of World Trade Centre Toronto (WTC-T), the Toronto Region Board of Trade has heard from members about their challenges pursuing growth. Many are alumni of WTC-T's trade services programs: Trade Accelerator Program (TAP) helping SMEs to develop and execute an export plan, and Market Activation Program (MAP) outbound business missions connecting Toronto region businesses to priority growth markets, for their sector, globally.

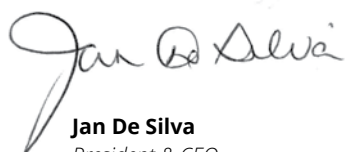
Sound good? Here's what happens next. A TAP alumnus in the Food & Beverage sector whose export plan points them to China, participates in a MAP business mission to China and secures several prominent distribution arrangements. But, to fulfill these opportunities, the company must scale up production from 200,000 units annually for the Canadian market to 2 million units bimonthly to meet new demand in China.

There is a world of growth available for many SMEs, but, without the necessary frameworks and access to resources, too many SMEs are unable to position themselves for growth in Canada let alone some of the 1.5 billion customers accessible through Canada's network of trade agreements.

The result: we are falling behind global competitors in our ability to support SMEs in their journey to scale. It's a missed opportunity to spur job creation and stimulate Canada's growth. It's a missed opportunity for our future.

This report provides an evidence-based foundation to improve the scaleup ecosystem in Canada through new targeted programs and policy changes. It outlines the challenges SME leaders need to consider when developing a scaleup strategy. And, it leverages the experiences of successful local scaleups and lessons from Silicon Valley, Boston, UK, and Tel Aviv to inform the requirements for a healthy Canadian scaleup ecosystem. WTC-T will turn these findings into action. Just as TAP and MAP were defined by foundational research, this report will help WTC-T define a scaleup program to help our SMEs lead on growth—a key strategic initiative of the Board's Strategy 2024.

When we enable our businesses to defy gravity, we lift all Canadians.



Jan De Silva
President & CEO
Toronto Region Board of Trade



Leigh Smout
Executive Director
World Trade Centre Toronto



THE SCALEUP GAP

Amid an accelerated pace of disruption, attention should be focused on creating the conditions for a diverse and resilient economy. While economic growth has been strong in the Toronto region, and Canada more broadly, more work is required to sustain this momentum. A robust ecosystem that encourages entrepreneurs to start businesses—and, just as importantly, to grow them—is the foundation of sustainable economic development.

Startups are critical to our competitiveness – they create jobs, commercialize innovation, and contribute to knowledge spillover. As a result of favourable policies and dedicated public and private resources, Canadians now create new firms at a higher per capita rate than Americans¹ and Canada ranks second in the world for starting a business².

There are more than 130 incubators and accelerators in the Greater Toronto and Hamilton Area (GTHA) alone to help nurture the establishment and growth of startups. Most have been launched within the last 10 years and concentrate heavily in the tech sector. Since incubators aim to bridge the gap between ideas

and commercialization, many are housed in our post-secondary institutions. Two of the top 20 incubators in the world are in Toronto: The DMZ at Ryerson University, which tied for first place in UBI Global's 2018 rankings, and University of Toronto Entrepreneurship, which placed fourth.

Canada's leading startup ecosystem demonstrates that sustained focus and investment can lead to impressive results. However, this success has also revealed a lack of similar support dedicated to scaleup companies, with Canada trailing other mature economies in our ability to help small and medium-sized enterprises (SMEs) grow into larger firms. Resources dedicated to helping companies scale up are limited and tend to target startups in the tech sector. While fostering the success of startups is imperative in an innovation economy, it leaves a major segment of existing companies, some that may have been in operation for years, without a coordinated approach to help them grow. Neglecting to support the growth of SMEs in more traditional sectors is a missed opportunity to spur significant job creation and GDP growth.



“The ambition and self-belief of Canadian entrepreneurs also changed dramatically over the last several years. Founders draw inspiration and confidence from Canadian success stories such as Shopify. They now aspire to build a huge business that positively impacts millions of lives – and know that they can do so from Canada.”

– Janet Bannister, Partner at Real Ventures.
Real Ventures is a leading source of capital for entrepreneurs.

NEGLECTING TO SUPPORT THE GROWTH OF SMEs IN MORE TRADITIONAL SECTORS IS A MISSED OPPORTUNITY TO SPUR SIGNIFICANT JOB CREATION AND GDP GROWTH.

This report highlights the exponential value that high growth firms (HGFs) make to both net employment and economic growth, emphasizing their presence across all industries and geographic regions. There are six areas that both policy makers and businesses should consider to encourage firms’ growth: executive leadership, recruiting and retaining talent, growing sales, securing capital, improving internal processes, and protecting intellectual property. The long-term goal of creating a coordinated

and supportive scaleup ecosystem in Canada starts with the publishing of annual HGF data to help inform policy interventions and targeted programs. This report looks at four international case studies that have done this well and what Canada can learn from their experience: Silicon Valley, Boston, Tel Aviv, and UK.

CANADA IS A NATION OF SMEs

| BUSINESS SIZE | % OF ALL FIRMS | % OF PRIVATE SECTOR EMPLOYMENT | % OF GDP |
|---------------|----------------|--------------------------------|----------|
| Small | 97.9 | 69.7 | 34.8 |
| Medium | 1.9 | 19.9 | 11.8 |
| Large | 0.2 | 10.4 | 49.8 |

Source: Statistics Canada 2017

QUICK FACTS

ONLY **50%** of Canadian firms survive five years of operation.³

ONLY **0.1%** of small firms became mid-sized.⁴

ONLY **2%** of mid-sized firms became large.⁴



WHY HIGH GROWTH FIRMS MATTER

A growing body of literature across international jurisdictions consistently demonstrates the value of HGFs to job creation, and local and national economic growth. While HGFs make up a very small fraction of overall firms, they can contribute between half and two-thirds of the overall net employment growth, and still more to GDP. Even where these firms displace less efficient ones as part of the natural economic cycle, they still produce net new jobs. Increasing the number of HGFs in Canada is the most effective way to create new jobs.

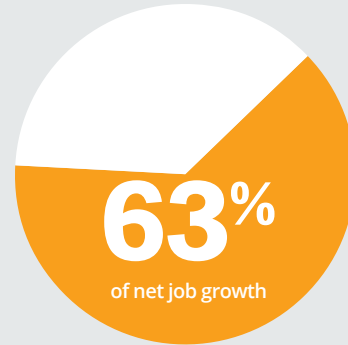
There are many other reasons why encouraging more firms to grow should be a top priority for policy makers. HGFs tend to be more innovative and productive. Encouraging the growth of SMEs can help

bridge Canada's widening productivity gap with the U.S., currently sitting at 30%.⁵ Since HGFs are also found across industries and geographic zones, they can spur economic growth in regions that are falling behind, fulfilling important policy objectives of ensuring economic success is shared more evenly.

The Bank of Canada has also raised the issue of stagnating wages that are not keeping up with inflation in a tight labour market.⁶ The creation of larger firms offers more competitive salaries and higher productivity gains per worker to address that challenge. Focusing on the growth of more traditional sectors can further boost wages of low-skilled workers and increase stagnant employment in the goods sector—two worrisome trends presented by the Financial Accountability Office of Ontario.⁷

THE IMPACT OF HGFs

HGFs made up **1.24%** =
of all firms



RESEARCH SHOWS THAT HGFs ARE:



Outsized contributors to employment and economic growth



More likely to export



More innovative and productive



Found in all industry sectors

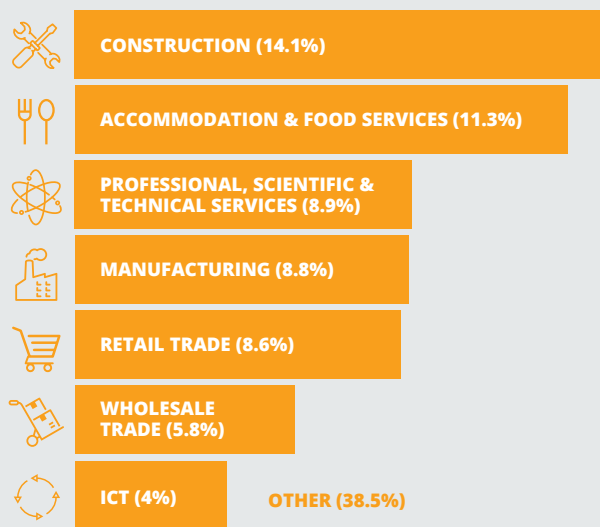


Across all geographic zones, not just major metros



Responsible for positive spillover effects within the supply chain

HGFs CAN BE FOUND IN ALL INDUSTRY SECTORS.⁸



Percentage distribution of HGFs by industry sector, 2012



INCREASING THE NUMBER OF HGFs IN CANADA CAN:

- BOOST COMPETITIVENESS** of national and local economies
- Develop **MORE EXPERIENCED TALENT**
- Generate inclusive **GROWTH**
- HELP BRIDGE** Canada's productivity gap
- Address **STAGNATING WAGES**

A photograph of two women in a coffee shop. The woman on the left has dark curly hair and is wearing a plaid shirt. The woman on the right has blonde curly hair and is also wearing a plaid shirt. They are both looking at a laptop screen. In the background, there are coffee dispensers and a counter.

UNDERSTANDING BUSINESS GROWTH IN CANADA

A consistent definition and measurement by Statistics Canada is the starting point for policy action and targeted efforts to help businesses scale up.

Standardized definitions and metrics are needed to track progress over time and compare the performance of different industries and economic areas, both within Canada and internationally. However, research by the Toronto Region Board of Trade found significant inconsistencies in how scaleups are defined and tracked, as well as what is considered a small or mid-sized business. Different approaches produce different results, even if the same data set is used, making jurisdictional comparisons problematic and unreliable. The majority of scaleup research also tends

to focus on the tech sector, ignoring the challenges and opportunities for HGFs in other industries.

Some common trends did emerge among the various definitions. Employment and revenue growth are the most commonly-used indicators, in large part because they are priorities for policy makers and data is readily available. And, a three-year period is often used to demonstrate that growth is intentional and sustained. Regardless of the precise definition used, studies consistently find HGFs make an outsized contribution to net employment and economic growth.

The table to the right summarizes the two most common definitions for scaleups and HGFs: the Organisation for Economic Co-operation and Development (OECD) and the Kauffman Growth Entrepreneurship Index. The Kauffman Index is unique in the U.S., as it tracks the number of startups, scaleups, and HGFs by both employment and revenue. This presents a more comprehensive understanding of business growth at the metropolitan, state, and national levels.

In order to design evidence-based policy interventions and programs to support the growth of all firms, we need appropriate and consistent data.

First, Statistics Canada needs to adopt a uniform and inclusive definition for HGFs. The Board recommends adopting the OECD definition, adjusted to include microenterprises with 10 employees or less. A 2017 Statistics Canada report based on that data demonstrated the value of including microenterprises in that assessment, as they represented 88% of all employer firms.

RECOMMENDED DEFINITION:



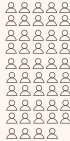
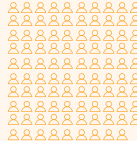
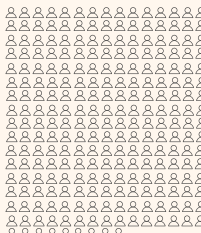
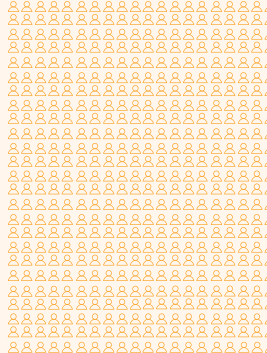
An enterprise with more than 10 employees at the beginning of the period and an average annual growth in employees or turnover greater than 20% per annum over a three-year period and an enterprise with 10 employees or fewer that grew by 8 or more employees over the three-year period.

Second, Statistics Canada should publish annual reports on business growth across different industries and geographic areas. As it has done previously, Statistics Canada can combine the Business Register with tax information to track growth rates by both employment and revenue. Producing annual reports would give a more accurate representation of business growth across all SMEs and allow for benchmarking year-to-year and against other international jurisdictions.

DEFINING SCALEUPS

| | |
|---|---|
| OECD | An enterprise with more than 10 employees at the beginning of the period and an average annual growth in employees or turnover greater than 20% per annum over a three-year period. |
| KAUFFMANN GROWTH ENTREPRENEURSHIP INDEX | Scaleups: employer firms 10 years old and younger that start with fewer than 50 employees, growing to at least 50 employees by their tenth year of operation High-Growth Company: private companies that have at least \$2 million in annual revenue and 20% annualized growth over a three-year period. |
| US BUREAU OF LABOR STATISTICS' MICRO INCLUSION | An enterprise with less than 10 employees that grew by 8 or more employees over a three-year period. |

DEFINING BUSINESS SIZE

| | OECD | CANADA | U.S. |
|---------------|--|---|--|
| MICRO | <10 employees  | <10 employees  | U.S. varies greatly by industry, based on the North American Industry Classification System (NAICS). |
| SMALL | <50 employees  | <100 employees  | |
| MEDIUM | <250 employees  | <500 employees  | |

SCALEUP SUCCESS FACTORS

The path to growth is one of the most disruptive moments in a company's life. Both internal and external barriers need to be overcome for firms to scale up successfully.

Recruiting and retaining the right talent, capturing new markets, and staying current with technology are some of the critical challenges that companies must overcome to achieve high growth.

EXECUTIVE LEADERSHIP

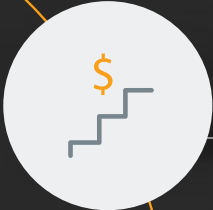
The journey to scale starts with leaders who have the ambition for growth, the determination to get there, and the flexibility to adapt along the way.

PROTECTING INTELLECTUAL PROPERTY

To succeed at scale, companies must have an innovative offering and a strategy to protect their intellectual property.

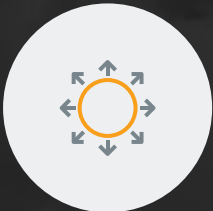
RECRUITING & RETAINING TALENT

Top talent is always in short supply. A clear purpose and development opportunities can help startups secure talent that can grow with the firm.



GROWING SALES

The bottom line to growing your business is focusing on your top line.



SUPPORTING ECOSYSTEM

High growth firms are more likely to succeed with a supportive local ecosystem, creating a positive feedback loop in which other companies are more likely to scale up.



ACCESSING CAPITAL

It's about access to the right capital at the right time with the right partners.



IMPROVING PROCESSES

For companies to scale successfully, they must transition from people-dependency to process-dependency.

EXECUTIVE LEADERSHIP

The journey to scale starts with leaders who have the ambition for growth, the determination to get there, and the flexibility to adapt along the way.

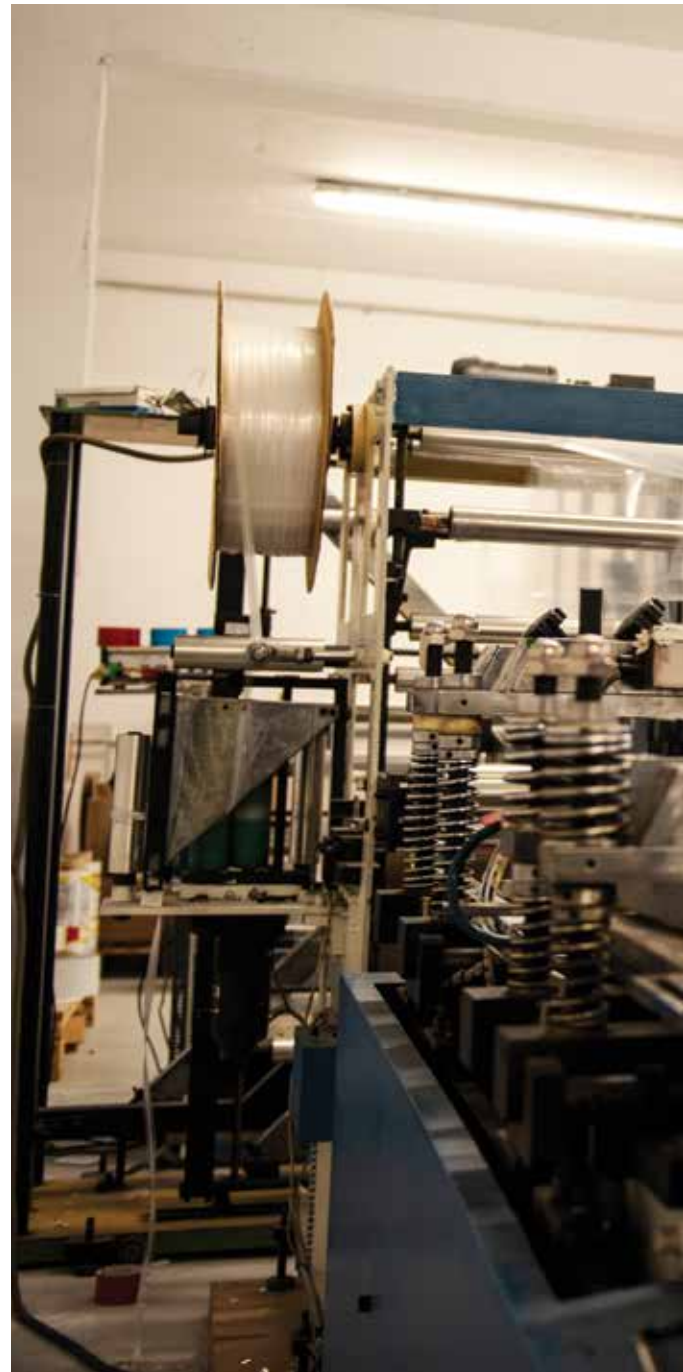
THE CHALLENGE

Scaling a business presents new and constantly changing challenges for its executive leadership. Whether a company was founded 2 or 20 years ago, setting a course for growth requires a leader with a decisive vision and the ability to align investors, advisors, and employees on this new trajectory.

A clear strategic vision with detailed, trackable plans to get there are necessary steps to staying focused and maintaining a high-growth trajectory. Persuasive communication and emotional intelligence skills are strong assets for maintaining enthusiasm among employees and partners and reducing turnover in an uncertain time. To unlock much-needed financing, leaders must be able to effectively tell their story, articulate a forward-looking business plan and demonstrate their understanding of the associated risks.

As this transition occurs, founders need to rethink their internal organizational structure, mainly their human resource needs and internal processes, but also their own role in a changing company. Some may find themselves better suited as a Chief Operating Officer or Chief Technology Officer, rather than Chief Executive Officer. As the company increases in size, a management structure with clear areas of responsibility becomes increasingly important.

Considering the underdeveloped scaleup ecosystem in Canada, a symptomatic challenge is the small pool of leaders who have helped firms grow successfully. Proven experience in growth means leaders know how to handle many of the obstacles likely to occur. More importantly, it helps instill confidence in employees, investors and other partners. A growing body of evidence reaffirms the “management or leadership gap” is not only the most-cited hindrance to the development of HGFs, but also the main factor in a firm’s underperformance.



QUICK FACTS



The founders of a majority of ‘unicorns’ (scaleups worth more than \$1 billion) have 2x as much work experience as startup founders.⁹



77% of Canadian entrepreneurs identified “setting the overall strategy” as a key barrier to growth.¹⁰



“One of the keys to our success so far is having an executive team who has lived the hypergrowth we want to emulate. You can get other people to believe that defying gravity is possible when you see leaders who have done it before.”

– Steve Irvine, Founder of Integrate.ai

Integrate.ai helps consumer enterprises develop more meaningful relationships with customers using artificial intelligence.



THE OPPORTUNITY

PEER-TO-PEER

NETWORKS. Nothing can substitute for a strong peer-to-peer network where leaders looking to grow their companies can learn from those who have been successful, ask questions about specific challenges, and exchange solutions to barriers they've faced.

EXECUTIVE TRAINING.

While some post-secondary institutions offer executive training courses, they need to be more affordable, flexible, and practical in nature to help engage more SME leaders. Comprehensive training should include soft skills like communication and managing conflict.

PROFILING SUCCESS STORIES.

Celebrating successful leaders in the media and via business organizations' own communications is one of the easiest ways to spark leaders' growth ambition and share experiences of overcoming complex and unexpected challenges. Understanding someone else's growth journey and achievements can help instill confidence and provide ideas on a path forward.

RECRUITING & RETAINING TALENT

Top talent is always in short supply. A clear purpose and development opportunities can help scaleups secure talent that can grow with the firm.

THE CHALLENGE

Finding the right employees and partners is a top challenge for businesses of all sizes. This challenge is amplified for scaleups because of the accelerated pace of hiring and rapid organizational change. A holistic talent strategy needs to include considerations of three distinct areas: recruiting, retaining and developing talent.

Even as the number of jobs to fill increases exponentially, top scaleups maintain a rigorous interview process to ensure candidates fit the company's values and mission. According to Steve Irvine of Integrate.ai, "hypergrowth companies put a lot of time and energy into making sure everyone is there for the right reasons and living values they espouse." That alignment helps ensure employees will be there to help the company overcome challenges on the growth pathway.

Early-growth companies need employees with multiple skill sets that understand the different aspects of the business. Jobs become increasingly specialized as a company scales, with growing demand for **technical, business, and management skills**—and ideally, a combination of all three.

Technical skills will vary by industry, from programmers in high-tech fields to tradespeople and machinists in construction and manufacturing. Some of these supply shortages present a challenge for companies of all sizes, but scaleups may have less experience in recruiting, a higher proportion of jobs to fill, and less capacity to offer training or competitive salaries.

Scaleups also require staff with business skills. Strong financial management is essential to instill confidence in the market or investors when seeking capital, particularly if a company wants to pursue an Initial Public Offering on the stock market. Companies also need strong salespeople who can identify leads and close deals of increasing importance. There is a shortage of sales talent in Canada, and no dedicated education or training programs focused on nurturing these skills.

Lastly, scaleups require employees to have leadership and management potential, with the ability to grow into supervisory and strategic roles as the organization scales. This also serves to develop in-house talent, keeping the best people at the firm by providing them with new opportunities to challenge themselves.



“At the end of the day, top talent will always be in high demand, wherever they are. That’s why programs like the Global Talent Stream visa are so helpful. I interviewed a candidate who moved to the U.S. but was told he had to wait 50 years to get his green card. In 6 months, he was here working for us.”

- Allen Lau, CEO & Co-Founder of Wattpad

Wattpad is a global multi-platform entertainment company for stories.



THE OPPORTUNITY

PROVIDE SUPPORT ON HOW TO IDENTIFY TOP TALENT.

Smaller companies with growth ambitions could benefit from more hands-on guidance on how to develop a rigorous recruitment process, onboarding priorities, and development strategies.

IMMIGRATION CAN HELP FILL THE EXPERIENCE GAP.

Recruiting experienced international talent can help companies scale more quickly and successfully, while mentoring and developing the next generation of homegrown scaleup leaders. The Global Talent Stream, recently made permanent by the federal government, was an important immigration system reform creating an accelerated pathway for bringing top talent into the country.

SUPPLEMENT IN-HOUSE EXPERTISE WITH PARTNERSHIPS.

Companies should consider whether some non-core functions could be more effectively managed through outsourcing. For example, a company may not need a full-time bookkeeper, or a revenue-sharing partnership with a sales manager in an international market could better mitigate risk and be more effective.

QUICK FACTS



28% of Canadian business leaders identify talent attraction as their primary strategic challenge to business growth. A further 14% highlight a lack of skilled/capable management as the key impeding factor.¹¹



53% of technology company founders say the biggest obstacle to growth is finding and hiring experienced business talent, such as business development, sales, and marketing.¹²

GROWING SALES

The bottom line to growing your business is focusing on your top line.

THE CHALLENGE

Once a company has determined product-market fit, it has the opportunity to scale up by finding new customers or developing new products to sell to existing customers. A strong sales team can drive growth and expansion by carefully analyzing market and customer dynamics and identifying the best growth potential.

Looking at growing sales within the regional or national domestic market may be more appealing to SMEs because of the familiarity of the business environment (e.g. currency, language and customs) as well as reduced risks (e.g. predictable legal and tax frameworks). However, the size of Canada's market may be too limiting for some firms. Inconsistent internal trade regulations between Canadian provinces further fragment our already small market and unnecessarily restrict or complicate domestic sales growth for businesses. This is also exacerbated by the large geographic distances between major Canadian markets, which can mean steep distribution costs and challenges to being part of integrated just-in-time supply chains.

Companies may also choose to "go global." Facilitated by a number of strategic free trade agreements, Canadian businesses now have access to more than 1.5 billion customers in 51 countries. Exporting presents a strong growth opportunity, but also the need for additional expertise and risk management. The executive leadership and sales team must successfully identify the right markets and customers, address market-specific regulatory and legal issues, and find appropriate distribution channels and in-country contacts.

Global e-commerce platforms, including Canada's own scaleup success story Shopify and others like eBay, Amazon, and Alibaba, can make it easier for SMEs looking to reach new customers both domestically and internationally.

Securing a large reference customer, such as government or a large 'anchor' firm, is a proven way to accelerate a company's growth. Securing such a contract is the gold standard of product validation for other prospective customers. However, government procurement remains largely inaccessible for SMEs because of its burdensome application and selection process.



In order to scale, companies need to rethink market access and dynamics. This includes understanding:

COMPETITIVE LANDSCAPE: where and how companies compete, and their product's unique value proposition.

PRIORITY CUSTOMER MARKETS: who existing customers are, why they have chosen the company, and where a strong growth market is located, both by industry and geography.

HOW TO GROW YOUR VALUE PROPOSITION: this could involve enhancing the product, bundling it in a new way, or changing the way to deliver it (e.g. as a service rather than a product).

QUICK FACTS



Internal trade barriers cost the Canadian economy \$130 billion annually.¹²



Only 4% of Canada's SMEs are exporters, compared to 27% in France, 24% in Japan and 28% in Germany. The Conference Board of Canada found that each \$100 million in new exports translates to 1,000 new jobs.¹³



While large Canadian firms purchase nearly 10% more from SMEs than U.S. counterparts, the average dollar value of SME-sourced supply is 4.5 times higher in the U.S.¹⁴



THE OPPORTUNITY

IMPROVE SALES TRAINING OPPORTUNITIES.

Universities and colleges should develop courses and programs focused on sales career options that incorporate skills such as: data analytics, advanced customer segmentation, search engine optimization, A/B testing, content and digital marketing, client relations, market understanding, and project management. Retraining organizations should also develop programs focused on sales. One promising option is Palette, which is developing a pathway to retrain retail workers at risk of automation-driven disruption for sales jobs in the tech sector.

IMPROVE PROCUREMENT OPPORTUNITIES.

Governments at all levels should continue to make contract opportunities easier for SMEs, provide more information on how to become a vendor-of-record, and set aside a particular amount of funding as part of their budgets. For example, Innovative Solutions Canada, modeled on the successful U.S. Small Business Innovation Research (SBIR) program, has an annual budget of \$108.3 million to procure new solutions from smaller Canadian companies.

HANDS-ON EXPORT ASSISTANCE.

The World Trade Centre Toronto signature Trade Accelerator Program (TAP) works with private-sector partners and government agencies like BDC and EDC to help companies develop a strategic export plan. More than 500 graduates in three years have been sponsored into this program, accessing over 37 international markets.

BREAKING DOWN INTERNAL TRADE BARRIERS.

Provinces and the federal government must continue to remove unnecessary red tape and harmonize regulations affecting business operations across interprovincial borders.

“You need to give your partners the tools to sell – right price, right strategy, right marketing and right support. As long as they’re making lots of money they’ll prioritize the item.”

– Tony Peticca, Laser Bonding Tech Inc.

Laser Bonding Tech Inc. is the manufacturer and worldwide distributor of Bondic® the world's first liquid plastic welder.

ACCESSING CAPITAL

It's about access to the *right* capital at the *right* time with the *right* partners.

THE CHALLENGE

HGFs usually need a substantial infusion of capital to purchase or update their fixed assets, or increased cash flow to manage growing payroll and production costs resulting from expansion.

Access to capital is frequently identified as a barrier to growth, but focusing simply on availability masks other challenges related to financing that scaleups face. As outlined in the chart opposite, many sources of capital exist in Canada, with options expanding in recent years. New alternative lenders and crowdfunding platforms have entered the market, while targeted government interventions have helped boost venture capital funds in Canada. For example, The Canadian Business Growth Fund, launched in March 2017, provides patient capital to mid-sized businesses with investments between \$3 and \$20 million. However, Canadian companies continue to report more challenges accessing higher-risk financing than their U.S. counterparts¹⁵, hindering their ability

to scale quickly. The often-short track record of results increases the risk profile for scaleup firms, particularly if investors and lenders lack proficiency in the company's industrial subsector.

The underlying challenge for scaleups, and executive leaders in particular, is obtaining strategic expertise on securing the right type and amount of financing at the best time and frequency. A company that cannot secure an investment may label it as an access to capital problem when it is actually symptomatic of deeper internal challenges.

Business leaders need to consider their ultimate growth ambitions, whether it's regional success or global market dominance, and find the right investors and partners to help them realize those goals. The biggest problems arise from mismatched expectations. Investors expect companies to have solid business plans with a clear understanding of the risks and how to mitigate them.

QUICK FACTS



For every \$1 available to Canadian early-stage firms, only \$0.82 is directed towards expansion-stage firms, compared with \$1.92 in the U.S.¹⁶



Canadian firms raise less funding than U.S. counterparts and wait longer to raise subsequent investments. Canadian companies take ten years to raise what U.S. companies raise in four.¹⁷



Only 8% of Canadian SMEs consider obtaining financing to be a major obstacle to their growth, with 89% of their debt financing requests approved.¹⁸



From 2013 to 2017, venture capital (VC) investment increased from \$1.9 billion over 365 deals to \$3.5 billion over 592 deals. Despite this substantial increase, the average deal size in Canada increased by only 16%, compared to 77% in the U.S. and 123% in the U.K.¹⁹



“If you want to build something very big, you need to surround yourself with investors who think the same way and are patient. We made a set of decisions and found people along the way who were aligned with us and shared similar beliefs and values.”

– Ray Reddy, CEO of Ritual

Ritual is a social ordering app that connects users to their favorite local eateries.

DIFFERENT SOURCES OF CAPITAL

| | |
|--------------------------------------|---|
| PERSONAL ASSETS | Personal assets can include savings, stocks, mutual funds, bonds or other investments and personal property that can all be used for capital investment. Family and friends are also sources of capital throughout the stages of business development. |
| FINANCIAL INSTITUTIONS | Institutional investors such as pension funds, life insurance companies, banks and other financial institutions provide risk financing. |
| PRIVATE EQUITY FINANCING | Venture capital firms are companies that typically have particular investment strategies or preferences and often take equity in return for their investment. Angel investors are individual investors who may want to be silent partners, or want to be actively involved in the business by contributing their experience and knowledge. |
| PUBLIC EQUITY FINANCING | An advantage of using public equity for investment is its liquidity as most publicly traded stocks are available and easily traded daily through public market exchanges. |
| GOVERNMENT GRANTS & LOANS | Agencies and crown corporations like the Business Development Bank of Canada provide equity financing as well as counselling, training and mentoring to small businesses. |
| ALTERNATIVE LENDERS | These include peer-to-peer platforms such as Lending Loop, international trade financing companies, and specialized financial institutions such as insurance companies, commercial mortgage lenders, and specialty equipment financing organizations. |
| MAJOR CORPORATIONS | Major corporations sometimes invest in smaller companies when they're looking for strategic partnerships. |
| CROWDFUNDING | Crowdfunding is collecting financial contributions from many strangers not usually connected to the financial sector. It is usually done over the Internet, for a fee, through crowdfunding platforms and funding portals. Participating in online communities dedicated to this type of fundraising can help collect donations, offer rewards and take pre-orders. |



THE OPPORTUNITY

TAILORED FINANCIAL ADVICE.

Scaleup leaders would benefit from more advice and information on what types of capital could be the best fit for them, and more importantly, what sources are not well-matched for their current strategy and stage of growth.

INVESTORS WITH BENEFITS.

Beyond dollars and cents, the right investors can offer mentorship, connections, and advice. Scaleups should look for sources of capital that can provide the resources they need, and investors and financial institutions should be clear about what non-monetary benefits they can offer.

EXPAND LOAN-GUARANTEE PROGRAMS.

When governments provide a backstop for private lenders, it de-risks their investment and allows SMEs to access capital more easily. While the Canadian government has a loan guarantee program in place, it could be expanded to match the eligibility of the U.S. Small Business Administration program, which has higher maximum loans that also includes working capital.

IMPROVING PROCESSES

For companies to scale successfully, they must transition from *people-dependency* to *process-dependency*.

THE CHALLENGE

As companies scale up, the need to create easy-to-replicate processes becomes increasingly urgent. Orders can no longer be tracked on scraps of paper, and invoices cannot be drafted from memory. Information needs to be logged and shared in a predictable manner that allows work to be divided up among various functional teams more easily. Once these processes have been identified and documented, it is possible for leaders to assess whether they can be streamlined and if technological solutions would be an appropriate fit.

Adopting digital solutions—such as software for client management, accounting, communications and sales tracking—can assist with routinizing companies' tasks, improving productivity and quality control, increasing sales and market share, and reducing production costs. In fact, in some cases it can allow companies to grow substantially without the usual increase in employees or other assets and can be a big boost to productivity.

Despite readily available and affordable ICT solutions, choosing the best fit for a company's operations can be frustrating, as it tends to be time- and resource-intensive. Companies must also account for the total life-cycle impact of the ICT solution, including training, migration of existing data, and ongoing service fees. Increasing digitization also opens a business to increased security threats, both internally through carelessness or externally through a directed attack.

Steps for companies to consider:

- ✓ Understand all internal processes (e.g. order tracking, payment processing, hiring) and formally document them
- ✓ Review all processes for efficiencies, implement manual process upgrades and consider technological solutions
- ✓ For technological upgrades, develop a business case and explore possible solution options
- ✓ Analyze how each option can meet needs, how that compares with the associated costs, including training and ongoing maintenance, and how it compares to the opportunity cost of the existing status quo
- ✓ After selecting the best option(s), integrate with existing processes throughout the organizational structure
- ✓ Train employees and management to realize the full potential of implemented solution(s), and develop a strategy for ongoing maintenance and onboarding



QUICK FACTS



Business productivity in Canada is about 30% below that of the U.S. In knowledge-intensive industries, the gap is 50% and widening.²¹



Canadian firms invested only 56.3% of the U.S. level in ICT per worker in 2014.²²



In 2016, Canada ranked 22nd in the OECD for firm-level technology absorption.²³



Fewer than one of four Canadian SMEs invest in R&D. Their uptake is significantly lower than larger firms and they face higher barriers.²⁴



60.5% of innovating SMEs across the country saw their market share increase after implementing their innovation projects.²⁵



THE OPPORTUNITY

PROVIDE HANDS-ON GUIDANCE.

Public and private organizations that provide business assistance should develop and share resources to help companies identify and document their key practices, including customer relationship management, hiring and onboarding, and sales.

GOVERNMENT INCENTIVES.

In order to boost business productivity, governments should partner with industry associations to provide matching funding for process, hardware and software upgrades. Programs offered by the five regional superclusters, including Next Generation Manufacturing Canada (NGen), should also incentivize the adoption of Lean processes and effective ICT solutions.

CREATING A MARKETPLACE FOR B2B SOLUTIONS.

Hiring an external consultant is a luxury many SMEs cannot afford. An online marketplace for technology solutions optimized based on cost, rating and use-case, would be a game-changing tool to connect both companies offering their products and those sharing their challenges in search of a solution. Industry-specific associations, in particular, should explore this option for the businesses they serve and consider highlighting Canadian innovations.

“When it comes to innovation, companies that are scaling need to focus on a few key areas — like product and culture. In other areas, like accounting and HR systems, their goal should be parity with other companies. Otherwise, you waste valuable time and effort and end up performing worse in those areas.”

– Raymond Luk, Founder and CEO of Hockeystick

Hockeystick is a data and software provider for the private market.



PROTECTING INTELLECTUAL PROPERTY

To succeed at scale, companies must have an innovative offering and a strategy to protect their intellectual property.

THE CHALLENGE

As companies begin to scale, they must understand their unique value proposition: what form of innovation do they have to offer? Identifying that innovation and developing an intellectual property (IP) strategy is an essential process for any company looking to scale up. Whether it's a product, process, or brand, protecting IP through patents or trademarks can give companies a leg up over competitors, protect market share, attract financing, and reduce future litigation and compliance costs.

Complexity around IP protection poses serious challenges to SMEs. Companies often lack sufficient knowledge about the value of their IP, its relevance to their business operations, and their options to protect it until problems arise. Although legal processes to protect IP may be expensive, resolving IP disputes without a clear paper trail can be even more costly and drawn-out, particularly when the issue crosses international borders.

IP protection is especially important when companies are looking to export or shift production to international markets. Canada's free trade deals, starting with the Comprehensive and Progressive Trans-Pacific Partnership (CPTPP) and the Canada-United States-Mexico Agreement (CUSMA), are beginning to incorporate lengthy chapters around IP protections, both benefiting Canadian companies and deepening the difficulties around compliance.

While there are some significant advantages to securing patents and trademarks and having an articulated IP strategy, some scaleup leaders suggest it should not be overemphasized and that strong business execution is a more effective way to beat competitors than through the courts. This argument is likely more applicable for intangible assets such as source code than for manufactured goods.

The OECD defines four main types of innovation:

1. **Product innovation** is the introduction of a good or service that is new or significantly improved.
2. **Process innovation** is the implementation of a new or significantly improved production or delivery method.
3. **Organizational innovation** is the implementation of a new organizational method in the firm's business practices or external relations.
4. **Marketing innovation** is the implementation of significant changes in product design, packaging, placement, promotion or pricing.



THE OPPORTUNITY

CANADA'S IP STRATEGY. This 2018 federal initiative includes education resources, an online public sector-owned IP marketplace, a Patent Collective pilot program, and an updated legislative framework around IP. These initiatives are crucial to help bridge the knowledge gap for businesses and help them capture the economic value of their IP, but the implementation of the strategy should be significantly accelerated.

IP IN POST-SECONDARY CURRICULUM. Colleges and universities should review their courses, especially those in business and STEM fields, to ensure adequate attention is focused on IP. Additionally, post-secondary institutions should focus on opportunities to commercialize research and IP developed on campus, unlocking innovation and creating value for the institutions.

AFFORDABLE IP LEGAL ADVICE. IP expertise can be prohibitively expensive for SMEs. Through the Canadian Intellectual Property Office, businesses can access seminars and IP advisors to discuss the strategic value of their IP and how to monetize it. The government should ensure companies are aware of these opportunities. Existing business support programs should have an in-house IP expert or be able to refer businesses to affordable IP advice.

INSTITUTE A PATENT BOX. Jurisdictions around the world, including Quebec, have instituted a preferential tax rate related to income from commercialized patented products. Depending on the design, this can both incentivize R&D activities and prevent IP from being transferred to other jurisdictions. Ontario should consider this approach to encourage greater innovation and job creation.

“Filing for patents requires time, patience and cash. We spend a lot on lawyers, but we’ve been very successful at landing patents and protecting them. As we get into growth through partnerships, it’s critical to have the right people and protections in place. ”

– Hari Suthan, Chief Strategic Growth and Policy Officer, Opus One Solutions
Opus One Solutions is a software engineering and solutions company with the vision of a distributed energy economy.

QUICK FACTS



There are 28% fewer patents owned by Canadians than invented in Canada.²⁶



Only 4.2% of Canadian SMEs had an IP strategy in place in 2011. When asked why they were not seeking IP rights, 82.6% of SMEs indicated that IP was not relevant to their business.²⁹



Canadian firms receive \$3.9 billion in net payments from abroad for research and development (R&D) services but pay \$8.3 billion to foreign firms for the use of IP (the use of IP).²⁷



SMEs that hold formal IP are four times more likely to export and 64% more likely to be HGFs. Businesses using IP in patent-intensive industries have about 8 to 10 times more revenues than those not using IP.³⁰

TM

In 2017, only 27% of Canadian SMEs held formal IP. The most common was a non-disclosure agreement, followed by trademarks.²⁸

SUPPORTING ECOSYSTEM

HGFs are more likely to succeed with a supportive local ecosystem, creating a positive feedback loop where other companies are more likely to scale up.

“Success builds success. When you start to see one or two or three or four homegrown companies start to succeed, you attract more businesses and train more leaders, and there’s a scaleup effect. We are seeing that flywheel working pretty well right now, better than I’ve seen in the past 30 years.”

– Allen Lau, CEO & Co-Founder of Wattpad



THE CHALLENGE

As evident from the successes of Toronto's startup ecosystem, supportive regional conditions can be a major factor in helping businesses overcome the barriers to growth outlined in this report.

A co-ordinated policy and program approach are needed to nurture the growth ambitions of SMEs and give them the tools and confidence necessary to overcome both internal and external growth challenges. Confidence is a key factor in shaping leaders' ambitions: research from Deloitte found that UK firms had an increased desire to scale up if they saw their peers do so first. To be successful, SMEs need to see themselves as scaleups and know that growth is within their reach.

In addition to good business operating conditions, the most successful scaleup ecosystems are places where people want to live, attracting students, researchers, young professionals, and families.

This high density of talent can find many job opportunities in one region, gaining experience that can enable knowledge transfer between post-secondary institutions, startups, scaleups and large firms.

Industry clusters also benefit from this network effect, including the development of local supply chains. Greater strategic coordination among cluster participants could help improve collaboration or identify opportunities to specialize and develop a global advantage.

Of course, not all SMEs are looking to grow their operations, and some grow regardless of the conditions around them. The overarching goal of a supportive ecosystem should be to help those businesses that want to grow but are not sure how, and to encourage those that have not given serious consideration to their growth potential to do so in a strategic and informed way.

There's no roadmap for how to successfully scale a growing business. That's why developing a strong peer network and learning how other leaders face issues is essential. I would challenge everyone to go out and have conversations with other leaders and listen to their problems and perspectives. It's not about trying to solve your own immediate challenges, but rather its about expanding your aperture and looking at the world in a different way.

– Victor Wong, Managing Director, Content and Operations, Flipp

Flipp is a retail technology company that is reinventing the way people shop.

COMPANIES HAVE A BETTER POTENTIAL OF SCALING UP IN AN ECOSYSTEM THAT:

- ☑ Has supportive government partners and enabling public policy
- ☑ Provides opportunities for entrepreneurship education and training
- ☑ Provides access to peer-to-peer networks, mentorship and collaboration with other companies
- ☑ Incentivizes risk-taking and experimentation by entrepreneurs
- ☑ Profiles successful role models and their stories

CASE STUDIES

How other global leaders are building a scaleup advantage.



SILICON VALLEY

When Canadian Economic Development Minister Navdeep Bains announced funding for five new superclusters, he referred to them as “a made-in-Canada Silicon Valley that will create tens of thousands of jobs.”³¹ The Northern California region features a dense concentration of technology companies, and for the past decade the region has consistently created innovation industry jobs faster than any other innovation region in the U.S.³² The region’s advantages include:

- An encouraging start-up culture and many large firms, providing significant opportunities to develop and transfer experience
- World-leading universities producing skilled technical and business talent, including a large number of STEM graduates
- Strong access to capital - over \$25B invested in local startups in 2017³³ and many dedicated venture capital firms
- Intangible measures that make people want to live in the area, including great weather and dynamic cultural events.

BOSTON

Boston is a top scaleup ecosystem in the United States, and Startup Genome recently ranked it as the 5th strongest worldwide. Boston’s sectoral strengths lie primarily in advanced manufacturing, robotics, and life sciences, and it is comparable to New York and California in terms of scaled companies in these sectors. The city has particular strengths in talent development, venture capital and ecosystem support:

- **Talent:** Boston’s concentration of world-class educational institutions create a steady stream of start-ups and the STEM talent these companies require to successfully scale.
- **Capital:** The city’s deep pool of venture capital is linked to its educational cluster: founders of successful growth companies reinvest into the ecosystem and become mentors. Massachusetts receives more venture capital funding than any other state except California.
- **Ecosystem:** More than 50 incubators and accelerators (including MassChallenge, which selects start-ups through a competition where companies compete for cash prizes and are provided networking and advisory supports), the federal Small Business Innovation Research program, and the Massachusetts Emerging Technology Fund, among others.

TEL AVIV

Tel Aviv's scaleup success is often attributed to its well-developed human capital that is continually nurtured through programs such as Brain Gain, Innovation Visa Program, and Microsoft ScaleUp Program. A particularly defining characteristic is its entrepreneurial spirit, with strong public support and a culture that sees failure as valuable experience. That has helped build a talent pipeline with high levels of experience compared to other jurisdictions – 63% of scaling firms in Israel are run by people with prior founding experience.³⁴ The city also has a high level of global market reach and connectedness, through program such as Tel Aviv Global.

Innovative approaches to support company growth developed by the Israel Innovation Authority (IIA), formerly the Office of the Chief Scientist, have paid dividends in recent years. An independent, publicly funded agency, it provides a variety of practical tools and funding platforms aimed at addressing the changing needs of the local and international innovation ecosystems.

LONDON

London's vibrant and mature scaleup ecosystem has several world-leading components. Through a high concentration of top international universities, research institutions, and anchor firms, there is well developed talent pipeline throughout the ecosystem, with strong international pull and a high level of immigrant founders. As the second-largest financial centre in the world, London benefits from ample access to domestic and foreign investment, as well as the expertise associated with it, incredible global orientation, and market reach.

Several government and private sector initiatives have supported the ecosystem's steady growth, including:

- **The Scale-Up Institute:** A private-sector led, non-profit organization which leads a coordinated and comprehensive effort to connect the ecosystem through training program providers and assessing their results, connecting businesses with scale-up programs, and tracking and reporting scale-up data.
- **The Growth Accelerator Programme:** Launched in 2012 with £200 million in government support, the program aims to remove barriers to growth across several verticals, specifically for scaling companies.
- **Tech Nation Visa:** Helps to expand the pool of talent available to scale-ups by supporting the entry of digitally-skilled talent into the UK in a way that avoids lengthy and restrictive regulatory processes.



DEFYING GRAVITY

In Ontario, more than 170 incubators and accelerators are nurturing a thriving startup ecosystem that aims to turn great ideas into commercial products. Yet, our firms face significant challenges and limited support growing from small to medium to large companies. Our competitiveness and long-term economic prosperity depend on our ability to close this scaleup gap.

The considerable impact of scaleup companies on employment and economic growth is irrefutable. The urgency to create a supportive scaleup ecosystem to help foster and manage that growth cannot be overstated. Transformative action will require meaningful collaboration and coordination between governments, training institutions, and the private sector, built on the foundation of consistent and publicly available data on business growth in Canada.

While the challenges to growth outlined in this report are complex and ongoing, the success stories of HGFs from across the country demonstrate they can be overcome through building a supportive scaleup ecosystem.

For governments at all levels, that means re-assessing their procurement practices so that they can be more inclusive of SMEs, acting as a catalyst to their growth. Business support programs need to be re-designed to assist businesses with accessing the right capital and investing in more productive processes. Training providers and academic institutions need to build in greater flexibility

in their programs, include a greater focus on sales strategy and execution, and stay current on the practical business application of intangible assets. Lastly, individual companies must take a more proactive approach on defining their core values, improving internal processes, meeting talent and capital needs, and building peer networks.

When it comes to specific programming, the Board's research and consultations have confirmed the necessity for tailored and hands-on expertise and advice. Building on the Board's program experience, extensive network and reputation as a convener, and the insights of this report, WTC-T will be designing its own program to help companies scale up and overcome barriers to their continued growth. The WTC-T's TAP already fills the gap around export assistance, demonstrating that comprehensive hands-on guidance for SME leaders can provide them with the knowledge, confidence, and support they need to increase their international market access and overall exports.

Running a successful business of any size is difficult, and attempting to sustain a scaling growth rate is even more challenging, but the advantages for our economy and society are undeniable. This report makes the case that defying gravity is possible for firms in all industry sectors with the right support, programs and policies. The Toronto region can build on its reputation and become known as a leading global scaleup ecosystem.

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ACKNOWLEDGMENTS

This report was written by Raly Chakarova and Craig Ruttan for the World Trade Centre Toronto (WTC-T) and the Toronto Region Board of Trade. It was designed by Lisa Davison Design.

We would like to thank our Advisory Committee members for their time and insights into the writing of this report, as well as the 200+ SMEs that completed our survey and the scaleup companies that made time for one-on-one interviews. Supporting research conducted by Vickey Simovic and Deloitte.

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