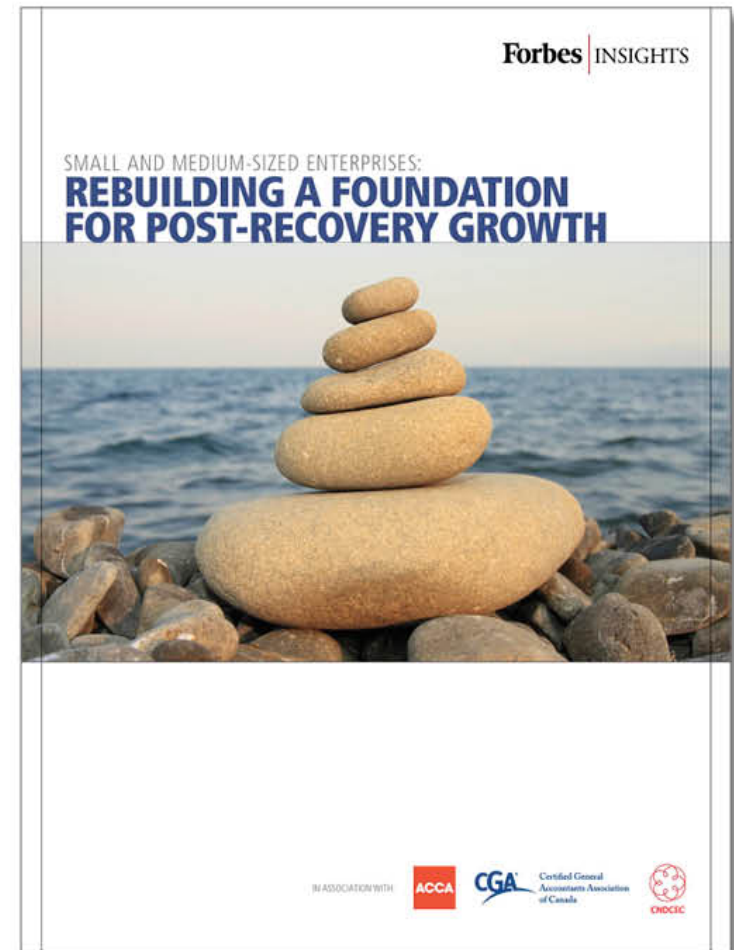


SMALL AND MEDIUM-SIZED ENTERPRISE  
**COUNTRY FOCUS:  
CANADA**



## About the survey

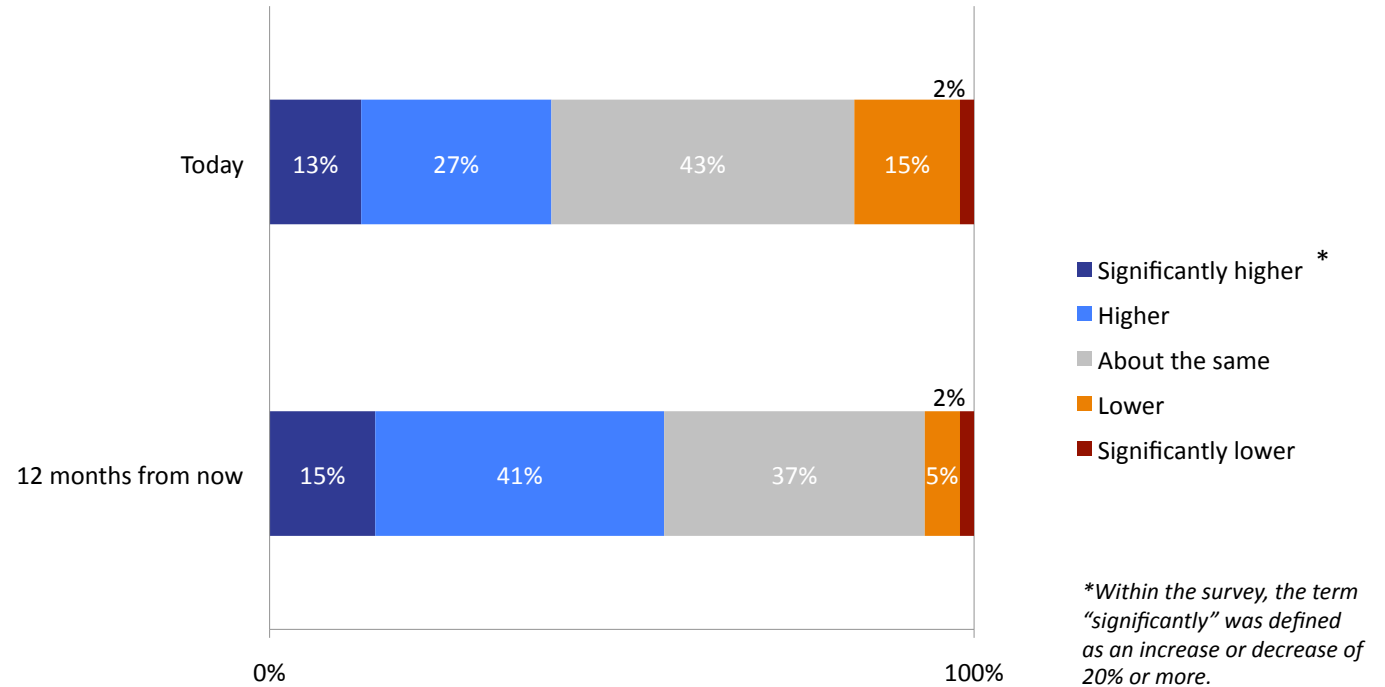
In October 2010, Forbes Insights conducted a survey of small and medium-sized enterprises (businesses with 250 or fewer employees) in Canada and five other countries (China, Italy, Singapore, South Africa, and the U.K.). In total, 315 Canadian SMEs participated in the survey, including representative samples of micro businesses (under 10 employees), small businesses (10-49 employees), and medium-sized businesses (50-250 employees). The survey was done in association with the Certified General Accountants Association of Canada (CGA-Canada), the professional association of certified general accountants in Canada; ACCA (the Association of Chartered Certified Accountants), the global body for professional accountants; and CNDCEC, the professional body for certified accountants in Italy.

The aggregated findings are available in the study: *Small and Medium-Sized Enterprises: Rebuilding a Foundation for Post-Recovery Growth*.

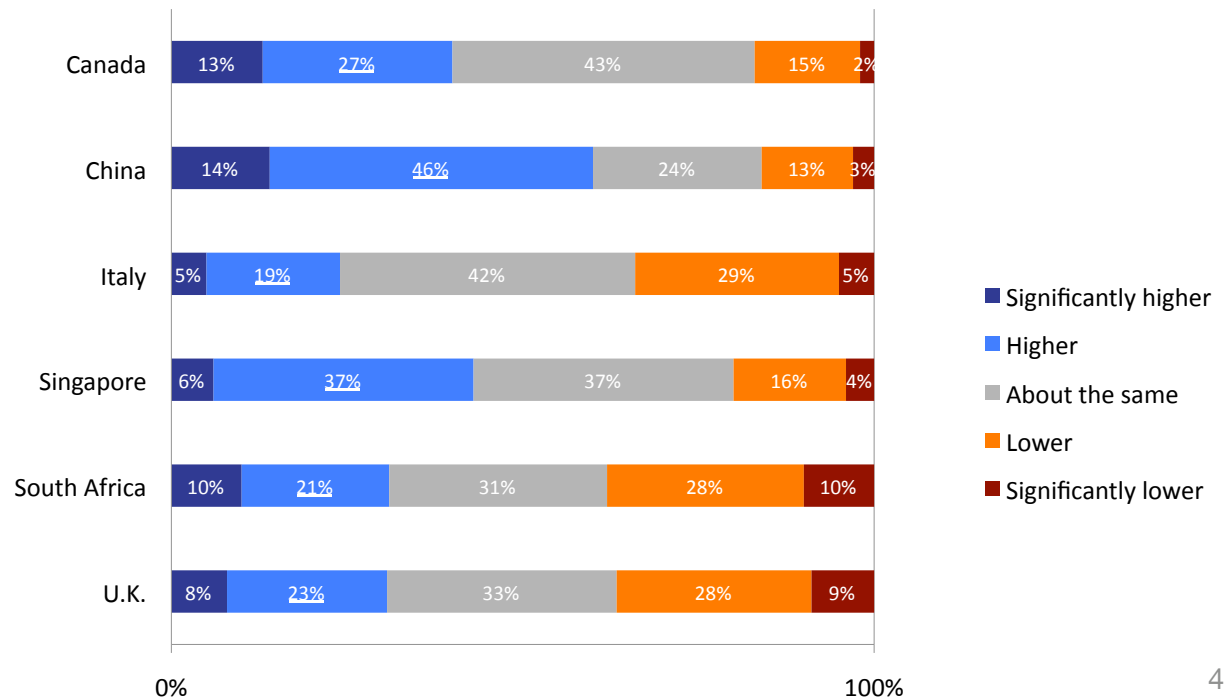
## Key findings: revenue performance

**Having made it through the 2008-09 recession, Canadian SMEs were more likely than SMEs in three of the five other countries to experience revenue growth over the past year.** Overall, 40% of Canadian SMEs said current revenue was higher than it was a year ago, with medium-sized businesses the most likely to be growing. Looking ahead, 56% of Canadian SMEs expect higher revenue in the next year, 7% anticipate lower revenue, and 37% expect it to stay about the same. Profitability rates follow revenue. Today, 35% of Canadian SMEs said profitability was higher than it was 12 months ago, and 17% said it was lower. Over the next year, 54% expect profitability to be higher, and just 9% see it as lower.

## How does your current revenue compare to what it was 12 months ago? Where will it be in 12 months?



## How does your current revenue compare to what it was 12 months ago? (by country)

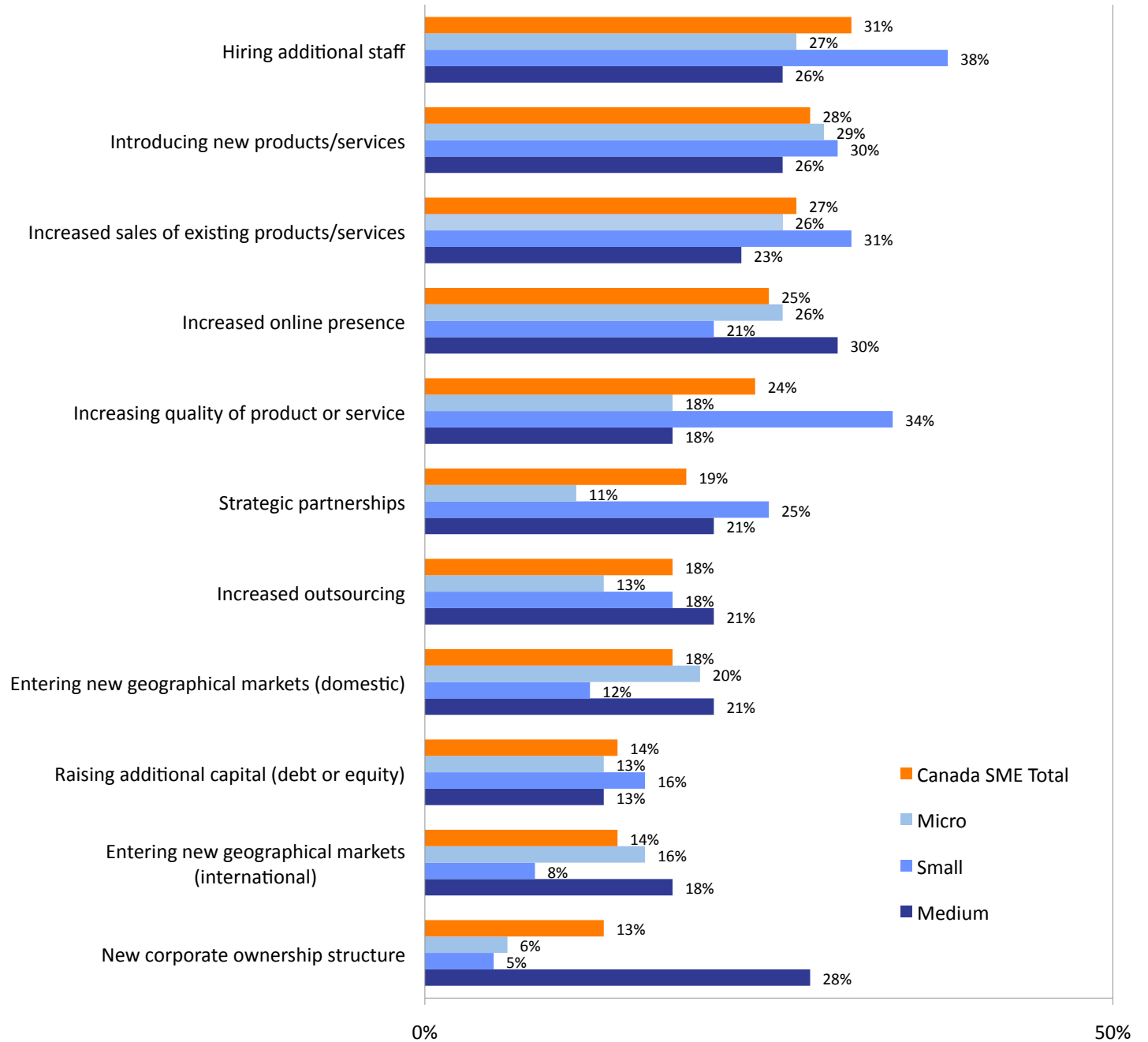


## Key findings: contributors to growth

### **Additional hiring will drive revenue for growing Canadian businesses.**

More than 30% of SMEs (31%) that anticipate revenue growth over the next 12 months said hiring additional staff would contribute to their growth. That was followed by introducing new products and services (28%), and increased sales of existing products and services (27%). In addition, 30% of medium-sized businesses said an increased online presence will fuel their revenue growth, and 28% said the growth would come from a new corporate ownership structure.

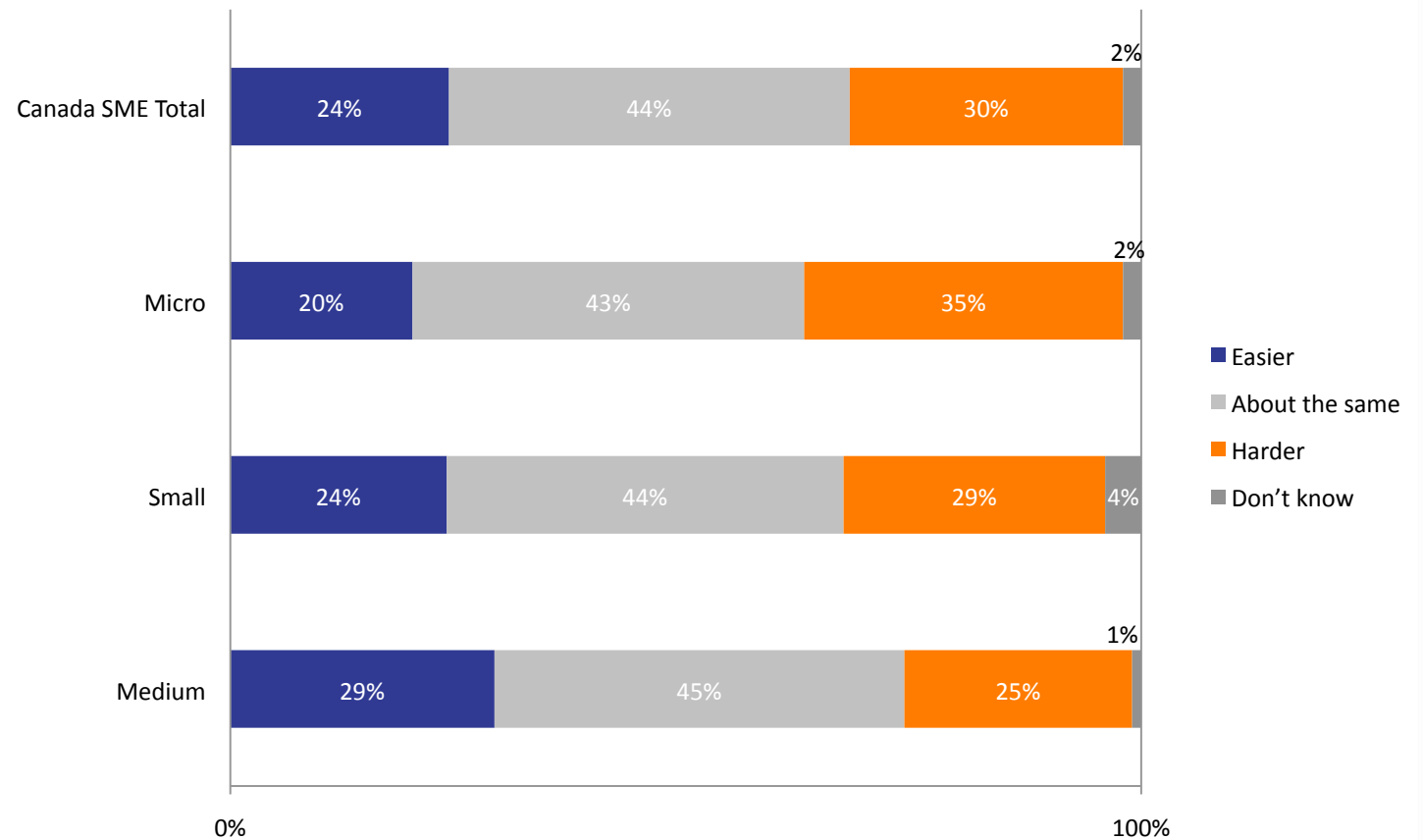
## What factors do you believe will contribute to this increase in revenue in the next 12 months?



## Key findings: cash flow management

**Despite rising revenue, cash flow issues are still a challenge for many Canadian SMEs.** Overall, 30% of Canadian SMEs said it was harder to manage cash flow today than it was a year ago, 24% said it was easier, and 44% indicated it was about the same. Canadian micro businesses appeared to be the more susceptible to cash flow challenges; 35% said managing cash flow was harder, and 20% said it was easier.

**Is it easier or harder today to manage your company's cash flow (cash position) than it was 12 months ago?**

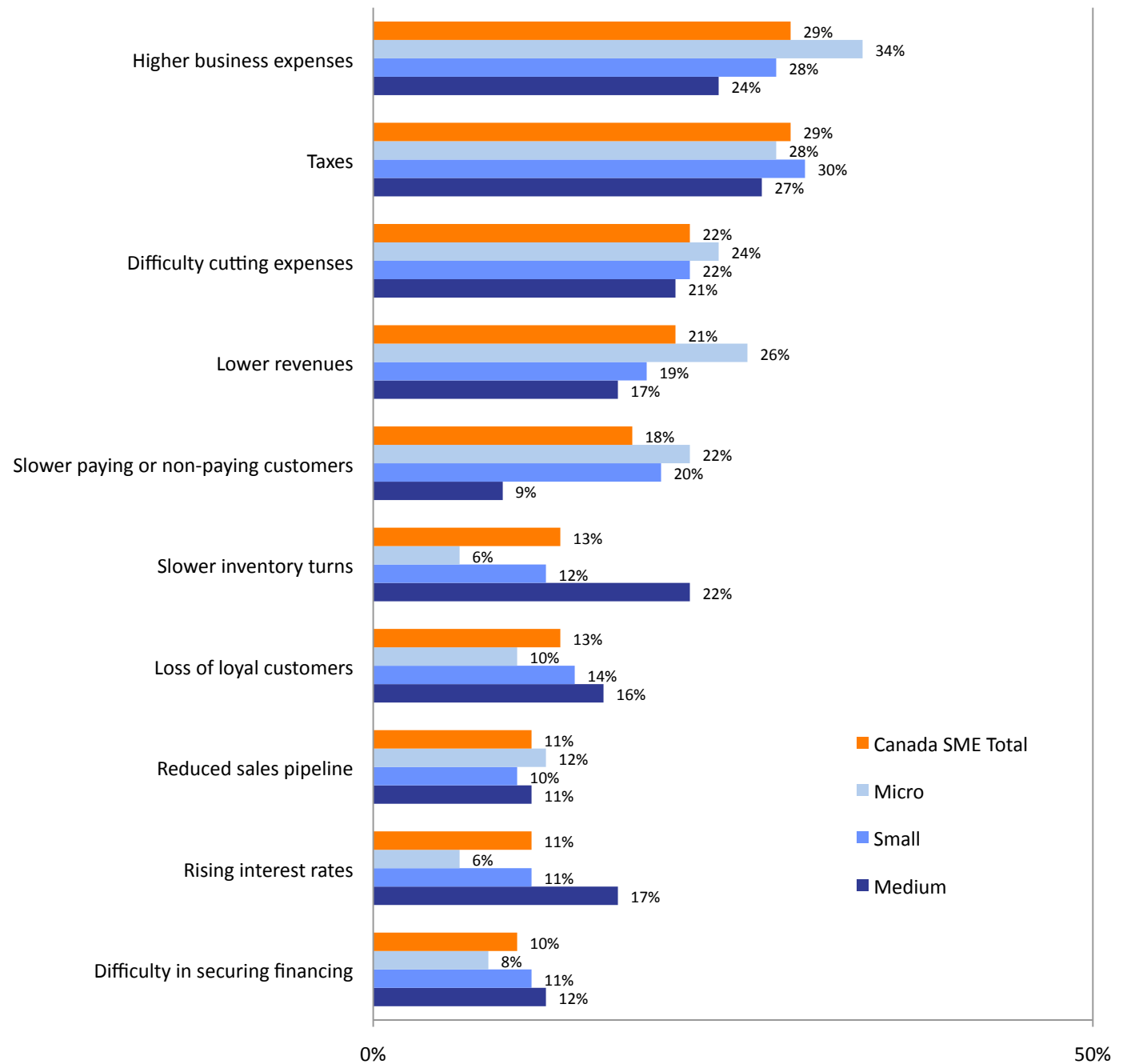




## Key findings: cash flow challenges

**Expense control is one of the biggest cash flow challenges Canadian SMEs are facing.** While a slowdown for receivables was a primary concern in other countries, Canadian SMEs were more concerned with handling their expenses. Overall, their top three cash flow challenges were higher business expenses (29%), taxes (29%), and difficulty cutting expenses (22%). Medium-sized businesses had a bigger concern than other Canadian SMEs with inventory turns. Micro businesses were more affected by lower revenues.

## What were the greatest cash flow challenges your business faced in past 12 months?

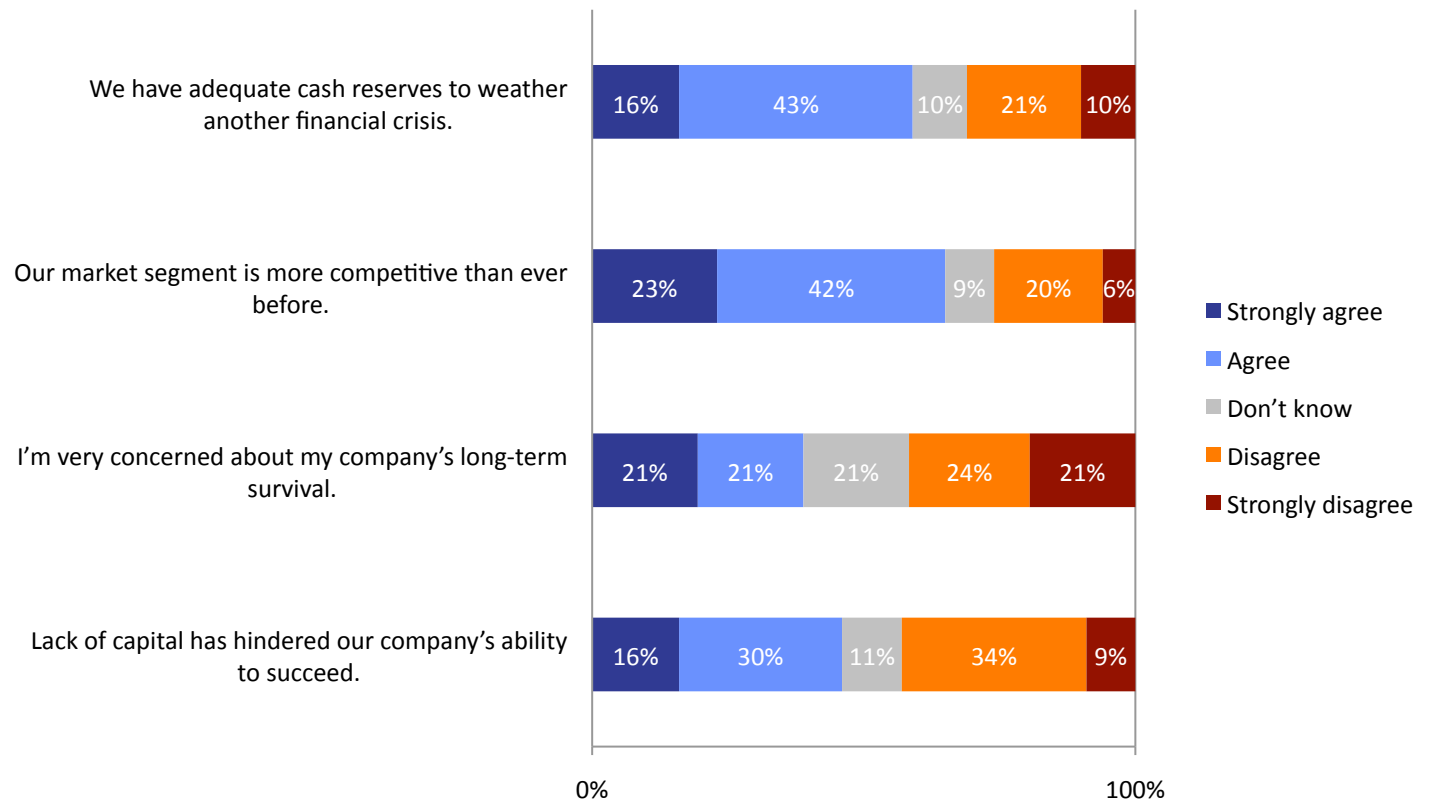


## Key findings: anxiety about survival

**A significant number of respondents were anxious that they don't have a strong enough capital position to survive another downturn.** Asked whether or not they felt they had adequate cash reserves to weather another financial crisis, 31% of Canadian SMEs said they did not. However, that rate is lower than SMEs in four of the five other countries in the survey. Other findings further highlight their concerns:

- 65% of Canadian SMEs said their market segment is more competitive than ever
- 54% were concerned about their company's long-term survival
- 46% indicated they believe that a lack of capital has hindered their ability to succeed

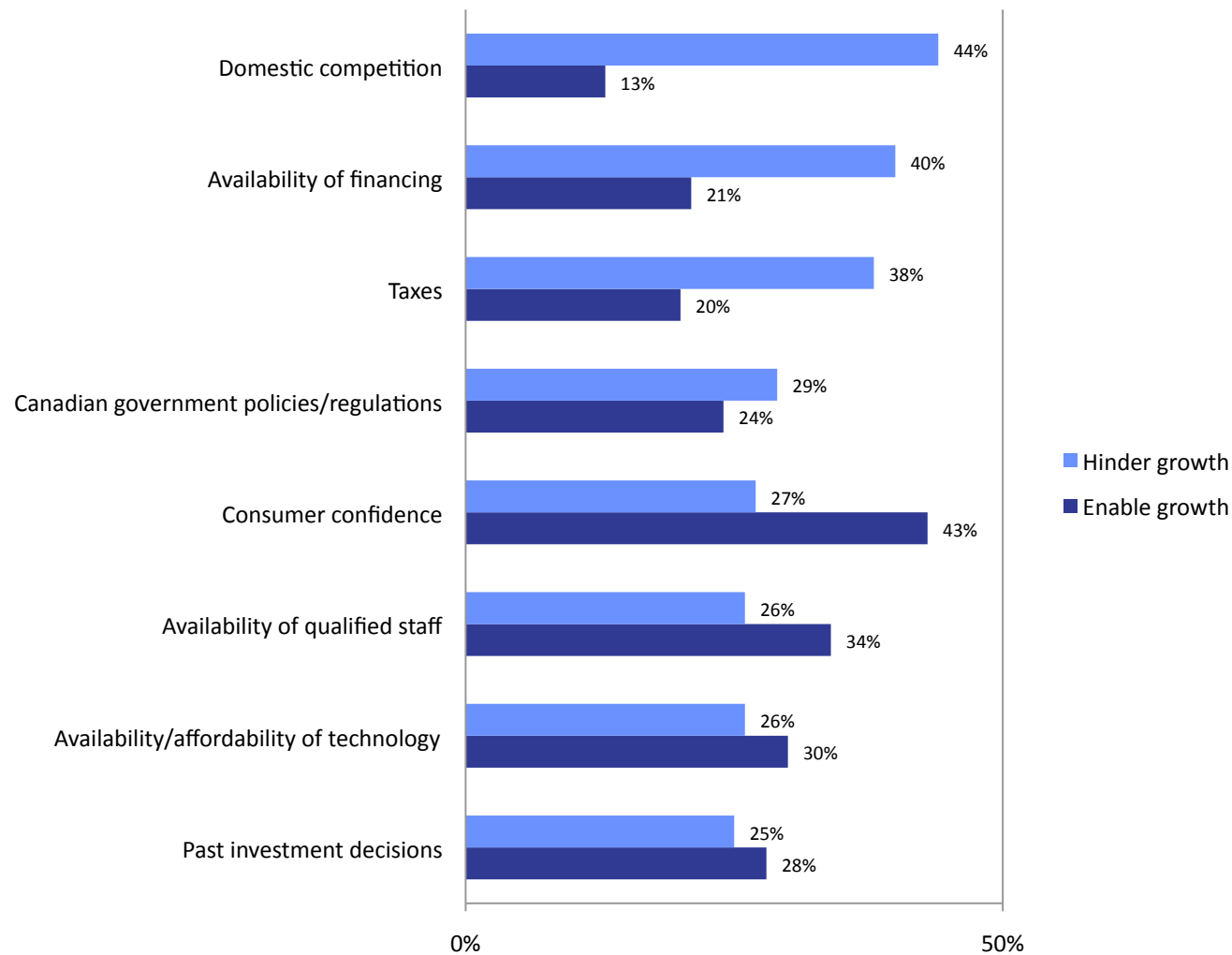
**Please rate your level of agreement with the following statements about your small or medium-sized enterprise.**



## Key findings: growth inhibitors and enablers

**Competition, financing, and taxes may be hindering Canadian SMEs' ability to grow.** Survey respondents were asked if different factors inhibited or enabled their prospects for growth over the next two years. Among Canadian SMEs, 44% indicated they believed domestic competition hindered their chances to grow, while just 13% thought it enabled growth; 40% felt availability of financing hindered growth (21% enabled), and 38% said taxes hindered growth (20% enabled).

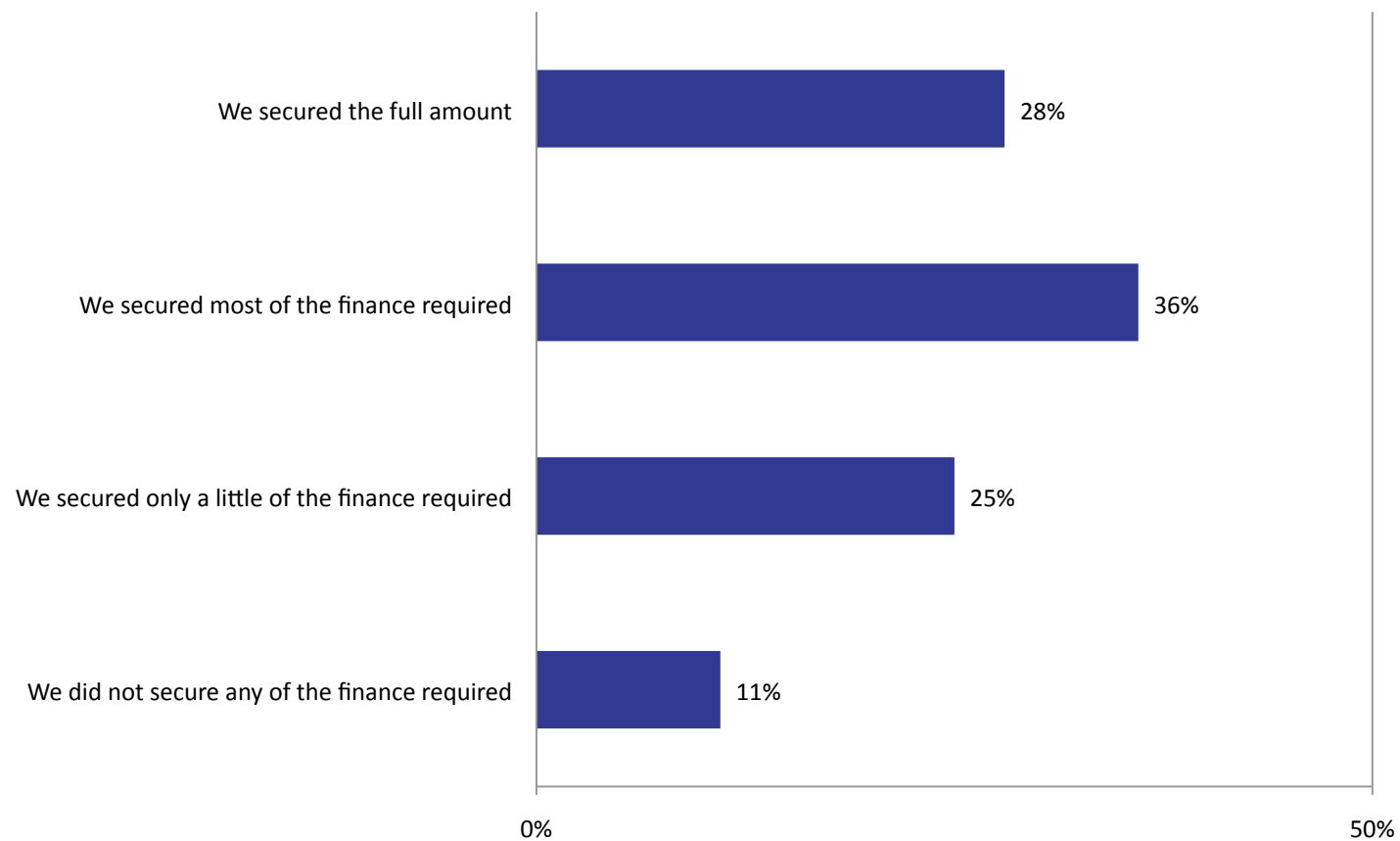
**Looking ahead to the next 24 months, what will be the impact of the following factors on your prospects for growth?**



## Key findings: financing performance

**Even during the height of the 2008-09 recession, most Canadian SMEs that applied for outside financing got most of the capital they required.** Overall, 78% of SMEs said they applied for financing over the past 24 months. Of those, 64% said they secured all or most of the funding they sought, 25% said they received some, and 11% received none.

**Thinking of all your financing needs over the past 24 months, which of the following best describes the outcome for the financing (regardless of type) that you actively sought?**

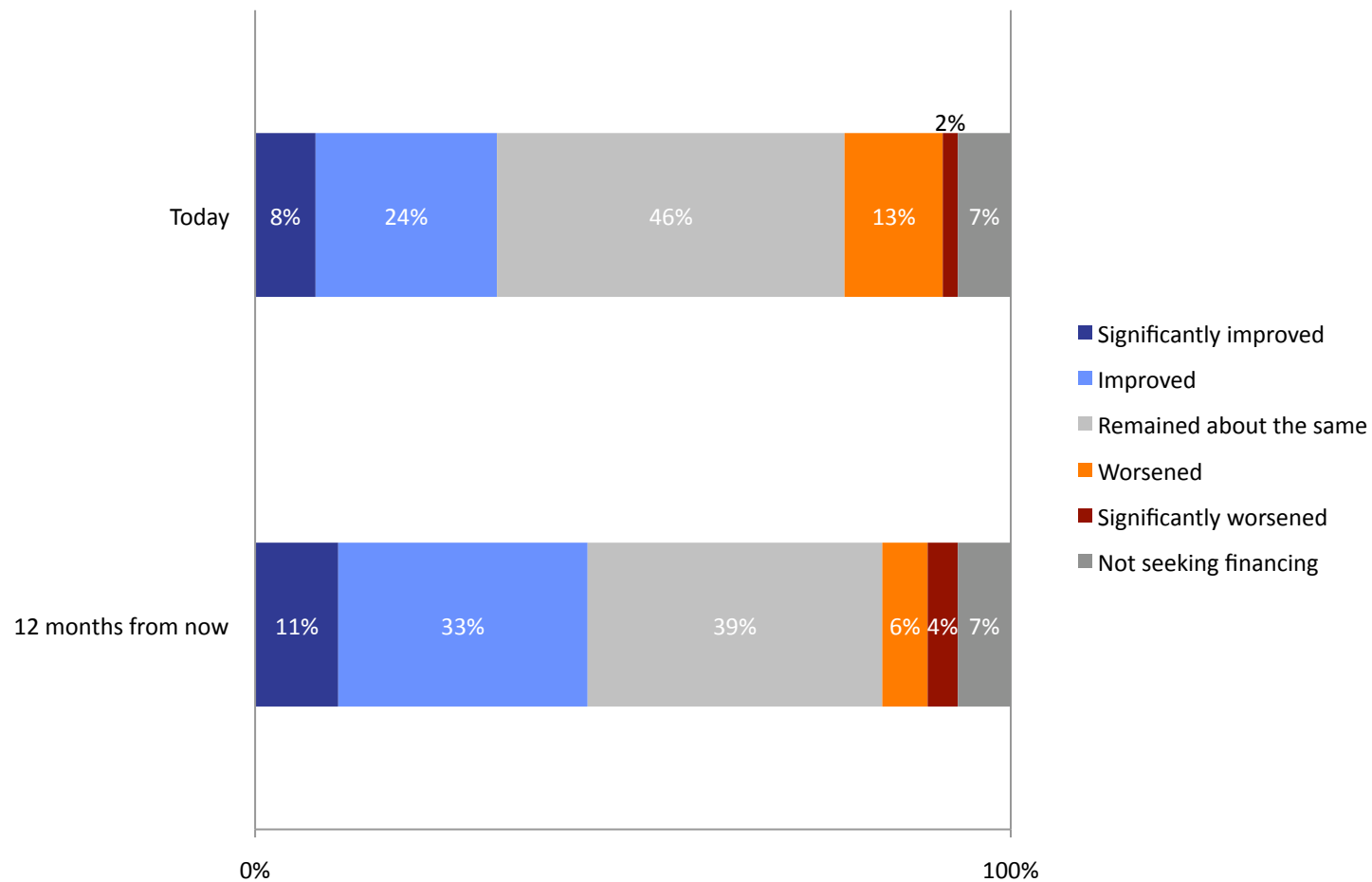




## Key findings: access to financing

**Some Canadian SME respondents said they're starting to see easing of their financing markets, but more see no change.** 32% said their ability to secure financing improved over the past year, while 15% said it worsened, and 46% said it remained about the same. The outlook for the next year is even better: 44% of Canadian SMEs anticipate their ability to secure financing will improve. Just 10% expect it to be worse, and 39% foresee no change.

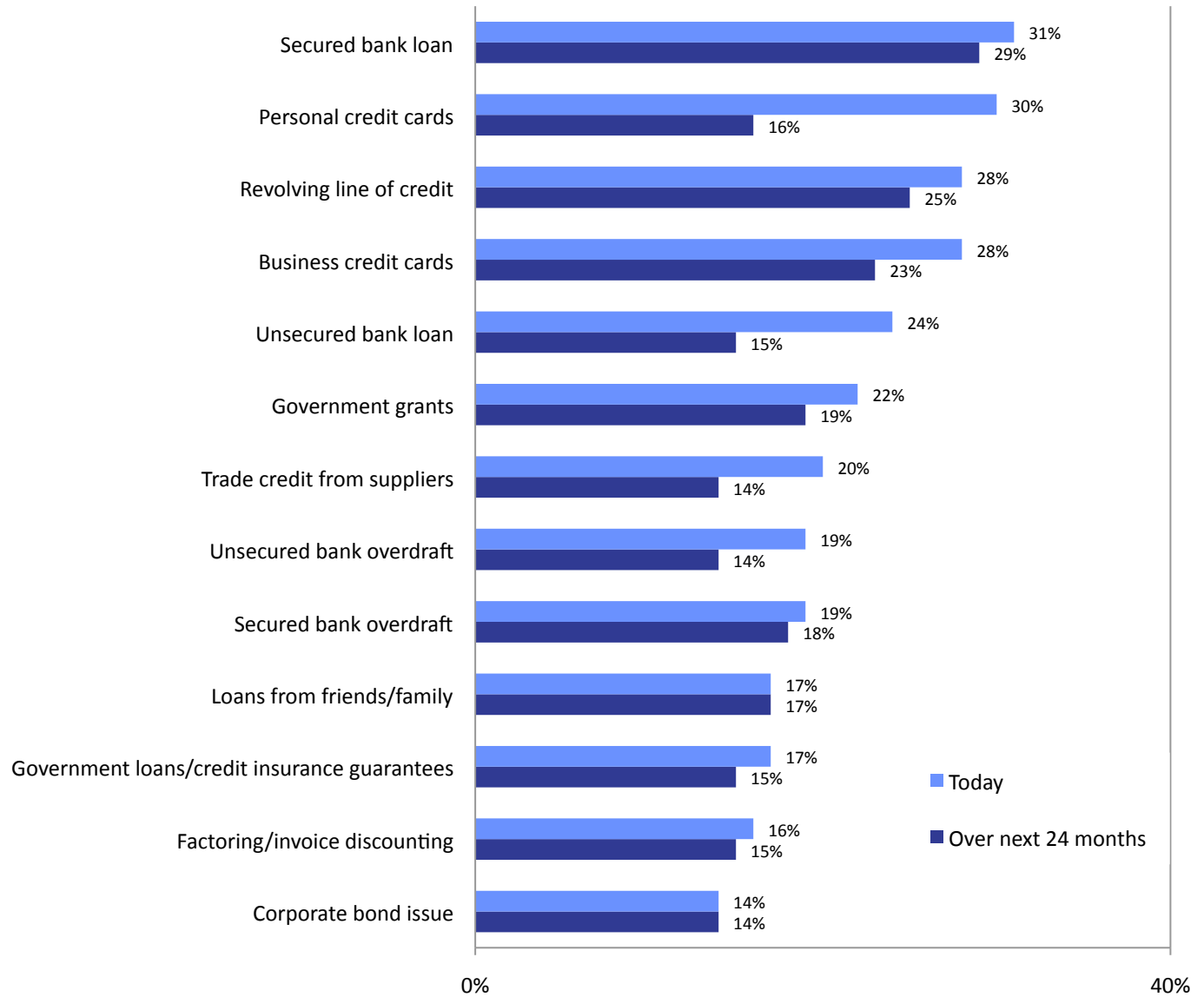
**Over the past 12 months, did your company's ability to secure financing improve, worsen or remain the same? How will it be in the next 12 months?**



## Key findings: debt financing

**Secured bank loans are the most common form of debt financing Canadian SMEs use today, and that will stay consistent over the next two years.** However, a disproportionate number of Canadian businesses today have turned to personal credit cards to fund their operations—often a risky substitute when other forms of financing are not available. Overall, the top three forms of debt financing Canadian SMEs use today are secured bank loans (31%), personal credit cards (30%), and business credit cards (28%). Over the next two years, secured bank loans (29%) are expected to be most prevalent, followed by revolving lines of credit (25%), and business credit cards (23%); personal credit cards drop to seventh place at 16%.

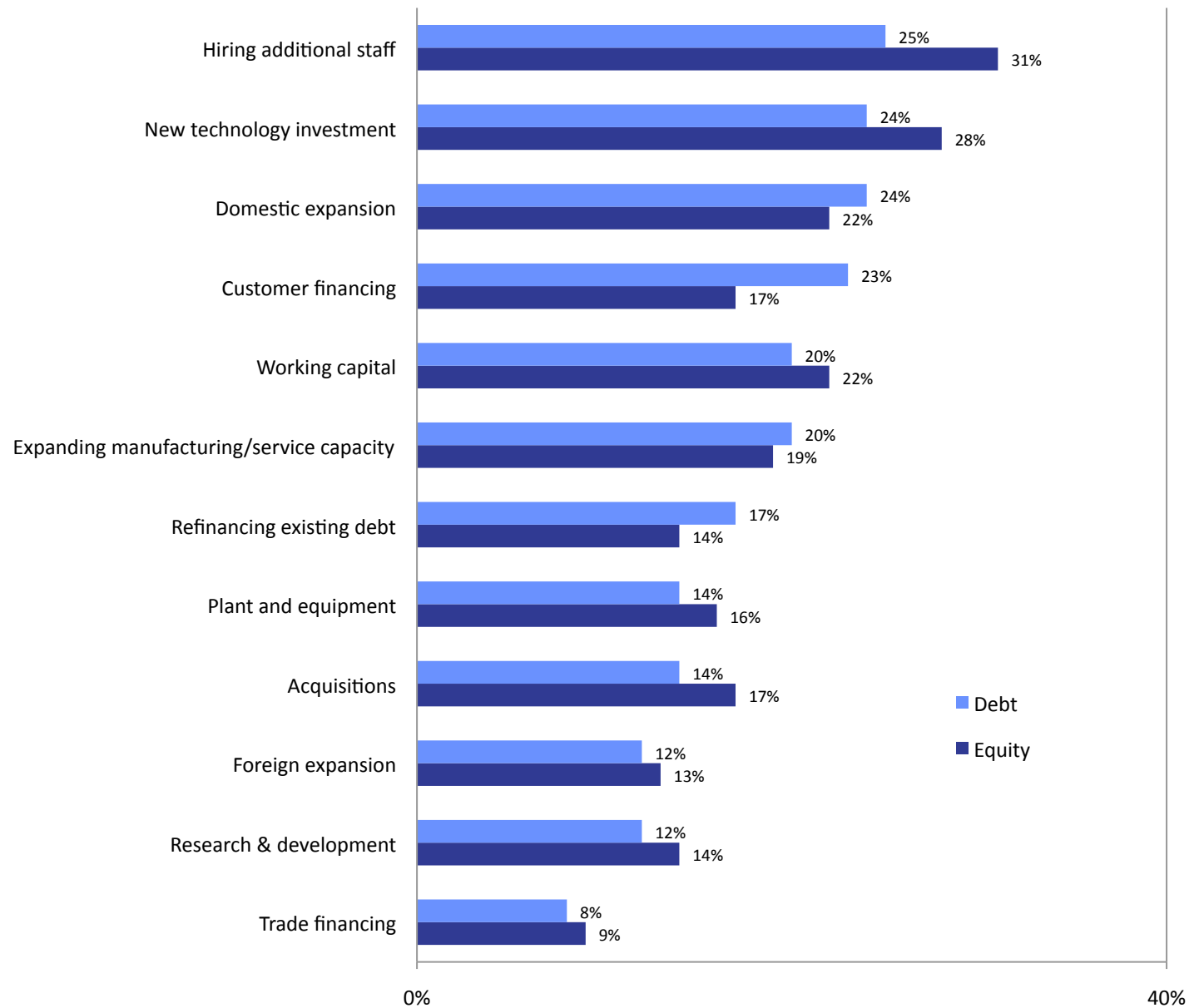
## Types of debt financing used



## Key findings: goals for financing

**Canadian SMEs want to use debt and equity financing to hire additional staff.** While SMEs in other countries may be looking for working capital, SMEs in Canada are focused on staffing and expansion. In the U.K., for instance, 48% of SMEs said they want to use debt financing for working capital. In Canada, the top three things they expect to use debt financing for over the next two years are: hiring additional staff (25%), domestic expansion (24%), and new technology (24%). Those seeking equity have similar goals.

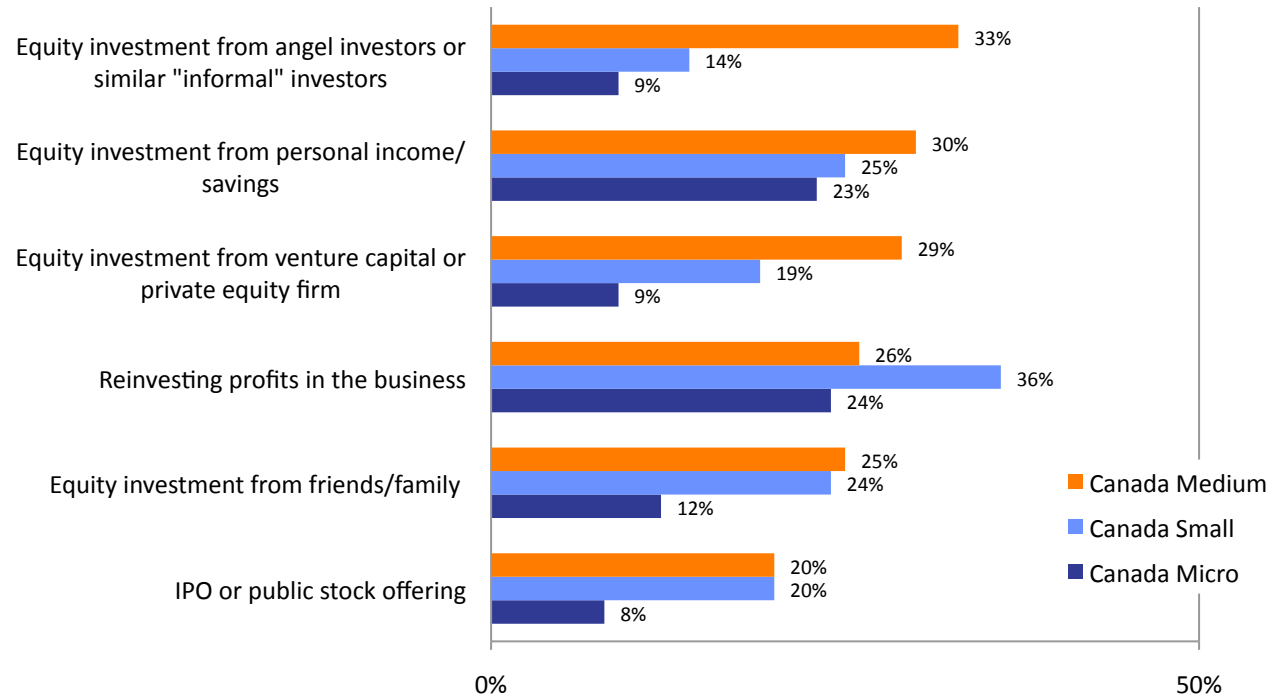
**Looking ahead to the next 24 months, what will you be using financing for?**



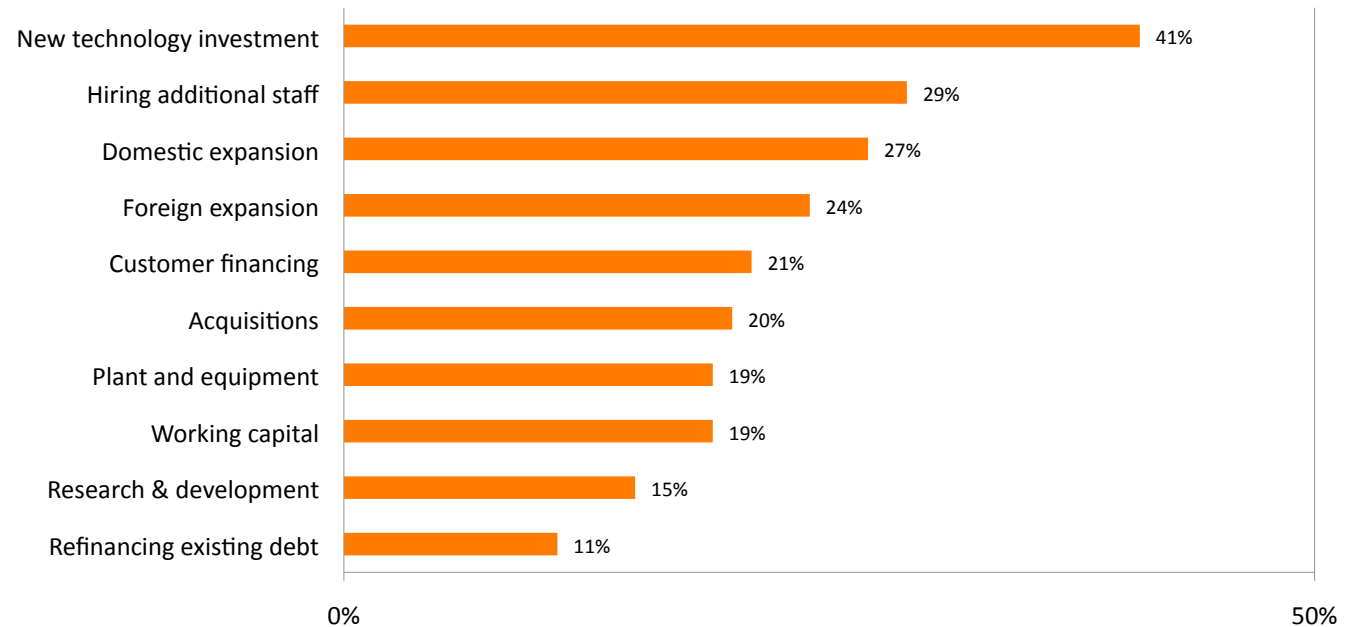
## Key findings: equity financing

**Medium-sized businesses in Canada are much more likely to consider equity financing than are either small businesses or micro businesses.** Looking ahead to the next two years, 33% of medium-sized businesses (50-250 employees) said they plan to seek angel investments, and 29% will seek venture capital or private equity. They plan to use equity primarily for technology investment (41%), hiring additional staff (29%), domestic expansion (27%), and foreign expansion (24%).

## What kind of equity financing do you plan to seek in the next 24 months?



## What will you be using this equity financing for? (medium-sized businesses only)

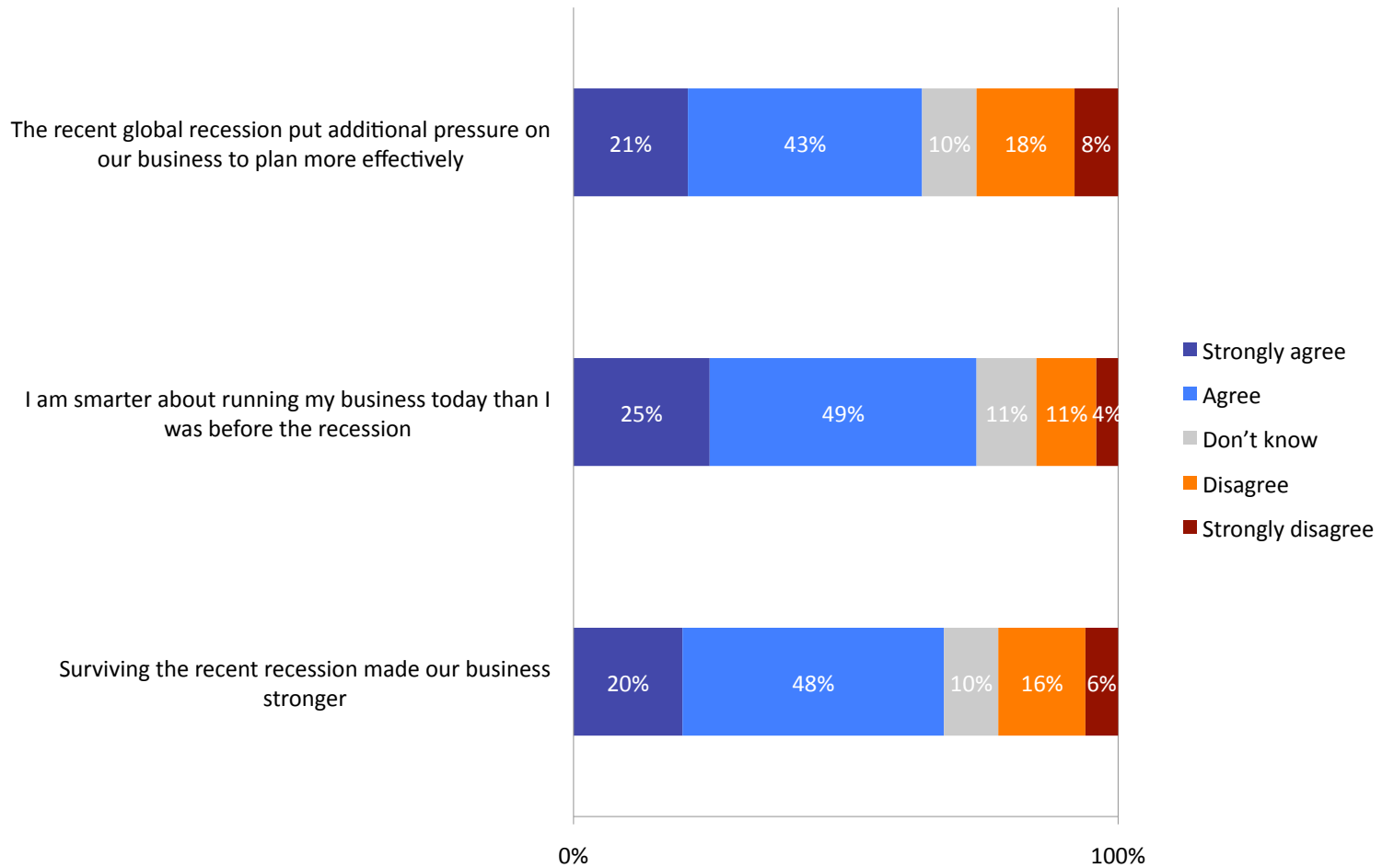




## Key findings: lessons learned

**Canadian SMEs in the survey said the recession essentially forced them to become better businesses.** Overall, 64% said they are planning more effectively, and an identical 64% agreed they are smarter today about running their businesses than they were before the recession. 68% said they feel they are in a stronger position today than they were prior to the downturn.

**Please rate your level of agreement with the following statements about your small or medium-sized enterprise.**



## Key findings: advice profiles

Looking at how SMEs use outside advice, four profiles emerged based on an SME's need for confidence in their business decisions and their trust of outside advisors.

- **Community Networkers:** Community-based businesses that try to get maximum value from their advice relationships. They work with professionals, and also leverage trade associations and chambers of commerce.
- **Confidence Seekers:** SMEs that value advice mostly from highly trusted authorities, gaining confidence from the expert's experience and insight. They also trust the government for advice more than do other SMEs.
- **Skeptics:** These SMEs don't find themselves reassured by advice. They are only confident in formally qualified advisors, but may be just as happy not to seek advice at all.
- **Go-It-Aloners:** This group takes almost no advice, and they don't go out of their way to find outside counsel.

Compared to other countries, Canadian SMEs are more likely to be either Community Networkers or Go-It-Aloners.

# Methodology

The information in this report is based on the results of a survey conducted online in October 2010 by Forbes Insights in association with CGA-Canada, ACCA, and CNDCEC.

Forbes insights received responses from 315 owners and decision makers at small and medium-sized enterprises in Canada. In total, 1,777 responses were received from SMEs in six countries: Canada, China, Italy, Singapore, South Africa, and the U.K.

For purposes of this study, SMEs were defined as businesses having up to 250 employees. The sample included SMEs of three sizes: micro businesses (those with fewer than 10 employees) made up 36% of Canadian respondents; small businesses (10-49 employees) were 35%; and medium businesses (50-250 employees) were 30%.