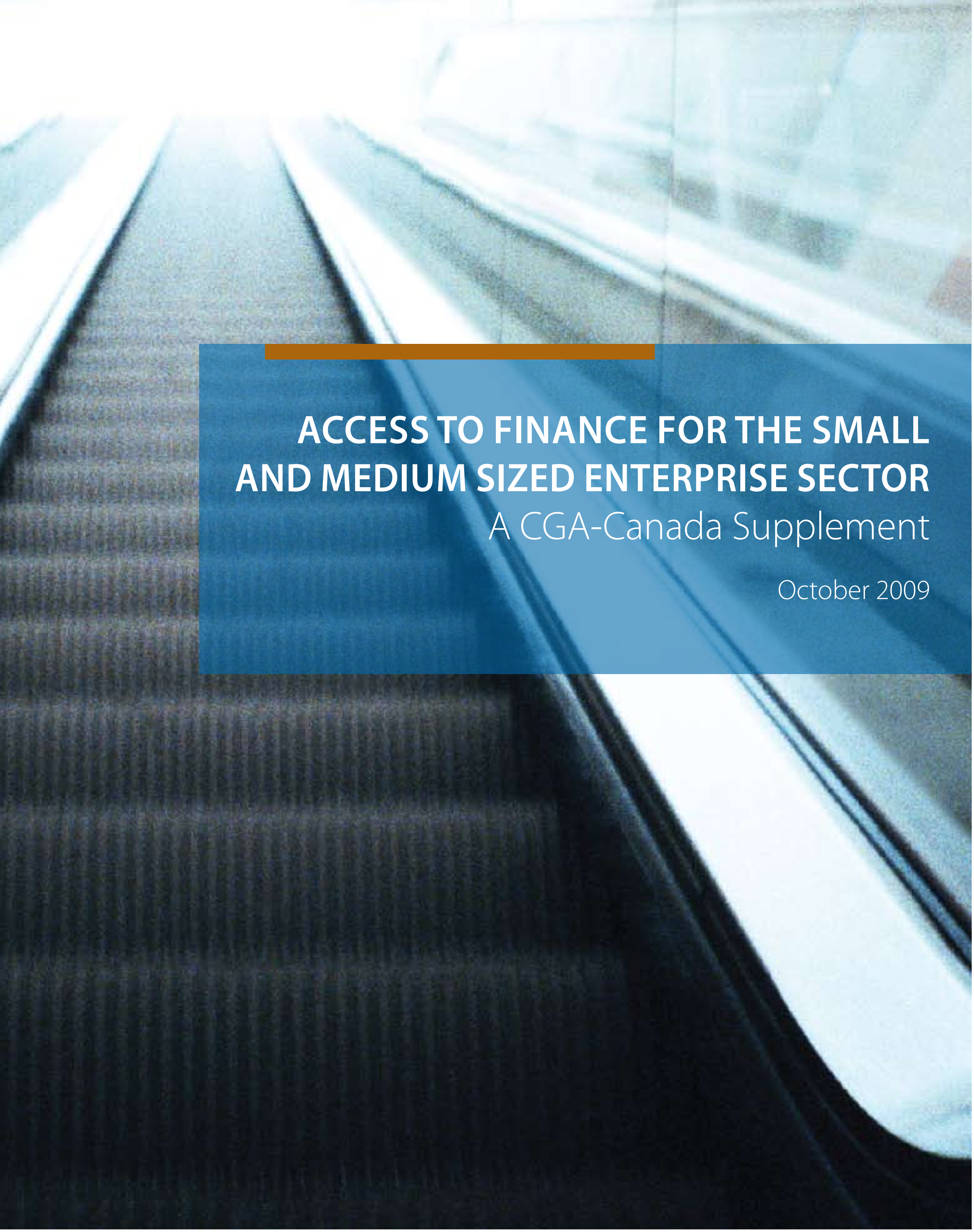

ACCESS TO FINANCE FOR THE SMALL AND MEDIUM SIZED ENTERPRISE SECTOR

A CGA-Canada Supplement

October 2009

CPA AUSTRALIA

CGA Certified General Accountants Association of Canada

ACCA

Access to Finance – The Canada Study

October, 2009

As part of a joint research project with the Association of Chartered Certified Accountants (ACCA) and CPA Australia, on the global state of access to finance for the small/medium enterprise sector (SMEs) CGA-Canada commissioned a further detailed study of this issue on the SME sector specifically in Canada.

This supplementary report has three sections:

1. **The Small Medium Enterprise Sector in Canada** – an overview of the characteristics, scope and economic impact of the SME sector in Canada generally.

2. **Results of Canadian research on SME financing** – a detailed report on the findings of our research conducted in the summer of 2009.

3. **The Research** – the full research report produced by our research service provider Synovate including questions and responses.

1. The Small / Medium Enterprise Sector in Canada

‘Small and medium-sized enterprises constitute 98 percent of all Canadian businesses and employ nearly half of the private sector labour force.

Representing all economic sectors, they are the backbone of our economy... businesses employing 50 or fewer workers contribute almost one quarter of Canada’s gross domestic product.’[1]

Canadian definitions of SME

Internationally, and within Canada, diverse definitions of SME exist, in part due to limitations imposed by data availability, in part to historic differences, and in part because what constitutes a small business in one sector or region may be quite large in another. Definitions may be based on employees, revenues, market valuations (where they exist) and other measures.

The SME portion of the economy is small only in name. It comprises over 1 million enterprises that have employees, or roughly 97.9% of all businesses in Canada. Medium sized enterprises represent approximately 1.8% of all firms and large companies just .3%.

Measured on the basis of employment, the picture is also impressive. Businesses with less than 50 employees employ almost half of the labour force. Medium sized employers employ a further 16% of the labour force, bringing total SME employment to almost two-thirds of all Canadian employees.

Estimates of the contributions of SME’s to Canada’s Gross Domestic Product (GDP) are more challenging. But according to one model developed by the Government of British Columbia, firms employing fewer than 50 employees account for some 26% of Canada’s GDP.[2]

For the purpose of the Synovate research outlined in Parts 2 and 3 of this report, the SME definition used is:

- **Micro Organizations with annual gross revenue of <$1M**
- **Small Organizations with annual gross revenue of $1M-$5M**
- **Medium Organizations with annual gross revenue of $5M-$100M**

What are these SME’s producing? They exist in every sector and region, but are somewhat concentrated in service industries, and represent over two-thirds of employment in non-institutional health care, construction, accommodation and food, forestry and other services. Overall, 75% of SMEs are in services and 25% in goods production.

1 Speaking Points, The Honourable Tony Clement, PC, MP, Minister of Industry, Business Development Bank of Canada Funding Announcement, Toronto, Ontario, June 15, 2009, http://www.ic.gc.ca/eic/site/ic1.nsf/eng/04758.html

2 See: British Columbia Small Business Profile 2008. http://www.bcstats.gov.bc.ca/data/bus_stat/busind/sm_bus/SBP2008.pdf

These figures are typical of all major industrial economies, including the US.[3] While the US is home to some of the world's largest corporations, the *backbone* of their economy, is the small business sector which, overall, mirrors the role in their economy played by small businesses in Canada. And this is true throughout the world, as shown in a recent undertaking by the OECD.[4] Small and medium sized businesses consistently represent the vast majority of all businesses, are major employers in total and produce important shares of the world's wealth each and every year.

In Canada SMEs by and large mirror the international picture. SMEs play very similar roles in all provinces, with the percentage of establishments ranging narrowly from a low of 96.6% in Nunavut to 98.4% in PEI and Saskatchewan.

Greater differences emerge, however, when the contribution to GDP is considered on a provincial-territorial level. The BC Government's model suggests ranges of 18% in Newfoundland and Labrador, rising to 33% in BC, with the national average, as noted above, being 26% for firms with less than 50 employees.

In terms of numbers alone, SMEs play important roles in the number of firms, employment and output across Canada, and around the world. But their importance extends beyond numbers. SMEs can be important innovators. They play critical roles in local communities through their ability to meet special market needs and interests in ways that multinationals would find challenging. And from a social perspective, SMEs often provide options to fulfill personal ambitions, to 'be my own boss', or to pursue other life goals.

It is clear that many major innovations have stemmed from SMEs – new multinationals have to start somewhere. The RIMs, Microsofts, Googles and other world leaders have begun life as business toddlers, not the mature giants they have become. While the majority of SMEs may have little or no interest in research and development, those that do, spend more of their (limited or non-existent) revenue on R&D proportionally than do large firms.

SMEs have the potential to fill local needs with customized approaches and knowledge. They can and do multi-task – for example, clearing snow in winter and providing haulage services in summer. In many smaller communities, smaller, flexible operators can fill market demands too limited to attract the attention of larger operators.

Perhaps equally important for many Canadians, the SME option is the mechanism of choice to meet their professional and personal ambitions, whether to open that special restaurant, to pursue a trade, to produce art or music, to use specialised knowledge and skills, or to pursue other life goals.

3 See the U.S. Small Business Administration (SBA) Office of Advocacy's 2009 edition of The Small Business Economy: A Report to the President. http://www.sba.gov/advo/research/sb_econ2009.pdf

4 See: MEASURING ENTREPRENEURSHIP: A Digest of Indicators, OECD – Eurostat Entrepreneurship Indicators Programme. http://www.oecd.org/dataoecd/53/23/41664409.pdf

The challenges facing smaller businesses

These challenges can be summed up in one word: access. Small companies face major constraints, especially in terms of their management capacity – including time and skills – which make accessing markets, technology, employees, and financing particular challenges. Larger companies typically have the management and technical depth to overcome these challenges. They have the access to people. They have the credibility and the scale to undertake new risks and incur costs without 'betting the company' each time.

Access to financing is obviously a key issue for all businesses, but small businesses face particular challenges. The process of seeking financing can demand many hours of management time, preparation of extensive documents, market and other research to justify risks and satisfy financial institutions and investors. Conversely, for the financers of small business, smaller investments can cost as much to assess and manage as larger ones, making the economics of small business financing shaky.

In response to these market challenges, governments around the world have developed mechanisms to support small business financing. In Canada, the Government owned Business Development Bank of Canada, has a mandate to 'create and develop Canadian businesses through financing, venture capital and consulting services', and as of 2008 supported some 28,000 Canadian SMEs with financing and other commitments valued at some $13.2 billion (including an injection of an additional $3.2 billion in the 2009 Budget). Another federal facility, the Export Development Corporation supports large and small businesses with critical export financing; of its 8,300 clients, some 80% are SMEs.

These two corporations are intended to fill perceived gaps in financing for Canadian businesses, and they often work in cooperation with private sector lenders. In fact, working with private financiers is the cornerstone of a key program, the Small Business Financing Act. Through this program, the federal government insures a portion of the loans made to qualifying small businesses by the private sector. It supports some 10,000 financings valued at around $1 billion each year.[5] The program is supported in part by charging 3% above prime and a 2% registration fee paid by the borrowers.

Additionally there are specialist advisory services such as the National Research Council's Industrial Research Assistance Program which provides advice, networking and even financing to support SME innovation.[6]

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5 Industry Canada, http://www.ic.gc.ca/eic/site/csbfp-pfpec.nsf/eng/h_la02855.html

6 For a more complete list and to access to greater detail, see: http://www.ic.gc.ca/eic/site/ic1.nsf/eng/h_00006.html. Another valuable site designed to assist SMEs to navigate through the 'alphabet soup' of government information and programs is that of the Canada Business Network, a network involving the federal and provincial-territorial governments, and some not-for-profit organizations. See http://www.canadabusiness.ca/gol/cbec/site.nsf/en/index.html.

Despite the government support, start-ups are still particularly challenged and often rely on the personal credit of the owner and her family to get off the ground and stay afloat, including mortgages on family homes and credit card debt. High growth potential SMEs may turn to venture capitalists, but despite considerable progress in recent years, and great promise, this option remains relatively limited in Canada.[7]

For a small, established company, accessing finance may not be an issue in a normal environment. These companies develop standing relationships, have limited, often predictable financial requirements and have the credibility to maintain access to markets. But even for these companies, capital for growth can be hard to come by. And this challenge is magnified during a period of economic disruption: their existing lines of credit can be put at risk as lenders retrench across the board and the vulnerabilities of smaller companies are magnified.

The summer of 2008 – impact on the SME sector

As the global recessionary environment intensified during this period, SMEs' key sources of financing were themselves in crisis, seeking to retrench and conserve capital; key customers were being buffeted by financing shortfalls and lowered demand; trade financing was drying up; and the personal finances of owner managers were being eroded as investments shrank.

We are still in the midst of this crisis. But cautious optimism has appeared. Extensive government intervention in the economy has been taken, to stimulate demand and re-build confidence. And it has resulted in some targeted efforts to respond to the particular challenges facing SMEs.

In addition, central banks and governments around the world moved quickly to patch the systems in their own countries. And added to their domestic responses, financial leaders came together to work on systemic, global challenges and possible solutions.

While considerable work remains to be done on the global scene, there is a growing consensus that these monetary and regulatory steps have stemmed the financial part of the crisis of 2008.

But that crisis was only part of the story. Real demand dropped and structural faults were revealed by the financial crisis. Key sectors, particularly the auto sector in North America, faced collapse, and small businesses faced weakened demand and uncertain financing prospects.

The Canadian Government presented a budget in January 2009 to address the situation. Many of the budget's measures, while not explicitly directed at SMEs, will support smaller businesses in significant ways. Two such initiatives are the Home Renovation Tax Credit to provide up to $1,350 in tax relief to reduce the cost of renovations for an estimated 4.6 million Canadian families and an additional $300 million over

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7 See 'Why Venture Capital is Essential to the Canadian Economy: The Impact of Venture Capital on the Canadian Economy', Canadian Venture Capital Association, January 2009. http://www.cvca.ca/files/Downloads/CVCA_Impact_Study_ENGLISH_March_2009.pdf

two years to the ecoENERGY Retrofit program. Small contractors should benefit from the increased activity. So too will major building product suppliers.

Other measures with a direct impact on SMEs include additional support and mandate broadening for the Business Development Bank.

In addition, the government introduced an increase to the maximum loan size eligible for coverage under the Canadian Small Business Financing Act (CSBFA), up to $500,000 from $400,000 set 10 years ago.

On the tax front, the budget includes an increase in the amount of small business income eligible for the reduced federal tax rate of 11 per cent to $500,000 from the current limit of $400,000, as of January 1, 2009. It also includes a 100-per-cent Capital Cost Allowance (CCA) rate for computer hardware and systems software acquired after January 27, 2009 and before February 1, 2011. In addition, the rule that restricts CCA deductions to one-half of the CCA write-off otherwise available in the first year will not apply to these computers.

There are other measures, including support for the Business Networks Program to enable it to continue for another two years, and extension of the National Research Council's advisory services.

Looking to the future

In the long run, SMEs will continue to be the 'backbone' of the economy. They will continue to face major challenges in terms of the access issues noted earlier, including access to technology, markets, information, money and staff.

However, in some respects things will improve for SMEs as new technologies enable them to increase productivity, the internet facilitates access to once hidden information and markets, and new business models, including increased partnership and supply chain models allow greater cooperation and scale and scope economies even for smaller companies.

2. The Canadian Research Results on SME Access to Finance

Given that the ability of SMEs to obtain financing is critical to the sustained growth of the Canadian economy, CGA-Canada, in the context of a broader international study, sponsored a study specific to Canadian small and medium sized enterprises (SMEs). The research study paralleled a global study by the Economist Intelligence Unit (EIU) but focused on the unique characteristics of the Canadian marketplace. The main objectives of the study were to identify:

- How businesses are performing, given the financial crisis and their outlook on future business prospects over the next 12 to 24 months
- To what extent businesses are able to access capital and their expectations for the future
- What financing tools are used most widely by Canadian businesses and expectations about using different tools in the future
- What actions businesses have taken to mitigate their financial challenges, if any.

Telephone interviews were conducted with 500 businesses across Canada, with the number of businesses being weighted regionally to reflect the actual distribution of SMEs in the country.

It is important to note that the definition of business size is different for the Canadian study (see page 4 of this report for the Synovate definition), versus the EIU study which defines small and medium businesses as having revenues less than US$100 million.

In considering financing sources, the Synovate study looked at all sources of financing – debt financing, equity financing, sales financing or factoring, venture capital or angel financing and public sector programs such as grants and subsidies.

Overall, the results of the study can be divided into 4 categories – the impact of the economic environment on SMEs, the availability of financing to enable them to continue to operate and grow their businesses, the cost of financing and the terms of financing. Overall, the outlook from small and medium-sized businesses is cautiously optimistic.

Given the poor economy, especially within the context of the global economic instability and inherent uncertainty of future events, Canadian business owners and managers are approaching their businesses with caution by investing slowly. The slowdown in investment is driven partly by caution and partly by tougher financing conditions, either in terms of cost or in terms of availability.

Overall, Canadian business owners and managers are still positive about current and future business prospects. However they feel that the rate of business opportunity has slowed down as a result of the current credit crisis. Approximately 50% of respondents feel that the credit crisis has not impacted their ability to expand into new regions or markets or invest in future growth.

Many respondents even identified that the crisis has had a positive impact on their organizations, providing them with more opportunities for expansion and approximately the same number of respondents have identified that the crisis has improved their ability to recruit and retain employees. These findings are more positive than the rest of the world.

In considering financing, there are three main characteristics associated with financing which determine the success rate of SMEs and their ability to continue to fuel the economy – the availability of financing, its cost, and the financing terms.

Sixty per cent of businesses did not experience any challenges obtaining financing as compared to 12 months ago but 27% did indicate that the availability of funds has decreased. This compares favourably to the entire world where almost double the percentage of companies reported a decrease in the availability of funds. The actual type of financing being considered, whether it be debt financing, equity financing, sales financing, angel investors and/or venture capital or public sector funding, did not make a difference in Canada. Out of this number, almost all businesses impacted by a more challenging environment in obtaining financing either postponed or cancelled their investment plans, requested better pricing from suppliers, or implemented formal cost reduction programs. No one industry fared any better or worse than others.

Given the extent of the global crisis, the outlook from Canadian SMEs is quite positive in that approximately 50% of all businesses expect the overall availability of finance to return to 2007 levels within one to two years. These results are similar to those of the world overall.

While the availability of financing has remained relatively unchanged during the past year in Canada, approximately 60% of businesses found that their banks have tightened some of the financing terms – either the cost of credit, the administrative costs of securing debt, increased the levels of security required, or increased the origination fees. The biggest impact has been from the cost of credit with 18% of Canadian companies experiencing higher costs. This compares favourably to the entire world where more than double this percentage of companies experienced higher costs of credit.

The perceived impact of the economic environment on SMEs

Although most people instinctively assume that the current financial crisis makes it more difficult for small businesses to operate, more than 50% of Canadian businesses reported that the current crisis has not affected them or that the crisis has made it easier for them to invest in assets required to grow the business, sales and marketing, new products, new market segments, and new geographic regions.

It is interesting to note that small businesses, rather than micro or medium-sized businesses, are the most optimistic. Twenty-four per cent of Canadian businesses feel a positive aspect of the recessionary environment in that it is easier to attract and retain key employees. This may be a reflection of the lack of job opportunities available as businesses across the country reduce their recruitment efforts in attempts to control their costs. This is a very positive sign when compared to the world with 64% of businesses reporting that the financial crisis had some impact on the ability to recruit and retain key employees, versus only 20% in Canada.

Only 30% of Canadian companies have identified negative ramifications of the crisis on their operations and growth prospects. Specifically, 35% report that it is more difficult to invest in assets that are required to grow the business and 28% report that it is more difficult to expand the business into new geographic regions. This compares to 81% of companies in the world reporting some impact on the ability to invest in assets, and 72% reporting some impact on the ability to expand the business into new geographic regions.

It is also important to note that the Canadian study asks the question in a more positive manner which may have an impact on the difference in results. However, the difference between the Canadian results and the worldwide results is so dramatic that it indicates that the Canadian economy is exhibiting more attractiveness for SMEs to invest than the international environment.

In looking forward over the next 12 months, Canadian businesses are generally optimistic about their overall business prospects. Roughly half of all SMEs feel positive about future revenue growth, demand for their products and services, profitability, cash position, and their ability to achieve their overall business objectives. This statistic is balanced by a small number of SMEs who feel that future business prospects will weaken over the next year. Once again, small companies are more confident than either the micro or mid-sized companies about their improvements.

Although the general feeling is one of optimism in the Canadian marketplace, 94% of companies feel that their future growth will be constrained, with 63% of these companies forecasting increased costs of doing business in Canada. Fifty-five per cent of companies also feel that they will be negatively impacted by the decline in customer confidence in the economy. Only 39% of businesses identified the lack of financing to be a factor which they expect will hinder their future growth rates and this factor ranked seventh in terms of how businesses will be constrained.

When comparing this to the world study, it is important to highlight that lack of availability of finance was the most important factor that constrained world growth. It may be that the Canadian marketplace is supporting SMEs much better than the world overall. Interestingly enough, companies in Canada most concerned with the lack of available finance are micro rather than the small or medium-sized businesses. This fact may be a reflection of the idea that all other things being equal, micro businesses may pose a greater credit risk than their larger counterparts and often require personal guarantees for debt financing or source financing from non-conventional financing sources, such as friends and family.

Outlook towards the availability of financing

The above sentiments may be driven by the fact that approximately two thirds of companies across Canada feel that the availability of funding has stayed the same or increased over the past two years and the sentiment is reflected fairly evenly across the country, industry sectors, company sizes, and source of financing (debt, equity, sales financing, venture capital, or public sector funding.) This compares favourably to only 44% of the world sharing the same sentiment.

Of the 9% of Canadian companies that mentioned that debt financing has become more difficult to obtain, the majority identify that their challenges are associated with obtaining bank loans and lines of credit. This result is considerably better than the rest of the world where approximately 27% of companies mentioned that debt financing has become more difficult to obtain in the last two years. (NOTE: This number and the ones to follow in this paragraph and the next represent an average of specific percentages for overdrafts, and both secured and unsecured bank loans)

Of the 27% world-wide companies who mentioned that debt financing has become more difficult, it is clear that unsecured lending is the area that has been most squeezed, with 53% pointing to a reduction; secured loans also feature highly, with 37% pointing to a decline in availability. It is interesting to note that this contrasts with the Canadian results, which found that there is no difference between difficulty in obtaining secured and unsecured loans. This also points to an advantage for Canadian SMEs in their ability to access finance.

An even smaller number of companies in Canada, 4%, feel that debt financing will become even more difficult to obtain over the upcoming year. This compares to approximately 21% for the rest of the world over the next two years. This indicates that world sentiment about availability of debt financing is not expected to change, which is a contrast to the improvement and optimism we see in Canada. Over the past three years, Canadian businesses are evenly divided when it comes to sentiments about their debt load – an equal number report an increase, decrease, and consistent level of debt over the past three years.

Most Canadian businesses feel that changes to availability of public sector financing haven't affected them over the past year and don't anticipate it to affect them over the upcoming year. This sentiment may be driven by the fact that many SMEs do not access the sources of public financing which are available to them. However, out of the 5% who feel that public sector financing has deteriorated, they feel that it is primarily government grants and subsidies which are more difficult to access. 93% of respondents expect this difficulty to continue in the future. This also compares favourably to the rest of the world where 22% feel that access to public sector financing has decreased over the last two years.

Half of Canadian businesses expect the availability of finance to return to the 2007 levels within the next 12 to 24 months and 18% of businesses expect it to take 3 or more years. Although businesses are optimistic, only 3% expect the availability of finance to return to 2007 levels this year. These results are similar to those of the world overall, indicating that although Canadian SMEs have not been impacted by financing challenges as greatly as their worldwide counterparts, they do not exhibit greater levels of optimism.

Outlook towards the cost of financing and financing terms

Sixty per cent of all Canadian businesses feel that the cost of borrowing has remained the same over the past two years indicating that overall, Canadian SMEs do not feel that financing has become more expensive. Again, this finding is consistent for businesses across the country and across all industry sectors. This contrasts with the rest of the world where 47% of companies feel that the cost of borrowing has increased over the past two years, versus 16% who feel the cost of borrowing has decreased. These results point to another favourable trend for Canada versus the rest of the world.

Approximately 60% of Canadian businesses feel that their banks have tightened some of the financing terms – either the cost of credit, the administrative costs of securing debt, increased the levels of security required, or increased the origination fees. The biggest impact has been to the cost of credit.

SMEs response to the financial crisis

Given that most Canadian SMEs do not feel that they have been strongly affected by the credit crisis, it is not surprising that 75% have continued operating their businesses in the same manner as they always have. For those who felt that funds were more difficult to obtain, they postponed their investment plans (21%), requested better pricing from their suppliers (15%), or implemented formal cost reduction programs in areas other than staff layoffs (15%). This compares to a larger impact for the world overall, with 49% of impacted companies postponing investment plans and 31% implementing formal cost reduction programs. Once again, we see a positive response for SMEs in Canada.

Despite the largely stable and mildly positive outlook for Canadian businesses, most SMEs indicated that they are taking steps to improve their cash position, with the top two actions being to reduce their business expenses other than staff (67%) and tightening payment terms with customers (43%). Only 5% have begun factoring their accounts receivable and only 15% have begun selling off their assets. These results are similar to those of the entire world.

Most business owners and managers do not seek advice on obtaining financing, but for those that do, they are most likely to ask their bank for advice (40% of businesses) followed by their accounting firm (29% of businesses). Other firms turn to friends and family (17%), other business owners (21%), and suppliers (12%). When compared to the world, a greater percentage of business owners and managers seek advice from banks (63%) and friends and family (26%), with accounting firms being comparable to Canadian results. Either way, the first place businesses turn to for advice is their banker. Accountants can provide a valuable service by helping them structure

their financing deals in the most appropriate fashion so that they can have a better conversation with their bankers.

Conclusion

Overall, the outlook of Canadian SMEs is more positive than of SMEs throughout the world. They are fairly optimistic and feel that their sources of financing have been less impacted by the credit crisis than SMEs feel throughout the world. Although the costs of financing may have increased and the credit terms tightened, businesses still feel that they have the funding required to continue growing and fueling the economy. They are hopeful about future growth prospects and feel that financing sources will return to 2007 levels in a few years. In the meantime, they continue to invest in their growth, albeit at a slower pace and with some caution given all the uncertainty in the global economy.

Meanwhile, the key to long term small business growth and vitality in Canada will continue to rest on the shoulders of Canadian entrepreneurs who throw their hearts, resources and dreams into the challenge of building successful enterprises.

3. The Synovate Report

synovate
Research reinvented

Access to Finance for the SME Sector in Canada

A Research Report

Completed September, 2009

Objectives & Methodology

Background & Objectives

- CGA-Canada, in association with the ACCA (UK) and the CPA-A (Australia) is participating in a joint global research study on financing, more specifically, the challenges faced by Small and Medium Sized Enterprises (SMEs) in accessing capital.
- As an adjunct to this global study, CGA-Canada is looking to conduct a Canadian study that parallels the global study but which is tailored to our particular situation and challenges. As part of this effort, CGA-Canada commissioned Synovate to conduct a nationwide survey with businesses across Canada.
- The key objectives of this survey are to understand:
  - How businesses are performing given the financial crisis and their outlook on future business prospects for the next 1-2 years;
  - To what extent businesses are able to access capital given the current economic climate and their expectations for the future;
  - What financing tools, and to what extent Canadian businesses are using these tools currently and over the next 1-2 years;
  - What actions, if any, businesses have taken to mitigate financial challenges that may have risen.

Methodology

- Telephone interviews were conducted with 500 businesses across Canada with the qualified respondent being either business owners or senior executives who are familiar with the company's financing (these include presidents, chief executive officers, executive directors, vice presidents, finance executives etc).
- For reporting purposes, company size is defined as:
  - **Micro** Organizations with annual gross revenue <$1M
  - **Small** Organizations with annual gross revenue of $1M-$5M
  - **Medium** Organizations with annual gross revenue of >$5M-$100M
- Results on the total sample of 500 Canadian businesses are accurate to within +/- 5%, 19 times out of 20. The margin of error on subgroups are wider. The following table shows the number of surveys obtained per region along with the margin of error for each subgroup.

Region	Quota	Margin of Error
British Columbia (BC)	75	+/-11.3%
Prairie provinces (AB, SK,MN)	100	+/-9.8%
Ontario (ON)	175	+/-7.4%
Quebec (QC)	100	+/-9.8%
Atlantic provinces (NS,PEI,NF,NB)	50	+/-13.9%
TOTAL	**500**	**+/-5.0%**

- At the data processing stage, the results were weighted to reflect the actual distribution of small and medium sized enterprises in Canada.

Executive Summary

Executive Summary

Impact of Financial Crisis and Future Prospects:

- Overall, the financial crisis has not caused a major setback for the majority of small and medium enterprises (SME) in Canada.
  - ✓ Broadly half say that the crisis has *not changed or even made it easier* to expand into new geographic regions or market segments, invest in innovation/new products, invest in sales and marketing efforts or invest in assets required for growth. About a third say the crisis has *made it more difficult* to do so.
  - ✓ Notably, small business are more likely than micro- or medium-sized businesses to say that the financial crisis has made it easier to invest in assets that are required to grow the business and expand into new market segments.
  - ✓ The crisis has a mixed impact on the ability of businesses to recruit/retain employees. About an equal proportion say that it has become easier (24%) vs. more difficult (20%) to do. Specifically, small and medium-sized businesses are more likely to say that it has become easier when compared to micro businesses. This may be because it's only easier to hire and keep employees if the business can afford to pay them.
- Businesses are cautiously optimistic overall about their business prospects over the next 12 months.
  - ✓ Across 7 specific indicators of business expectations for the coming year, about half show anticipated improvement, another third expect no change and about one in ten expect things to get worse.
  - ✓ Small companies are the most optimistic about future prospects when it comes to revenue growth, profitability, ability to achieve business objectives and their expectations for the demand for the company's products/services.
- Although businesses are quite optimistic about current and future business prospects, companies are taking a "hope for the best, but prepare for the worst" stance.
  - ✓ 84% say that their company is taking some form of action to improve its cash position in the current economy. The top three actions companies are taking are reducing non-staffing related business expenses (67%), tightening payment terms with customers (43%) and increasing prices (33%).

Executive Summary

- Almost all businesses (94%) also expect future growth to be constrained by one or more limiting factors.
  - ✓The increased cost of doing business is a primary concern among businesses – 63% anticipate this to constrain growth.
  - ✓However, businesses are relatively less concerned when it comes to the lack of availability of finance – 39% expect this to constrain future growth.

Availability of Financing:

- Overall, most SME's have experienced either no change or a tightening in the availability of financing compared with 12 months ago.
  - ✓Close to 60% of businesses did not experience any changes to the availability of funds to finance their business compared with 12 months ago. Another 27% and 7% say that the availability has decreased or increased, respectively.
  - ✓Of the 27% of SMEs that have experienced decreased availability of funds, almost all of them (25% of all SMEs) have taken one or more actions as a result. The top 3 actions businesses have taken are: postponed investment plans, requested better pricing from suppliers or implemented formal cost reduction and cancelled investment plans.
  - ✓The tendency of businesses to have experienced either no change or tightening to available funds prevails across all company sizes (micro, small and medium) and among businesses across the country and all industry sectors.
- Drilling down to the availability of specific types of financing (i.e. debt financing, equity financing, sales financing, angel investors/venture capital and public sector funding), businesses generally feel that availability has not changed over the past year. However, for the coming year, optimism is starting to slightly outshine pessimism.
- About half of all businesses expect the overall availability of finance to return to 2007 level within 1-2 years.
- When advice on access to financing is required, banks are the main resource that businesses go to for advice. This is followed by accounting firms, other business owners, friends or family and suppliers, respectively.

Executive Summary

Cost of Financing:

- Close to half of all SMEs feel that the cost of financing has remained unchanged over the past 12 months. Notably, about 15% each say that the cost has either increased or decreased.
- This finding is noted for all company sizes (micro, small and medium) and for businesses across Canada and all industry sectors.

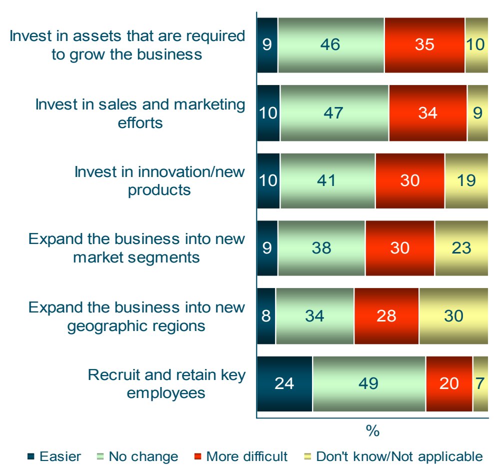
Financing Terms:

- While the availability and cost of financing have remained relatively unchanged (compared with the past 12 months) for most businesses, about six in ten businesses have experienced one or more changes to the financing terms for their company.
  - ✓ The cost of credit is an area that has experienced the most changes, with 29% reporting change. Among this group, 60% report that the cost of credit is higher vs. 36% who say that cost has become lower.

Summary Of Findings

Impact of Financial Crisis

Q2. Has the financial crisis made it easier, more difficult or not changed your company's ability to:



n=500

- ***The financial crisis has not caused a major setback for the majority of small and medium enterprises (SME) in Canada.***
- Broadly half say that the crisis has *not changed or even made it easier* to expand into new geographic regions or market segments, invest in innovation/new products, invest in sales and marketing efforts or invest in assets required for growth. About a third, say the crisis has *made it more difficult* to do so.
- Small businesses are more likely than micro- or medium-sized businesses to say that the financial crisis has made it easier to invest in assets that are required to grow the business and expand into new market segments.
- The ability to invest in assets required for company growth is one of the more common impacts of the financial crisis, with 35% saying that it is more difficult to do now (vs. only 9% easier). Businesses in the manufacturing sector are more likely to find this more difficult to do compared to others.
- Interestingly, the financial crisis has had a mixed impact on employee recruitment/ retention. About equal proportions find it has become easier (24%) and more difficult (20%) to recruit and retain key employees. This may be because it's only easier to hire and keep employees if the business can afford to pay them.

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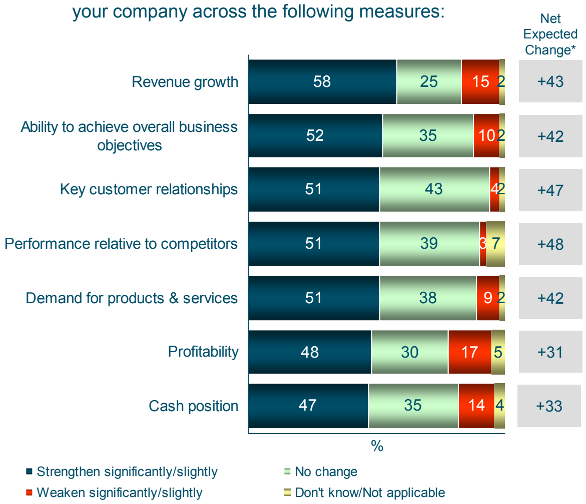
Future Business Prospects

Q1. Over the next 12 months, how do you view the prospects for your company across the following measures:



n=500 *Net expected change= % Strengthen significantly/slightly - % Weaken significantly/slightly

- ***Businesses are cautiously optimistic overall about their business prospects over the next 12 months.***
- Across 7 specific indicators of business expectations for the coming year, about half show anticipated improvement, another third expect no change and about one in ten expect things to get worse.
- Companies are most optimistic about their performance relative to competitors, with a net of 48% anticipating their performance to strengthen in the next year.
- In contrast, companies are less positive when it comes to profitability and cash position, with the net change (% strengthen - % weaken) standing at +31% and +33%, respectively.
- Small companies are more confident than either micro- and medium-sized companies about improvements in revenue growth, demand for products and services, profitability and the ability to achieve overall business objectives.

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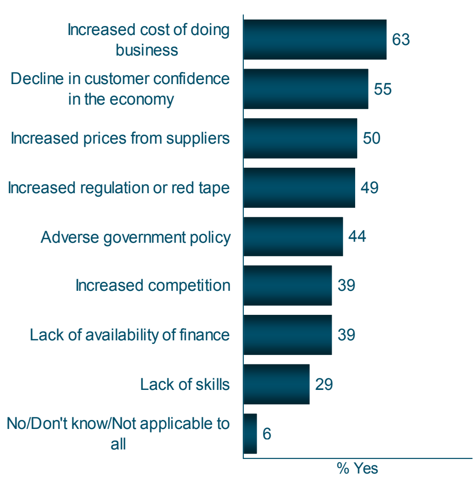
Limiting Factors on Future Growth (Aided)

Q3a. Please tell me if you are expecting any of the following factors to constrain the future growth of your business:

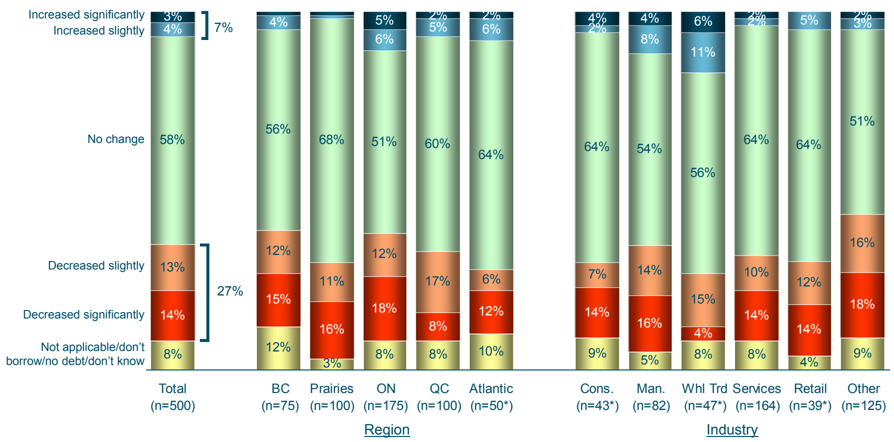


n=500 Note: Other factors that were also mentioned as obstacles to future growth include the recession, unfavorable exchange rates, the Harmonized Sales Tax and the reduced demand for goods/services. No more than 3% of businesses consider each of these as a constraint to future growth.

- ***Although businesses are somewhat optimistic about future business prospects, almost all (94%) expect future growth to be constrained by one or more factors, with increased cost being their top concern.***
- 63% of SME's expect the increased cost of doing business to constrain their future growth.
- This is followed by the decline in customer confidence in the economy and increased prices from suppliers with 55% and 50%, respectively, expecting these to restrict the growth of their business.
- Going forward, businesses are relatively less concerned with the lack of availability of finance, increased competition and lack of skills.
- Micro-sized businesses are more concerned than small- or medium-sized businesses with lack of available finance.

Availability of Financing (Overall)

Q4. Compared with 12 months ago, has the availability of funds to finance your business increased, decreased or not changed?



* Caution: Small base size

Availability of Financing (Overall)

- ***Overall, most SME's have experienced either no change or a tightening in the availability of financing compared with 12 months ago.***
- Close to 60% of businesses did not experience any changes to the availability of funds to finance their business compared with 12 months ago.
- However, for 27%, the availability of funds has decreased. In contrast, only 7% has experienced an increase during this time.
- The tendency of businesses to have experienced either no change or a tightening to available funds prevails across all company sizes (micro, small and medium) and among businesses across the country and all industry sectors.

Availability of Specific Types of Financing

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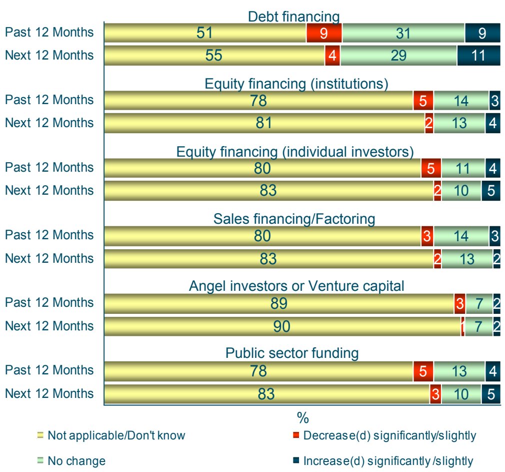
Q6. And how, if at all, has the availability these specific of the following types of borrowing for your business changed over the past 12 months?
Q7. (And) over the next 12 months, what change, if any, do you expect to the availability of the following types of borrowing for your business?



n=500

- ***Drilling down to the availability of specific types of financing, businesses generally feel that availability has not changed over the past year. However, for the coming year, optimism is starting to slightly outshine pessimism.***
- Among the various types of financing, debt financing is utilized the most by businesses. Close to half are using this form of financing vs. no more than 22% for each of the other types of financing.
- The majority of businesses that utilize either one of the 6 types of financing feel that the availability has not changed over the past 12 months. About an equal proportion of the remaining businesses feel that the availability has increased or decreased over the past 12 months, respectively.
- However, for the next 12 months, on balance, the expectation is for the various types of financing to become more rather than less available.

Availability of Debt Financing

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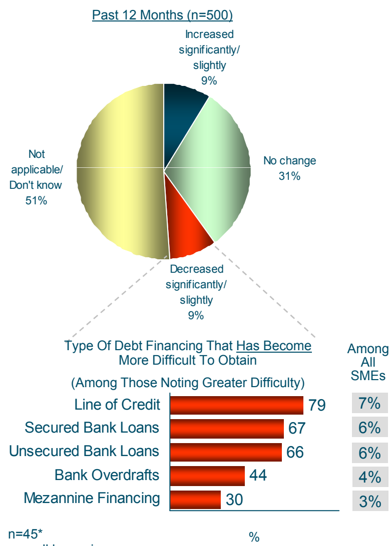
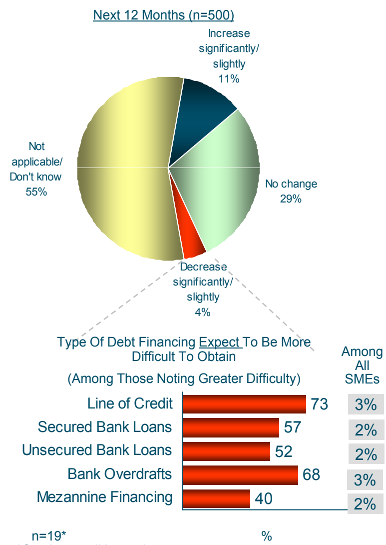
Q8a. You mentioned that the availability of debt financing has decreased over the past 12 months. Which of the following types of debt financing has become more difficult for your business to obtain?
Q8b. You mentioned that you expect the availability of debt financing to decrease over the next 12 months. Which of the following types of debt financing do you expect to be more difficult for your business to obtain?



n=45*
*Caution small base size



n=19*
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Availability of Debt Financing

- ***Among those who say that the availability of debt financing has decreased over the past 12 months, the majority feel that lines of credit and bank loans have become more difficult to obtain.***
- Specifically, between 66%-79% of businesses who've had greater difficulty say that lines of credit, secured and unsecured bank loans in particular have become more problematic to obtain.
- Among all SME's, a relatively small percentage (3%-7%) say that each specific type of debt financing has become more difficult to obtain in the past 12 months.
- In the next 12 months, an even smaller number of SME's expect to have greater difficulty obtaining the various forms of debt financing (2%-3%).

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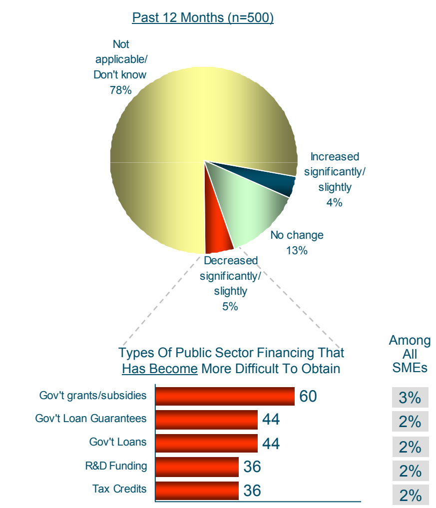
Availability of Public Sector Financing

Q9a. You mentioned that the availability of public sector financing has decreased over the past 12 months. Which of the following types of public sector financing has become more difficult for your business to obtain?

Q9b. You mentioned that you expect the availability of public sector financing to decrease over the next 12 months. Which of the following types of public sector financing do you expect to be more difficult for your business to obtain?



n=25*
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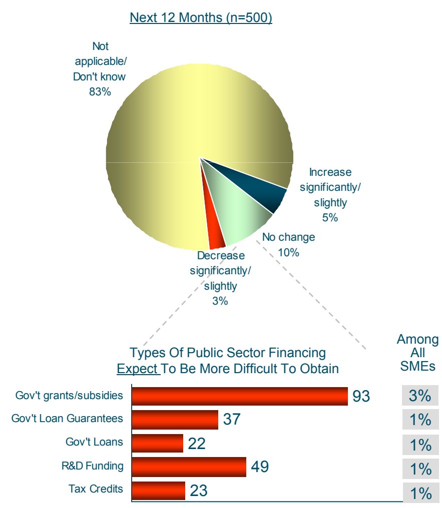

n=14*
*Caution small base size

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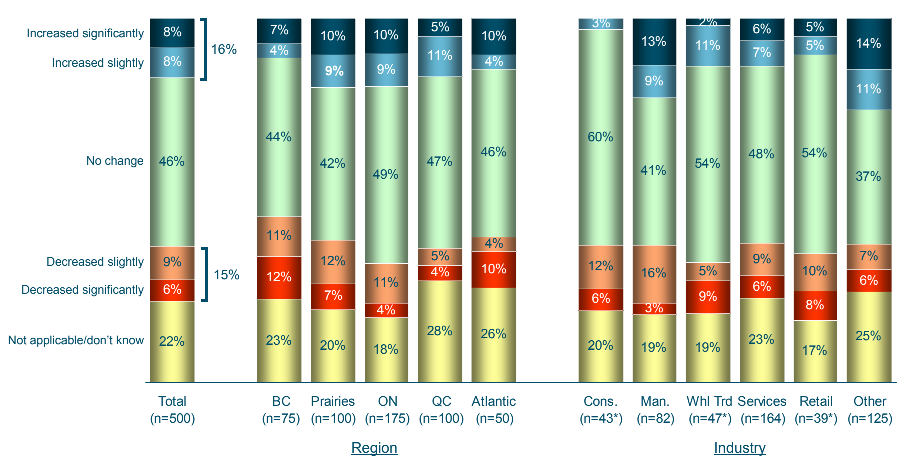
Availability of Public Sector Financing

- ***Among those who say that public sector financing has become more difficult to obtain over the past 12 months, a slight majority feel that government grants/subsidies in particular have become more difficult to obtain.***
- This is followed by government loans or loan guarantees (44% more difficult each) and R&D funding or tax credit respectively (36% more difficult each).
- Notably, more businesses (93% of those who expect public sector financing to be more difficult to obtain over the next 12 months) anticipate that government grants and subsidies would be more difficult to obtain over the next 12 months.

Cost of Financing/Borrowing

Q5. Using that same scale, how, if at all, has the cost of borrowing or obtaining other types of capital for your business changed compared with 12 months ago?



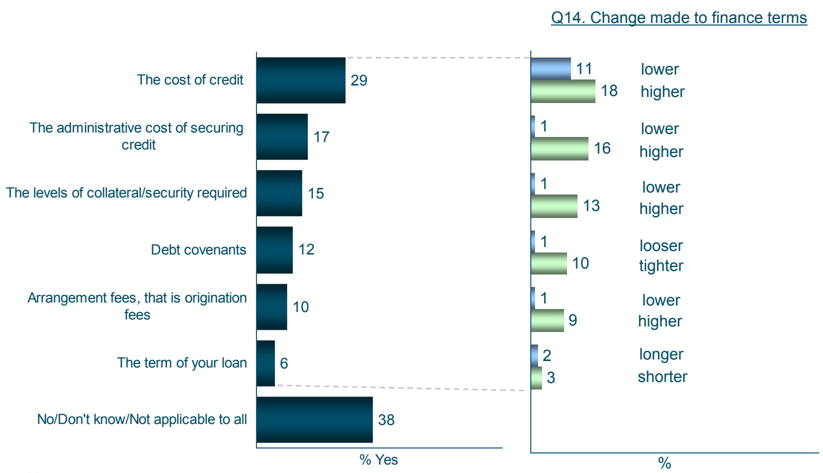
* Caution: Small base size

Cost of Financing/Borrowing

- ***On balance, businesses feel that the cost of financing/borrowing has remained unchanged over the past 12 months.***
- Close to half feel there has been no change in the cost of borrowing, while the remainder is about evenly split between thinking it as increased (16%) and decreased (15%).
- This finding is noted for businesses across Canada and across all industry sectors.

Financing Terms

Q13. Has your bank changed any of the following finance terms for your business?



n=500

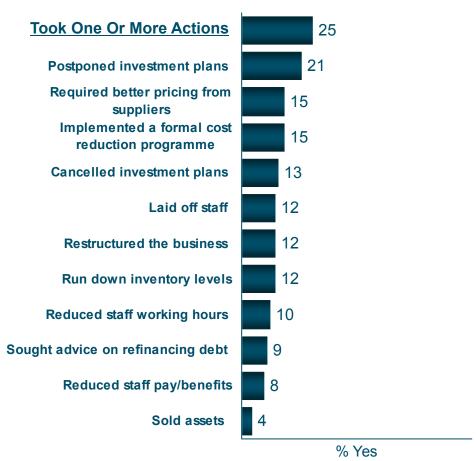
Financing Terms

- ***About six in ten business have experienced one or more changes to the financing terms for their business. Among those who experienced changes, the majority found the changes to be negative rather than positive for their business.***

- The cost of credit for businesses is the most common change, with 29% reporting their bank altered this aspect of their financing and for those affected, the cost typically increased rather than decreased. Medium-sized business are more likely than small and micro-sized businesses to have experienced a increase in the cost of credit.

Impact of Decreased Capital

Q10. Which, if any, of the following actions has your business taken as a direct result of a decreased capital?



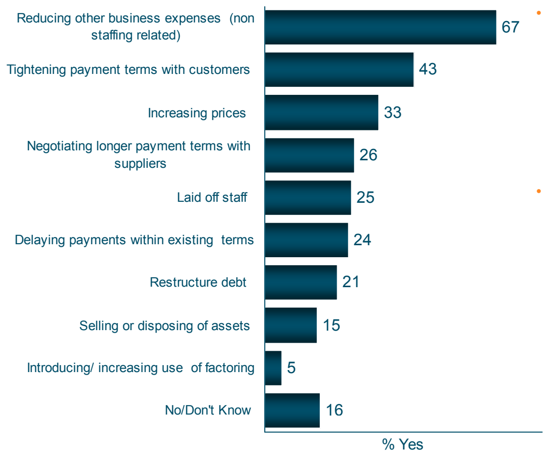
- ***Of the 27% of SME's that have experienced decreased availability of funds, almost all of them (25% of all SMEs) have taken one or more actions as a result.***

- Looking more closely, the top three actions businesses have taken as a direct result of decreased capital are: postponed investment plans (21% of all SMEs), requested better pricing from suppliers or implemented formal cost reduction (15% each, respectively) and cancelled investment plans (13%).

n=500

Actions Taking To Improve Cash Position

Q16. Which, if any, of the following steps is your company taking to improve its cash position in the current economic environment?

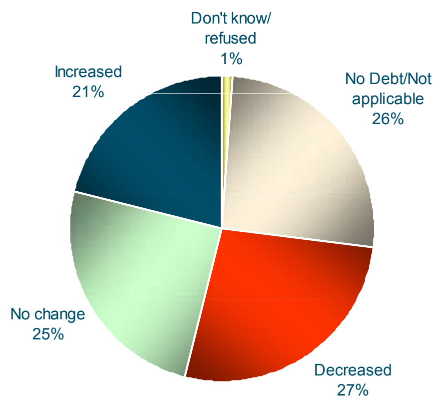


- ***Despite the largely stable and slightly positive outlook for Canadian businesses, the large majority (84%) say that their company is taking some form of action to improve its cash position, signaling a sense of 'cautious optimism' among businesses.***
- The top three actions companies are taking are reducing non-staffing related business expenses (67%), tightening payment terms with customers (43%) and increasing prices (33%).

n=500

Change in Debt Levels

Q11. Over the past 3 years, has your company's debt increased, decreased or not changed?

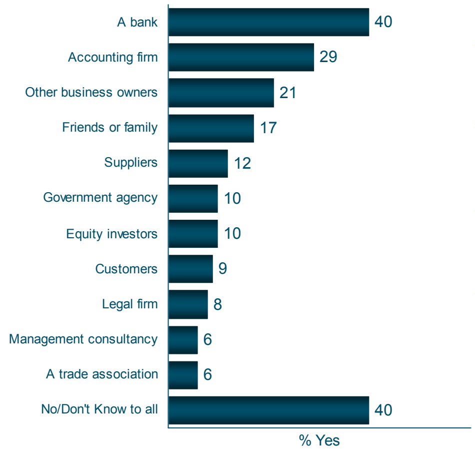


- ***Businesses are evenly divided when it comes to their debt load – about a quarter each report an increase, decrease, no change and no debt.***
- Micro, small and medium sized companies all report about the same pattern to their debt levels – that is, no net change in either direction.

n=500

Sources for Advice on Access to Financing

Q12. Please tell me if you've approached any of the following groups, in the past year, for advice on access to financing for your business.



- ***Banks are the main resource that businesses go to for advice on access to financing.***
- Overall, 60% of businesses approached at least one source for advice, with banks being the most popular source at 40%.
- This is followed by accounting firms, other business owners, friends or family and suppliers, respectively.
- No more than 10% approached government agencies, equity investors, customers, legal firms, management consultancies or trade associations for advice on access to financing in the past year.

n=500

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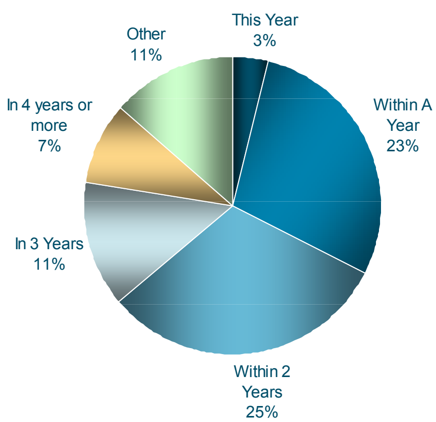
Economic Outlook

Q15. When do you expect availability of finance to return to 2007 levels in Canada?



- ***Half of businesses expect the availability of finance to return to 2007 levels within the next 1-2 years.***
- Only 3% of businesses expect the availability of finance to return to 2007 levels this year. Another 18% expect it to return to 2007 level in 3 years or more.

n=500

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Business Profile

	Total
Base	500
	%
# Of Full-Time Employees (Global Operations)	
1-3	16
4-9	34
10-49	35
50-100	7
>100	8
# Of Full-Time Employees (Canadian Operations)	
1-3	16
4-9	35
10-49	35
50-100	6
>100	7
Annual Gross Revenue/Company Size	
Under $1 Million (micro)	42
$1 Million to less than $5 Million (small)	32
$5 Million to $100 Million (medium)	17
Not stated	10
Business Ownership	
Private	98
Public	2

Business Profile

	Total
Base	500
	%
Primary Nature of Business	
Construction	9
Manufacturing	17
Wholesale Trade	9
Services	33
Retail	8
Other	25
Region	
British Columbia (BC)	15
Prairies (AB, MB, SK)	22
Ontario (ON)	35
Quebec (QC)	22
Atlantic provinces (NS,PEI,NF,NB)	6

Respondent Profile

	Total
Base	500
	%
Position (of Respondent)	
President/CEO/Executive Director	53
Owner	28
Vice President	6
Partner	5
General Manager/Manager/Managing Director	2
Finance Manager/Dir. Of Finance/Chief Accountant	2
Other	4

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About Synovate: The Canada-specific research was conducted by Synovate, a global market research company that provides research solutions and services to clients in more than 60 countries.