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Study

The Scale Up Challenge:

How Are Canadian Companies Performing?

September 2016

Table of contents

In brief 1

Introduction 2

1. **Canadian businesses losing momentum** 3
2. **Mid-sized businesses:**
   An improved situation, but growth is still anemic 9
3. **Productivity and tangible fixed assets:**
   The key for mid-sized businesses 19

Conclusion 26

Project methodology 27

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In brief

2%

of mid-sized businesses succeed in becoming large businesses

Canadian companies are slightly smaller than they have been in the past and are barely growing. In some provinces, the number of firms has also declined. Only 2% of mid-sized businesses succeed in becoming large businesses, exceeding the 500-employee mark.

However, this study shows that the mid-sized businesses that are more likely to become large businesses have the following characteristics:

1. **They are already relatively more productive than their competitors in the same economic sector.**
2. **They invest more significantly in their fixed assets.**
3. **They are present in at least three Canadian provinces.**

Introduction

99.8%

of Canadian businesses are SMEs

There are just over one million businesses in Canada. Almost all of them (99.8%) are small or mid-sized firms. However, categorizing businesses by size tells us little about the dynamics within Canadian businesses. How many succeed in ascending to a higher level, particularly from the mid-sized to large business category? What factors favour the transition from one category to another? What are the main obstacles to growth? A one-dimensional representation of the composition of businesses in Canada leaves all these questions unanswered.

New data permit a more in-depth analysis of the growth of businesses, based on different parameters. Apart from size, these include economic sector, year of founding, province of origin and geographic scope of activities (number of provinces). In addition, businesses that rise to a higher level have other specific characteristics.

These data have enabled us to draw a detailed picture of the changes that took place from 2001 to 2013. In doing so, we paid special attention to the situation of mid-sized businesses. A previous study on these businesses raised concerns that they could be a vanishing species.[1] The current study aimed to determine whether that was still the case. This issue is especially important in that today's mid-sized businesses are more likely than small firms to become tomorrow's large businesses. We were also able to collect information that helps us better understand what helps mid-sized companies become large ones, which will be helpful to mid-sized firms with growth ambitions.

1 BDC, *What's Happened to Canada's Mid-sized Firms?*, 2013.

1 Canadian businesses losing momentum

8.5%

Mid-sized businesses have the lowest rate of growth

When we look at the composition of Canadian businesses by size, we observe few changes over time. However, if we examine other parameters, such as growth by segment, regional disparities, economic sector or age, we can draw a more accurate picture of what has changed since the turn of the decade.

1.1 Micro-enterprises represent a growing share of all businesses

Micro-enterprises (one to four employees) play an increasing role in the Canadian economy. In 2013, the number of businesses with one to four employees was 21.8% greater than in 2001. For the same period, the increase in the total number of businesses in Canada, all sizes combined, was 20.4%. The number of mid-sized businesses posted the lowest growth, at 8.5% (Table 1.1).

Thus, only micro-enterprises saw their relative numerical weight increase by a few tenths of a percentage point during the period, from 75.7% to 76.6%. All other sizes of businesses saw a slight decline in this regard.

Table 1.1 – The lion's share goes to micro-enterprises

Business size	2001		2013		Variation of number
	Number	Share	Number	Share	%
1 to 4 employees	685,550	75.66%	834,750	76.55%	21.8%
5 to 19 employees	152,210	16.80%	176,530	16.19%	16.0%
20 to 49 employees	42,490	4.69%	50,870	4.66%	19.7%
50 to 99 employees	14,800	1.63%	16,340	1.50%	10.4%
Small businesses (1 to 99 employees)	895,050	98.78%	1,078,490	98.90%	20.5%
Mid-sized businesses (100 to 499 employees)	9,380	1.04%	10,180	0.93%	8.5%
Large businesses (500 or more employees)	1,640	0.18%	1,830	0.17%	11.6%
TOTAL	906,060	100.00%	1,090,500	100.00%	20.4%

Source: Statistics Canada.

3

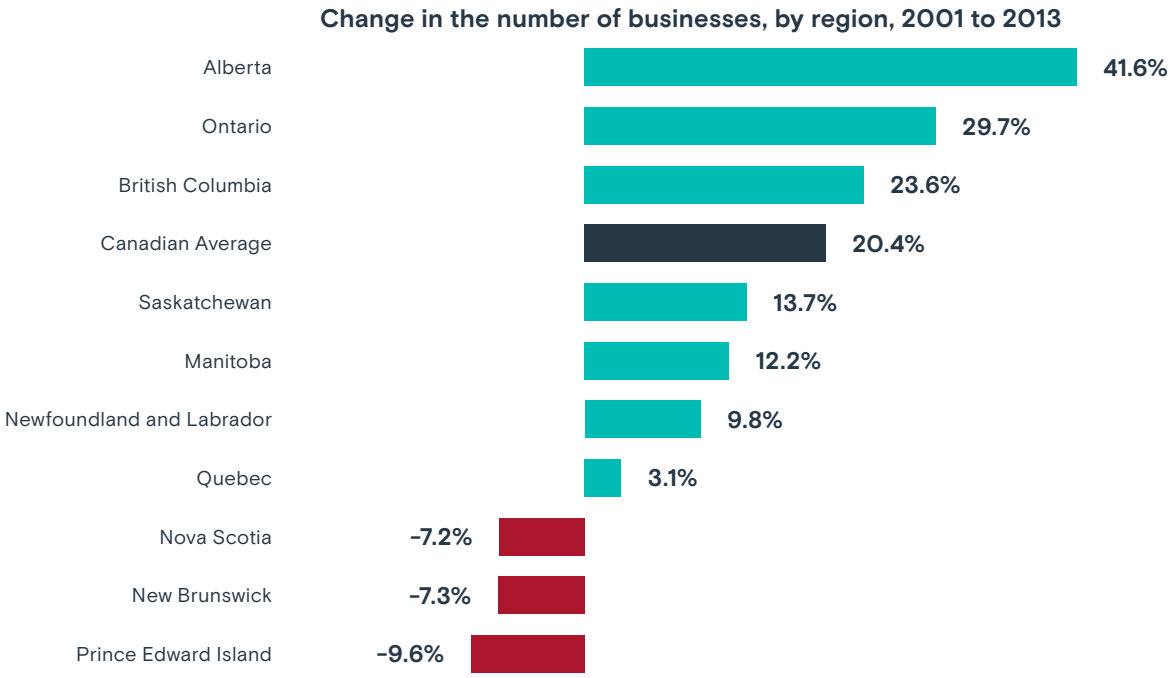
Canadian provinces have the highest rate of business creation in the country

1.2 Significant regional disparities

A national picture cannot be complete without accounting for regional disparities, which can be significant. Three provinces—Alberta, Ontario and British Columbia—stand out, with growth rates for the number of businesses clearly higher than those of other provinces: 41.6%, 29.7% and 23.6%, respectively. At the opposite end of the scale, Prince Edward Island, New Brunswick and Nova Scotia found themselves with fewer businesses in 2013 than in 2001, with declines of 9.6%, 7.3% and 7.2%, respectively.

Most often, growth or decline in the number of businesses in a region is directly proportional to movements related to economic activity and population.

Figure 1.2 – Significant growth in the number of businesses in Alberta, Ontario and British Columbia



Source: Statistics Canada.

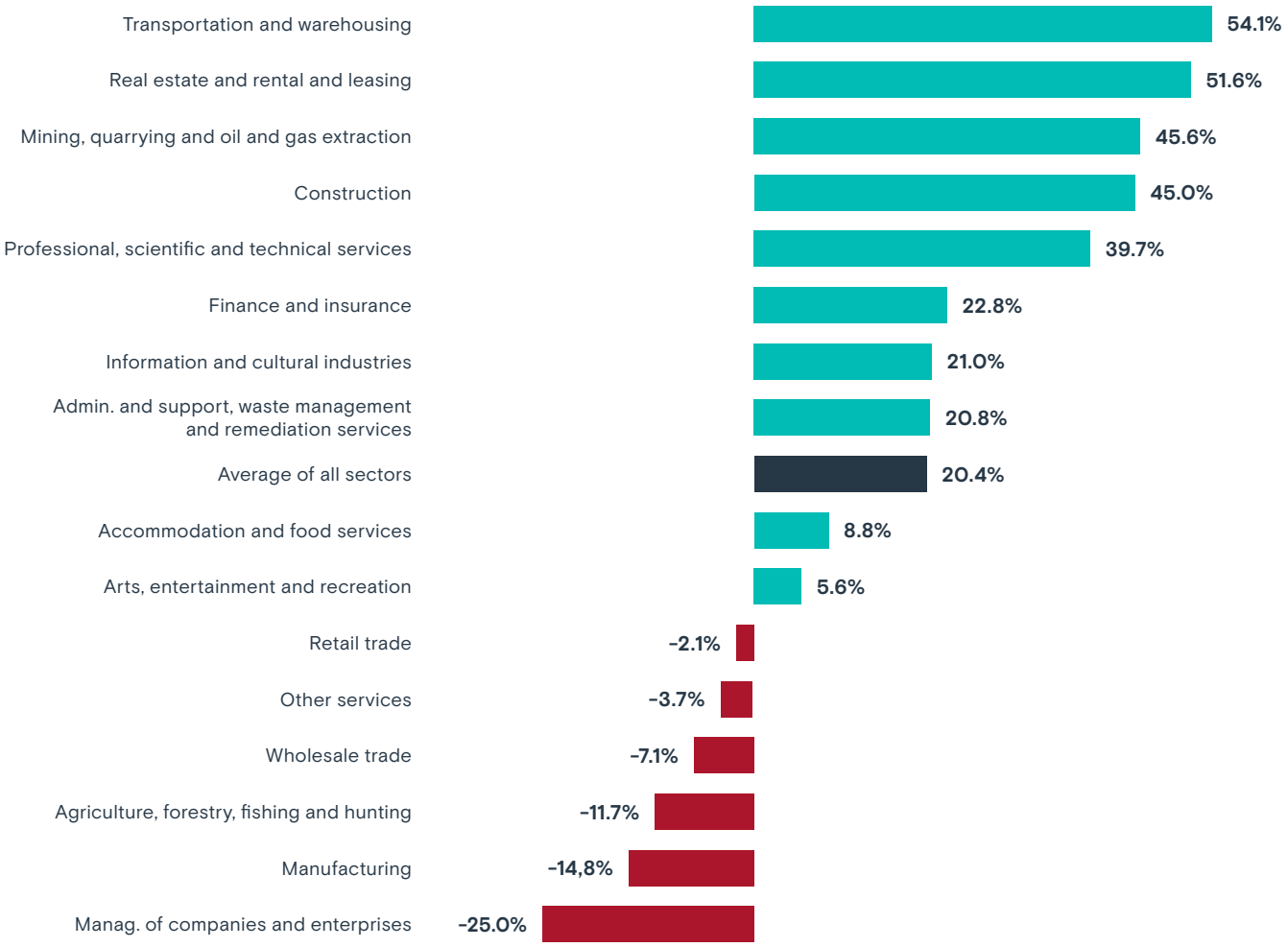
1.3 Economic sectors: Strong growth in some cases, consolidation in others

Regarding the number of businesses by economic sector, two opposite phenomena are evident. Three sectors have seen a strong growth spurt driven by a favourable economic context: transportation and warehousing (growth of 54.1%), real estate and rental and leasing (51.6%) and mining, quarrying and oil and gas extraction (45.6%).

Other sectors are experiencing the opposite phenomenon: consolidation that reduces the number of businesses. This is the case for management of companies and enterprises (-25.0%), manufacturing (-14.8%) and agriculture, forestry, fishing and hunting (-11.7%).

Figure 1.3 – Two opposite phenomena: Strong growth and consolidation

Change in the number of businesses, by sector, Canada, 2001 to 2013



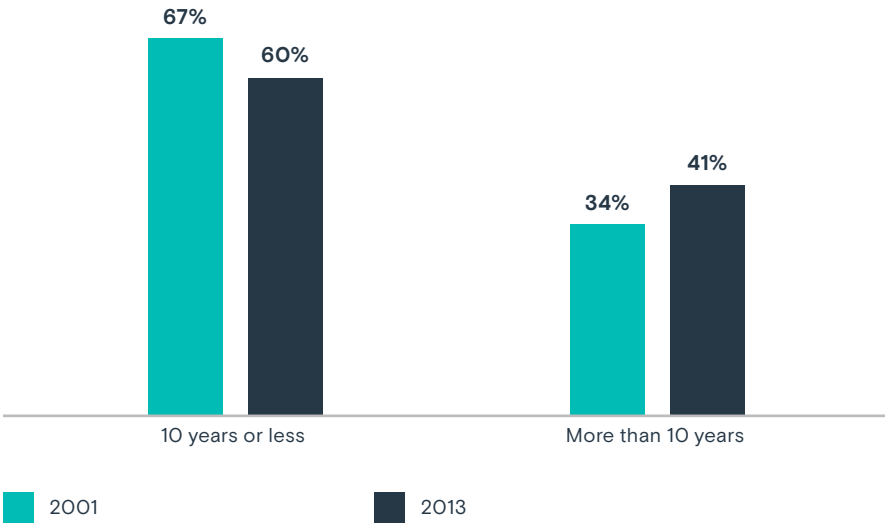
Source: Statistics Canada.

1.4 More businesses are maturing

Despite the arrival of new businesses since 2001, including many micro-enterprises, the average age of businesses is rising. About 41% of businesses had been operating for over 10 years in 2013, compared to 34% in 2001.

Figure 1.4 – Canadian businesses are maturing

Distribution of Canadian businesses, by age, 2001 and 2013



Source: Statistics Canada.

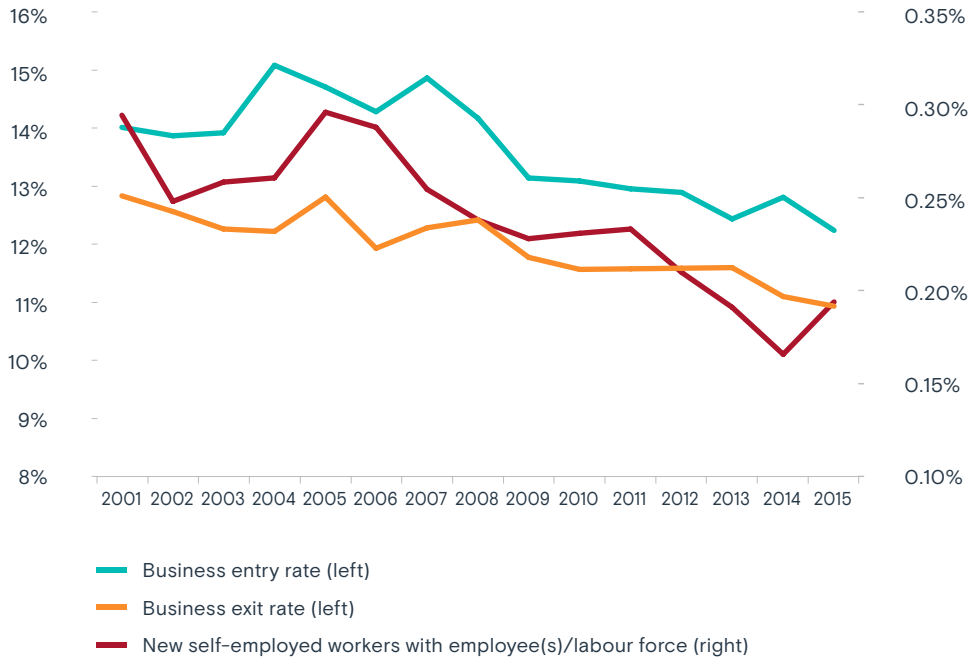
1.5 The rate of business renewal is falling

The aging of Canadian businesses is partly explained by a lower renewal rate. Fewer businesses are being created and fewer are closing. A downward trend has been observed in both the business creation rate and the business closure rate in Canada since the early 2000s,[2] a phenomenon that intensified in the wake of the Great Recession of 2008–09. Moreover, progressively fewer Canadians are choosing entrepreneurship, as shown by the declining labour force proportion of new self-employed workers with at least one employee.[3]

A decrease in the renewal rate and an increase in the age of businesses are reducing private sector productivity in Canada, because new businesses help change the established order by being generally more innovative and more productive.[4]

Figure 1.5 – Business creations, business closures and the arrival of new entrepreneurs are all in decline

Business entry and exit rate, and addition of new entrepreneurs, Canada, 2001 to 2015



Sources: Statistics Canada and BDC.

2 Bank of Canada, Staff Discussion Paper 2015-11. *Trends in Firm Entry and New Entrepreneurship in Canada*, October 2015.
3 BDC, *BDC Index of New Entrepreneurial Activity.*
4 Bank of Canada, Staff Discussion Paper 2015-11. *Trends in Firm Entry and New Entrepreneurship in Canada*, October 2015.

0.10%

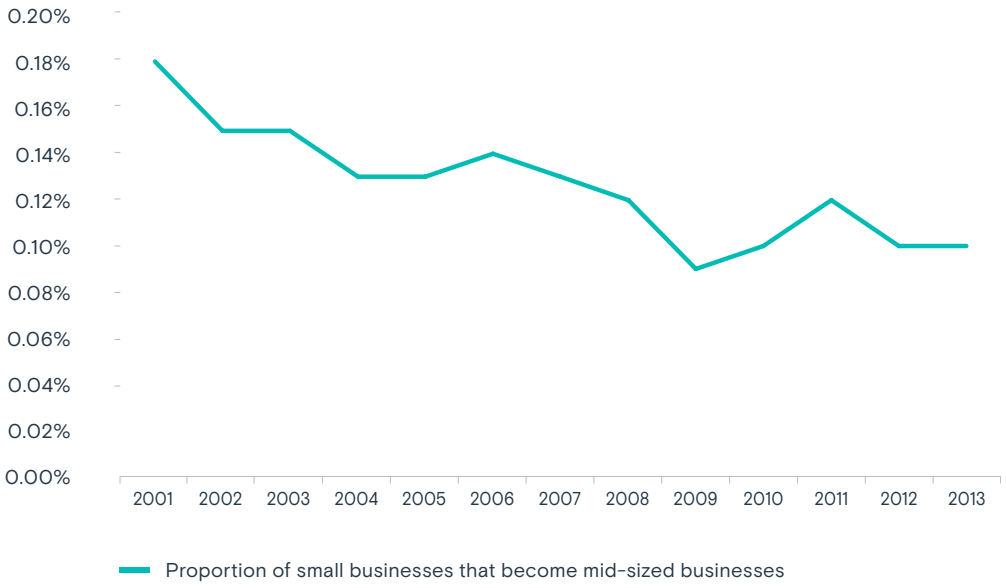
Proportion of small businesses that have passed the 100-employee mark

1.6 From small to mid-sized business: A path less frequently followed

The data clearly show that fewer small businesses than before are evolving into mid-sized businesses. In fact, very few small businesses grow to have at least 100 employees, thus achieving mid-sized business status. In 2013, only 1,073 small businesses (0.10% of the total) grew to have 100 employees or more during the year. In 2001, there were 1,611 of them (0.18% of the total).

Figure 1.6 – A shrinking proportion of small businesses are becoming mid-sized businesses

Proportion of small businesses that grew to 100 or more employees during the year, Canada, 2001 to 2013



Source: Statistics Canada.

2

Mid-sized businesses:
An improved situation, but growth is still anemic

12%

Proportion of the Canadian GDP generated by mid-sized businesses

We know that growth is still a challenge for most Canadian businesses, but what about mid-sized businesses, specifically? Are they transitioning to a higher level? Is it possible to predict which ones will become large businesses?

2.1 The same number, but less weight

In 2013, BDC published a study that reported on the disappearance, between 2001 and 2010, of a large number of mid-sized Canadian businesses (those with 100 to 499 employees). This trend largely reflected the adverse effects on the manufacturing sector of the appreciation of the Canadian dollar, competition from Asian countries and the recession, which hit this sector—particularly the automobile industry—especially hard.

Three years later, we wanted to know whether this downward trend had persisted or whether there had been a correction. It is important to consider the fate of these businesses, given their notable contribution to the economy. Although they represent less than 1% of the total number of businesses in Canada, mid-sized businesses generate 12% of GDP, in good years and bad, while generating 12% of Canada's export value, 17% of private sector R&D spending and 16% of jobs in Canada.[5] In addition, they could become tomorrow's large businesses.

The 2013 study was based on a compilation of longitudinal data on Canadian businesses, produced by Statistics Canada by special commission. At present, Statistics Canada data used to track the number of private sector businesses are available to the public free of charge.[6]

However, the data used for the current study differ in two regards from those used in the 2013 study. First, they include businesses held by foreign interests, which was not the case in 2013. For confidentiality reasons, Statistics Canada does not wish to disclose official data based on type of ownership.

5 Statistics Canada, CANSIM tables and special compilations.
6 Statistics Canada, CANSIM Table 527-0002.

0.93%

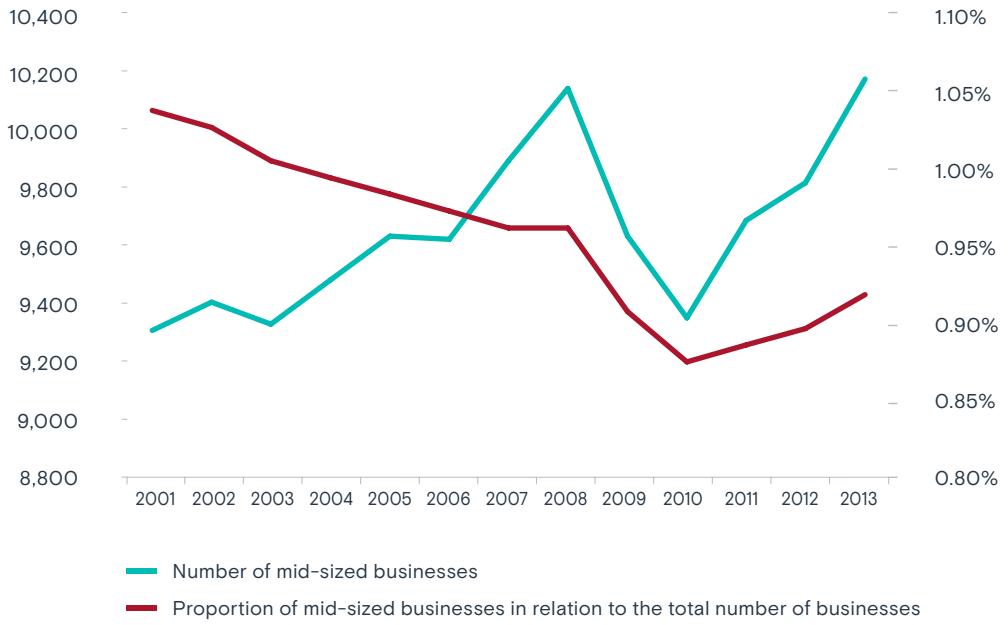
Proportion of mid-sized businesses in the overall total of businesses

Second, the data used in the two surveys offer different coverage. The current study excludes the education and health sectors, but the 2013 study kept some subsectors of those two industries that are strongly concentrated in the private sector (such as dental practices). This study also includes public electrical, gas and water utilities, whereas the former study did not.

In the context of this update on the trends among mid-sized businesses, we decided to redo the analysis, using the data published by Statistics Canada, since confidentiality reasons prevent us from obtaining more recent data in line with our initial specifications.

These new data reveal an increase in the number of mid-sized businesses from 2001 to 2008, followed by a decline during the economic crisis, and then a rebound to the pre-recession level in 2013. However, the proportion of mid-sized businesses in relation to the total declined constantly from 2001 to 2010 before a slight correction over the next three years, but it never regained the level achieved before the Great Recession of 2008–09. Thus, from 2001 to 2013, the number of mid-sized businesses increased by 8.5%, but their relative proportion diminished from 1.04% to 0.93% of the total number of businesses (Figure 2.1).

Figure 2.1 – Mid-sized businesses are gaining in number, but falling in proportion



Source: Statistics Canada.

8 out of 10

Businesses that maintain their status as a mid-sized business

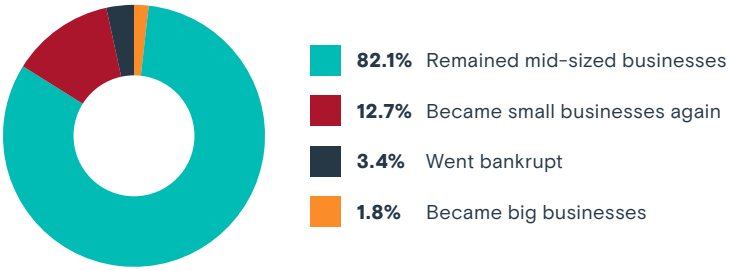
2.2 Stay mid-sized or become small again? A question of survival

Few mid-sized businesses transition to a higher level. Barely 1.8% of them, on average, pass the 500-employee mark each year. This proportion has remained fairly stable in recent years, according to an analysis produced for BDC by Statistics Canada.[7]

In fact, mid-sized businesses tend to remain mid-sized. Year over year, more than eight out of 10 (82.1%) maintain their status, while 12.7% rejoin the category of businesses with 100 employees or fewer, and 3.4% declare bankruptcy.

Figure 2.2 – Mid-sized businesses tend to stay mid-sized

Evolution of mid-sized businesses, Canada, 2004 to 2013 (average cohort)



Source: Statistics Canada, special compilations. See the methodological notes at the end of the document.

7 At the end of this study, see the methodological notes explaining how the data were compiled for this special research project on mid-sized businesses.

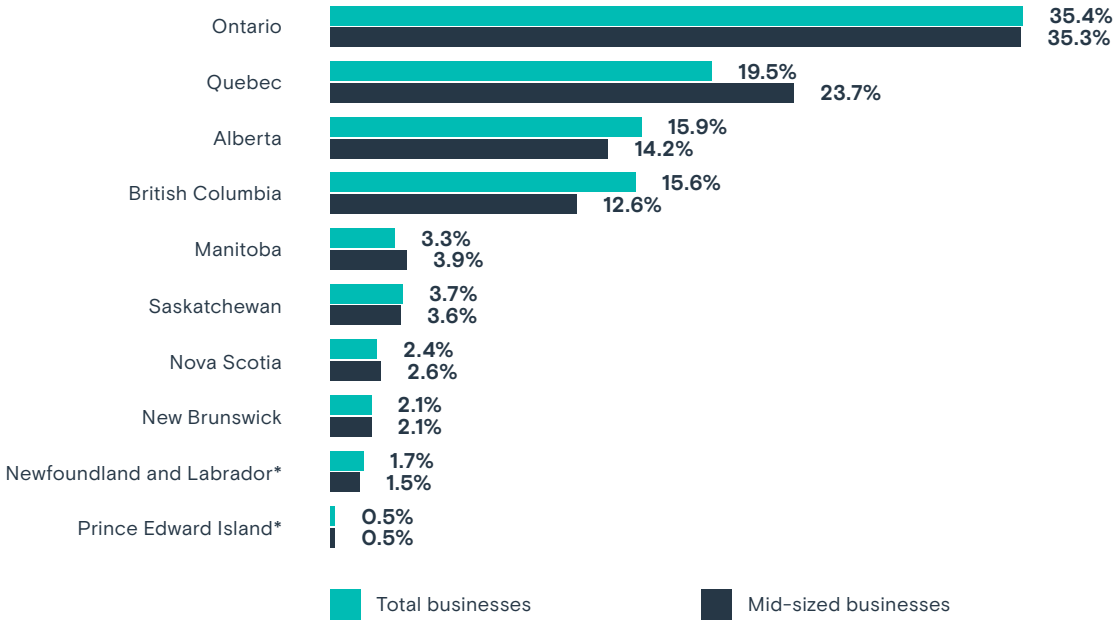
60%

Concentration of Canadian mid-sized businesses in Quebec and Ontario

2.3 A concentration in Central Canada

Two provinces, Ontario and Quebec, are home to the majority (60%) of mid-sized businesses. In fact, the breakdown of mid-sized businesses by region largely corresponds to that of the national GDP. However, they are overrepresented in Quebec, which is home to 23.7% of Canada's mid-sized businesses and 19.5% of all businesses. We must turn to Alberta and British Columbia to observe an underrepresentation of mid-sized businesses compared with the total: 14.2% compared with 15.9% in Alberta, and 12.6% compared with 15.6% in British Columbia (Figure 2.3).

Figure 2.3 – Nearly 60% of mid-sized businesses are found in Central Canada



* Includes businesses with 100 or more employees, because the data on big businesses have been suppressed for confidentiality reasons.

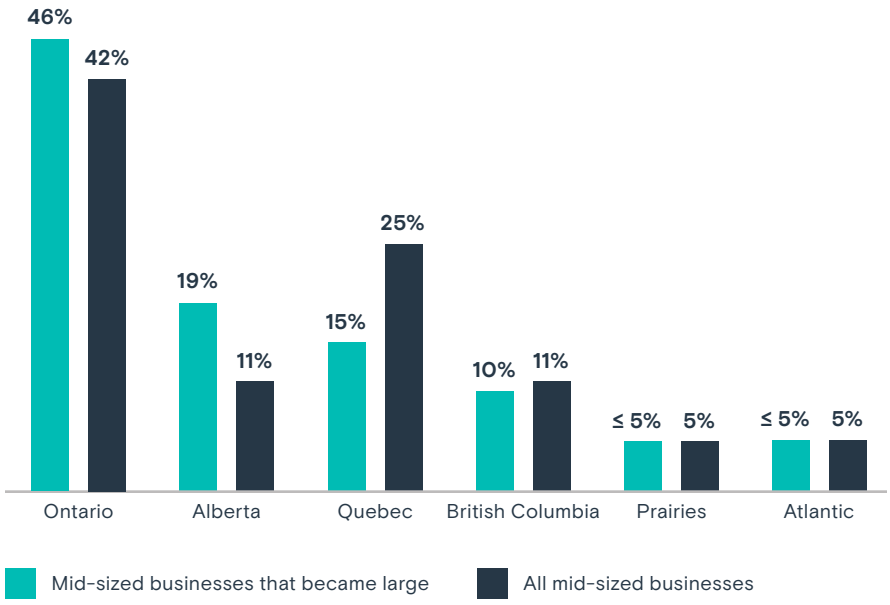
Source: Statistics Canada.

2.4 Where are the firms that will become large businesses?

Mid-sized businesses headquartered in Ontario or Alberta are the most likely to grow and reach a higher level. Nearly half (46%) of those that achieved this transition had their head offices in Ontario, while this province accounted for 42% of all mid-sized businesses in Canada. In Alberta, those figures were 19% and 11%, respectively.

In all other Canadian regions, the proportion of businesses that transitioned from mid-sized to large was lower than the proportion of mid-sized businesses in those regions.

Figure 2.4 – Mid-sized businesses headquartered in Ontario and Alberta are more likely to become large businesses



Source: Statistics Canada, special compilations.

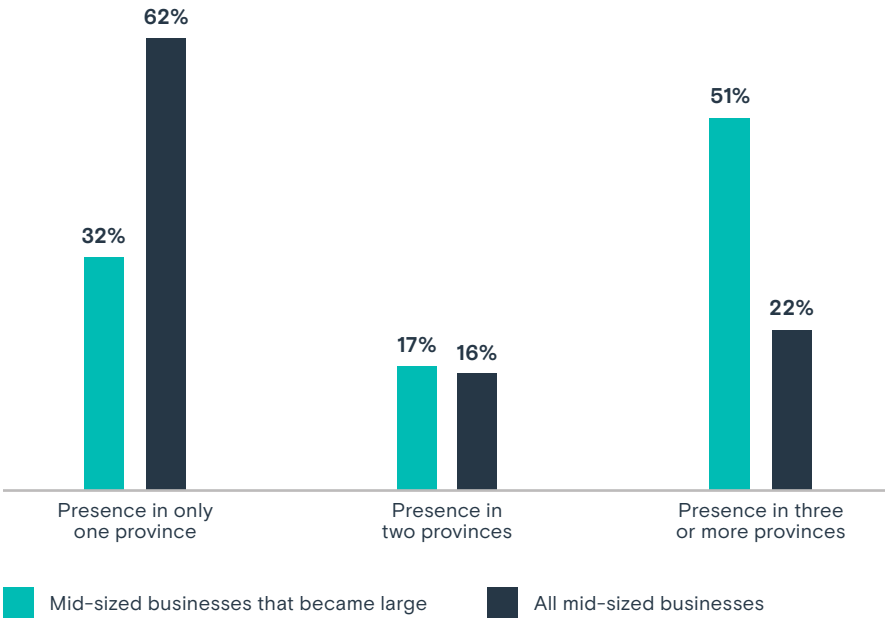
1 out of 2

mid-sized businesses that became large businesses are located in at least three Canadian provinces

2.5 Importance of expanding beyond the province of origin

Mid-sized businesses that operate beyond their province of origin are more likely to become large. Among those that have achieved this transition, half (51%) operate at least in three provinces, while only one out of five (22%) of all mid-sized businesses do so.

Figure 2.5 – Mid-sized businesses established in three or more provinces have a greater chance of becoming large businesses



Source: Statistics Canada, special compilations.

Developing a presence in at least three provinces

Business: Nordik Group, Chelsea, Quebec
Economic sector: Operation of thermal spas

The executives quickly understood the importance of focusing on their firm's development. They chose to reinvest the profits to improve their facilities and increase the scope of their activities.

Their first establishment, Nordik Spa-Nature in the Outaouais region of Quebec, became the biggest spa in North America, with more than 150,000 visitors. The owners applied their experience to extend their presence to another Canadian market, Winnipeg, where they opened the Thermëa spa in 2014.

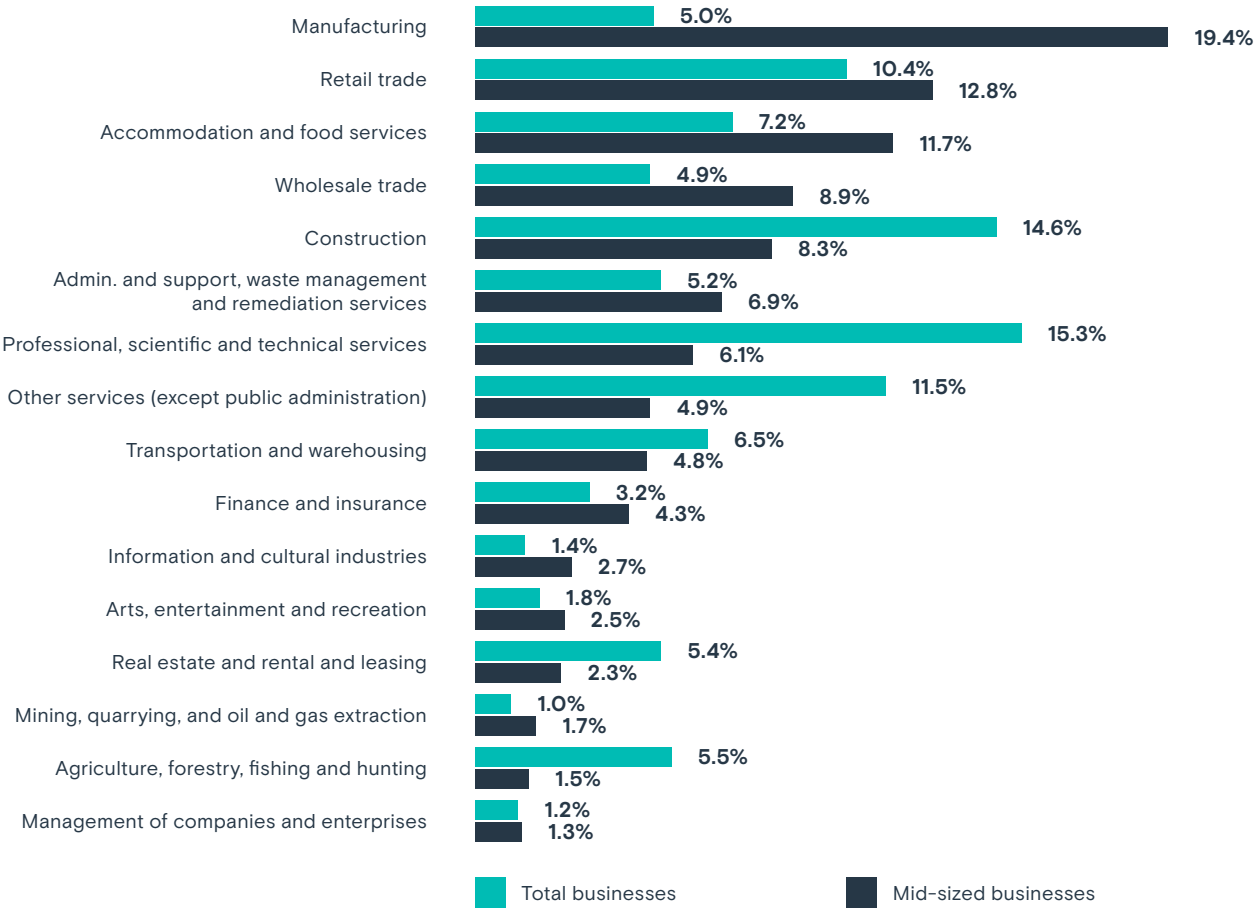
This allowed the firm to grow to more than 345 employees. This number is bound to increase with the scheduled 2017 opening of a nature spa in a third province, Ontario. That establishment will be located in Whitby, near Toronto.

2.6 Economic sectors: No significant trend in favour of any sector

In many sectors, the relative proportion of mid-sized businesses is greater than that of all businesses. For instance, the manufacturing sector accounts for 19.4% of mid-sized businesses, but just 5% of all businesses. We observe a similar situation for retail trade (12.8% compared with 10.4%), accommodation and food services (11.7% compared with 7.2%) and wholesale trade (8.9% compared with 4.9%).

However, even though one mid-sized business out of five operates in the manufacturing sector, they are less numerous than before. This sector posted a 30.3% decline in the number of mid-sized businesses from 2001 to 2013. At the opposite end of the scale, the construction sector reported the strongest increase in the number of mid-sized businesses during the same period, when the number nearly doubled (growth of 93.2%).

Figure 2.6a – One mid-sized business out of five operates in the manufacturing sector

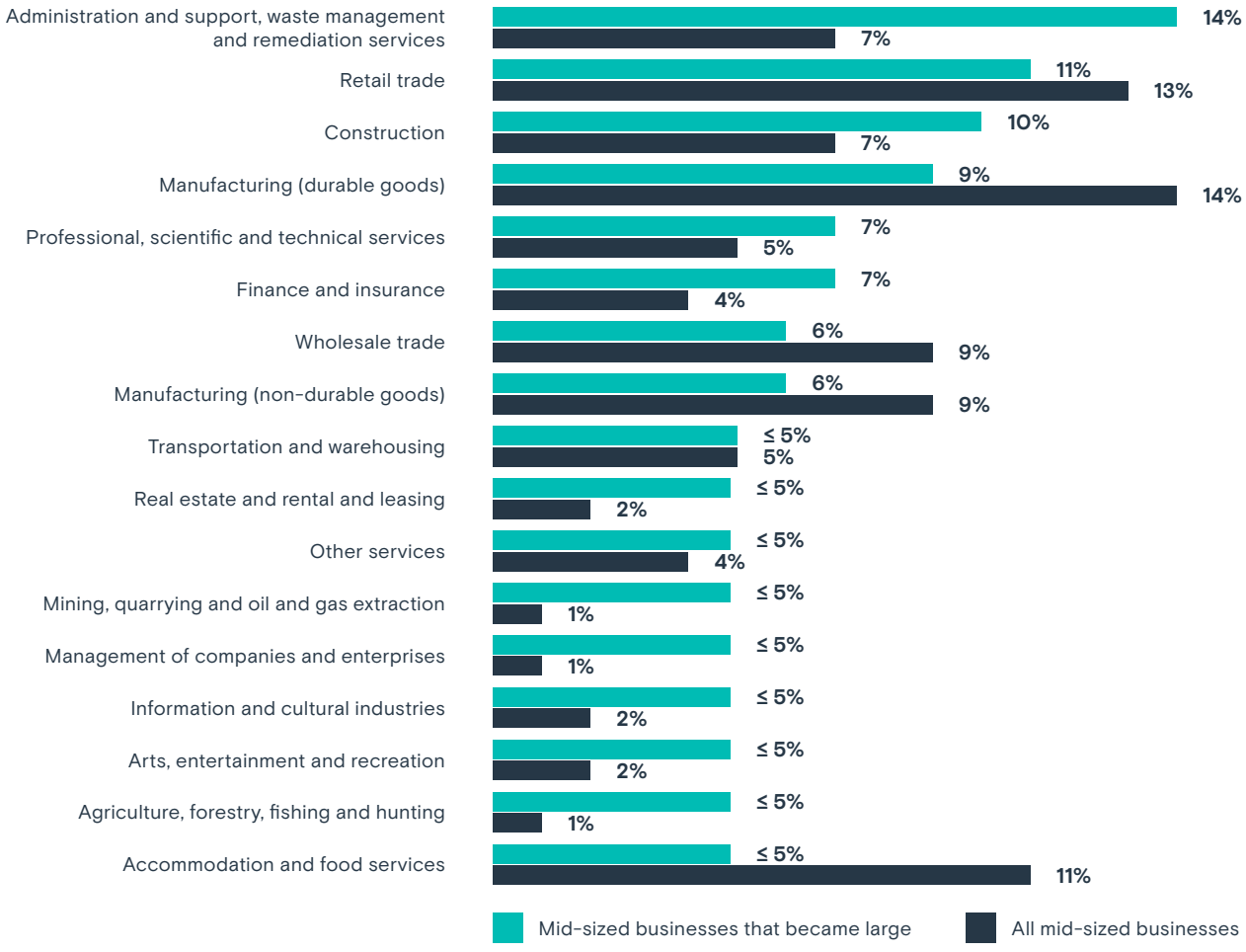


Source: Statistics Canada.

Large business status seems to be unrelated to the sector of activity

Our research shows that mid-sized businesses can become large ones regardless of their economic sector. However, the success rate is above average in some cases. For instance, the administration and support, waste management and remediation services sector includes 14% of the mid-sized businesses that have risen to a higher level, whereas it accounts for only 7% of the total number of mid-sized businesses. We observed a similar phenomenon, but with smaller variances, in construction (10% compared with 7%), professional, scientific and technical services (7% compared with 5%) and finance and insurance (7% compared with 4%).

Figure 2.6b – Mid-sized businesses evolve into large ones regardless of their economic sector, but some service sectors may be more favourable to this transition than others



Source: Statistics Canada, special compilations.

2.7 Major challenges for mid-sized businesses

Recruitment and retention of a skilled workforce, increased competition, and rising operating costs are the main challenges facing mid-sized businesses that want to grow.

Although a small proportion of mid-sized businesses succeed in passing the 500-employee mark, a recent BDC study[8] reveals that CEOs of firms with between 100 and 499 employees attach great importance to growth. They gave growth a score of 8.8 out of 10 in terms of importance, compared to 7.1 for CEOs of all small and medium-sized enterprises (SMEs). This implies that entrepreneurs face real obstacles to achieving their ambitions.

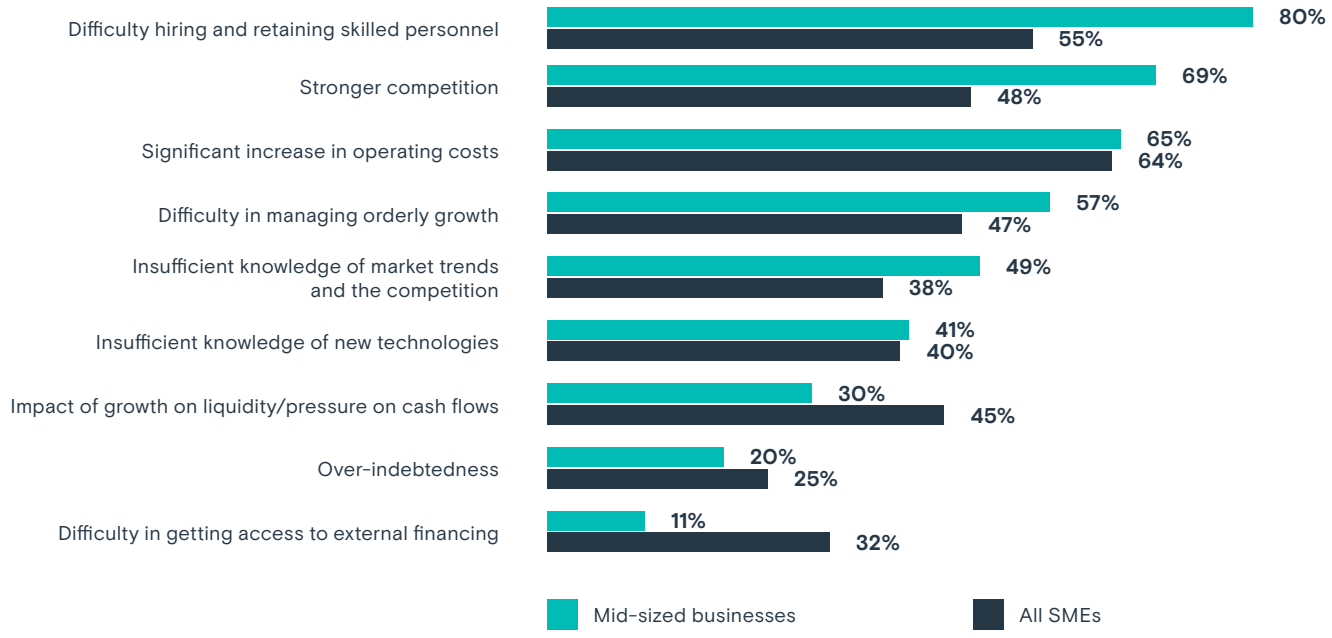
In the same study, eight out of ten respondents reported the difficulty of recruiting and retaining skilled personnel as a major hindrance to growth. A little more than half (55%) of CEOs of mid-sized businesses mentioned this.

The increase in a firm's size is also associated with stronger competition, and more CEOs of mid-sized businesses (69%) pointed this out than did CEOs of all SMEs combined (48%).

The sharp rise in operating costs ranks third among the obstacles to growth. About two-thirds of respondents (65%)—both CEOs of mid-sized businesses and owners of all sizes of SMEs—mentioned this factor.

In general, mid-sized businesses seem to have better financial foundations than small firms do. Their CEOs were less likely than their small-firm counterparts to mention difficulty of access to financing as a hindrance to growth (11% compared to 32%). Moreover, over-indebtedness, liquidity and pressure on cash flows seem to be less important obstacles for CEOs of mid-sized businesses that are considering growth than for CEOs of smaller firms.

Figure 2.7 – Recruiting and retaining skilled labour: The main challenge facing mid-sized businesses that want to grow



Source: Ad hoc research, Survey on Growth of Canadian SMEs, June 2015.

8 BDC, *SMEs and Growth: Challenges and Winning Strategies*, October 2015.

3

Productivity and tangible fixed assets:
The key for mid-sized businesses

43%

Significant growth of mid-sized business revenues since 2001

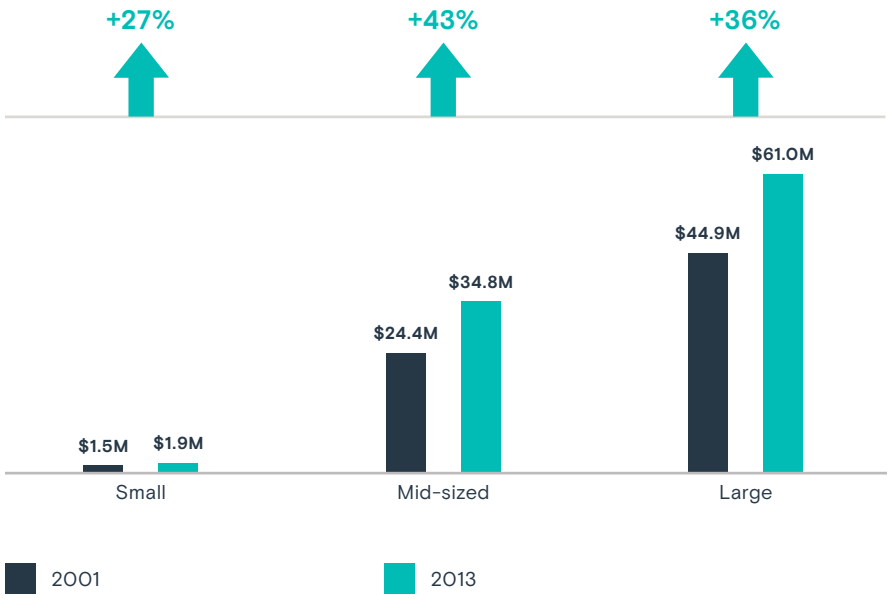
Other parameters can identify the mid-sized businesses most likely to climb to the ranks of tomorrow's large businesses. While revenue growth and the increase in the number of employees are good indicators of a firm's potential, productivity level and the value of tangible fixed assets make the diagnosis more specific.

3.1 Revenue growth: Mid-sized businesses lead the way

In 2013, mid-sized businesses reported average revenues of $34.8 million, compared with $1.9 million and $61.0 million for small and large businesses, respectively. Between 2001 and 2013, mid-sized businesses posted the strongest overall revenue growth, at 43%.

Figure 3.1 – Revenue growth: Mid-sized businesses lead the way

Revenue growth, by business size, Canada, 2001 to 2013



Source: Statistics Canada.

50%

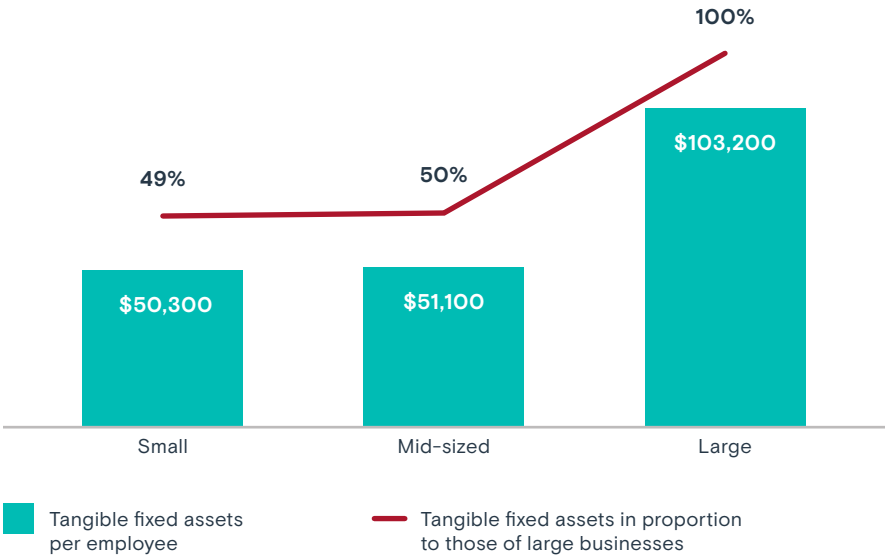
Proportion of tangible fixed assets per employee of mid-sized businesses compared with large businesses

3.2 Tangible fixed assets: Mid-sized businesses lag behind

In 2013, the value of tangible fixed assets[9] of mid-sized businesses amounted to $8.6 million, which was equivalent to $51,100 per employee on average or one-quarter of their sales revenue. The ratio per employee and proportion of sales revenue were similar for small businesses. However, large businesses had fixed assets valued at over $100,000 per employee, double the amount for small or mid-sized businesses.

Figure 3.2 – Tangible fixed assets: Mid-sized businesses lag behind

Tangible fixed assets, by business size, Canada, 2013



Source: Statistics Canada.

The level of investment in tangible fixed assets is one of the elements that impacts business productivity. Generally, these investments, in particular those that are made in advanced machinery or information and communications technologies, help to increase business productivity.

9 Tangible fixed assets mainly include land, buildings, machines and equipment, furniture and fixtures, vehicles, and computer hardware and software.

Investing in equipment and international development

Business: Louisbourg Seafoods, Louisbourg, Nova Scotia
Economic sector: Fishing and seafood processing

This family business was created in 1984 with a fleet of only six unloading boats. In 1991, the two owners purchased a processing plant in Louisbourg; this was the first of a series of acquisitions. When necessary, they did not hesitate to modernize their facilities, going so far as to demolish a plant that was considered too large and obsolete. They replaced it with a smaller and more efficient plant, focused primarily on lobster processing.

Today, the firm owns some of the biggest seafood processing plants in Nova Scotia and 13 fishing boats, and has about 500 employees.

That being said, the 2008–09 recession prompted the owners to turn more to international markets. Since sales to the United States had declined sharply, they decided to take on the European and Asian markets. This diversification was beneficial, because when one market is in decline, others often become stronger.

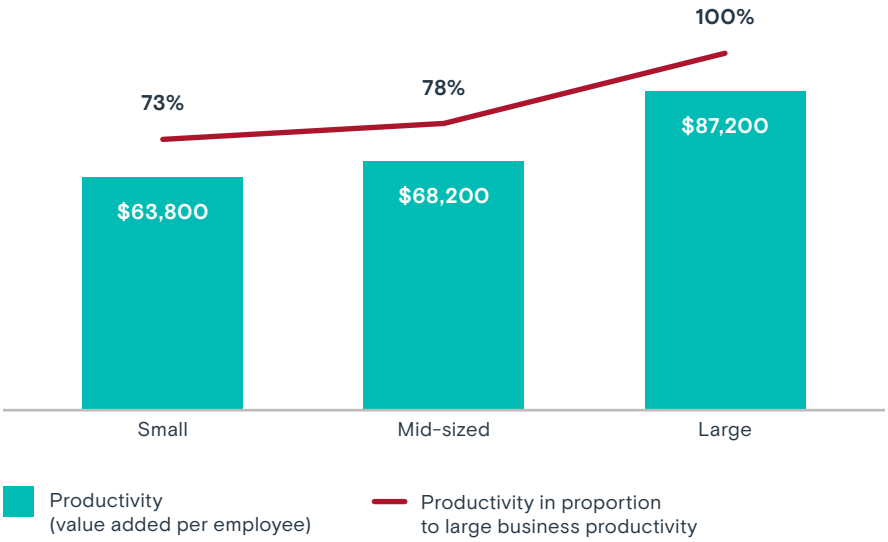
78%

Productivity of mid-sized businesses compared with that of large businesses

3.3 Productivity: Mid-sized and small businesses are neck and neck

In 2013, the productivity level of mid-sized businesses, expressed in terms of the value added[10] per employee, amounted to $68,200, barely greater than that of small businesses ($63,800 per employee). The gap between mid-sized and large businesses (which had value added of $87,200 per employee) was much larger, at 20%. That being said, the three business categories saw similar growth in productivity from 2001 to 2013.

Figure 3.3 – Mid-sized business productivity is less than 80% of large business productivity



Source: Statistics Canada.

However, the value of fixed assets and business productivity vary greatly from one economic sector to another.

For example, in the case of mid-sized businesses in the manufacturing sector, the value of fixed assets, both total and per employee, increased very little from 2001 to 2013. At the end of this period, the mid-sized businesses in this sector accounted for $64,900 of tangible fixed assets per employee, on average, less than half the value reported by large businesses ($149,100 per employee). In 2013, productivity among these mid-sized businesses ($78,700 per employee) was equivalent to three-quarters of that among large businesses in this sector ($103,700 per employee).

In other sectors, while the value of fixed assets of mid-sized businesses was still clearly lower than that of large businesses, the two business categories posted productivity in the same order of magnitude. This was particularly the case in mining, quarrying and oil and gas extraction; construction; retail trade; information and cultural industries; finance and insurance; and real estate and rental and leasing.

10 Statistics Canada estimated the value added as the sum of the costs of labour and capital.

Table 3.3 – Tangible fixed assets and productivity: Mid-sized vs. large businesses

Sectors	Fixed assets 2013		Productivity 2013	
	Tangible fixed assets per employee ($)	Mid-sized/large businesses (%)	Value added per employee ($)	Mid-sized/large businesses (%)
Mining, quarrying and oil and gas extraction	273,200	64	182,600	89
Construction	41,600	68	92,100	92
Manufacturing	64,900	44	78,700	76
Wholesale trade	40,900	47	84,700	77
Retail trade	23,300	46	41,700	100
Transportation and warehousing	94,500	63	63,800	76
Information and cultural industries	38,000	33	79,600	109
Finance and insurance	38,600	86	129,300	100
Real estate and rental and leasing	146,800	86	85,600	100
Professional, scientific and technical services	19,200	74	89,000	98
Arts, entertainment and recreation	62,800	66	35,000	83
Accommodation and food services	28,700	36	25,000	68
Other services	n/a	n/a	50,200	110
All sectors	51,100	50	68,200	78

Source: Statistics Canada.

69%

of mid-sized businesses that became large businesses were among the most productive in their industry

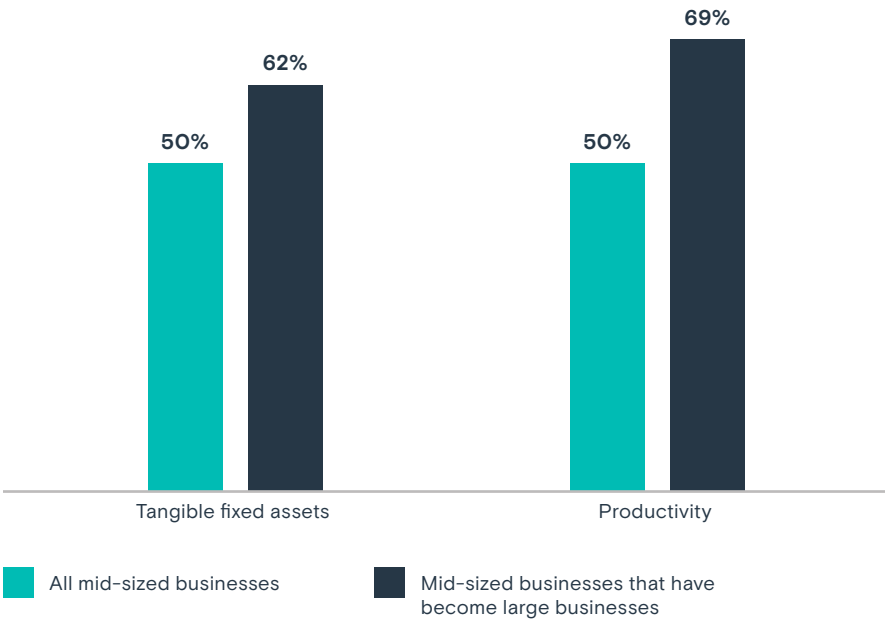
3.4 Productivity and tangible fixed assets: An advantage for businesses that want to grow

Comparing the data for mid-sized businesses that become large ones with the data for other mid-sized businesses in the same sector, we observed that the former had been above average in terms of productivity and the value of their tangible fixed assets at least five years before they ascended to a higher category.

Indeed, over two-thirds (69%) of mid-sized businesses that are now large rank among the most productive in their economic sector, and 62% of them have tangible fixed assets valued higher than those of mid-sized businesses in the same economic sector.

Figure 3.4 – Mid-sized businesses that become large businesses are more productive and have more tangible fixed assets than their counterparts in their economic sector

Percentage of mid-sized businesses among the top performers in their industry



Source: Statistics Canada, special compilations.

Improving productivity

Business: Superior Cabinets, Saskatoon, Saskatchewan
Economic sector: Kitchen cabinet manufacturing

The 2008–09 recession almost destroyed Superior Cabinets, a kitchen cabinet manufacturer. Instead of limiting their spending, executives decided to invest the funds needed to improve the firm's productivity. They spent about $2 million to transform manufacturing processes, accelerate production and reduce waste to increase profits. In particular, they began using software that allows sales staff to design a kitchen with a customer and send the order directly to the plant. At the same time, the firm doubled the number of its showrooms in Saskatchewan and Alberta to six.

At first, the implementation of the firm's action plan resulted in a staff reduction to 200 employees. However, the investments allowed a turnaround and a resumption of hiring, with the addition of more than 50 positions in a few years. In fact, the firm is now on a solid foundation to continue expansion and increase its market share.

Conclusion

While the capacity of businesses to create jobs is a sign of economics' vitality, the findings of this study show the importance of combining the conditions favourable to business growth in Canada.

Why? Small businesses, particularly micro-enterprises, represent a growing share of businesses in Canada. However, they tend to remain small businesses, which has an impact on job creation. Moreover, even though the number of mid-sized businesses has increased significantly over the past few years, they account for a smaller proportion of all businesses. Each year, barely 2% of mid-sized businesses succeed in becoming large businesses; the others remain mid-sized (82% of the cases), become small again (13%) or simply cease operations (3%).

It is therefore essential to focus on the conditions that favour the growth of mid-sized businesses. What distinguishes the 2% of mid-sized businesses that succeed in becoming large ones?

Economic sector is not a strong differentiating factor; mid-sized businesses that pass the 500-employee mark are found in every economic sector. However, they are relatively more numerous in the business services sectors.

A more significant differentiator is the size of the territory within which the firm operates. A mid-sized business present in at least three provinces will multiply its chances of ascending to a higher level.

That being said, productivity and capital spending are the real keys. A business whose productivity and fixed asset value are above average for its economic sector will probably make the leap to the big league before the others. The problem is that the vast majority of mid-sized businesses have a lot of catching up to do in this regard. The value of their fixed assets is equivalent to only half that of large businesses, and their productivity is 80%.

Moreover, as several CEOs of mid-sized businesses confirmed, the ambition to grow is not enough. It is essential to be able to recruit and retain skilled personnel.

Given the contributions of mid-sized and large businesses to GDP and job creation, the importance of action to increase their numbers is immediately apparent. So what can be done?

The answer is self-evident: Support investment in capital spending and productivity improvement, which would help mid-sized firms recruit employees and meet the challenges of increased competition. This would be particularly important in the manufacturing sector, which includes nearly one out of five mid-sized businesses, and where investment and productivity are relatively low.

We should also encourage mid-sized businesses to expand across Canada, since mid-sized businesses that operate in at least three provinces are more likely to become large businesses. Moreover, as shown by our study of growth strategies,[11] many Canadian businesses prefer to expand inside Canada, which is entirely logical, given that the currency is the same and the laws are similar. In fact, it is better to acquire experience in one's own backyard before venturing across the border in an effort to capture new markets.

It has been proved that businesses successful in capturing new markets are more productive, more innovative and more profitable. In the final analysis, this is what causes them to expand.

11 BDC, *SMEs and Growth: Challenges and Winning Strategies*, October 2015.

Project methodology

(concerning the characteristics of mid-sized businesses that became large businesses)

This project uses the following windows for each T2-PALE class:

Three-year window before the transition			Three-year window after the transition		
t – 2	t – 1	t	t + 1	t + 2	t + 3

A business is classified as a mid-sized business before the transition period when it fulfills the following criteria:

1. It was active every year for the three years before the transition.
2. On average, in the three years before the transition, it had between 100 and 499 employees (the definition of a mid-sized business).
3. It had between 100 and 499 employees for at least two of the three years preceding the transition.

After the transition period, each mid-sized business may end up in one of the following four situations: it may become a large business, remain a mid-sized business, become a small business or cease its activities.

A business is classified as a large business after the transition when it fulfills the following criteria:

1. It was active every year for the three years after the transition.
2. It employed at least 500 workers, on average, during the three years after the transition.
3. It employed at least 500 workers for at least two of the three years after the transition.

A business is classified as a small business after the transition when it fulfills the following criteria:

1. It was active every year for the three years after the transition.
2. Its average number of employees for the three years after the transition was fewer than 100.
3. It employed fewer than 100 people for at least two of the three years after the transition.

A business that was active for the three years after the transition period but did not meet the criteria allowing it to be classified as a large or small business is considered to have remained a mid-sized business.

A business that was not active during each of the three years after the transition is considered to have ceased its activities.

The mid-sized businesses that met the criteria for being classified as large businesses in one of the five three-year windows before year t—meaning mid-sized businesses that were large businesses in the recent past—were omitted.

The figures presented are average proportions based on the proportions of the seven T2 PALE classes studied.

A significant proportion "≤ 0.05" represents a proportion between 0 and 0.05. This category was created to preserve the confidentiality of the data.

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