



BDC STUDY

# SMEs AND GROWTH: CHALLENGES AND WINNING STRATEGIES

October 2015



Canada 

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# SUMMARY

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**SMEs ARE SUCCESSFULLY MEETING THE CHALLENGES ASSOCIATED WITH GROWTH.**

**12%**

**OF CANADIAN SMEs ARE EXPERIENCING STRONG GROWTH.**

**29%**

**OF CANADIAN SMEs ARE EXPERIENCING SUSTAINED GROWTH IN TERMS OF REVENUE, PROFIT OR NUMBER OF EMPLOYEES FOR 2015.**

- > Regardless of whether a business is seeking to make it past the start-up phase, satisfy a major increase in demand for its products and services, or strengthen its competitive position, growth is a vital step in the development of a small or medium-sized enterprise (SME). How many Canadian SMEs are pursuing growth in Canada in 2015? What are the obstacles they face? And what are the most commonly used strategies for overcoming those obstacles?
- > To answer these questions, we spoke with entrepreneurs from a variety of backgrounds who have put various strategies into effect with conclusive results. This, in turn, led to a survey of over 1,000 SME leaders across the country to gain a better understanding of growth challenges and identify the most promising strategies.
- > Although every business has to chart its own path according to its size, industry and location, a number of findings were made that paint a general picture of how SMEs are positioned vis-à-vis growth.
- > The first finding of note: four out of 10 SMEs are successfully meeting the challenges associated with growth. In Canada, 12% of SMEs experience strong growth in terms of revenue, profit or number of employees, while 29% show sustained growth.
- > While not all businesses are at the same stage of development, there is a broad consensus when it comes to the value of growth. The survey respondents (all categories combined) gave it an average score of 7.1 out of 10 in this regard.
- > Another finding: SME leaders are facing challenges on many fronts, a fact that can sometimes thwart their ambitions. Among other things, they must contend with a marked increase in operating costs along with greater pressure on managers and employees resulting from the efforts required to increase production. In some cases, debt loads and difficulty securing financing pose further obstacles.
- > Despite the challenges, managing an expanding business can have substantial benefits. First, when revenue and profit levels grow, leaders' personal and family financial situations also improve. Another benefit worthy of note is that the ability to handle bigger projects can make work much more stimulating for employees. And a growing business is generally on a sounder financial footing, enabling it to compete more aggressively and pursue development projects.

> While the challenges vary from one business to another, there is a consensus on the strategies for growing successfully. Leaders whose businesses are experiencing marked growth identified the following four winning strategies, in this order:

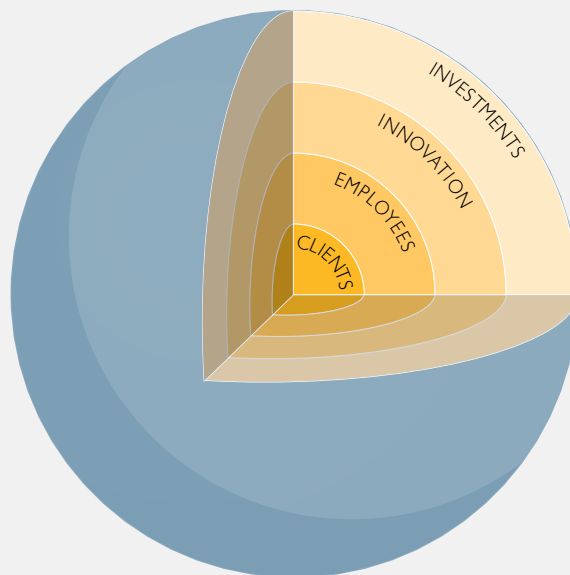
**1. Be a client-centric business**

**2. Build your talent pool**

**3. Stay on top of your game, innovate**

**4. Invest to be the best**

> Since SMEs are the engine of the Canadian economy, it would be in everyone's interest for more and more of them to pursue growth. And one of the objectives of this study is just that: to give SME leaders the desire to grow by providing relevant information and examples that show that, with careful planning, success is within their reach.





# INTRODUCTION

**Regardless of whether a business is seeking to make it past the start-up phase, satisfy a major increase in demand or strengthen its competitive position, growth is a vital step in the development of a small or medium-sized enterprise (SME).**

In theory, growth is one of the inevitable phases of a business's lifecycle, which begins with the start-up phase, followed by development or growth. Next comes maturity, which can lead either to the business's decline or to its renewal. In practice, the life of a business does not advance quite so predictably, and every business follows its own path. A business may complete its start-up phase very quickly, for instance, or may never reach maturity. However, as the research clearly shows, all businesses, whatever their size, location or industry, are likely, one day or another, to have to take steps to manage their growth.<sup>1</sup>

## Why focus on the growth of SMEs?

Before looking at growth from the perspective of its inherent challenges and the strategies for managing it effectively, we should understand why it is important to put in place the necessary conditions for SMEs to grow.

The growth of SMEs is one of the main keys to an economy's vitality. SMEs are known to have a major role in creating wealth, given their place in the economy. In Canada, as in many other countries, almost all businesses are SMEs.<sup>2</sup> Moreover, 71% of the jobs created in the private sector over the last 10 years can be attributed to the activities of SMEs.<sup>3</sup>

Consequently, it comes as no surprise that governments seek to maintain a business climate conducive to the birth and growth of SMEs. The measures most often taken for this purpose include reducing administrative burdens, introducing tax measures that promote growth and ensuring access to financing.

However, while the business environment may play a leading role, the growth of SMEs depends on a number of other factors as well. Every SME is unique and has its own history based on its origins, industry, location and target market, but they all have certain points in common that enable some of them to fare better than others. That is the express purpose of this study: to identify strategies that explain the difference between businesses that are experiencing sustained growth and those that are stagnating or seeing their revenue decline. These are referred to here as "winning strategies."

<sup>1</sup> C. Parsley and D. Halabisky, *Profile of Growth Firms: A Summary of Industry Canada Research*, March 2008.

<sup>2</sup> Private-sector businesses with 1 to 499 employees make up 99.8% of all businesses, according to data from Statistics Canada's December 2014 Business Register.

<sup>3</sup> Calculated on the basis of data from Statistics Canada's Survey of Employment, Payrolls and Hours (SEPH) for 2005 to 2014.

**The management team has to be able to manage the greater complexity that comes with growth and to exercise leadership of all personnel.**

## SME growth determinants

Several studies have focused on factors that foster the growth of SMEs. Last year, under the direction of Louis Jacques Fillion, HEC Montréal's Centre for Productivity and Prosperity published an excellent summary of the literature on the subject, particularly from the perspective of growth determinants and the means of sustaining growth.

Unsurprisingly, this in-depth analysis of the literature shows that the main foundation for a business's growth is its leaders' will and commitment. Without the management team's determination to grow the business, growth simply does not occur.

But the desire to grow is not the whole story. A business must also have the capability to grow. The management team has to be able to manage the greater complexity that comes with growth and to exercise leadership of all personnel.

What's more, the business itself must be able to meet the challenges of growth. This is not only a matter of having qualified personnel, but also of fostering cooperation and helping employees adapt to the frequent changes associated with growth. In addition, leaders must be able to capitalize on highly advanced equipment and technologies, and ensure that employees receive the training they need to become proficient in their use. They must also have a solid understanding of their market and clients' needs in order to adapt and innovate, whether by introducing new products and services or by upgrading their business processes and models. The business's financial capacity must also be considered. Sustaining growth requires significant resources, and the business has to be able to generate sufficient cash flow or make its operations more profitable while continuing to be backed by solid financial partners.

Lastly, successful growth can also depend on factors outside the business's control, especially the environment in which it operates. The prospects are much better when the business enjoys such favourable conditions as increased demand for its products and services, access to a qualified workforce, the existence of a solid supplier network, and the proximity of research centres. As studies show, knowing how to recruit and utilize external expertise—through an advisory committee, for example—can go a long way toward ensuring that SMEs succeed.<sup>4</sup>

In other words, there is ample literature to confirm that the growth of SMEs depends on a variety of factors. They range from aspects inherent to the business to others that are more related to its ability to seize opportunities afforded by the external environment.

<sup>4</sup> BDC, *Advisory Boards: An Untapped Resource for Businesses*, 2014.

## Canadian SMEs and growth

Based on the findings from this review of the literature on the growth of businesses here and elsewhere, we set out to describe the situation of Canadian SMEs. Our first goal was to identify the characteristics shared by SMEs experiencing growth.

To this end, we sought out the answers to a series of questions to cover every aspect of the paths taken by SMEs who have set their sights on growth.

- > What motivates a business's leaders to seek growth?
- > What are the advantages of growth?
- > What are the main challenges and obstacles associated with growth?
- > What strategies and best practices promote growth?

To answer these questions, we first conducted in-depth interviews with the leaders of 25 businesses across the country, most of which were SMEs experiencing marked growth. Using the information obtained, we designed a questionnaire for a survey of 1,015 SMEs.<sup>5</sup> To illustrate the main findings of our research, we also selected examples of Canadian SMEs that succeeded in meeting their growth objectives.

Ultimately, this research allows us to paint a comprehensive picture of what growth means for businesses and prepare a list of strategies proven effective. By doing so, BDC hopes to assist the greatest possible number of SMEs that decide to pursue the path of growth. And since SMEs are our main economic engine, the entire country will benefit.

<sup>5</sup> A more detailed description of the survey methodology can be found at the end of this report.

# REVENUE, PROFIT AND JOBS: THE THREE DIMENSIONS OF GROWTH

Revenue, profit and jobs are the three dimensions most often cited when determining to what degree an SME is growing. The entrepreneurs interviewed for our survey and the other sources consulted all view growth from one or more of these perspectives.

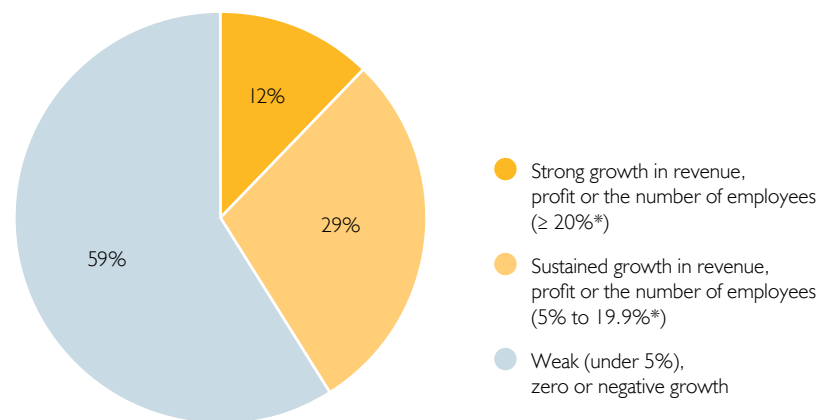
Accordingly, for the purpose of this study, we have decided to focus on the following criteria:

*To be deemed to be growing, a business must have seen an increase in its revenue, profit or workforce in each of the last three years without having experienced any decline in any of these areas.*

*Average annual growth of 5% to 19.9% will be considered "sustained growth," with average annual growth of 20% or more considered "strong growth."*

Based on these criteria, our survey showed that 12% of Canadian SMEs are experiencing strong growth, and 29%, sustained growth. However, six out of 10 SMEs (59%) showed weak or zero growth, or even negative growth, over the last three years.

**Figure 1: Four out of 10 SMEs are experiencing sustained or strong growth**



\* Average annual growth over the last three years.

Source: Ad Hoc Research, *Survey on the Growth of Canadian SMEs*, June 2015, n = 1,015.



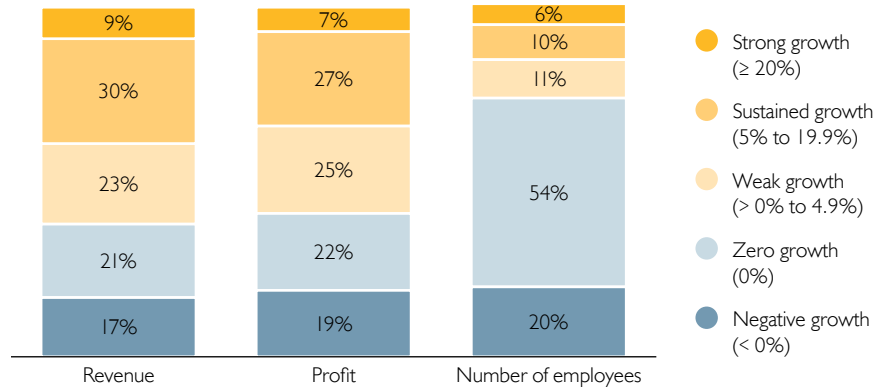
# 30%

**OF SMEs EXPERIENCING STRONG GROWTH HAVE KEPT THEIR NUMBER OF EMPLOYEES AT THE SAME LEVEL.**

## Growth and productivity improvements

A detailed analysis of each of the three dimensions of growth shows that revenue increases faster than profit and the number of employees, in that order. It is worth noting that nearly a third (30%) of SMEs experiencing strong growth have kept their number of employees at the same level. Most growing businesses have seen their revenue and profit increase faster than their number of employees, suggesting that their productivity has improved.

**Figure 2: Revenue and profit increase faster than the number of employees\***

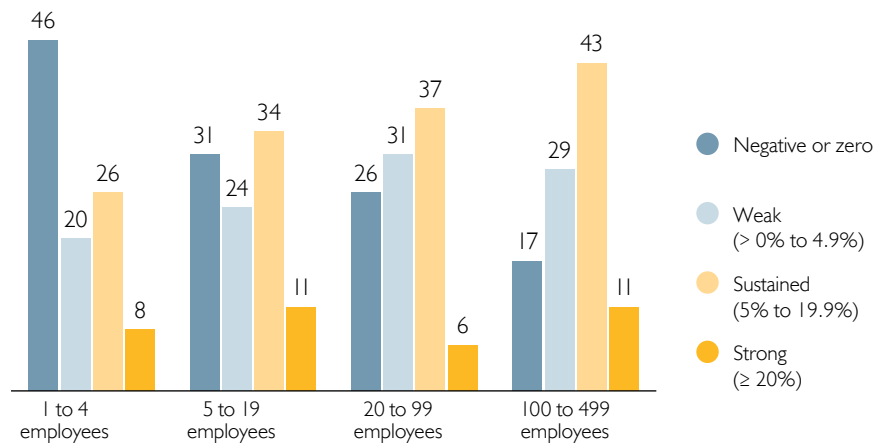


\* Average annual growth over the last three years.  
 Source: Ad Hoc Research, *Survey on the Growth of Canadian SMEs*, June 2015, n = 1,015.  
 Percentages may not necessarily add up to 100% due to rounding.

## Growth and business size

Medium-sized businesses (100 to 499 employees) seem better able to manage growth. Over half (54%) of them have managed to maintain a sustained or strong pace of growth over the last three years. On the other hand, the results point to less favourable growth conditions for the smallest businesses (one to four employees). More of them (46%) show zero or negative growth.

**Figure 3: Growth conditions are less favourable for small businesses\***



\* Average annual revenue growth over the last three years.  
 Source: Ad Hoc Research, *Survey on the Growth of Canadian SMEs*, June 2015, n = 1,015.

## Which businesses are experiencing strong growth?

Businesses experiencing strong growth can be found in every size category, with no particular distinctions.<sup>6</sup>

Interestingly, the period of strong growth most often occurs in the first 10 years of the business's existence (19%, compared with an overall figure of 12% for businesses of all ages). After 20 years of existence, businesses experiencing strong growth are less numerous, at 9% of the total.

The results also show that an economy's vibrancy can have an influence on businesses' ability to register marked growth. For instance, Alberta SMEs have been able to capitalize on favourable conditions over the last three years; 23% of the province's respondents are experiencing strong growth.

In terms of industries, construction leads the pack, accounting for 22% of businesses that meet the criteria for strong growth.

The last point that characterizes businesses experiencing strong growth is that their leaders are more optimistic regarding the future. Nearly a third (32%) of them anticipate an increase in business revenue of over 20% in the coming year, compared with just 8% for all respondents.

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## TYPICAL PROFILE OF GROWING SMEs IN CANADA

Based on the survey data, the typical growing SME in Canada has the following profile:

- > was founded less than 10 years ago
- > has more than five employees
- > has annual sales of \$2 million or more
- > is located in Alberta
- > is active in the construction industry, more often than not
- > is owned by more than one shareholder

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<sup>6</sup> There are no statistically significant differences if the margin of error is factored in.

## 2. TO GROW OR NOT TO GROW: A QUESTION OF MOTIVATION

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DEGREE OF IMPORTANCE OF GROWTH ACCORDING TO CANADIAN SMEs.

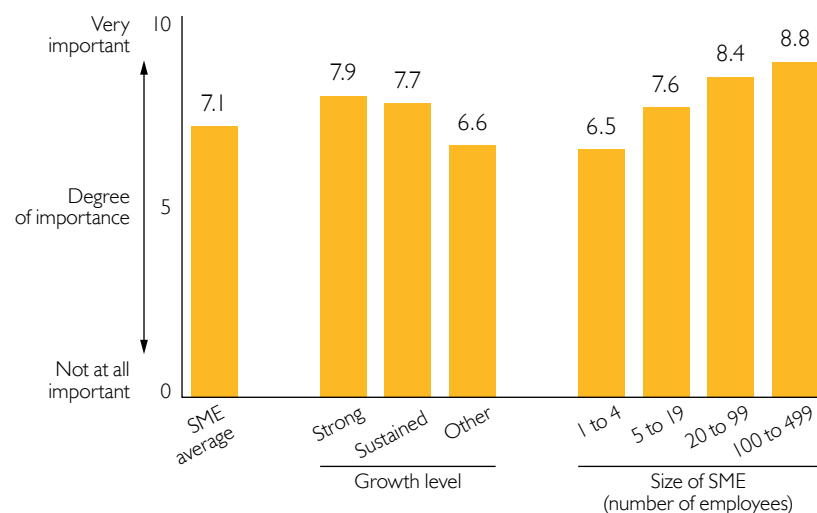
Clearly, the size, industry, age and location of a business are all factors that influence its ability to grow. However, these factors will have no impact if the business's leaders do not wish to expand in the first place.

The desire to grow seems to exist for most businesses, regardless of whether they are currently growing or not. When asked how important growth was for a business, the SME leaders who took part in our survey gave it an average score of 7.1 (on a scale of 0 to 10<sup>7</sup>). Indeed, two-thirds of respondents (67%), across all categories, assigned growth a score of 7 or more—38% gave it a 10. At the other end of the spectrum, just 11% felt that growth was not at all important (score of 0).

It comes as no surprise that leaders of SMEs showing strong or sustained growth are more inclined to see growth as important, with average scores of 7.9 and 7.7, respectively. These scores are significantly higher than the average score of 6.6 assigned by leaders of other SMEs.

The importance attached to growth appears to rise in direct proportion to the business's size. The leaders of nine out of 10 medium-sized businesses (100 to 499 employees) gave it a score higher than 7, with the average score being 8.8.

**Figure 4: Growth is a priority for Canadian SMEs**  
(degree of importance that leaders attach to the growth of their business)



Source: Ad Hoc Research, *Survey on the Growth of Canadian SMEs*, June 2015, n = 1,015.

One-third of respondents who attach relatively little importance to growth<sup>8</sup> report that they are satisfied with the current size of their business, while nearly one out of five (19%) cite the possibility of retiring, or selling or closing their business. While certain growth-related challenges are quite real, our survey showed that they are not the main obstacle to the expansion of SMEs. In fact, only 5% of respondents feel there are too many obstacles ahead to consider the possibility of growth.

<sup>7</sup> The scale ranged from 0 ("not at all important") to 10 ("very important").

<sup>8</sup> Namely, those who assigned a score of 0 to 6 out of 10 to the degree of importance attached to growth (see section 3 of the report).

### 3. WHY GROW?

**85%**

**OF RESPONDENTS STATE THAT THE ABILITY TO PROVIDE MORE STIMULATING WORK TO EMPLOYEES IS A SIGNIFICANT BENEFIT.**

Growth for its own sake is insufficient as a goal—there have to be benefits. We asked the leaders of growing SMEs to tell us what benefits there were to heading a larger business. Their responses allowed us to round out our review of the literature, which rarely deals with this aspect.

Improving the financial situation of leaders and their families was the top benefit identified. Nine out of 10 leaders of growing SMEs mentioned this aspect. However, we should note that the bigger the business, the less importance is attached to financial benefits. This is no doubt because, by that point, leaders have reached their desired level of financial independence, especially those who head a medium-sized business.

The ability to provide more stimulating work to employees is a significant benefit for 85% of respondents because it gives, among other things, all personnel more opportunities to advance and obtain promotions. According to 72% of respondents, growth allows a business to tackle larger projects, which can be more interesting and motivating for employees. Moreover, a successful business will be better positioned to spark the interest of qualified prospects in its recruiting campaigns, partly because it can guarantee a certain degree of stability.

A business's size is also proportional to its ability to be more competitive, say 84% of respondents. Leaders of businesses with 20 to 99 employees and medium-sized businesses are more assertive in this regard. In the same vein, 80% of respondents feel that a larger business has a sounder financial footing to ensure its survival.

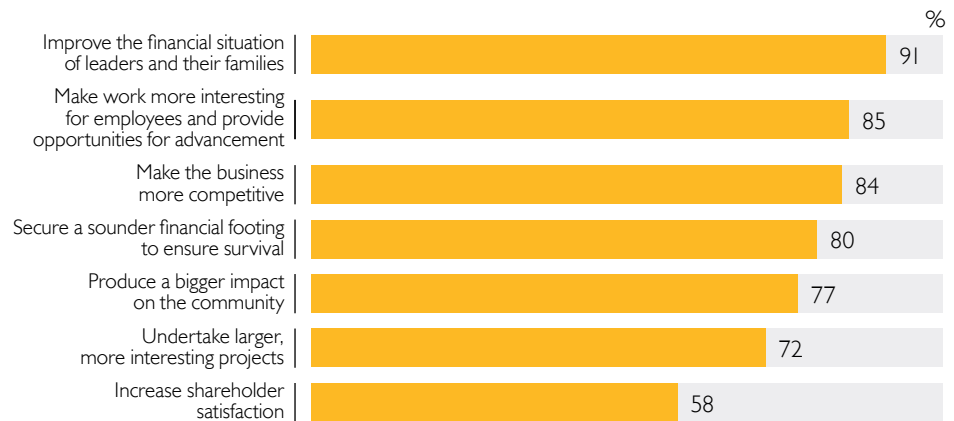
77%

REPORTED THAT THEY WOULD BE ABLE TO HAVE A BIGGER IMPACT ON THE COMMUNITY.

But growth does not only benefit leaders, employees and the business itself. Over three-quarters of respondents (77%) reported that they would be able to have a bigger impact on the community. Leaders of younger SMEs (those founded within the last 10 years) were more likely to mention the positive effects of their activities on the community, such as supporting social or environmental causes, or creating jobs.

The last benefit of growth, mentioned by 58% of respondents, is greater shareholder satisfaction. It was alluded to by medium-sized businesses and those with several shareholders.

**Figure 5: The growth of SMEs has many benefits for leaders, employees and the community**  
(total of “very important” and “moderately important” responses)



Source: Ad Hoc Research, *Survey on the Growth of Canadian SMEs*, June 2015, n = 434 (respondents experiencing strong or sustained growth).



## 4. CHALLENGES FOR DAY-TO-DAY OPERATIONS

64%

**OF LEADERS REPORTED THAT THE BIGGEST CHALLENGE TO BE FACED IS A SUBSTANTIAL INCREASE IN OPERATING COSTS.**

Company leaders approach growth with a positive and realistic attitude. This became evident in interviews with the leaders of businesses that have made good progress. In their view, managing a business will clearly never be a walk in the park and they will inevitably have to face their share of challenges, often on a daily basis. Particularly if it is poorly planned, growth will put additional pressure on the entire business.

Heading the list of challenges to be faced is a substantial increase in operating costs, according to 64% of leaders of growing businesses<sup>9</sup> who took part in the survey. To address rising demand, businesses have to dedicate more resources to acquiring inputs and managing accounts payable, which takes a bite out of their working capital. Nearly half the respondents (45%) stated that cash flow repercussions can even slow the pace of growth. This is especially true for businesses experiencing strong growth, whose leaders report that this occurs 54% of the time. These leaders must be constantly vigilant to remain in control of their finances.

However, it is not only the business's finances that can come under pressure during a growth phase—its human resources can, too. Work teams must step up their efforts to meet demand and constantly adapt to the business's pace of growth, which does not come naturally to everyone. Once again, careful planning and solid management are key, especially when challenges associated with employee recruitment and retention grow out of proportion and become genuine obstacles to growth: 55% of respondents, chiefly leaders of businesses experiencing strong growth, reported that this was a major challenge.

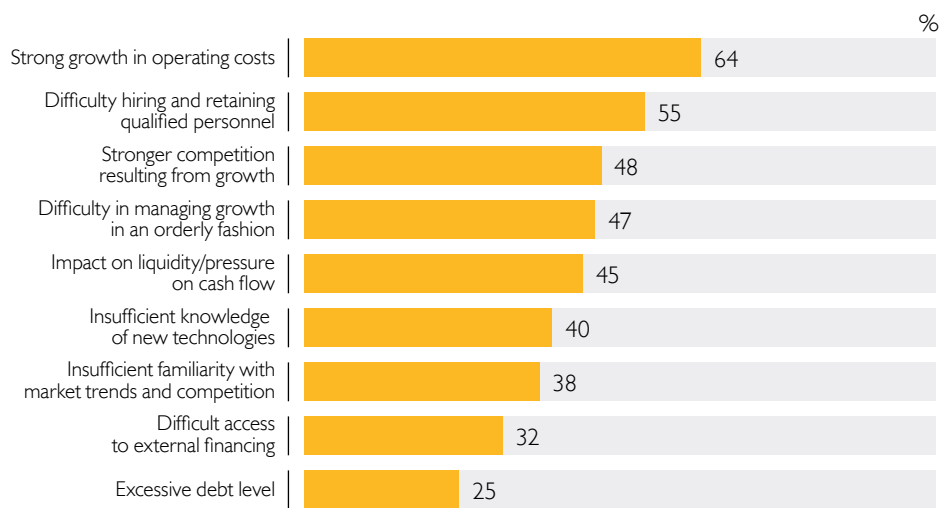
Even though external factors such as fierce competition can also slow the rate of growth (according to 48% of respondents), the challenges considered to be the most significant are generally the business's inherent challenges. For instance, 47% of respondents mention difficulty managing growth in an orderly fashion, while others describe insufficient familiarity with new technologies (40%) or with market trends and the competition (38%).

<sup>9</sup> Total of "very important obstacle" and "moderately important obstacle" responses.

Canadian SMEs generally have good access to financing, as shown by Statistics Canada’s extensive national survey on the subject.<sup>10</sup> In addition, given the low interest rates that have persisted for several years, credit conditions are advantageous. However, it is harder for certain segments of the SME market to obtain funding. Our survey shows that nearly one-third (32%) of leaders of growing SMEs say they have had difficulty obtaining the funding they needed from external sources. This proportion climbs significantly to 39% in the case of smaller businesses (one to four employees), to 36% for those with under \$2 million in sales and to 44% for those not yet 10 years old.

Lastly, excessive debt levels proved to be an obstacle for one-quarter (25%) of all growing businesses. However, if only businesses experiencing strong growth are considered, this proportion jumps to 34%.

**Figure 6: Increasing operating costs, and personnel recruitment and retention, are the main obstacles to the growth of SMEs**  
(total of “very important” and “moderately important” responses)



Source: Ad Hoc Research, *Survey on the Growth of Canadian SMEs*, June 2015, n = 434 (respondents experiencing strong or sustained growth).

<sup>10</sup> Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*, 2011.

## 5. KEYS TO GROWTH: WINNING STRATEGIES ACCORDING TO SME LEADERS

### 4

WINNING  
STRATEGIES THAT  
CONTRIBUTED  
THE MOST  
TO GROWTH.

To identify initiatives that made the biggest contribution to achieving the objectives of growing companies, we presented 12 business strategies to leaders and asked them to rank their level of importance on a scale from 1 to 4 (from “very important” to “not at all important”).

### *Strategy no. 1: Be a client-centric business*

Nearly all of the leaders (99%) mentioned that having a good grasp of client needs and satisfying them was a decisive factor in ensuring their business’s growth. Serving clients well and, if required, revamping product and service offerings according to their needs and expectations allows them to increase their sales to existing clients and attract new ones. This strategy is unanimously supported, regardless of the business’s degree of growth (strong or sustained), location or size.

#### *Developing a client-centred approach: Advice from BDC Advantage*

- > *Get to know your clients well. Where are they? Who are they? What are their values, attitudes, interests and lifestyles? How do they prefer to do business with you?*
- > *Conduct research using secondary sources (reports, surveys) or conduct your own study based on interviews, focus groups and surveys.*
- > *Do not treat all your clients the same way: Most of your sales are generated by a minority of your clients (80/20 rule). Develop a keen understanding of these top clients and cultivate their loyalty by providing outstanding service, personalized communications, and special offers or discounts.*
- > *Invest in a customer relationship management (CRM) system to provide centralized access to relevant information on existing and potential clients.*
- > *Ensure you have a solid continuous improvement program in place to create value for your clients.*

# STEMMLER'S



**S**temmler's is an Ontario-based family business specialized in the production, distribution and retailing of meat products. It meets the needs of consumers who have health problems, and food allergies and sensitivities, while maintaining its unflagging commitment to quality and taste.

For co-owner Kevin Stemmler, there is no contradiction in addressing health concerns and providing the best product possible. "Caring about our consumers' health doesn't mean we can't offer top-quality products that everyone will enjoy."

Stemmler's is based on the European model, where production and sales are handled at the same place of business. In direct contact with its customers, it pays close attention to their needs. This enables the company to stay abreast of any changes in their tastes and respond to market trends early on.

In the last eight years, the business has increased its sales by 350%. For the last two years, it has earned a spot on Profit 500's list of the fastest-growing Canadian companies. Its diverse customer base, the development of its own product line, and the expansion of its team (from 16 to 50 employees) and its plant (from 1,800 to 6,000 sq. ft.) have all played a part in its growth.

Growth drives growth: Thanks to its increasing revenue, Stemmler's has the means to innovate and create better products, and thereby to generate even more success. "Growth has helped us reach a size where we could better meet a wide variety of needs and acquire equipment that would help us upgrade our facilities and produce specialized products." Financial success also allows Stemmler's to be selective when it comes to taking on new contracts. The company turns down contracts that could harm its profit margin.

## Strategy no. 2: Build your talent pool

Leaders of growing SMEs also pay special attention to managing their human resources. For 85% of them, the priority is to better train employees, while 72% wish to hire people who are more qualified.

Investing in workforce training is a more important success factor for SME leaders that have \$10 million or more in sales (99%), have at least five employees (90% to 97%) and are located in Quebec (93%). Acquiring new talent is a more common strategy for businesses that have 20 or more employees (87% to 90%), are located in Ontario (83%) and have \$2 million or more in sales (82% to 83%).

Leaders of SMEs that are experiencing strong growth and have more than five employees are distinguished by the fact that they attach greater importance to having a team of experienced managers, with scores ranging from 63% to 76%, compared with 55% for respondents as a whole. Moreover, during the in-depth interviews, a number of entrepreneurs indicated that they had selected the members of their team with great care. With a solid team in place, they are more willing to delegate key responsibilities. They reported that this approach allows them to constantly push back their business's limits.

### *Investing in human resources: Advice from BDC Advantage*

- > *Develop a human resources management plan that sets out where the business is headed and how to get there. The plan should cover recruiting, employee motivation and training, as well as required skills, performance appraisals, succession planning and dismissal. Update your human resources plan continuously as the business grows and changes.*
- > *Assess your business's skills to identify any shortcomings and target places where additional effort is required. Develop training and recruitment strategies that meet your business's skill requirements.*
- > *Ensure your employees are performing value-added work that is useful for clients, and that your business keeps up with market needs. Prepare clear job descriptions, performance objectives and annual appraisals.*
- > *Implement low-cost measures to make your employees happy, such as recognition, dialogue and communication initiatives, flexible schedules, and team activities. Consider providing a creative benefit, reward and performance-based compensation plan.*
- > *Give employees a role in developing ways to improve performance, results and customer satisfaction.*
- > *Give your business's managers the resources they need to optimize results.*



# FCV TECHNOLOGIES



Ten years ago, Johann Starke's love of design and technology led him to create his very own digital agency. FCV Technologies is now the biggest agency of its kind in British Columbia. From its offices in Vancouver, Victoria and Toronto, it provides technology, digital strategy and user experience design services to the general public, large corporations and non-profits. Since FCV was launched, the company's revenue has grown steadily, at an average annual rate of 60%. For the last two years, the company's accomplishments have earned it a spot in the Profit 500 ranking of the 500 fastest-growing Canadian businesses.

FCV has created many technology jobs in both Canada and the United States, recruiting over 200 people in 10 years. Hiring is both an engine of growth and a way to maintain that growth. "Revenue is increasing and since we are a service company, we have to hire more people to sustain that growth."

For Starke, having a solid team that he trusts and to which he feels comfortable delegating is a key factor in his company's success. "I have an amazing team of managers, and I am very grateful. That's vital. They come up with ideas that I wouldn't have thought of and vice versa; we help one another, we question one another and we express our views, even if we don't agree on everything." Giving managers the power to make key decisions is an essential part of his growth strategy and enables the company to push back the limits set by its founder. Starke points out that owner-centred management styles can block a business's growth and development. "Many entrepreneurs make the mistake of sticking to their own way of doing things and impede their business's growth."

### **Strategy no. 3: Stay on top of your game, innovate**

Innovation<sup>11</sup> is another top strategy for fostering the growth of SMEs. Eight out of 10 respondents (81%) stated that they owed their success to their ability to innovate. In fact, innovating went hand in hand with their ability to understand clients' needs and adapt their offerings accordingly. This finding is consistent with the results of numerous studies on entrepreneurial success.<sup>12</sup> Just like understanding and satisfying clients' needs, innovation is one of the strategies used by respondents in every category, regardless of their level of growth, size or location.

#### *The ABCs of innovation: Advice from BDC Advantage*

- > *Get ideas and feedback from suppliers, clients and other stakeholders.*
- > *Harness your employees' creativity. They have intimate knowledge of your business and industry, and are often your best source of ideas.*
- > *With the help of your team, develop an innovation strategy to improve your products and services, processes, marketing strategy, business model, and supply chain. Remember to keep it up to date.*
- > *Don't look for a magic formula. Instead, try to make gradual improvements. They may be as simple as changing one process, adapting a product for a new market or exploring new ways to reach clients.*
- > *If applicable, consider patenting your innovations and protecting your intellectual property.*

<sup>11</sup> This term refers to the development of new products or services or to the rollout of new business processes and models.

<sup>12</sup> See in particular BDC, *The Five Do's and Five Don'ts of Successful Businesses*, October 2014.

# COMPASS COMPRESSION



Compass Compression Services is a fast-growing manufacturer of natural gas compressors and process equipment for the oil and gas industry. Its revenues have increased by 40% every year for the past six years. Employee numbers have followed in step. The company has also expanded internationally and grown its service division.

“We often have to think outside the box to respond to growth and changing market conditions, so it keeps people at their best, keeps them challenged, says Compass President John Forgeron. We are always ready to adapt and find the opportunity as our industry changes.”

Conscious of the importance of growing responsibly, Compass was prepared on all fronts to make the most of market conditions. The technical depth of the team was a strategic advantage: all managers have spent their career in the field of gas compression and now we have added capabilities on the process side.

“What helped me to grow was a market that was expanding, a company that had a very healthy culture that attracted great people, and a leading product.”

Self-reliance was also a key strategy in managing growing demand and maximizing efficiency. When sub-suppliers struggled to keep up with the company’s rate of production, Compass became its own sub-supplier, taking over work it had previously contracted out. This involved setting up new production lines, expanding the offering and adding manufacturing facilities three times in five years. This approach has given Compass the flexibility to respond and adapt quickly to customer requirements and changing market demands.

“There are many ways a growing business can falter if it doesn’t handle or plan for the growth and market changes,” says Forgeron. But ready for the challenges ahead, Compass had the fiscal means to support its expansion and was indeed ready on all fronts to find opportunities to meet the changing demands of its clients.

## **Strategy no. 4: Invest to be the best**

In many cases, growth is contingent on the resources invested in the business. For this reason, three out of four SME leaders (75%) reported that they have focused on increasing production capacity by investing in facility expansions or new equipment. Roughly the same proportion of entrepreneurs (74%) consider that using advanced technologies such as automated management systems has enabled them to be more efficient, helping sustain growth.

Medium-sized businesses were most likely (95%) to prioritize investments designed to boost production. SMEs with \$10 million or more in sales (92%), those with 20 or more employees (85% to 88%) and those located in Ontario (81%) elected to focus on adopting state-of-the-art technologies.

### *Investment—an expense that pays dividends: Advice from BDC Advantage*

- > *To make wise choices when purchasing equipment or digital technology, make sure you have a solid grasp of your business's current and future needs.*
- > *Make use of productivity improvement tools, such as time-clock software, inventory management systems and integrated supply chain management systems.*
- > *Before investing in technology, carry out in-depth research on what is available in the marketplace. Opt for turnkey solutions rather than investing in the development of customized business applications (for example, accounting software and customer relationship management tools). Custom-made solutions tend to be more expensive in the long run and lead to a degree of dependence on the supplier.*
- > *Protect your working capital by using term loans to finance your growth projects. Opt for loans with suitable repayment terms that match the asset's expected service life.*

# SPORT SYSTEMS



**S**port Systems manufactures and installs sports facilities. The last three years have been marked by a significant increase in the company's sales and market penetration rate, as well as by an expansion of its production facilities. The company has extended its reach nationally and internationally. It now does business with over 30% of Ontario's 72 school boards, it has increased its sales in the U.S. and it has taken on major new customers in the Middle East.

Sport Systems planned its business development operations confidently and methodically. Strategies were implemented and money was invested both to promote growth and to fulfill the expected jump in orders.

Sustaining growth meant taking on additional personnel, providing training and promoting seasoned workers to key management positions. The company's development strategies were predominantly based on the Web and software. Sport Systems bolstered its online presence through a very elaborate marketing program. According to its Vice President, Jeff Hurrel, the Internet levels the playing field for businesses. "Everyone has an equal chance. You don't have to be a big corporation to have a strong online presence, and you don't have to spend large amounts of money. You just have to do it right." Aware that its top customers use Google on a regular basis, Sport Systems took steps to improve its website's rankings in Google search results. The company's site now tops the list in the relevant categories, both in North America and around the world.

To handle anticipated growth, Sport Systems put in place an enterprise resource planning (ERP) system. Employees now have all the information they need at their fingertips, making it easier to identify costs and manage inventory. Moreover, the old computer-assisted design system was replaced by new 3D software. A better fit for the company's operations, the new system has increased efficiency.



## Other winning growth strategies

While the four strategies that we have just outlined are the most common, there are other strategies that can help businesses grow.

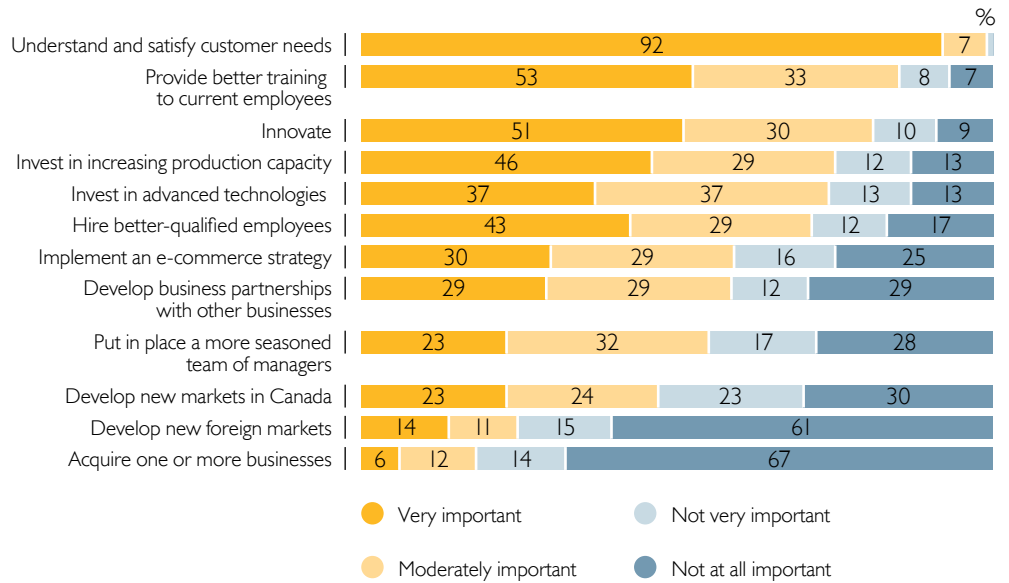
One example is implementing an e-commerce strategy, which played an important role for 59% of growing SMEs that took part in our survey, especially those in Ontario (71%). The leaders of these businesses understand that promotion and online sales are effective ways to serve larger markets and even to target the international marketplace. A professional, well-designed website can provide opportunities that are frequently available only to larger businesses.

In addition, many leaders (59%) stated that partnerships with other businesses are important success factors, with an even greater percentage (71%) taking this view among businesses with 20 to 99 employees. This confirms the importance of a solid business network in achieving success.

When it comes to developing new markets, even though fewer entrepreneurs are working on that front (49% have sought to increase their presence in Canada and 24% abroad), it is another effective means of achieving growth. An enhanced presence in Canada and foreign markets was more important for medium-sized businesses (60% and 38%, respectively) and for those with over \$10 million in sales (62% and 43%, respectively). Entering new markets offers a number of benefits. First, businesses that expand their customer base connect with a broader range of individuals and businesses that are able to purchase their products and services or show an interest in them. Moreover, optimal geographic distribution helps ensure stable revenue: If demand falls in one region, it may be offset by rising demand in another.

Lastly, the acquisition of one or more other businesses is yet another growth strategy pursued by close to one out of every five businesses (18%), indicating that the growth of the vast majority of SMEs in Canada is predominantly organic. Medium-sized businesses (52%), those with \$10 million or more in sales (36%) and those in Quebec (30%) were the most likely to consider acquisitions as a growth strategy.

**Figure 7: Canadian SMEs also use other winning growth strategies**

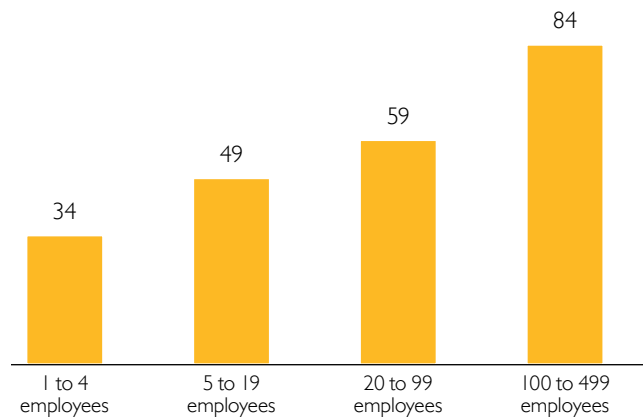


Source: Ad Hoc Research, *Survey on the Growth of Canadian SMEs*, June 2015, n = 436 (respondents experiencing strong or sustained growth). Percentages may not necessarily add up to 100% due to rounding.

## Planning for growth

While SMEs experiencing strong or sustained growth have focused on clearly identified business strategies, our survey shows that, on average, less than half (44%) have taken the time to conduct a growth-planning exercise or strategic-planning exercise in the last few years. Nevertheless, the more a business grows, the more attention its leaders pay to planning (see Figure 8). In 70% of cases, businesses that carry out planning exercises review their strategy on a yearly basis.

**Figure 8: Growth planning and strategic planning intensify with business size (%)**



Source: Ad Hoc Research, *Survey on the Growth of Canadian SMEs*, June 2015, n = 434 (respondents experiencing strong or sustained growth).

Planning exercises can take several different forms. Among businesses reporting that they plan for growth, 42% do so informally, 38% do so formally and 20% use a combination of the two approaches. The bigger the business, the more the planning exercise tends to be formal.

And when these exercises lead to the preparation of growth objectives, sales are targeted in 60% of cases and profit in 41% of cases.

Among respondents who do carry out a planning exercise, 42% outsource the task. In 44% of cases, responsibility falls to sales and marketing experts, which is logical because growth objectives aim primarily to increase sales. The other specialists most frequently called on hail from finance or accounting backgrounds (16%) or have some knowledge of the client business's operations (14%). Lastly, leaders of more than one in 10 businesses (12%) ask an advisory committee to assist them to develop and implement their growth strategy.

# CONCLUSION

This survey of over 1,000 Canadian SMEs has enabled us to paint a very informative picture of their circumstances and the approaches they take to growth. Many of the findings are both encouraging and inspiring for businesses hesitating to pursue growth.

The first piece of good news: four out of 10 SMEs are experiencing strong or sustained growth. A significant proportion of them succeed in increasing their revenue and improving their profitability while retaining the same number of employees. This is an excellent approach, as it leads to greater productivity and a sounder financial footing. Prospects such as these no doubt explain why so many leaders say it is important to set their sights on growth, despite the inherent challenges.

Whether their growth is strong or sustained, SMEs adopt similar strategies to succeed. First, they acknowledge the importance of preparing a customer-centred plan of action. Understanding customers' needs and tailoring the company's product and service offerings accordingly are essential steps. Effective human resources management is another item at the top of the list. This involves enabling employees to perfect their skills through suitable training programs and recruiting personnel with the necessary qualifications.

Innovation is another winning strategy. SMEs increase their chances of growing successfully by developing new products or services, and by implementing more effective business processes. To improve their odds even more, they can choose to invest in their facilities and more effective equipment, or in advanced technologies.

Another strategy is to recruit competent resources and a highly skilled management team. SMEs experiencing strong growth are more likely to invest the necessary effort to this end.

This raises the following question: What are the payoffs for businesses that go to the trouble of implementing a growth strategy? In fact, there are several reasons why leaders may wish to target growth. Improving their financial situation and that of their families is clearly a very important factor, but there is also the ability to offer a more interesting work environment to employees, with more opportunities for advancement. It is also more interesting to lead a business that is more competitive and on a sounder financial footing. Leaders can take pride in saying that their business is able to have a bigger positive impact on the community, a fact backed up by three-quarters of leaders of growing companies.

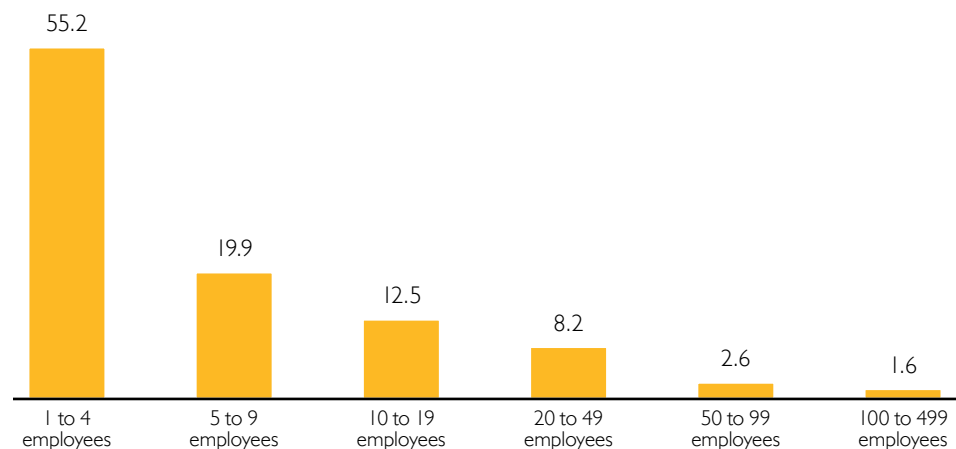
As we have seen, SMEs are the engine of Canada's economy. The more they set their sights on growth, the stronger our economy will be. For this reason, BDC hopes to inspire as many business leaders as possible to pursue growth by providing relevant information on promising strategies and demonstrating the benefits of managing a growing company through concrete examples.

# APPENDIX: SURVEY METHODOLOGY

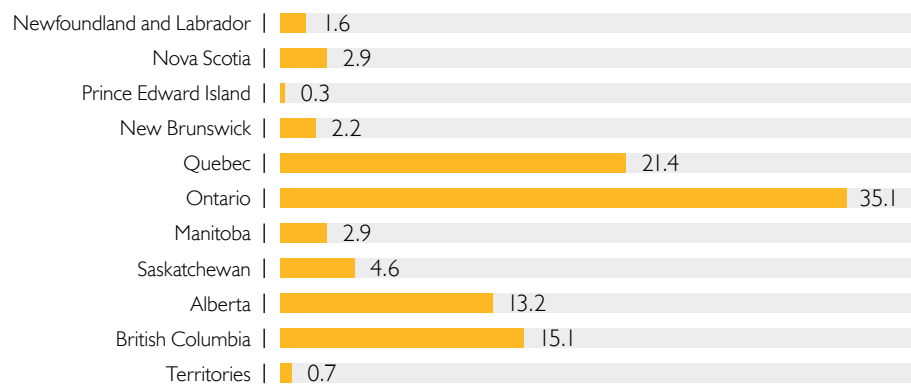
For the purpose of this study, our first step, with the invaluable assistance of Qual-Box, was to interview entrepreneurs from a wide range of backgrounds, whose growth strategies had produced conclusive results. We then asked Ad Hoc Research to conduct a telephone survey of 1,015 leaders of SMEs with one to 499 employees. The survey was carried out between April 14 and May 13, 2015. A stratified sampling plan was prepared to ensure sufficient respondents in every region of Canada and for every size-based group of businesses. Next, the results were weighted by region and business size to ensure the findings were representative of Canadian SMEs as a whole. The sample's margin of error is +/- 3.1%.

## Respondent profile

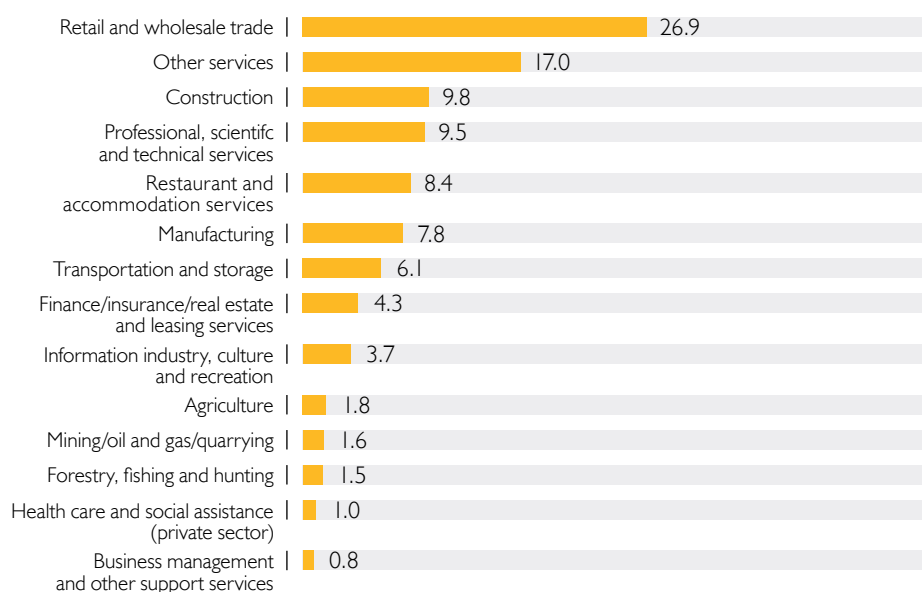
**Figure 9: Distribution of respondents by number of employees (%)**



**Figure 10: Distribution of respondents by region (%)**



**Figure 11: Distribution of respondents by industry (%)**



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