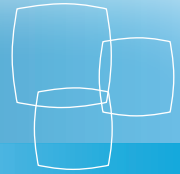




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Small Business Branch

Canadian Small Business Exporters

Special Edition:
Key Small
Business Statistics

June 2011

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Canada

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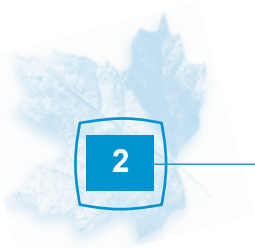
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Foreword

Key Small Business Statistics is a semi-annual publication that provides baseline data on the small business sector in Canada. The first issue, usually published in the first half of a year, provides statistics on a special topic while the second issue, published in July, provides general statistics on small business. This special edition is devoted to **Canadian small business exporters** and includes three new sections.

1. Key Statistics on Small Business Exports presents information on the following:

- Exports by Industry
- Exports by Destination
 - Top 20 Destinations
 - Exports to BRIC (Brazil, Russian Federation, India and China) Countries
 - Exports to the United States
- Exports by Province
- Exports by Type of Commodity Exported by Small Firms
- Small Business Exporters in Selected Industries, by Destination
- Imports

2. Financing Profile of Small and Medium-Sized Enterprise Exporters presents information on the following:

- SME Export Activity
- Profile of SME Exporters
- Perceived Obstacles to Growth for SME Exporters
- Financing Activity
- Request and Approval Rates
- Distribution of Approved Financing
- Intended Use of Debt Financing





3. SME Involvement in Global Value Chains presents information on the following:

- International Business Activities
- Most Relocated and Outsourced Business Activities
- Indirect Exports

The next edition of *Key Small Business Statistics* will include updated data on job creation, earnings by business size, numbers of self-employed workers and small business contribution to Canada's gross domestic product.

This special edition and previous publications are available on the Small Business Research and Statistics website at www.ic.gc.ca/sbresearch.



Highlights

This special edition of *Key Small Business Statistics* includes three sections each using a different source of data. In the first section, the Exporter Register, which only includes merchandise exports over \$30 000, is the primary source used. The source used in the second section is the *Survey on Financing of Small and Medium Enterprises*, which measures goods and services exports of any value. Finally, the *Survey of Innovation and Business Strategy* (SIBS) is the source used in the third section. This survey was conducted to better understand strategic decisions, innovation activities and operational tactics used by Canadian enterprises. For more details on these sources, see the **Data Sources and Methodology** section.

Key Statistics on Small Business Exports

- Nine percent of Canadian small and medium-sized enterprises (SMEs) export goods and services according to the *Survey on Financing of Small and Medium Enterprises*, which asks business owners to report their export activities. According to the Exporter Register, which tracks goods, it is estimated that 2 percent of SMEs export only goods.
- In 2009, about 86 percent of Canadian exporters were small businesses compared with 87 percent in 1999. They were responsible for \$68 billion (25 percent) of the total value of exported goods, with an average value of \$2 million per firm. Medium-sized businesses accounted for \$51 billion (18 percent) of the total value of exports, while large businesses accounted for \$157 billion (57 percent).
- The proportion of small businesses that export (1.4 percent) is lower than the proportion of small businesses in the overall economy (98 percent). About 31 000 small businesses exported goods in 2009.
- The largest contributions to exports by small businesses were in retail trade (79.1 percent), agriculture, forestry, fishing and hunting (72.3 percent) and other sectors (72 percent).
- In 2009, small businesses exported disproportionately more than medium-sized or large firms to a number of markets. They accounted for 65 percent of the value of Canadian exports to India. Other major export destinations for small firms were Egypt (63.3 percent), Turkey (60.6 percent) and South Korea (52.8 percent).
- The value of small business exports to BRIC (Brazil, Russian Federation, India and China) countries increased from about \$1.3 billion in 1999 to \$5.5 billion in 2009, representing approximately 2 percent and 7 percent of the total value of small business exports respectively.



- Small business enterprises accounted for approximately 23 percent of the value of exports to the United States in 2009. The main U.S. market for Canadian small businesses was the Midwest region (32 percent), while they exported the least to the Industrial Heartland (18 percent).
- In 1999, 2004 and 2009, 88 percent or more of the value of small business exports came from Quebec, Ontario, Alberta and British Columbia (including the Territories). Ontario and Alberta had the largest share of the value of exports among small businesses in 2009.
- In 2009, mineral products represented the largest proportion (almost 30 percent) of the value of small business exports, but enterprises exporting those goods accounted for only 1.4 percent of the total number of small business exporters.
- In 2008, the total value of imports to Canada was approximately \$380 billion. Eighty-seven percent of importers were small businesses and were responsible for \$88 billion (23 percent) of the total value of imports. In 2008, medium-sized businesses accounted for 9 percent of all importers, while large businesses represented about 4 percent of all importers.

Financing Profile of Small and Medium-Sized Enterprise Exporters

- In 2007, the likelihood of exporting increased with business size, both in terms of number of employees and revenue size.
- Among SME exporters, the percentage of revenues derived from exports of goods and services was similar across all size groups (average of 47 percent), suggesting that firm size did not determine export intensity.
- On average, exporters were more innovative (investing more in research and development) and growth oriented, and had been in operation for more years than non-exporters.
- SME exporters were more likely to request external financing than non-exporters (27 percent compared with 17 percent in 2007), but were also more likely to report obtaining external financing as an obstacle to business growth (21 percent compared with 17 percent in 2007).
- In both 2004 and 2007, the average SME exporter requested a higher amount of debt financing than its non-exporter counterpart. Specifically, in 2004 the average loan was \$209 000 for SME exporters and \$141 000 for non-exporters. In 2007, the average loan was \$461 000 for SME exporters and \$232 000 for non-exporters.



- SME exporters had greater difficulty obtaining approval for external financing in 2004 (86 percent approval rate versus 91 percent approval rate for non-exporters), but had a slightly easier time in 2007 (97 percent approval rate versus 96 percent approval rate for non-exporters). Although approval rates decreased in 2009, exporters had less difficulty obtaining external financing than non-exporters (85 percent versus 79 percent).

SME Involvement in Global Value Chains

- Approximately 50 percent of manufacturing enterprises engaged in international business activities between 2007 and 2009.
- Between 2007 and 2009, medium-sized manufacturing enterprises displaced (relocated or outsourced) out of Canada more business activities in the production of goods than small and large manufacturing enterprises. Over the same period, small manufacturing enterprises were more likely to displace their marketing, sales and after sales services than medium-sized and large enterprises.
- Small and medium-sized manufacturing enterprises were more likely than large manufacturing enterprises to fill orders from domestic buyers and then export the goods “as is.” Specifically, 21 percent of small enterprises and 24 percent of medium-sized enterprises were indirect exporters of final goods compared with 17 percent of large enterprises.

Questions and Comments

If you have questions or comments about the content of this publication, please send them to sbrs-rspe@ic.gc.ca.





Introduction

Exporting is vital to Canada's economy and has accounted for close to 40 percent of Canada's gross domestic product (GDP) in recent years, with the exception of 2009. In 2009, exports of goods and services accounted for 30 percent of GDP,¹ which could be explained by the global recession and the high value of the Canadian dollar. Exports can be a driver of economic growth and are strongly correlated with real GDP growth.² Furthermore, exporting can provide a strategically important means of growing a firm by expanding its market beyond the confines of Canada's relatively small domestic market.

Small businesses represent 98 percent of all employer businesses in Canada and employ 48 percent of the total labour force in the private sector.³ Given the importance of small business in the Canadian economy and the significant role of exports within it, it seems appropriate to dedicate this special edition of *Key Small Business Statistics* to small business exporters.

Data Sources and Methodology

Three different sources have been used to produce this special edition of *Key Small Business Statistics*:

Exporter Register Database — part 1

Survey on Financing of Small and Medium Enterprises — part 2

Survey of Innovation and Business Strategy (SIBS) — part 3

Exporter Register Database

Statistics Canada's Business Register is the main repository of information on businesses operating in Canada and is the principal frame for the Exporter Register Database. The main sources on trade data used by Statistics Canada are U.S. Customs and Border Protection and the Canada Border Services Agency.

The Exporter Register Database provides information on exporters by industry, exporter size, province or territory of residence, destination and employment size. Special tabulations from

1 This estimate is based on figures from Statistics Canada's Canadian International Merchandise Trade data. It should be noted that the total value of exports presented throughout this report comes from the Exporter Register Database, which only includes commodities and therefore differs from figures from Canadian International Merchandise Trade data.

2 Awokuse, Titus O., 2003. "Is the Export-led Growth Hypothesis Valid for Canada?" *Canadian Journal of Economics*, 36 (1), pp. 126–136.

3 Small and medium-sized enterprises represent 99 percent of employer businesses and employ 64 percent of the labour force in the private sector.



Statistics Canada have enabled studying most of these aspects by firm size, defined in terms of the number of employees. The years studied in this report are 1999, 2004, 2007, 2008 and 2009.⁴

The statistical unit of measure in these tabulations is an enterprise. Statistics Canada defines a statistical enterprise as the entity at the top of the hierarchy, which is associated with a complete (consolidated) set of financial statements. It represents the sum of the statistical establishments under its control. In this report, small enterprises are defined as those with 0 to 99 employees, medium enterprises have 100 to 499 employees and large enterprises are those with 500 or more employees. Both employer and non-employer (indeterminate) businesses are included in these observations, while businesses exporting commodities valued at less than \$30 000 per year are excluded.

Survey on Financing of Small and Medium Enterprises

The second section of this report uses the comprehensive database of the SME Financing Data Initiative *Survey on Financing of Small and Medium Enterprises*, which was launched in 2001 by Statistics Canada in partnership with Industry Canada and Finance Canada. The survey, conducted every three years, measures the demand for, and sources of, financing for Canadian small and medium-sized enterprises (SMEs). The database includes information on the financing application process, firm profiles and demographic characteristics of SME ownership.

According to the *Survey on Financing of Small and Medium Enterprises*, SME exporters are defined as businesses with fewer than 500 employees and less than \$50 million in annual revenues that sold any value of goods or services outside of Canada during the survey period (2004 or 2007). The sample excludes non-profit and government organizations, schools, hospitals, subsidiaries, co-operatives, and financing and leasing companies.

Exporter figures from the *Survey on Financing of Small and Medium Enterprises* may not be comparable with those from Statistics Canada's Exporter Register. The *Survey on Financing of Small and Medium Enterprises* captures export sales of both goods and services at any value, whereas the Exporter Register captures only export sales of merchandise (goods) valued at \$30 000 or more. Moreover, exporter information from the Exporter Register is taken from U.S. Customs and Border Protection documents and Canada Border Services Agency documents, whereas exporter information from the *Survey on Financing of Small and Medium Enterprises* is self-reported by the survey respondent. Another reason for possible discrepancies is that data from the *Survey on Financing of Small and Medium Enterprises* are from a selected sample of the total SME population and exclude non-profit and government organizations, schools, hospitals, subsidiaries, co-operatives, and financing and leasing companies.

⁴ Exporter Register 2008 is the source for 1999, 2004, 2007 and 2008 and Exporter Register 2009 for 2009.



Survey of Innovation and Business Strategy

The third section of this report uses the *Survey of Innovation and Business Strategy* to study the involvement of SMEs in global value chains. SIBS was developed by Statistics Canada in partnership with Industry Canada and Foreign Affairs and International Trade Canada. It was initiated in 2007–2008 to better understand the market and policy factors that encourage or discourage the adoption of entrepreneurial and innovation-oriented business strategies.

The target population was enterprises with at least 20 employees and revenues of at least \$250 000 in a set of 67 industries and groupings of industries. According to SIBS, small firms are defined as those with 20 to 99 employees, medium firms are those with 100 to 249 employees and large firms have at least 250 employees.



Part 1: Key Statistics on Small Business Exports

This section investigates the importance of small business in international markets by examining the number of exporters of merchandise and the value of exports by industry, province, destination and firm size. Furthermore, this study investigates types of commodities exported by small businesses and changes in their exposure to emerging markets.

1. Exports by Industry

Table 1.1 shows the distribution of the value of exports by industry and size of firm in 2009. In 2009, the total value of merchandise exports by Canadian enterprises was approximately \$300 billion.⁵ This represents a decline of about \$114 billion (27.5 percent) compared with 2008 and of \$94 billion (24 percent) compared with 2007. A reduction in the demand for Canadian goods and other effects of the global recession made 2009 a particularly difficult year for exports.

In 2009, about 86 percent of Canadian exporters were small businesses compared with 85 percent in 2008 and 87 percent in 1999. More importantly, small businesses were responsible for \$68 billion (25 percent) of the total value of exports in 2009, with an average value of \$2 million per firm. Medium-sized businesses accounted for \$51 billion (18 percent) of the total value of exports in 2009, with an average value of \$13 million per firm. Large businesses accounted for \$157 billion (57 percent) of the total value of exports, with an average value of \$139 million per firm.

Small business' contribution to the total value of exports decreased by 2.5 percentage points in 2009 compared with 1999, while that of medium-sized firms increased by 8.7 percentage points. The contribution of large firms to the total value of exports decreased by 6 percentage points over the same period.

⁵ The total value of exports in 2009 was about \$300 billion. However, once the values are distributed by firm size and industry, about \$24 billion of exports are classified as confidential. Therefore, the percentages presented in the text and Table 1.1 are calculated using \$276 billion as the total value of exports.



Table 1.1: Distribution of the Total Value of Exported Merchandise by Industry and Size of Business (Number of Employees), 2009¹

| Industry Grouping (NAICS) | Total Value (\$ millions) | Size of Business Enterprise - Number of Employees (percent of total) ² | | | |
|--|------------------------------|---|------------------------|-------------------------|---------------------|
| | | Total (all business sizes) | Small (<100) | Medium (100–499) | Large (500+) |
| Agriculture, Forestry, Fishing and Hunting | 3 224 | 1.2 | 72.3 | 9.2 | 18.5 |
| Mining, Oil and Gas Extraction/Utilities | A: 42 671 B: 44 356 | 15.4 | 13.6 | 8.6 | 77.8 |
| Construction | 1 407 | 0.5 | 71.3 | 23.7 | 5.1 |
| Manufacturing | A: 165 032 B: 169 233 | 59.7 | 12.1 | 22.3 | 65.6 |
| Wholesale Trade | 30 793 | 11.1 | 70.0 | 20.9 | 9.0 |
| Retail Trade | 1 753 | 0.6 | 79.1 | 3.9 | 17.0 |
| Transportation and Warehousing | A: 341 B: 18 196 | 0.1 | x | 100.0 | x |
| Information and Cultural Industries | 498 | 0.2 | 52.8 | 43.1 | 4.1 |
| Finance and Insurance | 9 851 | 3.6 | 62.2 | 6.8 | 31.0 |
| Business Services | 17,504 | 6.3 | 41.4 | 8.0 | 50.6 |
| Other | 3 485 | 1.3 | 72.0 | 19.2 | 8.8 |
| Industry Aggregate Total | A: 275 557 B: 300 298 | 100.0 | 24.7 | 18.4 | 56.9 |
| | Total Number of Firms | | Small (<100) | Medium (100–499) | Large (500+) |
| All Industry Exports | A: 36 154 B: 38 675 | | 86.2 | 10.7 | 3.1 |

Source: Statistics Canada, Exporter Register, 2009.

Note 1: Data that are confidential are denoted by X.

Note 2: Some values were not classified by firm size due to confidentiality; therefore, the totals are calculated as follows:

A: Total value of exports (small, medium and large categories)

B: Total value of exports (small, medium, large and confidential categories)



The proportion of small businesses that export (1.4 percent) is lower than the proportion of small businesses in the overall economy (98 percent). In 2009, 27 percent of medium-sized businesses and 40 percent of large businesses exported. About 2 percent of small and medium-sized enterprises exported goods in 2009.⁶ They accounted, however, for over 40 percent of the overall export value in 2009.

Small businesses contributed only about 12 percent to total manufacturing exports compared with 66 percent from large firms. In most other industries, however, small businesses made the largest contribution to exports. The largest contributions were in retail trade (79.1 percent), agriculture, forestry, fishing and hunting (72.3 percent) and other sectors (72 percent).

2. Exports by Destination

2.1. Top 20 Destinations

Table 1.2 shows the contribution to the value of exports in 1999 and 2009 for the top 20 export destinations, by firm size. In both years, the top two export destinations for all Canadian exporters were the United States and the European Union (EU). Japan was third in 1999, but was replaced by China in 2009. The percentage of the total value of Canadian exports to the United States has decreased from 87 percent in 1999 to 78 percent in 2008 and 75 percent in 2009. The value of exports to the EU, on the other hand, has increased from 4.6 percent of the total value of exports in 1999 to 8.7 percent in 2009, with the top three EU export destinations in both years being the United Kingdom, Germany and France. The value of exports to Japan has remained the same in both years at 2.5 percent. There has been an important increase in the value of exports to China, representing 0.8 percent of the total value of Canadian exports in 1999 and 3.2 percent in 2009.

⁶ Indeterminate firms are included in the count of small businesses. See “Data Sources and Methodology” for more details about the differences in figures reported in this and the following section.



Table 1.2: Top 20 Export Destinations, Value (Percent) of Exports, by Firm Size (Number of Employees), 1999 and 2009¹

| Country | Small (<100) | Medium (100–499) | Large (500+) | All Firms |
|----------------------------------|--------------|------------------|--------------|-----------|
| | 1999 | | | |
| 1. United States ² | 19.0 | 13.7 | 67.4 | 87.0 |
| 2. European Union | 21.8 | 15.7 | 62.5 | 4.6 |
| 2.1 United Kingdom | 15.7 | 14.6 | 69.8 | 1.3 |
| 2.2 Germany | 21.8 | 20.2 | 57.9 | 0.7 |
| 2.3 France | 17.5 | 11.1 | 71.4 | 0.5 |
| 3. Japan | 32.2 | 14.9 | 52.9 | 2.5 |
| 4. China | 35.8 | 14.4 | 49.8 | 0.8 |
| 5. South Korea | 36.7 | 6.4 | 56.9 | 0.6 |
| 6. Mexico | 15.4 | 13.4 | 71.2 | 0.5 |
| 7. Taiwan | 36.9 | 11.3 | 51.8 | 0.3 |
| 8. Australia | 22.0 | 16.5 | 61.5 | 0.3 |
| 9. Brazil | 24.8 | 14.5 | 60.6 | 0.3 |
| 10. Hong Kong | 40.8 | 18.1 | 41.1 | 0.3 |
| 11. Norway | 5.2 | 5.7 | 89.1 | 0.2 |
| 12. Indonesia | 31.4 | 14.7 | 53.9 | 0.2 |
| 13. Iran | 10.7 | x | x | 0.2 |
| 14. Algeria | x | 4.2 | x | 0.1 |
| 15. Switzerland | 17.6 | 16.5 | 65.9 | 0.1 |
| 16. Venezuela | 27.7 | 21.9 | 50.4 | 0.1 |
| 17. Malaysia | 27.4 | 21.7 | 50.9 | 0.1 |
| 18. India | 54.8 | 14.1 | 31.1 | 0.1 |
| 19. Cuba | 48.8 | 14.2 | 37.0 | 0.1 |
| 20. Chile | 40.0 | 18.1 | 42.0 | 0.1 |
| All Other Countries | 29.9 | 19.6 | 50.5 | 1.7 |
| Total (\$ millions) ³ | 64 185 | 44 354 | 211 148 | 320 539 |

Source: Statistics Canada, Exporter Register, 2008 and 2009.

Note 1: Data that are confidential are denoted by X.

Note 2: See Table 1.4 for the breakdown of exports by U.S. region.

Note 3: The values for small, medium-sized and large enterprises may not equal the total value of exports in 1999 because some figures were excluded due to confidentiality.

The majority of countries as well as their rankings in the top 10 export destinations are very similar in the two years observed in Table 1.2. India is an exception as it was not among the top 10 export destinations in 1999, but was ranked seventh in 2009. On the other hand, countries



Table 1.2: Top 20 Export Destinations, Value (Percent) of Exports, by Firm Size (Number of Employees), 1999 and 2009¹ (continued)

| Country | Small (<100) | Medium (100–499) | Large (500+) | All Firms |
|--------------------------|--------------|------------------|--------------|-----------|
| | 2009 | | | |
| 1. United States | 22.7 | 14.6 | 62.8 | 74.9 |
| 2. European Union | 23.4 | 31.5 | 45.1 | 8.7 |
| 2.1 United Kingdom | x | x | 32.2 | 3.7 |
| 2.2 Germany | 21.6 | 15.0 | 63.3 | 1.0 |
| 2.3 France | 23.9 | 9.8 | 66.3 | 0.8 |
| 3. China | 36.8 | 12.3 | 50.9 | 3.2 |
| 4. Japan | 49.5 | 15.4 | 35.1 | 2.5 |
| 5. Mexico | 17.7 | 20.9 | 61.4 | 1.1 |
| 6. South Korea | 52.8 | 10.4 | 36.9 | 1.0 |
| 7. India | 65.1 | 15.2 | 19.7 | 0.6 |
| 8. Australia | 24.0 | 23.5 | 52.5 | 0.5 |
| 9. Brazil | 33.5 | 18.9 | 47.6 | 0.5 |
| 10. Hong Kong | 43.5 | 13.0 | 43.5 | 0.4 |
| 11. Switzerland | 16.6 | 6.1 | 77.3 | 0.4 |
| 12. Saudi Arabia | 40.5 | 25.0 | 34.5 | 0.3 |
| 13. Taiwan | 45.4 | 12.1 | 42.5 | 0.3 |
| 14. United Arab Emirates | 47.6 | 25.4 | 27.0 | 0.3 |
| 15. Indonesia | 44.1 | 45.7 | 10.2 | 0.3 |
| 16. Singapore | 19.7 | 14.2 | 66.1 | 0.3 |
| 17. Turkey | 60.6 | 15.5 | 24.0 | 0.3 |
| 18. Russian Federation | 47.3 | 27.0 | 25.7 | 0.2 |
| 19. Egypt | 63.3 | 13.8 | 22.9 | 0.2 |
| 20. Venezuela | 20.3 | 39.1 | 40.7 | 0.2 |
| All Other Countries | 38.1 | 33.5 | 28.4 | 3.8 |
| Total (\$ millions) | 76 770 | 51 059 | 172 469 | 300 298 |

Source: Statistics Canada, Exporter Register, 2008 and 2009.

Note 1: Data that are confidential are denoted by X.

Note 2: See Table 1.4 for the breakdown of exports by U.S. region.

Note 3: The values for small, medium-sized and large enterprises may not equal the total value of exports in 1999 because some figures were excluded due to confidentiality.

ranked from 11th to 20th differ greatly from one year to the other. For example, Saudi Arabia, Singapore, Turkey, the Russian Federation and a few other countries were not included in the top 20 export destinations in 1999, but accounted for relatively significant shares of the total value of exports in 2009. This may be an indication of market diversification among exporters.





Table 1.3: The Herfindahl-Hirschman Index

| | Small | Medium | Large | All Firms |
|------|-------|--------|-------|-----------|
| 1999 | 0.68 | 0.74 | 0.79 | 0.76 |
| 2009 | 0.46 | 0.45 | 0.68 | 0.57 |

Source: Industry Canada calculations.

To investigate this matter further, the Herfindahl-Hirschman Index (HHI),⁷ which measures market concentration and/or diversification, was used (Table 1.3). In general, the export market appears more diversified in 2009 than in 1999 for all firm sizes. In 1999, small firms had the most diversified export market, whereas medium-sized firms had the most diversified export market in 2009 (although small firms followed very closely). In the same year, the HHI for both small and medium-sized firms was lower than that for large firms, indicating more diversification in the export markets of SMEs.

Of exports destined for the United States in 1999, small firms sent almost 20 percent, while large firms sent about 67 percent. These figures changed slightly in 2009, with small and large firms contributing almost 23 percent and 63 percent, respectively, to exports to the United States. While the figures for these two years are fairly similar, it should be noted that there has been an important decrease in exports in 2009 compared with 2008. In fact, small business exports to the United States fell by 30 percent while those of medium-sized firms fell by 25 percent and large firms fell by 31 percent.

Among the top 20 destinations in 1999, the highest share of the value of exports for small firms within each destination was in India (54.8 percent). Other top destinations for small firms included Cuba (48.8 percent), Hong Kong (40.8 percent) and Chile (40 percent). The main export destinations for small businesses were somewhat different in 2009. Small businesses accounted for 65 percent of the value of exports to India. Other countries among the top 10 where the value of exports contributed by small firms was the highest among the three firm-size categories were South Korea (52.8 percent) and Japan (49.5 percent). Other major export destinations for small firms were Egypt (63.3 percent), Turkey (60.6 percent) and United Arab Emirates (47.6 percent).

2.2. Exports to BRIC (Brazil, Russian Federation, India and China) Countries

A recent report on trade and innovation highlighted the rise of BRIC countries as economic superpowers and the importance of recognizing the dynamism and benefits of developing deeper trading relationships with those countries.⁸

⁷ The Herfindahl-Hirschman Index is a commonly accepted measure of market concentration. Markets with a high HHI are considered to be highly concentrated. An index of one indicates a fully concentrated market. In this case, the HHI was calculated by squaring each share of the total value of exports, for each firm size, and summing the resulting numbers.

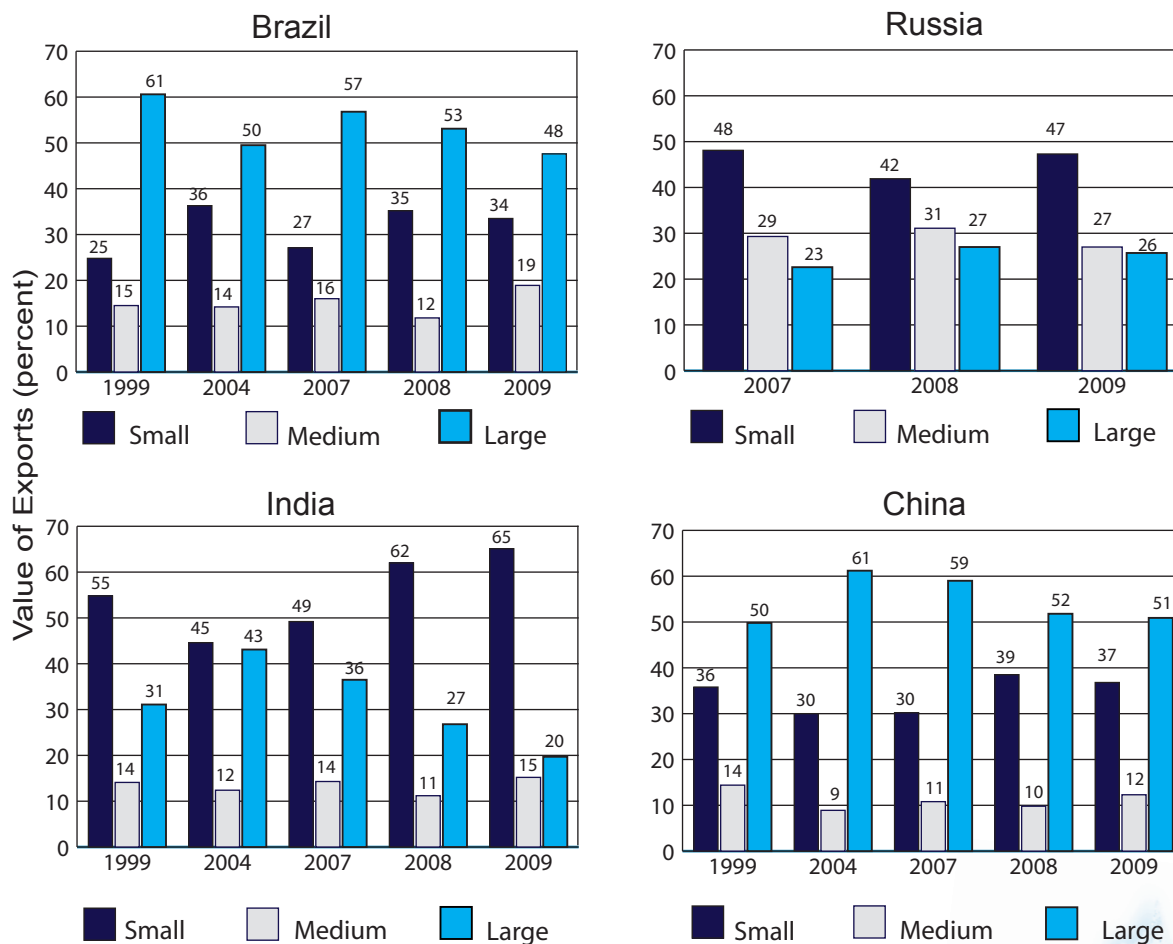
⁸ Institute for Competitiveness and Prosperity, *Trade, Innovation and Prosperity*, Working Paper 14, September 2010.



In 1999, exports to BRIC countries accounted for about 1 percent of the total value of exports, but reached 4.5 percent in 2009.⁹ The value of small business exports to BRIC countries increased from about \$1.3 billion in 1999 to \$5.5 billion in 2009, representing approximately 2 percent and 7 percent of the total value of small business exports respectively.¹⁰

Figure 1.1 illustrates the percentage of the total value of exports to each of the BRIC countries in 1999, 2004, 2007, 2008 and 2009 (2007, 2008 and 2009 for Russia), by firm size. Of all firms exporting to India, small firms contributed the most in each of the years observed. In 1999, small firms sent 55 percent of Canadian exports to India. This number decreased to about 45 percent in 2004 and reached 65 percent in 2009. Similarly, in the case of Russia, small firms contributed most to the total value of exports, representing 48 percent in 2007, 41 percent in 2008 and 47 percent in 2009.

Figure 1.1: Value of Exports (Percent) to BRIC Countries, by Firm Size, 1999, 2004, 2007, 2008 and 2009¹



Source: Statistics Canada, Exporter Register, 2008 and 2009.

Note 1: Figures for 1999 and 2004 were not available for the Russian Federation.

⁹ The exact value of exports to Russia in 1999 was not available, but given that a maximum possible value was approximated, this remains a fair estimate.

¹⁰ Idem.



Large Canadian businesses were contributing the most to the value of exports to China and Brazil, although this proportion has been decreasing while the value of exports sent by small firms has been fairly stable. For example, large business exports represented about 60 percent of the total value of exports to China in 2004 and 2007, but 50 percent in 2009. In contrast, small firm exports corresponded to 30 percent of all exports to China in 2007, 39 percent in 2008 and 37 percent in 2009. The percentage of medium-sized firms exporting to BRIC countries has been fairly constant over the years observed.

2.3. Exports to the United States

The contribution by small enterprises to exports to the United States has increased slightly from 19 percent in 1999 to 22.7 percent in 2009 (Table 1.4). The opposite has occurred among large enterprises, with the value of exports decreasing from 67.4 percent of total exports in 1999 to 62.8 percent in 2009, possibly due to the crisis in the automotive sector. Medium-sized enterprises contributed the least to exports to the United States, with approximately 14 percent of the total value of exports to the United States in both 1999 and 2009.

Small enterprises contributed most to exports sent to the Midwest, accounting for almost 30 percent of the value of exports to that region in 1999 and 32 percent in 2009. While small enterprises had their lowest contribution in both years to exports sent to the Industrial Heartland, these contributions increased from 11 percent in 1999 to almost 18 percent in 2009.

Large enterprises were the main contributors to exports to all U.S. regions, the largest contribution being sent to the Industrial Heartland (79.2 percent in 1999 and 71.5 percent in 2009).



Table 1.4: Value of Exports (Percent) to Each Region of the United States, by Size of Business (Number of Employees), 1999 and 2009

| Region ¹ | Small (<100) | | Medium (100–499) | | Large (500+) | |
|----------------------|--------------|--------|------------------|--------|--------------|---------|
| | 1999 | 2009 | 1999 | 2009 | 1999 | 2009 |
| Eastern Seaboard | 20.3 | 23.6 | 17.6 | 16.7 | 62.1 | 59.7 |
| Industrial Heartland | 11.4 | 17.7 | 9.5 | 10.9 | 79.2 | 71.5 |
| Midwest | 29.8 | 32.0 | 16.1 | 16.8 | 54.0 | 51.2 |
| Southeast | 26.2 | 19.9 | 18.8 | 19.5 | 55.0 | 60.6 |
| West | 24.2 | 23.2 | 12.2 | 14.2 | 63.5 | 62.6 |
| Total U.S. | 19.0 | 22.7 | 13.7 | 14.6 | 67.4 | 62.8 |
| \$ million | 52 900 | 51 000 | 38 100 | 33 000 | 187 900 | 141 000 |

Source: Statistics Canada, Exporter Register, 2008 and 2009.

Note 1: The regions are defined as follows:

Eastern Seaboard: Connecticut, Delaware, District of Columbia, Maine, Maryland, Massachusetts, New Hampshire, New Jersey, New York, North Carolina, Pennsylvania, Rhode Island, Vermont, Virginia, West Virginia

Industrial Heartland: Illinois, Indiana, Kentucky, Michigan, Ohio, Wisconsin

Midwest: Colorado, Idaho, Iowa, Kansas, Minnesota, Missouri, Montana, Nebraska, New Mexico, North Dakota, Oklahoma, South Dakota, Texas, Utah, Wyoming

Southeast: Alabama, Arkansas, Florida, Georgia, Louisiana, Mississippi, Puerto Rico, South Carolina, Tennessee, U.S. Virgin Islands

West: Alaska, Arizona, California, Hawaii, Nevada, Oregon, Washington

3. Exports by Province

In each of the three years observed, 1999, 2004 and 2009, 88 percent or more of the value of small business exports came from Quebec, Ontario, Alberta and British Columbia (including the Territories) (Table 1.5). In 1999, Ontario had the largest share of the value of exports among small businesses at 34.5 percent. This share decreased to 26.5 percent in 2004 and increased to 28.2 percent in 2009. The opposite occurred among small business exporters in Alberta, who accounted for almost 26 percent of the value of exports in 1999, 43 percent in 2004 and almost 31 percent in 2009. The changes in these two provinces may be attributable to a large decrease in the value of exports in the manufacturing sector (located mainly in Ontario) and the fact that the value of exports in the oil and mining sectors (concentrated mainly in Alberta) had been increasing until 2008. Exports by small businesses have remained fairly stable in all other provinces.





Table 1.5: Value of Exports (Percent) by Province within Each Firm Size Class (Number of Employees), 1999, 2004 and 2009¹

| Province | Small (<100) | | | Medium (100–499) | | | Large (500+) | | |
|----------------------------------|--------------|--------|--------|------------------|--------|--------|--------------|---------|---------|
| | 1999 | 2004 | 2009 | 1999 | 2004 | 2009 | 1999 | 2004 | 2009 |
| Newfoundland and Labrador | 0.4 | 0.3 | 0.9 | 0.2 | 0.2 | 0.2 | 0.2 | 0.3 | 0.1 |
| Prince Edward Island | 0.3 | 0.2 | 0.2 | x | x | x | x | x | x |
| Nova Scotia | 2.0 | 1.8 | 2.2 | 1.1 | 1.1 | 1.0 | 0.5 | 0.4 | 0.4 |
| New Brunswick | 1.0 | 0.9 | 0.9 | 3.0 | 2.8 | 2.3 | 1.4 | 2.8 | 3.4 |
| Quebec | 16.3 | 14.2 | 16.0 | 20.3 | 20.1 | 18.2 | 17.5 | 17.6 | 18.0 |
| Ontario | 34.5 | 26.5 | 28.2 | 54.9 | 51.8 | 46.7 | 62.8 | 54.7 | 41.8 |
| Manitoba | 2.4 | 1.8 | 3.7 | 2.9 | 1.8 | 7.1 | 2.7 | 2.9 | 2.6 |
| Saskatchewan | 3.2 | 2.1 | 4.3 | 1.8 | 1.7 | 2.3 | 0.9 | 1.1 | 2.9 |
| Alberta | 25.7 | 43.1 | 30.9 | 6.7 | 10.8 | 14.9 | 6.9 | 12.8 | 26.4 |
| British Columbia and Territories | 14.1 | 9.2 | 12.8 | 9.1 | 9.5 | 7.3 | 7.2 | 7.4 | 4.3 |
| Canada (\$ millions) | 64 200 | 89 600 | 76 800 | 44 300 | 51 000 | 51 000 | 212 000 | 226 900 | 172 500 |

Source: Statistics Canada, Exporter Register, 2008 and 2009.

Note 1: Data that are confidential are denoted by X.

In the case of medium-sized firms, there have not been significant changes in the shares of the values of exports in each province. Similar conclusions can be drawn for large firms in most provinces, with the exception of Ontario and Alberta. For example, while Ontario has accounted for the largest share of exports among large firms, this share has decreased from 62.8 percent in 1999 to 41.8 percent in 2009. On the other hand, the share of exports among large enterprises in Alberta increased from almost 7 percent in 1999 to 26 percent in 2009.

As highlighted at the beginning of this report, the overall value of exports has decreased considerably in 2009 as one of the consequences of the global recession. The value of small business exports decreased by about \$21 billion from 2008 to 2009 (not shown in table). Small businesses in Ontario accounted for 16 percent of that loss while those in Alberta accounted for about 60 percent. This loss could be explained by an important decrease in exports in finance and insurance industries, many of which may be facilitating trade of oil and gas, Alberta's main exports. While the decrease in the value of exports was important, the number of small firms exporting from each of these provinces has not changed significantly.

4. Exports by Type of Commodity Exported by Small Firms

In 2009, mineral products represented the largest proportion (almost 30 percent) of the value of small business exports, but enterprises exporting those goods accounted for only 1.4 percent of the total number of small business exporters (Table 1.6). In the same year, the commodities exported by the largest proportion of small firms (21.7 percent) were machinery and mechanical



appliances, as well as electrical equipment. These exports represented 13.4 percent of the value of small business exports. When ranked by value of exports, other commodities that were exported by small businesses in 2009 included vegetable products (8.4 percent), products of chemical or allied industries (8.3 percent) and base metals (6.7 percent). Vehicles, aircraft, vessels and associated transport equipment were ranked eighth in 1999 and 2009 (accounting for 5.6 and 3.9 percent of small business exports respectively).

Table 1.6: Top 10 Commodities Exported by Small Firms (Less than 100 Employees), by Value of Exports (Percent), 1999 and 2009

| Commodity Exported | 1999 | | Commodity Exported | 2009 | |
|--|-----------|---------------------|---|-----------|---------------------|
| | Value (%) | Number of Firms (%) | | Value (%) | Number of Firms (%) |
| 1. Mineral Products | 21.9 | 1.1 | 1. Mineral products | 29.9 | 1.4 |
| 2. Machinery and mechanical appliances; electrical equipment | 14.5 | 19.9 | 2. Machinery and mechanical appliances; electrical equipment | 13.4 | 21.7 |
| 3. Wood and articles of wood; wood charcoal; cork and articles of cork | 11.9 | 5.2 | 3. Vegetable products | 8.4 | 5.4 |
| 4. Pulp of wood or of other fibrous cellulosic material | 6.0 | 4.9 | 4. Products of chemical or allied industries | 8.3 | 3.7 |
| 5. Live animals; animal products | 6.0 | 4.1 | 5. Base metals and articles of base metal | 6.7 | 10.7 |
| 6. Base metals and articles of base metal | 5.9 | 9.1 | 6. Live animals; animal products | 5.2 | 2.9 |
| 7. Products of the chemical or allied industries | 5.7 | 3.6 | 7. Pulp of wood or of other fibrous cellulosic material | 4.4 | 5.3 |
| 8. Vehicles, aircraft, vessels and associated transport equipment | 5.6 | 6.0 | 8. Vehicles, aircraft, vessels and associated transport equipment | 3.9 | 5.4 |
| 9. Miscellaneous manufactured articles | 4.6 | 8.6 | 9. Plastics and articles thereof; rubber and articles thereof | 3.6 | 11.6 |
| 10. Plastics and articles thereof; rubber and articles thereof | 4.2 | 10.3 | 10. Prepared foodstuffs; beverages, spirits and vinegar; tobacco | 3.4 | 2.6 |
| Other products | 13.7 | 27.0 | Other products | 12.8 | 29.3 |
| Total (%) | 100.0 | 100.0 | Total (%) | 100.0 | 100.0 |

Source: Statistics Canada, Exporter Register, 2008 and 2009.

Note: More than one firm can export the same commodity.

While the rankings by value of small business exports were the same for the top two commodities in the two years observed, the value of mineral products exported changed significantly, increasing from 21.9 percent of the total value of exports by small businesses in 1999 to 29.9 percent in 2009.





5. Small Business Exporters in Selected Industries, by Destination

Table 1.7 presents the percentage of small enterprises in selected industries (those with the highest number of small businesses) that exported to the United States, the European Union, Japan, Mexico, South America and other countries in 1999 and 2009. For example, 59.7 percent of small business exporters in the manufacturing sector in 2009 exported to the United States. It should be noted that one firm can export to more than one destination and that not all industries are shown in this table. Therefore, the percentages for each year may not add up to 100 percent.

Table 1.7: Small Business Exporters (Percent) by Selected Industries and Destination, 1999 and 2009¹

| Industry | United States | | European Union | | Japan | | Mexico | | South America | | Other | |
|------------------------|---------------|------|----------------|------|-------|------|--------|------|---------------|------|-------|------|
| | 1999 | 2009 | 1999 | 2009 | 1999 | 2009 | 1999 | 2009 | 1999 | 2009 | 1999 | 2009 |
| Construction | 76.5 | 61.6 | 6.5 | 11.4 | 3.1 | x | 0.2 | 0.8 | 1.2 | 3.2 | 12.5 | 23.0 |
| Manufacturing | 78.8 | 59.7 | 8.4 | 13.3 | 2.2 | 3.0 | 0.2 | 2.4 | 1.2 | 4.3 | 8.0 | 17.4 |
| Wholesale Trade | 66.4 | 46.6 | 10.3 | 14.1 | 4.4 | 3.7 | 0.7 | 2.2 | 2.2 | 4.8 | 16.0 | 28.5 |
| Retail Trade | 78.5 | 49.7 | 7.9 | 16.9 | 1.9 | 2.0 | 0.4 | 1.1 | 1.0 | 1.9 | 10.3 | 28.3 |
| Professional Services | 77.3 | 47.8 | 8.0 | 15.6 | 1.8 | 3.7 | 0.2 | 2.5 | 1.3 | 4.5 | 11.2 | 25.9 |
| Accommodation and Food | 72.3 | 54.0 | 6.4 | 16.9 | 2.8 | 2.3 | x | x | x | 2.1 | 18.4 | 24.7 |

Source: Statistics Canada, Exporter Register, 2008 and 2009.

Note 1: Data that are confidential are denoted by X.

The percentage of small enterprises exporting to the United States from each of the selected industries decreased in 2009 compared with 1999. In 2009, the greatest percentages of small business exporters to the United States were in the construction and manufacturing sectors (61.6 percent and 59.7 percent respectively). In comparison, small firms in those industries exported more to the European Union in 2009 than in 1999. In 2009, the greatest percentages of small business exporters to the European Union were in the accommodation and food, and retail trade sectors (almost 17 percent of firms in each of the two industries).

While the proportion of small firms exporting to Mexico from each of the industries was less than 0.8 percent in 1999, the proportions increased in 2009 in each of the industries from 0.8 percent of firms in construction to 2.5 percent of firms in professional services.

In 1999, Japan was the third-ranked export destination for small businesses in the selected industries, after the United States and the European Union. In 2009, small businesses in those industries were exporting more to South America than to Japan.

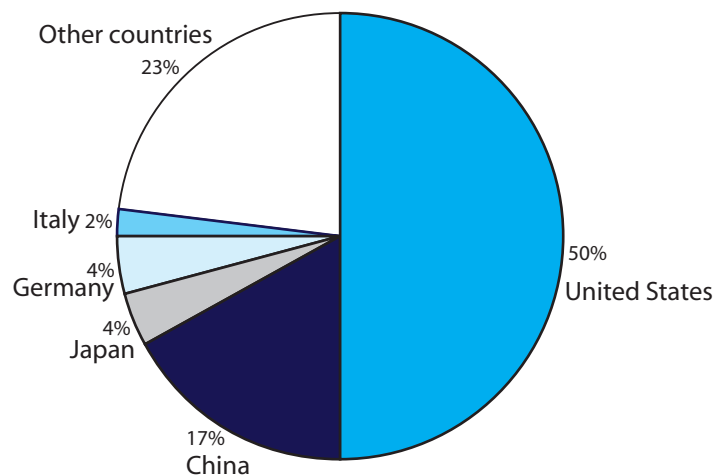


6. Imports

In 2008, the total value of imports to Canada was approximately \$380 billion. Eighty-seven percent of importers were small businesses and were responsible for \$88 billion (23 percent) of the total value of imports. Medium-sized businesses accounted for 9 percent of all importers and were responsible for \$68 billion (18 percent) of the total value of imports. Large businesses represented about 4 percent of all importers and accounted for \$223 billion (59 percent) of the total value of imports in 2008.

Figure 1.2 shows the top five countries from which imports were obtained for small Canadian enterprises in 2008. Half of the value of small business imports (about \$44 billion) came from the United States. The second most important source of imports was China, accounting for 17 percent of the total value of imports. Japan and Germany accounted for 4 percent of the value of imports each, while Italy was fifth at 2.3 percent. Imports from countries such as Mexico, Taiwan, France, the United Kingdom, South Korea, Thailand and India represented between 1 and 2 percent (not shown in figure) of the total value of imports while other countries accounted for less than 1 percent.

Figure 1.2: Top Five Countries Providing Imports for Small Firms, Value (Percent) of Imports, 2008



Source: Statistics Canada, Importer Register, 2008.

In general, these percentages have not changed significantly compared with 2002, with the exception of China. The value of imports from China has increased from about \$8 billion in 2002 to \$15 billion in 2008, representing 8 percent and 17 percent of the total value of imports respectively.





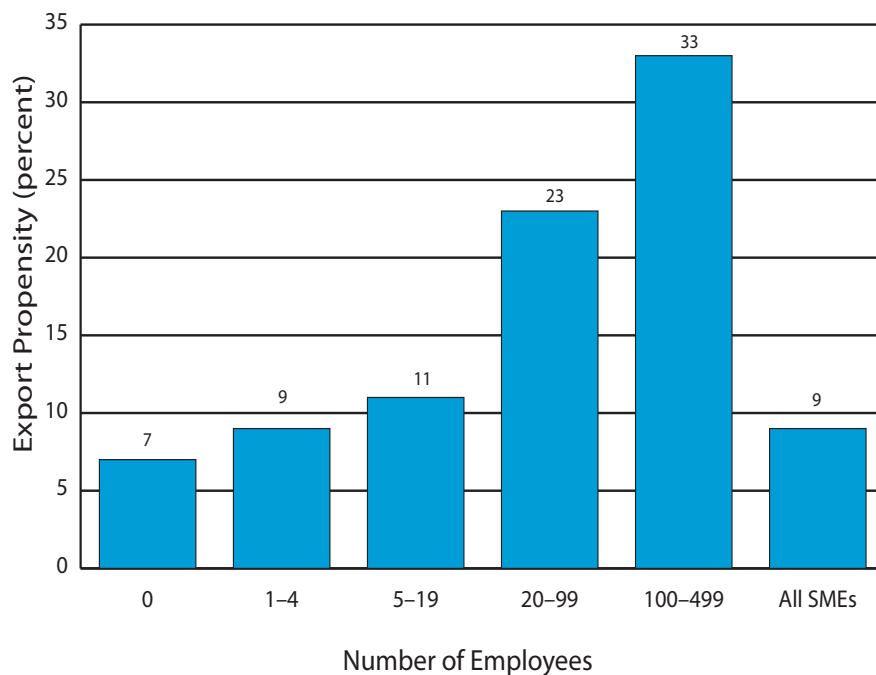
Part 2: Financing Profile of Small and Medium-Sized Enterprise Exporters

This section provides a profile of Canadian small and medium-sized enterprises (SMEs) that exported in 2007. Using data from Statistics Canada's *Survey on Financing of Small and Medium Enterprises (2004 and 2007)*, the report measures export propensity (percentage of firms that export) and export intensity (percentage of revenues from exports) of SMEs. The report also compares business characteristics, owner characteristics, obstacles to growth, and demand for and access to financing among SME exporters and non-exporters.

1. SME Export Activity

In 2007, only a small portion (9 percent) of Canadian SMEs exported goods and services. As seen in Figure 2.1, the propensity to export increased with the size of the enterprise in terms of the number of employees. Among non-employer businesses (zero employees), 7 percent reported exporting. This figure increased to 9 percent for businesses with 1 to 4 employees, 11 percent for businesses with 5 to 19 employees, 23 percent for businesses with 20 to 99 employees and 33 percent for businesses with 100 to 499 employees.

Figure 2.1: Average Export Propensity by Business Size, 2007

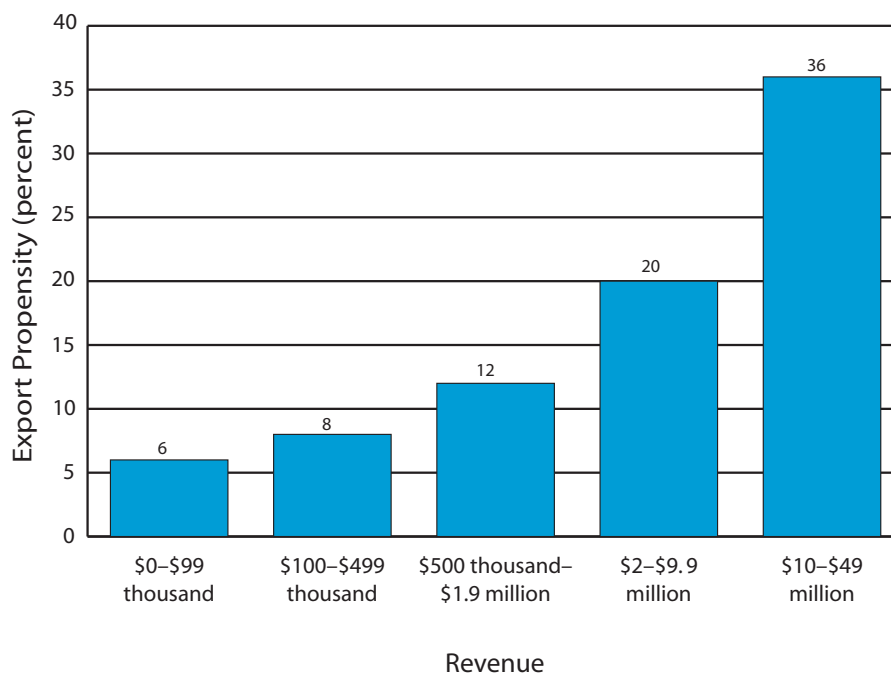


Source: SME Financing Data Initiative, Statistics Canada, *Survey on Financing of Small and Medium Enterprises, 2007*.



In 2007, export propensity also increased with the size of the enterprise in terms of revenues. As shown in Figure 2.2, of those SMEs with annual revenues of \$0 to \$99 thousand, 6 percent exported goods and services. This figure increased to 8 percent for SMEs with annual revenues of \$100 to \$499 thousand, 12 percent for SMEs with annual revenues of \$500 thousand to \$1.9 million, 20 percent for SMEs with annual revenues of \$2 to \$9.9 million and 36 percent for SMEs with annual revenues of \$10 to \$49 million.

Figure 2.2: Average Export Propensity by Revenue Size, 2007



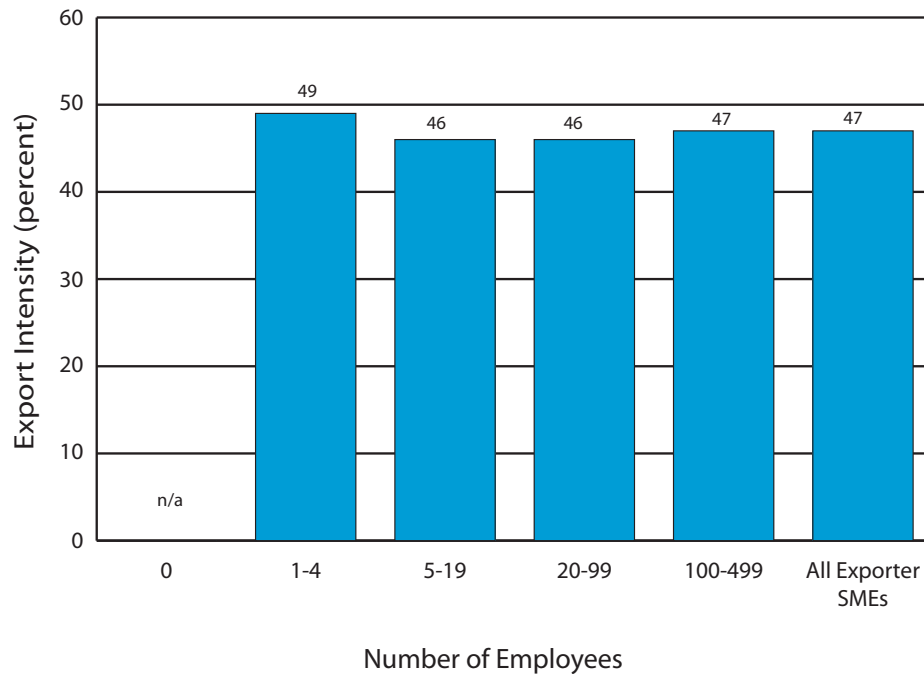
Source: SME Financing Data Initiative, Statistics Canada, *Survey on Financing of Small and Medium Enterprises, 2007*.

While the likelihood of exporting increased with business size, export intensity (percentage of revenues from exports) did not. Previous export data identified firms by the size of their exports (in terms of value), not by the number of employees. Thus, the assumption was that small firms were not very active in the export market. Figure 2.3 illustrates that in 2007 a significant portion of exporters total revenues were derived from export sales (average of 47 percent). Moreover, export intensity was relatively similar across all size groups, indicating that SMEs can be actively engaged in exporting activities regardless of business size (in terms of the number of employees).





Figure 2.3: Average Export Intensity by Business Size, 2007



Source: SME Financing Data Initiative, Statistics Canada, *Survey on Financing of Small and Medium Enterprises, 2007*.
* Data for non-employer businesses (zero employees) are not available due to the low frequency of response.

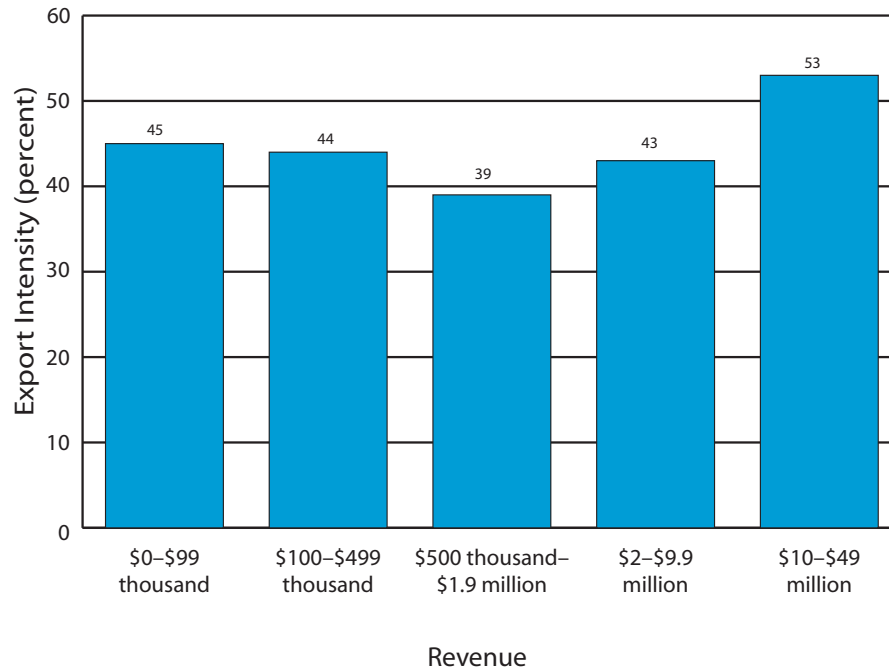
In 2007, export intensity was also relatively similar across all revenue sizes. As Figure 2.4 illustrates, the smallest average export intensity was 39 percent for SMEs with annual revenues of \$500 thousand to \$1.9 million and the largest average export intensity was 53 percent for SMEs with annual revenues of \$10 to \$49 million. These findings further illustrate that business size does not necessarily determine export intensity.

SME exporters are found across all industries within the Canadian economy, yet it is commonly known that exporting is relatively more prevalent within the manufacturing industry. In 2007, manufacturing had the highest concentration of SME exporters at 28 percent (Figure 2.5). Other prominent export industries in 2007 included knowledge-based industries,¹¹ in which 17 percent of SMEs exported.

11 Knowledge-based industries are a regrouping of Statistics Canada's standard industry categories and include a number of technology sectors, such as telecommunications carriers, video production and computer services.

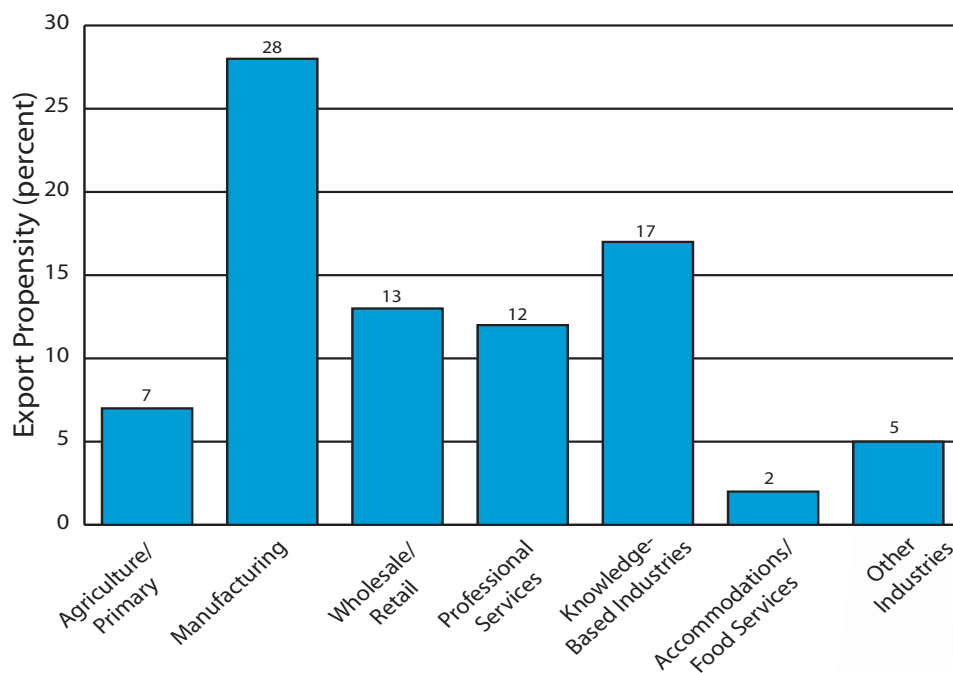


Figure 2.4: Average Export Intensity by Revenue Size, 2007



Source: SME Financing Data Initiative, Statistics Canada, *Survey on Financing of Small and Medium Enterprises*, 2007.

Figure 2.5: Average Export Propensity by Industry, 2007

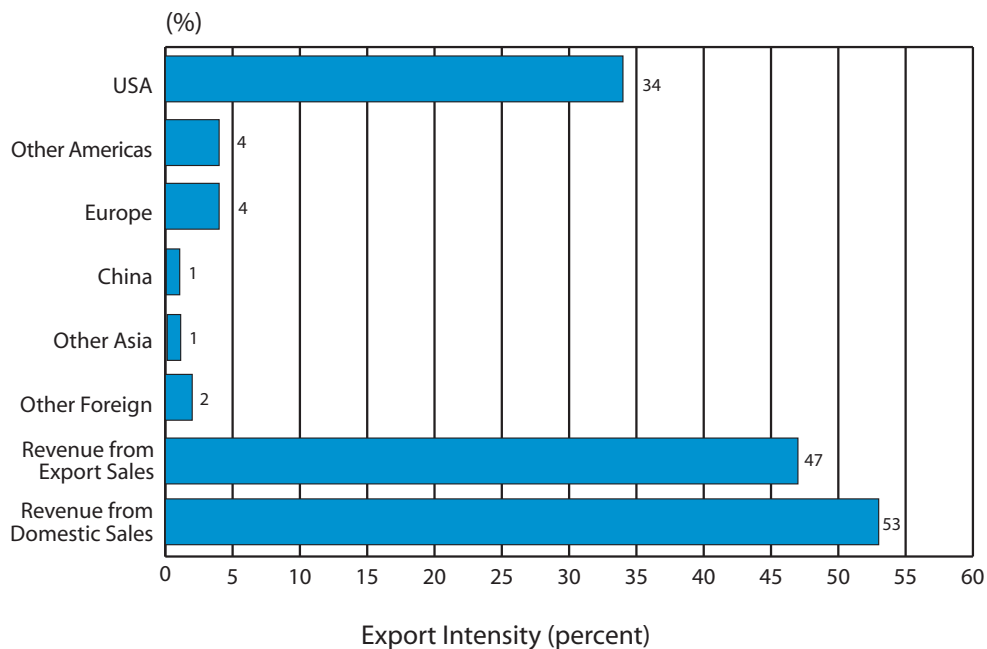


Source: SME Financing Data Initiative, Statistics Canada, *Survey on Financing of Small and Medium Enterprises*, 2007.



In 2007, the majority of Canadian SME export sales were to the United States. As Figure 2.6 illustrates, an average of 34.3 percent of total revenues (73.6 percent of total export revenue) came from exports to the United States. This is not surprising given Canada's proximity to the United States and the existence of trade agreements (e.g., North American Free Trade Agreement) between Canada and the United States.

Figure 2.6: Average Export Intensity by Destination, 2007

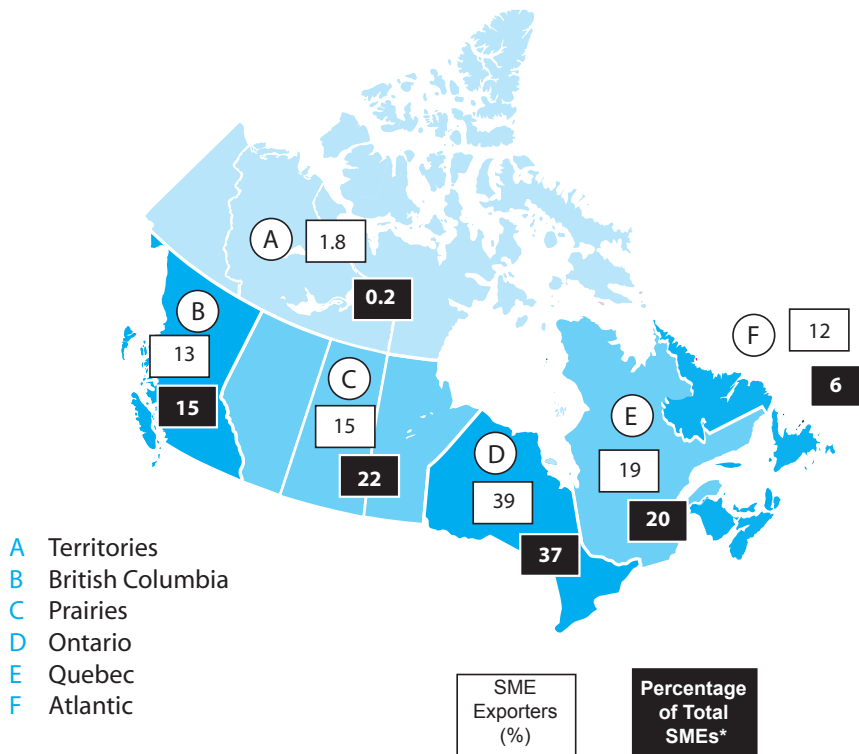


Source: SME Financing Data Initiative, Statistics Canada, *Survey on Financing of Small and Medium Enterprises, 2007*.

Figure 2.7 compares the distribution of SME exporters by region with the distribution of all SMEs in Canada by region. As seen in Figure 2.7, exporters are distributed across all of Canada, but are mostly concentrated in Ontario (39 percent). In the Atlantic region and in the Territories, the proportion of SME exporters is much higher than their proportion of all SMEs in Canada. Specifically, 12 percent of SME exporters were located in the Atlantic region, whereas only 6 percent of all SMEs in Canada are located in the Atlantic region. Likewise, 1.8 percent of SME exporters were located in the Territories, which has only 0.2 percent of all SMEs in Canada.



Figure 2.7: Regional Distribution of SME Exporters, 2007



Source: SME Financing Data Initiative, Statistics Canada, *Survey on Financing of Small and Medium Enterprises, 2007*.
 *Percentage of total SMEs from Statistics Canada, Business Register, October 2007.
 Note: Figures may not add up to 100 due to rounding.

2. Profile of SME Exporters

Table 2.1 presents a comparison of firm and owner attributes between SME exporters and SME non-exporters. As seen in the table, exporters, on average, are more innovative, have greater growth intentions and have been in operation for a longer period of time.

Once an SME decides to export, innovative activity is crucial to its competitiveness and survival in the global market. It is no surprise, therefore, that exporters were more likely to invest in research and development (R&D) and, thereby, be considered innovative. In 2007, the percentage of SME exporters classified as innovative (spending more than 20 percent of total expenditures on R&D)¹² was more than double that of SME non-exporters (11 percent versus 4 percent).

In 2007, exporters were also more likely to have intentions to grow their business than non-exporters. More than half (59 percent) of SME exporters had intentions to expand the size or scope of their business in the next 2 years compared with only 39 percent of non-exporters.

¹² This definition of innovative is used by Industry Canada.

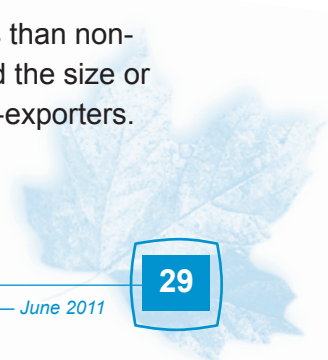




Table 2.1 also illustrates that exporters were more likely to be established than non-exporters. In 2007, 75 percent of SME exporters had been selling goods and services for more than 6 years compared with 68 percent of non-exporters. In 2007 it was also found that compared with start-up SMEs, established SMEs were more likely to export. Among SMEs that had been selling goods and services for 1 to 2 years (during the start-up phase), 6 percent exported goods and services. This figure increases to 7 percent for SMEs that had been selling goods and services for 3 to 5 years and to 10 percent for SMEs that had been selling goods and services for more than 6 years.¹³ This suggests that although many SMEs need time

Table 2.1: Profile of SME Exporters and SME Non-Exporters, 2007

| SME Exporters (%) | Characteristics | SME Non-Exporters (%) |
|-------------------|---|-----------------------|
| | Year Firm Started Selling Goods and Services | |
| 11 | 2005 to 2007 (1 to 2 years old) | 16 |
| 13 | 2002 to 2004 (3 to 5 years old) | 17 |
| 75 | Prior to 2002 (6+ years old) | 68 |
| | Growth Intentions | |
| 59 | Intend to expand business in next 2 years | 39 |
| | R&D Expenditure | |
| 11 | Over 20 of total expenditures on R&D | 4 |
| | Owner Gender | |
| 65 | Majority male ownership | 65 |
| 18 | Majority female ownership | 16 |
| 18 | Equal ownership | 19 |
| | Owner Background | |
| 2 | Aboriginal | 2 |
| 8 | Visible minority (other than Aboriginal) | 10 |
| 2 | Disabled | 2 |
| 4 | Recent immigrant (within last 5 years) | 2 |
| | Mother Tongue of Owner | |
| 69 | English | 67 |
| 15 | French | 19 |
| 16 | Other | 14 |
| | Age of Owner | |
| 13 | Under 40 years | 15 |
| | Managerial Experience of Owner | |
| 75 | Over 10 years | 71 |

Source: SME Financing Data Initiative, Statistics Canada, *Survey on Financing of Small and Medium Enterprises*, 2007.

13 Source: SME Financing Data Initiative, Statistics Canada, *Survey on Financing of Small and Medium Enterprises*, 2007, Table 22. http://www.sme-fdi.gc.ca/eic/site/sme_fdi-prf_pme.nsf/eng/02152.html



to accumulate resources, knowledge and networks before they can penetrate the international market, some SMEs export from the time of their inception.¹⁴

3. Perceived Obstacles to Growth for SME Exporters

Given the increased costs, risks and uncertainty associated with export activity, it is common for exporters to encounter many obstacles. In 2007, the most frequently cited obstacle to business growth for SME exporters was the same as that for non-exporters — rising business costs — with 56 percent of owners in both groups identifying this as an obstacle (Table 2.2). However, many other obstacles were identified more frequently by exporters than non-exporters, including finding qualified labour, increasing competition, instability of consumer demand, insurance premiums and obtaining financing. Nevertheless, it is expected that exporters would have greater challenges with increased competition and increased variety in consumer preferences as they are consequences of opening up to international markets.

Table 2.2: Perceived Obstacles to Business Growth, 2007

| | Obstacles | SME Exporters (%) | SME Non-Exporters (%) |
|----------------------|--------------------------------------|-------------------|-----------------------|
| External to the Firm | Finding Qualified Labour | 50 | 40 |
| | Instability of Consumer Demand | 40 | 32 |
| | Government Regulations | 28 | 28 |
| | Environmental Regulations/Compliance | 9 | 12 |
| | Increasing Competition | 47 | 39 |
| Internal to the Firm | Obtaining Financing | 21 | 17 |
| | Management Capacity | 13 | 11 |
| | Rising Business Costs | 56 | 56 |
| | Insurance Premiums | 40 | 34 |

Source: SME Financing Data Initiative, Statistics Canada, *Survey on Financing of Small and Medium Enterprises*, 2007.

Previous studies have shown that among exporters, a lack of financing has been identified as a major challenge.¹⁵ In 2007, obtaining financing was cited as an obstacle more frequently among exporters than non-exporters; however, with only 21 percent of exporters expressing this as a challenge, it was not one of the top-ranked obstacles to business growth.

Figure 2.8 presents obstacles for Canadian enterprises when exporting. The data, taken from the *Survey of Innovation and Business Strategy* (SIBS), 2009, reveal that meeting cost requirements of customers was the most frequently reported obstacle to exporting for firms of all sizes. Access to financing did not rank as one of the most important obstacles to exporting

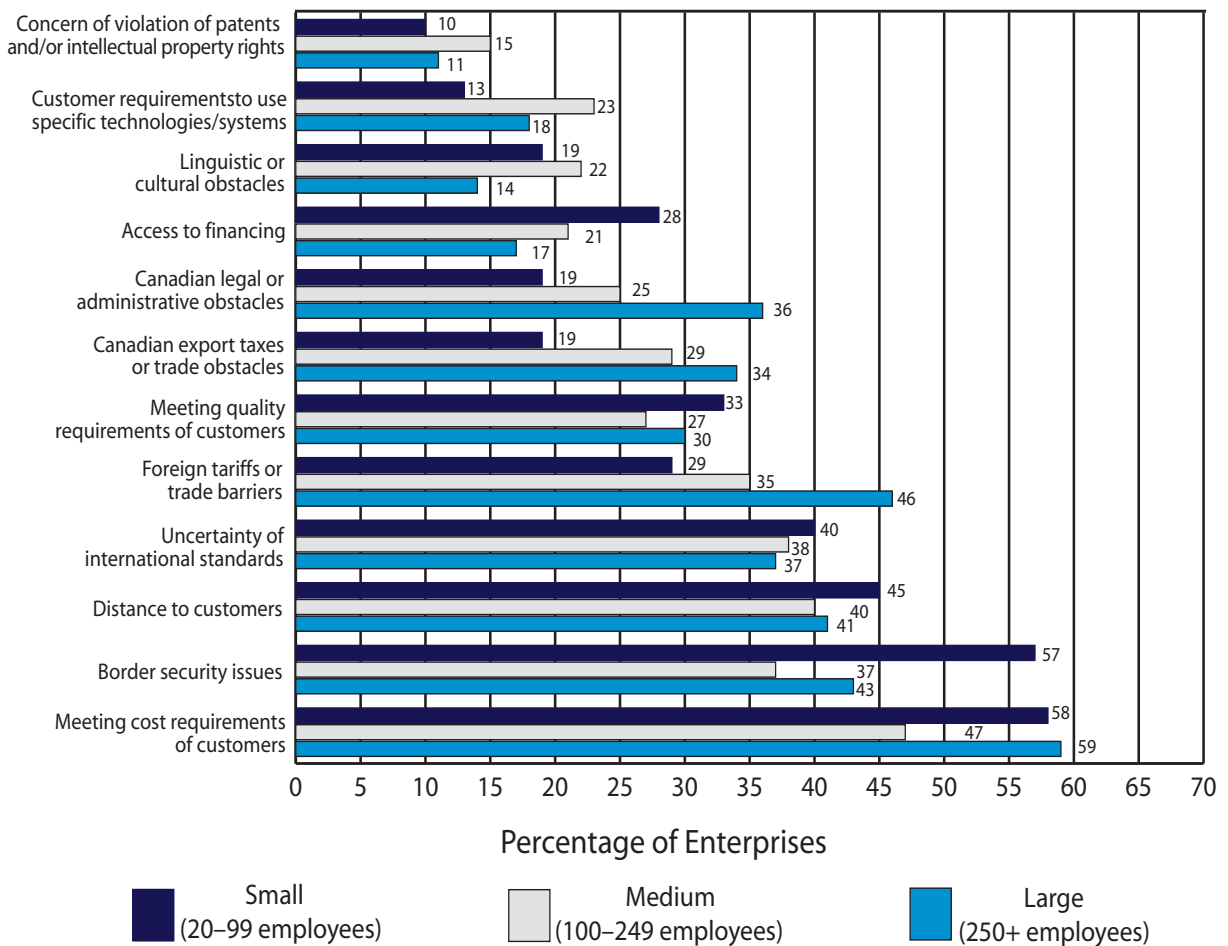
14 SMEs that operate internationally from or near the time of their inception are also known as “born global” establishments. For more information on the born global phenomenon, see Knight, G.A. and Cavusgil, S.T., 1996. “The Born Global Firm: A Challenge to Traditional Internationalization Theory.” *Advances in International Marketing*, 8, pp. 11–26, and Orser, B., Spence, M., Riding, A. and Carrington, C., 2008. *Canadian SME Exporters*. SME Financing Data Initiative. http://www.sme-fdi.gc.ca/eic/site/sme_fdi-prf_pme.nsf/eng/h_02115.html

15 Source: Organisation for Economic Co-operation and Development (OECD), *Removing Barriers to SME Access to International Markets*, Paris, 2006.



for Canadian SMEs. This result is consistent with those found in the *Survey on Financing of Small and Medium Enterprises, 2007*, i.e., both surveys suggest that access to financing may not be a major challenge for exporters compared with other major obstacles. Caution should be used when comparing the results from these two surveys, however, as the survey question, methodology, target population and sample are significantly different.¹⁶ Moreover, from these results we cannot conclude whether or not exporters have unique challenges when it comes to access to financing.

Figure 2.8: Obstacles to Exporting, 2007 to 2009*



Source: Statistics Canada, *Survey of Innovation and Business Strategy, 2009*.

*Exporters rated each obstacle as high importance, medium importance, low importance or not an obstacle to exporting or attempting to export during the three years 2007 to 2009. To determine which obstacles were most important, responses of medium and high importance were combined.

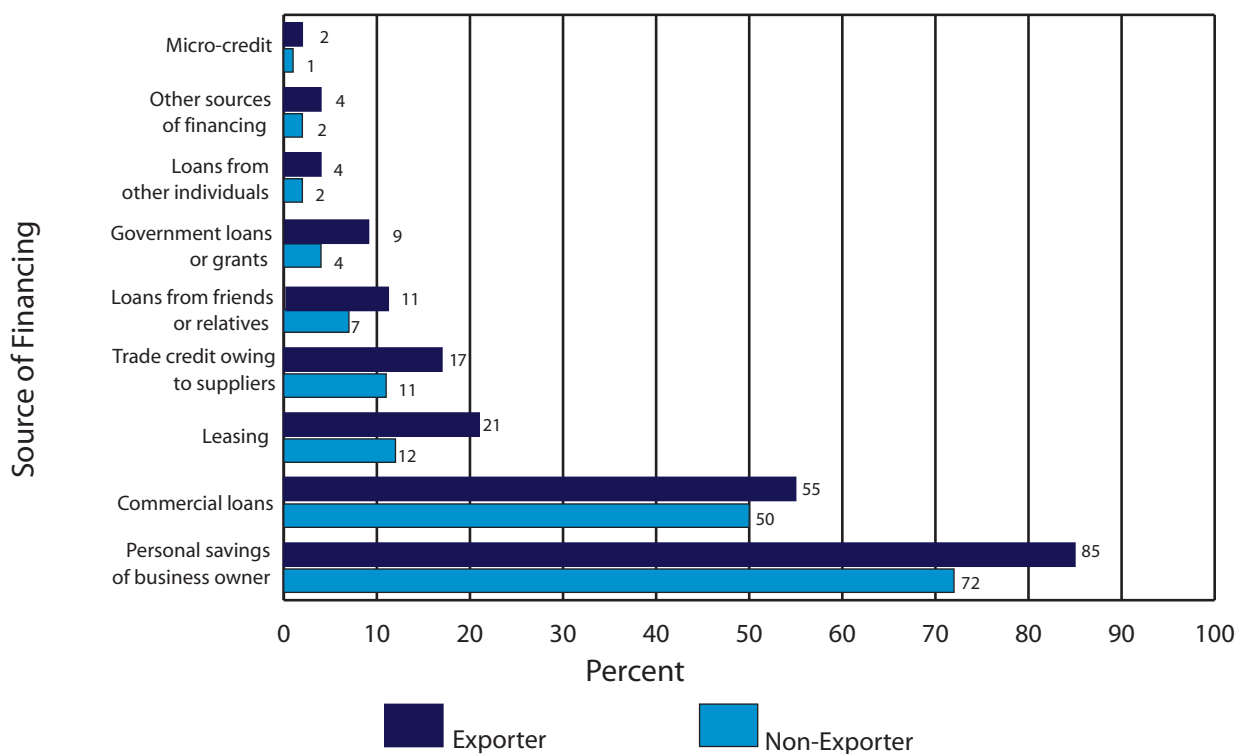
16 See "Data Sources and Methodology" for information on the methodology, target population and sample of the two questions. The *Survey on Financing of Small and Medium Enterprises* question regarding obstacles was "Which of the following obstacles are serious problems for the growth of your business?" The *Survey of Innovation and Business Strategy* question regarding obstacles was "Please rate the importance of the following obstacles to your enterprise exporting or attempting to export goods and services to an enterprise outside of Canada during the three years 2007 to 2009."



4. Financing Activity

Given the importance of financing to the growth and survival of a business, it is critical to investigate the actual financing activity of SME exporters and non-exporters to determine any unique challenges. Figures 2.9 and 2.10 present important sources of financing for SMEs during the start-up phase of the business and for ongoing operations respectively. For both exporters and non-exporters, the most common type of financing used during business start-up was personal savings of the owner, particularly among exporters (85 percent versus 72 percent) (Figure 2.9). The most common type of financing used by both exporters and non-exporters for ongoing operations was commercial or personal loans (Figure 2.10). It is interesting to note that in 2007, SME exporters were more likely to use each source of financing, except micro-credit, than non-exporters during the start-up phase and for ongoing operations.

Figure 2.9: Sources of Financing Used During Start-Up, 2007

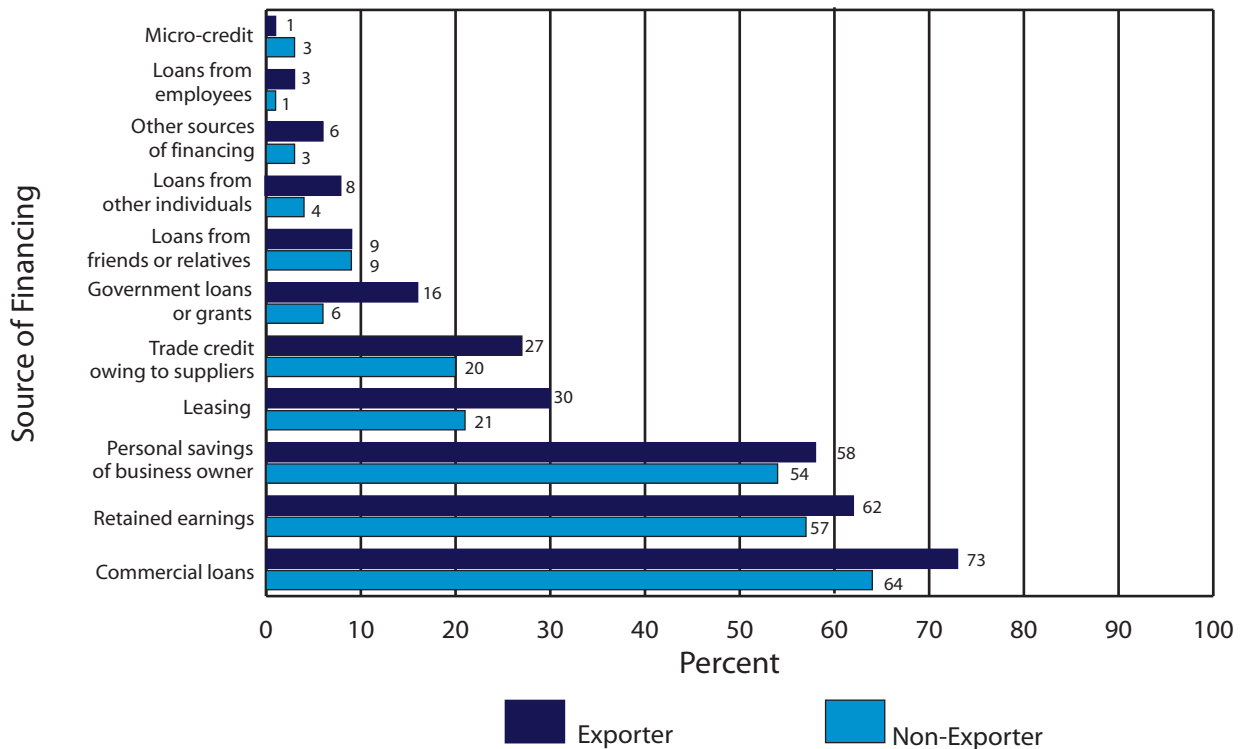


Source: SME Financing Data Initiative, Statistics Canada, *Survey on Financing of Small and Medium Enterprises*, 2007.





Figure 2.10: Sources of Financing Used for Ongoing Operations, 2007



Source: SME Financing Data Initiative, Statistics Canada, *Survey on Financing of Small and Medium Enterprises, 2007*.

5. Request and Approval Rates

Due to additional costs associated with exporting, including, but not limited to, tariffs, duties, custom fees, currency fluctuation, transaction costs and transportation costs, it is common for exporters to have greater financing needs than their non-exporter counterparts. To cover these costs and to stimulate growth, exporters may seek some kind of external financing. Table 2.3 presents request rates for both SME exporters and non-exporters for 2000, 2004, 2007 and 2009. The table indicates that for years that data are available, SME exporters were more likely to seek external financing than non-exporters (with the exception of trade credit in 2009). Moreover, in 2007, only 36 percent of SME exporters reported they had never sought external financing, compared with 47 percent of SME non-exporters.¹⁷ These findings highlight the importance of obtaining external financing for SME exporters.

Debt financing was the most common form of financing sought by both SME exporters and non-exporters in all years. Another common source of financing for exporters was trade credit, with 18 percent seeking this type of financing in 2004 and 16 percent in 2007.

¹⁷ Source: SME Financing Data Initiative, Statistics Canada, *Survey on Financing of Small and Medium Enterprises, 2007*, Table 2. http://www.sme-fdi.gc.ca/eic/site/sme_fdi-prf_pme.nsf/eng/02152.html



Table 2.4 presents, where available, approval rates for both SME exporters and non-exporters for 2000, 2004, 2007 and 2009. In 2004, SME exporters were less likely to be approved for external financing than non-exporters (86 percent versus 91 percent), but in 2007 and 2009 the opposite was true. A similar pattern is observed for debt financing, with SME exporters having lower approval rates in 2000 and 2004 and higher approval rates in 2007 and 2009.

Table 2.3: SME Request Rates (Percent) by Financing Type

| Type of Financing | 2000 | | 2004 | | 2007 | | 2009* | |
|--------------------------|----------|--------------|----------|--------------|----------|--------------|----------|--------------|
| | Exporter | Non-Exporter | Exporter | Non-Exporter | Exporter | Non-Exporter | Exporter | Non-Exporter |
| Any External Financing | — | — | 36 | 23 | 27 | 17 | 20 | 15 |
| Debt Financing | 37 | 22 | 28 | 18 | 21 | 12 | 18 | 14 |
| Lease Financing | — | — | 5 | 3 | 7 | 5 | 1.2 | 1.0 |
| Equity Financing | — | — | 3 | 1 | 2 | 1 | 1.9 | 1.2 |
| Government Loan or Grant | — | — | 6 | 3 | 6 | 3 | — | — |
| Trade Credit | — | — | 18 | 11 | 16 | 8 | 0.8 | 1.2 |

Source: SME Financing Data Initiative, Statistics Canada, *Survey on Financing of Small and Medium Enterprises*, 2000, 2004 and 2007.

*Based on Industry Canada, *Credit Condition Survey*, 2009.

Note: These rates are Industry Canada calculations based on financing requests made within the last 12 months.

Exporters and non-exporters had similar approval rates for lease financing and trade credit in 2004 and 2007. In 2004, exporters had higher approval rates for equity financing than non-exporters, but the opposite was true in 2007. In both 2004 and 2007, approval rates for government loan or grant financing were lower for SME exporters than for non-exporters.

Table 2.4: SME Approval Rates (Percent) by Financing Type

| Type of Financing | 2000 | | 2004 | | 2007 | | 2009* | |
|--------------------------|----------|--------------|----------|--------------|----------|--------------|----------|--------------|
| | Exporter | Non-Exporter | Exporter | Non-Exporter | Exporter | Non-Exporter | Exporter | Non-Exporter |
| Any External Financing | — | — | 86 | 91 | 97 | 96 | 85 | 79 |
| Debt Financing | 79 | 82 | 80 | 88 | 95 | 94 | 84 | 78 |
| Lease Financing | — | — | 98 | 96 | 92 | 93 | — | 72 |
| Equity Financing | — | — | 60 | 42 | 68 | 71 | — | 86 |
| Government Loan or Grant | — | — | 67 | 71 | 75 | 81 | — | — |
| Trade Credit | — | — | 90 | 90 | 99 | 99 | — | 82 |

Source: SME Financing Data Initiative, Statistics Canada, *Survey on Financing of Small and Medium Enterprises*, 2000, 2004 and 2007.

*Based on Industry Canada, *Credit Condition Survey*, 2009.

Note: Approval rates for debt financing are Industry Canada calculations that exclude loans that were withdrawn or are still under review.





It should be noted that these approval rates do not distinguish between full or partial approvals. Moreover, these approval rates do not consider the dollar amount of financing that was approved.

Table 2.5 presents approved debt financing amounts for 2004 and 2007. In both years, the average amount of debt approved was higher for SME exporters than non-exporters. This was true for both long-term and short-term debt financing. To measure access to financing while accounting for scale effects and partial approvals, the ratio of total debt financing approved to total debt financing requested is considered. According to this ratio, SME exporters had slightly more difficulty accessing financing than non-exporters in 2004. In 2007, exporters had slightly less difficulty accessing financing than non-exporters.

Table 2.5: SME Approved Debt Financing Amounts,* 2004 and 2007

| | 2004 | | 2007 | |
|---|-------------|---------------|-----------|---------------|
| | Exporters | Non-Exporters | Exporters | Non-Exporters |
| Average Long-Term Amount Approved | \$224 000 | \$193 000 | \$474 000 | \$246 000 |
| Average Short-Term Amount Approved | \$190 000 | \$69 000 | \$342 000 | \$158 000 |
| Average Total Amount Approved | \$210 000** | \$138 000** | \$461 000 | \$232 000 |
| Total Debt Financing Approved/Requested | 95 | 97 | 93 | 90 |

Source: SME Financing Data Initiative, Statistics Canada, *Survey on Financing of Small and Medium Enterprises*, 2004 and 2007.

*Figures are Industry Canada calculations based on responses that contained values for both requested amounts and approved amounts.

**Average total amount approved in 2004 excludes "other financial instruments" that were not specified as long-term or short-term debt.

Table 2.6 breaks down the ratio of total amount of financing approved to total amount of financing requested by size of business in terms of number of employees. In both 2004 and 2007, exporters with 1 to 4 employees were less likely to obtain their requested financing than non-exporters. On the other hand, exporters with 20 to 99 employees were more likely to obtain their requested financing than non-exporters. Table 2.6 also shows that the ratios of amount approved to amount requested were highest for medium-sized enterprises (100 to 499 employees). In 2004 and 2007, both exporters and non-exporters in this size group received nearly the full amount they requested.



Table 2.6: Ratio (Percent) of Total Debt Financing Approved to Total Debt Financing Requested, by Number of Employees

| Number of Employees | 2004 | | 2007 | |
|---------------------|---------------|-------------------|---------------|-------------------|
| | SME Exporters | SME Non-Exporters | SME Exporters | SME Non-Exporters |
| 0 | 65 | 89 | 98 | 95 |
| 1 to 4 | 74 | 88 | 56 | 81 |
| 5 to 19 | 91 | 95 | 94 | 95 |
| 20 to 99 | 88 | 78 | 97 | 84 |
| 100 to 499 | 98 | 99 | 99 | 98 |

Source: SME Financing Data Initiative, Statistics Canada, *Survey on Financing of Small and Medium Enterprises*, 2004 and 2007.

Table 2.7 presents the ratio of total debt financing approved to total debt financing requested by size of business in terms of revenue. In both 2004 and 2007, this ratio was highest among SMEs with annual revenues of \$10 to \$49 million for both exporters and non-exporters. These ratios indicate that SMEs with annual revenues higher than \$10 million have less difficulty obtaining requested financing than those with revenues less than \$10 million.

Table 2.7: Ratio (Percent) of Total Debt Financing Approved to Total Debt Financing Requested, by Revenue Size

| Revenue | 2004 | | 2007 | |
|----------------------------|---------------|-------------------|---------------|-------------------|
| | SME Exporters | SME Non-Exporters | SME Exporters | SME Non-Exporters |
| \$0–\$99 thousand | 70 | 91 | 99 | 95 |
| \$100–\$499 thousand | 62 | 82 | 93 | 78 |
| \$500 thousand–\$1 million | 79 | 93 | 62 | 79 |
| \$2–\$9.9 million | 81 | 83 | 97 | 96 |
| \$10–\$49 million | 92 | 100 | 100 | 99 |

Source: SME Financing Data Initiative, Statistics Canada, *Survey on Financing of Small and Medium Enterprises*, 2004 and 2007.

6. Distribution of Approved Financing

The distribution of approved financing in 2007 was similar for SME exporters and non-exporters. As shown in Table 2.8, debt financing was the most common type of external financing obtained in 2007, with slightly more exporters being approved than non-exporters. Table 2.8 also shows that exporters were less likely to obtain lease financing than non-exporters (16 percent versus 20 percent).





Table 2.8: Distribution (Percent) of Financing Instruments Used (Based on Approved Amounts), 2007

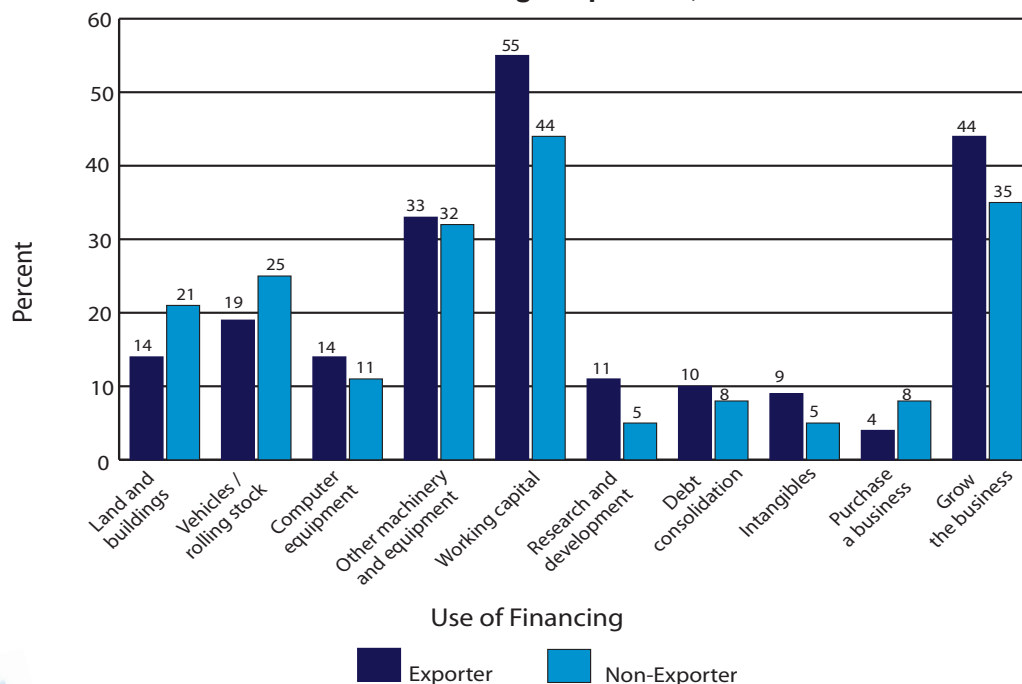
| | SME Exporters | SME Non-Exporters |
|--------------------------|---------------|-------------------|
| Debt | 73 | 69 |
| Lease | 16 | 20 |
| Equity | 1 | 1 |
| Government Loan or Grant | 8 | 7 |
| Trade Credit | 2 | 3 |
| Total | 100 | 100 |

Source: SME Financing Data Initiative, Statistics Canada, *Survey on Financing of Small and Medium Enterprises, 2007*.

7. Intended Use of Debt Financing

In 2007, SME exporters and non-exporters had varying intended uses for their debt financing. As shown in Figure 2.11, the most common intended use for debt financing for both exporters and non-exporters was to provide working capital, particularly for exporters (55 percent versus 44 percent). SME exporters were more than twice as likely to use their debt financing for research and development (11 percent versus 5 percent). Exporters were also more likely to use debt financing to grow their business than non-exporters (44 percent versus 35 percent) and slightly more likely to use debt financing to purchase computer equipment. These figures reflect the growth-oriented and innovative nature of exporters that was highlighted previously.

Figure 2.11: Intended Use of Debt Financing Requested, 2007



Source: SME Financing Data Initiative, Statistics Canada, *Survey on Financing of Small and Medium Enterprises, 2007*.



Conclusion

In 2007, the likelihood of exporting increased with business size, both in terms of employees and revenues; however, among SME exporters, the percentage of total sales derived from exports was similar across all size groups. These findings suggest that firm size is correlated with export propensity, but does not determine export intensity.

This report also highlighted that SME exporters are marked by different characteristics than their non-exporter counterparts. On average, exporters were more innovative (investing more in R&D), growth oriented and established than non-exporters. Exporter SMEs were more likely to make a request for financing and, on average, requested higher amounts of debt financing than their non-exporter counterparts. Additionally, exporters were more likely to cite obtaining external financing as an obstacle to business growth. When it came to determining whether exporters had unique financing challenges, results were inconclusive. Exporters experienced greater difficulty obtaining approval for external financing in 2004 (measured by approval rates and the ratio of amount of debt financing approved to amount of debt financing requested), but had a slightly easier time in 2007 compared with non-exporters.

Part 3: SME Involvement in Global Value Chains

The first two sections of this report provide a number of basic statistics relative to Canadian exporters, using the value of exports and export propensity as the main measures of trade. However, recent developments in the global economy have changed the reality of many businesses in Canada in that their activities go beyond traditional exports. For example, more and more firms do not export their products and services directly, but participate in global value chains (GVCs).

GVCs include the full range of activities required to bring a product from conception to its end use and beyond (e.g., design, production, distribution). Value chain activities can be contained within a single firm or divided among different firms, and can be contained within a single geographical location or spread over wider areas. For example, firms are increasingly outsourcing business activities to third parties, locating parts of their supply chains outside their home country (offshoring), and partnering with other firms through strategic alliances and joint ventures.

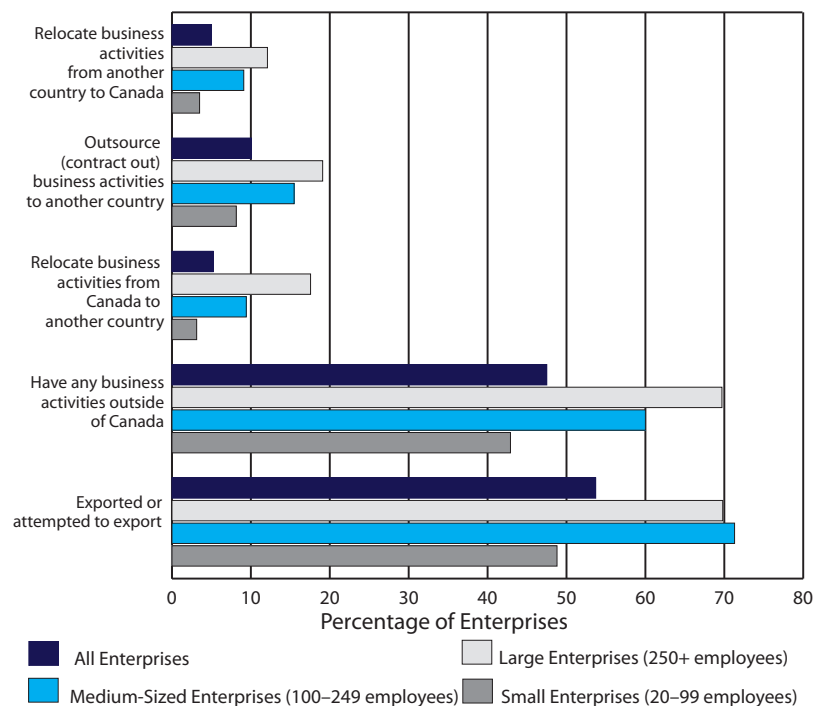
While this is a well-known phenomenon, quantifying it has been a challenge without suitable sources of data. Using new data from the *Survey of Innovation and Business Strategy* (SIBS) 2009, this section presents a number of figures illustrating the involvement of small and medium-sized manufacturing enterprises with more than 20 employees in GVCs. In particular, this section highlights the types of international activities these enterprises engage in, their most relocated or outsourced business activities and their participation in indirect exports.



1. International Business Activities

As Figure 3.1 illustrates, approximately 50 percent of manufacturing enterprises engaged in international business activities between 2007 and 2009. Specifically, 54 percent of manufacturing enterprises exported or attempted to export goods and services and 48 percent reported having business activities outside of Canada. Additionally, 10 percent of manufacturing enterprises outsourced (contracted out) their business activities to another country and 5 percent relocated their business activities abroad (still performed within the company).

Figure 3.1: Canadian Manufacturing Enterprise Involvement in International Business Activities, 2007 to 2009



Source: Statistics Canada, *Survey of Innovation and Business Strategy*, 2009.

Figure 3.1 also shows that some business activities were returned to Canada. Between 2007 and 2009, 5 percent of manufacturing enterprises reported relocating their business activities from another country to Canada.

In general, large manufacturing enterprises were more likely to engage in international business activities than small or medium-sized manufacturing enterprises, with the exception of exporting, in which 71.3 percent of medium-sized enterprises exported goods compared with 69.8 percent of large enterprises.

SMEs were more likely to outsource (contract out) business activities (16 percent for medium-sized and 8 percent for small enterprises) than to relocate business activities to another country

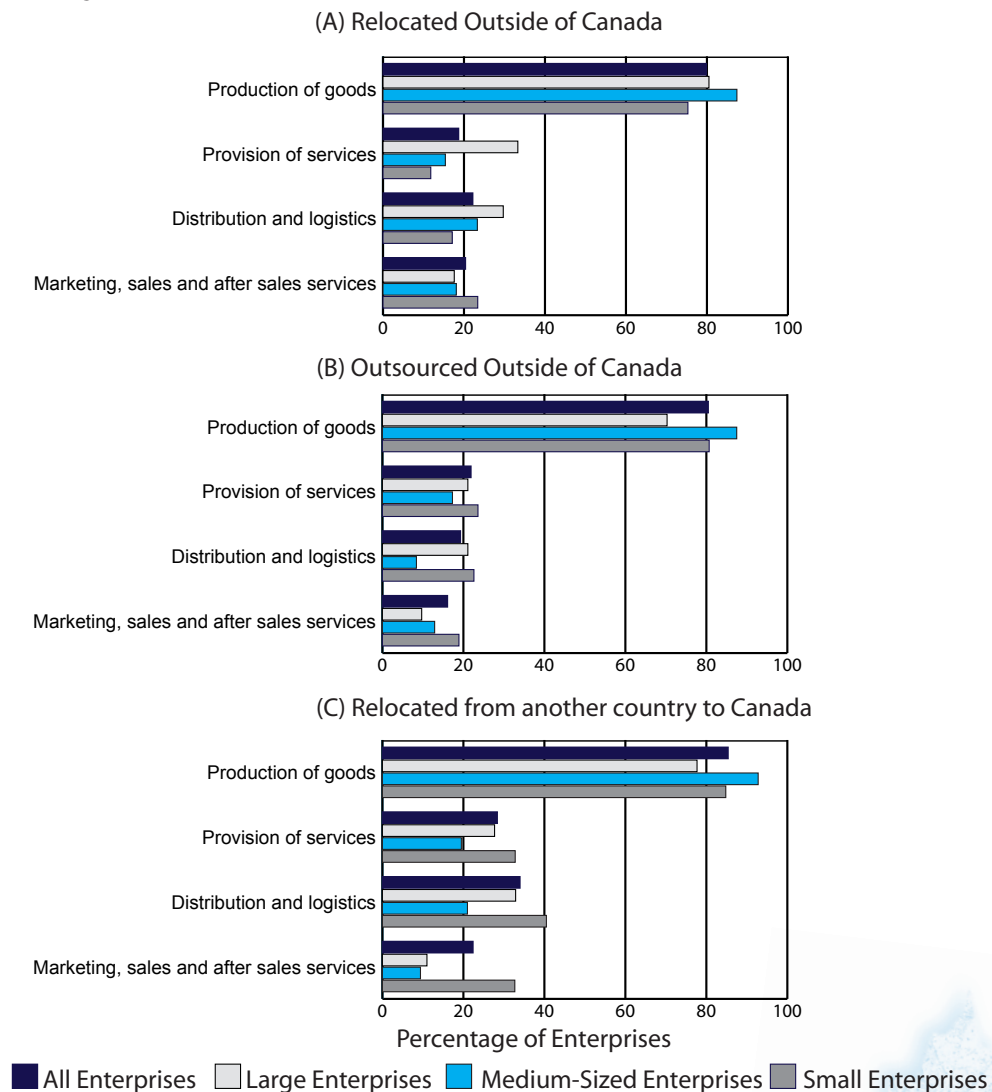


(9 percent for medium-sized and 3 percent for small enterprises). These findings may suggest that contracting out is a less costly alternative to relocating business activities for SMEs.

2. Relocation and Outsourcing of Business Activities

Figure 3.2 illustrates the most relocated or outsourced business activities in the Canadian manufacturing sector by firm size. Between 2007 and 2009, the business activity most displaced (relocated or outsourced) out of Canada was the production of goods. Other displaced business activities included the provision of services; distribution and logistics; and marketing, sales and after sales services.

Figure 3.2: Most Relocated or Outsourced Business Activities in the Manufacturing Sector, by Firm Size



Source: Statistics Canada, *Survey of Innovation and Business Strategy*, 2009.



Between 2007 and 2009, medium-sized manufacturing enterprises displaced more business activities in the production of goods than small and large manufacturing enterprises. Over the same period, small manufacturing enterprises were more likely to displace their marketing, sales and after sales services than medium-sized and large enterprises.

Small manufacturing enterprises were more likely than medium-sized and large manufacturing enterprises to relocate their business activities in marketing, sales and after sales services. At the same time, small manufacturing businesses in Canada were more likely than medium-sized and large manufacturing businesses to outsource business activities, such as marketing, sales and after sales services; distribution and logistics; and provision of services, outside of Canada.

Research and development (R&D) is not shown in Figure 3.2 among the top business activities that are relocated as it is ranked eighth out of 15 business activities. However, it is worth mentioning that small manufacturing businesses relocate their R&D activities almost as much as large manufacturing businesses (13 and 14 percent respectively).

3. Indirect Exports

SIBS data indicate that not all manufacturing enterprises exported goods in the traditional way (i.e., selling directly to foreign customers); some manufacturing enterprises engaged in indirect exporting. As illustrated in Figure 3.3, 21 percent of manufacturing enterprises sold their goods to another enterprise in Canada that, in turn, exported the goods. Additionally, 26 percent of manufacturing enterprises sold their goods to another enterprise in Canada that used them as an intermediate input in final goods that were then exported.

Small and medium-sized manufacturing enterprises were more likely than large manufacturing enterprises to fill orders from domestic buyers and then export the goods “as is.” Specifically, 21 percent of small enterprises and 24 percent of medium-sized enterprises were indirect exporters of final goods compared with 17 percent of large enterprises. Conversely, small and

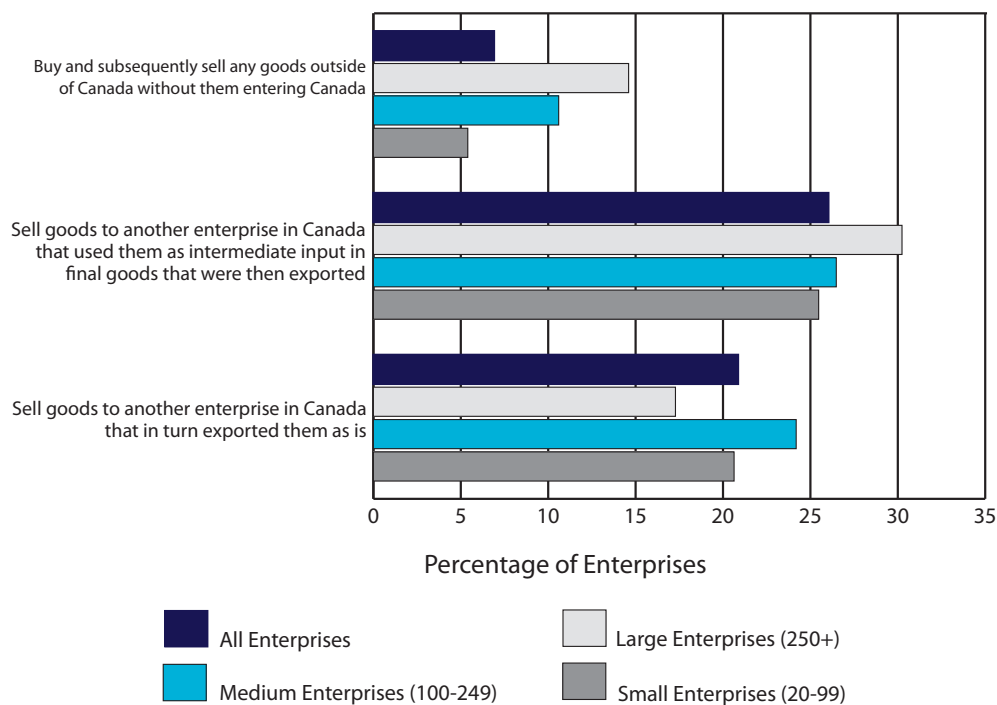


medium-sized manufacturing enterprises were less likely than large manufacturing enterprises to produce inputs for goods that were then exported by their customers. Specifically, 26 percent of small enterprises and 27 percent of medium-sized enterprises were indirect exporters of intermediate goods compared with 30 percent of large enterprises.

Figure 3.3 also demonstrates that 7 percent of manufacturing enterprises in Canada act as intermediaries by buying and selling goods outside of Canada without them ever entering Canada. Large enterprises were more likely to be intermediaries compared with small and medium-sized enterprises.

In conclusion, these findings reveal that looking only at traditional exports does not capture the full international integration of an enterprise. Enterprises of all sizes are participating in global value chains through outsourcing, relocating business activities and indirect exporting.

Figure 3.3: Indirect Exports in the Manufacturing Industry, 2009



Source: Statistics Canada, *Survey of Innovation and Business Strategy*, 2009.





Publications

Available through the **Small Business Research and Statistics** website (www.ic.gc.ca/sbresearch)

Key Small Business Statistics (KSBS) (www.ic.gc.ca/sbststatistics)

The KSBS provides key statistics on small business topics, responding to some of the most commonly asked questions. This publication is produced annually and is released in July. A special edition of the KSBS, which explores a particular issue in detail, is released in January.

Special Edition: Growth Map of Canadian Firms — January 2010

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The SBQ provides a quick and easy-to-read snapshot of the recent performance of Canada's small business sector. This publication is produced in February, May, August and November. It is available in printed and electronic versions.

Research Reports (www.ic.gc.ca/sbresearch/sbreports)

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Available through the **SME Financing Data Initiative** (SME FDI) website (www.sme-fdi.gc.ca)

Key Small Business Financing Statistics (KSBFS) (www.sme-fdi.gc.ca/sbfstatistics)

The KSBFS provides key statistics on the state of SME financing in Canada. The information provided responds to some of the most commonly asked questions. This publication is available in printed and electronic versions. The most recent KSBFS was published in December 2009.

Venture Capital (VC) Monitor (www.sme-fdi.gc.ca/vcmonitor)

This is a quarterly publication on the venture capital (VC) industry in Canada. The goal of this series is to provide current information about this key enabling industry. To this end, the series will track trends in investment activity, report on topical VC-related research and look at key technology clusters where VC investment is taking place. This publication is only available in an electronic version.

Small Business Financing Profiles (www.sme-fdi.gc.ca/sbfprofiles)

Small Business Financing Profiles are short reference documents on a specific segment of the small business marketplace. These papers provide a detailed profile of the financial/ownership structure and types of financing used by the segment targeted. They identify access to financing issues and pose future research questions that need to be addressed. As most of the printed copies of these publications are out of stock, they are mainly available electronically.



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