



**Study**

# Exporting: A Key Driver of SME Growth and Profits

April 2017



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## Author

Tom Corner, Economist  
514 283-1435

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This research was prepared by the Economic Analysis team from Marketing and Public Affairs at the Business Development Bank of Canada (BDC). It is based on public and proprietary data and special compilations by Statistics Canada that were analyzed and interpreted by BDC. Any error or omission is BDC's sole responsibility. Reliance on and use of the information herein is the reader's responsibility.

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# Highlights

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This report outlines the findings of a recent BDC survey on the export strategies of more than 700 small and mid-sized Canadian businesses

- Our survey reveals that the most successful exporters share three key attributes:
  - **They see exporting as critical to overall success.** Gaining a toehold in foreign countries is never easy. The firms that are most likely—by far—to overcome the challenges and reap the rewards give high priority to their international success.
  - **They do their homework before taking on the foreign competition.** Businesses that take the time and effort to evaluate their competitors in international markets before plunging in report significantly higher export sales growth than those that do not.
  - **They put resources behind their export strategy.** Hiring at least one person focused on exports is associated with high foreign sales growth, regardless of the size of the business, the industry in which it operates or the export strategy it pursues.
- The statistical findings differ from many exporters' views of the key ingredients of success. In particular, according to exporters, developing business contacts is the top strategy for entering new markets. Statistical analysis reveals that, while having foreign business contacts is relevant, it is not the top predictor of strong export growth.
- In total, 42% of respondents that have adopted all three of the above "export essentials" have enjoyed annual international sales growth of 20% or more over the past three years, compared with just 18% of respondents that put no more than one or two into practice. Only 7% of companies that tick none of the three boxes report annual export growth of 20% or more over the past three years.
- Firms that apply the three "export essentials" have tended to record higher profit growth than those that do not. They also have a more optimistic outlook for the year ahead.

## BDC Advisory Services has the following tips for competitively assessing international markets

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- **Make use of your strengths as a Canadian company.** Canada has an excellent reputation for quality. Our businesses and people are considered direct and trustworthy.

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  - **Look for all openings.** However, it is wise to compete on quality wherever possible.

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  - **Bear in mind that exporting is like starting a business from scratch, in each and every foreign market.** Each market has its own regulatory challenges, consumer tastes and competitive landscape.
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## BDC Advisory Services has the following tips for putting together an export team

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- Consider bringing in at least one person with in-depth knowledge of the target country. Understanding the local environment is critical.

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  - Leave no stone unturned in exploiting existing business networks. Canadian government resources can also be invaluable.

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  - Recognize the value of a proven track record. Someone with business development experience abroad can make a big contribution to a firm's export drive.
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This report also includes findings from research conducted in partnership with Statistics Canada which, for the very first time, closely examines the performance of tens of thousands of small and mid-sized goods exporters between 2010 and 2014. Analysis of this newly-available data produces three surprising results:

- ① Small and mid-sized exporters are likely to witness impressive financial performance; however, they are less likely to exhibit rapid growth in employee headcount than domestically-focused firms.
- ② First-time exporters are more likely to secure repeat sales in the U.S. than in other markets. China is the number-two market for Canadian firms based on this measure.
- ③ Businesses which had international sales in each of the five years examined tended to see exceptional growth. Seven in ten notched at least a 20% average annual increase in exports over three years.

# Breaking new ground

**3/4**  
**of Canada's  
70,000-plus  
current exporters  
of goods and  
services employ  
fewer than  
20 people**

Much has been written about the export activities of small and mid-sized Canadian businesses.<sup>1</sup> Firms that venture beyond their home territory tend to be more productive,<sup>2</sup> allowing them to pay higher wages<sup>3</sup> and earn bigger profits than companies focused entirely on the domestic market.<sup>4</sup>

Less is known, however, about the export strategies of micro and early-stage enterprises.<sup>5</sup> In one sense, that is hardly surprising, given that bigger firms have a disproportionate impact on the economy. Of the more than 38,000 small and mid-sized Canadian companies that sold goods outside the country in 2011, fewer than 550 accounted for more than 70% of total export value.<sup>6</sup>

Nonetheless, almost all exporters start out small, including those that eventually grow into large, globally-active firms. As many as three quarters of Canada's 70,000-plus current exporters of goods and services employ fewer than 20 people.<sup>7</sup> The sheer number of these companies suggests that their successes and failures deserve closer study.

This report covers a broader, more representative sample than previous research. Roughly 80% of the more than 700 companies we surveyed have fewer than 50 employees and less than \$10 million in annual revenue. Participants were asked about the strategies they use to break into new markets; whether these strategies are essential to export success; and the extent to which growth, risk-taking and other factors are top of mind for senior management. A copy of the questionnaire can be found on page 25.

Three broad questions drive our research:

- ① What strategies do experienced small and mid-sized exporters consider essential for success in the international marketplace?
- ② Are the most highly regarded strategies used more often by the most successful firms, or are there better predictors of export performance?
- ③ Is there a combination of strategies and business attributes that overwhelmingly points to success in foreign markets?

This study examines each of these questions in turn. First, we identify the most common export success strategies based on over a dozen in-depth interviews and a survey of more than 700 exporters. Second, we attempt to determine to what extent these strategies are associated with high growth in international sales. Last, we identify three factors—related to management's mindset, export strategy and allocation of resources—that are overwhelmingly related to a firm's export performance and overall financial results.

# How are Canada's small and mid-sized exporters performing overall?

In addition to the survey, BDC partnered with Statistics Canada to look at the overall performance of Canada's tens of thousands of small and mid-sized (0-499 employees) goods exporters between 2010 and 2014.<sup>8</sup>

This initiative helped to fill a gap in Canadian business research. Due to a change in statistical methodology, detailed data on exporters had, until recently, been available only up to 2010. Thus, after 2010, it had not been known whether Canada's goods exporters typically were seeing rampant growth in their international sales or—conversely—were becoming less successful over time as globalization, coupled with an often lofty currency, caused them to lose market share.

What does this newly-available data tell us about the competitive position of Canadian goods exporters between 2010 and 2014? While the overall picture is positive, three key things stand out.

- ① **Exporting firms outshine their domestically-focused counterparts in terms of revenue and profit growth, but not in terms of hiring.**<sup>9</sup> Small and mid-sized firms which sell into international markets are disproportionately likely to post strong financial results; however, according to the data, higher sales and profit progression are not matched with correspondingly high advances in employee headcount. In other words, many exporting firms appear to be obtaining their superior financial performance not from hiring more workers, but from enhancing labour productivity (Figure 1).

**Figure 1 – Exporters' superior financial performance appears to result from faster labour productivity growth\***

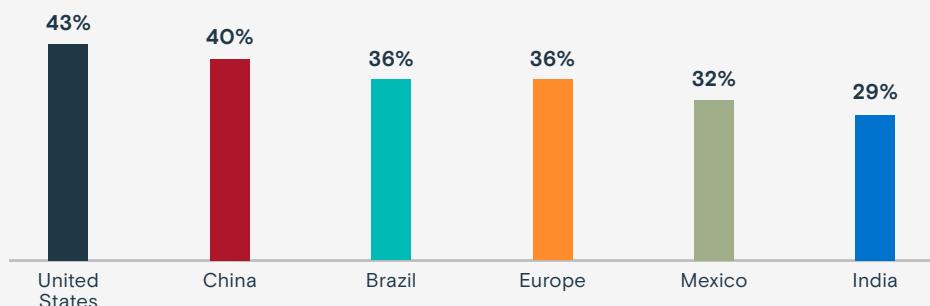


\*Figures based on 2014 data

- ② First-time exporters are more likely to see repeat sales in the U.S. than in other parts of the world. After the U.S., the second international market for repeat business is China.** It is not surprising that Canadian firms which sell to the U.S. do relatively well in terms of securing repeat customers, given the close ties between the two countries. More surprising, given the cultural and linguistic hurdles many Canadian firms face in other parts of the world, is the fact that first-time exporters to China are almost as likely to find recurring sales as those to the U.S. (Figure 2).

**Figure 2 – First-time exporters to the U.S. and China are more likely to see repeat sales than those in other markets**

Share of first-time exporters to the market in 2012 still exporting to that market in 2014



- ③ Among businesses that exported in every year between 2010 and 2014, seven in ten meet the definition of high growth used in this report.** Many of Canada's small and mid-sized goods exporters find international buyers only sporadically. As a result, foreign sales can vary dramatically or even disappear entirely from one year to the next. However, an overwhelming majority of those which exported in all five of the years examined witnessed remarkable growth: 71% of them recorded greater than 20% average annual export growth over at least a three-year period (Figure 3).

**Figure 3 – The vast majority of exporters that managed to sell abroad consistently recorded impressive growth**



# 2

## Identifying paths to success

### **Successful exporters who were interviewed mentioned six especially effective strategies**

How can small and mid-sized businesses best prepare for their export journey? Before conducting the survey, we interviewed more than a dozen successful small and mid-sized exporters on the ways they have approached foreign markets. They repeatedly mentioned six especially effective strategies:

- **Conduct market research.** Several companies reported that time spent up front learning about a particular market significantly simplified later business development.
- **Travel to target markets.** Virtually all respondents interviewed felt it was impossible to export successfully without visiting a target country at least once, and usually multiple times, to size up everything from language limitations to local consumer behaviour.
- **Attend trade shows.** Some firms noted that an exhibitor may devote substantial resources to a show, only to walk away with few business contacts and no sales. However, others have managed to parlay their attendance at trade shows into a successful foreign partnership or their first international contract.
- **Develop business contacts in target markets.** People with first-hand experience can provide valuable insights into a foreign business culture. However, finding the “right” people can be challenging, and often demands considerable time and effort.
- **Observe the foreign competition.** Companies can do this by asking questions such as the following: Are other foreign firms approaching the market in ways that differ from the ways business is done in Canada? Are there any areas where a Canadian company has a clear competitive edge?
- **Assess the foreign competition.** This is a far more intensive process than merely observing the competition. Such detailed knowledge can be gained only by critically assessing all aspects of the competition’s operations—everything from pricing to marketing and product characteristics.

After identifying these six success strategies through in-depth interviews, we tested the validity of each strategy by surveying more than 700 small and mid-sized Canadian exporters in five of Canada’s most export-intensive industries: manufacturing; information and communications technology; wholesale trade; professional, scientific and technical services; and transportation and warehousing.<sup>10</sup>

The next section highlights the importance of each strategy, according to participants in the survey.

# 3

## Survey results Respondents' export strategies

**Developing business contacts in target markets is believed to be essential to success**

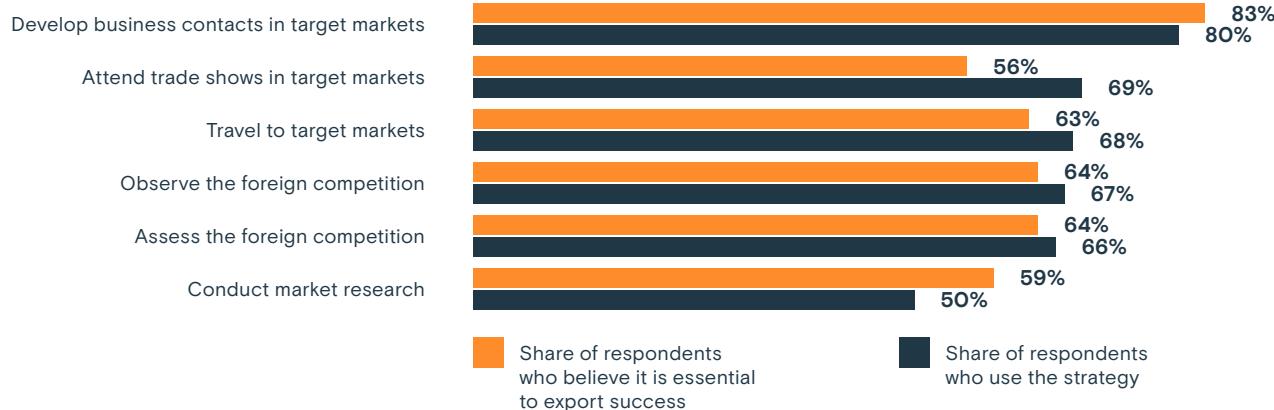
### Key points

- The vast majority of entrepreneurs who export (83%) say that developing business contacts in target markets is essential to success.
- Less than two-thirds of those surveyed report that any of the other five strategies is critical for export success.
- More entrepreneurs feel business contacts and market research are critical to success than the number who actually put those two strategies into practice. In other words, a significant number of exporters who hadn't used these two strategies appear to think they would have been more successful if they had implemented them.

Asked about the relative importance of each of the six paths to success mentioned on page 6, 83% of respondents said that developing business contacts in foreign countries is critical. By contrast, less than two-thirds of those surveyed felt that strongly about the effectiveness of the other five strategies.

In the case of two strategies—developing business contacts and conducting market research—more respondents said the strategy is critical to success than the number that actually put it into practice (Figure 4). In other words, some exporters believe their export drive would be more successful if they had cultivated contacts and conducted market research before taking the plunge into foreign markets.

**Figure 4 – Some exporters do not practise what they preach**



# 4

## Putting the survey results to the test

### Assessing the competition is the most important predictor of strong export growth

#### Key points

- Many small and mid-sized exporters see business contacts as the key determinant of success, but BDC's analysis suggests that other factors are better predictors of robust export growth.
- Based on our results, the strategy most associated with robust foreign sales growth is a thorough assessment of the foreign competition in the target market before exporting.
- Firms' international performance is also related to two other factors: the allocation of sufficient resources and the priority given to the export thrust.

#### Top predictors of export success

Details of the model used to analyze the survey results appear in the final section of this report. The analysis shows that, whatever the size of the business, or the industry or region it operates in, one of the six strategies listed on page 6—namely, assessing the foreign competition—consistently outshines the others.

For instance, according to the model, firms that evaluate their competitors before entering a foreign market have 171% higher odds of enjoying high sales growth than those that do not.

While assessing the competition is the most important predictor of strong export growth, all six strategies are associated with above-average performance, taking into account business size and industry. So while market research or trade shows may not always be the best ways of achieving robust export sales, firms that devote time and effort to these endeavours tend to be better off than those that do not.

# How to competitively assess foreign markets

## David Staniforth

Vice President, International Expansion,  
BDC Advisory Services

"There are excellent rational as well as subjective reasons to export," says David Staniforth, Vice President of International Expansion at BDC Advisory Services, the Bank's consulting arm. "The rational reasons are the obvious ones: I want to grow my company, I want to diversify and so on. But the subjective ones are just as important: I want to be the best, and I want to have the best products and services. Exporting tells you that."

To be the best, a company needs to have a solid understanding of the markets where it operates. It can achieve that most effectively by carefully evaluating the strengths and weaknesses of foreign competitors, with the goal of identifying its own competitive edge.

BDC Advisory Services offers these tips:

- ① Consider your strengths as a Canadian company.** "A supplier's home country is not usually a deciding factor when someone is buying a product or service, but it can be used to position that product or service effectively," Staniforth says. Just as Italy has cachet in fashion and luxury goods, and Germany and Japan are renowned for their mechanical products, Canada has an excellent reputation for quality. Our businesses and people are considered direct and trustworthy. "We're welcome anywhere in the world when it comes to initiating a business discussion," says Staniforth.
- ② Look for all openings, but compete on quality wherever possible.** It is usually possible to compete on price or quality, including the uniqueness of the product or service offered. Niche products and those with high value-added often have a fairly straightforward appeal: There are simply few, if any, alternatives. For firms in the enviable position of being able to introduce a new product or service to a foreign market, the biggest challenge may simply be internal capacity, such as the ability to work in other languages. "Fortunately," says Staniforth, "Canada is incredibly multicultural. As an entrepreneur, you're likely to be able to connect with people who have a wide span of cultural and linguistic knowledge, at least in big Canadian cities."
- ③ Bear in mind that exporting is like starting a business from scratch, in each and every foreign market.** It is tempting to assume that a business that already exports to several countries—say, the U.S., U.K. and Mexico—will have a smooth ride when it tackles its next market, such as China or Brazil. In fact, there may be little overlap. "Each market has its own regulatory challenges, consumer tastes and competitive landscape," says Staniforth. "While a firm that already exports may have a better idea of what to expect, going into new markets can still feel like starting the business from scratch all over again. Fresh eyes are needed for each new market."

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## Hiring at least one person to develop international sales and viewing exporting as vital to the business are highly predictive of international success

## Other keys to export growth

Besides export strategies, the survey included questions about management's priorities and mindset, and about the overall business. (All the survey questions can be found at the end of this report on page 25.) Two characteristics, in particular, are highly predictive of international success: hiring at least one person to work exclusively on developing the export side of the business; and management that views exporting as vital to the overall success of the business.<sup>11</sup>

- **Hiring at least one person to work exclusively on developing the export side of the business.** The interview phase of our research included questions on whether the firm brought staff on board to work exclusively on international sales. Some business owners said they had tried, with difficulty, to give domestically focused executives responsibility for the export business. Inevitably, one of two things happened. Either the domestic business suffered, as core operations were suddenly neglected, or the effort to expand into export markets was only modestly successful at best.

The results of the statistical analysis show that hiring at least one person to develop international sales is a significant predictor of export success. Whatever the business size or industry, and whichever of the six export strategies are put in place, firms that allocated the necessary staff to their export strategy had 81% higher odds of strong export growth over the past three years than those that did not.

- **Management that views exporting as vital to the overall success of the business.** We asked survey participants, “To what extent, on a scale of 0 to 10, does your business need to sell outside Canada to be successful?” Those who replied with a 9 or 10 are overwhelmingly more likely to be high-growth exporters, no matter what strategies they follow, the size of their business, their industry, or even whether they have hired someone to look after international sales.

(See page 22 for details of the statistical methods used to arrive at these conclusions.)



**Moodie Cheikh**  
CEO and co-founder  
Searidge Technologies Inc.



## Case study: Searidge Technologies

A leader in airport technology, Ottawa-based Searidge Technologies has a global footprint that already spans 16 countries on three continents. The company has ambitions to grow still further, with several untapped markets on its radar.

Searidge's success underlines the importance of critically assessing foreign markets, says Moodie Cheikh, CEO and co-founder. "We need to see a clear path," he says. "We generally get this by visiting the country and talking to potential customers directly. They are able to give us guidance on things like contracting and administrative processes, and insights into the types of companies that are already active in the marketplace."

These considerations are vital in determining Searidge's export strategy. "Sometimes you need a local presence," says Cheikh, "or there might be preferred suppliers that you can subcontract to. Talking to as many people as you can and carefully evaluating the business landscape up front can make your life a lot easier."

When asked for his advice to aspiring exporters, Cheikh notes that companies should be careful not to sign away exclusivity rights to foreign agents. "Customers often decide they want to work with you directly. Signing away exclusivity rights can make this difficult and even jeopardize your company's long-term prospects in a country."

*For more information about Searidge Technologies, visit <https://searidgetech.com>.*

## The top three factors, taken together, are reliable predictors of success

Conversely, the following five factors appear to bear little or no relationship to strong export performance:

- **A willingness to take risks.** Several business owners we interviewed mentioned that successful exporting requires a certain level of comfort with risk. Our sample looked only at relative performance among exporters, and not at differences between exporters and non-exporters. Even so, responses indicate that a willingness to take risks does not have a high correlation to export performance. In other words, an exporter comfortable with a high level of risk has about as much chance of success in foreign markets as one that is more cautious.
- **Adaptation or customization of products and services to local markets.** Given the significant cultural differences among countries and regions, it is often assumed that exporters offering customized (or at least adapted) products and services do better than those with a standardized approach. This appears not to be the case.
- **Growth ambition.** High-growth exporters are not significantly more likely than less successful ones to set aggressive business targets. This may be due to the fact that almost all firms in the sample are highly motivated, as evidenced by the decision to take the plunge into foreign markets in the first place.
- **Legal and regulatory obstacles in foreign markets.** It is often assumed that businesses encountering the highest barriers to market entry are the least likely to see strong growth in exports. The survey results show little evidence to back up this assumption.
- **The business owner's age and level of education.** Entrepreneurs who go into the export business appear generally to be older and more highly qualified than their domestically focused counterparts. Nonetheless, the survey suggests that age and education are not significant predictors of success among established exporters.

## The three export essentials

Our statistical analysis shows that three factors, more than any others, are linked to strong export performance:

- viewing exports as vital to the business's overall success
- assessing foreign competition
- hiring at least one employee to work exclusively in international sales

Correlations do not necessarily identify causes of success (in other words, it is possible that the most successful exporters just happen to be doing the same things, without the relationship being causal). Nonetheless, they provide some useful pointers for businesses looking to gain exposure to foreign markets, as well as for those in the early stages of their export journey.

Whatever the statistical limitations regarding causality, there is little doubt that the top three factors, taken together, are reliable predictors of both export and financial performance. In other words, **firms that tick all three boxes tend to see remarkably better results, whether measured by export growth or profit growth.**

## A key job: Head of international sales

### Carl Gravel

Director, International Expansion,  
BDC Advisory Services

"Without wanting to sound discouraging, exporting can be extremely demanding," says Carl Gravel, BDC Advisory Services' Director of International Expansion. "Doing it successfully without having sufficient resources in place makes it even more of a challenge."

According to Gravel, the ideal head of international sales should meet two criteria: international experience and significant influence with upper management. That way, he notes, "when the person suggests hiring someone abroad, or a strategy for positioning the firm in a foreign market, they'll be taken seriously."

BDC Advisory Services offers these tips for putting together an export team:

- ① Consider bringing in at least one person with in-depth knowledge of the target country.** "Understanding the local environment is critical in markets like Brazil and China," says Gravel. "Whether this person is located in Canada or abroad isn't necessarily important. Whether they know the local business culture well is."
- ② Use existing networks to connect with the best people outside Canada.** Finding reliable foreign partners can be a challenge, even for a business looking only to outsource certain tasks, such as sales and marketing. Gravel's advice is to leave no stone unturned in exploiting existing business networks and Canadian government resources. "In addition to organizations like Export Development Canada and the Trade Commissioner Service, business contacts in Canada—and even in unrelated countries—can often put you in touch with the right people," Gravel notes. "Industry associations and chambers of commerce are also worth talking to."
- ③ Recognize the importance of a proven track record.** International experience should play a crucial role in hiring decisions, Gravel says. "Someone who understands what it takes—who has business development experience in other countries—adds a lot to a firm." He adds, "Delivering on an international business development plan can be arduous, and it often takes longer than expected. But the benefits of tapping into foreign markets are significant."

In terms of export performance, fully 42% of firms that meet these three criteria have enjoyed average annual growth of 20% or higher over the past three years. Among all other firms, just 18% have witnessed this level of growth, and the figure drops to 7% for firms that have not implemented any of the three approaches. Moreover, firms that meet these three criteria have generally achieved above-average profit growth over the past three years and, to a lesser extent, express a brighter outlook for profits in the year ahead (Figure 5).

**Figure 5 – Ticking three boxes boosts the following results:**





Geoff Atkins  
Silfab Solar Inc.



## Case study: **Silfab Solar**

Mississauga-based Silfab Solar makes solar modules for commercial use. Its foreign sales have taken off in the past two years. “As recently as 2014, 100% of our company’s revenue came from Canada,” says Geoff Atkins, head of business development, sales and marketing. “In 2016, exports make up almost 90% of our revenue.”

How did Silfab transform itself at such lightning speed? Atkins, who also had a hand in the global expansion of IMAX’s large-form movie format, attributes much of Silfab’s success to the calibre of its workforce. “Having the right people in place is crucial,” he says. “Exporters need to dedicate someone to a particular market, and that person needs to spend a significant amount of time there. It shows commitment to the country and to its customers, who benefit from local support.”

Thus, Silfab’s head of sales for Mexico grew up there. Atkins notes, “While he spends roughly half of his time in Canada, the rest is spent serving the local market. Similarly, our U.S. person is based out of Los Angeles, and we have a project engineer in Italy serving European clients. Local knowledge gives us the competitive edge we need to be successful.”

Asked for his advice to other Canadian businesses looking to develop an international workforce, Atkins says they must be careful not to compromise on quality. “The person you hire in a foreign market should always be someone you would want to hire regardless of where they were located. If all goes well, you will ultimately build an export business that’s even bigger than the domestic one, and you’ll need that person to become a key part of your management team.”

*For more information about Silfab Solar, visit [www.silfab.ca](http://www.silfab.ca).*

# 5

## To sum up: Three essential lessons

**Businesses that use all three approaches are more likely to achieve high international sales growth and tend to post better financial results**

This report is based on interviews with more than a dozen small and mid-sized exporters, a survey covering more than 700 firms, and BDC's own statistical analysis.

Our conclusion is that the most successful small and mid-sized exporters share three key attributes:

- 1 They see exporting as critical to overall success.** Gaining a firm foothold in foreign markets is never easy. The companies most likely to reap the rewards are those that give high priority to their international operations.
- 2 They do their homework in advance.** Businesses that evaluate the competition in international markets before taking the export plunge have consistently seen significantly higher foreign sales growth over the past three years.
- 3 They put staff, time and money behind their export drive.** Hiring at least one person to handle international sales on a full-time basis correlates closely to high growth in exports, regardless of the size of the business, the industry it operates in or the export strategies it adopts.

While each of these attributes can make the difference between success and failure, the outcome is especially compelling when a firm implements all three together. Businesses that tick all three of the boxes are more than twice as likely to achieve high international sales growth as firms that tick two boxes at most (42% vs. 18%), and *six times* as likely as those that put none of them into practice (42% vs. 7%). Firms that follow all three approaches also tend to post better financial results and are generally more bullish about their prospects for the year ahead than other businesses.

The findings of this report differ from many exporters' views on the key ingredients of success. In particular, according to our survey, developing business contacts is widely considered to be an essential strategy for entering new export markets. Statistical analysis suggests that contacts in target markets are related to international sales growth but are not the top predictor.

Tapping into foreign markets may be daunting, and it often takes longer than expected. Even so, our research suggests that many of Canada's most successful exporters have learned some valuable lessons and have used them to great advantage.

# 6

## Profile of survey respondents

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**The majority of survey respondents typically own relatively small businesses, export goods or a mixture of goods and services, are older than 55 and highly educated**

### Key points

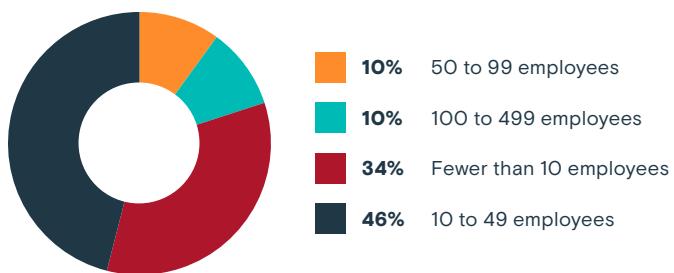
- As in the overall Canadian economy, most entrepreneurs who took part in the survey own relatively small businesses. Four in five of these firms have annual revenues of less than \$10 million and fewer than 50 employees.
- Two-thirds of respondents export either goods or a mixture of goods and services. The remaining third of respondents export only services.
- The owners of participating firms are typically older than 55. Most are highly educated, with over three-quarters having at least a college diploma or university degree. One in four has pursued some form of postgraduate study.

A total of 984 businesses completed the survey. Of those, 735 provided complete answers to questions about their financial performance over the past three years, as well as their profit outlook for the year ahead. To consider all factors that may be associated with export success, this report is based on the sub-sample of 735 firms.

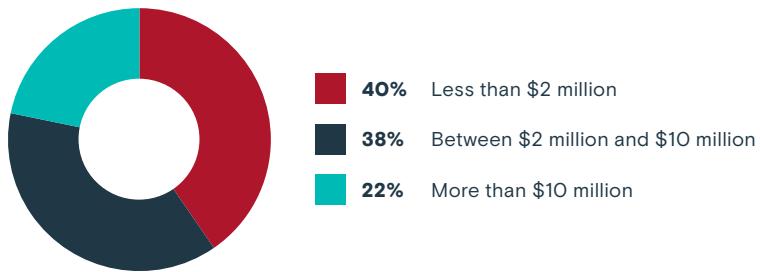
## Business size, sector and export type

The vast majority of survey respondents are relatively small businesses, as is the case for the overall export community in Canada. One in three has fewer than 10 employees, while 80% have fewer than 50. Just one in 10 is mid-sized (i.e., 100 to 499 employees) (Figure 6). Two in five have revenues of less than \$2 million a year, while just one in five tops \$10 million (Figure 7).

**Figure 6 — 80% of respondents have fewer than 50 employees**



**Figure 7 — Almost 80% of respondents have annual revenues below \$10 million**

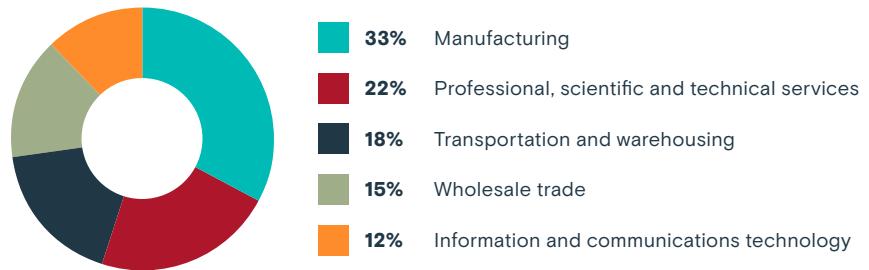


The survey focuses on five export-intensive sectors: manufacturing; information and communications technology; wholesale trade; professional, scientific and technical services; and transportation and warehousing. Roughly half of respondents operate primarily in either manufacturing or professional services (Figure 8). About a third of firms export only services, while two-thirds export goods alone or a combination of goods and services (Figure 9).

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**Figure 8 — One-third of respondents are manufacturers**

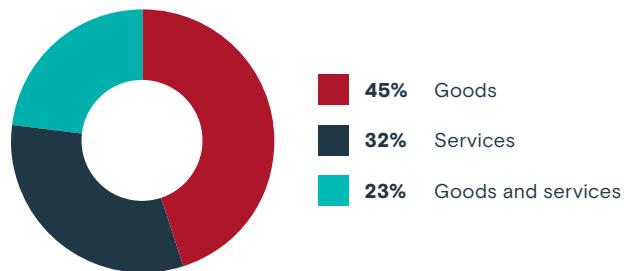
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**Figure 9 — Far more respondents export goods than services**

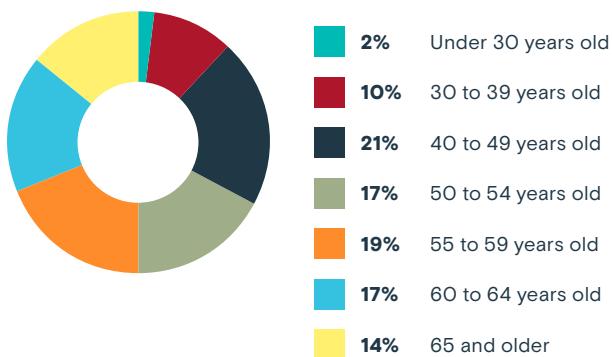
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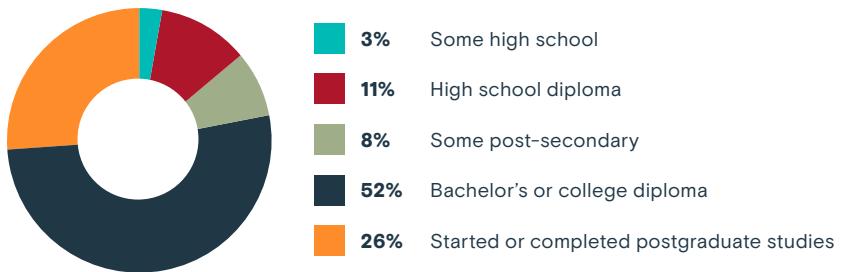
## Entrepreneur profile

The business owners who took part in our survey tend to be both experienced and highly educated. Their median age is between 55 and 60, and fully one in seven—a surprisingly high number—is over 65 (Figure 10). While just over half of all working-age Canadians have obtained a college diploma or university degree, close to 80% of our sample of exporters are university or college graduates. More than one in four have begun, but not necessarily completed, postgraduate studies (Figure 11).

**Figure 10 — Half of respondents are 55 or older**



**Figure 11 — Most respondents are highly educated**



## Recent export performance

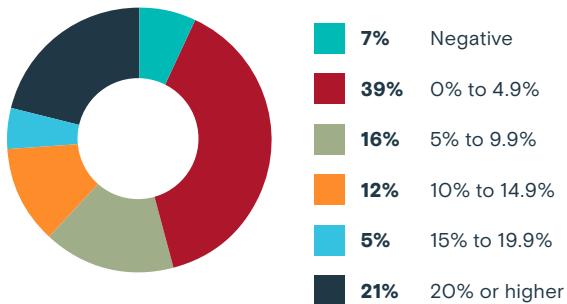
About half of respondents report that their exports grew only modestly over the previous three years. However, one in five has seen a surge of at least 20% a year (Figure 12). This compares with a relatively small group—between 3% and 6% of firms with at least 10 employees in most countries, according to the Organisation for Economic Co-operation and Development—that see this same level of growth in overall sales.<sup>12</sup>

Responses to the survey suggest that the “typical” (i.e., median) small or mid-sized exporter is likely to see healthy, but not exceptional, growth in international revenues. However, the odds of achieving strong sales growth are significantly higher than those for a company that sticks to the domestic market.

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**Figure 12 — One-fifth of respondents boosted export sales by at least 20% a year over the past three years**

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# Statistical methodology

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To facilitate data collection, the survey targeted firms from five of Canada's most export-intensive small and mid-sized business sectors: manufacturing; information and communications technology; wholesale trade; professional, scientific and technical services; and transportation and warehousing.<sup>13</sup>

## The model

We used logistic regression analysis to examine whether strategies that exporters believe are critical to success—especially business contacts and market research—are those most closely related to strong international sales performance.

Logistic regression is designed to answer the following question, where the variable of interest—in this case, seeing growth in international sales of 20% or higher per year (or not)—is binary: “By what amount, if any, do the odds of a given outcome change when one or more other variables change?” Of course, the odds of seeing high export growth may vary not only as a result of strategies used, but also because of other variables, such as industry, business size or the regions to which exports are sold. Multivariate logistic regression allows statistical correlations relating to export strategy to be measured while controlling for these other effects.

Specification testing for heteroskedasticity, as well as model suitability, were performed using Lagrange multiplier tests.<sup>14</sup> The results were looked at by sector, as well as for the overall sample. Looking at each industry in isolation, only transportation and warehousing, for which the share and absolute number of high-growth exporters in our sample is small (14.6% and 19, respectively) did not produce coefficients with a p-value of 0.10 or less for all three key factors presented in this report. All other industries produced p-values of 0.07, while the p-values for the overall sample, controlling for business size and industry effects, were well below 0.01.

The finding that all three factors are jointly highly significant predictors of export success arose as a result of the logistic analysis, including regressions in which the vast majority of possible independent variables were included.

Sample results of the logistic regression, using the overall sample of 735 firms, for each of the three factors are shown below.

**Table 1— Results of logistic regression**

Activity	Marginal impact on odds of seeing high (over 20%) annual export growth in sample, controlling for business size and industry	p-value
Assess the foreign competition	+171%	0.0000
Observe the foreign competition	+148%	0.0001
Develop business contacts in target markets	+126%	0.0025
Travel to target markets	+89%	0.0033
Attend trade shows	+67%	0.0174
Conduct market research	+57%	0.0158

Activity	Marginal impact on odds of seeing high (over 20%) annual export growth in sample, controlling for business size, industry and all six export strategies	p-value
Hire personnel to work exclusively on international sales	+81%	0.0048

Activity	Marginal impact on odds of seeing high (over 20%) annual export growth in sample, controlling for business size, industry, all six export strategies and the presence of devoted export personnel	p-value
View exporting as necessary for business success (9 or 10 out of 10)	+278%	0.0000

# Endnotes

# References

<sup>1</sup> See Sousa et al (2008) for a comprehensive review of the export performance literature.

<sup>2</sup> U.K. Trade and Investment (2013).

<sup>3</sup> Bernard and Jensen (2004).

<sup>4</sup> Seens (2015).

<sup>5</sup> Audet (2015) examines a sample of 20 globally successful Canadian small and mid-sized businesses and finds that they share four characteristics that allow them to flourish (i.e., skilled executives, foreign market knowledge, innovation capabilities and international networks). However, most of the small and mid-sized firms studied had already achieved a considerable degree of size and sophistication (e.g., all had over \$10 million in revenue, while half had more than 100 employees).

<sup>6</sup> Sydor (2013).

<sup>7</sup> Sui and Goldfarb (2014).

<sup>8</sup> As this analysis is based on customs data, services exports are not covered in this section.

<sup>9</sup> This finding results from a comparison of firms which exported continuously ("exporters") with those that were active between 2010 and 2014, but did not export.

<sup>10</sup> According to data from Statistics Canada's Survey on Financing and Growth of Small and Medium Enterprises, 2014.

<sup>11</sup> Unlike five of the six strategies, the two additional factors remain statistically significant even when all strategies and a range of business characteristics are controlled for.

<sup>12</sup> Audretsch (2012).

<sup>13</sup> According to data from Statistics Canada's Survey on Financing and Growth of Small and Medium Enterprises, 2014.

<sup>14</sup> Davidson and MacKinnon (1984).

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# Survey on Canadian exporters

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**Telephone  
survey among  
SME exporters—  
June 28 to  
August 12, 2016**

**Good morning/Good afternoon.**

**Q.A** This is \_\_\_\_\_ from Saine Marketing, an independent research company. The Business Development Bank of Canada, BDC, has commissioned our firm to conduct a survey on its behalf. The objective of the research is to better understand the experiences of Canadian exporters. To do this, we are contacting entrepreneurs like you. Depending on the length of your answers, this survey should take between 10 and 12 minutes. We will send a copy of the report to those who will participate.

- Person speaking is the one on the list
- Person speaking is not on the list
- Person on the list is not available
- Person on the list will not be available
- Refusal

**Q.B** Are you one of the owners or one of the people who authorize or directly influence the strategic decisions made by your business?

- Yes, owner
- Yes, one of the authorizers or influencers
- None
- Refusal

**Q.C** May we speak with someone who authorizes or directly influences the strategic decisions made by your business?

- Yes, transfer
- Yes, not available right now
- No

Thank you very much for taking the time to participate in this survey. Please note that all your responses will remain strictly confidential if you wish, and no sales or promotional solicitation will occur during the interview or afterward as a result of your participation.

**Q.D** Would you prefer to continue in English or French?

- English
- French

**Q.E** First of all, do you sell products or services, whatever they are, abroad, including the United States, even if those sales represent only a very small percentage of your total sales?

- Yes
- No
- Don't know/refusal

**Q.1** What is your company's **main sector of activity**?

- Manufacturing
- Wholesale trade
- Professional, scientific and technical services
- Transportation and warehousing
- Information and communications technologies (ICT) services
- Other
- Prefer not to answer

**Q.2** Does your company **export** goods and/or services?

- Yes, we export only goods
- Yes, we export only services
- Yes, we export both goods and services
- No exporting

**Q.3** On average, over the past three years, approximately what **percentage of your total revenues** came from **exporting**?

- Less than 5%
- Between 5% and 9.9%
- Between 10% and 14.9%
- Between 15% and 19.9%
- Between 20% and 29.9%
- Between 30% and 49.9%
- Between 50% and 74.9%
- Between 75% and 99.9%
- 100%
- Don't know

**Q.4** Apart from Canada, into **how many countries** does your company sell goods or services?

- Only one country
- Two countries
- Three countries or more
- Don't know

**Q.5** How many **people** does your company currently employ?

- None
- One employee
- 2 to 4 employees
- 5 to 9 employees
- 10 to 19 employees
- 20 to 49 employees
- 50 to 99 employees
- 100 to 249 employees
- 250 to 499 employees
- 500 employees or more
- Prefer not to answer

**Q.6** To which **countries** or **regions** has your company exported?

- United States
- Mexico
- Central America
- South America
- Caribbean
- Western Europe
- Eastern Europe
- Scandinavia
- North Africa
- Central Africa
- Southern Africa
- Middle East
- Asia
- Oceania
- Other, please specify:
- Don't know
- Prefer not to answer

**Q.7** Did you or do you face **specific challenges** with certain **geographical markets**? Please explain the type of challenge and where.

- Please be as specific as possible:
- No specific challenge
- I don't know
- I prefer not to answer

**Q.8** To what extent are you **willing to take risks** when it comes to pursuing a business venture or opportunity? Please use a scale of 0 to 10 where 0 means "not willing at all" and 10 means "extremely willing" to take risks.

	Not willing at all 00	01	02	03	04	05	06	07	08	09	Extremely willing 10	DNK 99
Willingness to take risks	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

**Q.9** How **important** is it for you to **grow your business**? Please use a scale of 0 to 10 where 0 means "not important at all" and 10 means "very important."

	Not important at all 00	01	02	03	04	05	06	07	08	09	Very important 10	DNK 99
Business growth	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

**Q.10** To what extent would you say it was **necessary for your business to sell outside of Canada** in order to be successful? Please use a scale of 0 to 10 where 0 means "it was not necessary at all" and 10 means "it was an absolute necessity."

	Not necessary at all 00	01	02	03	04	05	06	07	08	09	Absolute necessity 10	DNK 99
Necessity to export	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

**Q.11** Did your company go through a **strategic export planning process prior to exporting**? "Strategic planning" means that you evaluate, formally or informally, opportunities and trends in the market place.

- We went through a formal strategic export planning process
- We went through an informal strategic export planning process
- We didn't do any strategic planning
- Don't know
- Prefer not to answer

**Q.12** Did you hire personnel to **work exclusively** on your international sales?

- Yes
- No
- Don't know
- Prefer not to answer

**Q.13** I will read a list of **tasks** that companies often perform to **better prepare themselves** to export. I would like you to indicate which of these **you or someone else in the company did**, regardless of whether or not it was useful, and which you believe are **critical** to exporting successfully.

A) Did you...

AA) Do you believe it is critical to...

		A	AA
	Did it		Critical
1.	Conduct market research	<input type="checkbox"/>	<input type="checkbox"/>
2.	Travel to target markets	<input type="checkbox"/>	<input type="checkbox"/>
3.	Develop business contacts in target markets	<input type="checkbox"/>	<input type="checkbox"/>
4.	Attend trade shows	<input type="checkbox"/>	<input type="checkbox"/>
5.	Observe the foreign competition	<input type="checkbox"/>	<input type="checkbox"/>
6.	Assess the foreign competition	<input type="checkbox"/>	<input type="checkbox"/>
9.	None	<input type="checkbox"/>	<input type="checkbox"/>

**Q.14** To what extent does your company **adapt or customize** its products or services in order to be able to sell to foreign markets? Use a scale of 0 to 10 where 0 means that "no adaptation is needed" and 10 means that "extensive adaptation is needed."

	No adaptation needed										Extensive adaptation needed	
	00	01	02	03	04	05	06	07	08	09	10	DNK
Adaptation	<input type="checkbox"/>	<input type="checkbox"/>										

**Q.15** To what extent are there **legal and regulatory hurdles** associated with exporting for your business? Use a scale of 0 to 10 where 0 means "no hurdles at all" and 10 means that there is "a lot of legal and regulatory hurdles."

	No hurdles at all										A lot of hurdles	
	00	01	02	03	04	05	06	07	08	09	10	DNK
Legal and regulatory hurdles	<input type="checkbox"/>											

**Q.16** To what extent are **international shipping costs** an obstacle for you to export profitably? Use a scale of 0 to 10 where 0 means that it is “not at all an obstacle” and 10 means that it is a “huge obstacle.”

	Not at all an obstacle 00	01	02	03	04	05	06	07	08	09	Huge obstacle 10	DNK 99
International shipping costs	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

**Q.17** To what extent does **access to capital** limit your ability to grow your company’s international sales? Use a scale of 0 to 10 where 0 means that it is “not at all an obstacle” and 10 means that it is a “huge obstacle.”

	Not at all an obstacle 00	01	02	03	04	05	06	07	08	09	Huge obstacle 10	DNK 99
Access to capital	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

**Q.18** Apart from exporting, which **international activities** does your company currently undertake?

- Importing
- International alliances and partnerships
- Foreign direct investment
- Other, please specify:
- No other international activities

**Q.19** Could you **explain** your company’s decision to pursue foreign direct investment?

- Please be as specific as possible:
- Don’t know
- Prefer not to answer

**Q.20** In which **province or territory** is your company's main Canadian operation located?

- Alberta
- British Columbia
- Prince Edward Island
- Manitoba
- New Brunswick
- Nova Scotia
- Ontario
- Quebec
- Saskatchewan
- Newfoundland and Labrador
- Northwest Territories/Nunavut/Yukon
- Prefer not to answer

**Q.21** What was your company's **revenue for the last fiscal year?**

- Less than \$500,000
- Between \$500,000 and \$1 million
- Between \$1,000,001 and \$2 million
- Between \$2,000,001 and \$5 million
- Between \$5,000,001 and \$10 million
- Between \$10,000,001 and \$25 million
- Between \$25,000,001 and \$50 million
- Over \$50 million
- Don't know
- Prefer not to answer

**Q.22** In the past three years, approximately, what was the **percentage of the annual average growth** of your company's **revenues from exports?**

- Negative growth
- 0%
- Between 0.1% and 4.9%
- Between 5% and 9.9%
- Between 10% and 14.9%
- Between 15% and 19.9%
- 20% or more
- Don't know
- Prefer not to answer

**Q.23** In the past three years, approximately, what was the **percentage of the annual average growth** of your company's **profits**?

- Negative growth
- 0%
- Between 0.1% and 4.9%
- Between 5% and 9.9%
- Between 10% and 14.9%
- Between 15% and 19.9%
- 20% or more
- Don't know
- Prefer not to answer

**Q.24** What level of **profit growth** are you aiming for in the coming year?

- 0%
- Between 0.1% and 4.9%
- Between 5% and 9.9%
- Between 10% and 14.9%
- Between 15% and 19.9%
- 20% or more
- Don't know
- Prefer not to answer

**Q.25** Where do **your international sales** come from?

- Selling to consumers directly or B2C
- Selling to businesses or B2B
- Both
- Don't know
- Prefer not to answer

**Q.26** In which of the following **age groups** are you?

- Under 30 years old
- 30 to 34 years old
- 35 to 39 years old
- 40 to 44 years old
- 45 to 49 years old
- 50 to 54 years old
- 55 to 59 years old
- 60 to 64 years old
- 65 years old or more
- Prefer not to answer

**Q.27** What is the **highest level of education** you've completed?

- Grade school or some high school
- Completed high school
- Some college studies
- College degree obtained
- Some university, undergraduate studies
- University undergraduate degree obtained
- Some university post-graduate studies
- University post-graduate degree obtained
- Prefer not to answer

**Our survey is now finished.  
Thank you very much for participating!**

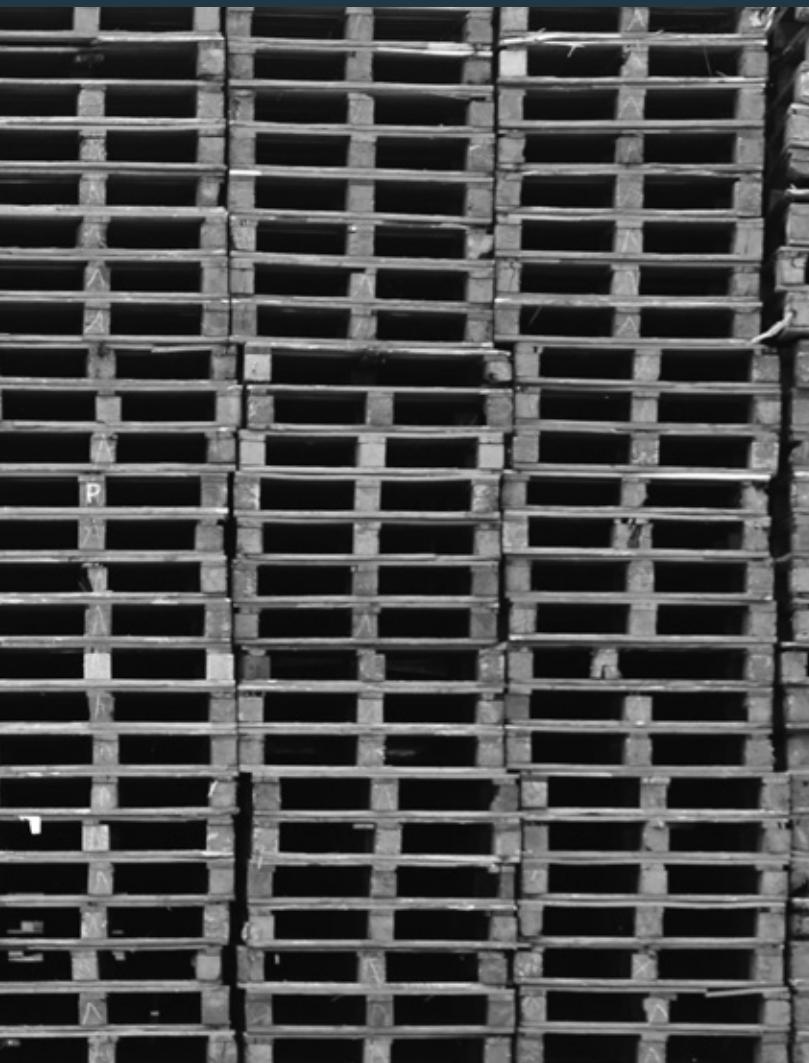
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