The Conference Board of Canada

MaRS

Risky Business

It's always been hard to scale a start-up in Canada. But for many tech entrepreneurs, the odds of success keep getting longer.

Spotlight | September 4, 2024

Canadian Centre for the Innovation Economy

Canada has an innovation problem. We have a highly educated workforce and strong research capability, but consistently lack commercial success and innovation-based economic growth. This problem is known as Canada's innovation paradox, and it's the problem the Canadian Centre for the Innovation Economy is here to address.

The Canadian Centre for the Innovation Economy (CCIE) will drive national innovation performance by using data-driven insights to unpack the significant pain points to improve innovation in Canada.

CCIE aims to be the destination of choice for trusted, timely insights and policy recommendations on the innovation economy.

Our research reveals the ways Canada can enhance its productivity and global competitiveness through innovation. We focus on how we can accelerate technology adoption and the scaling up of Canadian businesses. Additionally, we analyze the implications of technological advancements on the future of work.

Our Research Centre is funded by multiple members—united in their mission for progress—who help support and inform the Centre's research agenda. We appreciate the support from our Funding Members. Their passion and understanding of the urgent need for progress helps propel us forward and allows us to conduct research that matters.

We welcome you to join us.

Contents

For this report, the Conference Board of Canada worked closely with MaRS Discovery District, North America's largest urban innovation hub and registered charity. MaRS helps Canadian start-ups succeed so they can solve our toughest problems in such areas as climate, health, and the economy.

Why Canada needs stronger support systems for start-ups

Economic headwinds are making it even more challenging for entrepreneurs to grow their businesses. Founders and tech leaders offer insights into how Canada can lay a solid foundation for more innovation.

Starting a business requires a massive leap of faith. Is that spark of an idea strong enough to grow into a viable business? Will the gamble pay off, making those long years of sacrifice and hard work worth it? Even if a start-up survives the first gruelling five years (a benchmark not even one-third of goods-producing companies and close to half of service-producing companies achieve), the prospect of scaling operations becomes even more challenging. After 19 years, more than 70 per cent of businesses in the goods-producing sector and close to 80 per cent of companies in the service-producing sector have exited.[1]

Canada has no shortage of entrepreneurial ambition. In its latest Innovation Report Card, The Conference Board of Canada leveraged data from the Global Entrepreneurship Monitor's 2023/2024 report to grade the country on its performance compared to 19 peer nations on 21 different indicators. In total early-stage entrepreneurial activity, entrepreneurial capabilities, and entrepreneurial opportunities, Canada received A grades.[2,3]

There are troubling signs, however, that Canada is losing its competitive edge. The Innovation Report Card gave Canada Ds in productivity, patents, trademarks, and high-tech exports. Productivity is particularly troubling: Productivity rates in this country decreased over consecutive six quarters before rising slightly at the end of last year. In April 2024, Statistics Canada reported that economic output on a per capita basis slipped to 7 per cent below its long-term trend.[4] And there's no quick fix.

1 Innovation, Science and Economic Development Canada, "Key Small Business Statistics, 2023."

2 Conference Board of Canada, The, "Innovation Report Card 2024."

3 Entrepreneurial activity reflects the percentage of the 18–64 population who are either a new entrepreneur or owner-manager of a new business. Entrepreneurial capability measures people's belief that they have the required skills and knowledge to start a business. Entrepreneurial opportunity measures people's ambitions and perceptions of opportunities.

4 Statistics Canada, "Canada's gross domestic product per capita: Perspectives on the return to trend."

Ali Asaria, a serial entrepreneur who recently founded Transformer Lab, is concerned about the decreasing number of entrepreneurs in this country. We need to make it easier, he says, "for them to make that leap."

The Organisation for Economic Co-operation and Development (OECD) forecasts that Canada will rank last among advanced member countries in real GDP per capita growth until 2060.[5]

Innovation, a key factor in generating economic prosperity, can help reverse those trends. And yet, Canada is struggling to create a vibrant entrepreneurial technology ecosystem. While running a business has always been hard work, many in the innovation community are concerned it's become prohibitively difficult to successfully scale an enterprise. Fewer individuals are willing to take that chance, says serial entrepreneur Ali Asaria, who recently founded Transformer Lab, a platform that makes it easier to work with large language models. "I talk to a lot of people who want to start a company. They're saying 'I want to do this risky thing. I have this idea, but there are all these signals telling me that it's not a good time right now,'" he says. "We have to focus on how we make it easier for them to make that leap."

According to a recent survey of start-ups conducted by MaRS, Invest Ottawa, and Communitech, entrepreneurs' top challenges include access to capital and government procurement, housing affordability, and cost of living increases, as well as attracting—and retaining—skilled talent.[6] Respondents expressed concerns over the changes to the inclusion rate on capital gains in the latest federal budget. In fact, of the 151 founders who responded, only a fraction—3.3 per cent—felt that Canada is the best place to grow a business. Nearly 80 per cent of start-up leaders reported the budget announcement has left them with a "less favourable" or "much less favourable" view of Canada as a place to grow a tech company.

"We're all very worried about the future of Canada from both a productivity and prosperity perspective," says Alison Nankivell, CEO of MaRS Discovery District.

Small and medium-sized businesses are the bedrock of our economy, employing nearly two-thirds of Canada's labour force—some 10.7 million people—in 2022.[7] And emerging tech companies tend to punch above their weight when it comes to the creation of highly skilled and well-paid jobs.[8] Analysis of the Ontario Scaleup Program found that jobs created by tech start-ups supported by the program between 2019 and 2021 paid more than 1.7 times Canada's overall average income.[9] "These companies are the ones that can make an outsized impact to GDP, to employment, and to a better future for the next generation," says Nankivell.

So, what will it take to de-risk technology entrepreneurship and help Canadian companies scale in this country?

5 TD Economics, "Mind the Gap: Canada is Falling Behind the Standard-of-Living Curve."
6 Communitech, Invest Ottawa, and MaRS. "Canada's Budget 2024: The Founder/CEO Perspective."
7 Statistics Canada, "Analysis on small businesses in Canada, first quarter of 2023."
8 Government of Canada, "Economic Growth for Every Generation."
9 Communitech, Invest Ottawa, and MaRS. "Canada's Budget 2024: The Founder/CEO Perspective."

15.7%

Growth rate of Canada's tech talent workforce between 2020 and 2022.

1st

Canada's rank out of 20 peer nations in entrepreneurial ambition.

2nd

Canada's rank out of 20 peer nations in entrepreneurial capabilities.

19th

Canada's rank out of 20 peer nations in fear of failure – people are increasingly hesitant to act on good opportunities to start businesses.

3.3%

Proportion of start-up founders out of those surveyed who believe that Canada is the best country to build a technology business.

Sources: CBRE; CBoC's 2024 Innovation Report Card; Survey by MaRS, Communitech and Invest Ottawa.

Definition

Anchor firm: A significant local employer, buyer, and hub of social and cultural life. These companies are committed to having a positive, transformative impact on their immediate surroundings and the community at large.

Amplifying economic development

Anchor firms can play an outsized role in building the economy

Canada's top ranking in entrepreneurialism points to a potential source of strength and dynamism within the economy. We could maximize the benefit of new innovations if entrepreneurs had the necessary resources to scale. A consistent stream of new start-ups provides major benefits that shouldn't be downplayed. After all, start-up firms are often where new or improved products, services, or processes are commercialized and sold. Compared to established companies, ventures are quicker to adopt emerging technologies and experiment with innovative business models, which generates competitive pressure in traditional markets. Plus, as promising start-ups turn into scale-ups and then into major enterprises, the ancillary businesses that spring up around these companies provide numerous spill-over effects for the economy: These anchor firms provide more jobs, create new supply chains, and help foster the growth of regional clusters.

Anchor firms can help improve the community and the innovation ecosystem in a range of areas, including:

- **Procurement and supply chain:** Anchor firms create targets and plans regarding whether they will spend locally or on specific types of organizations.
- **Local impact investing:** They often invest in local communities or social enterprises. This can range from awarding grants to lending to start-ups at low interest rates.
- **Workforce and skills development:** These companies may focus on hiring from the local talent pool. For example, an anchor firm might work with universities to develop a pipeline of talent.
- **Developing infrastructure and capital projects:** Anchor firms may invest in physical infrastructure or capital projects that regenerate the existing infrastructure.
- **Community engagement:** They may establish public-private partnerships to benefit the local community.
- **Promoting the local economy:** Anchor firms can provide incentives to support the local community.

The slow pace of investment in Canada is a concern for many tech founders. When Kris Bennatti, the CEO and co-founder of Hudson Labs, was raising seed funding, she targeted American firms.

Essentially, anchor firms act as magnets; other companies that are developing products in similar fields as well those along the supply chain are drawn to work close by, creating regional clusters. These economic hubs reduce transportation and communication costs, which makes it easier to share knowledge and engage in innovative partnerships. They play an integral role in encouraging net inflow of talent, IP, capital, and entrepreneurial activity. The trick, however, is to help start-ups mature into anchor firms in order to seed these regional hubs.

Laying the groundwork

Canada has long been a leader in R&D. The challenge is in converting those great ideas into commodities.

“Our tech ecosystem is at a critical juncture,” says Krista Jones, the former chief delivery officer at MaRS. “We don’t yet have a critical mass of anchor companies—we’re just on that cusp.” But there is no single stand-alone policy switch or new tax incentive that will neatly solve Canada’s commercialization problem. A multi-pronged concerted effort is required—particularly in the following three areas.

1. Finding capital

Securing a seamless flow of capital is elusive for many entrepreneurs. During a town hall held at the MaRS Centre in May 2024, several entrepreneurs commented on how they have found that Canadian investors are more risk-averse, that the due diligence process can take longer and that valuations are lower compared to American counterparts. As a result, many founders look to U.S. investors. When Kris Bennatti was raising seed funding for her AI start-up, Hudson Labs, she focused more on U.S. investors because of their relative speed. In fact, “none of the Canadian investors had finished their due diligence by the time we closed,” says Bennatti, noting that the company did add one Canadian investor into the round. (While they hadn’t yet completed the due diligence process, they had made multiple customer intros.)

When Canadian investment dollars flow, they tend to flow to a few select companies, says Danielle Graham, a co-founder of The Firehood, a tech community that supports and funds women entrepreneurs. “The majority of venture capital dollars go to very few companies,” she says. “The companies that raise hundreds of millions of VC dollars are high growth, high potential and high scale.”

2. Finding customers

When developing novel technologies, one of the biggest barriers entrepreneurs face is finding their first client. Not only does getting that early buy-in help entrepreneurs learn about the challenges associated with producing, distributing, and implementing their product or service, it also helps legitimize the business—thereby encouraging others to buy in as well.

The government can play a critical role in this realm—as the largest purchaser of goods and services in the country, the public sector can wield significant influence in creating market demand. The procurement of goods and services accounted for 28.7 per cent of federal government spending in 2021, representing 13.4 per cent of the GDP.[10] "If we're a country that wants to have a technology sector that competes globally, we have to back our companies and buy Canadian," says Jones, the former CDO at MaRS. "This is where the government can send a signal by using its purchasing power. Government bodies need to stand behind companies and say buying Canadian is not risky and bring in policies that encourage that."

Improving access to procurement opportunities and reducing the barriers and time to secure government contracts would go a long way, says Hudson Labs' Bennatti. "If I can sell our product to an asset manager or a hedge fund in a matter of weeks, I can get revenue. But when you're trying to interact with the government, it's often more like 18 months. Being able to have small contracts or a trial would completely change the situation."

3. Finding talent

Canada has long experienced brain drain to the U.S., and access to senior-level talent with scaling experience is an ongoing issue. Skilled tech workers are scarce and competition is high. And with comparable positions in the U.S. potentially offering salaries as much as 46 per cent higher, start-ups are faced with a costly decision if they want to secure American talent.[11] "It's hard to pay U.S. salaries," says founder Amanda Hall, who had to expand her talent search to build Summit Nanotech's C-suite. "But that's where you get the experience of growing a business—the talent just isn't in Canada."

10 Organisation for Economic Co-operation and Development, "Size of public procurement."

11 Li and others, "Mind the Gap: Compensation Disparity Between Canadian and American Technology Workers."

Canada is still rebuilding after the loss of Nortel and BlackBerry. As Morgan Solar CEO Mike Andrade says: "We've lost a generation of people who have experience actually scaling new innovations."

One challenge is that Canada is in the process of rebuilding a cohort of experienced tech leaders. The losses of Nortel and BlackBerry are still keenly felt, says Mike Andrade, CEO of Morgan Solar. A founding member of the management team at Celestica, Andrade is a tech industry veteran with more than 30 years of experience launching products. "We've lost a generation of people who have experience actually scaling new innovations. We have a kind of branch-plant mentality—anyone who has had some experience has usually done it as part of a subsidiary of a global company."

For that to change, Canada needs to move away from exporting our best resources for others to commercialize. Michael May, president and CEO of the Centre for Commercialization of Regenerative Medicine, says it's time we break from our resource-based roots. "In a knowledge-based economy, we need to add value to our own IP before selling it," May says. "Instead of chopping down a tree and sending it to the United States for them to build a chair and sell it back to us for 10 times the price, we need to make the chair ourselves."

But to build a viable ecosystem and reach a critical mass of talent that can fully leverage that IP, Canada must notch a few more scale-up successes. "We just need to support enough companies to cross the $100-million revenue threshold, and then a few more to get across the $1-billion threshold," says Mike Wessinger, Executive Chair and co-founder of health tech company PointClickCare. "Then that money, know-how and talent will cycle back through Canada." There are challenges inherent to this approach, he acknowledges. "We'll have to do a few unnatural things to get that network together and support each other to help us solve these uniquely Canadian problems."

CASE STUDY

Growing pains

Canadian smart-thermostat maker ecobee had a great product and solid brand. To scale the company, CEO **Stuart Lombard** faced countless challenges. While he found a way to win market share, his experience highlights how the inability to scale start-ups and diversify the market can stifle innovation due to lack of competition.

When Stuart Lombard started ecobee, he knew he wanted to stay independent. He had sold his first start-up "for what seemed like an outrageous amount of money," he says. "I was told by the investors and board that it took someone older and wiser to build a business." But the new owners quickly ran that venture into the ground. "Watching that happen was heartbreaking but an incredible learning experience. I learned that focus and urgency top experience and that building something successful and lasting beats money every time."

He subsequently founded Toronto-based ecobee, the first company to develop a smart thermostat, which now produces a range of connected home devices. Going up against two giants—Amazon and Google—was a challenge. Dependent on the export market, Lombard, like many entrepreneurs, needed to rely on the supply chains of multinationals and create items that are compatible with their products. It made a hard slog even harder.

Here, he shares how he led ecobee to become a market leader.

The breakthrough: In 2007, ecobee became the first smart thermostat on the market. "When I was trying to raise capital, people looked at me like I was crazy. Nobody cared about thermostats, certainly not one that cost $250."

Scaling up: "In the early stages, you're concerned with basic things like how to raise capital and get your first product out. As you grow, it becomes much harder, because the market consolidates, the market growth rate slows, and you're competing with very capable competitors. When you hit a workforce of around 150 people, the world changes again. Until then, you probably don't write a lot of things down because the dissemination of information is relatively easy—everyone knows everyone and if they have a question, they ask. Then, suddenly, that method of communication doesn't work anymore. You have to get a lot better at communication, organization, and creating effective business processes. You are doubling your staff every year and so preserving and disseminating institutional knowledge becomes critical."

The competition: The start-up enjoyed several years of growth in what was then a niche market. But when Google entered in 2014 with the acquisition of Nest, investors assumed ecobee would be crushed. "They looked at me like a dead man walking," says Lombard. "Google entering the market was actually good for us. It forced us to set our bar higher—we retooled and really made a world-class product. We always strived to make world-class products but wanting to be great and actually being great are two very different things."

The strategy: Unable to employ Google's playbook, ecobee opted to perform entrepreneurial judo. "We realized their greatest strengths were also their greatest weaknesses and we took advantage of those." Lombard says his company let the tech giant spend big to build customer awareness of smart thermostats, then leveraged the multinational's marketing heft for its own purposes. "We focused on winning in the last three feet," he says. "We believed we could capitalize on the awareness they were creating to follow in their slipstream. We thought that when customers were at the point of buying, they'd read reviews and if we had better ones, we would win. So we really improved the quality of the product, which drove those reviews."

The outcome: Lombard also focused on building relationships with partners that could help fuel growth. "We spent a lot of time on our relationships with Apple and Amazon, looking for powerful allies in our battle with Google. It became that if you carried an iPhone or used Amazon Alexa, you chose ecobee. That worked really well for us." Lombard retired in 2023, having sold ecobee to U.S. energy company Generac for US$770 million. "An important part of that decision was the confidence that our mission to help our customers live more simply and more sustainably was going to continue," he says.

The bigger picture: In Canada, merger and acquisition is often perceived as a failure or as selling out. But it is a part of a natural business cycle, and since 2000, it has become one of the most popular growth strategies for companies, not just in Canada, but around the world. The deals can be a method of flowing funds back into the ecosystem to fuel the next cohort of companies. In a sector dominated by multinationals, it can be very challenging for start-ups to prevail. While ecobee did not become an anchor firm, its growth yielded many positives for the country, including tax revenue, job creation, and key leadership experience for its C-suite executives. These spillover effects can help strengthen Canada's tech innovation ecosystem.

The take-away: Given the high exit rate of start-ups in Canada, we need a continual flow of new companies entering the market to help create a resilient supply chain. To achieve this, Canada needs to create more homegrown companies that grow and become prominent features of the ecosystem. It's a virtuous circle: These larger firms can support the next generation of start-ups by integrating new companies into existing supply chains, building revenue, which helps them grow market share and scale their technology.

Major economic forces are making it even more challenging for founders. And that "should certainly be a point of concern for stakeholders," says Abdullah Snobar, Executive Director of DMZ.

The age of pessimism

How the high cost of living, unaffordable housing, and other economic headwinds diminish Canadians' appetite for risk.

Canada is now lagging behind OECD nations. As seen in Chart 1, the country ranks 14 among peer nations according to the Entrepreneurship Index, an assessment that draws on a range of factors including innovation, competitiveness, infrastructure, and access to capital.[12] And while the Conference Board's recent Innovation Report Card revealed that, compared to other countries, Canada has more early entrepreneurs or owner-managers of new businesses, we rank second only to China in fear of failure (see Chart 2). A high percentage of surveyed Canadians (18 to 64 years old) said they would not start a business—even if it were a good opportunity—given the very real risk that they might not succeed.[13]

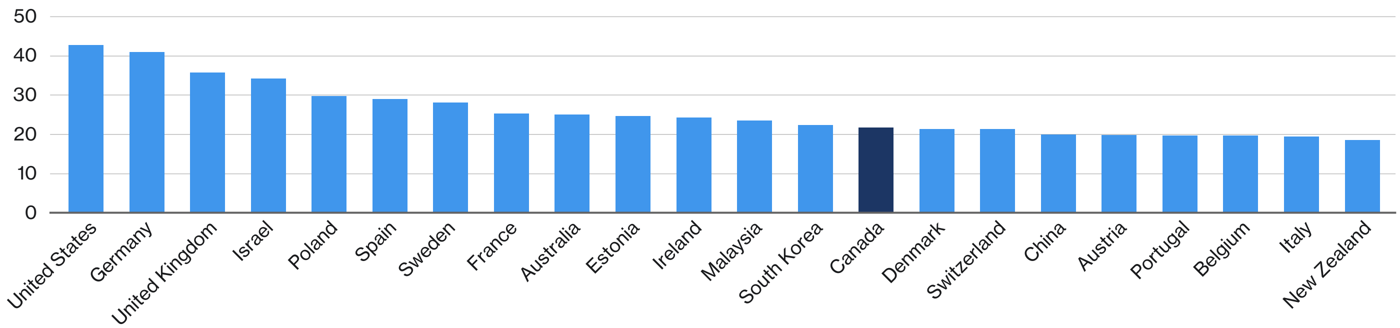
"Canada is doing a really good job when it comes to creating support networks for entrepreneurs to kick-start their journeys and responding to emerging technologies," says Abdullah Snobar, CEO of DMZ Ventures and Executive Director of DMZ, an innovation hub in Toronto. While the country overall has been very supportive of new innovations, he points out, macroeconomic forces are weakening our tolerance for risk.

High interest rates, inflation, housing affordability, tax changes, and other major economic factors are making that leap of faith seem too large and too dangerous. For many entrepreneurs, the cost-benefit analysis no longer adds up. "The fact is, entrepreneurs need to feel the risk they shoulder when building a start-up is worth it for them in the long run," says Snobar. "Financial incentive and how the economy is performing plays a huge role in whether they choose to launch a business, and given today's climate, this should certainly be a point of concern for stakeholders."

Ali Asaria is all too aware of how much conditions have changed since he was starting out. Asaria founded his first company after graduating from the University of Waterloo in 2005. Eager to make his mark, he readily embraced short-term sacrifices for long-term gains (he'd often sleep in his office, for instance, to save cash). Similarly, employees who saw the potential of his start-up accepted lower salaries to help build the company—but back then, as Asaria points out, the cost of living was significantly cheaper. "I had staff who could afford a house with a swimming pool on a $50,000 a year salary," he says. "That reality is gone. Taking a risk is next to impossible in Canada these days."

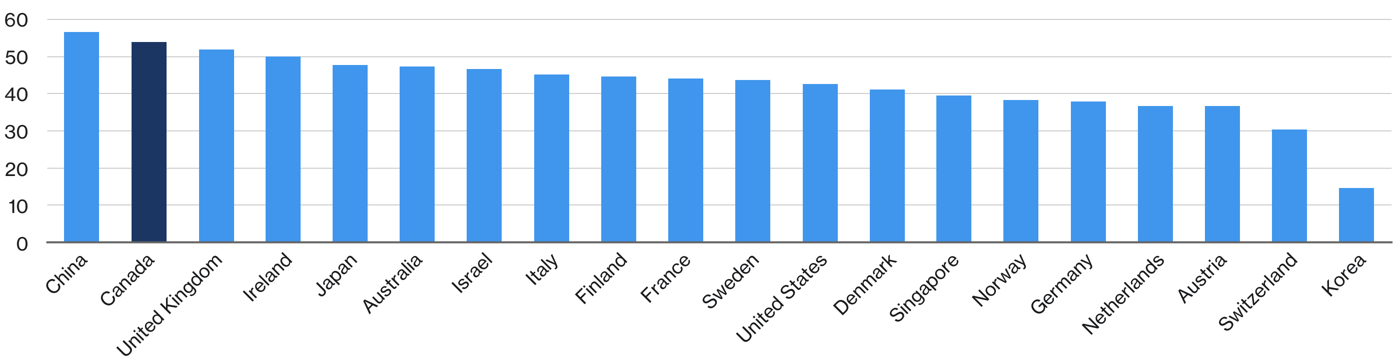
12 Jones, "World's Most Entrepreneurial Countries, 2024."
13 The Conference Board of Canada, "Innovation Report Card 2024."

Chart 1
Most entrepreneurial countries
(CEOWORLD Entrepreneurship Index score)



Source: Jones, “World’s Most Entrepreneurial Countries, 2024.”

Chart 2
Fear of failure
(per cent)



Note: Percentage of the population age 18 to 64 who agree they see good opportunities but would not start a business for fear it would fail.
Sources: Global Entrepreneurship Monitor; The Conference Board of Canada

After all, it can take years to build a successful business, with no guarantee of success. In complex sectors, such as healthcare or climate technology, companies may exist for a decade or more before generating real revenue, let alone profit. It’s always been difficult, but recent economic trends—inflation, high interest rates, growing labour costs, supply chain disruption, to name a few—have made it even more challenging to run a business. And many industry observers cite a relative lack of venture capital—the fuel companies need to turbocharge their growth—as a limiting variable for many businesses in Canada. As DMZ’s head Abdullah Snobar points out, “funding in Canada is very limited and very slow.”

$6.9 billion

Amount invested by Canadian venture capital in 2023.

34%

Decline in total investment value from 2022 to 2023.

47%

Decline in investments in later-stage companies from 2022 to 2023.

Source: CBRE.

For many entrepreneurs, the tax changes tabled in the latest federal budget only added to Canadian entrepreneurs' concerns. (The changes increase the capital gains inclusion rate to two-thirds, up from 50 per cent on the portion of capital gains realized in a year that exceed $250,000 for individuals.) Those proposed shifts elicited significant pushback in the survey administered by Communitech, MaRS, and Invest Ottawa in April. The tax change "will definitely suck the entrepreneurial and innovative spirit of Canada dry and push more talent to the United States," wrote one respondent to the survey. "I know many Canadian founders and engineers who left to start their companies in the United States—the United States rewards entrepreneurship, with the first $10 million tax-free."

Close to 60 per cent of founders said they felt the perceived impact of the capital gains tax will deter innovation and investment, and 23 per cent believed it will have repercussions for job creation and talent recruitment. Notably, half of respondents identified talent-related supports, such as housing affordability, as vital to innovation, while nearly 47 per cent called for stronger tax incentives to support commercialization.

"A big part of the formula for how you make Canada the best place to build great technology companies is making Canada the best place to live," says Asaria. The challenge now is trying to convince people of the truth of that statement. Even those who used to view the country with rose-coloured glasses no longer believe that it represents a haven of possibility, he says. "And a lot of that has to do with cost."

Many entrepreneurs traditionally have securitized loans against their house. But as housing becomes more expensive and out of reach for younger entrepreneurs, getting that initial funding to get a company off the ground becomes that much more difficult. Mike Andrade, the CEO of cleantech firm Morgan Solar, has seen the ripple effects of high house prices. "I'm older and I benefitted from having real estate. I have a house and a cottage, which have appreciated in value," he says. "My kids are now 30, 28 and 25 and they can't afford a house. It's challenging at Morgan Solar to get employees to work in Toronto. So I understand the anger."

These larger economic trends have a direct impact on whether Canadians will want to take that leap to start new businesses.

The high cost of home ownership

Affordability has an impact on who can be an entrepreneur.

The real estate market can feel far removed from the tech sector. But homes are the most common form of collateral for a business loan,[14] and the availability of affordable rentals or homes is an important variable in attracting skilled employees. Location, as they say, matters. Canada's red-hot real estate market makes it harder for those without those assets to obtain a loan; as well, for innovators carrying large mortgages, launching a business becomes a much riskier proposition.

The 2021 census found that 66.5 per cent of Canadians live in owner-occupied homes, a decrease from 69 per cent in 2016.[15] The numbers are far lower for many racialized citizens, particularly among members of Black, Arab, and Indigenous communities. These groups have the lowest home ownership and property value rates across Canada.[16,17] Similarly, young Canadians between the ages of 15 and 39 are less likely to own a home.

The opportunity cost of starting a company for these equity-deserving groups is considerably higher compared to other Canadians, which could hinder their ability to participate in the entrepreneurial ecosystem. This will broaden the wealth gap, and it also means that Canada will lose out on the higher productivity[18] and social and environmental benefits associated with more inclusive innovation ecosystems. The cost of living is an important consideration, especially if we want to ensure that entrepreneurship isn't just an option for the well-off.

Average home prices in March 2023

Montréal: $511,500
(requires household income equivalent to $107,310)

Toronto: $1,118,500
(requires household income equivalent to $217,700)

Vancouver: $1,143,900
(requires household income equivalent to $221,580)

Source: Global News.

14 Camberato, "7 Types of Collateral You Can Use to Secure a Small Business Loan."

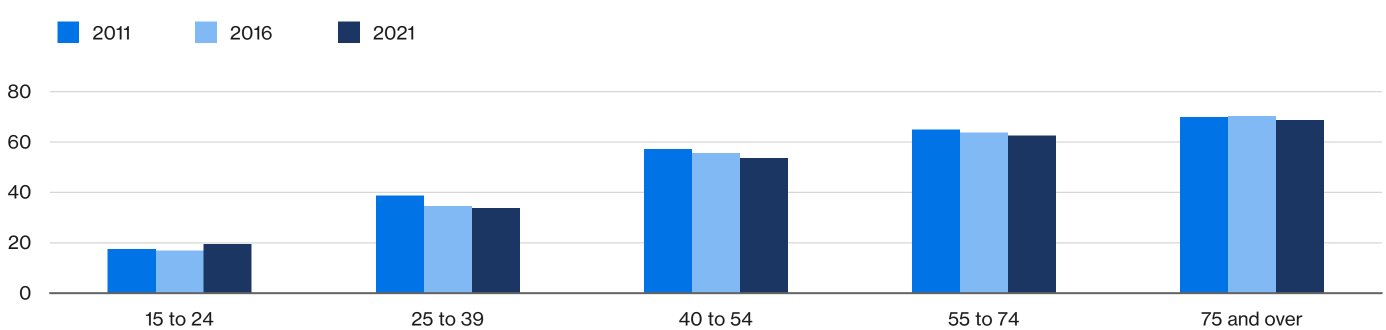
15 Statistics Canada, "To buy or to rent: The housing market continues to be reshaped by several factors as Canadians search for an affordable place to call home."

16 Benwell, "Homeownership Rate Varies Significantly by Race."

17 CMHC, "Property Values Vary Significantly by Race."

18 Guevara and others, "Inclusive Innovation for U.S. Economic Growth and Resiliency."

Chart 3
Homeownership rate, by age group
(per cent)



Source: Statistics Canada, Homeownership rate by age of primary household maintainer, Toronto (Census division), 2011 to 2021.

CASE STUDY

Whatever it takes

To scale her cleantech start-up, **Amanda Hall** had to give it her all—she even put her house on the line.

Amanda Hall founded Summit Nanotech in 2018. The Calgary-based company developed novel technology to extract lithium from brine and after a successful pilot project in Chile it's now developing a demonstration-scale facility as well as a prototyping and manufacturing facility. In 2021, Hall received the $1-million top prize in the Women in Cleantech competition, and Summit Nanotech was recently named one of the world's 100 most promising cleantech companies. But it hasn't been easy. As a single mother, Hall took a big risk when she left her job in the oil and gas industry to start the company, and has had to fight tooth and nail to get the company where it is today. Here, she shares her journey.

Seed money: "I sold my house to start my company. It gave me a bit of a buffer in the bank account, but of course that trickled away and I was essentially living hand-to-mouth. I didn't take a salary for the first year and I could only pay meager salaries to people who joined the business. When you're bootstrapping, you can run out of money as an individual because every penny that comes in has to go to tech development."

Planning for every scenario: "When COVID shut down the lab I was working in, I relocated our team to a barn outside of Calgary where there was wet lab space because they were testing cow embryos. We had to kick horse poop out of the way to get to our equipment and it was freezing in the winter, but the place had a gorgeous panoramic view of the mountains." It was also a step up from her original pandemic plan: a "Breaking Bad"-style scenario that involved doing her research in the back of a van.

The slow build: "In cleantech, it takes a long time to see a return on investment, which gets tiring. We've been at this for five years, we've raised a ton of capital, and we have customers who want our technology. But we're still pre-revenue and we have probably a 50 per cent chance of failure. Introducing a new technology to any sector is fraught with scale-up risk. What works in the pilot might not work at commercial scale. The constant pressure that it might not work looms over entrepreneurs. But someone once told me that the only time a start-up fails is when the CEO quits. I took that to heart. It's go big or go home for me."

The take-away: The housing affordability crisis is making it much harder for entrepreneurs to beat the odds of success—especially for those unable to securitize a loan against real estate. And for younger generations of Canadians, entrepreneurship can seem too risky a path to take. To foster a thriving innovation economy, policy-makers need to address a range of factors. In addition to R&D investment and tax incentives, governments at all levels must take steps to improve access to housing and the high cost of living.

Mike Wessinger, co-founder of PointClickCare, has watched many Canadian ventures be acquired by American firms.

Making a quick exit

Many entrepreneurs end up selling their business or moving to the United States.

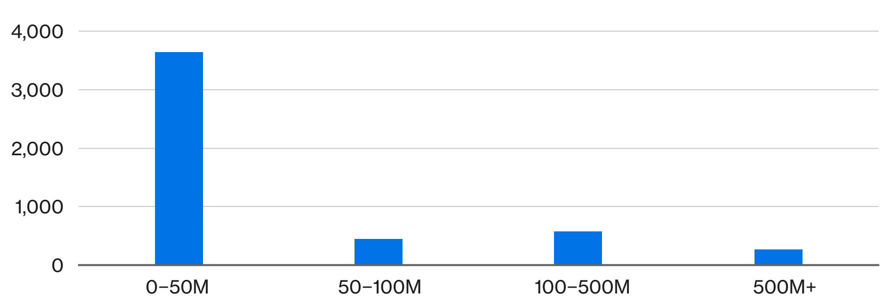
The gravitational pull south of the border is strong. After all, the bulk of investors, talent for executive positions, and customer base are located in the United States. Mike Wessinger of PointClickCare has seen it play out time and time again. “So many of the people I had connected with in the Canadian tech community over the last 20 years are gone—they were acquired a long time ago,” he says. “Such a small number of companies break through the $100-million mark. Too many companies whose revenues fall in the single-digit or low-double-digit millions end up south of the border.”

It’s an all-too-familiar story, says Moren Lévesque, a professor and co-director of entrepreneurial studies at the Schulich School of Business. “One thing I see a lot in Canada—especially in the ICT sector—is that people get excited about starting a business and then want to sell it. They don’t really want to grow and run it,” she says. In her view, many Canadian entrepreneurs don’t even get that far, preferring to keep their business as a side hustle in addition to a steady job rather than going all-in.

Entrepreneurs who are creating high-impact companies often sell prematurely. According to our analysis of Pitchbook data, approximately three-quarters of all acquisitions in this country happen when start-ups are generating less than $50 million in revenue and are just starting to scale, a phenomenon common among G7 nations. Many Canadian entrepreneurs feel as though they have no option but to sell—the challenges in developing technologies, accessing funding and customers, and expanding market share are just too large to overcome.

Chart 4

Number of mergers and acquisitions, 2010–2023, by revenue
(number)



Source: Pitchbook.

The draw of the United States can be hard to resist, particularly for early start-ups working in capital-intensive sectors, such as life sciences and cleantech. “In Canada, the healthcare industry simply isn’t here—it’s almost impossible to succeed without strategic partnerships with the bigger players,” says Edna Chosack, a senior healthcare coach at District Three, an innovation hub in Montréal. “When an entrepreneur consults with me, I often agree that they have to move—the money is not here, nor is the industry.”

This trend has major repercussions for the economy. Less domestic competition leads to higher prices for consumers and fewer well-paying jobs. And the dearth of players hampers the possibility of building a strong ecosystem that can support itself through Canadian-owned technology and supply chains.

“Canadians are making fabulous products but they’re not being adopted fast enough, so companies end up moving to the United States or simply do not have enough funds to grow,” says Hanif Montazeri, co-founder of cleantech firm Enersion. “The people who build these products went through the university systems here. We’ve been supported by the Canadian ecosystem and many wonderful organizations. But I don’t think we can survive as a country if we don’t increase our appetite for risk.”

How Canada can better support entrepreneurs

Leaders from across the innovation community highlight the changes they’d like to see.

Expand the pool of founders: “We need to improve access to early-stage funding for young entrepreneurs to create a healthy pipeline of start-ups for our ecosystem. The reality is that most founders today aren’t in a position to turn to family and friends for funding. In order to inspire more individuals to start and scale a business, we need to remove as many barriers as possible.”

Abdullah Snobar, Executive Director, DMZ

Increase government funding: “Canada’s Scientific Research and Experimental Development tax credits were game-changing for us. In my opinion, other government programs, like the NRC’s IRAP, have significantly more overhead and less flexibility. I’m sure other people have had success with those programs, but we didn’t.”

Stuart Lombard, Founder, ecobee

Provide ongoing, long-term support: "Making the economics work is challenging when you have an unproven technology. Right now, we're selling a version of our tech at 50 per cent of cost because you have to discount it massively to get people to try it. We've seen with electric vehicles that government subsidies can help reduce the price of a new technology to the point where more customers will buy it."

Amanda Hall, Founder, Summit Nanotech

Build a feeder system: "We should not reinvent the wheel. There are models out there that work and we can mix and match and adapt to Canada a local model that will work. We could take a page out of Israel's playbook.[19] It's built a whole network of incubators that are run by consortiums of big commercial companies. Start-ups that are accepted get enough funding to give them two years of peace and quiet to work. Basically, the Israeli government is funding the risky development work, but leaving the building of the start-ups to people who know how to do that. It's important for our federal government to support a large enough supply of new start-ups by providing enough funding for ventures that are too risky or too early-stage for private investors."

Edna Chosack, Healthcare Lead, District 3 Innovation Hub

Give them space to grow: "There is a real need to support entrepreneurs locally with some sort of manufacturing space, because the alternative is getting someone else to make the products. That's the favourite option for a lot of investors and VCs because there's less upfront capital risk. But over time, it also becomes quite expensive. And you're turning your product over to someone else to make. So from an IP perspective, there's risk there as well."

Mike McNeil, Board Director, Venturepark Labs

Create buyers for our IP: "We need to make sure we're not just focused on one currency of innovation. The problem is that most of our focus has been on R&D—and patents are the most movable innovation currency. If you want IP to stay in Canada, you need to create stable receptors—manufacturing, investors, hospitals, developers, companies, and other entities—for that IP. If I ran Canada, I would enhance our tried-and-tested programs, as follows: Increase the budget of government granting agencies tenfold over a decade to create a strong foundation for innovation; augment the scope of the SR&ED platform to attract foreign investment; and seed substantial investment funds from early-stage through to scale-up."

Michael May, President and CEO, Centre for the Commercialization of Regenerative Medicine

19 Innovation Israel Authority, "Technological Innovation Incubators Program."

Build resilience: “Fear of failure is still in the air, and perhaps COVID-19 has something to do with it. My research that looks at the discontinuation of drug discovery projects suggests that building experience from failing can make you stronger if you are willing to learn from the failures. For instance, receiving 100 times a ‘no’ from potential investors enables you to learn what you are not yet mastering (e.g., in your pitch deck) until you do and get a ‘yes.’ Embracing failure, and increasing your tolerance from it, can eventually result in positive outcomes.”

Moren Lévesque, Co-Director of Entrepreneurial Studies, Schulich School of Business, York University

Sharpen the sales pitch: “The fundamental reason we don’t create big companies is that we don’t spend on marketing and sales. I see quite large companies that really have never had an organized sales and marketing approach. That’s because Canada is oligopolistic. We have relatively few companies and not a great degree of competition. We’ve got three mid-size regional markets in Canada, which means we don’t have to be competitive. We don’t have to innovate. And we don’t have to get good at marketing and sales either.”

Charles Plant, Co-Founder, Narwhal Project

Create a culture of ambition: “People are looking for the simple answer: If we just changed a tax policy or subsidy, it would fix everything. But I feel it comes back to the idea that we need to believe Canada’s economy should be more than just real estate and a whole bunch of oligopolies. We have to celebrate our entrepreneurial success stories to inspire the next generation.”

Mike Andrade, CEO of Morgan Solar

Appendix A

Methodology

For this report, we conducted 12 original interviews with founders, innovation ecosystem leaders, and experts from various sectors and regions. The interviews were designed to understand the challenges that tech ventures face in scaling their companies.

Innovation experts: Edna Chosack, Krista Jones, Moren Lévesque, Michael May, Mike McNeil, Charles Plant, Tasha Richard, Abdullah Snobar.

Entrepreneurs: Mike Andrade, Amanda Hall, Stuart Lombard, Mike Wessinger.

In addition, we emailed five founders and leaders to gain their perspectives: Ali Asaria, Kris Bennatti, Danielle Graham, Hanif Montazeri, and Alison Nankivell.

Survey:
This report also includes findings from a survey MaRS, Communitech, and Invest Ottawa conducted between April 22 and May 1, 2024, to gauge tech entrepreneurs' concerns about the recent federal budget and the issues they face in commercializing their solutions. The survey was sent out to more than 1,300 companies supported by these three innovation hubs and received 151 responses.

Appendix B

Bibliography

Benwell, Seamus. "Homeownership Rate Varies Significantly by Race." *Housing Research*, CMHC, November 2021. https://assets.cmhc-schl.gc.ca/sites/cmhc/professional/housing-markets-data-and-research/housing-research/research-reports/housing-finance/research-insights/2021/homeownership-rate-varies-significantly-race-en.pdf?rev=af9ae04d-00bd-43ce-8619-d5e5d4a37444.

Camberato, Joseph. "7 Types of Collateral You Can Use to Secure a Small Business Loan." National Business Capital, April 19, 2024. https://www.nationalbusinesscapital.com/blog/types-collateral/.

Canada Mortgage and Housing Corporation. "Property Values Vary Significantly by Race." Housing Research, CMHC, April 2022. https://www.cmhc-schl.gc.ca/professionals/housing-markets-data-and-research/housing-research/research-reports/housing-finance/research-insight-property-values-vary-significantly-race.

Canadian Venture Capital and Private Equity Association. "Year-End 2023: VC & PE Canadian Market Overview." https://www.cvca.ca/insights/market-reports/year-end-2023/.

CBRE. "Scoring Tech Talent 2023." July 17, 2023. https://www.cbre.com/insights/books/scoring-tech-talent-2023.

Communitech, Invest Ottawa, and MaRS. "Canada's Budget 2024: The Founder/CEO Perspective." May 1, 2024. https://marsdd-public-files.s3.ca-central-1.amazonaws.com/wp-content/uploads/2019/03/04113311/Budget-2024-Founder-Perspective.pdf.

Conference Board of Canada, The. *2024 Innovation Report Card: Benchmarking Canada's Innovation Performance.* Ottawa: The Conference Board of Canada, 2024.

Department of Finance Canada. "Economic Growth for Every Generation." Budget 2024, Government of Canada. https://budget.canada.ca/2024/report-rapport/chap4-en.html.

Ercolao, Marc. "Mind the Gap: Canada Is Falling Behind the Standard-of-Living Curve." TD Economics, July 13, 2023. https://economics.td.com/domains/economics.td.com/documents/reports/me/Canada_Is_Falling_Behind_the_Standard_of_Living_Curve.pdf.

Guevara, Tom, Alexander Kersten, and Srishti Khemka. "Inclusive Innovation for U.S. Economic Growth and Resiliency." Center for Strategic and International Studies, May 30, 2023. https://www.csis.org/analysis/inclusive-innovation-us-economic-growth-and-resiliency.

Innovation, Science and Economic Development Canada. "Key Small Business Statistics 2023." Government of Canada, March 18, 2024. https://ised-isde.canada.ca/site/sme-research-statistics/en/key-small-business-statistics/key-small-business-statistics-2023#s1.3.

Innovation Israel Authority. "Technological Innovation Incubators Program." https://innovationisrael.org.il/en/programs/technological-innovation-incubators-program/#for_who_route.

Jones, Lila. "World's Most Entrepreneurial Countries, 2024." *CEO World*, April 5, 2024. https://ceoworld.biz/2024/04/05/worlds-most-entrepreneurial-countries-2024/.

Li, Vivian, Mahmehr Hamza, and Anusha Arif. "Mind the Gap: Compensation Disparity Between Canadian and American Technology Workers." *The Dias*, October 2023. https://dais.ca/reports/mind-the-gap-compensation-disparity-between-canadian-and-american-technology-workers/.

McCormack, Carter, and Weimin Wang. "Canada's gross domestic product per capita: Perspectives on the return to trend." Statistics Canada, April 24, 2024. https://www150.statcan.gc.ca/n1/pub/36-28-0001/2024004/article/00001-eng.htm.

Organisation for Economic Co-operation and Development. "Size of public procurement," *Government at a Glance 2023*, June 23, 2023. https://www.oecd-ilibrary.org/governance/government-at-a-glance-2023_3d5c5d31-en.

Pinson Delgado, Esteban, Robert Fair, and Chris Johnston. "Analysis on small businesses in Canada, first quarter of 2023." Statistics Canada, March 23, 2023. https://www150.statcan.gc.ca/n1/pub/11-621-m/11-621-m2023003-eng.htm.

Statistics Canada. "Homeownership rate by age of primary household maintainer, Toronto (Census division), 2011 to 2021." Census 2021. Statistics Canada, November 16, 2022. https://www12.statcan.gc.ca/census-recensement/2021/as-sa/fogs-spg/alternative.cfm?topic=7&lang=E&dguid=2021A00033520&objectId=7.

–. "To buy or to rent: The housing market continues to be reshaped by several factors as Canadians search for an affordable place to call home." *The Daily*, Statistics Canada, September 21, 2022. https://www150.statcan.gc.ca/n1/daily-quotidien/220921/dq220921b-eng.htm.

Stober, Eric. "'Never been a harder time': Here's the income you need to buy a home in Canada." *Global News*, April 20, 2023.

Acknowledgements

This research was prepared with financial support provided through the Canadian Centre for the Innovation Economy. Visit the Centre's website for further information.

It takes a team to deliver great research. We thank the many Canadian Centre for the Innovation Economy staff at The Conference Board of Canada and MaRS Discovery District whose expertise and contributions helped to bring this research to life. Alain Francq, Director, MBA, CBoC, and Kathryn Hayward, Director of Content, MaRS, conceived of this research project and provided overall direction and oversight. Sana Maqbool, Manager of Policy Research, MGA CSGH, David Paterson, former Senior Editor, contributed to the research and writing. Editing and research support was provided by Zafer Sonmez, Lead Research Associate, PhD, CBoC, Sarah Liss, Senior Editor, MaRS, and Dilys Leman, Senior Research Associate, MA, CBoC.

This impact paper was designed by the Conference Board's Design Services team.

Risky Business
The Conference Board of Canada and MaRS Discovery District

To cite this research: Conference Board of Canada, The, and MaRS Discovery District. *Risky Business.* Ottawa: The Conference Board of Canada, 2024.

Accessibility Officer, The Conference Board of Canada
Tel.: 613-526-3280 or 1-866-711-2262
Email: accessibility@conferenceboard.ca

The Conference Board of Canada

AERIC Inc. is an independent Canadian registered charity operating as The Conference Board of Canada, a trademark licensed from The Conference Board, Inc.

Where insights meet impact

The Conference Board of Canada

Publication 13705
Price: Complimentary

conferenceboard.ca