



Study

**Investment Intentions of
Canadian Entrepreneurs**

An Outlook for 2017

January 2017

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Highlights

Renewed optimism on the part of entrepreneurs is felt across Canada

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- Canadian small and mid-sized businesses intend to invest \$96.6 billion in 2017. That is 1.6% more than they will have invested by the end of 2016.
-
- Business owners are showing increased confidence in Canada's economy, compared to their feelings last year. Confidence is a key factor in stimulating investment.
-
- Over two-thirds (69%) of business owners expect to increase their revenues in 2017, compared with less than half (45%) a year earlier.
-
- High-growth small businesses account for nearly all of this increase, as their investment intentions are up 19%, year over year.
-
- Businesses in the technology industry lead in terms of investment intentions. On average, they plan to invest 38% more, in total dollars, than they did in 2016.
-
- Businesses in the retail sector lag behind, with a drop of 31% in the amount they intend to invest over the next year.
-
- Exporters of goods are showing increased investment intentions, contrary to exporters of services.
-
- Three-quarters of businesses plan to invest to support their growth strategy.
-
- Most firms plan to invest in computer equipment, including software and e-commerce applications.
-
- The primary obstacle to investing will be lack of cash flow; last year, lack of confidence in the economy was the primary obstacle.
-

Introduction

99.8%
**of Canadian
businesses
are small or
mid-sized
enterprises**

For the second consecutive year, BDC is presenting the results of its study of Canadian entrepreneurs' investment intentions. This study paints a portrait of the investment plans for 2017 of almost 4,000 business owners. It summarizes the owners' views on the amounts to be invested, their motivations and the factors that may slow their momentum.

This major study highlights the importance of small and mid-sized businesses, which are the backbone of Canada's economy. Approximately 99.8% of Canadian businesses are small or mid-sized enterprises;¹ together, they employ close to 90% of the private sector labour force and contribute approximately 40% of the gross domestic product (GDP).² Private sector business investments are one of the main drivers of economic growth in Canada; every year, they account for nearly 20% of the Canadian economy.³

Investment projects are also essential for businesses that want to ensure growth and remain competitive. Businesses that invest expand; they are also more productive, innovative and profitable.

The question is: To what extent will Canadian entrepreneurs make room for investment in 2017?

1 This is based on data from Statistics Canada's Business Register for June 2016.

2 This is based on the most recent data for 2015 published by Innovation, Science and Economic Development Canada. Small and mid-sized businesses are private sector businesses with 1 to 499 employees.

3 This figure was calculated using Statistics Canada data on gross domestic product in terms of revenues and expenses.

1

Investment intentions for 2017

\$96.6 B

Investments planned by Canadian small and mid-sized businesses in 2017

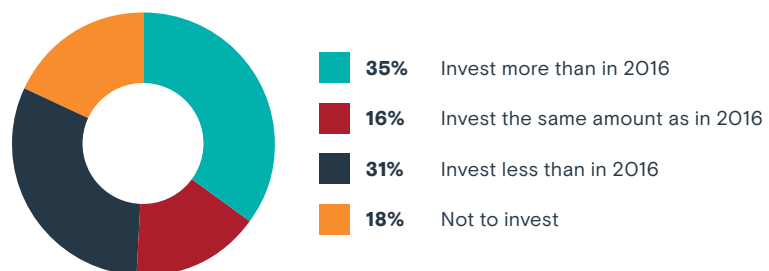
A third of businesses plan to invest more in 2017

Our study reveals that 8 out of 10 Canadian small and mid-sized businesses intend to develop investment projects in 2017; over a third will devote more funding to such projects than they did in the previous year (Figure 1). In 2017, businesses plan to invest \$230,000 each, on average, compared with \$220,000 the previous year, an increase of 4.5%.

Canadian entrepreneurs' overall investment intentions will total \$96.6 billion in 2017, a slight increase of 1.6% over provisional investments in 2016.^{4 5 6}

Figure 1 — More than one in three businesses will invest more in 2017

Investment intentions: Businesses that plan to do the following in 2017
(percentage; n = 3,988)



Source: SOM, *Investment Intentions of Canadian Entrepreneurs: An Outlook for 2017*.

- 4 The detailed results of the study are presented in the Appendix.
- 5 Investment intentions are the amounts that entrepreneurs plan to invest in their businesses in 2017. Provisional investments include the amounts invested between January 1, 2016, and the date of the survey, plus the investments planned for the rest of the year.
- 6 Although we saw an increase of 1.6% based on the data obtained from the entrepreneurs surveyed, this difference is not statistically significant in terms of the estimated total. This result is shown for information purposes only.

\$27.9 B

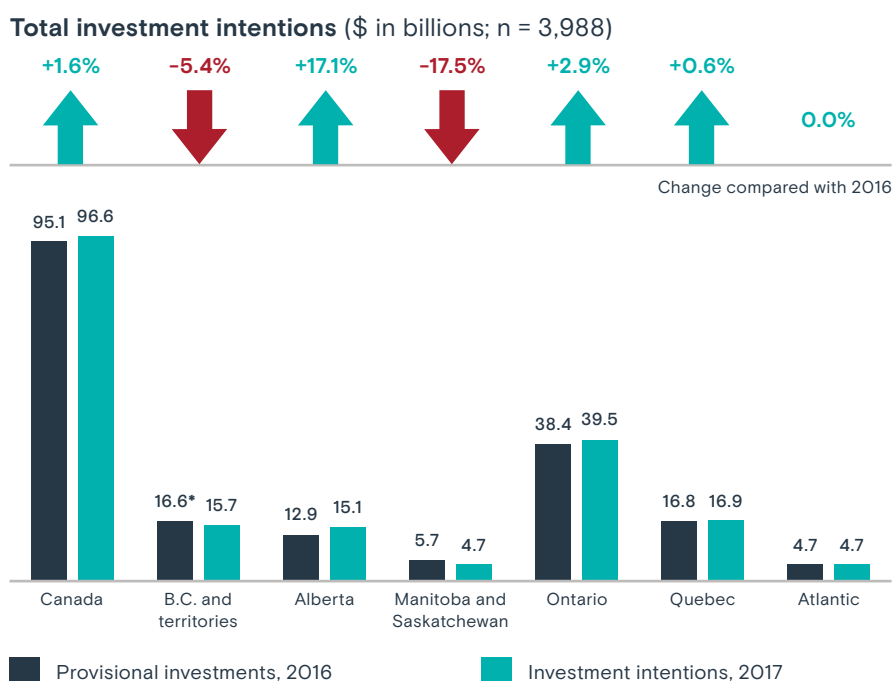
Planned total investments by small businesses that are posting strong revenue growth

Almost all of this increase will occur among small businesses that are posting strong revenue growth.⁷ These businesses will invest a total of close to \$27.9 billion in 2017, an increase of 19% compared with what they will have invested in 2016. For larger businesses, the data indicate stability or decline. Although they invest smaller amounts than larger businesses do, smaller companies represent the vast majority of Canadian businesses and so account for more of the total volume.⁸

A different reality from coast to coast

In Eastern Canada, investment intentions for 2017 remain relatively stable in Quebec and the Atlantic provinces compared with 2016, while Ontario shows a slight increase (Figure 2). The main groups planning to invest are small businesses showing strong growth, small and mid-sized businesses in the technology industry and those that export. These businesses are likely to take advantage of the business opportunities provided by the improved economic climate in the United States.

Figure 2 – Investment intentions up slightly nationwide



Source: SOM, *Investment Intentions of Canadian Entrepreneurs: An Outlook for 2017*. Results followed by an asterisk have a relative standard deviation greater than 16.5%. Therefore, they must be used with caution.

⁷ These are small and mid-sized businesses with fewer than 20 employees or with sales under \$2 million that expect a gross revenue increase of at least 5% over the next year.

⁸ Companies with fewer than 20 employees account for 87% of all private sector businesses, according to Statistics Canada's Business Register for June 2016.

\$410,000

Average investment planned by businesses in the technology industry

In the western provinces, the situation is more diverse. Only business owners in Alberta plan to invest greater amounts in 2017, with an overall increase of 17% over 2016. This increase is the result, in part, of more stable oil prices, an indication that the economic downturn there is coming to an end. Alberta's economy should experience growth similar to the Canadian average in 2017.⁹

The situation is completely different in Saskatchewan and Manitoba. The region continues to bear the brunt of the drop in raw materials prices. In British Columbia and the territories, the housing market and the natural resource industries have crippled investment intentions.

Technology firms: Champions of investment intentions

Regardless of the industry,¹⁰ small and mid-sized businesses—on average—show stronger investment intentions for 2017 than in 2016. There is one exception: the private sector services industry (excluding technology), which saw some decline.

Businesses in the technology industry stand apart. Over half of them plan to invest more in 2017, compared with approximately one-third of businesses in other sectors (Figure 3). They are also significantly more likely to invest greater amounts than their peers in other sectors—\$410,000 each, on average, a dramatic jump of 41% compared with provisional investments for 2016. By comparison, businesses in the manufacturing sector (excluding computer and electronic products) plan to invest—on average—\$340,000 in 2017, while those in the private sector services industry (excluding technology) plan to invest \$210,000, and those in the construction and resources industries, \$200,000.

The private sector services industry (excluding technology) paints a considerably bleaker picture. Businesses in this sector are significantly less likely to want to invest more in 2017 (Figure 3). As this sector is by far the largest, accounting for 77% of Canadian small and mid-sized businesses, the fact that their investment intentions are lower explains why we observed rather modest growth across Canada and across all sectors. Retail businesses are dictating the pace of growth in this sector, with a 31% drop in investment intentions. This situation is unfortunate because it exacerbates the fact that Canadian businesses lag behind on e-commerce; they are still reluctant to embrace digital transformation in an environment where consumer habits are changing profoundly. A recent BDC study shows that 92% of millennials, 82% of Gen Xers and 74% of baby boomers now shop online.¹¹

9 This figure comes from average economic forecasts from the chartered banks as of November 22, 2016. Alberta's economy should grow by 2% in 2017, compared with 1.9% for Canada overall.

10 See the Appendix for definitions of the industries used in this report.

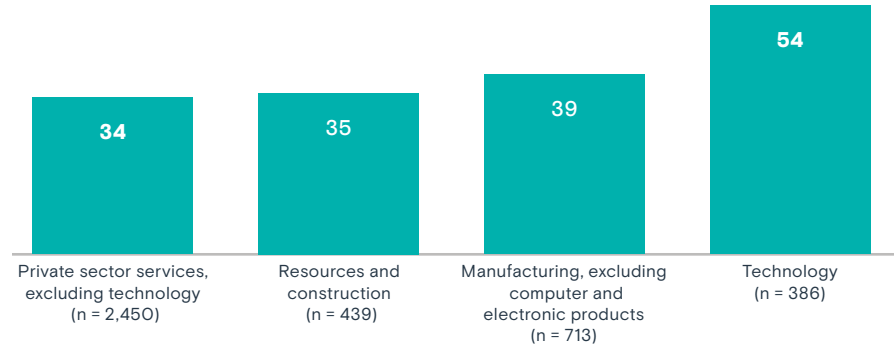
11 These figures come from BDC, *Five Game-Changing Consumer Trends*, October 2016.

54%

Percentage of businesses in technology that plan to invest more in 2017

Figure 3 — Businesses in the technology industry lead the way with significantly higher investment intentions

Investment intentions: Businesses that plan to invest more in 2017 than in 2016 (percent)



Source: SOM, *Investment Intentions of Canadian Entrepreneurs: An Outlook for 2017*. The numbers in bold indicate a statistically significant difference within the sub-group, with a confidence level of 95%.

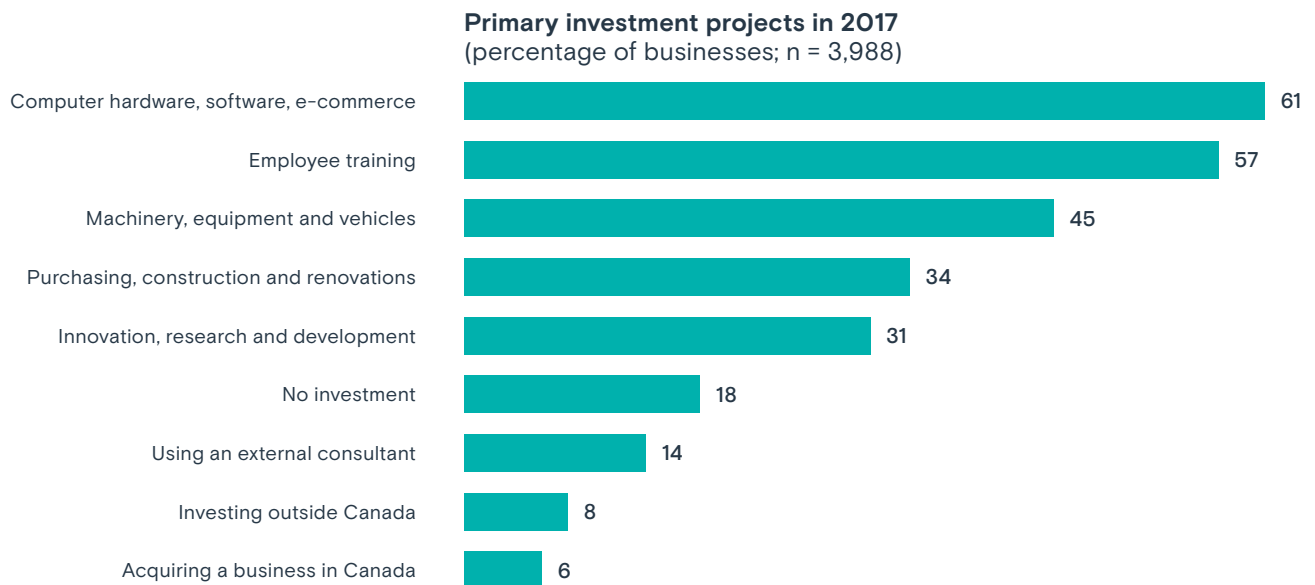
Finally, we observed the opposite behaviour among businesses that export. Exporters of goods will answer the call in 2017, with a surge in investment intentions exceeding \$1 billion.¹² Among exporters of services, however, the trend is the opposite, with a significant drop that completely offsets the gains made on exporting goods.

Prioritizing investments in technology and labour force training

When the time comes to invest, more business owners will be interested in purchasing computer equipment, including software and e-commerce applications, in 2017 (Figure 4), but the amounts each business dedicates to such purchases will be lower than they were in 2016 (Table 1). However, businesses plan to invest more in labour force training, innovation, and machinery and equipment renewal, which are all critical to improving business productivity and efficiency.

¹² The survey was conducted from August 1 to September 30, 2016, before the U.S. election. At the time of this report, the intentions of the new U.S. administration with regard to Canada are unknown; it is still too early to assess the true medium-term impact this election will have on the investment intentions of Canadian exporters.

Figure 4 – Canadian businesses invest primarily in projects to improve their efficiency and productivity



Source: SOM, *Investment Intentions of Canadian Entrepreneurs: An Outlook for 2017*.

Table 1 – 2016 provisional investments and 2017 investment intentions, by project type

Type	2016 provisional investments			2017 investment intentions		
	Average (\$)	Median (\$)	Total (\$ in billions)	Average (\$)	Median (\$)	Total (\$ in billions)
Purchasing, construction and renovations	90,000	40,000	40.2	90,000	40,000	38.6
Machinery, equipment and vehicles	42,000	25,000	17.9	42,700	25,000	18.2
Employee training	27,900	18,000	11.9	32,200	20,000	13.7
Innovation, R&D	15,700	10,000	6.7	18,900	10,000	8.0
Computer hardware, software, e-commerce	13,700	5,000	5.8	13,200	5,000	5.6
Acquiring a business	29,500	200,000	12.6	29,200	250,000	12.4

Source: SOM, *Investment Intentions of Canadian Entrepreneurs: An Outlook for 2017*.



Business owners increasingly confident

69%

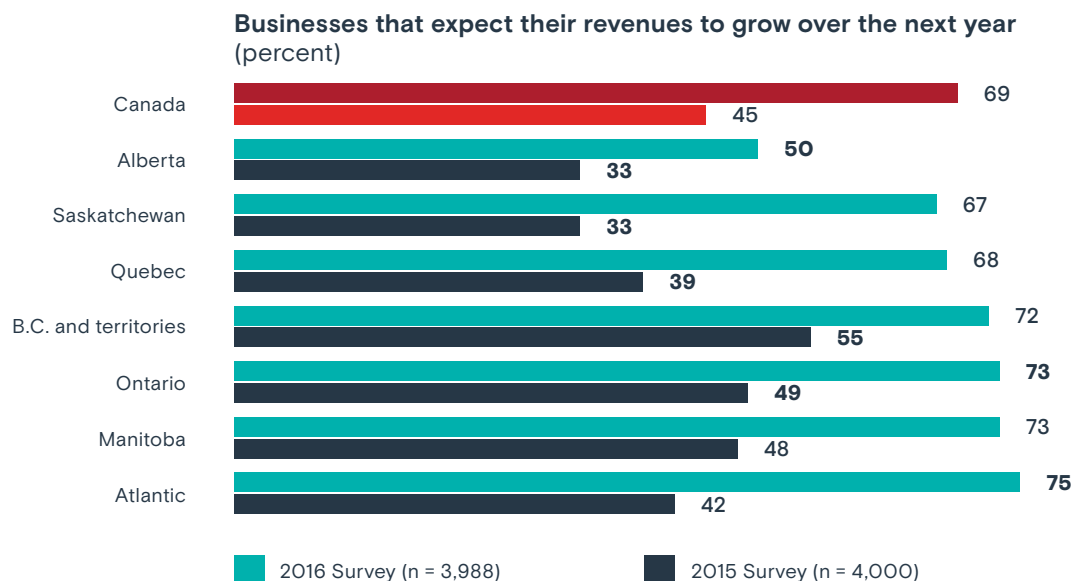
of business owners expect to increase their business revenues in 2017

Renewed confidence in the economy

Confidence in the economy is one of the primary factors affecting investing. Therefore, it is reassuring to see that our study suggests business owners have renewed confidence in Canada's economy.

Across Canada, an increasing number of business owners (69%) expect to increase their business revenues in 2017, a 24 percentage point increase over the previous year. Business owners in Ontario and the Atlantic provinces are significantly more likely to show optimism about the future than are Canadian entrepreneurs overall (Figure 5).

Figure 5 — Entrepreneurs have renewed optimism from coast to coast



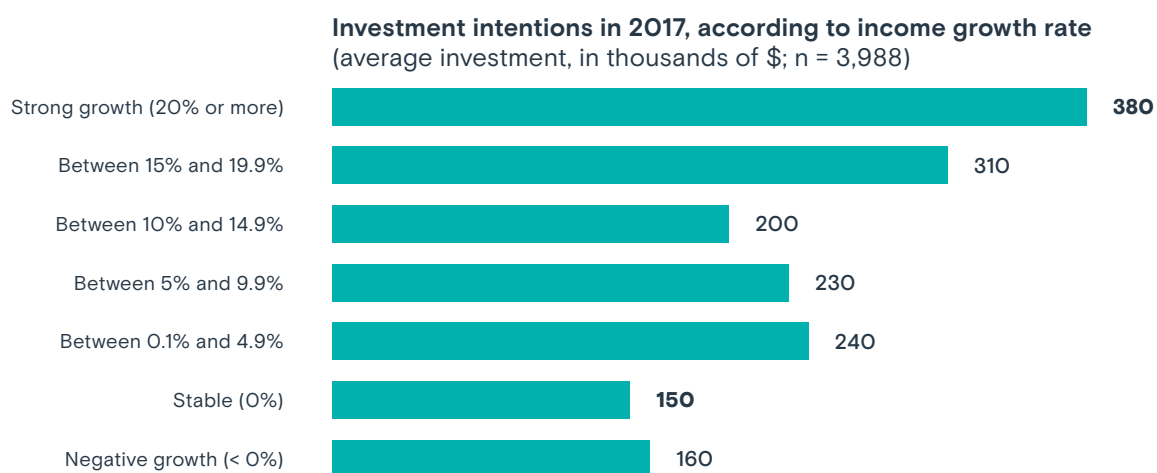
Source: SOM, *Investment Intentions of Canadian Entrepreneurs: An Outlook for 2016 and 2017*. The numbers in bold indicate a statistically significant difference between regions in the same study, with a confidence level of 95%.

Among the companies whose owners believe their revenues will grow, it is significantly more likely to find businesses:

- owned by young entrepreneurs (84%)
- in the technology industry (82%)
- that invest outside of Canada (80%)
- that export (79%)
- that innovate (79%)
- in the manufacturing sector, excluding computer and electronic products (73%)

The increased confidence of Canadian entrepreneurs is good news, because businesses with better growth prospects invest more than others, on average (Figure 6).

Figure 6 – Businesses with better projected income growth rate invest more than others do



Source: SOM, *Investment Intentions of Canadian Entrepreneurs: An Outlook for 2017*. The numbers in bold indicate a statistically significant difference within the sub-group, with a confidence level of 95%.

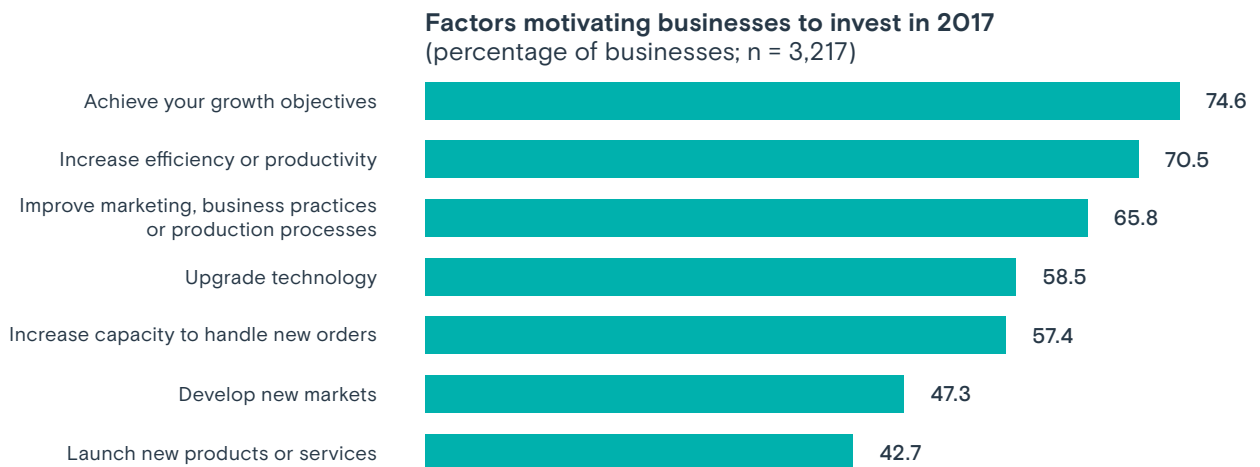
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The rationale for investing or not investing

It's about growth, first and foremost

Nothing has changed; business owners will be motivated to undertake an investment project in 2017 by the same reasons that inspired them in 2016. More than seven out of ten respondents said they will invest to achieve their growth objectives or to increase their business's efficiency or productivity (Figure 7). These reasons remain the same in all regions across Canada, regardless of the industry.

Figure 7 – Achieving growth objectives remains entrepreneurs' primary motivation



Source: SOM, *Investment Intentions of Canadian Entrepreneurs: An Outlook for 2017*.

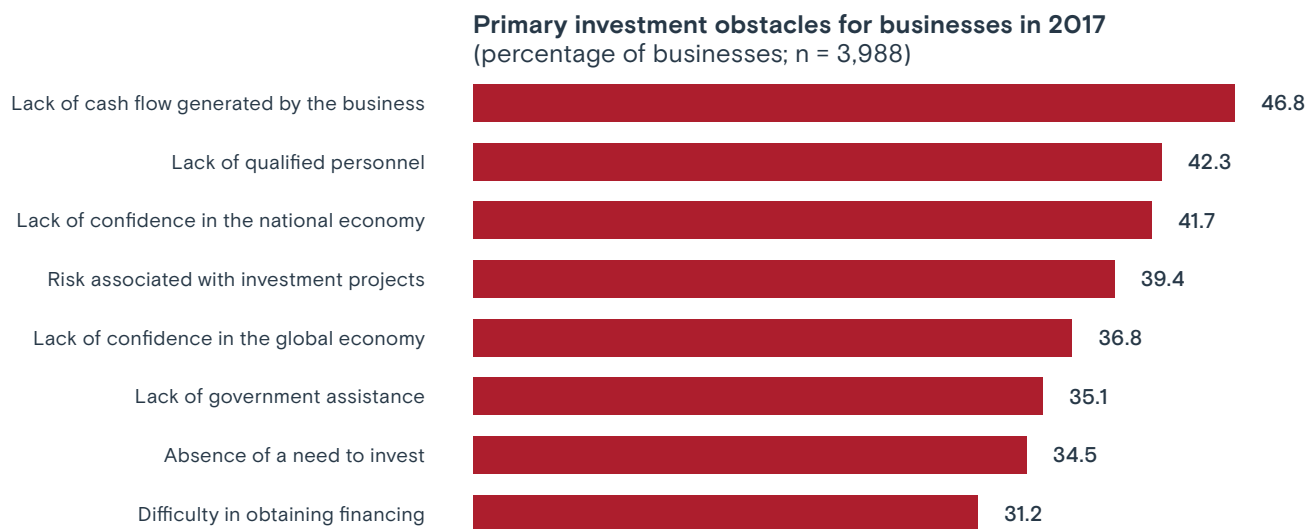
Lack of cash flow now ranks as the most frequently cited investment obstacle

Shifts in reasons not to invest

While the reasons to invest remain the same year over year, we have observed a shift in the reasons not to invest. Lack of cash flow now ranks as the most frequently cited investment obstacle. It replaces lack of confidence in the Canadian economy, which now ranks third, behind lack of qualified staff (Figure 8). This result is consistent with the fact that entrepreneurs are more optimistic about the future of their businesses and the increase in their revenues. However, lack of confidence in the national economy remains the primary reason not to invest for a majority of Albertan business owners (65%); it is also the main concern of business owners in the mining, oil and gas industry (72%).

In Quebec and in British Columbia and the territories, 43% and 49% of business owners, respectively, cited the lack of a qualified labour force as the primary factor restricting investment intentions. Owners of mid-sized businesses were more likely than other entrepreneurs (41%) to cite the risk associated with investment projects as the primary obstacle.

Figure 8 – Lack of resources becomes the main obstacle to investment in 2017



Source: SOM, *Investment Intentions of Canadian Entrepreneurs: An Outlook for 2017*.

4

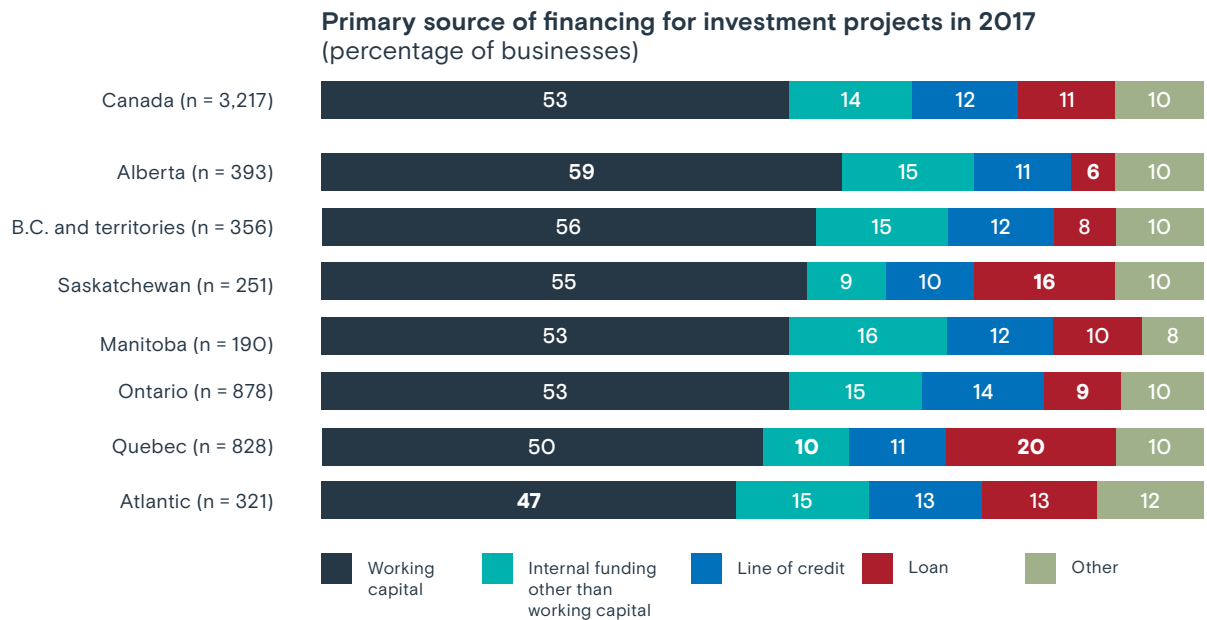
Financing investment projects

The larger the investment, the more likely businesses are to borrow

The primary source of financing: Working capital

More than half of businesses finance their investment projects with their working capital or another internal source, such as shareholders' equity, retained earnings, or the personal capital of shareholders or a parent company. A small proportion of businesses take out a loan with a financial institution; this percentage varies significantly from one region to another (Figure 9). One thing that remains constant is that the larger the investment, the more likely businesses are to borrow.

Figure 9 — Half of businesses use their working capital to finance their investment projects



Source: SOM, *Investment Intentions of Canadian Entrepreneurs: An Outlook for 2017*. The numbers in bold indicate a statistically significant difference within the sub-group, with a confidence level of 95%.

The main issue for businesses with a high risk profile: Access to financing

For the vast majority of Canadian businesses, access to financing is not an issue. In fact, it ranks last in terms of concern for entrepreneurs, right behind no need to invest. This observation is consistent with the fact that credit conditions remain very favourable for business investment. In addition, a recent Bank of Canada¹³ study suggests that credit conditions in Canada could be eased further. Although this easing will make access to financing even easier for most businesses, it remains a major issue for a certain type of small and mid-sized business. Businesses with a high risk profile are more likely to consider the search for financing a major issue (Figure 10).

Of the businesses facing this issue, half indicated their industry is the source of their difficulties. Others say that their profitability is too weak or that various levels of government do not provide assistance.

Figure 10 – Businesses with a high risk profile have more trouble financing their projects



Source: SOM, *Investment Intentions of Canadian Entrepreneurs: An Outlook for 2017*. The numbers in bold indicate a statistically significant difference within the sub-group, with a confidence level of 95%.

¹³ In *Business Outlook Survey: Results of the Autumn 2016 Survey* (October 7, 2016), the Bank of Canada wrote, "By a narrow margin, the balance of opinion on credit conditions points to an easing."

5

Regional outlooks

Investment Intentions of Canadian Entrepreneurs: An Outlook for 2017

	Canada	British Columbia and territories	Alberta
Total number of small and mid-sized businesses (%) (Business Register, June 2016)	1,124,421	175,687	164,936
	100%	16%	15%
Small and mid-sized businesses that plan to invest in 2017 (%)	82%	81%	82%
Average investment per small and mid-sized business	\$230,000	\$230,000	\$280,000
Median investment (by small and mid-sized businesses that plan to invest)	\$50,000	\$60,000	\$70,000
Small and mid-sized businesses that expect to increase their sales (%)	69%	72%	50%
Small and mid-sized businesses that plan to use an external consultant (%)	14%	16%	13%
Main reason for investing (%)	Growth	Growth	Growth
	75%	75%	70%
Main obstacle to investing (%)	Cash flow	Qualified staff	Confidence in the national economy
	47%	49%	65%

Source: SOM, *Investment Intentions of Canadian Entrepreneurs: An Outlook for 2017*.

The numbers in bold indicate a statistically significant difference between regions, with a confidence level of 95%.



	Saskatchewan	Manitoba	Ontario	Quebec	Atlantic provinces
	38,781	35,655	404,247	230,411	74,704
	3%	3%	36%	20%	7%
	82%	85%	85%	78%	82%
	\$170,000	\$160,000	\$240,000	\$200,000	\$190,000
	\$60,000	\$60,000	\$50,000	\$40,000	\$50,000
	67%	73%	73%	68%	75%
	10%	11%	14%	13%	15%
	Productivity	Growth	Growth	Growth	Growth
	74%	72%	75%	79%	75%
	Cash flow	Cash flow	Cash flow	Qualified staff	Cash flow
	49%	45%	49%	43%	45%

Conclusion

Although certain differences remain across regions and industries, news of an expected improvement to the economic climate in 2017 has renewed a majority of entrepreneurs' confidence in the economy. The numbers back it up: Compared with last year, more entrepreneurs expect to increase their revenues and report having more confidence in the economy.

This renewed trust has had a positive impact on entrepreneurs' investment intentions nationwide. This increase is still relatively slight, since retail businesses—which make up a significant portion of the Canadian economy—have lower-than-average investment intentions.

That being said, certain high-growth small businesses in the technology and manufacturing sectors are on track to become real investment and growth forces in 2017.

Although the overall economic climate favours an increase in investment intentions, some factors are slowing down entrepreneurs' momentum. In addition, a greater number of business owners are more likely to say their business does not generate enough cash flow to finance their projects. This is a major obstacle to investment intentions, because most entrepreneurs say they prefer using internal financing sources to using a financial institution. And yet, for the past few years, credit conditions have been very favourable to investment, so much so that debt financing remains accessible to small and mid-sized businesses that want to pursue growth.

Methodology used in the survey

We asked the research firm SOM to conduct a telephone survey of 3,988 executives of businesses with 1 to 499 employees. The survey was carried out between August 1 and September 30, 2016. Non-proportional, stratified sampling was used to obtain a sufficient number of respondents in each region of the country and in each group of firms, based on their size and industries. The results were then weighted according to region, business size and industry to ensure they were representative of the population of small and mid-sized businesses in Canada.

The maximum sampling error for all respondents is 1.9%, 19 times out of 20. All statistics presented have a coefficient of variation of 16.5% or less, unless otherwise stated.

Caution regarding forward-looking statements

This paper contains forward-looking statements about future events. In this context, the forward-looking statements pertain to our forecasts of the future business and financial performance of small and mid-sized Canadian businesses. These statements contain terms such as “wants,” “anticipates,” “expects,” “intends,” “plans,” “has the intention,” “believes,” “could,” “should” and “would be.” By their very nature, forward-looking statements cover topics that can, to varying degrees, be uncertain.

Various risks and uncertainties could substantially change the results presented in this report. Those risks include, without being limited to, the performance of industries and firms, the impact of a change in regulation or policy, the performance of the national or international economy, and any other regional, national or international change, including changes of a political or economic nature, or relating to the business environment.

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Appendix

Table 2 — Provisional investments 2016 and investment intentions 2017: Detailed results

	2016 provisional investments			2017 investment intentions		
	Average (\$)	Median (\$)	Total (\$ in billions)	Average (\$)	Median (\$)	Total (\$ in billions)
Overall						
All small and mid-sized businesses	220,000	50,000	95.1	230,000	50,000	96.6
Region						
Atlantic provinces	190,000	60,000	4.7	190,000	50,000	4.7
Quebec	200,000	40,000	16.8	200,000	40,000	16.9
Ontario	230,000	50,000	38.4	240,000	50,000	39.5
Manitoba	170,000*	50,000	1.9*	160,000*	60,000	1.7*
Saskatchewan	220,000	60,000	3.9	170,000	60,000	2.9
Alberta	240,000	60,000	12.9	280,000	70,000	15.1
British Columbia and territories	250,000*	60,000	16.6*	230,000	60,000	15.7
Industry						
Technology	290,000	120,000	4.2	410,000	150,000	5.8
Manufacturing, excluding computer and electronic products	290,000	70,000	8.4	340,000	80,000	9.8
Private sector services, excluding technology	220,000	50,000	73.0	210,000	50,000	69.7
Resources and construction	170,000	70,000	9.5	200,000	80,000	11.3
Size						
1 to 4 employees	140,000	30,000	26.7	160,000	40,000	31.2
5 to 19 employees	210,000	60,000	38.9	200,000	50,000	36.3
20 to 99 employees	560,000	180,000	23.1	550,000	200,000	22.8
100 to 499 employees	1,120,000	650,000	6.3	1,110,000	650,000	6.3

Source: SOM, *Investment Intentions of Canadian Entrepreneurs: An Outlook for 2017*.

The numbers in bold indicate a statistically significant difference within the sub-group, with a confidence level of 95%.

Results followed by an asterisk have a relative standard deviation greater than 16.5%. Therefore, they must be used with caution.

Table 3 — Definition of industries according to the North American Industry Classification System (NAICS)

Industry	Definition
Technology	Computer and electronic product manufacturing (NAICS 334), Computer and communications equipment and supplies wholesalers–distributors (NAICS 4173), Software publishers (NAICS 5112), Data processing, hosting, and related services (NAICS 5182), Computer systems design and related services (NAICS 5415), Electronic and precision equipment repair and maintenance (NAICS 8112)
Manufacturing, excluding computer and electronic products	Manufacturing (NAICS 31–33), excluding Computer and electronic product manufacturing (NAICS 334)
Private sector services, excluding technology	Services-producing industries (NAICS 41–91), except Technology services (NAICS 4173, 5112, 5182, 5415, 8112), Educational services (NAICS 61), Health care and social assistance (NAICS 62), Public administration (NAICS 91)
Resources and construction	Agriculture, forestry, fishing and hunting (NAICS 11), Mining, quarrying, and oil and gas extraction (NAICS 21), Construction (NAICS 23)

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