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Toronto Regional Scale-up Consultation: Challenges and Choices



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INTRODUCTION

On September 7, 2017, the Brookfield Institute for Innovation + Entrepreneurship hosted a Toronto regional consultation on behalf of the Ministry of Economic Development & Growth to help inform the development of an Ontario Scale-Up Strategy.

Thirty-one stakeholders attended including 21 executives of Toronto-based scale-up companies and 10 ecosystem players (see Appendix A).

Participants divided up into six groups, each focusing on one of the pillars guiding consultations on the Scale-Up Strategy. They explored three sets of questions:

1. What are the key barriers you face as a scale-up? (What key barriers do the scale-ups you work with face?)
2. What do you think are the root causes of these barriers?
3. What are the most useful programs/resources you have accessed to overcome these barriers? What additional solutions would be most helpful?

This report synthesizes the insights and perspectives participants shared during the consultation.

1. ACCESS TO TALENT

Access to Talent generated the most discussion throughout the consultation. Participants identified three broad barriers: gaps related to specific skillsets, competition for talent, and cultural norms.

A. GAPS RELATED TO SPECIFIC SKILLS

Participants identified a significant lack of upper management talent critical to scale-ups as these companies become more complex operationally.

Participants noted that available management talent often comes from professional services sectors (e.g. investment banking, management

consulting); as a result, management talent does not seem to have the necessary ability or experience to successfully manage a young company in the innovation economy.

Assessing talent with sales and specific technical skills was likewise challenging.

B. COMPETITION FOR TALENT

Participants competing for young talent from both the traditional professional services sectors and from more established US-based technology companies (such as Amazon) face two major challenges: i) US-based technology companies typically have more abundant resources to find and hire talent; and ii) American companies typically offer higher salaries than their Canadian counterparts.

In addition, although scale-up leaders acknowledged the recent efforts in encouraging young people to enter tech industries (such as initiatives to encourage younger girls to study coding), these programs have horizons of 10–15 years and do not address the current lack of talent.

C. CULTURAL NORMS

Participants discussed the underlying cultural values they perceived that potential hires possess (or lack). On the one hand, they felt that management talent (C-suite) from professional services were too risk-averse to manage effectively in the context of a scale-up. On the other, younger individuals were considered “not hungry enough,” or too “satisfied with the status quo.” Many attendees felt talent (management or non-management) from the professional services background were not accustomed to the expectation to “wear many different hats” prevalent in many startups. As a result, they preferred individuals with startup experience as potential hires, limiting their talent pool.

Overall, attendees largely agreed that sales and upper management talent are and will continue to be a vital instrument that allows businesses to scale up. Discussions on potential solutions focused largely on addressing systemic issues by reforming educational curriculums to introduce and encourage students to consider sales as a viable career option.

Solutions:

- + Participants highlighted a diverse range of training programs they thought could be useful: management skills training for scale-up founders; management skills training specific to management of scale-ups for upper management coming from the professional sector; and better programs to develop sales talent (e.g. Growth Camp at MaRS).
- + Participants also discussed the possibility of introducing specific incentives for hiring and developing sales talent, mirroring tax incentives available for investment in research and development (e.g. SR&ED credits).
- + Finally, participants discussed the possibility for scale-ups to collaborate to provide training to high potential talent for skills that they companies have a common need for.

2. INTELLECTUAL PROPERTY (IP)

This pillar attracted participants largely from the healthcare sector. Thus, detailed discussions around IP issues were industry-specific though there were a lot of common elements applicable to all industries at the baseline.

Key challenges identified specifically by healthcare scale-ups involve lack of financial resources (a drawback related to size), lack of IP knowledge and, contributing to that, lack of government support.

A. LACK OF FINANCIAL RESOURCES

Healthcare scale-ups face increased vulnerability in IP disputes, especially to potential legal lawsuits by larger more established companies. Participants noted it is possible to incur \$500,000+ in costs, even after winning a suit.

B. LACK OF INITIAL IP KNOWLEDGE

Participants highlighted that many scale-ups don't have an in-house IP specialist. Further, they said that many scale-ups don't think about IP issues until problems start to surface.

C. LACK OF GOVERNMENT SUPPORT

Some participants noted that the process of accessing support services related to IP can be lengthy. Some also stated that criteria used to assess a firm's ability to access government support services in understanding IP issues does not take into account circumstances faced by different industries, making these services particularly difficult to access for some sectors.

Solutions:

- + Suggested solutions included creating an "IP playbook" to help startups answer a range of important questions. For example, when should a company file for a patent as opposed to keeping the new technology in house as a trade secret? What is the right type of intellectual property protection for a specific piece of innovation? What are the potential loopholes and workarounds that allow them to escape from a patent troll?
- + Participants also discussed creating a "patent pool," a partnership wherein many smaller firms pool their resources and patent together to fight any potential IP issues that arise collectively.

3. PUBLIC PROCUREMENT

Attendees broadly agreed that the government was not procuring enough from Ontarian companies. Participants identified four broad barriers:

A. “DEATH BY PILOT”

Participants described this as a process by which the government allows companies to pilot their products but does not procure services and goods created by them.

B. OPAQUE PROCESS

Participants discussed what they perceived as a lack of transparency in the procurement process, particularly differences between the published process and a perceived hidden process that was less accessible by individuals without relationships or connections.

C. RISK AVERSION

Participants highlighted the government’s perceived reluctance to procure goods from smaller firms, favouring larger firms and government-owned enterprises.

D. LACK OF COMMITMENT

Participants described what they considered a government penchant for “procurement theatre”: the appearance of innovation without actually taking risks and engaging in innovation.

Solutions:

- + Among solutions offered, participants suggested that bids for public procurement processes should incorporate other government economic priorities such as job creation and supporting the innovation

economy. They noted some programs, such as the Build in Canada Innovation Program, have been successful in encouraging public procurement from smaller companies.

4. ACCESS TO MARKETS

While few participants chose to discuss this pillar, those who did emphasized that if scale-ups can solve the issue of market access, this also means they have solved the problem of access to capital.

The major barrier identified was lack of resources to understand and “break-into” new markets outside of Canada. Participants felt this was aggravated by the high levels of financial investment required (legal, talent, operational costs), lack of knowledge of industry networks outside Canada, low levels of foreign investment in Canada (poor reputation compared to US), government policy (time and red tape involved in securing grants), and Canada’s ‘risk averse’ culture.

Solutions:

- + To mitigate such barriers, they suggested that the federal and provincial governments could invest in two or three key clusters (industrial or cities) to create a reputation for cultivating successful businesses. Participants believed that this reputation could attract foreign investors with knowledge and resources required to help Canadian companies access new global markets.
- + Participants also recommended that trade mission representatives promote specific cities, industries, and companies to external stakeholders.

5. ACCESS TO CAPITAL

The Access to Capital table was the second most well-attended. Participants identified three barriers: types of financing available, overall capital availability, and understanding and managing risks associated with scale-ups.

A. TYPES OF FINANCING AVAILABLE

Scale-ups require different kinds of funding at different stages including debt-based and equity-based financing. Debt-financing was particularly contentious, as both policies and risk tolerance in Canada were believed to discourage debt-based financing, considered critical to help businesses out in earlier stages (even before Series A funding.)

B. OVERALL CAPITAL AVAILABILITY

Canada's financial regulations were seen to negatively affect the availability of capital, particularly in contrast to regulations in the US. One participant felt that complex bureaucracy and high personal capital required for an investor to register as an angel investor or a venture capitalist reduced overall financial resources in the market. This presented a challenge especially in retaining companies in Canada.

C. UNDERSTANDING AND MANAGING RISK

Participants challenged the notion that Canadians are risk averse by citing examples of the high levels of investment afforded to the resource extraction sector. Others suggested that a lack of understanding of risks associated specifically with startups and scale-ups discouraged people from investing in these firms, rather than investors being inherently risk averse.

Solutions:

- + Potential solutions explored included tools and resources that help improve investors' understanding of risks and how to effectively manage risks. For example, existing programs, such as FedNor, allow startups and scale-ups to access company valuation and due diligence services prior to approaching investors, helping bridge the gap of risk knowledge and risk mitigation.

6. REGULATORY BURDEN

Regulatory burden attracted the fewest participants. The key barrier attendees identified was the lack of coherence in regulation (quality assurance and tax) between different provinces, especially when accessing those markets. In addition, many participants found that regulations often were not designed with new technologies in mind, and did not address emerging technology's needs adequately.

Solutions:

- + Solutions included governments stepping up as early adopters to create a pathway to technology.

CONCLUSION

Overall, the themes of Talent and Capital attracted the most vigorous participation from attendees. Even discussions on Intellectual Property or Access to Markets would often return to a core discussion on talent or capital; for example, specific sales talent is required to open new markets, and the very activity of preparing an IP plan requires sufficient resources to execute.

APPENDIX A: PARTICIPANT LIST

First Name	Last Name	Job Title	Company
Usha	Srinivasan	VP Venture Programs	MaRS Discovery District
Joe	Rooney	CFO	Sightline Innovation
Benjamin	Bergen	Executive Director	Council of Canadian Innovators
Andre	Boyson	CIO	SecureKey Technologies
Greg	Wolfond	CEO	SecureKey Technologies
Mark	Lawrence	Vice-Chair	Angel Investors Ontario
Brenda	Hogan	Senior Investment Manager	Ontario Capital Growth Corporation
Kerri	Golden	Partner	Information Venture Partners
Andrew	Dubowec	VP Strategy & Operations	League
Steven	Uster	Co-Founder & CEO	FundThrough
Jennifer	Pollock	Director of Finance and Operations	RateHub Inc.
Krysten	Connely	Manager, Marketing & Communications	DMZ at Ryerson University
Claudia	Krywiak	VP, Corporate Planning & Development	Ontario Centres of Excellence
Stephany	Lapierre	CEO	tealbook
Sachin	Aggarwal	CEO	Think Research
Joanna	Carroll	Chief Talent Officer	Think Research

Eric	Murray	President & CEO	Temporal Power Ltd.
Gary	Baksi	EVP & GM	NexJ Health Inc.
Matt	Bogart	VP, Marketing	NexJ Systems Inc.
Pablo	Neiman	VP, Strategic Planning	NexJ Systems
Tiffany	English	Director, Products	NexJ Health
Jeff	Crews	president	bioconnect
Don	Stewart	CEO	PlantForm Corp
Martin	Hudson	VP Finance	GreenMantra Technologies Inc
Curtis	VanWalleghem	CEO	Hydrostor
Hussam	Ayyad	Director, Startup Services	The DMZ
Salim	Teja	President, Venture Services	MaRS
John	Frangella	CEO & Co-Founder	Proto3000 - Additive Manufacturing
Frank	Jessop	Director of Finance	Sensibill
Levi	Cooperman	Co-founder & VP Operations	FreshBooks
Alanna	Harvey	Co-Founder, CMO	Flipd
Kelly	Holman	Managing Director	Genesys Capital

APPENDIX B: AGENDA FOR THE SESSION

Time	Activity
8:30-9:00	Coffee and networking opportunity
9:00-9:25	Welcome, opening remarks, and overview of MEDG Scale-Up Strategy with introduction to the workshop.
9:25-9:50	<p>Activity #1:</p> <ul style="list-style-type: none"> + Objective: Obtain insight into what key barriers are top of mind for scale-ups. + Output: Populated flipcharts with barriers identified on labeled post-it notes representing 6 strategic pillars, by 3 phases of growth, growth, grouped by strategic pillars. + Key questions: What are the key barriers your company has faced or is facing? + Activity detail: Each table uses post-it notes with all 6 pillars to write down barriers they face.
9:55-10:35	<p>Activity #2:</p> <ul style="list-style-type: none"> + Objective: Obtain deeper insights as to why these barriers are barriers and what impact that has + Output: identified barriers (and priorities) by strategic pillar, along with the rationale + Key questions: Why do you face these barriers? + Activity detail: tables organized by each pillar discuss those specific pillars in detail.
10:35-10:55	<p>Activity #3:</p> <ul style="list-style-type: none"> + Objective: Understand what existing solutions, if any, these scale-ups have pursued to overcome these barriers. + Output: Identified existing solutions matched with a corresponding barrier + Key questions: What have been the most useful resources you have accessed to grow your business? How have you been overcoming this barrier, if at all? + Activity detail: tables organized by each pillar discuss those specific pillars in detail.
10:55-11:00	Wrap up and thank you