

The foundations of today's global economy are rapidly shifting. Traditional components of economic growth are being supplanted by the rise of new markets and new business models based primarily on intangible assets. For today's startup founders and leaders, this shifting economic landscape has critically important implications for how to scale new business and compete globally. These new market dynamics mean that scaling companies has never been more challenging, but also that the potential benefits have never been greater.

In recent years, we have seen a shifting focus from supporting startups to scale-ups. Around the world, economists and policymakers have recognized that scale-ups—or rapidly growing companies—contribute disproportionately to key metrics such as economic growth, job creation, wealth generation, productivity growth, and national competitiveness.

Canada, wisely, has been part of this wider trend. Previous investments in developing and supporting Canada's startup ecosystem have now put the country in a position to tackle the next challenge: building a vibrant ecosystem for supporting and fostering the success of our scale-ups.

However, with this shift has come a growing recognition that the policy needs of scale-ups are unique: **Many of the barriers and challenges our scale-ups face are different than those faced by startups and large Canadian corporations.**

In response, targeted support for scale-ups has emerged as a key part of the Government of Canada's Innovation and Skills Plan. Other levels of government and innovation-enabling organizations have also increasingly focused their attention on supporting Canada's scale-ups. Collectively, this represents a strong foundation for tackling the next set of challenges facing our high-growth firms. However, while significant work has been done, there is more to do to help Canadian scale-ups.

Over the past six months, the Special Advisor and his team engaged and consulted founders, business leaders, service providers, ecosystem experts, and policy experts across Canada, gathering insights into the barriers that scale-ups face along their growth journey and the experience of companies in accessing business services, supports, and financing.

FINDINGS AND INSIGHTS

The key barriers and challenges facing scale ups in Canada can be collected and summarized under four broad categories:

Talent: The supply of talented employees, managers and leaders emerged as the top issue across our interactions with companies and ecosystem experts. We heard that there are widespread challenges in hiring and retaining experienced executive talent, senior technical and creative talent, as well as senior marketing and sales talent. Scaling firms are in competition with large multinationals and domestic firms to secure the best and brightest, and talent shortages for key roles and skills are driving up salaries and resulting in poaching by competitors. Despite recent improvements, a number of companies expressed frustration with processes for hiring international talent, which may reflect a lack of usage or awareness of the programs available.

Access to Capital: Access to capital is a critical component of the success of high-growth firms. One area where Canada risks falling behind is the supply and availability of growth capital. Large (\$100 million or more) late-stage venture capital (VC) rounds can often be crucial to achieving scale. Although the VC market has shown strong growth in recent years, Canadian scale-ups are struggling to access greater amounts of capital. This also extends to instruments such as debt financing. We heard clear concerns surrounding debt financing for intangible assets from the financial experts interviewed. Companies spoke to frustrations around the valuation of their intellectual property by Canadian banks and financial institutions. In addition, we uncovered a collection of issues that are potentially limiting firm growth and creating conditions where Canadian founders are opting for early exits. This is partially driven by a lack of access to financial instruments of maturity, complexity, and variety that could offer incentives to keep a scaling company from exiting.

Market Access: A core priority of high-growth firms is finding new ways to sell their goods and services, attracting new customers while retaining existing ones. Companies interviewed reported that they *wanted* to sell to the government, but that they perceived the procurement and reporting process as too complicated, onerous, and lengthy. Despite improvements, the procurement environment still feels siloed and overly transactional, rather than providing strategic opportunities for Canadian scaling companies. Companies also highlighted the need to reduce regulatory barriers for bringing new products to market. Finally, while many scale-ups have already begun selling internationally, we uncover a number of small issues that could help boost international sales.

Government Incentives and Supports: Finally, government support—either through grants, incentives, or non-financial means—can be an important contributor to firm growth. Generally, companies expressed a perception that the government does not always understand the needs of entrepreneurs. This is especially true for entrepreneurs working in emerging sectors, and with new and innovative business models. Companies expressed concern regarding the complexity and the compliance burden of accessing government programs. In addition, to maximize success, support for scale-ups should be more concentrated to a small number of high potential firms, with levels of support increasing.

RECOMMENDATIONS

To address these barriers, we have outlined four overarching recommendations for consideration by the federal government.

Recommendation 1: Build out a Comprehensive 'Own the Podium' Strategy for Supporting Canada's Scale-ups.

The Canadian government should prioritize support for select high-potential sectors and companies, who could be boosted to become future anchor firms.

Recommendation 2: Expand the Supply of Talent for Canadian Scale-ups.

This should include supporting the development of senior experienced talent, increasing international talent attraction, and ensuring training programs supply scale-ups effectively.

Recommendation 3: Expand the Supply of Later Stage Growth Capital and Financing of Intangible Assets.

This could take the form of incentivising the creation of larger late-stage venture firms and positioning BDC as a leader in addressing the market failure in financing intangible assets.

Recommendation 4: Support Access to and Development of Markets that Enable Scale.

This includes supporting the creation of consolidated domestic markets, increasing the agility of the regulatory process, and facilitating access to international markets.

Canada is home to a collection of promising high-growth firms that are on the verge of becoming global players. These scaleups are committed to succeeding and creating home-grown success stories right here in Canada. Nevertheless, these firms require the support of federal, provincial/territorial, and municipal levels of government, as well as other ecosystem players including postsecondary and financial institutions in order to fully unlock their full potential.

Canada's economic prosperity and future depends on these leading firms; they are our hedge against a disruptive and changing economy, and vital sources of current and future employment and economic growth. It is imperative for Canada to forge a path that supports and enables scale-ups to reach their full potential.

We are confident that Canada has what it takes to get there.