

FINANCING GLOBAL GAZELLES

Submitted To:

SMALL BUSINESS POLICY BRANCH
INDUSTRY CANADA

March 31, 2006

Prepared by:



MEYERS NORRIS PENNY LLP

A gazelle is a small to medium sized antelope that is swift, graceful and able to reach high speeds for long periods of time.

TABLE OF CONTENTS

1	DEFINITION OF A GLOBAL GAZELLE.....	1
2	INTRODUCTION.....	3
3	INDUSTRY EXPERTS	4
3.1	Main industries that attract global gazelles	4
3.2	Unique features of global gazelles.....	5
3.3	Unique qualities of financing needs	6
3.4	Financing issues including sources of financing and lending decisions	7
3.5	Unique qualities of ownership and management	8
3.6	Key drivers of success	8
3.7	Challenges to growth	8
3.8	Value created by global gazelles	9
3.9	Current public policy and incentives	9
3.10	Potential changes in public policy and incentives	9
4	GLOBAL GAZELLE COMPANIES.....	10
4.1	Company backgrounds	10
4.2	Key motives for starting the company.....	10
4.3	Background of the shareholders	10
4.4	Growth record	11
4.5	Countries involved	11
4.6	Partner organizations.....	12
4.7	Sources of start-up capital	12
4.8	Sources of current financing	12
4.9	Use of funds at key points in time	13
4.10	Future growth plans and potential funding needs	13
4.11	Biggest problems	14
4.12	What would stimulate additional growth and profitability	15
4.13	Friendliness of the Canadian business and government compared with other countries	15
4.14	Advantages / disadvantages of company situation compared with others	15
5	GOVERNMENT POLICY, PROGRAM INCENTIVES AND CONSTRAINTS	16
5.1	Government of Canada policies.....	16
5.2	Trade agreements.....	16
5.3	Government program incentives.....	17
5.4	Government controls over cross-border movement of goods	21
6	SUMMARY OF KEY FINDINGS.....	22
6.1	Conclusions	22
6.2	Policy and program incentive recommendations	22
7	INTERVIEW GUIDE – INDUSTRY EXPERTS	24
8	INTERVIEW GUIDE – GLOBAL GAZELLE COMPANIES.....	25
9	REFERENCES.....	26

1 DEFINITION OF A GLOBAL GAZELLE

Literature reviews, and input from industry experts and entrepreneurs in selected global gazelle companies, were helpful in defining global gazelles (although many respondents were unfamiliar with the term “global gazelle”).

As a result of our research, the following definition is proposed:

A global gazelle is any company that operates outside of its domestic domicile, demonstrates a growth in sales of 100% by the end of a period of four consecutive years, and shows positive profit overall in that period. Sales in the first year should be over \$100,000. The company is closely controlled, swift to respond to market change, takes risks in its stride, and is innovative in most aspects of its business approach.¹

Our research has indicated that additional attributes that can be used to define a global gazelle are:

- Rapid growth in foreign markets** ➤ They are high growth small to medium-sized enterprises (SMEs), or divisional enterprises within larger entrepreneurial firms, that are dependent on at least 50% of their revenues and/or goods purchased in a foreign market or markets.²
- Born global** ➤ They are “born global” in that their mission from the start is to operate in foreign markets.³
- Sustained growth** ➤ Their growth (in terms of sales, job creation, wealth creation and/or market capitalization) is at least 50% a year from the start, becoming a significant business usually within three to five years.⁴
- Thirst for capital** ➤ Their pace of growth in the early years demands significant cash infusions to sustain the growth.⁵
- Lean balance sheets** ➤ High on intellectual capital, but low on tangible assets, their initial capital needs are met by angel investors and venture capitalists, rather than institutional lenders.⁶
- Prepared to dilute ownership** ➤ Owners are prepared to raise additional capital through equity issues, diluting their ownership interest.⁷
- Seek high returns** ➤ To recover their relatively high costs of capital, they focus on industries that generate higher than normal returns, typically technology-related.⁸
- Bold and innovative** ➤ They are bold and innovative in their ability to identify and rapidly adapt to the global environment, and to leverage their knowledge and capital through alliances and partnerships.⁹
- Highly responsive** ➤ They are always fleet of foot. They go from concept to market very quickly. They react instantly their products or services mature, and are quick to withdraw if the business shows signs of failure.¹⁰
- Readily accept failure** ➤ They have multiple businesses and failure is readily accepted. Their dictum is that without experiencing failure, they are missing opportunities.¹¹

In a 2003 report (based on 2000 data), Industry Canada¹² has listed the characteristics of high growth SMEs (not all of which are global gazelles):

- Share of business: high growth SMEs represent 12% of the 1.4 million SMEs in Canada;
- Total equity: average \$254,500;
- Demand for financing: of the 31% of high growth SMEs that applied for traditional debt financing, 80% were approved (implies that 75% of high growth SMEs sought alternative financing);
- Business size: 22% were medium sized business (100-499 employees) (implies that 78% were small high growth SMEs);
- Geographic presence: consistent geographic distribution across the regions of Canada;
- Growth: ability to sustain above-average growth rates over long periods (35% to 40% annually); and
- Economic contributions: created a significant proportion of new jobs, and a major contributor to innovation in Canada (mostly in the IT and life sciences sectors).

2 INTRODUCTION

The Small Business and Policy Branch of Industry Canada issued a Request for Proposal (RFP) to develop a working definition of “Global Gazelles”, and to analyze financing issues faced by such firms. The RFP specified the following four objectives as the scope for this assignment:

- Identify both historical and current financing trends.
- Develop a comprehensive working definition of the term “global gazelle”.
- Gather information on the financial needs of global gazelles and their financing experience.
- Document international global gazelle lending and investment trends and behaviors.
- Identify key financial issues and barriers, including taxes and other government policies and programs, that impact on the ability of Canadian global gazelles to secure financing.

This research assignment was conducted in three parts – web-based research, interviews with industry experts and interviews with global gazelle entrepreneurs.

1. Review of literature on the nature of global gazelles and the environment in which they operate.

Extensive web browsing was conducted using key words, searching business publications and following up on sources identified by interviewees.

2. Interviews with selected industry experts in the government sector and private lending institutions.

Structured telephone interviews lasting from 15 to 45 minutes, based on a customized interview guide, were conducted with six knowledgeable government officials and two associations.

The interview guide was designed by the research team to obtain observations from industry experts on the nature and financial environment of global gazelles.

3. Interviews with selected global gazelle companies and review of case studies supplied by Industry Canada.

Structured telephone interviews lasting from 15 to 45 minutes, based on a customized interview guide, were conducted with three companies that qualified as global gazelles.

The interview guide was designed to capture experiences and lessons learned from global gazelle entrepreneurs.

3 INDUSTRY EXPERTS

This chapter provides insight from those who are knowledgeable of SME growth and dynamics, obtained through internet research and telephone interviews, on the unique nature and financial environment of global gazelles.

3.1 Main industries that attract global gazelles

Global gazelles are in a variety of businesses, the largest segments being IT-related business services, manufacturing “consumer goods” and software development. Bizzel notes that “the trend is now in high-end wireless telecommunication software and hardware”.

Sectoral breakdown of Canada's 100 fastest growing companies	
Business services:	31
<i>Transportation and logistics</i>	(1)
<i>Telecom-related</i>	(4)
<i>Marketing-related</i>	(3)
<i>IT-related</i>	(11)
<i>HR-related</i>	(4)
<i>Other</i>	(8)
Manufacturing:	26
<i>Telecom-related</i>	(3)
<i>Consumer goods</i>	(11)
<i>Other</i>	(12)
Software developers	12
Wholesale / distribution:	7
Consumer services	5
Financial services	4
Pharmaceutical manufacturing/services	3
Publishing	3
Retail	3
Construction	2
Real estate	2
Entertainment	1
Healthcare services	1
Total	100

Source: Profitguide.com, Profit 100 Overview: *The Only Thing That Matters*, Kim Shiftman, June 2005

According to Askew, the main industries that attract gazelles are:

- niche subsets of industries where there are no big competitors;
- new technologies – the risk profile has a skewed distribution that predicts a higher chance of failure, but a larger reward if successful; and
- global services in niche roles within alliances and affiliates.

3.2 Unique features of global gazelles

The unique features of global gazelles:

- Are internationally focused;
- Have the ability to leverage their global knowledge of business and use it for the services and/or goods they produce;
- know how to attract equity investment;
- expect to quickly realize growth potential;
- operate in their chosen niche market;
- have strong ties with foreign networks;
- have prior experience in business with other countries;
- are opportunists;
- are flexible in exploiting gaps; and
- change their business model as they go.

Entrepreneurs who start these global businesses:

- are usually middle 30 to 40 years of age;
- have a university education;
- are highly motivated;
- have excellent networking skills and connections;
- have the ability to assemble a strong management team;
- know the foreign culture and markets;
- have prior experience and contacts in the related industry;
- have past experience in starting a business;
- intend to start another business in the future;
- are risk takers; and
- have the ability to deal with ambiguity and financial risk.

Writing in Business Week, Hamm¹³ states that with competition more intense than ever, long-standing companies are angling to become "overnight sensations," creating new products and entire businesses almost instantly by using technology to seek out new markets, outsource services and cut the time from "idea" to "in stores now." This is a new phenomenon, resulting in a new corporate environment driven by a single principle – survival of the fleetest. Perry (an angel investor and owner of several global gazelles) states "the unique features of global gazelles are their ability to leverage their knowledge in a global market and their ability to change when one of their products matures in that market".

According to Askew, research has indicated that entrepreneurs who start global gazelles are individuals who feel psychologically close to the country they are internationally sourcing from and/or selling into (e.g. immigrants, second generation Canadians and highly internationalized Canadians). Actual geography is not important. A predisposition to internationalization and a familiarity/openness with the source and/or target countries is the key factor. Entrepreneurs with previous experience in multinationals who are familiar with global supply and distribution chains, and have sold goods and services internationally, would be able to identify business potential in such global value chains.

The opening up of global markets will increase as immigrants come into Canada, because they understand the culture, business practices and language of their previous homes.

3.3 Unique qualities of financing needs

The unique qualities of global gazelle financing are:

- the entrepreneur has a good credit history;
- needs start-up capital from angel investors or venture capitalists, because of the global risk in their business model;
- personally contributes financially in the business;
- willing and able to give up equity for additional financing;
- needs education on foreign currency management;
- constantly looking for strategic alliances or partnerships to support business development; and
- has low cash flows and needs long cash repayment cycles.

The growth rate of gazelles is often dependent on the willingness of the entrepreneur to give up an ownership percentage in exchange for early-stage financing.

Askew states that most of the highly successful entrepreneurs have bootstrapped their businesses into existence and collateralized their private assets to acquire equity and working capital to fulfill contracts. If they are doing international business, then payment terms, collections, invoice discrepancies and long cash cycles are likely a problem.

The table below shows the total venture capital investment activity by sector in 2005 compared with 2004. The total number of financings and the amount financed in each year were similar.

Venture Capital Investment Activity by Sector								
Industry	2005		2004		2005		2004	
	Financings		Financings		Amount		Amount	
	#	%	#	%	(\$ million)	%	(\$ million)	%
Biopharmaceuticals	65	10	84	15	344	19	346	19
Healthcare	6	1	5	1	14	1	9	1
Medical Devices and Equipment	20	3	21	4	77	4	92	4
Medical/Biotech Software and Info Services	10	2	10	1	11	1	20	1
Total Life Sciences	101	16%	120	20%	446	24%	467	25%
Communications and Networking	60	9	61	13	335	18	357	18
Electronics and Computer Hardware	38	6	46	8	123	7	80	7
Internet Focus	37	6	32	6	104	6	71	6
Other IT Services	16	3	6	2	26	1	24	1
Semiconductors	10	2	18	2	50	3	171	3
Software	102	16	105	18	286	16	252	16
Total IT	263	41%	268	44%	924	51%	955	52%
Energy and Environmental Technologies	31	5	36	4	65	4	71	4
Other Technologies	27	4	11	4	45	2	21	2
Total Other Technologies	58	9%	47	8%	110	6%	92	5%
Consumer and Business Services	59	9	34	6	101	6	70	6
Consumer Products	35	5	36	4	38	2	88	2
Manufacturing	68	11	52	7	139	8	106	8
Miscellaneous	55	9	47	5	69	4	55	4
Retailers	-	-	3	-	-	-	1	-
Total Traditional	217	34%	172	28%	347	19%	320	17%
Total	639	100%	607	100%	1,827	100%	1,834	100%

Source: Canadian Venture Capital and Private Equity Association (CVCA), *Venture Capital Investment Activity by Sector* (<http://www.cvca.ca/files/News/Table3.pdf>)

The table indicates that 41% of the number of venture capital financings was in the information technology sector in 2005.

3.4 Financing issues including sources of financing and lending decisions

The financing issues of global gazelles are similar to other high risk businesses with the start-up capital being the most difficult to raise. Start up capital is commonly raised through;

- personal line of credit;
- personal credit cards;
- leasing;
- love money from friends and families;
- government loans and grants;
- angel investors; and
- venture capitalists.

Not until a gazelle has an established business model and a proven track record will the traditional banks or funds display show interest in financing.

According to Askew, research has indicated that the international aspect of global gazelles can complicate financial analysis by lenders, more so than a traditional high growth venture. Creditworthiness is a major factor. Lenders are more comfortable when they see partnership with venture capital investors and/or traditional or governmental institutional support.

Webber states that gazelles usually have two rounds of financing. The first round is funded by angel investors and/or venture capitalists who are familiar with the gazelle's technology

and the foreign market in which it is operating. The second round is after the gazelle has developed the product and/or service and financing is needed to commercialize.

3.5 Unique qualities of ownership and management

Global gazelle enterprises often distinguish themselves from other SMEs, having sold a portion of their business in exchange for start-up capital. The gazelles usually take the form of an incorporated company with a capital structure reflecting the early stage “sweat” equity provided by the founder, angel or venture capitalist, together with asset-backed debt from other more traditional sources. Regardless of their capital structure, their organizational structure almost always tends to be very flat, with the owner overseeing various departments instead of delegating and developing departments.

Hughes states that the unique organizational structure of a global gazelle is that the owners have difficulty finding skilled labour that meets their own standards, and as a result, they tend to perform multiple jobs. The organizational challenge of the gazelle, being horizontal, is the owner’s ability to manage growth. As Rao further remarks, this is not necessarily a hindrance, as the gazelle’s success often continues to depend on the intellectual capital of the original owner.

3.6 Key drivers of success

The key drivers of success in global gazelles are:

- ability to manage a rapidly growing business;
- ability to management risk;
- familiarity of target global market and foreign network;
- ability to take technical (intellectual property) and financial risks based on experience, analysis, market and contact knowledge, and intuitive belief.
- rapid development of leading edge technology;
- frequent access to new capital to finance rapid growth;
- vision to see globally; and
- ability to leverage resources globally.

Remillard states that the three most important factors for a global gazelle’s success is management, management and management. He further relays a common saying in the venture capital world, “in this business you bet on the jockey, not on the horse.”

3.7 Challenges to growth

The main challenge for a global gazelle to sustain growth is access to timely financing. As the global gazelle rapidly grows, it usually experiences a working capital deficit.

As already mentioned, the ability of the owner to let go of control is a challenge. In many global gazelle enterprises the value of the company is in its intellectual capital (frequently the knowledge held by the owner).

As in many business cases the growth of the business goes as far as the ability of the owner to transfer their intangible knowledge to other individuals, and to focus on the owner's personal skills in networking, product development, sales, etc.

Roa states that the main challenge for a global gazelle to sustain growth is ensuring that its products and/or services are aggressively competitive.

Other challenges to growth include the high cost and availability of insurance, exchange rate risk and lack of working capital sufficient to operate in foreign markets.

3.8 Value created by global gazelles

The predominant value created in global gazelles is intellectual property. Intellectual property is defined¹⁴ as any intangible asset that consists of human knowledge and ideas, such as patents, copyrights, trademarks and software. Such assets cannot be recognized on a balance sheet unless purchased. Intellectual property introduces to the marketplace new technology, improves products and streamlines processes. The creation of intellectual property challenges company insiders to think outside of the box when problem solving.

Remilliard notes that global gazelles bring their country of origin to the attention of foreign markets.

3.9 Current public policy and incentives

Most respondents indicated that they are unaware of any public policy and incentives offered in Canada to facilitate and stimulate growth of global gazelle.

Charbonneau¹⁵ points to EDC as a source of funds that is willing to invest in gazelles operating in typically riskier areas of the world. He believes there to be 15-20 different assistance programs offered by all three levels of government. The problem is that it is very difficult for entrepreneurs to stay abreast of the different options available to them. He suggests a "one-stop shop" that would be the first contact for an entrepreneur when financing their business.

According to the United Chinese Community Enrichment Services Society, they offer a new program "Business Links" which is designed for new immigrants and was originated by Western Economic Diversification Canada. The program links new entrepreneurs with experienced business advisors who provide advice on preparing a business plan and getting a loan approved. Out of the 271 clients served up to January 2006, the countries of origin were 62.6% Chinese, 23.8% Korean, and others 13.6%.¹⁶

3.10 Potential changes in public policy and incentives

Most of the respondents indicated that they are unaware of any new public policy and incentives that will be offered in Canada to facilitate and stimulate the growth of global gazelles.

4 GLOBAL GAZELLE COMPANIES

Interviews were conducted with entrepreneurs whose company fits the global gazelle definition of any high growth SME, or divisional enterprise within a larger entrepreneurial firm, that is dependent on at least 50% of its revenues and/or goods purchased in a foreign market or markets.

The companies were chosen from internet listings by PROFITguide.com¹⁷ and BC Business Magazine¹⁸ of the fastest growing companies in Canada. The companies are involved in industries including manufacturing, pharmaceuticals, and technology. Six entrepreneurs whose company is experiencing high growth in a global market were interviewed.

4.1 *Company backgrounds*

Of those interviewed, five out of the six of the companies are now listed on the stock market resulting in their shares being widely owned. One company is privately owned by a small number of individuals.

The commonality among the companies is that they were started by one or more individuals who had experience in the industry, and saw some form of a global opportunity in a niche sector of the industry.

4.2 *Key motives for starting the company*

The key motives for starting the company were essentially the same as for the traditional SMEs. The University Certificate in New Business Enterprise by e-Learning¹⁹ states that the top motives for starting a company are:

- freedom in approach to work;
- make more money than before;
- be your own boss;
- personal challenge to make an idea happen; and
- better position in society.

In recent years, advancements in communications technologies enable global businesses to become more agile and faster to compete and survive. Global outsourcing is now possible through a vast network of suppliers around the world ready and willing to do business, such as in manufacturing products or providing expert professional services. Global outsourcing helps companies create supply chains that are faster, more flexible, and more efficient than ever before.

This new business environment creates motive for employees to leave their existing job, start a global company, capitalize on global opportunities, and experience the greater scope of being an entrepreneur (far more exciting than being just an employee).

4.3 *Background of the shareholders*

Gazelle respondents indicated that the founding shareholders had previously been involved in similar industries and were middle-aged at the time.

In June 2005, the Boston Consulting Group released a study, *The New Agenda for Minority Business Development*, which concluded that many minority-owned businesses don't evolve into high-growth ventures, typically because their owners rely on personal debt and family loans, rather than tapping into other capital sources, such as bank loans and equity markets.

4.4 Growth record

The gazelle respondents indicated that their company had been started between seven and 13 years ago, and that they had maintained high growth in each year. The rate of growth changed over time – generally, in the early years the respondent companies experienced rapid growth until they reached a maturity stage, then the growth slowed (except when new products, services or acquisitions were added to the mix).

The respondents experienced a revenue growth record in the range of 354% to 1,206% over five years – the growth being due to acquisitions, expanding the product line and developing new markets.

Research has indicated that the fastest growing companies in Canada have averaged five-year sales growth of 1,609%, earning 41% of their 2004 revenue abroad (\$2 billion), up from 25% in 1999 (\$118 million).²⁰

4.5 Countries involved

The gazelle respondents import or export goods and/or services from/to: Australia, China, India, Korea, Taiwan, France, United Kingdom, throughout other parts of the European Union, and the United States.

The table opposite indicates that 72 out of the top 100 profitable companies in Canada engage in the exporting of goods and/or services – exports contribute 57% to these companies' total sales. The top three export markets are the United States, United Kingdom and Western Europe.

Number of PROFIT 100 exporters	72
Their average exports as a % of sales	57%
Total 2004 exports	\$1.99 billion
No. of companies that export to:	
U.S.	68
U.K.	43
Western Europe	43
Mexico	23
Japan	23
Australia	23
Pacific Rim	21
Middle East	18
Africa	16
Eastern Europe	16
China	15
Central America	16
South America	14
Brazil	13
India	12
Russia	10
Central Asia	9

Profit 100 Overview: The Only Thing That Matters, Kim Shiftman, Profitguide.com, June 2005

4.6 Partner organizations

The gazelle respondents indicated that a foreign organization had partnered with them. The organizations were in France and the United Kingdom.

Examples of partnerships found elsewhere in research show that:

- electronics retailer Best Buy Co. is checking with venture capitalists to find out what their start-ups are working on.
- Procter & Gamble Co. uses online networks to get in touch with thousands of experts worldwide, helping the company to produce 100 new products in the past two years.

4.7 Sources of start-up capital

The gazelle respondents indicated that they had obtained start-up capital from different sources. One company had financed their start-up from a personal line of credit, another from private investors, and another made an initial public offering.

4.8 Sources of current financing

The gazelle respondents indicated that the sources of current financing are from traditional lending institutions, such as the HSBC and the Royal Bank. All the respondents indicated that they have no current needs for financing their high growth business.

According to 2000 data from the U.K., high growth companies used the following formal and informal types of financing:

Formal types of financing in 2000

- 50% used commercial loans and lines of credits
- 32% used commercial credit cards
- 20% used leasing

Informal types of financing in 2000

- 47% used trade credit to suppliers
- 37% used the personal credit cards of the owners
- 35% used the personal savings of the owners
- 13% used loans from friends and relatives of the owners²¹

The chart below indicates that the financing of high growth enterprise in Canada has changed from traditional commercial banks in 2000 to financing from the owners of the enterprises.

Where PROFIT 100 CEOs found the capital they crave (in the past five years)	
Owners	82
Chartered banks	76
Leasing	56
Friends and relatives	34
Public stock issues	25
BDC	23
Credit cards	21
Private investors other than angels	20
Venture capitalists	20
Angels	15
Foreign banks	12
Employees	9
Suppliers	9
Other financial institutions	8
Other government	7
Barter	6
Asset-based lending	6
Credit unions	5
Customers	4
Bond issues	2
Factoring	2

Profit 100 Overview: The Only Thing That Matters, Kim Shiftman, Profitguide.com, June 2005

4.9 Use of funds at key points in time

The gazelle respondents indicated that key points of financing were to finance growth into new markets or to maintain product development.

The table below shows an analysis of total venture capital investment activity in Canada (number of financings and total dollars), by stage of development, in 2005, compared with 2004 and 2003.

Total Venture Capital Investment Activity in Canada by Stage of development						
Stage	2005		2004		2003	
	Financings	Amount (\$ million)	Financings	Amount (\$ million)	Financings	Amount (\$ million)
Early stage	319	901	339	919	376	851
Expansion	284	858	212	783	281	760
Acquisition / buyout	11	17	25	101	13	23
Turnaround	8	15	22	18	20	18
Other	17	38	9	14	15	22

Source: Canadian Venture Capital and Private Equity Association (CVCA), *Venture Capital Investment Activity by Stage* (<http://www.cvca.ca/files/News/Table2.pdf>)

4.10 Future growth plans and potential funding needs

The respondents indicated that future use of funds will be to develop new growth markets and finance new and/or existing technologies or processes.

The majority of high growth small firms regarded themselves as prospectors, rather than defenders, analysers or reactors.²²

According to Dent of Anglo Tech Pharmaceuticals, their future plans to maintain high revenue and earnings growth will be through acquisition of complementary products and/or technologies.

Winbald²³ states that venture capitalists look for companies (which can be of significant size), that have strong growth potential, a track record, plans and ingenuity.

4.11 Biggest problems

The biggest problems reported by the gazelle respondents are:

- the management of foreign exchange;
- the high Canadian dollar;
- time management;
- focusing on marketing;
- developing new strategies; and
- building out the operation.

This response is consistent with the comments made by industry experts – the biggest problems in a high growth global business being access to new financing, management of people, foreign currency and developing new products and/or services.

Ramsdale²⁴ states that the biggest challenge is spending time on new marketing and not getting distracted by the day to day activities required to run a business. There needs to be more time spent on new strategies and developing new marketing.

According to Charbonneau, research has indicated that the top barriers to internationalising in Canada (internationalising being defined as all constraints that hinder a firm's ability to initiate, develop, or sustain business operations in overseas markets) are:

- excessive transportation/insurance costs;
- foreign currency exchange risks;
- inadequate returns;
- difficulty in supplying inventory abroad;
- lack of personnel experienced in internationalisation;
- unfamiliar foreign business practices;
- product not exportable;
- corporate organization-related barriers; and
- developing new products for foreign markets (product development capacities).

4.12 What would stimulate additional growth and profitability

The gazelle respondents indicated that for stimulation of additional growth and profitability to occur, they will need access to more capital to finance sales growth and partnerships to enable the development of new technologies.

According to Dent, for additional growth to occur, new technological advancement needs to occur. In the earlier stages, strategic partnerships with companies such as Boston Scientific, Baxter and Polymed significantly contributed to the high growth of their business.

4.13 Friendliness of the Canadian business and government compared with other countries

Only one gazelle respondent (Perry) could comment on whether Canadian business and government are more or less friendly than other countries.

Other countries celebrate, educate and promote the entrepreneur more than in Canada. Perry states that Canada does not promote the entrepreneur compared to other countries such as in Asia and the United States, where they are viewed as celebrities. Canada needs to change the education system as early as high school to promote starting a new business.

4.14 Advantages / disadvantages of company situation compared with others

The gazelle respondents are not aware of any current or potential public policy and incentives that would be an advantage or disadvantage compared with others.

5 GOVERNMENT POLICY, PROGRAM INCENTIVES AND CONSTRAINTS

5.1 Government of Canada policies

The Canadian government has set a clear course aimed at aiding global gazelles to obtain and/or secure financing, by making venture capital investing more attractive, stimulating entrepreneurship and creating an advantage for investment in Canada. Incentives include:

- reduced Canadian corporate income tax; (before June 30, 2005 – 34.86%; after June 30, 2006 – 34.12%, for net income over \$400,000);
- elimination of the federal capital tax (currently 0.175%; 2008 nil);
- reduction of taxes on small and medium-sized business (current federal small business deduction limit of 13.12% on net income less than \$300,000 – proposed change from \$300,000 to \$400,000 net income);
- reduction of capital gains tax (in 2000 the tax rate changed from 75% to 50% on capital gains – proposed elimination of capital gains tax in the future);
- expansion of tax free capital gains rollovers for small business investors (2003 – defer the taxation of capital gains on small business shares up to \$500,000 if they reinvest the proceeds of disposition in other small businesses);
- reduction of the goods and services tax from 7% to 6.5% during 2006.
- encouraging pension fund participation in venture capital investments (2003 – allow for pension funds to invest in venture capital markets);
- creating targeted venture capital pools (BDC target investments in life science, telecommunications, information technology and advanced technologies – \$500 million currently invested); and
- increase in spending on ideas and discoveries generated in universities, colleges, research hospitals and other research institutions, as well as innovative private sector firms (increased federal spending of \$13 billion for the period 1998 to 2005).

5.2 Trade agreements

Trade agreements also influence financing for business. Some examples of trade agreements signed by the Canadian and other governments are:

Canada: North American Free Trade Agreement (NAFTA), World Trade Organization on Government Procurement (WTO-AGP), Canada-Korea Telecommunications Equipment Agreement (CKTEA), Agreement on Internal Trade (AIT), Asia Pacific Economic Co-operation (APEC), North Atlantic Treaty Organization (NATO), Canada-Costa Rica Free Trade Agreement (CCRFTA), Canada-Chile Free Trade Agreements (CCFTA), Canada-Israel Free Trade Agreement (CIFTA), Pacific NorthWest Economic Region (PNWER), Organisation for Economic Co-operation and Development (OECD) and Free Trade Area of the Americas (FTAA).

Australia: WTO, USA - Australia Free Trade Agreement (AUSFTA), Thailand - USA Free Trade Agreement (TAFTA), Singapore - Australia Free Trade Agreement (SAFTA) and the Australia-New Zealand Closer Economic Relationship agreement.

Ireland: WTO, (Member of the European Union - European Commission), EU-Mexico Free Trade Agreement, EU-Mercosur Association Agreement (under negotiations), EU-South Africa Free Trade Agreement.

New Zealand: WTO, AIT, Australia-New Zealand Closer Economic Relationship agreement, Trade Facilitation Agreement with ASEAN, New Zealand and Thailand Closer Economic Partnership, New Zealand and Singapore Closer Economic Partnership.

United States: WTO, North American Free Trade Agreement, Pacific Northwest Economic Region, USA-Australia free trade agreement; USA-Central American/Dominican Republic Free Trade Agreement, USA-Chile Free Trade Agreement, USA-Israel Free Trade Agreement, USA-Jordan Free Trade Agreement, USA-Morocco Free Trade Agreement, Singapore Free Trade Agreement.

United Kingdom: WTO, (Member of the European Union - European Commission), EU-Mexico Free Trade Agreement, EU-Mercosur Association Agreement (under negotiations), EU-South Africa Free Trade Agreement.

5.3 Government program incentives

The Canadian government has many program incentives that aid global gazelles in obtaining and/or securing financing.

Two examples of well-known Canadian government institutions that provide incentives aimed at assisting SMEs (including global gazelles) to obtain and secure global financing are:

5.3.1 Business Development Bank of Canada (BDC)

The BDC is a Crown corporation providing financial and consulting solutions for SMEs. The BDC promotes investment and development of Canadian domestic and global businesses operating in knowledge based, growth-oriented industries and export markets, by providing the following services to secure and obtain financing:

- Venture capital investment – investment in every stage of a company's development cycle (seed to expansion). The focus is on technology-based businesses that have high growth potential (advanced technologies, information technology, life sciences and telecommunications).
- Subordinate financing – a hybrid product bringing together both debt and equity financing.
- Education – consultants available with specific industry experience in sales, marketing, business development, production, R&D, strategic direction, executive hiring, commercialization and exporting.

5.3.2 Export Development Canada (EDC)

The EDC is a Crown corporation that provides trade finance and risk management services to Canadian exports and investors in up to 200 markets worldwide. The EDC provides the following services to aid global gazelles in exporting and financing in the world market:

- Financing – pre-shipment financing for exporters that need cash for manufacturing their goods before they export, equity investment to increase market reach by accessing capital, note purchases allowing exporters to extend

credit to the foreign buyer, and Canadian foreign investment which allows exporters to meet growing export demands or increase their international positioning.

- Insurance – credit insurance for export transactions, contract insurance for capital goods, service contracts or projects and political risk insurance for overseas investments and assets.
- Bonding – performance security guarantees that allow for 100% guarantee to the bank for a bond, and surety bond insurance providing risk sharing reinsurance for up to 100% of the bond liability.
- Online services – financial and credit information on US and other foreign buyers, online accounts receivable insurance for single transactions and access to the Receivables Insurance Centre (RIC), contract bonding and guarantee centre free research information and other online products and services.

In general, the assistance provided to businesses by government institutions is not specifically directed to global gazelles, but they can take advantage of the institutional support.

The following two pages list government program incentives in Canada and other countries that influence financing for businesses.

Country	Program Incentives					
	Source of capital	Trade education	Grants & subsidies	Export financing	Domestic tax reduction	Export credit insurance
Canada	EDC - equity and venture capital investment. BDC - equity and venture capital investment, focus on IT and life sciences. Aboriginal Business Canada, Agriculture and Agri-Food Canada, Atlantic Canada Opportunities Agency, Canada Economic Development, Federal Economic Development Initiative for Northern Ontario, Industry Canada, Western Economic Diversification Canada. Many provincial sources of capital across Canada.	BDC - consulting services, in exporting, e-business, quality, start up and growth & acquisition. EDC - export and import consulting.	Subsidies and grants from federal and provincial agencies, such as The Small Business Funding Center. Various university grants for research and development.	BDC - up to \$150,000 in start-up financing. EDC – pre-shipment financing, equity investments, note payables.	Small business deduction. Research and Development tax credits. Capital gains tax. RDTOH. Capital tax.	EDC - credit, contract and political insurance.
Australia	AusIndustry, R&D Start - funding for R&D stages of new projects for companies with a turnover less than \$A50 million. Innovation Investment Fund - up to \$A500,000 for seed, start up or early expansion funding.	Austrade - free consulting, advice and information for export. AusIndustry - Building Entrepreneurship in Small Business Program (BESB).	Export Market Development Grants - reimburses up to 50% of export promotion expenses above \$15,000 incurred in the previous financial year. AusIndustry - Regulation reduction and incentive grants.	Export Finance and Insurance Corporation (EFIC) - medium to long-term finance through direct loans, export finance guarantees, documentary credit guarantees and bonds.	AusIndustry - tax deduction of up to 125% of R&D expenditures, custom duties and GST exemption on imported goods intended for re-export, income tax exemptions to assist companies to win international contracts, and tax credits to shareholders when dividends paid.	Export Finance and Insurance Corporation (EFIC) - political risk insurance, medium term payments insurance and unfair bond calling insurance.
Ireland	Enterprise Ireland - financing for companies exploring new opportunities and high potential start up companies; partners with private sector to provide venture capital in certain cases.	Enterprise Ireland, International Selling Program - free consulting, advice and information for business creation export.	Enterprise Ireland - Various subsidies and grants for feasibility studies, R&D, environmentally superior products, market research, training.	Enterprise Ireland - various support and consulting services for exporters (but does not provide direct financing).	Industrial Development Agency - tax credits for R&D expenditures, tax deductions on certain intellectual property rights, and capital gains tax deduction on holding companies.	Enterprise Ireland - various support and consulting services for exporters for obtaining sources of credit insurance.

Country	Program Incentives					
	Source of capital	Trade education	Grants & subsidies	Export financing	Domestic tax reduction	Export credit insurance
New Zealand	Government does not have a venture capital program, and does not support third-party organizations as a financier of last resort.	New Zealand Trade & Enterprise, Escalator Program - assessment of business concepts and investment potentials, investment workshops, brokering expertise and assistance to raise capital up to \$5 million, and strategic partnership negotiation expertise. New Zealand Trade & Enterprise - Enterprise Training Program and other programs offer training and coaching for SME owners and operators aimed at business growth, and Exporter Education Program.	Foundation for Research, Science and Technology (FRST) - up to 33.3% of eligible costs of R&D. New Zealand Trade & Enterprise - grants for capacity building and market development.	New Zealand Trade & Enterprise, Exporter Education Program - consulting services on how to obtain financing for exporting.	Tax credits to shareholders when dividends are paid, and deductions for certain environmental expenditures.	New Zealand Export Credit Office (ECO) - export credit guarantees for short, medium and long terms, covering an exporter if the importer or their bank defaults on payment.
United States	US SBA – investment, business loan and disaster loan programs, and bonding for contractors. Oversees programs such as New Markets Venture Capital Program and Small Business Investment Company Program.	Small Business Administration (SBA) - consulting and counseling on start-up and exporting.	Various subsidies and grants, such as FAST Grant for Small Business Innovation Research.	Export-Import Bank of the US (EXIMBANK). SBA - loans, and provides guarantees and insurance for loans. Department of Agriculture - incentives for agricultural exports.	Tax credits to companies for making their businesses accessible to persons with disabilities, for hiring certain low-income groups, for having certain activities in certain Indian reservations, for being located in certain distress zones, for having research activities. State tax credits for investing in certain industries, e.g. biotechnology.	EXIMBANK - insurance for loans.
United Kingdom	Econtent Program (through the EU) - funding to support growth and development of the digital content industry.	Department of Trade and Industry (DTI) - Knowledge Transfer Partnership Program	DTI - grants to companies involved in R&D of technologically innovative products or processes.	Export Credits Guarantee Department - Supplier Credit Finance facility (SCF) allows the supplier to pass the payment risk to the bank. Can be used for light capital goods and capital goods exports and related services.	Tax relief for R&D by allowing companies to deduct up to 150% (for SMEs) and up to 125% (for large companies) of qualifying expenditure on R&D activities, when calculating their profit for tax purposes.	Export Credits Guarantee Department - export credit insurance covering three basic risks: buyer default, buyer insolvency and country risk, and bond insurance.

5.4 Government controls over cross-border movement of goods

Certain governmental controls over the cross-border movement of goods influence ease of access to business financing.

Import and export controls in Canada and other countries protect important domestic industries. For example:

- International Trade Canada (ITCan) helps small Canadian companies promote Canada as a place to do business and by negotiating and administering trade agreements. The Export and Import Controls Bureau (a department of ITCan) is responsible for administering and controlling the flow of goods to and from Canada under the Export and Import Permits Act (EIPA). The EIPA provides lists, such as the Import Control List (ICL), Export Control List (ECL), and the Area Control List (ACL) that protect Canadian business, but also restrict global free trade. The ICL generally comprises a list of goods, some of which are only controlled for certain countries of origin – all goods on this list require an import permit. The ECL is a list of goods only – all goods on this list also require an export permit. The ACL is a list of countries for which export permits are required to export any and all goods.
- Countries have different testing requirements, standards and customs regulations for the importation of goods. For example, member countries of the European Union require a “CE” mark that certifies that a product has met EU health, safety and environmental requirements. All manufacturers in the European Union (EU) and abroad must meet CE mark requirements where applicable in order to market their products in Europe. New Zealand is recommending adoption of international standards for imported goods.

While designed to protect important domestic industries, such controls are sometimes viewed by business people as barriers to business growth.

6 SUMMARY OF KEY FINDINGS

6.1 Conclusions

Global gazelles represent a revolution in doing business, concurrent with the revolution in high speed global communications.

At start-up, initial capital is most often obtained through personal savings, line of credit and credit cards, much like traditional SMEs. The difference is that with gazelles, their rapid growth forces them to constantly seek hard to find new financing to sustain their growth.

Traditional banks require valuable security to be pledged against a loan. The greatest value in many global gazelle businesses is intellectual capital, which while representing true business value, is hard to quantify as collateral. At various stages of their growth, gazelles therefore have to compete with other entrepreneurs for high-priced alternative financing from angel investors and venture capitalists, or obtaining “love money” through their personal network.

Global gazelles tend to focus on industries that offer higher than normal returns to fund the high returns required from angel investors and venture capitalists. Gazelles typically operate in the IT-related business services, manufacturing “consumer goods” and software development sectors, producing higher rates of return than traditional sectors.

Global gazelle entrepreneurs have a financing disadvantage compared with traditional small to medium sized enterprises (SMEs), as the risks associated with doing business in a global market place are greater than in a domestic market.

On the other hand, global gazelles have an advantage over traditional SMEs wishing to enter foreign markets, in that they usually have experience in the markets in which they operate, and have established network connections in the foreign countries in which they trade – they are often immigrants from those countries.

Global gazelles are not just start-up companies. With competition more intense than ever, long-standing companies are creating new products and entire businesses almost instantly by using technology to seek out new markets.

6.2 Policy and program incentive recommendations

The Government of Canada and other bodies have numerous policies and program incentives that nurture the growth of global gazelles. However, the majority of our respondents in this research said that they were not aware of any of the current or planned government policies and program incentives in Canada, or in other parts of the world.

Canadian policies and program incentives in support of global gazelles would be more effective and experience greater take-up by implementing the following recommendations:

1. Improve the domestic marketing of government programs to aid in the financing and other assistance of global gazelles. Educate entrepreneurs, government officials and industry experts on current government policies and incentives available to global gazelles. Especially for entrepreneurs, it is difficult to stay abreast of the different options available to them.

*Promote
incentives*

- Streamline approvals***
2. Reduce the turnaround time for intellectual property patent and copyright approval. For swift moving gazelles, the pace of others can be a hindrance and a source of frustration.
- Restructure taxes***
3. Restructure the tax system to improve the cash flow of global gazelles, especially with effect in the early formative years.
4. Continually consider alternative ways to support entrepreneurs, including:
- Find new ways to support SMEs***
- encourage corporations to place a greater emphasis on working in alliances with SMEs; and
 - support organizations such as the United Chinese Community Enrichment Services Society.
- Celebrate successes***
5. Celebrate, promote and publicize entrepreneurs' successes. View them and treat them as celebrities.
- Invest in the young***
6. In the education system, as early as high school, promote and provide information to young people on starting a new business.

7 INTERVIEW GUIDE – INDUSTRY EXPERTS

1. Part of MNP's assignment is to develop a definition of Global Gazelles. How would you define them?
2. Who are the entrepreneurs who start Global Gazelles?
3. In the main, what are the industries in which they wish to participate? (e.g. Bio-tech, wireless communications, commodity trading, manufacturing, telecommunications, etc.)
4. What would you say are the unique features of Global Gazelles, setting them aside from all other businesses? What are the reasons for these unique features?
5. What unique financing needs do they have? (e.g. repayment terms, unsecured debt, trade finance)
6. If you were developing a financial model of a Global Gazelle, what would be the milestones that mark refinancing in order to sustain consistent growth?
7. What unique organizational and/or governance structures do they adopt? Why?
8. Where do they usually get their finance? (e.g. family loans, friends, shareholder loans, loans from other countries, banks, credit unions, personal LOC, loans from ethnic organizations, venture capital, government grants, university grants, credit card, competitors, angel investors, etc.)
9. What are the financing issues for lenders when dealing with Global Gazelles?
10. What are the key drivers of their success? What are their unique strengths?
11. What are the main challenges to them sustaining growth?
12. What is usually the value created in Global Gazelle companies? (e.g. intellectual property, technology, job creation, intimate knowledge of markets)
13. What are the public policy and incentives offered in Canada to facilitate and stimulate the growth of Global Gazelles? (e.g. Tax incentives, wage subsidies, reduced property tax, R&D tax credits, duties, etc.)
14. Are public policy and incentives for Global Gazelles better in other countries? In what ways?
15. What new public policy and incentives for Global Gazelles are in the pipeline in Canada and other countries?

8 INTERVIEW GUIDE – GLOBAL GAZELLE COMPANIES

1. Part of MNP's assignment is to develop a definition of Global Gazelles. How would you define them?
2. Could you provide us with some background of your company and shareholders (i.e. industry, countries, employees, KSF's)
3. When was the company started? How long did you conceptualize the idea before you started the company
4. What has your company's growth been since inception? (revenues, output, market share, employees)
5. What countries is your company current involved in? What countries do you plan to be involved in?
6. Have you partnered with any organizations for investment purposes or product development?
7. What would you say are the unique features of your company, setting them aside from all other businesses? What are the reasons for these unique features?
8. What unique financing needs does your company have? (e.g. repayment terms, unsecured debt, trade finance)
9. If you were developing a financial model of your company, what would be the milestones that mark refinancing in order to sustain consistent growth?
10. Where did you get your start-up financing loans from? (e.g. family loans, friends, shareholder loans, loans from other countries, banks, credit unions, personal LOC, loans from ethnic organizations, venture capital, government grants, university grants, credit card, competitors, angel investors, etc.)
11. What were the financing issues for lenders when dealing with your company?
12. What is your company's future growth plan? What financing issues do you predict you will have?
13. What are your main challenges to sustaining growth?
14. What would simulate additional growth and profitability in your company?
15. What public policy and incentives offered in Canada did your use to facilitate and stimulate your company's growth? (e.g. Tax incentives, wage subsidies, reduced property tax, R&D tax credits, duties, etc.)
16. Are public policy and incentives better in other countries? In what ways?
17. Do you know of any new public policy and incentives that are in the pipeline in Canada and other countries?

9 REFERENCES

-
- ¹ Part of the definition is derived from business terms defined by Quanto Financial Technology website <http://www.equanto.com/glossary/g.html>
 - ² Richard Remillard, Executive Director, Canada's Venture Capital & Private Equity Association (CVCA), *interview March 16, 2006*
 - ³ Tim Askew, Senior Advisor, Export Development Canada, *interview March 20, 2006*
 - ⁴ Susan Hughes, Manager, Business Development bank of Canada, *interview March 16, 2006*
 - ⁵ Mike Volker, Director, Angel investor, *Interview March 14, 2006*
 - ⁶ Peter Webber, Senior Advisor, Small Business Financing Division, *interview March 13, 2006*
 - ⁷ Someshwar Roa, Director of Industry Canada – Strategic Investment Analysis, *interview March 15, 2006*
 - ⁸ Steve Ponte, Manger, TD Commercial Bank, *interview March 13, 2006*
 - ⁹ Gary Bizzell, Business Development Manager, SUCCESS, *interview March 10, 2006*
 - ¹⁰ Mervin Perry, Senior Associate, Doyletech Corporation, *interview March 15, 2006*
 - ¹¹ Jay Dent, Vice President – Finance of Angio Tech Pharmaceuticals Inc, *interview March 21, 2006*
 - ¹² *Small and Medium-sized Enterprises Financing in Canada 2003*, Industry Canada
 - ¹³ *Speed Demons*, Business Week, Steve Hamm, Ian Rowley, (March 2006)
 - ¹⁴ Investorwords website, http://www.investorwords.com/2526/intellectual_property.html
 - ¹⁵ Serge Charbonneau, Trade Commissioner – SME Policy – Industry Canada, *interview March 17, 2006*
 - ¹⁶ *Forging Links for Immigrant Success*, Andy Ivens, The Province, March 19, 2006
 - ¹⁷ <http://rankings.canadianbusiness.com/Profit100/list.asp>
 - ¹⁸ <http://www.bcbusinessmagazine.com/>
 - ¹⁹ <http://www.uclan.ac.uk/facs/class/cfe/NBE/2motives.htm>
 - ²⁰ *Profit 100 Overview: The Only Thing That Matters*, Kim Shiftman, Profitguide.com, June 2005
 - ²¹ *Small and Medium-sized Enterprises Financing in Canada (2003)*, prepared for the Government of Canada
 - ²² *In Search of the Drivers of High Growth in Manufacturing SMEs*, O'Regan, Ghobadian and Gallear, Middlesex University Business School, June 2005
 - ²³ *Startups on Fire*, Ann Winbald, President and co-founder of Hummer Winbald, quote from the November 2005 issue of Fortune Magazine
 - ²⁴ Margaret Ramsdale, President of Omega Fashions, *interview March 15, 2006*