Financing Services to Canadian Small and Medium Size Enterprises

Report on Focus Group Research

FINAL REPORT

Submitted To The:

Business Development Bank of Canada

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THIS DOCUMENT REFLECTS THE VIEWS AND THE COMMENTS OF THE MAJORITY OF THE PARTICIPANTS TO FOCUS GROUPS CONDUCTED BY THE ANGUS REID GROUP.

READERS SHOULD NOTE THAT WHILE MANY INSIGHTS AND CONCLUSIONS CAN BE GAINED FROM THIS RESEARCH, THE FINDINGS SHOULD BE VIEWED AS DIRECTIONAL AND EXPLORATORY RATHER THAN STATISTICALLY BASED; FOCUS GROUP RESEARCH IS QUALITATIVE IN NATURE AND INVOLVES A LIMITED NUMBER OF PARTICIPANTS.

SURVEY RESULTS INCLUDED IN THIS REPORT ARE BASED ON THE RESPONSES FROM 97 FOCUS GROUP PARTICIPANTS WHO WERE RECRUITED ON A RANDOM BASIS FROM SELECTED INDUSTRY SEGMENTS. THEY DO NOT REPRESENT THE VIEWS OF <u>ALL</u> SMALL AND MEDIUM SIZE ENTERPRISES.

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Executive Summary

Background

Angus Reid Group was commissioned by the Business Development Bank of Canada, to conduct an assessment of financing needs and issues of small and medium size Canadian enterprises (SME's). More specifically, the research was designed to address the following objectives:

- To evaluate the evolution of access to financing in the last five years for different segments within the Canadian small and medium size enterprise markets: knowledge-based industries / exporters; young entrepreneurs, micro-enterprises, women, aboriginals and accountants;
- To understand how Canadian small and medium size enterprises are served by financial institutions in terms of financing products and services;
- To understand financing needs of small and medium size Canadian enterprises;
- To understand the importance of e-business / business-to-business / Web activities for small and medium size Canadian enterprises; and,
- To evaluate the need for consulting services expressed by small and medium size Canadian enterprises.

The study, conducted with SME's from Vancouver to St. John's, utilized a combination of qualitative research techniques [focus groups, paired interviews, one-on-one depth interviews]. In addition to the depth discussions, 97 small and medium size enterprise participants completed a brief questionnaire. The questionnaire was administered prior to the discussion to facilitate the collection of completely spontaneous attitudes and opinions. Participants were screened to exclude current BDC clients from the research. The research was conducted from June 5 to July 5, 2000.

Summary of Research Findings

Access to Financing in the Past Five Years

Both from participant comments and from survey results, the majority perceive that in general, access to financing for small and medium size enterprises has either stayed the same or become more difficult over the last five years. Not only do the majority feel that access to financing has not become any easier for their own business, but they also perceive the situation to be the same for businesses in their industry sector, for businesses that have a profile similar to their own (size, sector, technology) and for small and medium size enterprises in general.

Those participants who indicated that it is easier to access financing today compared to five years ago believe the positive change is related primarily to an improvement in the financial health of their own business, to an improvement in general economic conditions, or to both factors. Comparatively fewer participants indicated that access to financing has become easier due to financial institutions having made loan conditions or loan processes any easier for small and medium size enterprises. In fact, even when prompted, only 26% of participants who expressed that access to financing has been easier for them, voiced this response. This compares to 51% of participants who said that it has been more difficult to get a business loan because financial institutions are more restrictive in their lending policies to small and medium size enterprises.

In terms of which types of lending institutions are making it more difficult to obtain financing for SME's today compared to five years ago, questionnaire results show that Canada's chartered banks top the list. Nearly half (47%) of participants say that chartered banks make it much more or somewhat more difficult to get a business loan today. Comparatively, insurance companies (23%), credit unions / caisse populaires (17%), foreign banks (14%), trust companies (14%), and leasing companies (5%) are not seen as impeding access to business financing for small and medium size enterprises to the same extent as chartered banks.

Looking forward, entrepreneurs feel that in the future, easier access to financing will simply be due to better economic conditions, to improvements in their company's financial health, to the fact that they know their way around the system better, or to increased competition from American lenders.... not because Canadian lending institutions will change their policies.

How Canadian SME's Are Served by Financial Institutions: Segment Analysis

Based on participant comments, it would appear that service to SME's varies by stage in the business lifecycle. For example, enterprises in the start-up phase find it nearly impossible to obtain a business loan unless personal guarantees, co-signatures or fixed asset collateral are pledged. Start-ups are required to establish a track record over time that encompasses a history of sales, profits, and good credit performance. This translates into credibility that enables them to be treated seriously when next approaching a financial institution for term financing. For many, this process takes at least two years.

Once a business is in the growth stage and has established its credibility with a good track record, it becomes easier to access financing. Looking at the far end of the continuum, virtually all participants agreed that it is easy for a small and medium size enterprise in the mature stage to get a business loan. At this stage of the business life cycle, financial institutions are more tolerant and more responsive. That said, many participants also perceive that personal guarantees are still required by financial institutions unless they have a well proven track record. Owner/managers are very aggressive in attempting to negotiate these types of guarantees out of their loan agreements.

Access to financing did vary somewhat by segment:

Women voiced the opinion that access to financing, especially in the start-up phase, is made possible only (or primarily) because there are targeted Government programs. Many would not have been able to start without Government assistance or without the co-signature of a husband or male partner.

For younger business people, the major impediment to obtaining financing is related to their lack of personal assets. That is, they have no collateral, no track record, and no history with which to substantiate their application.

Micro-enterprises perceive that financial institutions prefer larger loans, in that processing costs become more efficient at that level. There is also the sentiment among micro-enterprises that since the amount they want to borrow is relatively small, financial institutions direct them to credit lines, credit cards, overdrafts, personal loans and the like; products they feel are not adequate for their needs and products that are more expensive. To them, more established enterprises are less risky for banks because of the hard assets they can use as collateral.

Established / mature manufacturers or wholesalers say they experience few, if any problems obtaining bank financing because of their size and track record. However, even among this group there are clearly perceived limits to the type of financing they can obtain. For example, few indicated that they would even think to ask for Web site financing or financing for intangibles.

Enterprises involved in the new economy or in knowledge-based industries (KBIs) believe that non-traditional sectors such as theirs need entirely new lending criteria. Even those few account managers who are perceived to at least understand KBIs, are reluctant to take soft assets as collateral.

In addition to the challenges for SME's mentioned above, in rural communities, access to financing is also a problem of access to services and to decision-makers. Those services that currently exist, are limited and shrinking in rural areas. Participants voiced concern that financial institutions are leaving and that services are being centralized in larger cities, often outside their province. Even in urban centers, centralization of services was mentioned as an inhibitor to financing.

As advisors to small and medium size enterprises, accountants surveyed do not differ much from entrepreneurs in terms of their evaluation of access to financing over the past 5 years.

Access to financing for aboriginal businesses mirror that of other small and medium size enterprises. Start-ups experience the same requirements from the financial institutions. Young entrepreneurs experience the same problems related mainly to the absence of track records. But there are also 'Aboriginal-specific' situations. Some financial institutions have problems lending to businesses that have "untouchable" assets on a reserve, (protected under the Indian Act). Aboriginal entrepreneurs feel that there are also negative stereotypes and perceptual problems which affect their access to financing.

Gaps in Financing Services

Observed quantitatively and qualitatively, significant gaps still exist in Canada for financing the needs of small and medium size enterprises. For the purpose of this report, we have characterized these gaps as follows: size, risk, knowledge, and flexibility.

SME financing requirements are often small and many entrepreneurs feel they do not represent a large enough potential to attract financial institutions' interest **(size)**.

Without a large pool of collateral many start-ups say they are forced to use credit cards, family, friends, and other sources of funds to start their business. For existing small and medium size enterprises, institutions will not finance growth unless debt / equity ratios sit neatly within "the box", regardless of how solid other aspects of the financial statements look. Financial institutions are not open to risk taking or have very limited tolerance to risk, especially when soft assets are involved **(risk)**.

The perception that financial institutions do not understand knowledge-based industries and the new economy is widely held. In fact, most entrepreneurs do not even attempt to obtain bank financing - - their growth is financed by whatever other means are available to them. This perceived lack of understanding is seen as a barrier to business growth **(knowledge)**.

Small and medium size enterprises do not feel empowered to request terms other than those dictated by their financial institution. In fact, entrepreneurs are frustrated by the 'cookie cutter' approach related to forms, formulae and credit scoring methods now in use in financial institutions **(flexibility)**.

Consulting Services

According to participant comments, consulting services are sought in limited quantity by small and medium size business entrepreneurs. Barriers to use include small budgets, their entrepreneurial spirit (they know how to run their own business), and their focus on operating their business (lack of time to think how consulting might be of benefit). Micro-enterprises and young entrepreneurs are least likely of all segments to use consultants, primarily due to perceived (or real) cost. Enterprises from knowledge-based and exporter industries show a greater interest than most in using consulting services. The interventions sought by these groups cover a wide spectrum (e.g. technical, financial, human resources, etc).

Most participants would be very skeptical of consulting services offered by financial institutions, even if those services were offered by an "arms length" group separate from the lending arm of the institution. Their fear, based on perception and not on actual experience, is that information would be shared with their account manager, thus having the potential to create barriers to financing. Additionally, many currently do not enjoy a good relationship with their bank's account manager and would not think to ask for a referral for a specific consulting service.

E-Business

Small and medium size enterprises do see the value (and some have already experienced the benefits) of web sites and e-commerce. Because the perception is widely held that financial institutions do not lend for this type of project, small and medium size enterprises are left to develop these business applications internally, as time and financial resources permit.

Government programs, special regional venture funds, and development programs have become key to small and medium size enterprise financing, either by themselves or in combination with bank loans. The role of the Government is deemed essential in the start-up phase and for e-commerce projects where financial institutions do not want to get involved.

In Conclusion.....

Many small and medium size enterprises do feel optimistic in terms of the future health of their enterprise and in terms of obtaining business financing. However, that optimism is based on the belief that their business and the economy will increase in strength - - not because lending institutions will make access to financing and financing conditions any easier.

Introduction

Background and Objectives

Angus Reid Group was commissioned by the Business Development Bank of Canada, to conduct an assessment of financing needs and issues of small and medium size Canadian enterprises. More specifically, the research was designed to address the following objectives:

- To evaluate the evolution of access to financing in the last five years for different segments within the Canadian small and medium size enterprise market: knowledge-based industries/exporters; young entrepreneurs, micro-enterprises, women, aboriginals and accountants;
- To understand how Canadian small and medium size enterprises are served by financial institutions in terms of financing products and services;
- To understand financing needs of small and medium size Canadian enterprises;
- To understand the importance of e-business / business-to-business / Web activities for small and medium size Canadian enterprises; and,
- To evaluate the need for consulting services expressed by small and medium size Canadian enterprises.

The results of this research investigation will be presented according to four "gaps", as identified by the Business Development Bank of Canada. These gaps are:

Size

The size gap arises because the cost of preparing and assessing business plans and financing proposals and monitoring firm progress is much the same for small transactions as it is for large ones. For small transactions, the assessment cost often exceeds the potential return for traditional lenders or investors, so funds are unavailable.

Risk

This gap results from the unwillingness of lending institutions to provide certain small business loans even at interest rates that reflect the higher risk associated with those loans. Financial institutions have a limited tolerance for risk and will not go beyond certain levels.

Knowledge

The knowledge gap is closely linked to the emergence of the 'new economy' and refers to the reluctance of lenders to provide financing to knowledge-based firms because of their lack of tangible assets to secure the loan. However, in today's economy where a firm's assets may consist largely of software under development or the skills of an engineer, the traditional 'bricks and mortar' approach to financing does not work. Unlike the "risk" gap which tends to be firm-based, the "knowledge" gap arises more due to a lack of familiarity with the nature of particular emerging industries.

Flexibility

This gap is caused by the unwillingness of lenders to provide financing on flexible terms to promising businesses. Traditional lenders typically require a stream of payments over the term of the loan. This type of financing can be burdensome for firms in the product development stages that have not yet reached the point where sales income is sufficient to service the debt.

Methodology

The study was conducted utilizing a combination of qualitative research techniques [focus groups, paired interviews, one-on-one depth interviews]. Twelve focus groups have been conducted among various small and medium size enterprise segments, 22 paired interviews with accountants [advisors to small and medium size enterprises] and 14 in-depth phone interviews with aboriginal business owners. Qualitative research with linguistic minorities was also incorporated into the research design [1 group with English speaking entrepreneurs in the Montreal region and depth interviews with French speaking entrepreneurs in the Ottawa region]. Participants were screened to exclude current BDC clients from the research.

In addition to the depth discussions, each of which was 90 minutes in length, 97 small and medium size enterprise participants completed a brief questionnaire. The questionnaire was administered prior to the discussion to facilitate the collection of completely spontaneous attitudes and opinions. Please note that survey results based on a sample size of 100 are statistically accurate to within +/- 10 percentage points, 19 times out of 20 (within the industry segments and regions from which they were drawn). Due to small base sizes, subgroup analysis by industry segment and by region will not be presented. Survey findings should in general be treated as directional rather than absolute.

The discussion guide and the questionnaire can be found in Appendix 1. The number of participants per segment, their location, and qualifications are detailed in Appendix 2. The results of the questionnaire are presented in Appendix 3.

To ensure adequate coverage of rural enterprises, we recruited participants from a wider area or from rural communities in Winnipeg and in Saint-John's. People from different ethnic communities have also participated in the different sessions.

The research was conducted from June 5 to July 5, 2000.

Summary of Research Findings

Research findings have been detailed within the body of the report and survey results are summarized in tabular format in Appendix 3. General comments applicable to all segments surveyed precede segment-specific summaries. Participant verbatim comments have been incorporated to show the range of opinions obtained from various segments.

Access to Financing

General Comments

Overall Results

The majority of research participants perceive that in general, access to financing for small and medium size enterprises has either stayed the same or become more difficult over the last five years. Not only do the majority feel that access to financing has not become any easier for their own business, but they also perceive the situation to be the same for businesses in their industry sector, for businesses that have a profile similar to their own (size, sector, technology) and for SME's in general.

These comments are confirmed through their written evaluation (questionnaire[1]). In fact, 56% of the respondents indicate that it is not easier today to obtain financing for <u>their own business</u> compared to five years ago (36% believe it is somewhat more or much more difficult and 20% feel there has been no change). As far as their perception regarding other small and medium size enterprises:

- Close to two-fifths (39%) feel it is more difficult in general for <u>businesses like theirs</u> to obtain financing today compared to five years ago. One-third (36%) feel there has been no change.
- Similarly, one-third (34%) perceive it is somewhat or much more difficult for businesses in <u>their industry sector</u> to obtaining financing today. Two-fifths (41%) perceive there has been no change over that period.

1 Readers should note that the percentages are based only on those participants who were able to offer an opinion. The overall sample is limited to a maximum of 97 respondents, so results should be viewed as directional only.

- Finally two-fifths (39%) of participants think that <u>for small and medium size enterprises in general</u>, it is somewhat or much more difficult to obtaining financing today compared to five years ago. An additional two-fifths (38%) feel there has been no change in access to financing over that period. Less than one-quarter (23%) feel that it is easier for small and medium size enterprises in general to obtain a business loan today compared to five years ago.

- Only 14% agree in general that financial institutions are interested in lending to SME's.

> '*It's very discouraging....you almost have to prove to the banks that you don't need the money'. (woman entrepreneur)*
>
> *'Once you need their help, they don't want to help'. (KBI enterprise)*
>
> *'It doesn't get easier and we're not expecting it to get easier'. (woman entrepreneur)*
>
> *'The manager of the branch changed which made things extremely difficult for us....even after being in business many, many years'. (exporter)*
>
> *'They won't take any risks. Things are getting harder. There are more things to worry about - - more bank policies'. (KBI enterprise)*
>
> *'It's more difficult because there are no more decision-makers left in our city .... information is sent elsewhere for a decision.' (micro enterprise)*
>
> *'It's no easier - - banks are not interested in small business'. (young entrepreneur)*
>
> *'Banks need more information now....decisions take longer.....account manager has less power to make decisions....internal bank policies have made everything more bureaucratic'. (young entrepreneur)*
>
> *'Bankers have no imagination....can't think outside their boxes'. (micro enterprise)*
>
> *'It's no different now....you can always get a loan if you have the collateral'. (micro enterprise)*

Those participants who indicated that it is easier to access financing today compared to five years ago believe the positive change is related primarily to an improvement in the financial health of their own business, to an improvement in general economic conditions, or to both factors. Comparatively fewer participants indicated that access to financing has become easier due to financial institutions having made loan conditions or loan processes any easier for small and medium size enterprises.

Participant comments offered on an unaided basis during the group discussion are supported by the survey results:

- 81% of those who indicated financing has become easier to obtain over the past five years say it is due primarily to the improvement in the financial health of their company.
- 52% believe the general economic improvement in Canada has been a factor in making access to financing easier over the past five years.
- 33% say switching financial institutions has made access to financing easier over the past five years.
- 51% of participants who said that it has been more difficult to get a business loan attribute this to the increased restrictions financial institutions have implemented in their lending policies to small and medium size enterprises.
- Similarly, 51% of <u>all</u> participants disagree that financial institutions have eased their lending criteria for SME's (compared to 15% who agree).

> *'It's easier now because I've switched from a chartered bank to a trust company'. (micro enterprise)*
>
> *'It's easier for me now because I have been in business for 13 years'. (woman entrepreneur)*
>
> *'My cash flow and retained earnings have improved so it's easier for me. I have a better track record'. (young entrepreneur)*
>
> *'The economy has improved and business is good.' (exporter)*
>
> *'It's easier because small business is "fashionable now'. (young entrepreneur)*
>
> *'Bank advertising makes it appear that it's easier for SME's but I think that's just window-dressing'. (KBI)*

> *'Businesses are getting smarter....they are doing their research.....the rules haven't changed but businesses are getting better at working the system'. (micro enterprise)*

Looking forward, entrepreneurs feel that in the future, easier access to financing will simply be due to better economic conditions, to improvements in their company's financial health, to the fact that they know their way around the system better, or because of increased competition from American lending institutions.

Some entrepreneurs however voiced concerns for the future because of:

(1) mergers within the Canadian banking industry. The perception is that large borrowers will be the ones to benefit from the concentration of money into a limited number of financial institutions;

(2) perceived high profit targets for individual account managers and lending institutions in general which will translate into an increased aversion to risk-taking; and

(3) a clear strategic focus on international lending (to compete directly with foreign institutions) which will reduce the appeal of and the interest in domestic markets.

> *'There will be more competition from insurance companies, virtual banks, and especially American lenders'. (micro enterprise)*
>
> *'The bigger the banks are, the more focused on their bottom line they become. And they will become bigger in the future and this will make it more difficult for small and medium size enterprises'. (young entrepreneur)*
>
> *'Very grim outlook for the future with all the mergers. Small profits and small loans will become too much of a bother'. (woman entrepreneur)*

Life cycle of the enterprise

Based on participant comments, it would appear that service to SME's varies by stage in the business lifecycle. For example, enterprises in the start-up phase find it nearly impossible to obtain a business loan unless personal guarantees, co-signatures or fixed asset collateral are pledged. Start-ups are required to establish a track record over time that encompasses a history of sales, profits, and good credit performance. This translates into credibility that enables them to be treated seriously when next approaching a financial institution for term financing. For many, this process takes at least two years.

Once a business is in the growth stage and if it has established its credibility with a good track record, it is believed that financing becomes somewhat easier to access. Obtaining a loan remains for them a function of performance, fixed asset collateral, and personal guarantees. Additionally, these entrepreneurs do not expect much support when intangibles have to be financed, unless hard assets are pledged as guarantees.

Looking at the far end of the continuum, virtually all participants agreed that it is easy for a small and medium size enterprise in the mature stage to get a business loan. At this stage of the business life cycle, financial institutions are more tolerant and more responsive. That said, many participants also perceive that excessive personal guarantees are still required by financial institutions unless they have a solid track record. Owner/managers are very aggressive in attempting to negotiate these types of guarantees out of their loan agreements.

Once again, questionnaire results support comments made by focus group participants:

- 69% of focus group participants disagree (33% strongly and 36% somewhat) that it is easy for a start-up to get a business loan.

  '*When we started we needed co-signers'. (young entrepreneur)*

  'They would rather sign you up for credit cards than give you a line of credit'. (young entrepreneur)

  'I had to ask family for money'. (woman entrepreneur)

  'I had to cash in RRSP's to get started'. (woman entrepreneur)

- It was mentioned in group discussion that for some enterprises in the growth phase it is somewhat easier to obtain financing. In the questionnaire results, however, we find that 61% of participants disagree that is easy for a small and medium size enterprise in the growth stage to get a business loan.

  'I have put my house as a collateral a number of times'. (exporter)

  '25 years in business and my loans are still backed by personal guarantees'. (exporter)

- Only 17% disagree (not strongly) that it is easy for a small and medium size enterprise in the mature stage to get a business loan.

  'It's easier because I've been in business a while and have more assets now'. (micro enterprise)

  'Now that I don't need the money, they can't wait to lend it to me'. (woman entrepreneur)

Few participants (across all segments) agree that financial institutions are interested in:

- lending to businesses of the new economy (17% agree);
- lending to businesses with little/no collateral (3% agree);
- doing long term financing (22% agree).

Lending institutions

By way of context, participants were asked which type of financial institutions they currently deal with for primary and secondary financial needs.

- 80% of participants indicated their primary financial institution is one of Canada's chartered banks. Virtually all participants use chartered banks for primary and/or secondary financial needs.

- 10% identify a trust company as their primary institution with an additional 23% saying a trust company is their secondary source of financial services.

- 7% use credit unions or caisse populaires as their primary institution with an additional 18% citing this as their secondary source of financial services.

- No participants use leasing companies as a primary source however 23% use them as a secondary source.

- Similarly no participants use insurance companies as a primary source of financial services however 8% use them as a secondary source.

In terms of which types of lending institutions are making it more difficult to obtain financing for SME's today compared to five years ago, questionnaire results indicate the following:

- Canada's chartered banks top the list with nearly half (47%) of participants saying that with chartered banks it is much more or somewhat more difficult;

- Insurance companies (23%) trail far behind chartered banks in second place;

- Credit unions/Caisse populaires (17%), foreign banks (14%), trust companies (14%), and leasing companies (5%) are seen to a much lesser degree as impeding access to business financing for small and medium size enterprises.

In discussions, participants confirmed that they have had to find alternatives to chartered banks in order to fund start up and/or company growth. Regionally, most have mentioned credit unions in Winnipeg, Caisse populaires in Quebec, Canada Trust in Newfoundland, leasing companies (across the country, across all segments), and trust companies in Toronto (mainly Canada Trust). Some mentioned foreign banks or Schedule II banks (in the West) as alternative sources for financing.

For knowledge-based industries and younger entrepreneurs, venture capital was mentioned as one of the few financing options open to them, due to the nature of their business and the size and nature of future projects (few hard assets). In the manufacturing sector, vendor financing is utilized by many. Personal money, family finances and angel support are also cited as financing alternatives, especially in the start-up phase.

Growing competition in the banking industry, mainly from the United States (where it is perceived that access to financing is less problematic than in Canada), was mentioned as a future alternative although to-date, no participants had taken steps to obtain financing across the border. Wells Fargo, MBNA, and Citibank are those seen to have already made inroads in the Canadian market. In general, participants felt that the future of borrowing for SME's will be more positive if there is more competition between banks and from the introduction of other players into the Canadian market.

However, some simply give up:

> *'Got enough of waiting and begging, I use personal money'. (young entrepreneur)*
>
> *'I don't even try any more'. (micro enterprise)*
>
> *'Banks won't finance my projects....I'm looking at venture capital to grow'. (KBI)*

Alternatively, SME's often have to be creative and flexible to get around the system. For example they regularly borrow smaller amounts for shorter periods to finance their business on a project to project basis.

Segment-Related Results

Women Entrepreneurs

Women participants indicated that access to financing, especially in the start-up phase, is made possible only (or primarily) because there are targeted Government programs. Many would not have been able to start without Government assistance.

> *'That's about the only way women can start up their own business'.*
>
> *'Because of Government programs, banks become somewhat more approachable, but it does not make it any easier'.*

Women feel their projects are as important and offer as much potential compared to SME's owned and operated by men. However, beyond the problems typically related to accessing financing for small and medium size enterprises, women's situations are further complicated by the fact that their personal financial situation is often weaker (less equity/personal assets compared to men).

> *'If you get an offer, take it and 'shut up' – that's the attitude'.*

Often, they are asked to bring a co-signor (husband, former husband, male business partner).

> *'It is really a gender issue – it's a women's thing'.*
>
> *'I had to get my ex-husband to co-sign my start-up loan and other loans since then'.*

Some said that financial institutions have declined their commercial loan application even with personal guarantees; but would give the same amount for the same project, through a personal loan.

Reportedly, trust companies appear to be somewhat easier to deal with than banks for women. Vendors, through leasing, are also more ready than banks to take risks (although in most cases there has been an asset involved). Leasing has been an option for some women when a loan application has been turned down by a bank.

Young entrepreneurs

It was mentioned that the major impediment to financing for younger business people is related to their lack of personal assets. That is, they have no collateral, no track record, and no history with which to substantiate their application. All they possess at this time is their "ideas".

> *'You need money to get money'.*

> *'It was suggested that I use my RRSP; how can I do that at 25 years old – that makes it more difficult for us to get a loan – I have no house either'.*

Young entrepreneurs have no track record to be judged on and this is perceived as being even more problematic than their age. They require a co-signer, especially at the start-up phase, and this is not always appreciated.

> *'They asked me what about your dad – I am me and I would starve for two years before I would get my dad involved in my financing'.*

Young entrepreneurs believe that subsidies / grants / tax credits are necessary to launch their business, and even then, they feel it is difficult to get a business loan.

> *'SBLA*[2] *is about the only way to get a loan– and even for the percentage not guaranteed, they ask for collateral'.*

For some young entrepreneurs, trying to access bank financing is too much trouble. For them, financing is done through personal credit cards. Others have looked at different options (American institutions, venture capital, angel, family).

Finally, and this was also mentioned by micro-enterprises, there seems to be a significant void in the market, between financing sourced through personal or private means ($15,000 - $20,000) and what venture capitalists can offer ($ millions).

Micro Enterprises

For micro-entrepreneurs, money is difficult to access. They perceive that institutions prefer larger loans, in that processing costs become more efficient at that level. There is also the sentiment among micro enterprises that since the amount they want to borrow

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[2] Participants have mentioned SBLA throughout the discussions, but it must be understood that they refer to the CSBFA. For accuracy, we have displayed 'SBLA' in the verbatim comments, however, in the text of the report we will use CSBFA.

is relatively small, financial institutions direct them to credit lines, credit cards, overdrafts, personal loans and the like; products they feel are not adequate and are more expensive. They feel they do not represent large enough profits to be of interest to lending institutions. They perceive that banks prefer more established, less risky enterprises who have hard assets that can be pledged as collateral.

> *'Even if banks set special funds aside for small and medium size enterprises, they still apply the same criteria'.*

They believe that obtaining financing is more difficult today compared to the situation five years ago because there is a limited supply of funds to be borrowed by a significantly increased number of start-up companies and micros. For that reason, banks continue to ask for personal assets to secure the loan or for large down payments when acquiring equipment.

> *'I bought equipment – but I had to put up 50% up front, to get a SBLA'.*

Micro enterprises see a limited future in terms of their ability to obtain term loans. In other words, they do not perceive access to financing to become any easier for them. They feel they must build up their asset base, both business and personal, to obtain a loan.

> *'In 2 years, after 10 years in the business, I hope to be able to get a term loan, obviously with personal guarantees'.*

Exporters – manufacturers and wholesalers

Established / mature manufacturers or wholesalers are the one segment that, with few exceptions, say they do not experience any problems getting bank financing because of their track record, size and growth.

> *'As a start-up, I could not get anything. Thirteen years later I don't need personal guarantees anymore'.*

> *'Easier because we have been in business for 20 years: banks backed off on personal guarantees'.*

It was said that loyalty to one institution and long lasting relationships with an account director are two factors that facilitate access to financing. However, even among this group there are clearly perceived limits to obtaining financing. For example, this segment feels that if they see their application declined by one chartered bank, chances are that all banks will decline it. As well, exporters indicated they would not even think to ask for Web site financing or financing for other intangibles.

To this mature, established segment, shopping for a loan is perceived as being too expensive and time consuming, and for these reasons many projects do not reach the loan application stage. They often resort to self-financing from working capital (especially if the loan is under $250,000).

Financing growth is a major issue mentioned by exporters. Rapid growth is financed basically through retained earnings, private and personal investments, third party sellers (distributors), clients who buy on a long-term commitment, and through vendors / manufacturers / suppliers. Banks, according to participant comments, shy away from rapid expansion.

Enterprises from knowledge-based industries

Enterprises involved in the new economy or in knowledge-based industries shared a different experience in the group discussions. Their perception, strongly held, is that non-traditional sectors such as theirs need entirely new lending criteria. Financial institutions are reluctant to take soft assets as collateral.

These entrepreneurs are cognizant that their expertise is not quantifiable; that their production is intangible; that their processes are 'soft' (expertise more than tools) and that their equipment rapidly becomes obsolete. These are all factors that represent barriers to borrowing from traditional lenders. The challenge for this group is to find hard assets to support their applications.

These entrepreneurs feel they are not understood by banks and that their growth is too rapid for bankers. They perceive that institutions do not have the human resources trained to understand their industry segment. Reportedly, small and medium sized KBIs feel they have limited access to financing for E-commerce ventures, R&D, and innovation. While Canadian banks are described as reluctant to become involved in the new economy, US financial institutions are seen as much more open to lending to this segment.

Until such time as Canadian chartered banks exhibit a willingness to support lending requirements of knowledge-based industries, other limited alternative sources of financing will be sought. These include venture capital and private capital. Many KBIs, however, place hope in the fact that banks are setting up special units to cater specifically to knowledge-based industries.

Rural communities

For this segment, access to financing is basically a problem of access to services and to decision-makers. For example in Winnipeg, it is said that accessing financing today is much more difficult than five years ago, simply because services have been moved elsewhere and account directors do not know the company, the region, or the industry.

> *'Branches have been closed down – knowledgeable people have been moved – officers in centralized branches do not know the clientele in rural areas'.*

The situation is very similar in Saint-John's, where services have been centralized in Halifax. There are no services or very restricted services in rural areas. As well, in some urban centres, financial services are seen to be moving toward centralizing in larger cities, often outside their province (Toronto for the West, Halifax for the East). Even in urban centers such as Ottawa, the centralization to Toronto was mentioned. In Montreal and in Vancouver, SME's have the perception the situation has worsened somewhat because of branch closures, thus restricting the availability of funds.

In light of branch closures and the move toward centralized corporate lending, entrepreneurs must find alternatives. For participants in Winnipeg, credit unions are cited as the main alternative. In St. John's, trust companies are seen as the primary alternative.

This situation obviously impacts on the costs associated with financing where small and medium size enterprises represent a captive market.

> *'You take what is offered'.*

Toronto is perceived as being much more privileged than other regions. There are more branches; it is a decision-making center and it is where the experts reside. This perception is confirmed by Toronto-based accountants who believe that access to financing has changed for the better (mainly due to economic conditions).

Accountants

As advisors to small and medium size enterprises, accountants are well positioned to evaluate the evolution of access to financing. Overall, their evaluation does not differ much from that of small and medium sized entrepreneurs.

To them, there have been few, if any, changes in access to financing for small and medium size enterprises. Lending conditions are no easier today than five years ago. Enterprises must still respect the debt/equity ratios which have not changed. Banks still ask for general security agreements or personal guarantees.

> *'Even after 20 years in business at the same bank, they would not lend a dime unless the entrepreneur put the house up as collateral'.*

According to accountants longevity is also a facilitating factor. More specifically, start-ups do not get a loan until they have been in business for at least two years. As well, banks use CSBFA loans to limit their exposure to risk.

> *'If it weren't for the SBLA, banks would not even process the application, especially in the start-up phase'.*

However, it is believed that the paperwork and the red tape involved in obtaining an CSBFA loan add to the costs for the entrepreneur. Nevertheless, there are several other Government programs that could be used to finance export, R&D, and market studies. Small and medium size enterprises have to rely almost exclusively on these programs to access financing and to expand their business.

Accountants explained that in some instances, the situation has worsened for SME's as there are new barriers to borrowing:

- application fees have increased dramatically,
- a good presentation / business plan has become a bare minimum,
- the whole process is extremely time consuming, and
- the required paperwork is significant ("daunting").

Often, entrepreneurs have to hire their accountant to participate in the process (attend the meeting at the bank) or to supply the paperwork related to the monitoring of the loan.

Aboriginals

Comments gathered indicate that access to financing for aboriginal businesses mirror that of other small and medium size enterprises. Start-ups experience the same requirements from financial institutions. Young entrepreneurs in this segment experience problems related mainly to the absence of track records.

> *'The average young person can't do it because they don't have the collateral. We need more access to start up capital, management, and mentoring and training'.*

Financing problems are also industry-specific. Of the owners interviewed, financing was a problem for tourism and information-technology companies. Both of these industries complained of capped financing for their accounts payable and the bank's need for collateral in the form of products rather than services.

> *'In the high tech industry we outgrow banks quickly, we need a lot of financing quickly and banks don't understand that this business does not have large assets to secure lines of credit but carries large amounts of accounts receivable. So our credit accounts get drained out quickly and banks cap the credit limit even though the business is growing'.*

There are also 'Aboriginal-specific' situations. Some financial institutions have problems lending to businesses which have assets (land, buildings) on a First Nations reserve, because the assets cannot be seized in case of a loan default (Indian Act). There is also a perception that:

> *'Aboriginals as a group do not have a good history with banks'.*

> *'Because of social stereotyping, we don't get the same opportunities as non-Aboriginals'.*

Businesses have access to targeted Government loans and grants. While this source of financing may be helpful to some, the cost and the process involved in obtaining the financing have been a barrier.

> *'Need to have financing to qualify for grants and this creates a bigger problem because getting financing is difficult'.*

> *'Need help with awareness of applications for aboriginal grants and training funds'.*

Aboriginals do not depend or rely on these sources to finance their business. Rather, they tend to use such loans and grants for ad hoc projects.

Consequently, many Aboriginal business people mentioned the use of alternative channels such as personal lenders to finance their business, as the banks are not open to taking the risk needed to lend money to a new business.

Similar to owners of more mature enterprises in general, aboriginal owners of mature businesses find it comparatively easier to obtain loans. Since inception, owners have built up relationships with their account managers/financial institution and earned the institution's trust in return for having developed a stable and profitable business. The familiarity and experience with the bank’s lending criteria have also been key to the owners ability to access financing.

Linguistic minorities

Additional interviews were conducted with entrepreneurs from linguistic minorities, namely English speaking entrepreneurs in Montreal and French speaking entrepreneurs in the Ottawa region. From the different discussions and interviews, there are no significant differences between their evaluations, expectations or needs and those expressed by other participants.

Financing Gaps

Observed quantitatively and qualitatively, there still exists large gaps in Canada in terms of financing the needs of small and medium size enterprises. The comments are summarized in terms of size, risk, knowledge, and flexibility:

- SME financing requirements are often not large and many entrepreneurs feel they do not represent a large enough potential to attract financial institutions' interest **(size)**;
- Without a large pool of collateral many start-ups say they are forced to use credit cards, family, friends, and other sources of funds to start their business. For existing small and medium size enterprises, institutions will not finance growth unless debt / equity ratios sit neatly within "the box", regardless of how solid other aspects of the financial statements look. Financial institutions are not open to risk taking or have very limited tolerance to risk, especially when soft assets are involved **(risk)**;
- The perception that financial institutions do not understand knowledge-based industries and the new economy is widely held. In fact, most SME's do not even attempt to obtain bank financing - - their growth is financed by whatever other means are available to them (many of which are expensive - - e.g. selling equity positions). This perceived lack of understanding is seen as a barrier to business growth **(knowledge)**.
- Small and medium size enterprises do not feel empowered to request terms other than those dictated by their financial institution. In fact, entrepreneurs are frustrated by the 'cookie cutter' approach related to forms, formulae and credit scoring methods now in use in financial institutions **(flexibility)**.

The following sections detail the comments for each of the gaps[3].

[3] The reader can find a definition of the gaps in the introduction section of this report.

Size Gap

There is consensus among all respondents (entrepreneurs and accountants) that banks clearly prefer larger loans. It is felt that banks are not interested in small loans – they either reject the application or finance it through credit cards, personal loans or credit lines where processing costs are seen as lower.

> *'Under $100K (expect it to rise to $250K in the future): no interest, they offer you a credit card and you know,...it is difficult to finance a business on a credit card'.* (accountant)

Young entrepreneurs, women and micro enterprises are apparently more affected.

> *'For a $10,000 to $20,000 loan, they will ask outrageous rates and all the collateral they can get'. (micro enterprise)*

Some SME's have resorted to continuously rolling over a smaller loan (credit card, personal loan), to finance projects. As well, the arrival of American players with their pre-approved business credit cards (Wells Fargo, MBNA, Citibank) is perceived to be a reasonable alternative for this group of entrepreneurs.

In summary, entrepreneurs who have smaller financing needs say they either obtain it through private funds, through Government programs, from suppliers / vendors or with financial products (credit card or line of credit) not always adapted to the needs of their enterprise.

Risk Gap

The widely held perception among research participants is that financial institutions are very limited in the risk they are prepared to take. Beyond 'prime' +3%, they do not appear to be interested in granting the loan. At this point leasing companies become a potential alternative, but as was mentioned in the group discussions...'at what cost'.

> *'Banks have no appetite for risk, they send small and medium size enterprises credit cards, so you end up financing your business at 18%'. (accountant)*

Across all segments and all cities, it was mentioned that banks:

- require collateral or personal guarantees (perceived as excessive);
- have established risk guidelines and enterprises who do not fall within those guidelines will not obtain the loan;
- sometimes ask for more than 100% of the loan in guarantees.

The perception held by SME's is that without hard assets, chances are extremely limited that the financing will be made available.

> *'They wouldn't even look at my E-commerce project because it is intangible'.*
> *(young entrepreneur)*

Furthermore, for the participants, it is almost impossible to get a term loan over five years.

> *'Short term, no problem; long term debt, they quickly say no'. (KBI / exporter)*

> *'They would raise the line of credit or any short term debt but they wouldn't move anything long term'. (KBI / exporter)*

> *'They would roll on a demand loan'. (accountant).*

Perceived alternatives are limited as far as risk taking is considered. For example, when there is a Government program involved, banks are more approachable, however their lending criteria do not seem to be relaxed. If an entrepreneur wants financing, he / she will also have to consider subsidies and grants, leasing, partnership, venture capital, US sources, private money, vendor financing and asset based financing. Banks are mentioned last, if at all.

In summary, small and medium size enterprises understand and accept the notion that they can be perceived as a greater financial risk when compared to more established businesses. But even with pricing to risk, SME's understand they are not guaranteed to obtain the financing they require given that banks do not finance growth, liquidity or intangibles (without hard assets as collateral).

> *'I wanted a term loan; I was offered a credit card and a line of credit against which I had to put some personal guarantee and they charged me prime + 3% for risk'. (woman entrepreneur)*

Knowledge Gap

Overwhelmingly, enterprises from knowledge-based industries do not believe they are understood by financial institutions and do not see these institutions ready to become involved with the new economy. It is believed they do not have the personnel to understand the industry and that they cannot keep up with the ever and fast changing environment.

As well, knowledge-based industries and projects (e.g. E-commerce or WEB site) are intangible and therefore do not offer any collateral (no cash, no equipment) to secure a loan.

Finally, institutions are not seen as being flexible enough to incorporate 'soft' assets into their ratios.

The already difficult situation of micro-enterprises, women entrepreneurs and young entrepreneurs is exacerbated if they are involved in knowledge-based ventures.

> *'Wouldn't even give you money for tangible assets, why would they give money against knowledge'. (micro-enterprise)*

All in all, it is very difficult to get financing for intangibles and alternatives are few: self-financed, private investors, new partners or venture capital (which also is said to add the benefit of providing a network of experts and of connections).

Flexibility Gap

In general, respondents feel their bank can be accommodating if they run into financial problems, as long as it does not come as a surprise. This flexibility appears to vary depending on the quality and the depth of the relationship between the loan officer and the enterprise.

However, small and medium size enterprises find that their financial institutions are not flexible with respect to the following elements:

- In many cases, entrepreneurs do not get the financing product they applied for. Banks are believed to push their clients to line of credit or credit card as opposed to what they apply for.

  > *'They sign you up for a line of credit or a credit card, but reject you on your term loan application'. (micro-enterprise)*

- There are established ratios that successful applicants must fit. Financial institutions' method (scoring) is not seen as flexible and does not allow exceptions. This 'cookie-cutter' approach is very much criticized by participants.

  > *'There's the box, do you fit in?' (young entrepreneur)*

- Managers / officers do not know the business or the industry (or do not have or take time to do so) or have no margin. Credit scoring is not in their hands and there is no way they can factor in management skills, project potential, quality of management, and other variables. Entrepreneurs feel they have no occasion to explain their project.

  ‘You have to dance to whatever song they sing’. (woman entrepreneur)

  'They wouldn't even tell me why I was rejected….I had no recourse'. (woman entrepreneur)

- According to participants financial institutions offer little innovation to service specific targets such as young entrepreneurs, micro-enterprises or others.

Other Comments

Consulting Services

According to participant comments, consulting services are sought in limited quantity by small and medium size business entrepreneurs. Barriers to use include small budgets, their entrepreneurial spirit (they know how to run their own business), and their focus on operating their business (lack of time to think how consulting might be of benefit). Micro-enterprises and young entrepreneurs are least likely of all segments to use consultants, primarily due to perceived (or real) cost.

Enterprises from knowledge-based and exporter industries show a greater interest than most in using consulting services ('we have no training in management'). The interventions sought by these groups cover a wide spectrum (eg. technical, financial, human resources, export, marketing, etc). They value the intervention of consultants because they appear to know what knowledge is worth. Consequently, they are more willing to pay higher fees.

Consulting services are little used by micro-enterprises and young entrepreneurs. These services are judged too expensive and the entrepreneur feels he / she can do most of the work except for some specific tasks related to WEB / IT or accounting. In general, they do not want to pay for external support. Women are more inclined to use consulting services than men and in more diverse sectors: IT, HR, marketing, etc. About 10% of the accountants’ clientele use consulting services (usually those enterprises with sales of $1M or more).

Most participants would be very skeptical of consulting services offered by financial institutions, even if those services were offered by an "arms length" group separate from the lending arm of the institution. Their fear, based on perception only and not on actual experience, is that information would be shared with their account manager, thus having the potential to create barriers to financing. Additionally, many currently do not enjoy a good relationship with their bank's account manager and would not think to ask for a referral for a specific consulting service.

'What's their expertise'.

'They should focus on what they do best – financing'.

Women are not sure banks should offer such services – they are skeptical about the independence between financing and consulting, but overall they are more open to the presence of banks in the consulting business than men. As a group, Aboriginal small and medium size enterprises are also open to banks providing consulting services - few see it as a conflict of interest. Some banks are perceived as already offering some financial planning consulting.

Accountants would recommend utilizing such consulting services. Actually, they often do make this recommendation when referring their clients to the Business Development Bank of Canada or to Government supported agencies / services.

In general, small and medium size enterprises prefer to deal with small and medium size suppliers thus excluding banks (big businesses) from the choice set.

E-commerce

Even those not presently involved in e-business / Web site projects understand that they will eventually have to invest in e-commerce. Manufacturers, exporters, wholesalers, professional services and those which require presence at the consumer level are reportedly the most interested.

Participants have mentioned quite a few projects in progress, however, these projects appear to be limited in scope and in investment. Many e-commerce projects are small scale in terms of dollar investment: $3,000 to $50,000. These small projects and even those in the $50,000 to $150,000 range are said to be financed through internal funds and in-house development.

It does not seem that financial institutions are even considered when the decision to finance the E-commerce project is taken.

> *"We have no choice, it's the way of the future. Clients ask you where your web site is. Banks don't want to know that their money is financing e-commerce."*

Personal funds, working capital or Government subsidies are the main sources of funds for e-business initiatives. Based on participant comments, it is clear that a void in the market exists as far as e-business financing is concerned.

Government Support

Government programs, special regional venture funds, development programs have become key to small and medium size enterprise financing either by themselves or in combination with bank loans.

The role of the Government is deemed essential in the start-up phase and for e-commerce projects where financial institutions are reluctant to get involved.

Women and Aboriginal entrepreneurs insist on the fact that without government support, they couldn't have started their business. Smaller enterprises want the Government to lend money, to subsidize, to act as partners with the financial institutions and to guarantee loans.

More established manufacturers and enterprises from knowledge-based industries do not want to see the Government involved in lending or even guaranteeing loans. Even the CSBFA loan is deemed too costly for entrepreneurs. However, the Government through regulation should act as a facilitator or should foster competition to make financing more accessible to small and medium sized businesses .

Bank Personnel

Many participants consider that today's bank officers are overworked and under trained. They serve too many clients and are required to handle too many files. As a result, they have less time to spend on learning the business and the industry and sometimes do not have the information / training / education to follow the new economy and changes in businesses.

Across all segments there was mention of deterioration in the relationship with their bank or bank officer. This has come about with the perceived "dehumanization" (lack of personalized service) in recent years – due to credit scoring, workload of officers and banks' policies (virtual banking, scoring, one-page loan application forms, etc.).

It is felt, that banks do not see the project put forward by the entrepreneur or the people behind the project; they see only the math and the ratios. Rare exceptions are due to either a long-standing relationship with the branch or a committed – more service oriented account manager.

The quality of the manager and the quality of the relationship with the bank manager can determine the acceptance of an application: the entrepreneur gets to explain his / her business, keeps the manager informed, etc. The bank manager is the key contact with the financial institution. The respondents evaluate the bank based on the performance of the bank manager.

Conclusions

The following statements summarize the various themes uncovered during the research process:

1. There are a significant number of small and medium size enterprises for which access to financing has not become any easier over the past five years.

    - Micro-enterprises, young entrepreneurs and women have had to resort to private funds, family and personal money. Government support for some of them is the only way they can start their company.

    - Startups in general say that they do experience major problems accessing funds. They need two years at least to build credibility and establish a good track record before they can think of applying for a commercial loan. In the meantime, credit cards, personal line of credit or mortgages are used to generate funds.

    - Knowledge-based industries and more traditional enterprises that have projects based on knowledge (R&D, WEB, etc.) cannot get their soft assets financed. Intangibles, they claim, receive no interest from financial institutions.

    - Exceptions not withstanding, the most positive financing experiences have been expressed by:

- ➔ the most mature and financially successful of small and medium size enterprises, especially those in the manufacturing sector;
- ➔ younger accountants;
- ➔ Toronto-based participants.

2. The four gaps identified by the Business Development Bank continue to represent important barriers to business start-up and growth among small and medium sized enterprises in Canada.

    - Small loans **(size gap)** are perceived to be out of favor among financial institutions. Entrepreneurs feel their needs are too small and too costly to arouse interest from lenders.
    - Financial institutions do not show a greater appetite for risk today **(risk gap)** compared to a few years ago. Small and medium size enterprises express their frustration with respect to personal guarantees, collateral requirements, and other loan conditions. Long term financing needs are also not satisfied.
    - Participants believe that for financial institutions, the new economy **(knowledge gap)** remains difficult to grasp and their projects rarely obtain the financing they need.
    - Finally, entrepreneurs feel that the 'one size fits all' **(flexibility gap)** approach by financial institutions does not take into account the nuances of their projects and of their business. 'Solution-based' financing would be perceived as a major break-through in today's financing practices.

3. Small and medium size enterprises do see the value (have experienced the benefits) of web sites and e-commerce sites. Because the perception is widely held that financial institutions do not lend for this type of project, small and medium size enterprises are left to develop these business applications internally, as time and financial resources permit.

4. Participants witness that chartered banks promote the importance of small and medium size business customers, claiming to offer financing to this segment of the business population. This promotional activity is perceived as lip service ('it is fashionable', 'buzz word', 'the Government tells them'). In fact, SME perceptions are that nothing has changed; it has not been made easier; lending criteria have not really changed.

5. That said, moving forward, many small and medium size enterprises do feel optimistic about the future in terms of obtaining business financing. That optimism, however, is based on the belief that their individual business and the economy in general will increase in strength and not because lending institutions will make access to financing and financing conditions any easier.

Appendix 1

DISCUSSION GUIDE AND QUESTIONNAIRE

FOCUS GROUP DISCUSSION GUIDE

Distribute Questionnaire (10 minutes before session)

1. PRESENTATION OF MODERATOR, OBJECTIVES OF SESSION, ROLES AND ENVIRONMENT (5 MINUTES)

Objectives [Canadian financial institution wants to make an evaluation of the small and medium size enterprise financing market]
My role
Their role
Room set up

2. PRESENTATION OF PARTICIPANTS (1

First name, type of business, sector, export or not, technological development

a) Participants' specific experience **(20 MINUTES)**

i) Compare your financing experience 5 years ago (and 2 years ago) with today: is it easier for you to access to financing?

- Where was your business five years ago? 2 years ago. In terms of size (sales, growth, # of employees, etc.)
- How has growth occured? (The economy, your investments, export markets, competitiveness)
- What kind of financing did you get then? How easy was it?
- What kind of financing do you get now? How easy is it?
- What has changed? The financial institutions (criteria, size, availability of money to lend)? The economy? Your enterprise? Financial markets more available, more suppliers, lending conditions, or your own company is healthier? etc.

If financing has not been easier to obtain, why ?

- Their Size (small and medium size enterprise, micro, young, small financing needs),
- Type of industry - - Knowledge (knowledge-based industries - biotech, computer science, chemicals, entertainment, business services)
- Risk (small, knowledge-based industries, little or no collateral, long term financing)

- Flexibility (loan conditions, schedule, accommodating vs income streams, patient capital)

How do you see access to financing in the future for your own needs?

Let's say your company will need a loan in 2 years? In 5 years?

ii) If difficult to access financing, would you consider switching financial institution ? Why? From where to where? What do you expect to be better? [e.g. Rates, more flexible payment terms; less collateral / security required]

b) Views in general for small and medium size enterprises
(10 MINUTES)

i) In general do you think it is easier for small and medium size enterprises to access financing today than it was 2 years ago? 5 years ago?

ii) If yes, why ? stronger economy, companies healthier, lending conditions, more suppliers.....

iii) If no, why ?

c) Views of how special groups have easy / difficult access to financing: For companies like yours…**(10 MINUTES)**

i) same questions as section b) but for (youth, micro, women, KBI, exporters). Do you think it is easier to access financing

ii) If yes, why ? stronger economy, companies healthier, lending conditions, more suppliers.....

iii) If no, why ? (Size, Knowledge, Risk, Flexibility)

d) How do financial institutions serve small and medium size enterprises in general (15 MINUTES)

- How has service to small and medium size enterprises in general evolved in the last 5 years and in the last 2 years. Access to financing; lending services; loan products, other products, rates, fees, role / expertise / etc. of account manager
- How do you expect it to evolve in the next 2 to 5 years?
- Do you think Canadian financial institutions will be in a better position to serve small and medium size enterprises?

Size (small and medium size enterprise, small loan, micro)

Knowledge-based enterprises (knowledge-based industries - biotech, computer science, chemicals, entertainment, business services)

Risk (small, knowledge-based industries, little or no collaterals, long term financing)

Flexibility (loan conditions, schedule, accommodating vs. income streams, patient capital)

If banks don't back start-ups, who is there for them? Can you name any institutions that are known to support start-ups?

d) Primary source of financing (15 minutes)

i) What kinds of loan do you have or have you had in the past - by type

operating line,
term loan
equity

ii) Split between Small Business Loan Act and regular financing (or mix of CSBFA + operating line)

iii) How easy / difficult to finance each type of financing above mentioned for your own business - Why do you think this is ?

Is it easier or more difficult because of

Size (small and medium size enterprise, micro, young, small financing needs),

Knowledge (knowledge-based industries - biotech, computer science, chemicals, entertainment, business services)

Risk (small, knowledge-based industries, little or no collaterals, long term financing)

Flexibility (loan conditions, schedule, accommodating vs income streams, patient capital)

iv) How many other types of suppliers - specify by type (leasing, credit union, vendor, other)

Do you have to consider other lenders? Which ones? Why? And for what purposes and types of loan? What do you expect from them (vs present situation)

Are those sources of financing sufficient? Partnership between financial institutions to provide adequate financing

e) Next projects to finance in 2 years - 5 years: (15 minutes)

What could be your next projects / needs for financing ? in 2 years ? in 5 years ?

i) Compared with today, will it be easier for you to access financing ?

ii) If yes, why ? stronger economy, financial markets more available, more suppliers, lending conditions, or your own company will be healthier ? etc.

iii) If no, why ?

Is it easier or more difficult because of

Size (small and medium size enterprise, micro, young,small financing needs),

Knowledge (knowledge-based industries - biotech, computer science, chemicals, entertainment, business services)

Risk (small, knowledge-based industries, little or no collaterals, long term financing)

Flexibility (loan conditions, schedule, accommodating vs income streams, patient capital)

Will technology make it easier to get loans (eg. Fill out applications on-line)? Will it allow for better risk management (eg. Pre-approved loans; adjust rates to risk; credit ratings)

What is the minimum term loan size? At what point does the loans officer tell you to use your operating line rather than create a new loan (because it's not worth the paperwork)?

If you have no hard assets, where would you go to finance this project? What would you be able to offer up as security?

Do financial institutions "price to risk". That is, will they take on a more risky loan but charge higher interest rates? Would you pay the higher rates if it meant getting the loan?

In terms of flexibility, what do you need financial institutions to do for you?

What does flexibility mean to you (e.g. Grace period, less personal guarantees, longer term, etc).

If you were able to negotiate terms with the financial institution, what would you focus on getting first? Do you feel like you could negotiate?

iv) Where will you go to get financing

f) E-Commerce: (10 minutes)

i) How many would say they have implemented something in E-Commerce (probe for their definition if they did)

ii) Awareness of E-Commerce and productivity benefits

iii) How likely are you to invest in E-Commerce ? When ? How important is it/could it be to your business?

iv) How much investment (as a % of gross revenue, $) ?

v) Specific E- commerce and b. to b. projects and needs: Type of project, type of financing needs - financing options

g) *Consulting Services: (10 minutes)*

i. Areas of needs, now and future: Quality / ISO, export, planning, marketing, e-commerce.

ii. Frequency of needs for consulting services. What and when in the evolution of the enterprise. Who's the typical supplier? Size of suppliers? BIG 3 vs local guys

iii. Willingness to pay: Is the cost a barrier to access consulting services (price range) ? size of a normal mandate / length of time / duration of a mandate

iv. Should banks offer consulting services ? Are there banks offering such a support?

h) Government Role

Which of the following three roles is most appropriate for the government in terms of loans to small business?

- Providing loans directly to small businesses
- Providing guarantees to the banks for loans taken out by small businesses
- Affecting bank policies to make it easier for small businesses to obtain loans.

THANKS AND GOOD EVENING

FINANCING TO SMALL AND MEDIUM SIZE ENTERPRISES

This questionnaire will help us complement the discussion we will have in a few moments regarding financing to Canadian small and medium size enterprises by financial institutions. All questionnaires will be treated in the most confidential manner. Thank you for your co-operation.

1. Please indicate to what extent you agree or you disagree with the following statements. Please put one check mark (☑) for each statement.

	STRONGLY DISAGREE	DISAGREE	NEITHER AGREE NOR DISAGREE	AGREE	STRONGLY AGREE
It is easy for a **startup** to get a loan	☐	☐	☐	☐	☐
It is easy for a small and medium size enterprise in the **growth stage** to get a business loan	☐	☐	☐	☐	☐
It is easy for a **mature (established)** small and medium size enterprise to get a business loan	☐	☐	☐	☐	☐
Financial institutions are interested in lending to **small and micro businesses**	☐	☐	☐	☐	☐
Financial institutions are interested in lending to **businesses of the new economy**	☐	☐	☐	☐	☐
Financial institutions are interested in lending to **businesses with little or no collaterals**	☐	☐	☐	☐	☐
Financial institutions are interested in **long term financing** to small and medium size enterprises	☐	☐	☐	☐	☐
Financial institutions have eased their **lending criteria** for small and medium size enterprises	☐	☐	☐	☐	☐

2. Compared to 5 years ago, would you say that today it is much easier, somewhat easier, as easy, somewhat more difficult or much more difficult ……

	Much More Difficult	Somewhat More Difficult	As Easy	Somewhat Easier	Much Easier
For my enterprise to get a business loan	☐	☐	☐	☐	☐
For enterprises like mine to get a business loan	☐	☐	☐	☐	☐
For enterprises in my industry sector to get a business loan	☐	☐	☐	☐	☐
For small and medium size enterprises in general to get a business loan	☐	☐	☐	☐	☐

3. What would explain the fact that getting a loan for your enterprise has become easier or more difficult in the last five years? Please check all answers that apply.

- ☐ The economy has improved
- ☐ The financials of my business have improved
- ☐ Financial institutions have eased their lending criteria
- ☐ I have switched financial institutions
- ☐ The economics of my industry have deteriorated
- ☐ The financials of my business have deteriorated
- ☐ Financial institutions are more restrictive in lending to small and medium size enterprises

4. Compared to 5 years ago, would you say that today it is much easier, somewhat easier, as easy, somewhat more difficult or much more difficult to get financing from.......

	Much More Difficult	Somewhat More Difficult	As Easy	Somewhat Easier	Much Easier
A Canadian chartered bank	☐	☐	☐	☐	☐
A foreign bank operating in Canada	☐	☐	☐	☐	☐
A trust company	☐	☐	☐	☐	☐
A leasing company	☐	☐	☐	☐	☐
An insurance company	☐	☐	☐	☐	☐
A credit union	☐	☐	☐	☐	☐

5. a) Which financial institution do you deal with as for your primary source of financing?

- ☐ A Canadian chartered bank
- ☐ A foreign bank operating in Canada
- ☐ A trust company
- ☐ A leasing company
- ☐ An insurance company
- ☐ A credit union

6. Which other institution do you deal with for your other financial needs (check all that apply)?

- ☐ A Canadian chartered bank
- ☐ A foreign bank operating in Canada
- ☐ A trust company
- ☐ A leasing company
- ☐ An insurance company
- ☐ A credit union

Please record:

City:

- ☐ Vancouver
- ☐ Winnipeg
- ☐ Toronto
- ☐ Montreal
- ☐ Ottawa
- ☐ St.John's

Time of Day:

- ☐ 8:00 a.m. - 5:00 p.m.
- ☐ 6:00 p.m. - 7:30 p.m.
- ☐ 7:30 p.m. - 9:00 p.m.

Thank you for your responses!

Appendix 2

PARTICIPANTS AND RECRUITING CRITERIA

Knowledge-based industries / Exporters	Youth	Micro	Women	Accountants	Aboriginals
3 focus groups 50% exporters and manufacturers[4] and 50% Knowledge-based industries[5]	3 focus groups	3 focus groups	3 focus groups	18 face to face interviews and 4 interviews (rural)	14 phone interviews
- Loans over $100,000 - Sales between $1 and $25 million	- 18-35 years old	- 35+ years old	- loans over $100,000 (under $100,000 covered in youth / micro groups) - 60% urban; 40% rural - over 35 years old - owners of their enterprise	- from small to mid size firms (up to 30 people) - no Big 3 - urban - women and men	- no limit on loan size, age or gender (since they will not be covered in other groups)
	- Loans under $100,000 - 2/3 men - manufacturing, retail/wholesale, services (exc. tourism) - urban	- Loans under $100,000 - 2/3 men - manufacturing, retail/wholesale, services (exc. tourism) - 60% urban; 40% rural			
Ottawa, Montreal (French), Toronto Plus 5 interviews with French speaking entrepreneurs in Ottawa and 5 interviews with English speaking entrepreneurs in Montreal	Montreal (French), Vancouver, Ottawa	Vancouver, Winnipeg, Saint-John's	Toronto, Winnipeg, Saint-John's	Montreal (French), Toronto, Vancouver, Winnipeg (Brandon)	Quebec (n=2), Ontario (n=5), Manitoba (n=7)

[4] SIC codes : 1000 to 3999.

[5] SIC codes : 3121, 3191, 3192, 3193, 3194, 3199, 3211, 3341, 3351, 3352, 3359, 3361, 3362, 3369, 3371, 3372, 3379, 3381, 3611, 3612, 3741, 3699, 3711, 3712, 3721, 3722, 3729, 3731, 3791, 3792, 3799, 3911, 3912, 3913, 3914, 4611, 4612, 4619, 4814, 4821, 4839, 4911, 7721, 7751, 7752, 7759, 9611, 9619.

Appendix 3
SURVEY RESULTS

Q.1 To what extent do you agree or disagree with the following statements?	**Strongly Disagree (%)**	**Disagree (%)**	**Neither agree nor disagree (%)**	**Agree (%)**	**Strongly Agree (%)**
It is easy for a start up to get a loan	33	36	22	9	0
It is easy for a SME in the growth stage to get a business loan	14	47	27	10	1
It is easy for a mature SME to get a business loan	0	17	24	49	8
Financial institutions are interested in lending to small and micro businesses	30	31	24	14	0
Financial institutions are interested in lending to businesses of the new economy	7	29	46	15	2
Financial institutions are interested in lending to businesses with little or no collaterals	72	20	4	1	2
Financial institutions are interested in long term financing to SME's	11	35	30	22	0
Financial institutions have eased their lending criteria for SME's	19	32	33	15	0

Note: Rows will not always add to 100% due to rounding

Q.2 Compared to 5 years ago, would you say that today it is much easier, easier, as easy, more difficult or much more difficult to...?	**Much More Difficult (%)**	**Somewhat More Difficult (%)**	**As Easy (%)**	**Easier (%)**	**Much Easier (%)**
For my enterprise to get a business loan	6	30	20	39	5
For enterprises like mine to get a business loan	7	32	36	20	5
For enterprises in my industry sector to get a business loan	8	26	41	23	1
For SMEs in general to get a business loan	8	31	38	21	2

Note: Rows will not always add to 100% due to rounding

Q.3 What would explain the fact that getting a loan for your enterprise has become easier or more difficult in the last five years?	**Has become easier (%)**	**Has become more difficult (%)**
The economy has improved	52	--
The financials of my business have improved	81	--
Financial institutions have eased their lending criteria	26	--
I have switched financial institutions	33	--
The economics of my industry have deteriorated	--	20
The financials of my business have deteriorated	--	17
Financial institutions are more restrictive in lending to SME's	--	51

Q.4 Compared to 5 years ago, would you say that today it is much easier, easier, as easy, more difficult or much more difficult to get financing from ...?	**Much More Difficult (%)**	**Somewhat More Difficult (%)**	**As Easy (%)**	**Easier (%)**	**Much Easier (%)**
A Canadian chartered bank	12	35	31	23	0
A foreign bank operating in Canada	4	10	39	33	14
A trust company	4	10	43	33	10
A leasing company	0	5	36	34	24
An insurance company	7	16	46	25	5
A credit union/caisse populaire	1	16	39	33	11

Note: Rows will not always add to 100% due to rounding

Q.5 Which financial institution do you deal with for your primary financial needs? **Q.6 Which other institution(s) do you deal with?**	**Primary Institution (%)**	**Other Institution* (%)**
A Canadian chartered bank	80	41
A foreign bank operating in Canada	2	12
A trust company	10	23
A leasing company	0	23
An insurance company	0	8
A credit union/caisse populaire	7	18

* Column will add to more than 100%. Multiple responses were permitted.