Catalyzing Canadian Growth:

Understanding the Role of Large Firms in Helping Small Businesses Succeed

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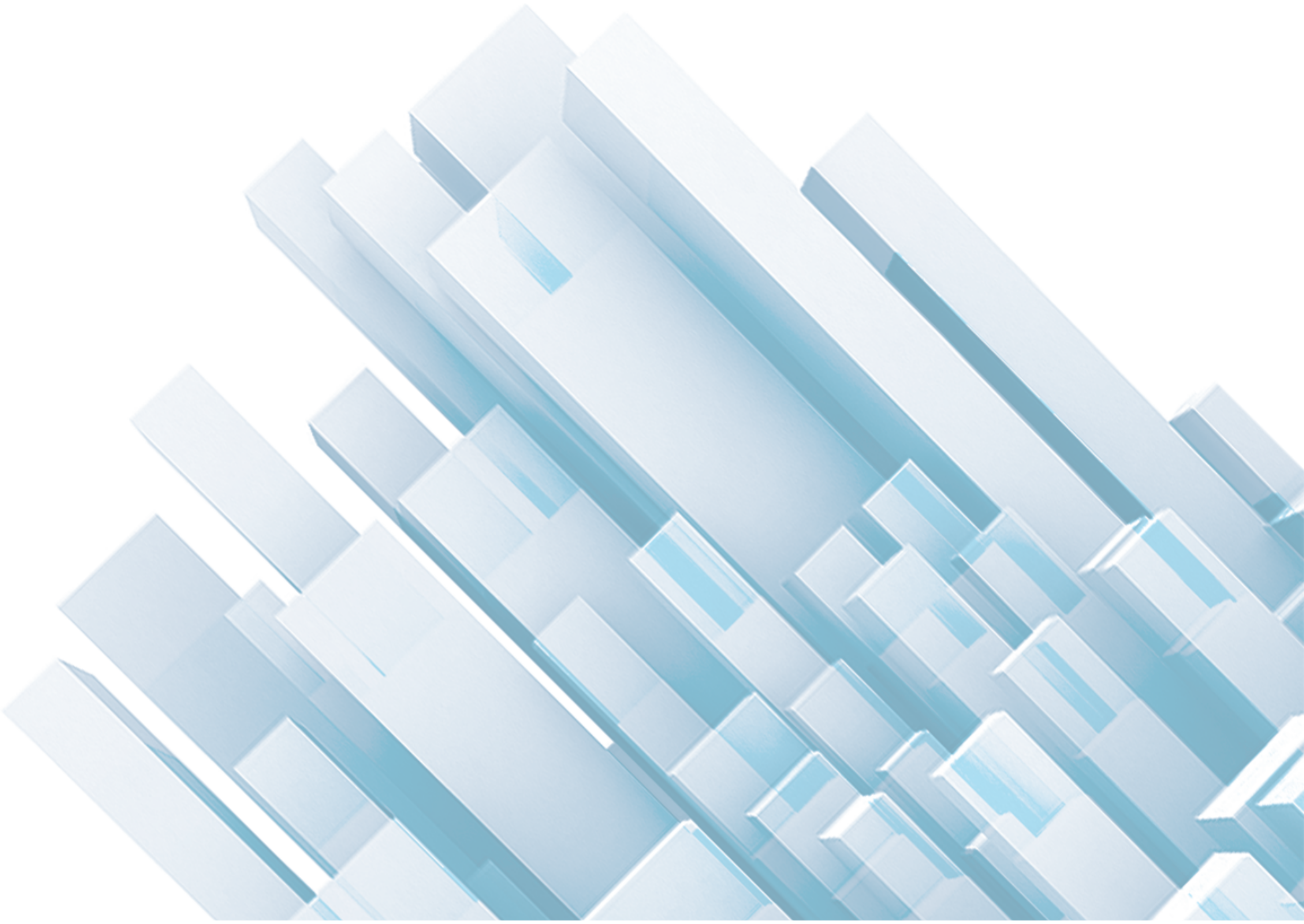

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About the Catalyzing Growth Project

Research shows that the participation of small- and medium-sized enterprises (SMEs) in the supply chains of larger "anchor" companies plays a significant role in helping younger firms climb on the ladder to high growth. Research commissioned by the Business Roundtable in the United States, for example, found that US multinationals collectively purchase an estimated $1.52 trillion in intermediate inputs from US small businesses, which in turn means that input purchases by the parent operations of US multinationals account for an estimated 12.3% of all sales by US small businesses (Business Roundtable 2010). The presence of mutually beneficially relationships between small and large firms in Canada is not as well documented, however, and requires further study. In partnership with the Canadian Council of Chief Executives (CCCE), the DEEP Centre is conducting the first-ever Canada-wide study of the evolving relationship between small and large firms within a cross-section of strategic sectors.

The project is generously supported by the CCCE and is enabled by the participation of senior leaders from over 50 of Canada's largest companies.

The DEEP Centre

The Centre for Digital Entrepreneurship and Economic Performance (DEEP Centre) is a Canadian economic policy think-tank based in Waterloo, Ontario. Founded in 2012 as a non-partisan research firm, the DEEP Centre's work shapes how jurisdictions build fertile environments for launching, nurturing and scaling companies that will thrive in an increasingly connected world. The DEEP Centre provides objective research and advice on the changing drivers of success in the global economy and the critical interconnections between technology, entrepreneurship, and long-run economic performance. Our goal is to help policy-makers identify and implement powerful new policies, programs, and services to foster innovation, growth, and employment in their jurisdictions.

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Accelerating SME Growth

Small- and medium-sized enterprises (SMEs) are commonly portrayed as the backbone of the Canadian economy and heralded for their contributions to growth and prosperity. Such praise is neither surprising nor entirely undeserved. Collectively, one million SMEs account for over 99% of all enterprises in Canada and nearly 70% of private sector payrolls (Industry Canada 2010). Yet a deeper examination of what actually drives growth, innovation, and employment in Canada paints a far subtler picture. As in other Western jurisdictions, only a small minority of companies (roughly 4 to 7%) experience sufficient growth to make significant contributions to overall job creation and GDP. These high-growth firms, defined as those growing by 20% for at least three years in a row, contribute nearly 50% of all Canadian job growth, despite representing less than 5% of all firms (Herman 2013).

While SMEs comprising the majority are an important part of Canada's economic fabric, their sheer number masks the fact that many enterprises that would like to grow face serious hurdles. Indeed, while Canada boasts one of the richest entrepreneurial ecosystems, as measured by the density of start-ups and entrepreneurs, it lags other mature economies in the development of high-growth firms, with challenges in access to capital, talent, "anchor customers," and new markets all playing a role in inhibiting the growth of Canadian SMEs. Removing these impediments and getting a larger share of the "untapped majority" on a growth trajectory—and developing more global champions—represents one of the most promising ways to boost growth, lift employment, and ensure a higher standard of living for all Canadians (Beech et al. 2011).

For the purpose of this report, we investigate the role of anchor customers—in particular large Canadian and multinational firms—in the growth and evolution of Canadian SMEs. Research in the United States suggests that the impact of supply chain relationships on SME growth is considerable. A report commissioned by the Business Roundtable (2010), for example, found that the US parent operations of a typical US multinational buys goods and services from more than 6,000 American small businesses, buys a total of more than $3 billion in inputs from these small-business suppliers, and relies on these small-business suppliers for more than 24% of its total input purchases. Based on these findings, the Roundtable researchers estimate that US multinationals collectively purchase an estimated $1.52 trillion in intermediate inputs from US small businesses, which means that input purchases by the parent operations of US multinationals account for an estimated 12.3% of all sales by US small businesses.

In partnership with the Canadian Council of Chief Executives, the DEEP Centre set out to determine whether similarly mutually beneficial relationships exist between small and large firms in Canada. In particular, this study examines the extent to which SME participation in the supply chains of larger anchor companies plays a significant role in helping younger firms climb on the ladder to high growth, thereby enlarging the ranks of globally competitive Canadian firms.

As noted in previous DEEP Centre research, Canadian entrepreneurs cite the ability to access the supply chains of anchor customers (including both government and large firms in Canada) as one of the most important vehicles for growing their firms (Williams, Herman, and Clarke 2014). Research conducted outside Canada also points to the important role played by anchor customers in both product development and new customer acquisition for SMEs (Swenson, Rhoads, and Whitlark 2014). Entrepreneurs have also referenced the value of mentoring systems; these systems connect new entrepreneurs to experienced business executives, who can provide advice at key pivot points and help mould core management competencies. On the basis of this previous research, our hypotheses going into the study were that existing supply chain relationships between large firms and SMEs are beneficial for both parties, and that further deepening of these relationships—particularly via training, mentorship, capacity building, facilitation, and ecosystem support—could enhance these benefits. Both the quantitative and qualitative research compiled for this study appear to support these hypotheses.

A mutually beneficially business–supply chain relationship generates revenue for the SME and creates opportunities to refine their offerings, while providing larger firms with access to more diverse sources of innovation, along with valuable services and components. At the same time, large firms can further increase their impact on SME growth and productivity by making their executives available to act as mentors to a select number of entrepreneurial firms that participate in their supply chains. These investments in SME growth and productivity, in turn, directly improve the competitiveness of large firms and create positive externalities for the communities in which they operate.

To test these hypotheses, we surveyed 50 of Canada's largest companies.[1] These companies are responsible for nearly 600,000 jobs in Canada, and a total market capitalization of more than CAD$650 billion. The sample of companies responded to a series of questions about their relationships with SMEs. In particular, we wanted to learn how many SMEs these firms worked with, what the value of those transactional relationships were, what share of total purchases such transactions represented, and how important SMEs are to the operations and growth of these 50 large companies.

The findings include the following:

- Fifty of the largest companies operating in Canada do business with over 150,000 Canadian SMEs for an aggregate transaction value of over CAD$37 billion.
- On average, these firms transact with over 3,000 SMEs, purchasing CAD$728 million in goods and services from these suppliers, which represents about 35% of total input purchases for the typical firm in the sample.
- An overwhelming 90% of those surveyed noted that SMEs play an important or very important role in large firm innovation, research, and new product development processes.

[1] A copy of the survey as it was distributed is included in the Appendix.

- The financial services industry has the highest median number of such relationships; however, it also accounts for the lowest median transaction value.
- The construction and engineering industry has the highest median transaction value for such relationships, but a below average median number of such relationships.

While this data cannot provide a definitive estimate of the magnitude of the impact that large firms have in enabling the growth and development of Canadian SMEs, it does suggest that the transactional relationships represent a significant input to growth. In particular, the breadth and scale of these relationships across sectors points to the important role of large companies as customers for Canadian SMEs. This study should serve as an entry point into the topic of large firm–SME relationships and could and should be supplemented by further analytic work. Doing so, however, will require the development of richer datasets from both public and private sources.

The transactional element of the relationships between large and small firms in Canada is just one component of a more complex and intriguing picture. Drawing on a series of qualitative interviews conducted with executives in large and small companies, the DEEP Centre has identified a multifaceted set of mutual benefits arising from the efforts of leading Canadian and multinational firms to promote the growth and development of SMEs in their supply chains—benefits that are consistent with the hypotheses set out above, including contributions to innovation, productivity, and competitiveness.

By highlighting the role that SMEs can play in boosting competitiveness and contributing new ideas and innovations these insights help address a significant knowledge gap related to the impact of large firm-SME relationships. As one survey respondent noted, “SMEs need large Canadian firms to be less conservative in their approach to new solutions offered by SMEs. Large firms need to embrace the diversity of thought from SMEs.” This view is consistent with previous and ongoing DEEP Centre research on the evolution of Canadian start-ups and SMEs, which suggests that the absence of anchor customers for young companies is among the primary impediments to the growth of young Canadian firms (Williams, Herman, and Clarke 2014).

To better understand the enhanced role that large firms can play in enabling the development of Canadian SMEs, the case studies presented in the second section of this report highlight leading mentorship, business development, procurement, and innovation-related initiatives spearheaded by some of Canada’s largest firms. Though these programs and models are highly varied, they all aim to extend traditional supplier-customer relationships to help further promote the development of Canadian SMEs. It is worth emphasizing at the outset that these supplier engagement initiatives are not altruistic “feel good” programs, but part and parcel of how leading companies develop highly productive and innovative supply chains that will give them a competitive edge in the marketplace. Indeed, the results speak to significant benefits both for participating SMEs and the large firms spearheading them. For other large firms, as well as for policy-makers looking to influence SME growth, these initiatives provide noteworthy models of engagement that can inform future action.

All together, the survey and case study research provides evidence that large firms are playing an important role in the development of their SME cousins. In a number of instances, large firms have not left the task of enriching the capabilities of their SME suppliers to chance or circumstance. On the contrary, leading firms have dedicated people and resources to a targeted supplier and ecosystem development efforts that benefit large firms and their SME partners alike.

Finally, this study puts forward a series of key lessons designed to further enhance the development of mutually beneficial relationships between small and large firms in Canada. Above all, these recommendations highlight the potential for large companies to provide SMEs with better visibility and points of access into their supply chains, and for large firms themselves to obtain a more granular understanding of the types and size of firms they transact with. By better understanding their supply chains, firms will be better equipped to target high-potential SMEs for a more intense relationship and to harvest greater value from their supplier relationships. Conversely, our recommendations also point to concrete actions that SMEs should take to increase their visibility to potential clients and supply chain partners.

Survey Design and Definitions

In consultation with the Canadian Council of Chief Executives (CCCE), a survey was developed to better understand the mutually beneficial relationships between large and small firms in Canada. The population of firms includes both Canadian-owned and foreign multinationals with significant operations in Canada, and the small- and medium-sized firms that act as their suppliers and partners.

The questions posed to these companies included:

- How many Canadian SMEs provide products and services to your company in Canada on an annual basis?
- What is the dollar value of total input purchases (products and services) by your company in Canada from Canadian SMEs?
- What percentage of the total input purchases (products and services) by your company in Canada is from Canadian SMEs?
- How would your firm assess the relative importance of Canadian SMEs in contributing to your company's innovation and R&D efforts, including the contribution of new ideas, products, processes, or technologies?

Participation in the survey was targeted at the CCCE's membership of Canada's largest companies, both Canadian-owned and foreign multinationals, with 50 companies participating from April to June 2015. Of these, 10 companies and 8 of their SME suppliers participated in case study research conducted between May and July 2015.

The CCCE's membership is available here *www.ceocouncil.ca/about-ccce/members*

This qualitative portion of the project aimed to look beyond the transactional activity captured in the survey to better understand the mechanics of large firm-SME relationships. Semi-structured interviews conducted with executives of large firms and SMEs provided further insights into the structure and mutual benefits accruing from these relationships. Conducted by telephone, these interviews sought to identify how large firms identify SME partners, specific initiatives developed to further these relationships, and ultimately gauge the impact of these initiatives on both parties as it relates to innovation, management capacity and other forms of training and development. These interviews form the basis of a series of case studies that highlight innovative and evolving models for large firm-SME relationships and the development of the latter partner. Taken together, the qualitative insights and case studies aim to document the flow of less quantifiable benefits between small and large firms that contribute to SME growth and productivity through training programs, mentoring systems, business development efforts, and other programs that connect SME founders and new entrepreneurs to experienced business executives who can help suppliers refine product offerings and mould key management competencies within SME executive teams. The case studies, in particular, highlight how some large firms are embracing new models to further deepen their relationship with SMEs.

Two definitions require clarification up front:

SMEs: For the purposes of this survey, an SME is defined as a firm with less than 500 employees and less than $50 million in annual revenue.

Input purchases include both direct and indirect purchases. Direct purchases include production materials that are directly related to the production of finished goods. Indirect purchases include commodities or services that do not result directly in finished goods, such as travel services or office supplies.

Limitations

As we began this survey process, it became clear from the participant feedback we received that the collection of data on the basis of supplier size was not commonplace. Common internal metrics include spending by company, region, tier of suppliers (I, II, or III), material versus non-material, and, in some cases, by several diversity-related classifications. Where data on supplier size was not already tracked, participating companies provided estimates. In some cases, the effort to extract such data was significant, and we are very appreciative for the investment of time and resources many of the participating companies made into this endeavour.

Survey Findings

The importance of large firms in supporting the growth and activity of Canadian SMEs is clear. The survey of 50 of the largest companies operating in Canada highlights that these companies work with 158,550 SMEs across Canada. The total value of the associated transactions conducted with these SMEs is over CAD$37 billion. And these transactions represent an average of 35% of the total input purchases made by large firms.

Note that the values reported in the survey represent the activities of just 50 companies. The total economic impact of large-firm supply chains on the SME sector is considerably greater. While the full scope of this impact is impossible to precisely estimate, if the purchasing behaviour of the sample is indicative of the broader population of over 350 publicly and privately held billion-dollar revenue firms, the results suggest that large firms in Canada purchase in excess of CAD$260 billion in inputs from over one million Canadian SMEs.

Suffice to say that SMEs play a vital role in the operations of Canada's largest companies, and, vice versa, that large corporations play a significant role in sustaining a large and vibrant population of SMEs. In fact, the quantitative estimates of transaction volumes are backed up by the respondent's subjective assessments of the relative importance of their supply chain relationships with SMEs. Forty-six percent of the companies surveyed classified the contribution of SMEs to their operations as very important, while a further 44% described their relationships with SMEs as somewhat important. Just one respondent said that SMEs were not an important part of their supply chain.

For a more granular look at the data, Table 1 provides a breakdown of survey results by sector, indicating the total number of SME relationships by surveyed firms in each sector, as well as the total estimated value of those transactional relationships.

Table 1: SURVEY RESULTS BY SECTOR

Sector	Total Number of SME Relationships	Total Value of SME Relationships
Construction and Engineering	10,350	$11,250,000,000
Financial Services	49,500	$922,000,000
Information Technology	1,125	$890,000,000
Manufacturing	28,305	$2,793,900,000
Resources	29,105	$10,699,208,000
Retail	2,475	$1,375,000,000
Services	13,590	$5,601,000,000
Telecommunications	17,588	$2,099,917,442
Utilities	4,842	$1,515,455,000
TOTAL ACROSS ALL	**158,550**	**$37,146,480,442**

Table 2 shows the median number and value of the SME relationships reported for each sector. As shown, the financial services sector is a clear outlier in terms of the median number of SME relationships. The services industry is a second tier outlier on this measure. As for the median value of those SME relationships, the construction and engineering sector is a clear outlier. The retail, resources, and telecommunications sectors are secondary outliers by this measure.

Table 2: MEDIAN NUMBER AND VALUE OF SME RELATIONSHIPS BY SECTOR

Sector	Median Number of SME Relationships	Median Value of SME Relationships
Construction and Engineering	1,300	$2,875,000,000
Financial Services	10,200	$237,500,000
Information Technology	100	$250,000,000
Manufacturing	1,050	$187,500,000
Resources	2,050	$521,500,000
Retail	3,000	$687,500,000
Services	5,585	$160,000,000
Telecommunications	746	$427,292,338
Utilities	1,238	$193,500,000
MEDIAN ACROSS ALL	**1,588**	**$250,000,000**

Table 3 shows the relative share that such transaction volume represents in the total stock of annual input purchases (both product and services) made by this sample of large firms in Canada. The importance of this transactional relationship is shown to be most important in the construction and engineering industries, and least important in the financial services industry.

Table 3: SHARE OF TRANSACTIONAL VOLUME IN TOTAL STOCK OF ANNUAL INPUT PURCHASES

Sector	SME Purchases as Share of Total Purchases (average)	SME Purchases as Share of Total Purchases (median)
Construction and Engineering	80%	80%
Financial Services	11%	9%
Information Technology	12%	15%
Manufacturing	43%	37%
Resources	35%	37%
Retail	14%	14%
Services	50%	75%
Telecommunications	17%	19%
Utilities	37%	25%
Across All Industries	**35%**	**25%**

While Table 3 highlights the relative quantitative weight of these large firm–SME transactions, an additional qualitative question was posed to ascertain the relative importance of these relationships. Across the entire sample, 46% of participating firms defined these relationships as very important. A further 44% indicated they were somewhat important. Only 2% noted they were unimportant.

Given the presence of comparable US data, a brief comparison of average metrics is worthwhile. Table 4 highlights these differences

Table 4: COMPARATIVE CANADIAN AND U.S SURVEY DATA

Metric	Canada	United States
Average number of SME suppliers	3,076	6,246
Average dollar value of SME-sourced supply?	CAD$728 million	US$3.27 billion
Percentage of total input from SME	**35%**	**24.7%**

While Canadian firms source more of their total inputs on average from SME suppliers, both the number of suppliers and the value of such transactions are significantly higher in the United States. One explanation for this difference may be the significant presence of ultra-large companies in the United States, defined as those exceeding US$50 billion in revenue, versus the complete lack of such ultra-large firms in Canada.

In the following section, we move to a series of case studies that highlight less quantifiable but equally, if not potentially more valuable, large firm–SME relationship models.

Qualitative Insights and Case Studies

The survey data presented in the previous section highlights the economic value of supply chain relationships involving large and small firms in Canada. While the broader findings presented above highlight the scale and scope of supply chain relationships, it is clear that the value of individual interactions between large and small firms extends beyond the broad aggregate spending totals within and across sectors. To obtain a more nuanced and qualitative understanding of what these activities and inter-firm relationships mean for partner SMEs, the DEEP Centre conducted a series of interviews with executives across large firms and SMEs. Taken together, these interviews highlight a series of less quantifiable mutual benefits stemming from the engagement of large firms with smaller companies.

For SMEs, supply chain relationships with large firms provide inputs necessary for survival and growth. Particularly for start-ups and young firms, these anchor customers can also provide an important source of product or service validation in the marketplace. In this context, a number of smaller company executives noted the importance of "early adopters" in helping them gain traction for their product or service among other potential customers. Moreover, even for established companies, referrals from existing clients are often a large source of new business growth. Some respondents consulted for this study also pointed to the role large firms can play as "market makers," particularly in developing early traction for Canadian goods in key export markets. Finally, among the large firms consulted for this study, a significant number were also engaged in various forms of mentorship and capacity building within their supplier network, often tailored to meet sector-specific business needs. Executives in the resource sector, for example, highlighted a series of efforts to help build successful community-based businesses through training and development initiatives. In a similar vein, executives in the financial services sector highlighted growing efforts aimed at capacity building and greater engagement with diverse suppliers. Technology companies, for their part, often emphasized their engagement with start-up firms and ecosystems—both locally and internationally—while manufacturing firms pointed to efforts to increase capacity and foster continuous improvements throughout their supply chains.

For large firms, the benefits of engaging with SMEs are also clear. Across the survey and interview sample, executives from large firms emphasized the importance of small firms as a source of innovation, as reflected by the fact that 90% of survey respondents identified SMEs as playing an important role in innovation and R&D. And while companies must continue to balance the trade-off between risk-minimization and growth and innovation in their engagement with SMEs through their procurement processes, it is also evident that "open innovation" processes are becoming an increasingly important strategy for large firms, particularly in the technology and financial services sectors.[2] Indeed, in sectors facing significant disruption as a result of rapid technological change, engagement with more nimble technology-focused SMEs—whether through procurement partnerships or acquisition—has become an important source of competitive advantage for larger firms. As a result, leading firms are increasingly looking for ways to help enhance these relationships.

While traditional supplier-customer relationships between large firms and SMEs are an important source of mutual benefit for both parties, some challenges remain. In particular, SMEs highlighted logistical challenges stemming from size and organizational complexity of larger firms. For potential new vendors, finding the right contact person in a large organization is often difficult, and long timelines in moving from pitch to deal can be hard to manage for small companies without a pre-established customer base. And while a number of large firms and SMEs pointed to the importance of mentorship relationships, some respondents on both sides argued that these connections could be further enhanced.

In response to these challenges and opportunities, a number of large firms across sectors are experimenting with a diverse set of new models aimed at deepening their connections with SMEs. Drawing on interviews conducted with both large firms and SMEs, the select case studies presented below highlight five of these innovative initiatives. Taken together, the cases highlight the evolving nature of large firm–SME interaction and the types of enhanced roles large firms can play in driving the success of SMEs. From contributions to firm growth and productivity to the development of more sophisticated management capabilities, the benefits both partners

[2] For further background, see Chesbrough and Brunswicker (2013).

receive in these relationships indicate that these examples can act as an inspiration and catalyst for discussion among executives and policy-makers alike. And while these initiatives are relatively new and not yet typical across Canadian supply chains, early successes in promoting both large firm innovation and SME capacity and growth point to their potential as models for adoption by other large Canadian companies.

Rogers: An Internal Concierge Service for Innovative SMEs

Doing business with large firms and integrating into increasingly complex global supply chain networks can be a significant challenge for SMEs. For smaller companies seeking to become suppliers to large corporations, complexities stemming from large differences in company scale, difficulty in locating the correct business unit or project team, applicable regulations, codes and standards, and timelines can act as barriers to effective collaboration.

While many large firms are seeking to improve access to their supply chains for SMEs, Rogers' recently established Innovation Team stands out in its efforts to actively identify and build robust relationships with small and innovative technology-focused companies. For SMEs, the Innovation Team provides a single point of entry and centralized resource with a strong understanding of Rogers' broader business needs. As a result, the Team—which oversees both inbound proposals and outreach and partnership efforts with global innovation hubs—can act as an effective intermediary between technology-focused SMEs and Rogers' various business divisions, helping to identify both short- and long-term opportunities.

Since its creation in 2014, Rogers' Innovation Team has reviewed numerous prospective SME partners, of which approximately 20 are currently in ongoing discussions. Depending on situational conditions, technology-focused SMEs with the potential to become suppliers to Rogers can take several different trajectories after establishing contact with the innovation division. In situations where a product or service aligns with a widely recognized or existing organizational need, the primary role of the Team is to ensure that incoming firms are quickly introduced to the relevant business unit. More challenging, however, are situations in which an SME is offering an innovative solution that does not fit an existing project or immediate need, but rather offers a novel solution to a problem or set of problems. In this case, the Innovation Team takes the lead in building understanding between Rogers' internal units and the SME.

In working with SMEs, Rogers devotes resources to educating them about the required attributes to be considered as a potential supplier. Internally, the Team works to build awareness and understanding about the solutions the SME has to offer. As Rob Switzman, Rogers VP of Innovation notes, "the more complex the opportunity or the higher the potential impact, the longer we (the Innovation Team) need to stay on. Part of the challenge in a large company is that people are very busy. The business often communicates 'wishes,' but those wishes don't make it onto project lists. They are 'love to haves.' So if we find something that is a 'love to have,' there is likely no one assigned to it, and we need to help build the business case for that opportunity."

For SMEs, this centralized interface into a large and multifaceted business helps reduce the complexity of identifying and networking with the correct business unit and individuals directly relevant to their product or service. It also provides access to valuable insights and coaching opportunities designed to help them successfully navigate the procurement process. More broadly, the Team's focus on both needs and "wishes" in the technology space can help innovative SMEs gain traction internally, even when these firms are offering a product or service that may not fit within an existing, ongoing project. By facilitating a longer-term view, this approach helps Rogers source novel solutions and technologies that go beyond simply meeting the company's day-to-day needs, in hopes that creative partnerships with start-ups and SMEs can facilitate longer-term innovation in an industry facing massive disruption.

While the Team remains relatively new, there are already indicators of early success. For Nudge Rewards, a Toronto-based technology company that provides an interactive smartphone-based platform for employee performance and analytics, connecting with the Rogers' Innovation Team helped establish and accelerate their relationship with the company. Jordan Ekers, VP of Business Development at Nudge, notes that "getting to the right people can be a challenge" for startups and small firms. Reflecting on his experience working with Rogers, Ekers says that "having a doorway into the larger business and a friendly introduction to decision makers allowed us to accelerate the pace of having discussions with those decision makers dramatically." And while Nudge has gone on to launch its product with a number of large firms across the country, Ekers credits Rogers' role as an early adopter of their technology as a key element of the company's initial success. "We've rolled out nationally across a number of companies," he notes, "and that momentum was created because we had an early win with Rogers."

Key Lesson:

- While many large companies understand the merits of working more closely with start-ups and SMEs, few have developed the appropriate internal mechanics for doing so successfully. A concierge-like interface for SMEs can reduce the complexity facing potential suppliers, accelerate the development of mutually beneficial relationships and enhance the ability of large firms to source ideas and innovations from a larger and more diverse pool of external contributors.

TD Bank: Addressing SME Challenges in Banking and Financial Services

The highly regulated nature of the Canadian banking industry can serve as a barrier to small firms and start-ups seeking to work with Canada's largest financial players. Some financial technology-focused start-ups, for example, have noted that it is often considerably easier to generate interest and traction for their products and services abroad than on Bay Street.

More generally, the costs and uncertainty associated with regulatory impacts have made large financial sector firms considerably risk averse when it comes to doing business with SMEs. However, while regulatory and scale barriers can complicate relationships between SMEs and large banking and financial services firms, industry leaders are increasingly recognizing the need to engage with smaller companies to boost innovation and increase supplier diversity.

In this context, TD Bank stands out as a company working to leverage a number of novel initiatives intended to help build more robust relationships with smaller companies. On the innovation side, the company established its TD Innovation Lab at Communitech in Kitchener in September 2014. The Lab was launched with the intention to boost the company's engagement with start-ups and provide a dynamic environment in which to explore potential applications for technology innovations. In addition to pursuing its own technology development initiatives, the Lab is increasing the bank's visibility into emerging firms and technologies, with a particular focus on customer experience. Being present in the Communitech Hub allows members of the Lab team to meet and interact directly with start-ups, while also serving as a channel for jumpstarting conversations between small firms and TD executives. As Ian McDonald, Director of the Lab, notes, "one of the main challenges for small firms looking to work with large companies is finding who to talk to and navigating complexity of a large organization. We provide point of contact and can facilitate introductions." Though the initiative is still nascent, TD's efforts to foster open innovation already appear to be generating results. Since its creation, members of the Lab team have met with over 50 start-ups and generated around 20 subsequent executive-level conversations between TD and local start-ups.

On a separate but parallel track, TD is also working to increase the diversity of its suppliers and eliminate some of the barriers SMEs typically face in working with the company. For example, the bank launched its North American Supplier Diversity Mentorship Program, which includes a series of educational resources on topics relevant to existing or potential suppliers, such as how to deal with a highly regulated organization and what to expect with regards to vendor performance management. While the topics are oriented towards doing business with TD, the resources available to suppliers are likely to be more broadly applicable to their business with other regulated entities. As one TD executive familiar with the program noted, "from a development perspective, we felt we could provide a benefit by sharing with them the perspective of a large corporation, and that we'd do it in a generic fashion so that they could apply it to any large company." In addition to formal educational programming, the events offer an opportunity for networking among participants, opening up possibilities of establishing further relationships among tier I, II, and III suppliers to the bank.

Key Lesson:

- Diversity of thought breeds innovation. While purposely engaging more actively with firms of differing size and demographic makeups takes effort, the benefits to both incumbent firms and their smaller partners are significant. Open innovation initiatives centred on the development of externally located but internally championed programs can improve visibility into more diverse supply chains and help reduce the traditional risk-intolerance of incumbent firms.

Aerospace Firms and the MACH Initiative: Building Supply Chain Capacity

While Quebec has long been home to a vibrant aerospace sector, intensifying global competition has alerted both private and public sector officials to the fact that innovation and continuous improvement throughout the supply chain is essential to maintaining competitiveness. Indeed, in an era of globalization and consolidation, tier I and II suppliers are no longer merely providers of stock components, but are increasingly co-development and innovation partners who share in the technological, operational, and financial risks of long-term projects. Funded by a consortium of public and private groups and directed by Aéro Montréal, the MACH Initiative was launched in 2010 to help transform the province's aerospace supply chain by facilitating the "development and continuous improvement of all stakeholders" (Aéro Montréal 2010).

Upon entry into the MACH program, participant firms are subject to a rigorous one-day audit that assesses the company's competitiveness across key business areas including business processes, innovation and continuous improvement, operations and production, and strategic planning. This audit forms the basis for the awarding of the company's "MACH Score," which rates the firm on a scale of one to five, with MACH 5 representing a world-class aerospace supplier. In addition to ranking the supplier's current operations, the MACH audit outlines an "opportunity list" that points to projects the company could undertake to improve their overall competitiveness. On the basis of these recommendations, suppliers subsequently develop and propose improvement projects, to be co-funded with the MACH Initiative on the basis of their initial rating, with the amount of funding available increasing in tandem with the company's MACH score. Since launching its first cohort in 2011, the Initiative has facilitated projects and mentoring relationships with 60 firms.

Throughout the MACH process, large firms such as CAE Inc., Pratt & Whitney, and Bombardier play an important role as mentors to their participating suppliers. In selecting firms to work with, these large companies signal their desire to establish a significant long-term relationship with that supplier and to take a sustained interest in their development through the production of a high-value project. Mentoring firms commit to provide a particular number of personnel hours to help facilitate the completion of the project. Moreover, mentoring within the program is not limited only to original equipment manufacturers (OEMs) and their suppliers. In order to reach MACH 5 status, suppliers themselves are required to undertake mentorship with smaller companies, thereby extending the continuous improvement process further down the regional supply chain.

Collaboration through the MACH Initiative thus benefits mentor and mentored firms alike. For large OEMs, the partnership allows them to help improve the quality of their supply chain and secure innovation and ideas from their suppliers. In addition, as customers, larger firms can benefit from improved efficiencies in their suppliers operations in the form of lower prices and improved quality. For smaller firms, the initiative allows them to help identify and finance continuous improvement projects and develop deeper relationships with large firms. According to one supplier involved in the Initiative, the funding and mentorship components have helped them "accelerate the continuous improvement process towards becoming a world class supplier." Moreover, the MACH rating provides an industry-wide standard that can help these suppliers secure business from additional partners beyond their mentor firm.

While the Initiative's success in developing the region's aerospace supply chain remains difficult to measure, OEMs and suppliers consulted for this study indicated their satisfaction with the program. Moreover, firms that provided and received mentorship suggested that the model could provide a useful template for other industries. Earlier this year, the federal government announced the allocation of $6 million in 2016-2017 to develop a Canada-wide supplier development initiative in the aerospace sector based on the MACH program. While this certainly represents an important and positive development, leveraging the MACH Initiative's funding and mentorship model outside the aerospace sector remains an as-yet untapped opportunity within Canadian supply chains more broadly.

Key Lesson:

- The development of supplier management and technical competencies is a definite win-win, especially where training and development initiatives are collaborative across an industry. The MACH Initiative offers a model of ongoing supplier development and upgrading, and its positive impact on participating firms indicates it should be studied as a model for other sectors.

Google: Leveraging an Ecosystem Focus

For Google, SME and start-up engagement is less about traditional procurement processes than it is about a helping to create robust ecosystems for entrepreneurship. Central to this effort is its Google for Entrepreneurs (G4E) Tech Hub Network, through which Google has established partnerships with 20+ innovation hubs and 42 partners operating across 125 countries. In Canada, the company is currently partnered with two organizations: Communitech in Kitchener and Notman House in Montreal.

To help encourage the growth of entrepreneurial ecosystems, G4E invests directly in start-up hubs, while also providing mentoring and training to both hub leaders and a select group of participant firms. With respect to Hub leadership, Google provides programming focused on disseminating best practices in ecosystem growth and facilitating peer-to-peer learning among participants in its networks. The company also provides hub executives with a designated "Google buddy" to work with them as they leverage the funding provided by Google to develop new initiatives.

In the case of Kitchener-based Communitech, the funding has been used to create a co-working space, dubbed the Google Innovation Space. Participating firms are selected jointly by Google and Communitech and receive six months' residence in the space and a string of associated benefits, including $100,000 in Google Cloud platform credits for a year, monthly meetings with senior Google engineers, and subsequent follow-up guidance and mentorship from other Google experts. While these meetings began as relatively unstructured sessions, they have evolved to become more deliberate interactions focused on technical questions and intended to complement the business-related support services provided by Communitech.

While such efforts clearly have an underlying commercial benefit for Google, specifically with respect to platform adoption, participating Googlers argue that Google's involvement ranges far beyond product development or sales. Rather, the company's Head of Public Policy and Government Relations, Colin Mckay, notes that the G4E reflects "a spirit within the company that we should be helping the ecosystems around us grow and that the longer term implications of that will be of benefit to both us and to others." Others point out that many Google staff are engaged in these activities as part of their 20% time (i.e., discretionary time that employees are allowed to devote to their own projects) and they are unconnected to sales metrics. Participating start-ups seem to agree with this assessment. James Slifierz, co-founder of Skywatch Apps, points to the value of the program in giving his young technology company—which from the outset faced a number of "technical unknowns"—"a cushion to test and to fail." Indeed, Slifierz sees his company's participation in G4E as a key component of Skywatch's success. "Google gave us the opportunity to grow first," he notes, "and we wouldn't have succeeded otherwise."

Key Lesson:

- In a world where no firm has a monopoly on the skills and capabilities to compete, anchor firms are only as strong as the ecosystems and clusters they operate in. While engagement between large and small firms is often predicated on a desire to integrate the flexibility and innovation of the smaller firms, large firms must be willing to invest in building an ecosystem that gives rise to start-ups and SMEs exhibiting the highest possible levels of performance and professionalism. Helping entrepreneurs develop these capabilities through mentorship and technology support provides long-term benefits to both parties.

CNOOC-Nexen: Helping SMEs Build an International Customer Base

Among the biggest challenges facing Canadian SMEs is the ability to broaden their reach beyond Canada by building an international customer base. While internationalization is a necessary component of growth, Canadian SMEs often lack access to the global supply chains that can unlock international growth opportunities.

China National Offshore Oil Corp. (CNOOC)-Nexen is attempting to facilitate better international engagement among SMEs through its Canada-China Business Mission program. Established in 2014, the program has been run twice, in 2014 and 2015. The first iteration saw 30 SMEs accompany CNOOC-Nexen staff to Beijing, and the second saw 20. The results are impressive. In 2014, 12 of the 30 participating companies secured contracts or commitments. In 2015, 15 out of 20 either secured a contract or are now working on a significant contract lead.

The missions seek to match Canadian SMEs, in particular those working in Western Canada's energy industry, with growing demand for high-quality, high-value energy-related services in China. The program is comprised of pre-departure training followed by an intense in-market schedule of business-to-business meetings, workshops, and field visits. Included among these meetings are seminars on regulatory and legal issues facing foreign firms when operating in China.

While brokering international meetings and leading trade missions is normally a role reserved for governments, the fact that CNOOC-Nexen has stepped up demonstrates considerable foresight and leadership. In fact, CNOOC is well positioned to help facilitate these connections and meetings. The state-owned energy company has 29 subsidiaries that operate in a series of energy-related sectors. Moreover, CNOOC's name carries weight in boardrooms across the country. As Denis Painchaud, CNOOC-Nexen's Director of International Government Relations, describes, this means that the suppliers who are chosen to join the missions get direct access to top decision makers. He notes, "Participating firms get instant credibility based on their CNOOC relationship. This speeds up the process of deal-making in China, where contacts and relationships matter."

Participating firms attest to benefits. David Bromley, principal of David Bromley Engineering, a Calgary-based environmental technology firm, participated in the first mission in 2014. His company has created a novel nanofiltration process that should help resource extraction companies reduce water consumption used in the extraction process. Bromley notes that in his previous efforts in the Chinese market, his company's size and the novelty of their technology worked against them. Now, however, with CNOOC-Nexen's support, he's been able to leverage the Canada-China Business Mission into a long-term engagement with a major Chinese oil industry company. He adds, "I would have been unable to get access to senior decision makers like I have recently without the networking and access offered by CNOOC-Nexen. It's provided a massive shortcut to get my technology adopted and into the field."

Dan Jones at PMO Global Services, a Calgary-based project management and environmental services consultancy, agrees. He participated in the mission in 2015 and believes the initiative has opened doors for the company that would have been impossible otherwise. Jones notes that key to the success of the program is a pre-departure matchmaking process that sees outbound companies provide significant detail about their capabilities. This in turn allows potential Chinese customers to determine in advance which companies they would most like to meet. Moreover, like Bromley, Jones believes the mission provided access to senior decision makers that would have taken months if not years longer to cultivate.

While various levels of government operate international trade missions to key markets such as China, Painchaud notes that CNOOC-Nexen's model has one key advantage over such publicly led missions. "We see ourselves as a bridge between two business communities. There's no doubt that government trade missions attempt something similar, but they are unable to build the depth of credibility and legitimacy with potential buyers and supply chains that we are."

Why does CNOOC-Nexen lead this effort? Painchaud explains that the missions, and in particular the application process that precedes them, helps them better identify local suppliers for use across the now larger group of companies encompassed within CNOOC-Nexen. Moreover, he notes that the project has generated significant goodwill for the company across both its SME network and the government stakeholders who also have a stake in seeing local SMEs succeed abroad.

Given the results achieved by participating firms, this business-led international engagement model certainly merits further exploration as a model for others. Incumbent firms with significant international presence could act as ambassadors abroad for Canadian SMEs, producing benefits for both participating SMEs and the large firms leading the overseas missions.

Key Lesson:

- Goodwill can be good business. Large firms with deep international networks can and should partner more actively with local start-ups and SMEs to help the latter forge stronger international ties. Doing so can provide large firms with better visibility into the capabilities of local suppliers, while developing significant goodwill among smaller partner firms and other stakeholders.

Conclusion

For large and small firms alike, the value of engagement via supply chain relationships are clear. For SMEs, large firms often serve as crucial anchor customers that can drive business development and growth. The scale of SME interaction with 50 of the largest companies in Canada, which encompasses relationships with over 150,000 Canadian SMEs and aggregate transactions of over CAD$37 billion, is a testament to the importance of these relationships.

However, the transactional value of supply chain relationships is just one aspect of a much broader exchange of value that can be unlocked with a more strategic approach to SME engagement. In summing up the key lessons, it is clear that the corporate leaders documented in this study not only understand the benefits of fostering deeper engagement with high-potential SMEs, but are also aligned on a number of strategic principles for how to maximize the value of these relationships.

In particular, these firms are:

1. **Developing Relationships that Enrich SME Capabilities.** The companies behind programs such as the MACH Initiative, CNOOC-Nexen's Canada-China Business Mission Program, and G4E take a broader view of SME engagement that moves beyond the traditional supplier-customer dynamic to a focus on supply chain and ecosystem development. These instances of deeper engagement identified in the case studies serve different purposes and take different forms. But the mutual exchange of value is key, with large firms providing small firms with mentorship and capacity building, technological expertise, and assistance in entering new markets; and small firms offering large firms access to a greater diversity of ideas and greater agility.

2. **Investing in SME Relationships with a Clear Business Case.** Another common link among the executives consulted for this study is the conviction that investments in supply chain development are not "feel good" projects or motivated by an altruistic sense of higher purpose. On the contrary, smart executives recognize that maintaining a network of highly productive and innovative suppliers is an essential competitive weapon in a world where large multinational firms increasingly rely on a rich array of external inputs and capabilities to succeed. The business case for the MACH Initiative, for example, boiled down to ensuring the very survival of the Quebec aerospace industry in the face of consolidation and intense global competition.

3. **Relying on Dedicated Supply Chain Development Programs Rather than Happenstance.** The firms that have seen the most significant benefits have dedicated people and resources to building the capacity of their supply chains. Rogers found, for example, that a dedicated Innovation Team dramatically reduces complexity for suppliers, makes it easier for business units to source new ideas and capabilities, and accelerates the development of mutually beneficial relationships. Outside of the programs documented for this study, a number of other large firms consulted for this project noted that they were focused on SME development on a case-by-case basis. As one CEO noted, the development of large firm and SME mentorship relationships often takes place "by happy accident," while another executive noted that these types of engagement efforts tend to take place on a "project-by-project basis." Still, while these interviews highlighted the potential for serendipity to produce good results, it is also clear that a number of companies are embracing a more systematic approach to SME engagement as the best way to ensure that large firms identify the highest-potential SMEs within a pool of thousands of suppliers and extract the greatest benefits from these relationships.

4. **Promoting Vibrant Ecosystems for Entrepreneurship and SME Growth.** Across the survey and interviews conducted for this study, large firms across sectors emphasized the importance of promoting a healthy ecosystem of SMEs, both as a means of maintaining a robust supply base and to boost ties with the local communities in which they operate. As one resource sector executive noted, "promoting the growth of SMEs is important for large firms in natural resources business where such SMEs are based in communities whose support is critical for successful business of such firms." Similar sentiments were expressed by an executive

at a large agricultural products firm, who noted that "keeping an industrial base healthy is important...and keeping that particularly industry healthy is good from a risk management perspective." Finally, an executive at a large financial services firm noted that "a thriving SME population has significant benefits for employment, consumers, and, in turn, large businesses as well."

5. **Boosting Innovation and Agility through SME Partnerships.** Open innovation via engagement with start-ups and SMEs is an increasingly important strategy for incumbent technology and financial services firms that need to keep pace with the rapidly evolving state of the art in their industries. This role is reflected more broadly in the fact that 90% of survey respondents contacted for this study indicated that SMEs play an important or very important role in innovation, and R&D. One technology sector executive summed it up simply, noting that "one area where SMEs have strength is doing innovative stuff." The growing trend by a number of large companies to build branded spaces within innovation hubs highlights efforts to tap into these innovative milieus and put managers in close proximity to the upcoming generation of technology innovators.

6. **Deepening Supplier Diversity.** With respect to supplier diversity, Canadian companies—particularly in the area of financial services—are now implementing programs that follow the example set by major US firms to capture benefits stemming from greater diversity in their supply base. As one executive noted, "recent studies have revealed the potential economic benefits for diverse owned businesses from both wealth and job creation perspectives." Awareness of the importance of engagement with Aboriginal-owned businesses, women-owned businesses, and LGBT-owned businesses was relatively robust across the sample of firms interviewed, particularly in the financial services and resource sectors.

While the benefits of deeper SME engagement are clear, associated challenges to large firm engagement with SMEs remain. These challenges include:

1. **Inadequate Data about Supplier Size.** To begin with, many firms do not directly track their suppliers by size, thus limiting their ability to identify high-potential SMEs that could merit some form of deeper engagement. However, firms increasingly track supplier diversity and it would not be difficult to capture firm size as well. Doing so would improve the odds that large firms can harvest greater value from their SME relationships. As CNOOC-Nexen found, one of the benefits of its Canada-China Business Mission is its improved ability to identify high-quality SMEs whose capabilities it can leverage throughout its global supply chain.

2. **Insufficient Visibility into Complex Global Supply Chains.** While large firms often lack adequate data about their suppliers, small firms—and particularly young companies—often struggle with access, visibility, and establishing the correct contacts within large and complex organizations. Most of the initiatives profiled here have sought, first and foremost, to improve visibility and streamline access to opportunities for partnership and engagement.

3. **Lack of SME Scale and Capacity.** Other persistent challenges impacting the ability of SMEs to engage with large firms in Canada are linked to their relative lack of scale and capacity. These differences in scale and capacity can create risk and, by extension, reluctance on the part of large firms to engage with SMEs, particularly in highly regulated sectors such as finance and utilities. As one executive noted, "while SMEs play a key role with innovation, their size, capacity, and quality controls are sometimes of concern or risk for developing partnerships." Similarly, another large firm representative noted, "we certainly see a niche for small companies that provide a unique product, local content or greater flexibility but the majority of our spend remains with large companies that have the ability to meet the capacity we are looking for." Finally, one executive noted that SMEs are particularly disadvantaged in areas where large firms "are looking for scale and coverage" either nationally or internationally. While there are no quick remedies to address the problems associated with scale and capacity, these limitations are precisely the reasons why investments in supply chain development can make good business sense, particularly when SMEs are bringing highly novel and innovative products, services, or components to the table.

While large firms across sectors are working to address these challenges, the types of enhanced engagement programs detailed here remain largely restricted to a small share of the overall population of Canadian SMEs. Moreover, while large firms play an important role as large anchor customers, in light of the potential for significant mutual gain, large Canadian firms could arguably do more to foster the development of SMEs working within their supply chains. At the same time, SMEs themselves must continue work to understand both the benefits and challenges of working with large companies, including efforts to understand internal business processes within larger firms, developing a realistic assessment of potential product "fit" and increasing the visibility of their own product or service to new customers. Research conducted by RBC in 2013, for example, suggested that less than half of Canadian small businesses owned a website or conducted business online, suggesting that smaller companies could take additional steps to increase their visibility as potential suppliers to larger firms (RBC 2013).

The various SME engagement models presented in the case studies here all extend beyond traditional supplier-customer relationships to embrace deeper relationships anchored in various forms of mentorship and capacity building. While some of these models are tailored to meet specific business or sectoral needs, the initiatives nevertheless represent important models that can inform action on the part of large firms, industry associations, and, where appropriate, public officials. Indeed, in light of the importance many executives attach to the health of the broader SME ecosystem, there is a strong business case for scaling up mentorship and capacity-building relationships between large firms and SMEs. And beyond company-specific benefits, such initiatives can help further the development of smaller firms and, as a result, boost Canada's overall economic growth and competitiveness.

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Appendix: Survey Design

As distributed to participants in April to June 2015.

Large and Small Business Relationships: Shared Growth and Mutual Benefits

Research shows that the participation of SMEs in the supply chains of larger "anchor" companies plays a significant role in helping younger firms climb on the ladder to high growth. Research commissioned by the Business Roundtable in the United States, for example, found that US multinationals collectively purchase an estimated $1.52 trillion in intermediate inputs from US small businesses, which in turn means that input purchases by the parent operations of US multinationals account for an estimated 12.3% of all sales by US small businesses.

The presence of mutually beneficially relationships between small and large firms in Canada is not as well documented, however, and requires further study. In partnership with the Canadian Council of Chief Executives, the DEEP Centre is conducting the first-ever Canada-wide study of the evolving relationship between small and large firms within a cross-section of strategic sectors.

Your assistance in completing this brief survey would greatly improve our capacity to understand and quantify the extent to which large firms in Canada are supporting the growth of SMEs through supply chain relationships. We thank you kindly for your participation.

Definitions for the Survey

SMEs: For the purposes of this survey, an SME is defined as a firm with less than 500 employees and less than $50 million in annual revenue.

If your firm does not track the size of the companies it purchases inputs from, please provide a best estimate.

Input Purchases: Please include estimates for both direct and indirect purchases from SMEs. Direct purchases include production materials that are directly related to the production of finished goods. Indirect purchases include commodities or services that do not result directly in finished goods, such as travel services or office supplies.

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1. **Contact Information**

    Name

    Company

    Title

    City/Town

    State/Province

    Country

    Email Address

    Phone Number

2. **Company Sector**

3. **How many Canadian SMEs provide products and services to your company in Canada on an annual basis?**

4. **What is the dollar value of total input purchases (products and services) by your company in Canada from Canadian SMEs? Please provide for latest annualized period available.**

5. **What percentage of the total input purchases (products and services) by your company in Canada is from Canadian SMEs?**

6. **How would your firm assess the relative importance of Canadian SMEs in contributing to your company's innovation and R&D efforts, including the contribution of new ideas, products, processes, or technologies.**

    Very important

    Somewhat important

    Neither important or unimportant

    Not important

Thank you for completing the survey. We look forward to sharing the results with you in the fall of 2015.

In the meantime, the DEEP Centre is also looking for case studies that feature innovative and productive small-large firm relationships. Case studies will help us document the flow of less quantifiable benefits between small and large firms that contribute to SME growth and productivity. Among other things, these case studies could feature SME training programs and mentoring systems that connect new entrepreneurs to experienced business executives who can help suppliers refine product offerings and mould key management competencies within SME executive teams.

Please let us know if you think your firm offers a potential case study candidate for the project.

7. **Would you be willing to speak to our researchers about your company's relationship with SMEs?**

   Yes

   No

8. **Any other comments on the role of large firms in promoting the growth of SMEs in Canada?**

Thanks for your participation!

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