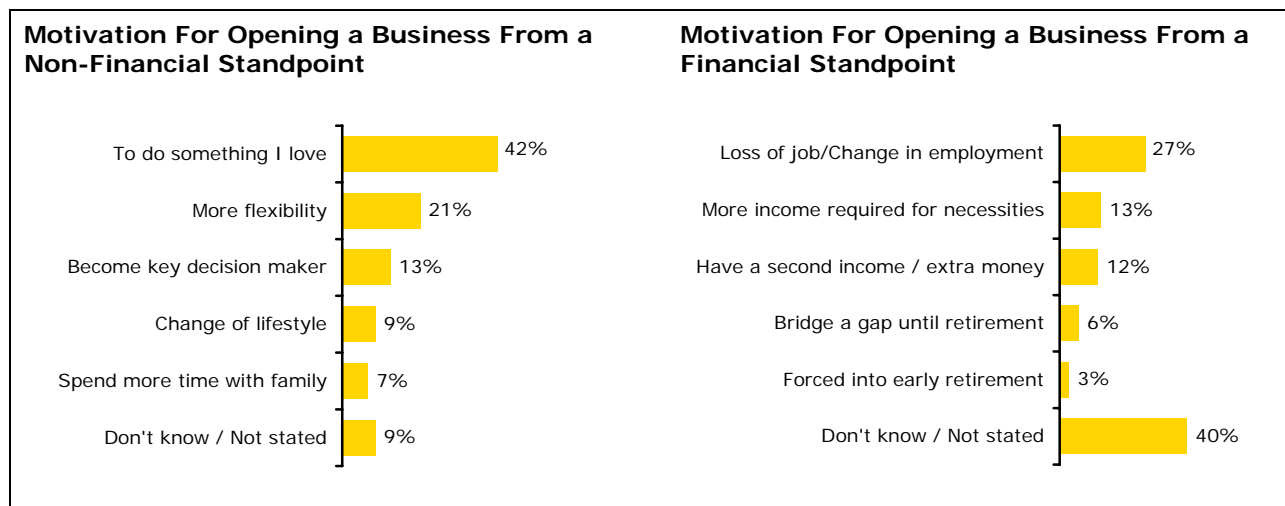


# Secrets to Small Business Success

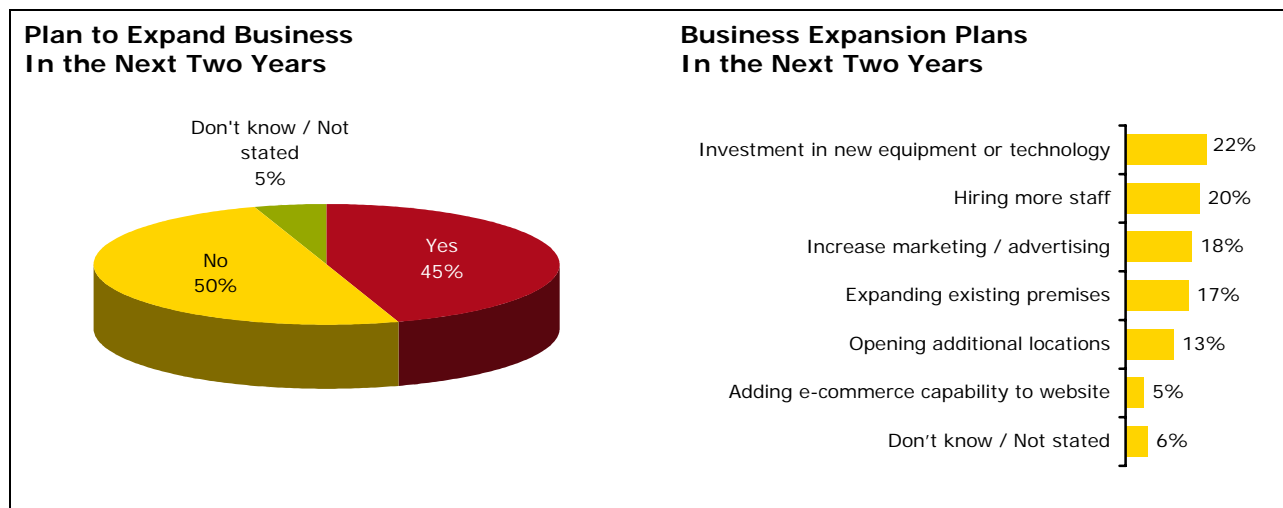
Small business owners are often looking for ways to increase their bottom line. To help entrepreneurs increase their revenues, this report closely examines the small firms that are outperforming their peers in revenue growth over the past three years and identifies the characteristics of these successful businesses. On average, small business owners said their businesses experienced a 27% cumulative percentage increase in revenues from 2001 to 2004.

Should an above-average increase in revenues be the definition of success? Not always. Success means different things to different entrepreneurs. We need to consider the motivation of an entrepreneur when setting up shop. When asked the non-financial reasons for becoming an entrepreneur, four in ten (42%) of small business owners indicate that they opened a business to do something they love and another 21% state that more flexibility was the reason they opened a business. The financial reasons for opening a business were less conclusive. Four in ten (40%) entrepreneurs did not provide a financial reason, while nearly three in ten (27%) respondents cite a loss of job or negative change in the entrepreneur’s employment situation as their motivation for opening a business.



Economic textbooks suggest that **growth** is the very essence of successful entrepreneurship. But the reality is different. When focusing on the small business sector, we differentiate between “value builders” and “lifestylers”, with the former desiring growth and the latter seeking long-term stability instead of growth and using the business as a means of generating income that is sufficient to support a certain lifestyle. An estimated 55% of micro businesses in Canada belong to the “lifestylers” group.

In fact, half (50%) of all small business owners do not plan to expand their business in the next two years. One-quarter (25%) of those entrepreneurs who are not planning to expand cite their contentment with the current state of their business as the primary reason for not expanding. For those who are planning to expand their business in the next two years (45% of entrepreneurs), small business owners say these plans include investing in new equipment and technology (22%) and hiring more staff (20%).



### What sets higher revenue growth small businesses apart from their peers?

Despite these differences in motivation to open a business and expansion plans, 63% of small business owners expect revenues to increase in 2005. To help them meet that expectation, we examined the main determinants that are most likely to set apart firms with significantly higher than average revenue growth from their peers in the past three years.

⇒ **A High level of education** played an important role in determining not only the level of revenues, but also the amount by which small firms have grown. Over the past three years, small firms run by individuals with at least some post-secondary education enjoyed a revenue increase which was more than double that of (approximately 2.5 times more than) those run by individuals with less than high school education. It appears that higher education may work to increase the ability of an entrepreneur to cope with problems and seize opportunities. Two in three (66%) Canadian small business owners have at least some post-secondary education.

⇒ **Use of Advisors** was a distinguishing characteristic of small firms with above-average growth over the past three years. Entrepreneurs who, on a regular basis, use the advice of professional advisors experienced their revenues rising 76% more than small firms without such advice. Among small business owners with an advisory panel or board, the most common members of the panel include financial experts (68%), business professionals (48%) and legal advisors (32%). Just over one in ten (11%) Canadian small firms use an advisory panel or board as a matter of course.

⇒ **Corporations** also emerged as an important distinguishing feature of small businesses that outperform their peers' growth, with small businesses which are incorporated seeing revenues rising by 40% more than unincorporated sole proprietors. Small businesses which are incorporated tend to have a larger support system, often with more resources and skills available to the small business owner. 40% of Canadian small businesses are incorporated.

⇒ **Outsourcing** has also emerged as an important factor leading to comparatively strong growth. Small firms that receive outsourced work from other companies grew their revenues, on average, 61% more than firms that do not rely on outsourced work. The pace of business outsourcing is expected to accelerate in the coming years, as large firms cut costs and focus on core business. This should continue to provide Canadian small businesses with growth opportunities. Currently, 39% of small firms in Canada receive outsourced work.

⇒ **Technology adoption and connectivity** was found to be a significant factor that led to accelerated growth. Small firms that reported a high level of web connectivity saw their revenues rise about twice as much as (approximately 2.25 times more than) firms with no web connectivity. The logical connection here is straightforward. Increased connectivity and the adoption of e-commerce enabling technologies work to improve and strengthen customer relationships, enhance information availability and exchange, improve the company's image, and, in some cases, level the playing field with large corporations. Roughly 38% of small firms in Canada have a web site and 7% use the Internet as a serious business tool.

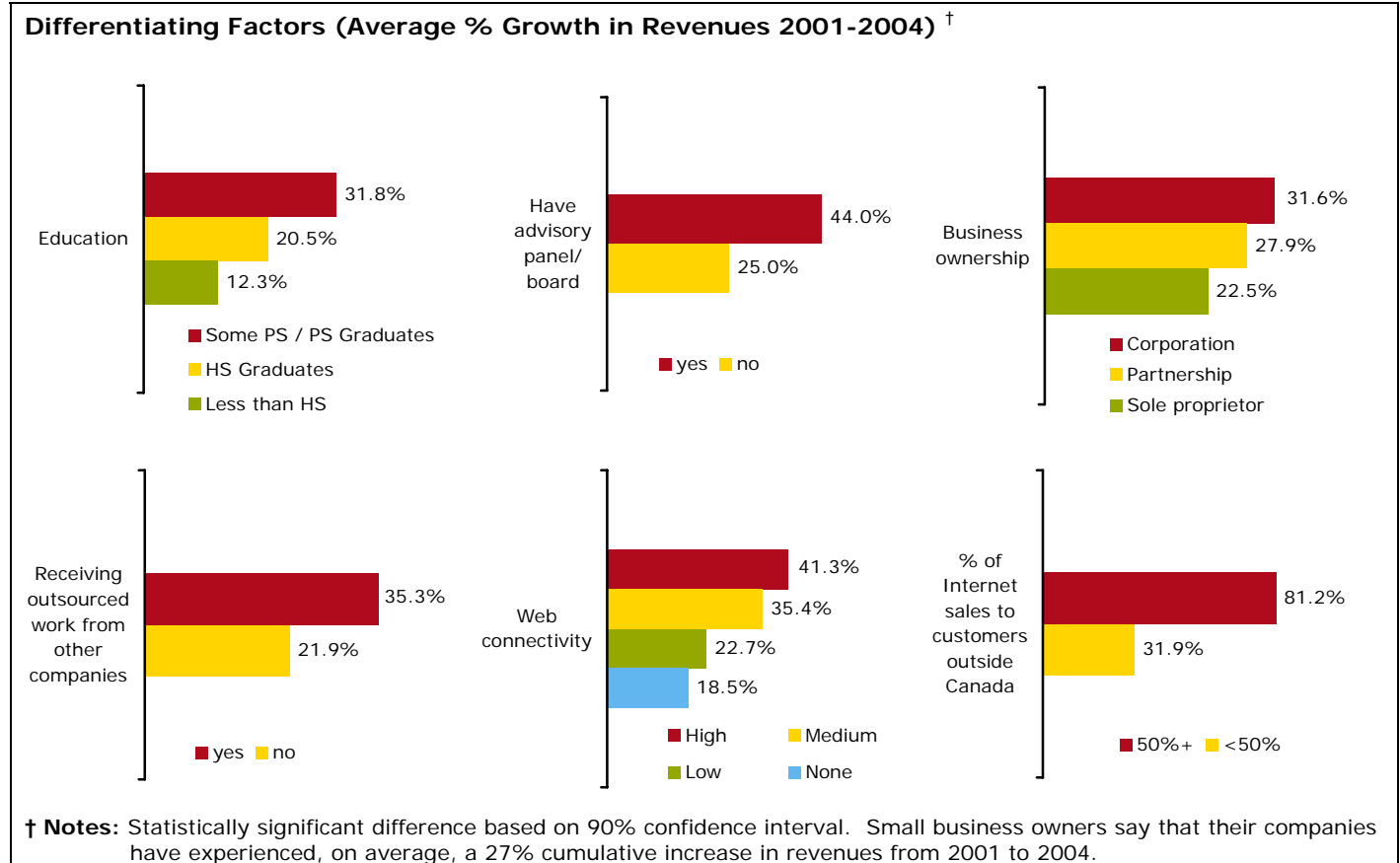
**High web connectivity** is defined as a firm with a business website that allows e-commerce (which may or may not include information about the company) and an Internet connection.

**Medium web connectivity** includes firms with a business website for information only (with or without an Internet connection), as well as businesses with a website which allows e-commerce, but without an Internet connection.

**Low connectivity** includes firms that do not have a business website, but do have an Internet connection.

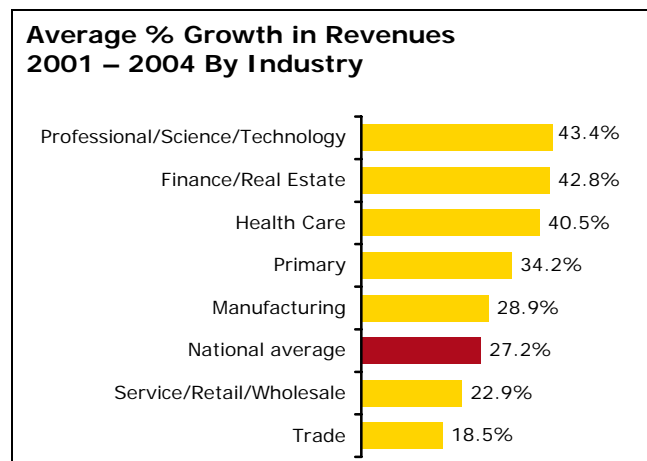
⇒ **A majority of Internet sales outside of Canada** is common to many small businesses outperforming their peers in revenue growth. In the past three years, small businesses that export more than half of their Internet-based sales experienced revenue growth which was more than double (approximately 2.5 times more than) those who exported less than half of their Internet-based sales. On average, 22% of Internet-based sales are to customers outside of Canada.

## Six Secrets of Small Business Success - At a Glance



## Industries with strong revenue growth include Professionals, Science and Technology and Finance and Real Estate

An examination of firms which are outperforming their peers in revenue growth in the past three years would not be complete without a look at the industries leading the way. While the common image of a small business is a store-front, it appears that small business revenue growth is strongest in the professional, science and technology industry, followed closely by small finance and real estate-related firms. Small businesses in the health care field are also performing well.

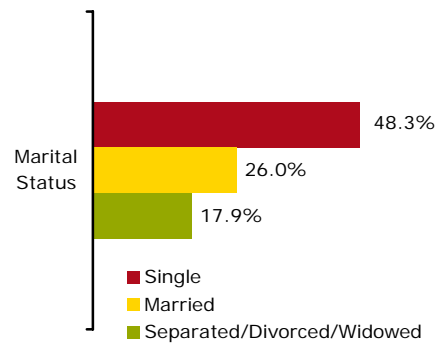


In the past three years, **single entrepreneurs** have experienced almost double (86% more than) the revenue growth of entrepreneurs who are married (48.3% compared to 26%).

However, entrepreneurs who are divorced, separated or widowed experienced 17.9% growth in the past three years.

While the finding that single people have experienced comparatively larger revenue growth may indicate that single people have more time to devote to their businesses, this finding may also be correlated with the age of the entrepreneur and the stage of the business, among other factors.

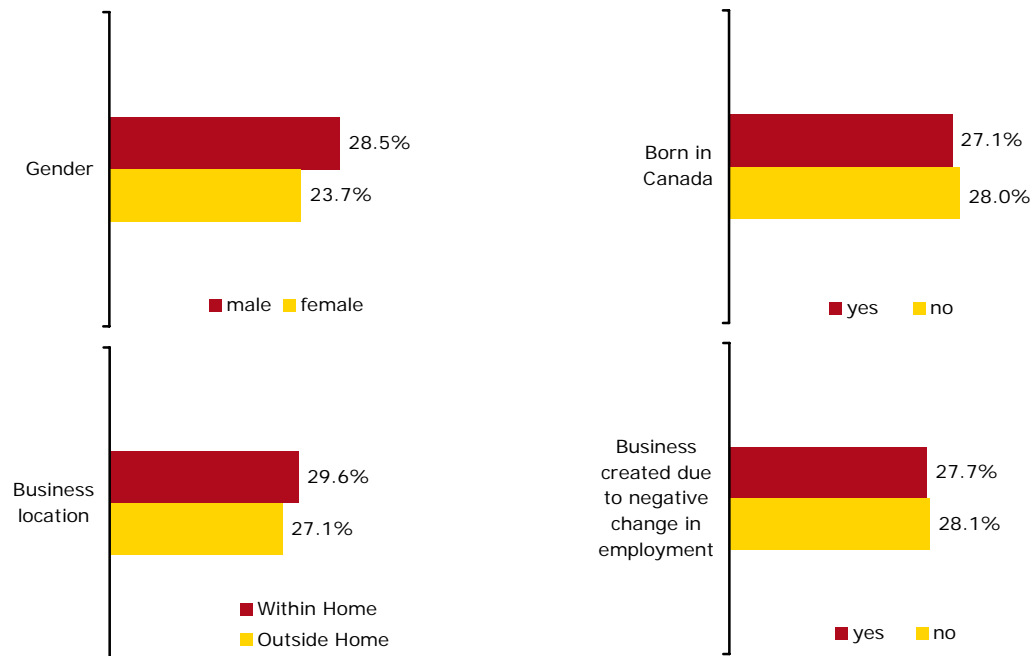
**Average % Growth in Revenues 2001 – 2004 By Marital Status**



**Equal opportunity for entrepreneurial success**

Within this context it is equally important to focus on the factors that appear to have little or no impact on the probability of success. The **gender** of small business owners appears not to have had an impact on the revenue growth of small firms, as the growth rate among firms owned by men are rising at approximately the same rate seen among women. **Immigrants** were also found to enjoy the same rate of revenue growth as native-born small business owners. **Business location** is also not a differentiating factor with three-year revenue growth rates reported by home-based businesses matching those of non home-based businesses. Interestingly, we also found no performance difference between **small businesses that were created due to negative economic circumstances** (entrepreneurs who established their businesses at least in part because they were laid-off, downsized, restructured, fired or took an early retirement package) and companies that were established by the entrepreneur’s choice to become self-employed.

**Non-Differentiating Factors (Average % Growth in Revenues 2001-2004)**



† **Notes:** Statistically significant difference based on 90% confidence interval. Small business owners say that their companies have experienced, on average, a 27% cumulative increase in revenues from 2001 to 2004.

## Most entrepreneurs have no regrets and “own” their success in business

Beyond the numbers, perhaps the most telling indication of small business success is the overwhelming number of entrepreneurs (86%) who say that if they had it to do over again, they would definitely open their own business again.

Entrepreneurs also take ownership of their responsibility for their success. Nine in ten (91%) entrepreneurs agreed with the statement, “The most important factor in the success of my business is me.”

### Sources:

*Unless indicated otherwise, the data sources used in this study are the 2004 CIBC Small Business Outlook Poll, Statistics Canada and CIBC World Markets. As well, unless indicated otherwise, small businesses in this study are defined as firms having between one and fifteen employees including the owner and having revenues under \$5 million for the year 2003.*

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### Notes:

*This report was written by CIBC World Markets.*

*The 2004 CIBC Small Business Outlook Poll was conducted by Decima Research between July 13<sup>th</sup> and August 6<sup>th</sup>, 2004 and was based on a randomly selected sample of 1,829 Canadian small business owners (defined as those businesses having between one and fifteen employees including the owner and having revenues under \$5 million for the year 2003). With a sample of this size, the results are considered accurate within  $\pm 2.3$  percentage points, 19 times out of 20, to what they would have been had the entire Canadian population of businesses with one to fifteen employees and revenues under \$5 million been polled. The margin of error will be larger within regions and for other sub-groupings of the survey population. The sample of respondents is representative of the region, Census Metropolitan Areas and employee size of Canada's small businesses according to the June 2002 Business Register data produced by Statistics Canada.*

*\* For sample sizes less than 20, the base is too small to report and results are shown as N/A. Percentages of all grouped response categories are rounded based on the final sum of the components.*

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