

Innovation

Creating wealth through business improvements.

Innovation that helps create wealth for Canadian business owners only requires business leadership and motivation, a supportive circle of family, associates and employees, and a desire to improve.

For Canadian private business owners, innovation in their businesses may be defined as “the successful exploitation of new ideas to improve processes, bring new and improved products and services to market, increase efficiency and, most importantly improve profitability.”¹

Peter Drucker, famed management consultant and author, described innovation as “the specific instrument of entrepreneurship, the act that endows resources with a new capacity to create wealth”² in his ground-breaking 1985 book, *Innovation and Entrepreneurship: Practice and Principles*.³

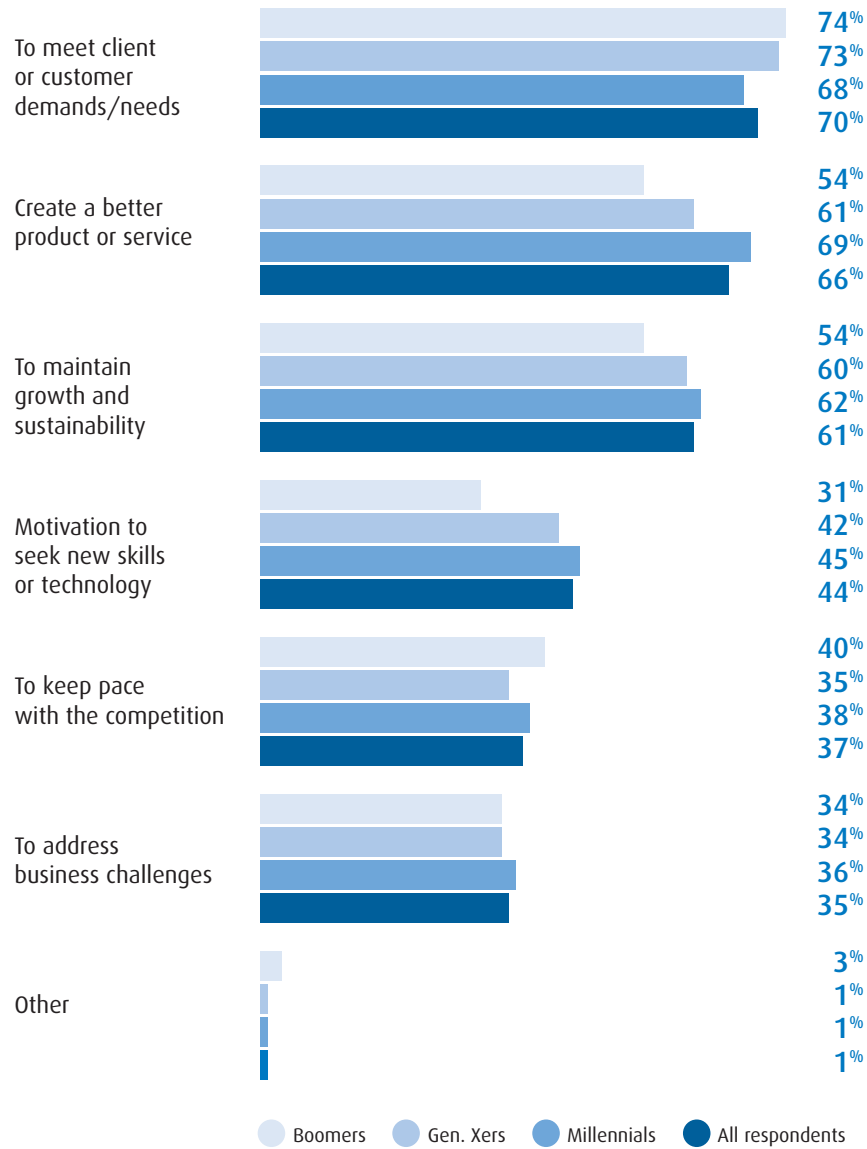
Innovation is different from invention and does not necessarily depend on technology. Drucker’s description predates the development of technological advances like smart phones, apps, artificial intelligence and social media that are so widely used and relied upon today.

Innovative and profitable business changes do not necessarily require significant financial investments, specialized personnel with computer science degrees, engineers, or other technical people. Innovation that helps create wealth for Canadian business owners only requires business leadership and motivation, a supportive circle of family, associates and employees, and a desire to improve. Sometimes simple, low-tech innovations can help to keep things “fresh” for customers, employees and the business.⁴

A survey was commissioned by BMO Wealth Management to learn more about how Canadian small business owners view innovation and how it can help their businesses.⁵ Small business owners were asked to name their top three reasons for implementing innovations. Meeting client needs was the most important reason (cited by 70% of respondents), followed by creating a better product or service (66%) and maintaining growth and sustainability of the business (61%). Women and older entrepreneurs were more client centric, while men and younger business owners had a higher focus on creating better products or services.

Meeting client needs is the most important reason for implementing innovation.

Drivers for innovation implementation among business owners, by generation⁶



Source: BMO Wealth Management survey by Validatelt Technologies Inc., December 2017⁵

Canadian business demographics and innovation

There are over 1.1 million small businesses in Canada, employing more than 70% of working Canadians.⁷ One of the reasons why about half⁸ of such businesses fail in their first five years may be that Canadian businesses generally underperform in the area of innovation.⁹

Many younger business owners (aged 18–34) are changing this dynamic, because they focus their innovative efforts to create better products or services. Business owners over 55, by contrast, are much more focused on customer demands (74%) than on creating better products or services (54%).

A recent study, called *Everywhere, Every Day Innovating. Women Entrepreneurs And Innovation*, co-funded by BMO Financial Group, the Government of Canada, Carleton University, and the Beacon Agency, found that for women, innovation happens in Canada in all business sectors and in every aspect of business.¹⁰ These innovations have not only created new products and services, but also new ways of marketing and selling existing products, as well as engaging their internal team members to be more productive.

Innovation drives financial success

Many small business owners can learn a valuable lesson in measuring the success of the innovations they introduce by looking at the management performance indicators used by larger Canadian enterprises. Enterprises that believe innovation will help them gain market share, introduce new products, and become more profitable, measure more than just financial ratios such as profitability and profit growth. Leading edge companies develop their own combination of metrics that include more subjective and behavioural-based factors that include leadership, employee and customer inputs.¹¹ Innovation should be a never-ending process.

Costs of innovation

Innovation in business requires a business owner to have an open mind, curiosity and a desire to do both big and little things better, all for the purpose of driving the business forward profitably. For many innovations to be implemented, it also takes money.

Business owners can fund innovation from a variety of sources:

- Ongoing cash flow
- Business loans from commercial or private sources
- Government grants
- The business owner's own resources, or financial support from family and friends

The *Everywhere, Every Day Innovating* study noted that the lack of investment capital can hinder innovation, or may require it to be implemented on a smaller scale.

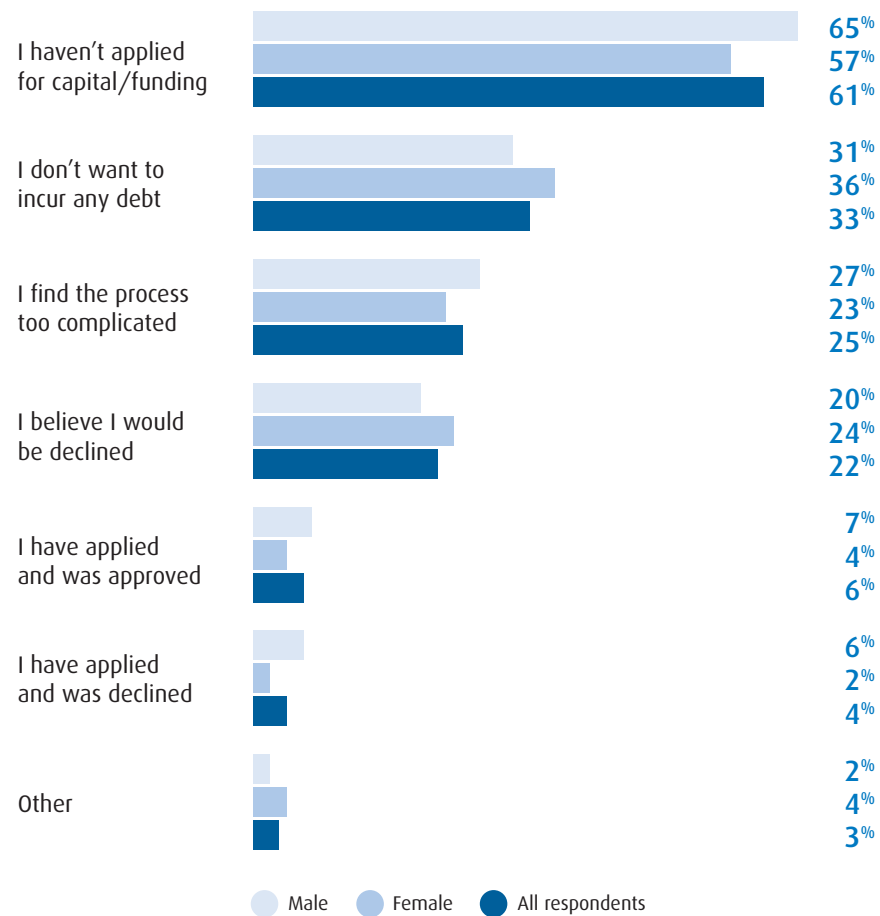
Innovation should be a never-ending process.

61%
of small business owners in Canada have never applied for funding to support innovation.

Business loans and government grants

According to the survey, the majority of small business owners in Canada (61%) have never applied for funding to support innovation. Other barriers to seeking funding include not wanting to incur debt (33%), belief that the process is too complicated (25%) and a fear of being turned down (22%). The survey also found that men are less likely to apply for funding than women, and that younger entrepreneurs are much less comfortable with debt than older entrepreneurs.

Applying for capital to fund innovation among business owners, by gender⁶



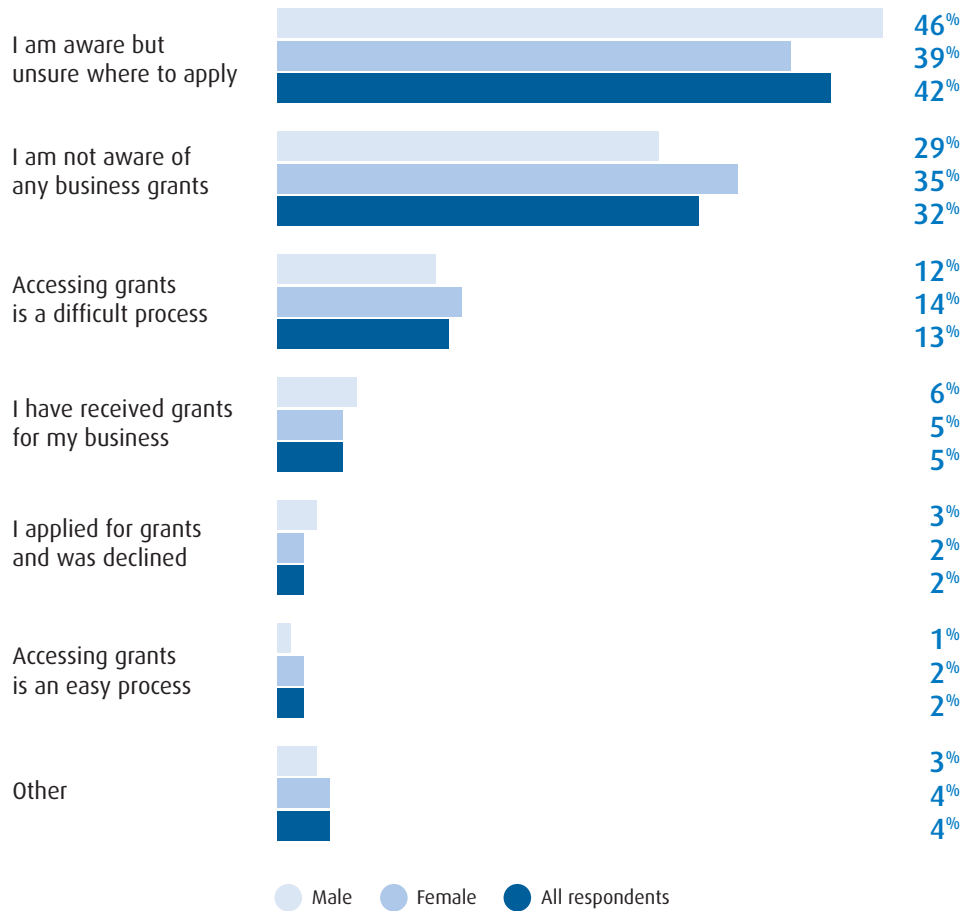
Source: BMO Wealth Management survey by Validatelt Technologies Inc., December 2017.⁵

Another interesting result from the survey was the big gap between the number of small business owners that have applied for funding (6% approved and 4% declined) versus the much higher proportion of small business owners that has never applied for funding (61%). There is far more opportunity for business owners that do apply.

The majority of Canadian small business owners have not pursued government grants to support business innovation.

The vast majority of Canadian small business owners have not pursued government grants to support business innovation. Less than 10% of those surveyed have either applied for government grants or considered the process easy to work through. In contrast, 42% had some knowledge of government grants but were unsure how to apply, 32% were not even aware of the availability of grants, and 13% felt that the process was too difficult.

Experiences of government grants to support business growth and innovation among business owners, by gender



Source: BMO Wealth Management survey by Validatelt Technologies Inc., December 2017⁵

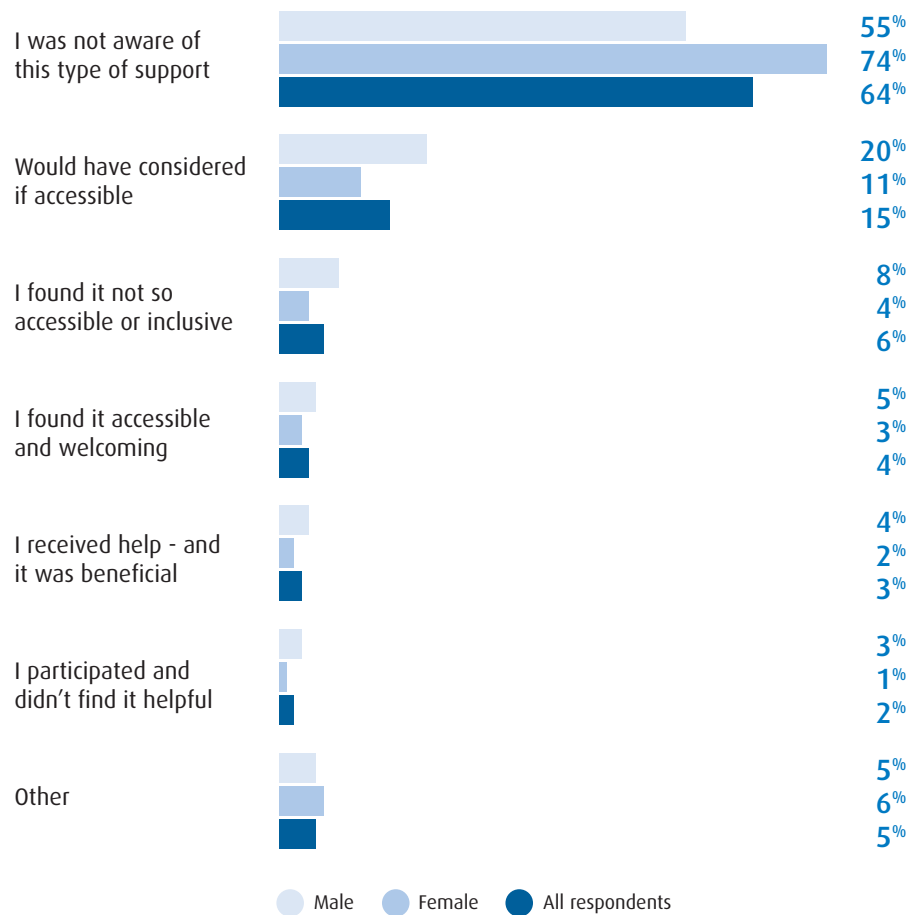
Business accelerators and support networks

In the technology realm in particular, there is a network of accelerators, incubators and hubs that allows entrepreneurs to work with experienced mentors in supportive environments, and can also assist to attract funding. The Waterloo-Toronto corridor is widely recognized as the Silicon Valley of Canada, but there is considerable technological expertise – and many innovative businesses are being nurtured – across the country.

Outside of technology companies, the majority of Canadian entrepreneurs are not aware (64%) that this type of support is available to help them innovate. Only 3% have received help and found it beneficial, and 4% found the environment in accelerators and incubators welcoming. What was most striking in the survey was the fact that many more women were unaware of the support available (74%) than men (only 55%).

The majority of Canadian entrepreneurs are not aware that support is available to help them innovate.

Participation in accelerators and incubators among business owners, by gender



Source: BMO Wealth Management survey by Validatelt Technologies Inc., December 2017.⁵

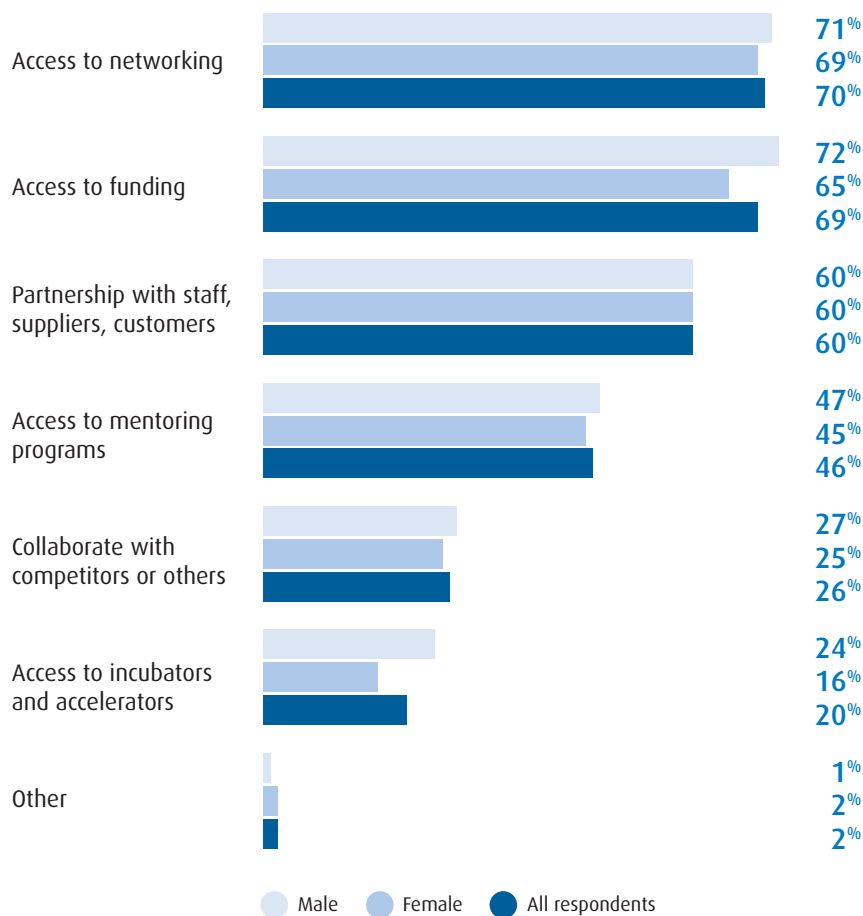
The support available from accelerators, incubators and hubs goes far beyond helping to launch new technology businesses. There are many sources of support for innovation for non-technology business:

- [Canada Business Network](#), a collaboration between the federal government, provincial governments and not-for-profits, supports a wide variety of businesses from start-up through growth phases.
- Organizations that support coaching, mentoring and training across the country can be found on the Canada Business Network website.
- Younger entrepreneurs in Ontario can benefit from targeted programs, such as the [Youth Business Acceleration Program](#).

The importance of these resources was emphasized by the small business owners that participated in the survey. When asked to identify the top three keys to innovation for a successful entrepreneur, access to networking was cited most frequently (70%), followed by access to funding (69%), partnerships with staff, suppliers and customers (60%) and access to mentoring programs (46%). Access to incubators and accelerators was cited by just 20% of the survey respondents.

The majority of business owners identified access to networks, access to funding, and partnerships - as top three keys to innovation success.

Top three keys to innovation success among business owners, by gender⁶



Source: BMO Wealth Management survey by Validatell Technologies Inc., December 2017.⁵

These external resources are available to most entrepreneurs, but it takes the business owner's own resources – time, in particular – to take advantage of them.

The *Everywhere, Every Day Innovating* study built on these points and found that for women entrepreneurs, innovation is key to the growth and sustainability of their businesses. Even though most of the businesses in the study are not in the science or technology sectors, innovation leads to their sustainability.

Canadian small business owners should think beyond accelerators, incubators and hubs. Joining a business group, finding a mentor and surrounding yourself with similar business professionals can provide both short and long-term benefits to help innovate and grow.¹²

Getting involved

When asked why they became a small business owner, with all of the challenges and stresses involved, most respondents in the BMO Wealth Management survey (60%) indicated that it was by choice. Nearly half (49%) needed a new challenge, and 19% were serial business owners looking for further purpose after a previous business venture. Male and younger business owners were most likely to have cited these reasons.

The *Everywhere, Every Day Innovating* study found that collaboration and partnerships are key to innovation. Build partnerships, get involved, and be prepared to both learn and to share your experiences. You will not only receive good advice, but will also be able to offer advice to other business owners.

Innovation works best when business owners with different opinions and different backgrounds collaborate. It is better to be challenged, because surrounding yourself with like-thinking individuals can sometimes stifle innovation.¹³

Profitability, personal wealth and risk

Canadian small business owners often take on personal financial risk when running their business. It is important to balance this by not being overly aggressive in a personal wealth plan. While entrepreneurs often have considerable expertise in their area of business, it can be risky to invest personal funds and retirement funds in these same industries. Excessive wealth concentration in one industry can have very negative effects if that industry falters. A balanced approach that includes investing personal and retirement funds in other industries and regions can help mitigate risk.¹⁴

While many entrepreneurs hope to sell their business to fund their future retirement, it may not be that easy. Only a small percentage of businesses are ultimately sold when a business owner chooses to retire. Instead, implement a plan to put money away for the future every year. These funds should be invested in a diversified way to fund long-term goals such as retirement. Professional advice is key when making investment, diversification, retirement and wealth planning decisions.

Another risk that small business owners may face is their health. Personal insurance is important to mitigate the risks of events that limit the ability to work in the business. Insurance can help pay bills, keep the business running and pay staff until the business owner recovers.

Innovation works best when business owners with different opinions and different backgrounds collaborate.

Seek out and take advantage of all that is out there to help you build your business.

Conclusion

Learn from your setbacks. Don't just look for the best people in your industry to help your business, make sure they are also the right people to help you grow and innovate. Seek out and take advantage of all that is out there to help you build your business. Not only funding sources, but the invaluable knowledge and learning from experienced business owners that have been there before. Accept the challenge to grow, innovate and evolve your own way of thinking and your business at the same time.

Working together with BMO financial professionals can help Canadian small business owners with both their business and personal situations to achieve greater financial know-how and peace of mind.

Footnotes

- ¹ Use innovation to grow your business. Canada Business Network, 2009. <http://www.infoentrepreneurs.org/en/guides/use-innovation-to-grow-your-business/>
- ² Thoughts on the business of life. Drucker, P. Forbes. <https://www.forbes.com/quotes/11396/>
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- ⁴ Entrepreneurs answer the question: “Why is innovation important?” Brooks, C. Business News Daily, September 23, 2013. <https://www.businessnewsdaily.com/5167-innovation.html>
- ⁵ BMO Wealth Management survey conducted by ValidateIt Technologies Inc. for the BMO Wealth Institute between November 29, 2017 and December 2, 2017 with an online sample size of 1,005 Canadian small business owners. The overall probability results for a sample of this size would be accurate to within +/- 3.01% at the 95% confidence level.
- ⁶ Respondents in the survey may have selected more than one response, so the percentages in the table do not total 100%.
- ⁷ Key small business statistics. Innovation, Science and Economic Development Canada, June 2016. [https://www.ic.gc.ca/eic/site/061.nsf/vwapj/KSBS-PSRPE_June-Juin_2016_eng-V2.pdf/\\$file/KSBS-PSRPE_June-Juin_2016_eng-V2.pdf](https://www.ic.gc.ca/eic/site/061.nsf/vwapj/KSBS-PSRPE_June-Juin_2016_eng-V2.pdf/$file/KSBS-PSRPE_June-Juin_2016_eng-V2.pdf)
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- ⁹ Entrepreneurs and startups must help drive the innovation agenda. Lacavera, A. and Lennox, V. Financial Post, April 29, 2016. <http://business.financialpost.com/entrepreneur/fp-startups/entrepreneurs-and-startups-must-help-drive-the-innovation-agenda>
- ¹⁰ Everywhere, Every Day Innovating. Women Entrepreneurs And Innovation. Beckton, C., McDonald, J. and Marquis-Bissonnette, M. February 13, 2018. https://bmoformen.bmo.com/.../Everywhere_Everyday_Innovating_EN_Final.pdf
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- ¹² Startups: Don't sell out. Help build Canada's no-exit innovation economy. Rodrigues, C. Financial Post, December 29, 2017. <http://business.financialpost.com/entrepreneur/startups-dont-sell-out-help-build-canadas-no-exit-innovation-economy>
- ¹³ Why innovation is crucial to your organization's long-term success. Henderson, T. Forbes, May 8, 2017. <https://www.forbes.com/sites/forbescoachescouncil/2017/05/08/why-innovation-is-crucial-to-your-organizations-long-term-success/#1006f03f3098>
- ¹⁴ Entrepreneurs shouldn't be too entrepreneurial with their own wealth planning. Carter, M. Entrepreneur, July 27, 2017. <https://www.entrepreneur.com/article/297664>



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