

The Decline of Entrepreneurship in Canada

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01

Problem Context

"Despite a nearly ~8 Million increase in Canada's population since 2002, Canada has fewer active entrepreneurs per capita today, compared to 20 years ago." – BDC



@31.3 million people:

2002 = 3 entrepreneurs per 1,000 people



@38.9 million people:

2022 = 1 entrepreneur per 1,000 people

Please watch this **short clip on the challenges of building a successful business...**

<https://www.youtube.com/shorts/SauAqaWD7fk>

– Reflections from Nvidia's Co-Founder and CEO, Jensen Huang

We analyzed data from a range of sources:

- Statistics Canada (main source for population data and Canadian gov't data)
- Macrotrends.com
- OECD
- BDC entrepreneurship report(s)
- CIBC entrepreneurship report

We analyzed data from a range of sources:

Our datasets covered the period 2006 – 2022 mostly (with a focus on 2019–2022).

Most of our datasets were clean, but we did find some inconsistencies in our data, and had to:

- (1) Clean our data in excel, create custom formulas with estimates
- (2) Create new tables in SQL,
- (3) Multiply by factors (ie – 10x and 1000x) for data normalization
- (4) Create visualizations using Tableau

02

Hypothesis

Our Hypothesis: What's happened to Canada's entrepreneurs?

The Decline of Entrepreneurship in Canada 

- (1) Covid-19 was sudden negative shock for Canada's SME's, many whom did not recover
- (2) Shifting Macroeconomic trends have lowered Canadian living standards and savings rates, making it more difficult for people living within Canada to want to take the risk of starting a business.
- (3) An Ageing population, and a growing immigrant workforce, has hurt small business survival rates (entry and exit rates), with immigrants being less willing to takeover existing businesses or start new companies over traditional employment.

Why start a business?

—
QUOTE

"Entrepreneurship lies is at the
intersection of dreaming and **doing**.
If you solely dream, you only catch sleep"

Motivations for entrepreneurs

Why start a business?

Starting a successful business is one of the strongest forms of "Self-actualization" for human beings.

Entrepreneurship allows for growth and meaning in the pursuit of personal impact and freedom.

When is the right time to start?

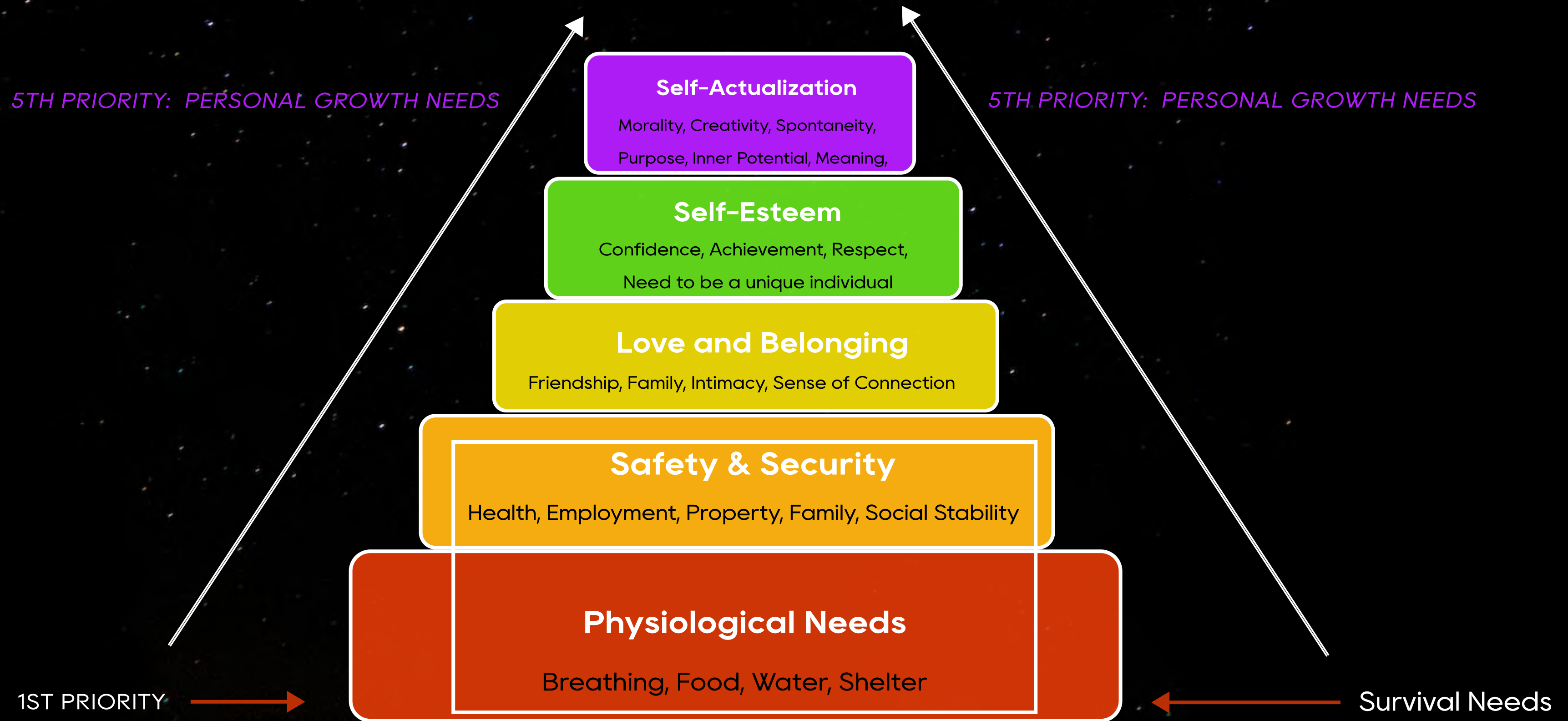
In Canada, the average age of a small business owner is 46. A CIBC study found most entrepreneurs start their businesses between the ages of 35 – 55. Almost two-thirds (67%) of all self-employed people in Canada are a 1-person operation (sole proprietorships).

Fun fact

As of 2018, twenty-eight percent (28%) of Canada's entrepreneurs are now women, up from eleven percent (11%) back in 1978.



Maslow's Hierarchy of Human Needs



Common Barriers to Entrepreneurship

Access to Funding

- Lack of personal savings,
- Lack of Friends & Family with money,
- Limited knowledge of funding options
- Limited access to Angel Investors or Venture Capitalists
- High interest rates from Banks

Human Capital & Experience Gaps:

- Technology illiteracy (inability to code or navigate digital skills economy)
- Legal knowledge gaps (entity structuring)
- Lack of diversity within founding teams
- Lack of experience within an specific industry

High Failure Rates induce Fear of Starting

→ **1/3 new small businesses fail within five years.**

→ **2/3 small businesses fail within ten years**

This, coupled with a much higher cost of living may explain why entrepreneurship has attracted fewer and fewer Canadians over the past 20 years.

Sample Example: Over a period of 10 years, 10/15 new businesses will fail

In 2010 → **15 new small businesses are formed**

By 2015 → **10 of the 15** small businesses are operational (5 fail)

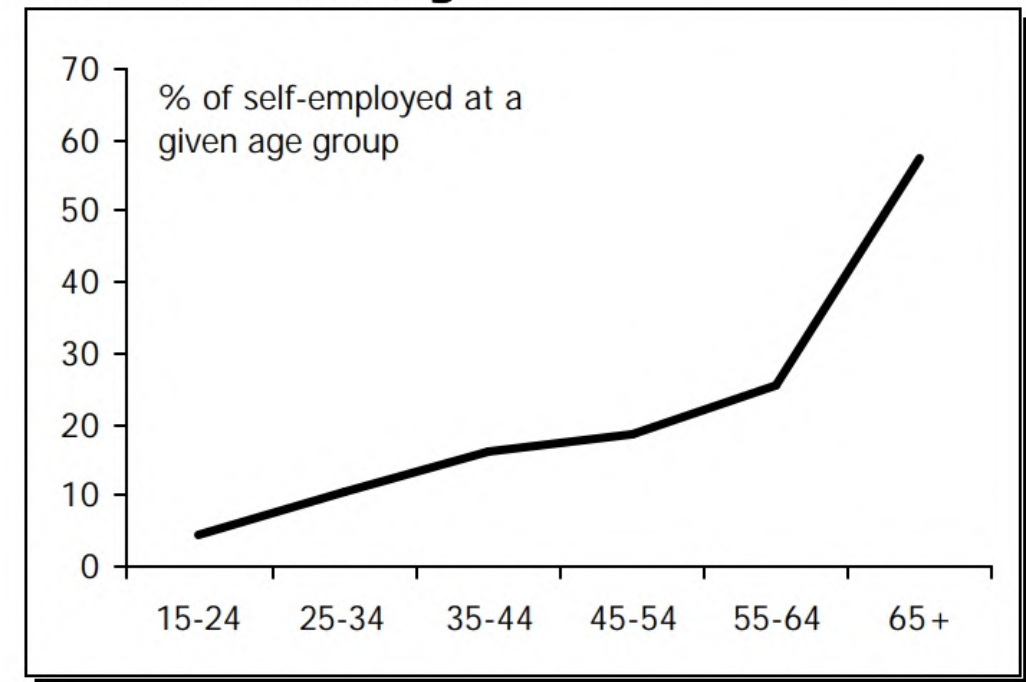
By 2020 → **5 of the original 10 businesses are still operational** (5 more fail)

CIBC Study: Entrepreneurship, Age and Retirement

Entrepreneurs Are Closer To Retirement

The majority of Canadian entrepreneurs are between the ages of 35 and 55. Only one in five self-employed individuals is under 35 years old, compared to more than 43% of people who work for someone else (Chart 1).

Chart 1
Propensity to Be Self-Employed
Increases with Age

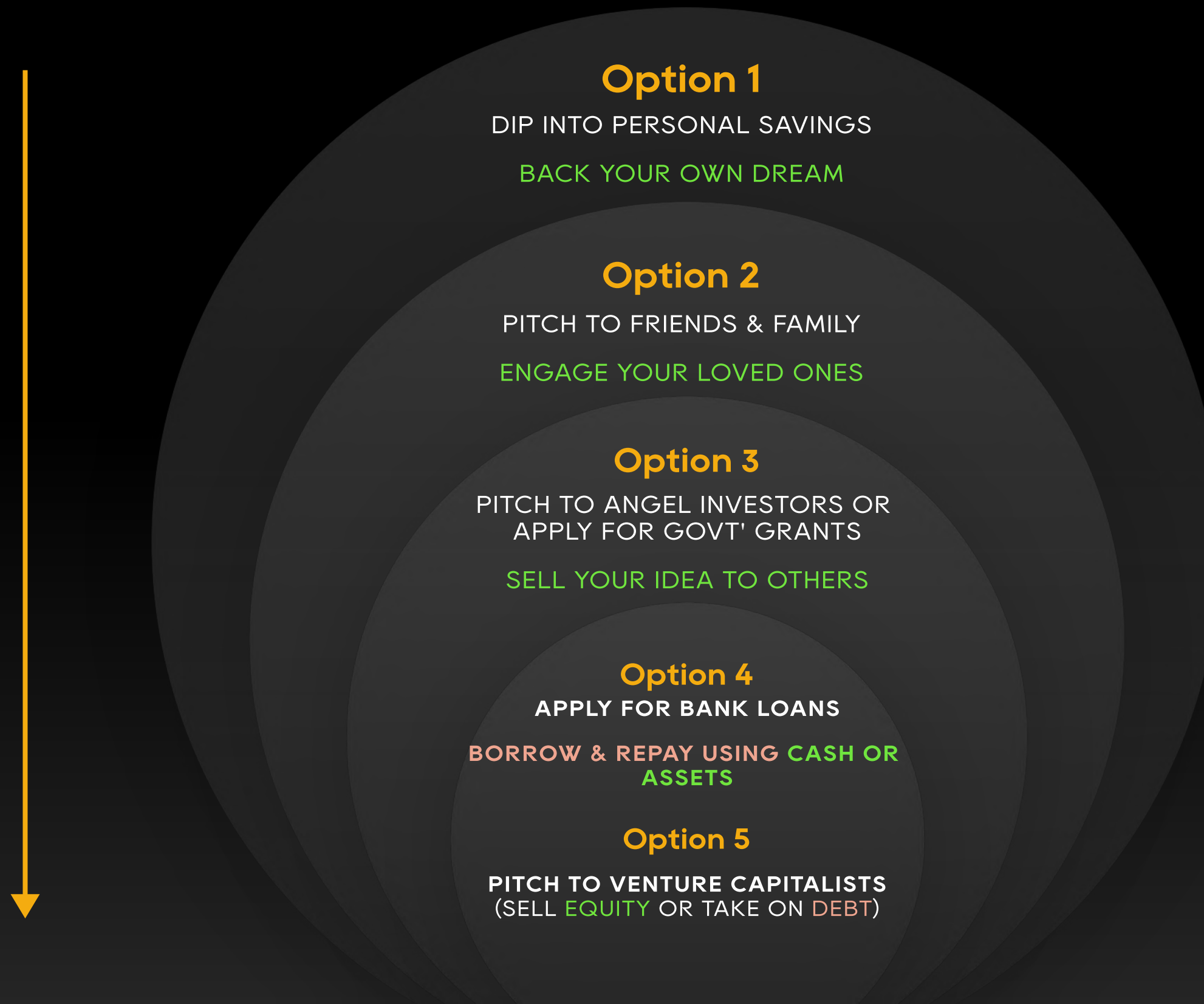


During the last decade, the 35 to 54 year old age group represented the fastest growing segment of entrepreneurs, followed by people over the age of 55. Close to 60% of self-employed people in Canada are between the ages of 35-55 — a significant increase compared to the number of entrepreneurs in this age group fifteen years ago.

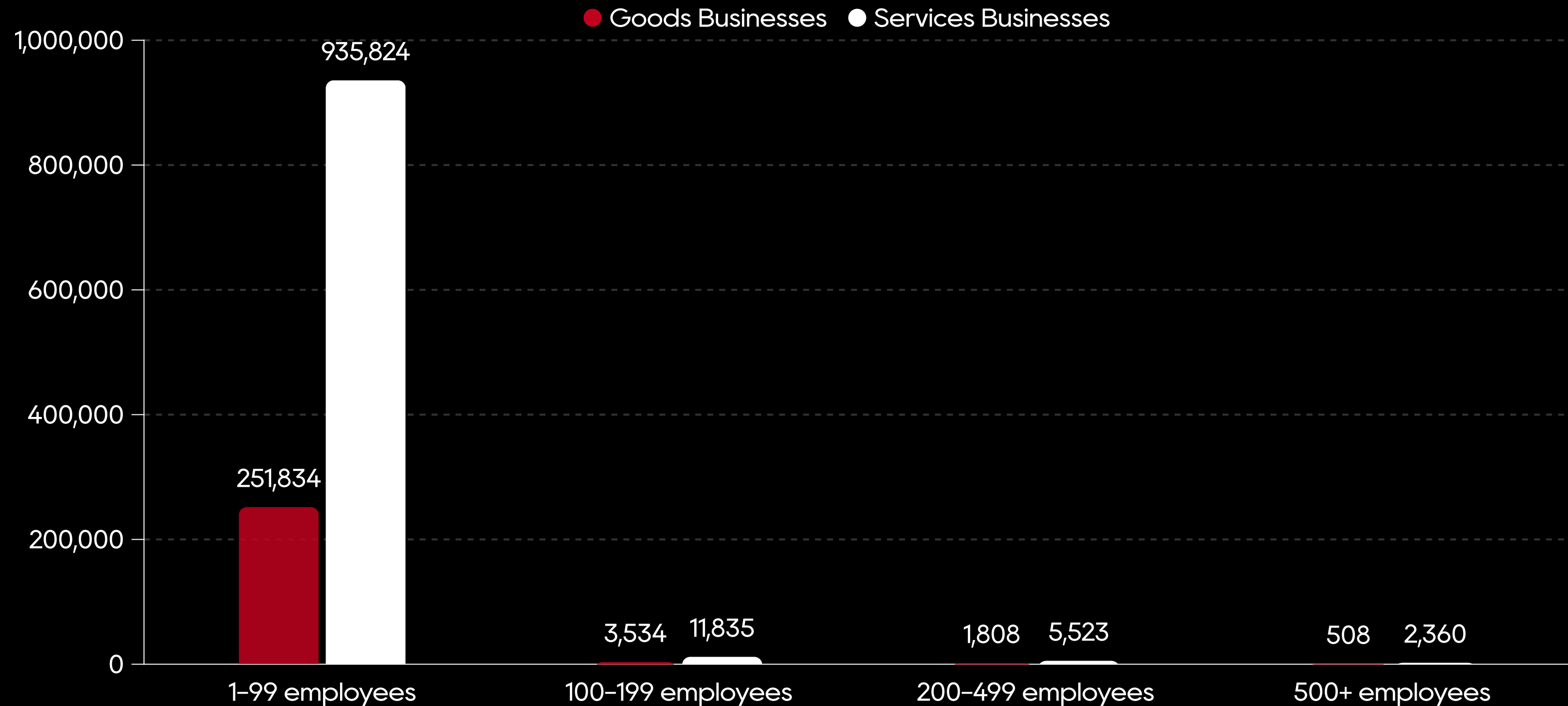
Looking at micro businesses in particular (businesses with fewer than ten people), only 17% of micro business owners are under 40 years old. The average age of a micro business owner is 46.



The Entrepreneurs Funding Hierarchy



There are over 1.1 Million SME's, which account for 90% of all private sector jobs in Canada. Over \$1 Trillion in GDP is generated by SME's annually



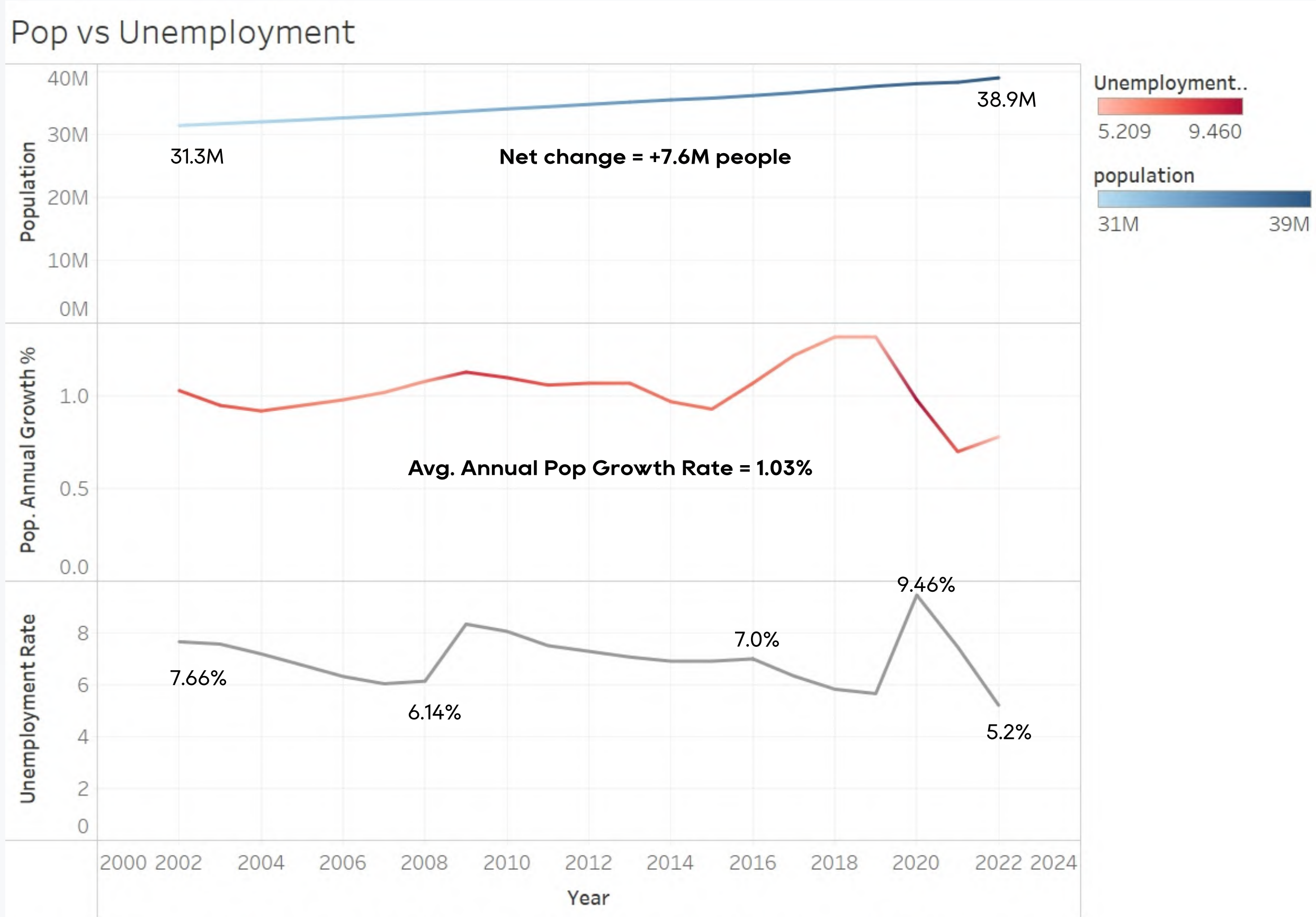
***Official Data from Statistics Canada as of December 2021**

03a

Evaluating Macro Trends...

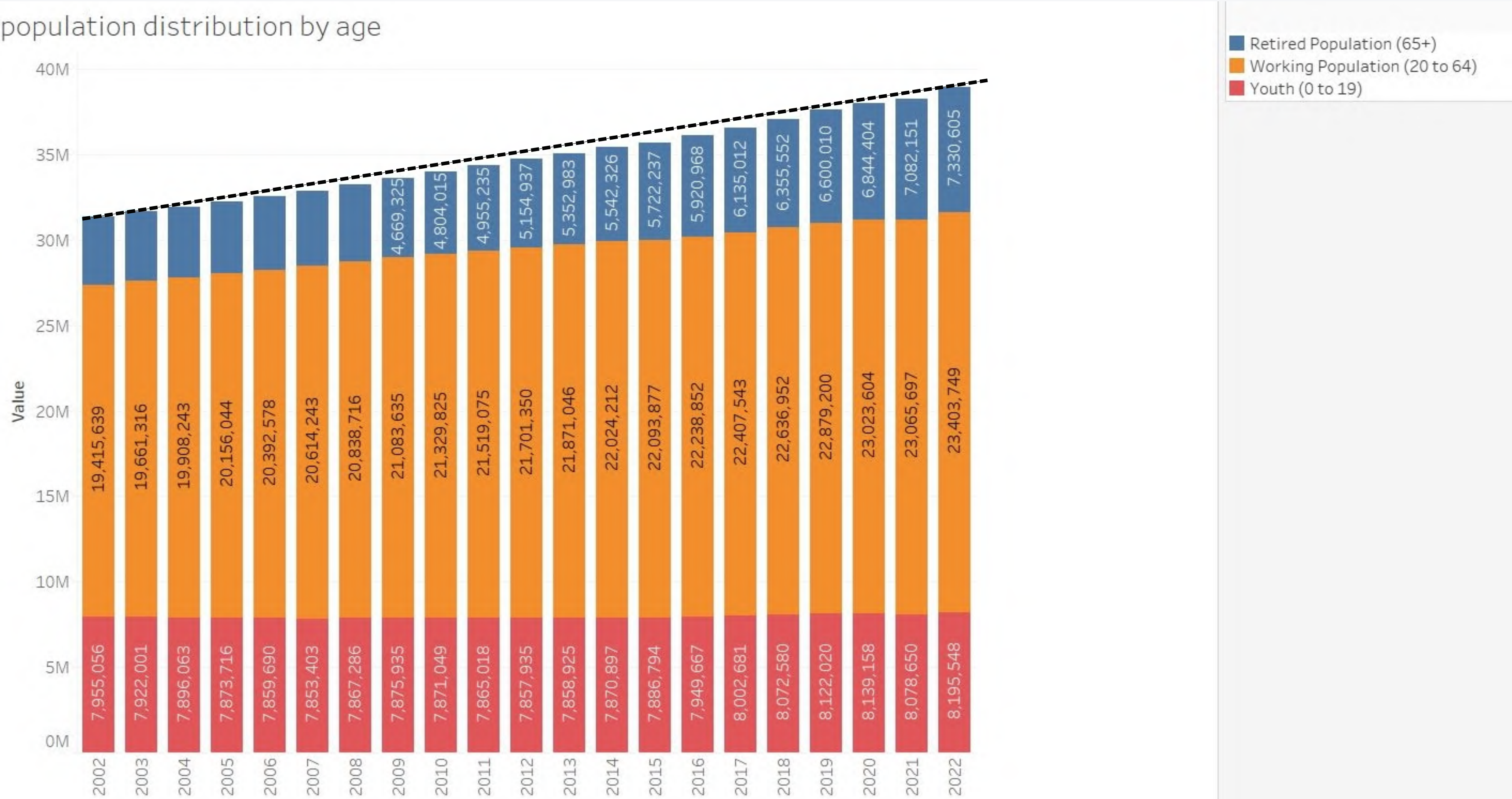
Population changes & Economic data

Canada's Unemployment rates have varied cyclically with pop. growth & crises

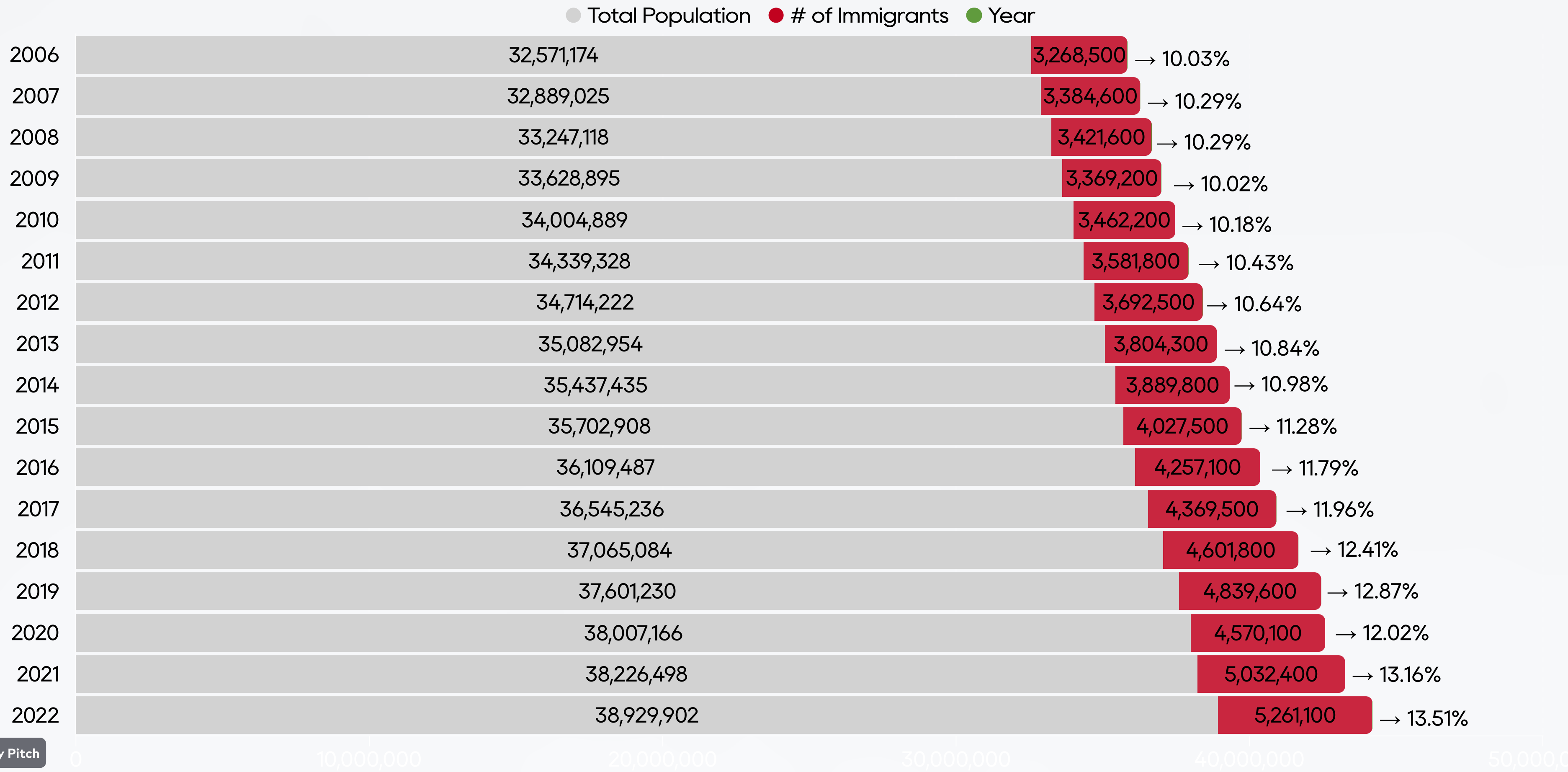


The trends of sum of population, sum of Population Annual Growth and sum of Unemployment Rate for Year. For pane Sum of population: Colour shows sum of population. For pane Sum of Population Annual Growth: Colour shows sum of Unemployment Rate. The marks are labelled by sum of Population Annual Growth.

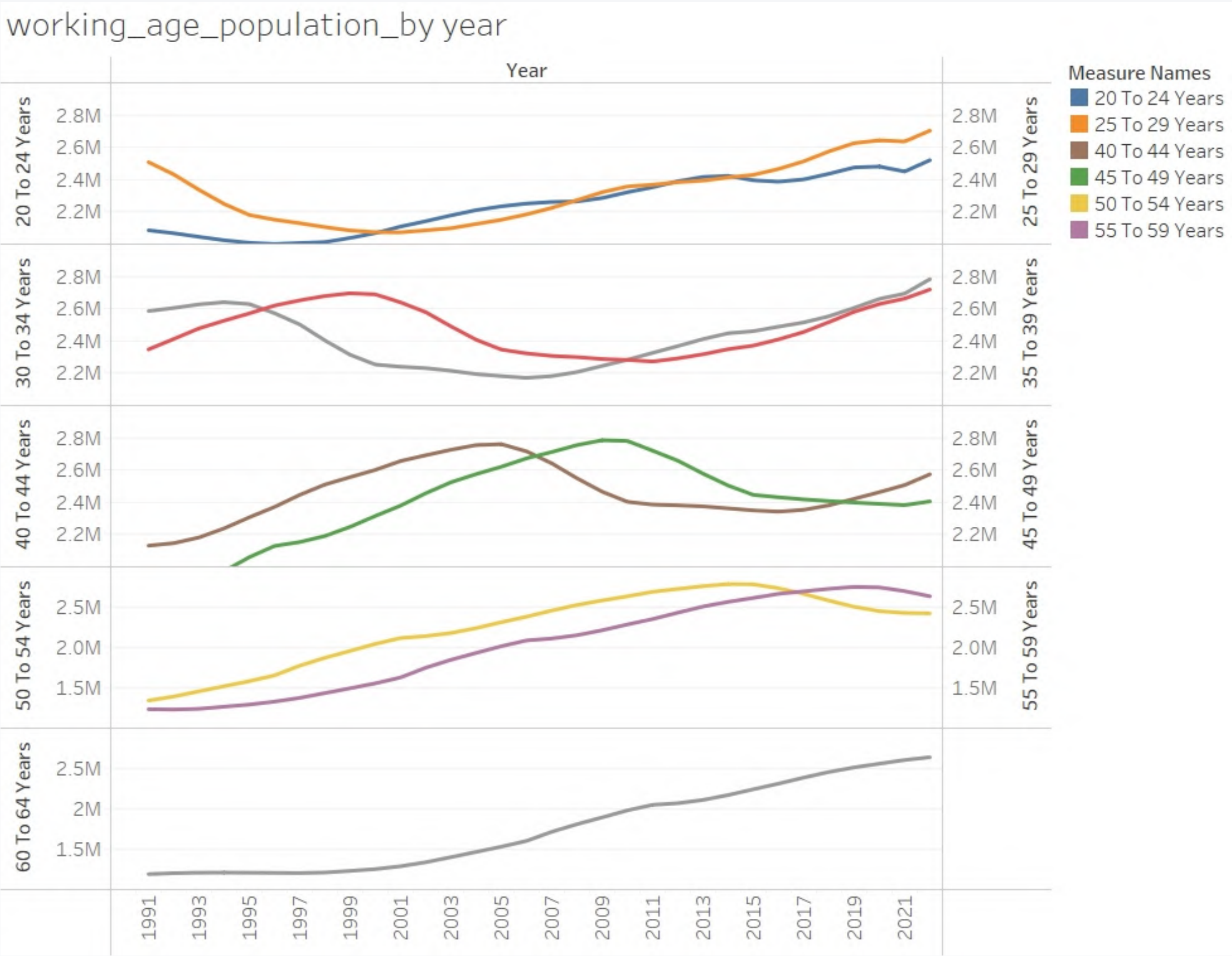
Canada Population by Age Distribution



The share of immigrants in Canada has grown steadily



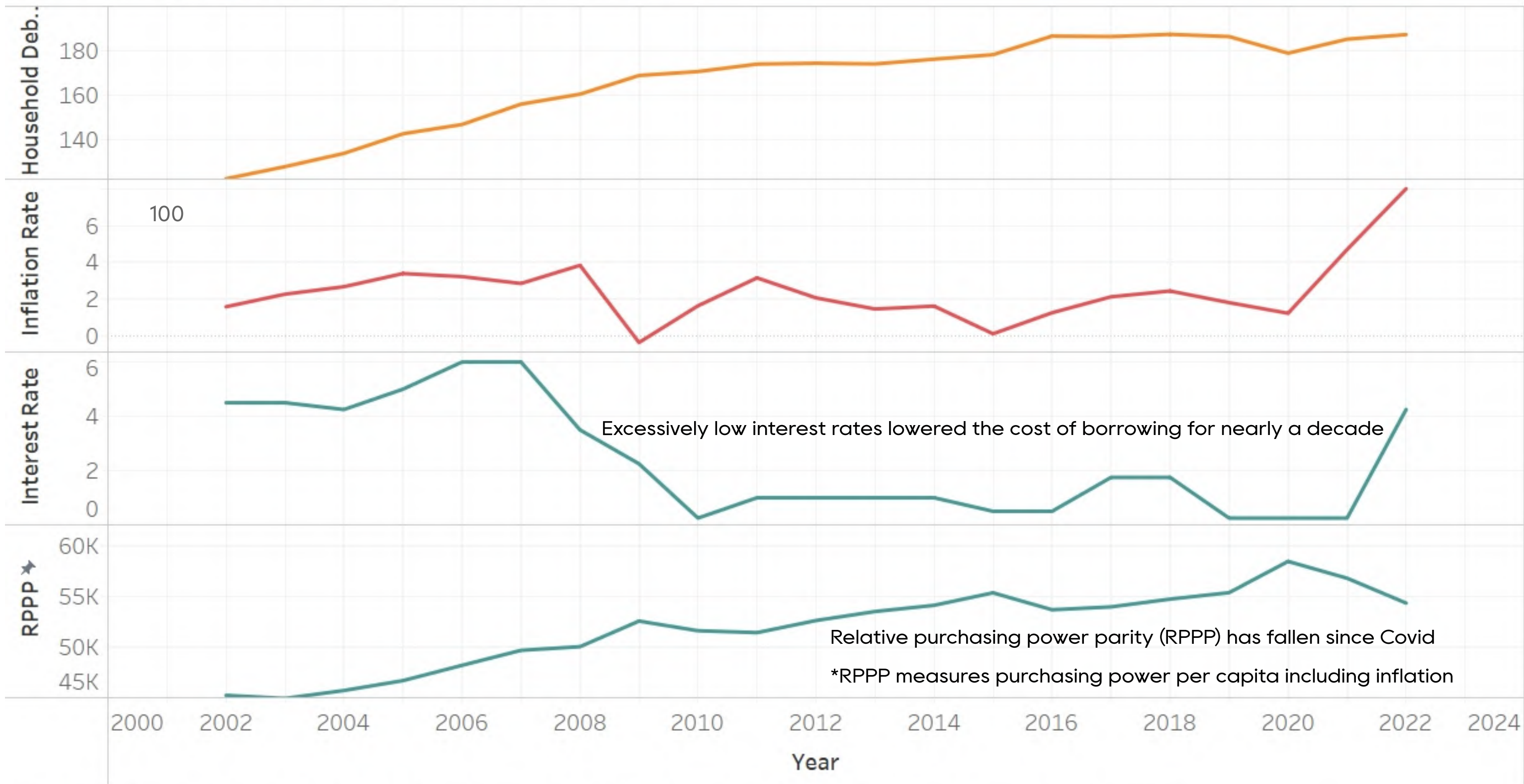
Canada's working age population has grown over time



Rising Household debt, inflation & low rates has altered Canadian living standards

Changing inflation and population growth has negatively impacted RPPP. Debt burdens have grown annually since 2002

Household Debt vs Interest Rates vs RPPP

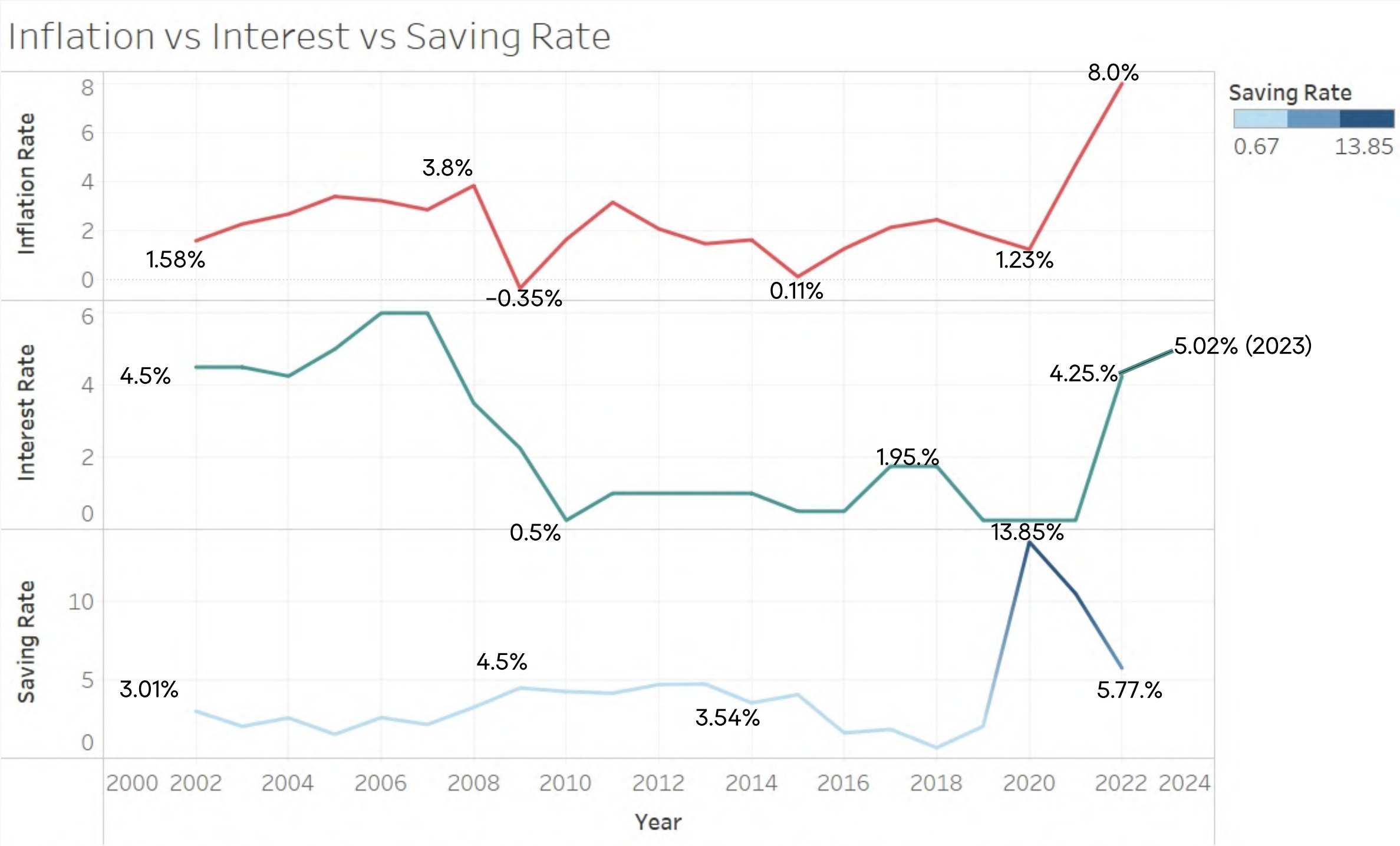


The trends of sum of Household Debt Ratio, sum of Inflation Rate, sum of Interest Rate and sum of RPPP for Year.

Rising inflation lowers savings, and increases the cost of living and borrowing

The Perils of High inflation:

*Lower living standards & Higher rates



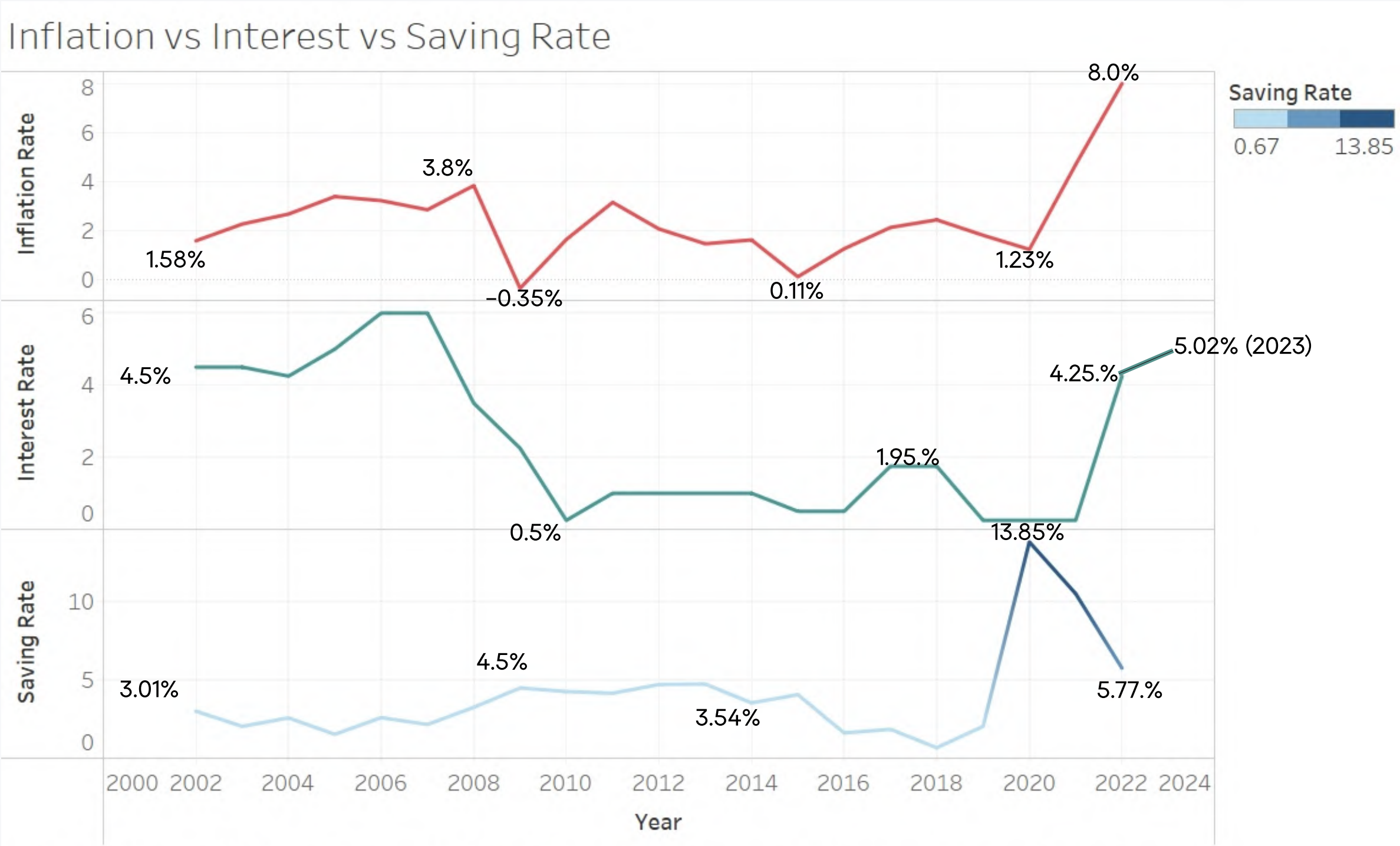
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- 1. As **Cost of Living** \uparrow (Inflation)
Living standards, and savings rates \downarrow



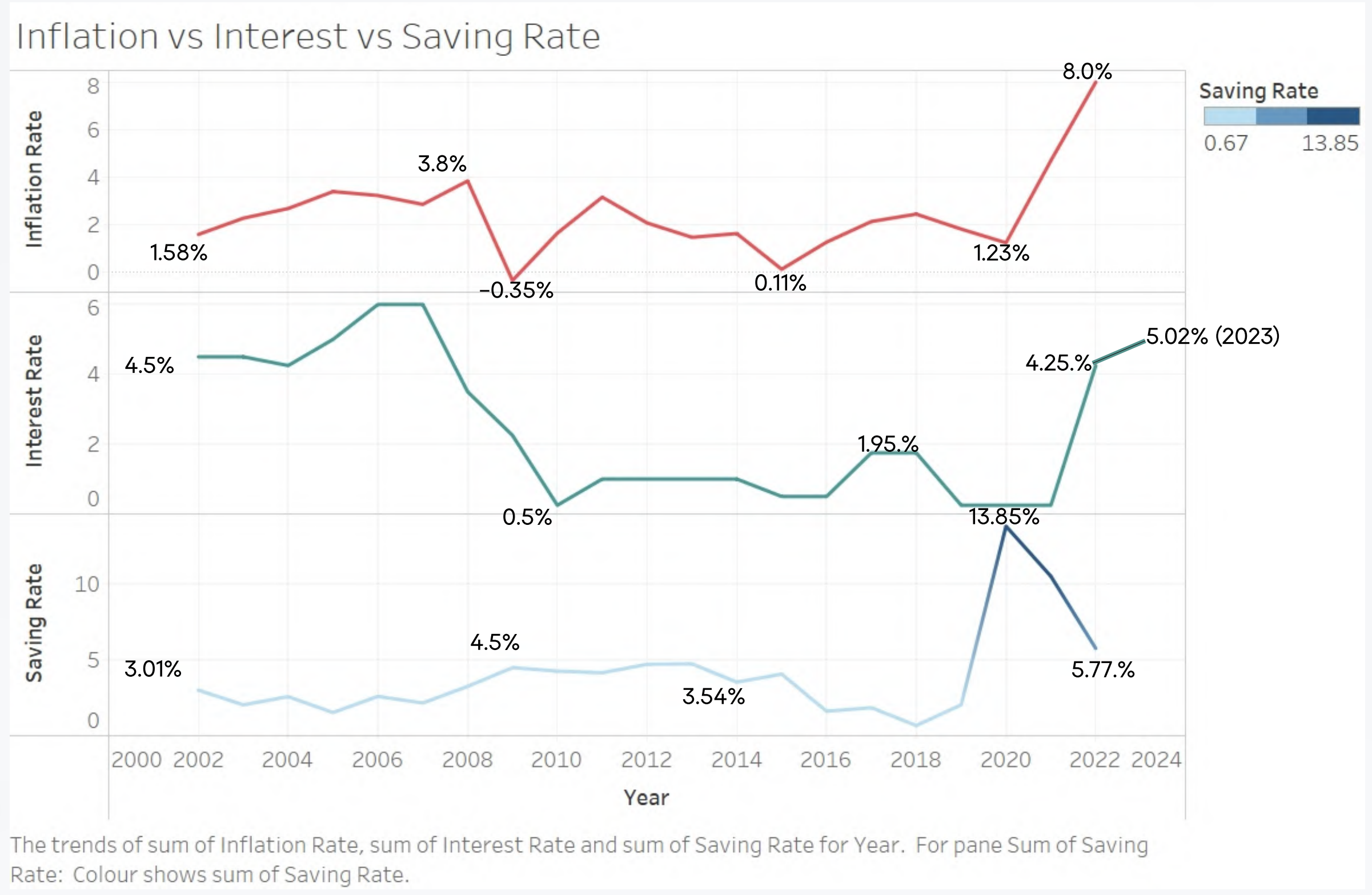
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2. In response to rising inflation, **central bank raises interest rates** \uparrow to combat rising prices



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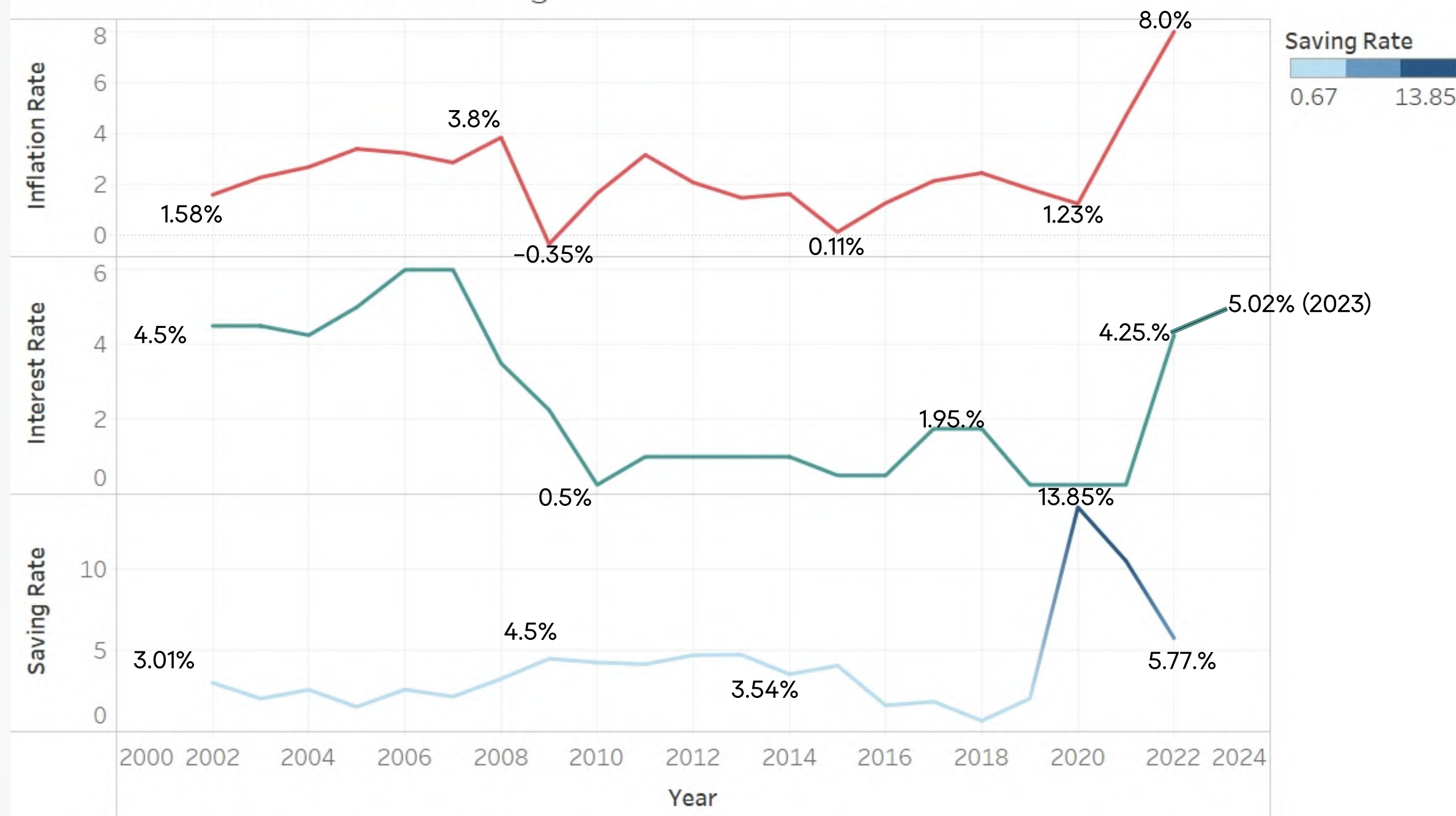
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Living standards, and savings rates ▼

2. In response to rising inflation, **central bank raises interest rates▲** to combat rising prices

3. Higher interest rates = **Higher cost of borrowing▲**

Inflation vs Interest vs Saving Rate



The trends of sum of Inflation Rate, sum of Interest Rate and sum of Saving Rate for Year. For pane Sum of Saving Rate: Colour shows sum of Saving Rate.

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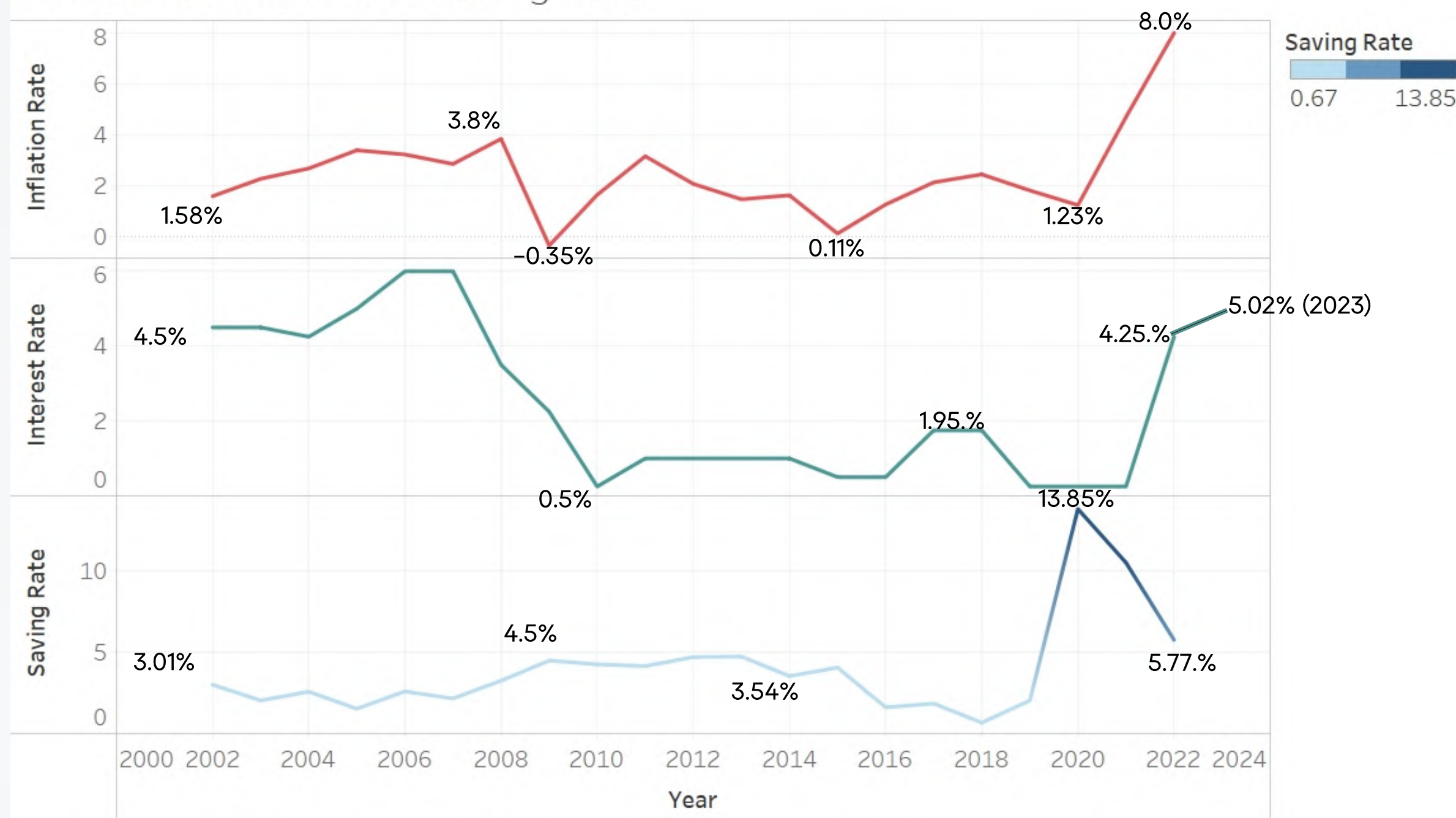
Living standards, and savings rates \downarrow

2. In response to rising inflation, **central bank raises interest rates** \uparrow to combat rising prices

3. Higher interest rates = **Higher cost of borrowing** \uparrow

4. **Higher costs of borrowing** means less small businesses can take out loans to buy capital equipment, expand their footprint, or hire talent to grow their business. This reduces demand for new loans, goods and services.

Inflation vs Interest vs Saving Rate



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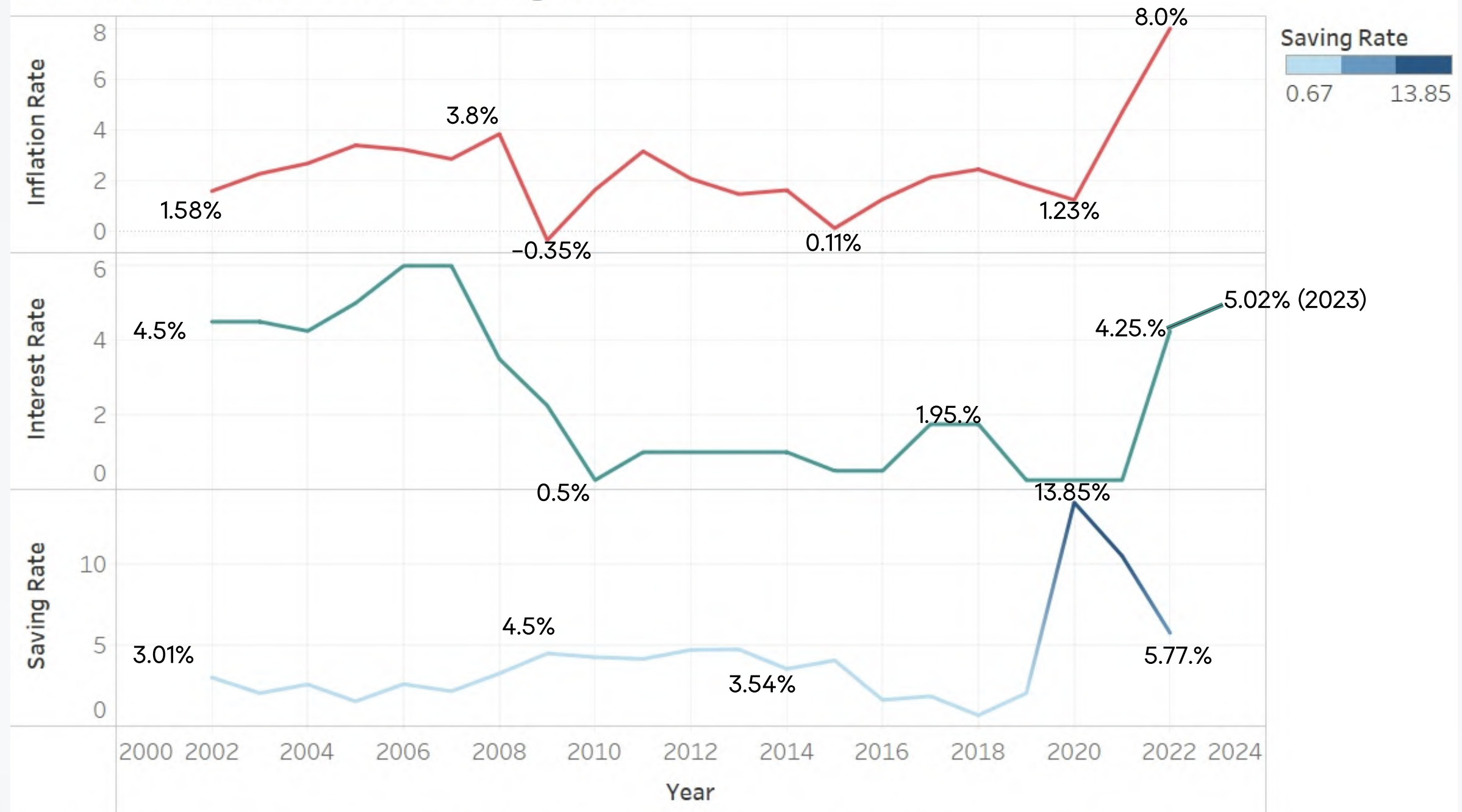
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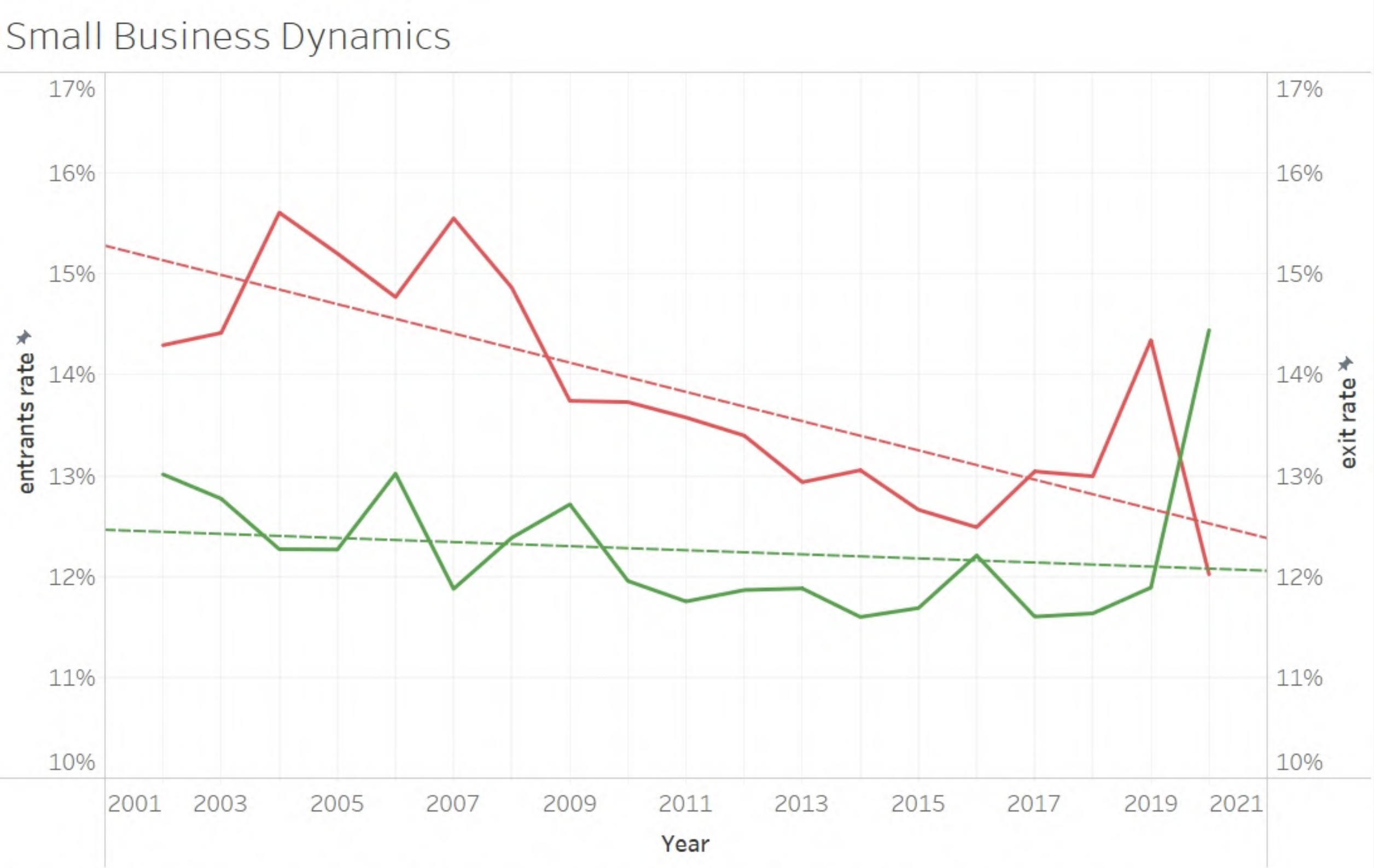
5. **Higher Cost of living** also means a lower savings rate. Lower saving means less \downarrow disposable income to start a new business.

Inflation vs Interest vs Saving Rate



The trends of sum of Inflation Rate, sum of Interest Rate and sum of Saving Rate for Year. For pane Sum of Saving Rate: Colour shows sum of Saving Rate.

New business formation grew from 2002–2017, but decelerated during Covid



The trends of entrants rate and exit rate for Year. Colour shows details about entrants rate and exit rate.

Measure Names

■ entrants rate

■ exit rate

03b

Impact of Wage Subsidies on SME survival during Covid

Canada Emergency Wage Subsidy (CEWS)

What was the CEWS?

- A Covid specific subsidy to help small businesses pay wages for employees.
- The CEWS subsidized pay for workers in eligible small businesses up a maximum of \$847 per week or \$3,388 per month.
- Businesses could claim pay up to 75% of an employees wage from the subsidy.

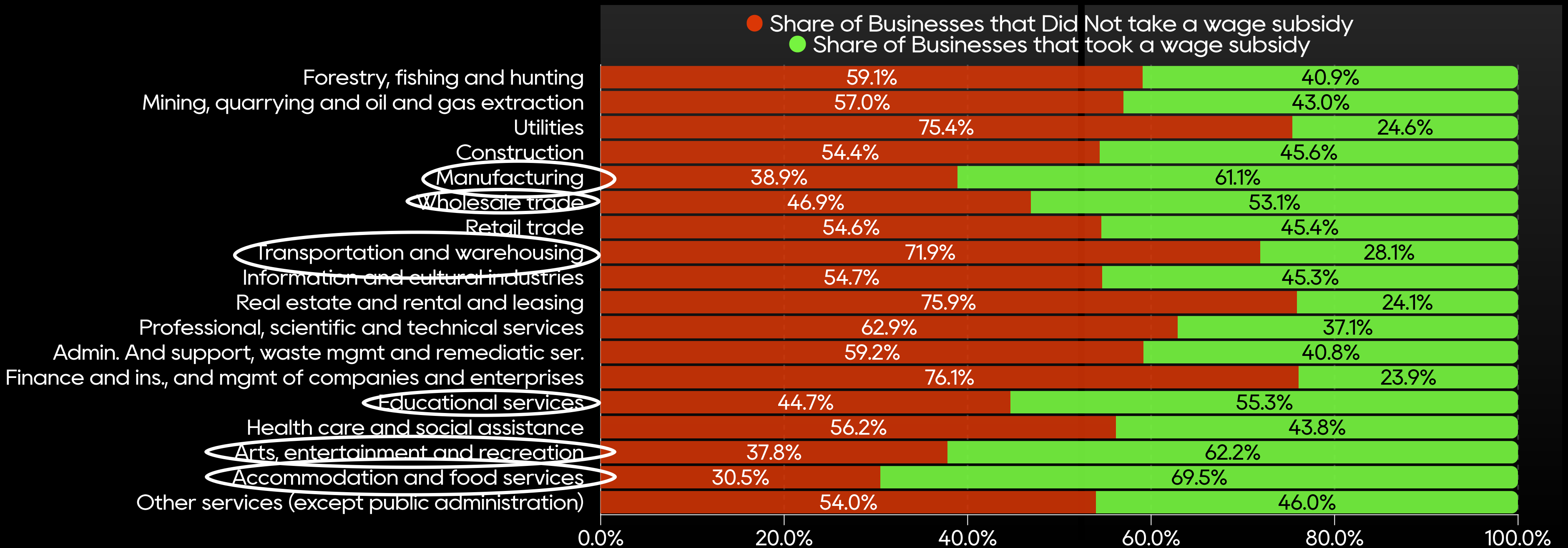
Duration of the CEWS: 2020-2021

- The CEWS greatly impacted the survival rate of businesses across all industries.
- In particular, the survival rate for businesses that took on a wage subsidy was on average 20% higher than businesses that did not.

***Estimated Jobs Saved due to the Subsidy was 1,659,391 jobs**

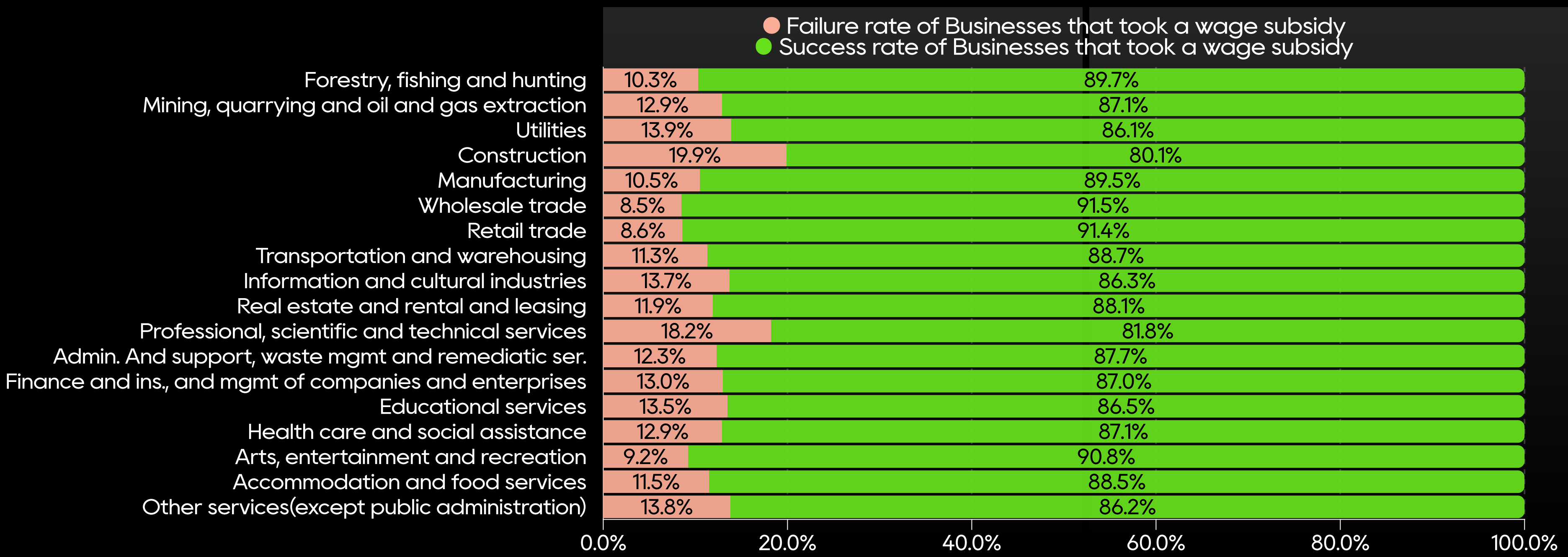
***Estimated Total SME Jobs lost during Covid was 3,347,610**

What distribution of businesses took the CEWS?

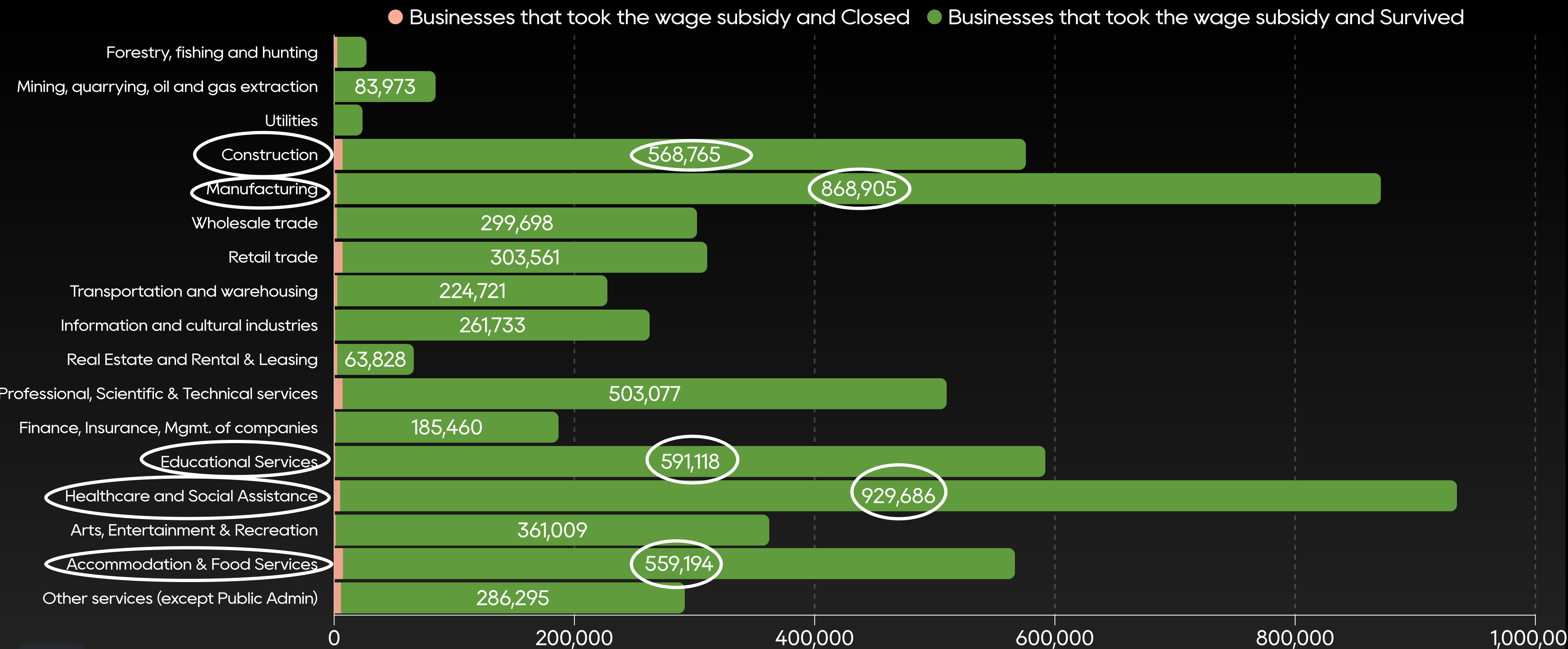


Let's examine what happened to
businesses that took a wage subsidy

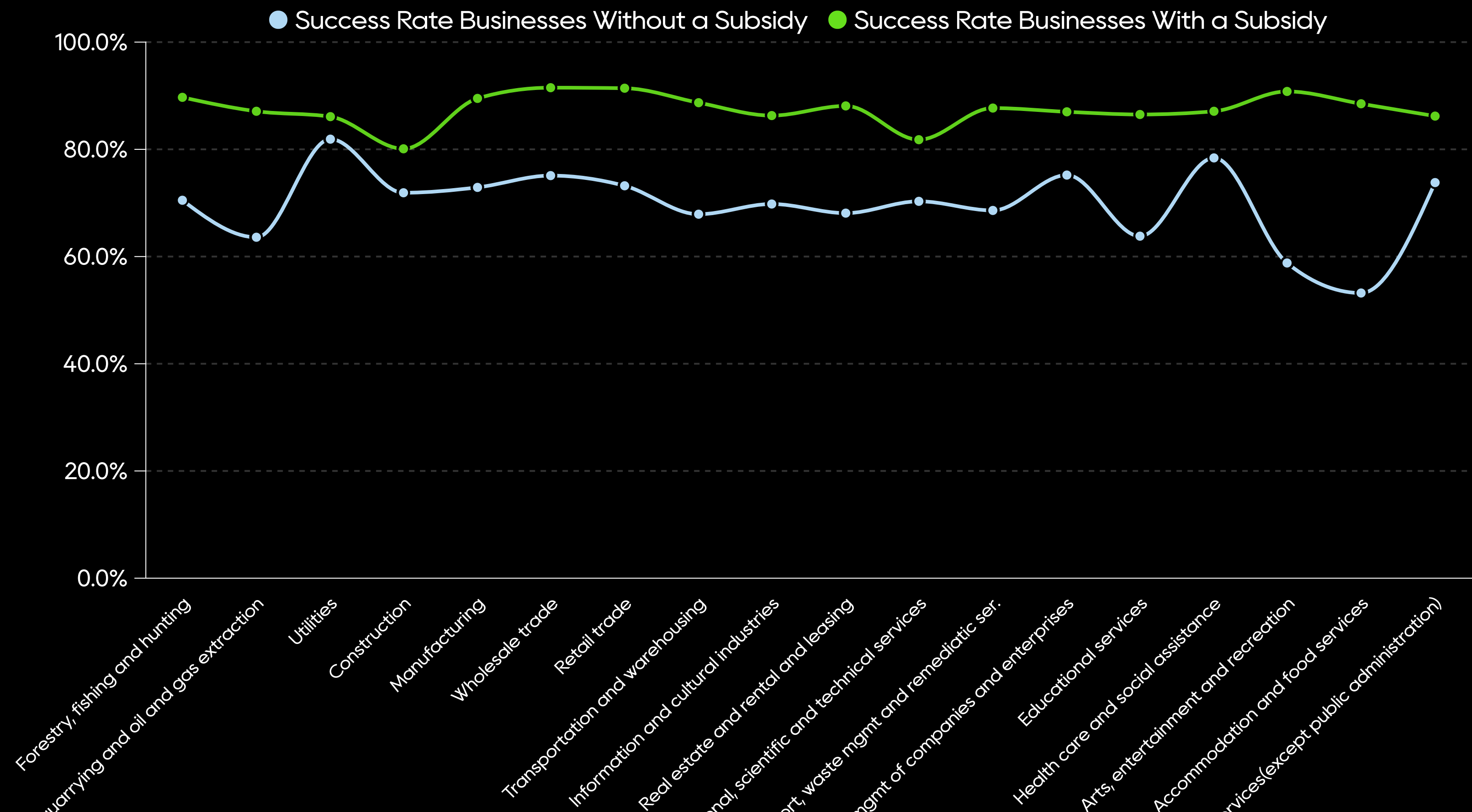
How did the CEWS impact the survival rate of SME's during Covid?



Total # of businesses that closed vs survived with a wage subsidy

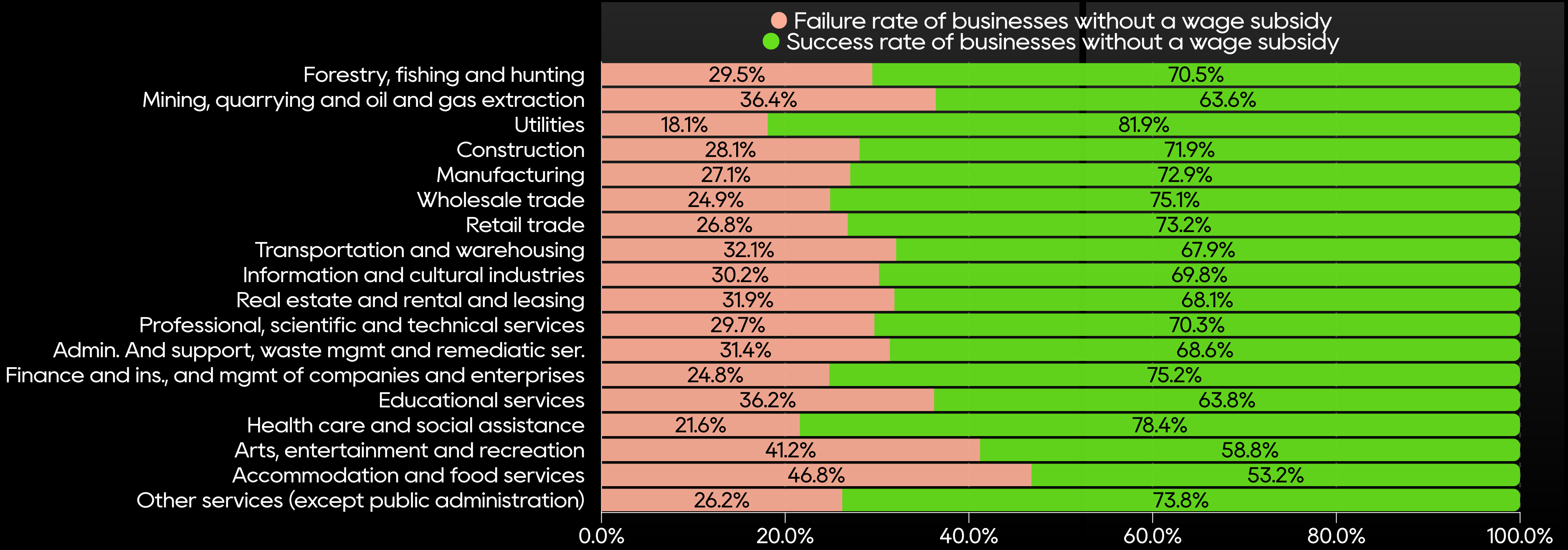


Businesses with Wage Subsidies succeeded at higher rates



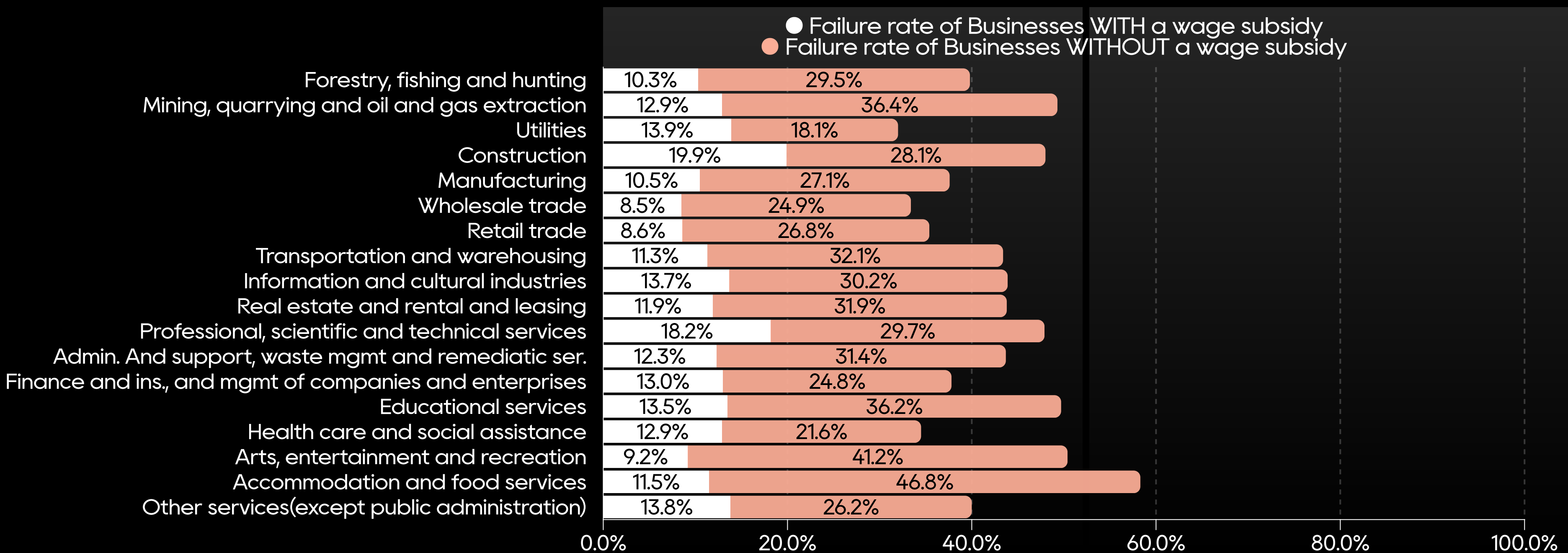
**Let's examine what happened to businesses
that did not take a wage subsidy...**

What happened to businesses that didn't take a subsidy?



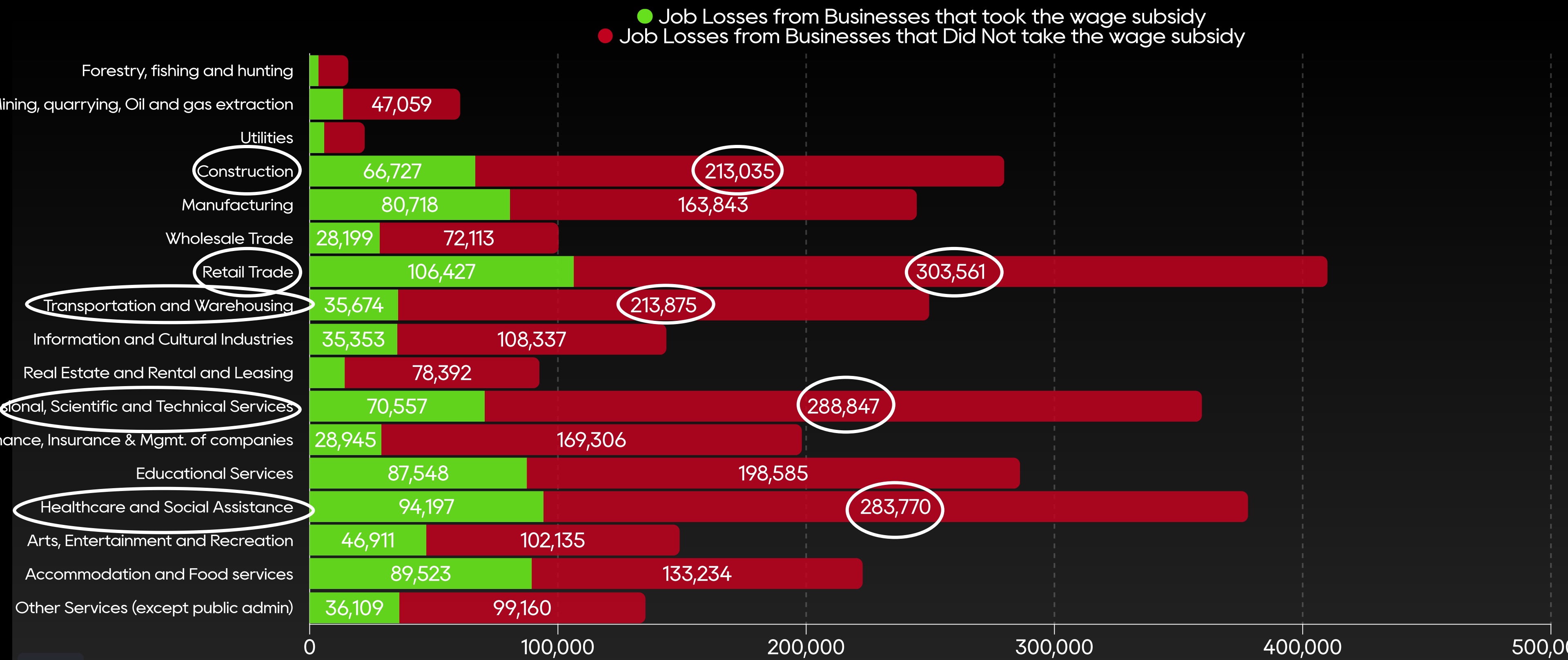
We've looked at failure vs success rates of SME's based on their use of the wage subsidy, but what does that mean in term of jobs lost?

Businesses without wage subsidies failed at much higher rates



***Estimated Total SME
Jobs lost during Covid
= 3,347,610**

Businesses that Did Not take the wage subsidy lost a lot more jobs



04

Conclusion

Conclusion

1

Wage Subsidies Increase the Survival Rates of SME's

SME's that did not participate in the govt's Canada Emergency Wage subsidy program, lost ground and failed at much higher rates than businesses that got wage subsidy support. The closure of 600,000+ small businesses meant millions of jobs were lost that may not have returned post Covid

***Estimated Total SME Jobs lost during Covid was 3,347,610**

2

3

4

Conclusion

1

2

A Growing Immigrant Worker Base has not translated to more net new businesses forming

An increase in Landed Immigrants has grown Canada's working age population, but this growth has not translated into net new business formation per capita.

Canada's entrepreneurs are most likely start businesses between the ages of 35-55, which is closer to retirement age

3

4

Conclusion

1

2

3

4

Rising Cost of Living influences savings rates, interest rates and personal priorities

Maslow's hierarchy shows that human beings prioritize physiological, safety and security needs first and second, before pursuing acts with higher meaning. Entrepreneurship falls within the category self-actualization (which is 5th in priority). In order for more people in Canada to want to innovate, they will need an enabling environment that provides security.

Conclusion

1

2

3

4

Public Policy matters

Over the last 3–4 years, the **exit rate (14.5%)** of small businesses relative to the new business **entry rate (12%)** in Canada has been trending negative. With more small businesses exiting rather than entering the Canadian economy, that means less net new jobs are being created annually.

There's a need for more tactical support for entrepreneurs, to help ease the difficulty and costs of registering, funding and managing a new business.

Conclusion

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**Any
Questions?**

Thank you for listening!

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