

Intelligence MEMOS



From: Charles Plant

To: Productivity Observers

Date: September 5, 2023

Re: **MARKETING AND SALES ARE CANADA'S MISSING PRODUCTIVITY LINK**

Our national productivity gap has spurred analyses, reports and media articles for decades. While public debate in Canada has focused on productivity improvement for more than 50 years, we have made limited progress. Fresh thinking is required.

While innovation through research and development is certainly important to productivity growth – and has preoccupied the federal government over the past half-century – there is also a connection between firm size and productivity. The larger the firm, the more productive. Logically, then – and the research supports this proposition – one way to increase our productivity is to increase the size of our companies from small and medium to large. Something we have failed to do.

And one clear factor keeping our firms from growing like those south of the border is that Canadian companies spend less on marketing and sales than US firms as a percentage of revenue. A related issue is that Canadian companies have difficulty finding local marketing and sales executives and must hire internationally.

The stark fact is that Canada has the lowest number of manufacturing companies with more than 250 employees per one million in population in the OECD. While progress has been made on some fronts, we lag our competitors. Solving Canada's perennial productivity problem will partially be addressed by creating companies that scale from startup to world-class status.

There are a number of explanations as to why Canadian companies have issues doing so, and marketing and sales are fundamental.

As they start, our companies enter smaller markets than do US firms, limiting growth rates and potential long-term size. Then, as they grow, firms founded in Canada wait longer to raise capital, raise smaller rounds and raise less than US firms and, as a result, grow more slowly. While a lack of funding in Canada is often mentioned as a challenge, companies have significant access to foreign capital even at earlier stages of development but receive less money and grow slower when accessing Canadian funders.

When it comes to how Canadian companies allocate their expenditures, our scaling firms spend more on R&D than US firms as a percentage of revenue, but this has yet to result in higher growth despite innovation often being touted as the most critical factor in driving growth.

In addition, the data does not show that patents are a factor. For example, Canadian software firms that engage in patenting take out more patents per firm and more patents per dollar invested than their US counterparts.

The net result is that Canadian companies grow more slowly than comparable US firms at a later stage of scaling up and are unable to access the large amounts of capital necessary to propel them to world-class status. Typically, they are sold first.

Various levels of government also focus too heavily on research and innovation and productivity improvement in small firms – not enough on the creation of larger firms. And what is keeping our firms smaller and growing slower is the lack of resources, experience and talent for commercialization – that is, the domain of marketing and sales.

Our challenges in market size, personnel and spending are all related to marketing as a function. Marketing and sales are a significant factor in driving growth and helping create the large firms necessary to increase our country's productivity. However, it is the area in which Canada has its most significant challenges, making it the biggest area for policy to play a role.

A focus on R&D is necessary but not sufficient. Perhaps after years of focusing on R&D and not seeing expected changes in productivity, the government might experiment with improving the ability of firms to compete on the international stage with enhancements to programming for marketing and sales. As I outline in my new C.D. Howe Institute [paper](#), these could include:

- setting productivity goals and measuring results;
- moving the national conversation away from just focusing on research and patenting toward more discussion of the role that marketing and sales play in creating large companies;
- reducing the focus on STEM careers and promoting careers in the field;
- decreasing Scientific Research and Experimental Development (SRED) credits on internal productivity and increasing credits for new product creation;
- streamlining the many programs devoted to IP creation and protection and implementing programs that partially fund export-oriented marketing and sales activities.

After years of marginal improvements to productivity, it is time to change our thinking. Instead of focusing only on R&D and seeing limited results, we should acknowledge the role that marketing and sales play in creating large firms and experiment with policies and programs that focus on their growth. This is the missing ingredient.

Charles Plant, PhD, CPA, CA, is the founder of the Narwhal Project. He is a serial entrepreneur, financial adviser and innovation economist.

To send a comment or leave feedback, email us at blog@cdhowe.org.

The views expressed here are those of the author. The C.D. Howe Institute does not take corporate positions on policy matters.

*A version of this Memo first [appeared](#) in *The Globe and Mail*.*