

Innovation: The Factor That Sets the Best Apart From the Rest

-TD Economics releases special report on small- and medium-sized businesses in Canada-

TORONTO, October 13, 2010 - Challenging the commonly held belief that small businesses are not as innovative or productive as their larger counterparts, a TD Economics Special Report released today suggests that while there are economies of scale, being a small business does not prevent being highly productive and innovative. Indeed, many small and medium-size businesses (SMEs) are more productive than big companies. In addition, firms that excel tend to do more R&D, access new markets, adapt new technologies, control costs and are more innovative with new products.

“No one wants to launch a business just to survive—that sets the bar too low,” says Craig Alexander, Chief Economist, TD Bank Financial Group. “The real goal is to succeed and our research shows that the most successful small and medium-sized businesses are those that meet the core proficiencies and capabilities that every business requires, and then go beyond these traits.”

Core competencies help business survive, but innovation lets them thrive

Core competencies such as strong management skills, skilled labour, good marketing, high-quality customer service, flexibility to customer needs and product quality help small businesses achieve growth and avoid bankruptcy. However, the most successful SMEs meet this bar and then go the extra mile. They are productive and nimble, and constantly strive to introduce product and process innovations, as well as evolve their business model.

“While large firms have greater scale, being small is not a barrier to R&D, innovation, productivity or success if management chooses to pursue it,” says Alexander. “In fact, the most successful SMEs are those that focus on R&D, strive to innovate and invest in new technologies.”

Canadian SMEs invest in R&D

It is often said that Canada’s poor productivity performance, especially relative to the U.S., is partly a reflection of the fact that a greater share of the Canadian economy is comprised of small businesses, and that small businesses lack the scale to undertake the level of capital investment and R&D of large firms. However, this aggregate picture is far more grey than

black and white. TD cites analysis by Industry Canada which found that the incidence of R&D (i.e. share of firms doing R&D) by Canadian small and medium-sized firms in 2002 was 1.1% and 10.3%, respectively, compared to 1.0% and 6.1% in the United States. R&D intensity (i.e. the amount of R&D) by Canadian firms was less than their U.S. counterparts, but the greatest differential was for large firms, not SMEs. A key issue seems to be that the U.S. has greater numbers of very large enterprises that do more R&D and invest more in capital.

The time is right for Canadian SMEs to invest

The best news is that now is an ideal time for SMEs to invest in new capital, pursue new innovations or take on research and development opportunities. Although the economy is likely to deliver only moderate economic growth over the next couple of years, aggregate profits are expected to rise at a 6% to 8% pace per year and many businesses have good balance sheets. Interest rates may rise, but the level of rates should remain quite low. A strong Canadian dollar should also encourage investment in imported machinery and equipment.

Successful SMEs are found in all regions of Canada

There is more good news for entrepreneurs willing to take the risk of launching a start-up: rapid growth enterprises can be found in all sectors across Canada. The research findings showed that between 1993 and 2002, hyper-growth firms (those with 150% or greater employment growth over a four year period) and strong-growth firms (between 50% and 150% employment growth) represented a remarkably stable 16% to 18% of continuing businesses in every region of Canada. In other words, there are profitable and growth opportunities to be had for entrepreneurs everywhere and in all sectors.

About TD Bank Financial Group

The Toronto-Dominion Bank and its subsidiaries are collectively known as TD Bank Financial Group (TDBFG or the Bank). TDBFG is the sixth largest bank in North America by branches and serves more than 18 million customers in four key businesses operating in a number of locations in key financial centres around the globe: Canadian Personal and Commercial Banking, including TD Canada Trust and TD Insurance; Wealth Management, including TD Waterhouse and an investment in TD Ameritrade; U.S. Personal and Commercial Banking, including TD Bank, America's Most Convenient Bank; and Wholesale Banking, including TD Securities. TDBFG also ranks among the world's leading online financial services firms, with

more than 6 million online customers. TDBFG had \$603 billion in assets on July 31, 2010. The Toronto-Dominion Bank trades under the symbol "TD" on the Toronto and New York Stock Exchanges.

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