

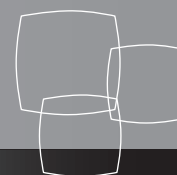


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SMALL BUSINESS QUARTERLY

VOLUME 13, No. 1, MAY 2011

PERFORMANCE

Trends

- The number of payroll employees increased by 1.1 percent (158 964 jobs) in the fourth quarter of 2010 compared with the fourth quarter of 2009. This was the third consecutive quarterly increase in national payroll employment.
- The year-over-year contribution to job growth by small businesses¹ was only 13.6 percent, while the contribution by medium-sized firms was 31.9 percent. Large firms contributed 54.4 percent to job growth.
- The number of business insolvencies has steadily decreased from 12 246 in 2001 to 5226 in 2010, corresponding to an annual average decline of 9.0 percent. Contrary to expectations, the recent recession did not trigger a surge in business insolvencies in Canada as the number of insolvencies continued to fall on an annual basis.
- In 2009, United States received 66 percent of the total value of exports produced by small businesses, decreasing from 75 percent in 2008. Other major export destinations for Canadian small businesses in 2009 included the European Union (8 percent), Japan (4.8 percent), China (4.6 percent) and South Korea (2 percent).
- Small businesses contributed at least half of all Canadian exports sent to India, Egypt, Turkey, South Korea and Japan in 2009.
- The total number of self-employed workers increased by 46 700 between 2008 and 2010, corresponding to an increase of 1.8 percent.

¹ Small businesses are defined as having fewer than 100 employees, medium-sized businesses having 100 to 499 employees and large businesses having 500 or more employees.

FINANCING ACTIVITIES OF SMALL AND MEDIUM-SIZED ENTERPRISES

in Tourism Industries

Contributing 2 percent of Canada's gross domestic product and accounting for 3.8 percent of national employment, tourism plays an increasingly important role in the Canadian economy. Small and medium-sized enterprises (SMEs) are of critical importance to tourism in Canada, accounting for 99 percent of businesses in the industry. Although there has been substantial research on SMEs in tourism, information on access to financing for these businesses is limited.

Given the importance of financing to the success and growth of a business, Industry Canada is producing the forthcoming report *Small Business Financing Profiles: SMEs in Tourism Industries*, which analyzes the financing activities of SMEs in tourism industries and assesses whether this group of SMEs faces unique financing obstacles. Using 2004 and 2007 data from Statistics Canada's *Survey on Financing of Small and Medium Enterprises*, this report provides an overview of the business characteristics and recent financing activities of SMEs in tourism industries in comparison with SMEs in non-tourism industries.¹

The report reveals that compared with businesses in non-tourism industries, businesses in tourism industries were typically younger and more growth oriented, but they were also less likely than SMEs in non-tourism industries to have sufficient financing to fund their expansion plans.

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In 2007, in comparison with SMEs in non-tourism industries, SMEs in tourism industries were less likely to request external financing (15 percent versus 18 percent) and were less likely to have their requests approved (93 percent versus 96 percent)

(Table 1). Specifically, in 2007 SMEs in tourism industries were less likely to seek debt financing, lease financing and trade credit and were less likely to be approved for debt financing and government loans and grants than their non-tourism counterparts.

*Table 1: Financing Request and Approval Rates**

Type of Financing		2004		2007	
		Tourism (%)	Non-Tourism (%)	Tourism (%)	Non-Tourism (%)
Any External Financing	Request Rate	23	24	15	18
	Approval Rate	87	91	93	96
Debt Financing	Request Rate	19	19	10	13
	Approval Rate	81	88	91	94
Lease Financing	Request Rate	2	3	4	5
	Approval Rate	97	96	93	93
Equity Financing	Request Rate	0.5	1	1	1
	Approval Rate	70	44	72	70
Trade Credit	Request Rate	9	12	8	9
	Approval Rate	95	89	100	99
Government Loan or Grant	Request Rate	2	3	3	3
	Approval Rate	—	—	69	81

Source: SME Financing Data Initiative, Statistics Canada, *Survey on Financing of Small and Medium Enterprises*, 2004 and 2007.

* Bold values denote statistically significant difference at 5 percent.

Note: Approval rates exclude observations in which loans were withdrawn or are still under review.

In 2004 and 2007, the average amount of debt financing approved for SMEs in tourism industries was smaller than that approved for SMEs in non-tourism industries (Table 2). To take into account the variability in the amount of debt financing requested by SMEs, the ratio of the aggregated amount of debt approved to the aggregated amount of debt requested was calculated for the tourism and non-tourism

groupings. As shown in Table 2, the ratio reveals that SMEs in tourism industries experienced more difficulty in accessing the full amount of debt financing requested, especially in 2007. In particular, the report found that among SMEs in tourism industries, businesses in the accommodation industry experienced the most difficulty in accessing debt financing, receiving, on average, less than half of the debt financing requested.

Table 2: Approved Debt Financing Amounts

Type of Debt Financing	2004*		2007	
	Tourism	Non-Tourism	Tourism	Non-Tourism
Average Long-Term Approved	\$185 000	\$195 000	\$254 000	\$273 000
Average Short-Term Approved	\$48 000	\$87 000	\$126 000	\$190 000
Average Total Debt Approved	\$97 000	\$129 000	\$239 000	\$264 000
Approved/Requested Total Debt	86%	88%	67%	93%

Source: SME Financing Data Initiative, Statistics Canada, *Survey on Financing of Small and Medium Enterprises*, 2004 and 2007.

*2004 amounts exclude extreme outliers.

Note: Approval amounts exclude observations in which the response was "don't know" or "refused."

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Financial statement figures show that SMEs in tourism industries generated less revenue, profit and retained earnings than their non-tourism counterparts. This weaker financial performance suggests that businesses in tourism industries could be considered more risky, which may partially explain why they encounter more difficulty in accessing financing.

Overall, this report provides some evidence that SMEs in tourism industries are facing unique challenges when it comes to access to financing, especially in the accommodation industry. Such constraints on access to financing could be posing a considerable obstacle to growth and development of SMEs in tourism industries.

JOB *Creation*

According to the latest *Survey of Employment, Payrolls and Hours* from Statistics Canada, the number of payroll employees increased by 1.1 percent (158 964 jobs) in the fourth quarter of 2010 compared with the fourth quarter of 2009 (Table 3). This marks the third consecutive quarterly increase in national payroll employment, revealing further signs of economic recovery in Canada. By firm size, the year-over-year contribution to job growth by small businesses was only 13.6 percent, sharply contrasting with medium-sized and large firms, which contributed 31.9 percent and 54.4 percent, respectively, to job growth. Over the past three quarters, the year-over-year contribution to job growth by small businesses has declined significantly, while the contribution by medium-sized and large businesses has grown substantially.

Between the fourth quarter of 2009 and the fourth quarter of 2010, the industry that reported the largest percentage change in net employment was mining and oil and gas extraction (12.1 percent). The largest increase in the number of jobs was reported in health care and social assistance (28 918 jobs),

The full report is scheduled for release by fall 2011, and could be found on the following website: www.sme-fdi.gc.ca/sbfprofiles. To receive a notice when the report will be available, please subscribe online at www.sme-fdi.gc.ca/subscription.

¹ The report follows Statistics Canada's *Canadian Tourism Satellite Account* (CTSA) definition of tourism industry as "one that would cease or continue to exist only at a significantly reduced level of activity as a direct result of an absence of tourism." For the purpose of the report, the entire activity of a business operating in a CTSA-designated tourism industry was considered tourism activity, even in cases where the activity involved both tourism and non-tourism components.

followed closely by construction (26 853 jobs). A noteworthy fact is that all of the net jobs created in construction occurred among small and medium-sized businesses. Conversely, industries that experienced a net loss in employment included management of companies and enterprises (-6 percent or 6744 jobs lost) and arts, entertainment and recreation (-2.2 percent or 5122 jobs lost).

Among small businesses, the greatest job growth occurred in construction (15 482 jobs), followed by professional, scientific and technical services (5521 jobs), accommodation and food services (5399 jobs), and health care and social assistance (5222 jobs). On the other hand, significant job losses among small firms occurred in retail trade (10 792 jobs lost) and wholesale trade (4335 jobs lost). Among medium-sized firms, significant job increases were reported in construction (11 670 jobs) and manufacturing (7291 jobs). Among large firms, health care and social assistance reported the largest increase in employment (21 543 jobs), whereas transportation and warehousing experienced the largest loss in employment (7157 jobs lost).

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Table 3: Year-Over-Year Net Change¹ in Payroll Employment² by Industry, 4th Quarter 2010

Quarter	Change		% Contribution to Total Net Change (Number of Employees)								
	%	Jobs	0-4	5-19	20-49	50-99	0-99	100-299	300-499	100-499	500+
Q4 2009	1.9	-339 972	3.9	9.4	7.5	13.4	34.2	19.5	10.3	29.8	35.9
Q1 2010	-0.9	-128 775	-2.5	1.8	10.4	11.7	21.4	18.8	16.7	35.4	43.2
Q2 2010	0.2	34 931	43.9	13.3	26.1	20.8	104.2	-0.1	-11.3	-11.4	7.2
Q3 2010	0.9	131 342	-28.4	26.9	16.6	22.8	37.9	18.5	10.6	29.1	33.0
Q4 2010	1.1	158 964	4.3	-5.4	1.7	13.0	13.6	24.5	7.5	31.9	54.4
Industry	Change (Jobs)										
Forestry	-1.3	-546	97	161	280	-184	354	266	107	373	-1 273
Mining and Oil and Gas Extraction	12.1	21 094	390	-58	1 163	1 153	2 648	1 297	1 826	3 123	15 321
Utilities	1.8	2 095	5	-161	220	99	163	-30	477	447	1 487
Construction	3.2	26 853	-272	1 014	4 623	10 117	15 482	10 518	1 152	11 670	-298
Manufacturing	1.1	16 100	-1 160	-4 074	376	2 259	-2 599	7 275	16	7 291	11 407
Wholesale Trade	1.3	9 414	-2 011	-2 102	-1 028	806	-4 335	3 915	1 805	5 720	8 029
Retail Trade	0.1	1 033	-3 520	-4 801	-5 465	2 994	-10 792	5 687	-1 548	4 139	7 687
Transportation and Warehousing	0.3	2 284	1 856	14	1 676	619	4 165	2 241	3 034	5 275	-7 157
Information and Cultural Industries	4.0	12 726	843	387	-755	811	1 286	984	-1 117	-133	11 574
Finance and Insurance	0.2	1 365	230	-934	-301	-323	-1 328	514	2 483	2 997	-303
Real Estate and Rental and Leasing	0.5	1 341	1 611	495	808	140	3 054	-1 530	-1 773	-3 303	1 590
Professional, Scientific and Technical Services	2.1	15 989	1 887	1 753	1 688	193	5 521	2 579	-2 060	519	9 949
Management of Companies and Enterprises	-6.0	-6 744	-723	-31	-244	-1 525	-2 523	-3 584	-1 434	-5 018	797
Administrative and Support, Waste Management and Remediation Services	2.2	16 172	676	1 161	424	-444	1 817	3 710	2 116	5 826	8 528
Educational Services	0.8	10 025	166	-490	357	-415	-382	1 062	413	1 475	8 932
Health Care and Social Assistance	1.8	28 918	1 288	1 308	-1 407	4 033	5 222	-127	2 279	2 152	21 543
Arts, Entertainment and Recreation	-2.2	-5 122	296	-788	-1 164	-1 330	-2 986	-680	1 007	327	-2 461
Accommodation and Food Services	0.3	2 729	1 126	1 470	1 711	1 092	5 399	100	3 116	3 216	-5 887
Other Services (excluding Public Administration)	0.8	4 313	3 754	-2 857	240	965	2 102	2 011	-97	1 914	298
Public Administration	-0.1	-1 075	374	-4	-468	-473	-571	2 693	42	2 735	-3 240
Canada Total	1.1	158 964	6 910	-8 535	2 732	20 586	21 693	38 901	11 847	50 748	86 523

Source: Statistics Canada, *Survey of Employment, Payrolls and Hours*, March 2011.

¹ Year-over-year net change in payroll employment is calculated as the variation between the level of employment in a given quarter and the level in the same quarter a year before.

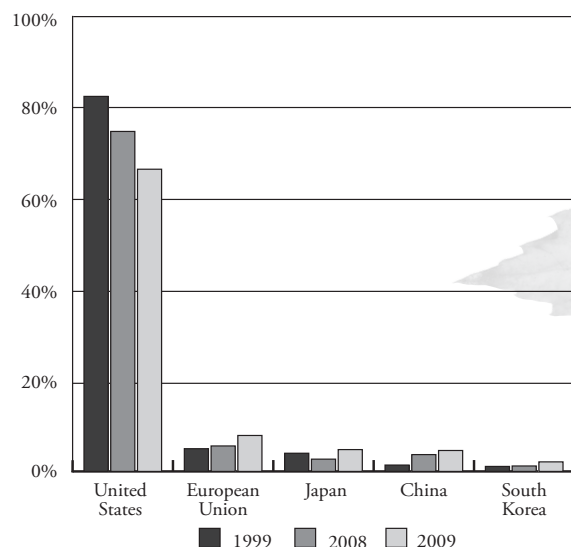
² *Survey of Employment, Payrolls and Hours* data exclude self-employed workers who are not on a payroll and employees in the following industries: agriculture, fishing and trapping, private household services, religious organizations and military personnel of defence services. The data breaking down employment by size of firm also exclude unclassified industries.

TOP DESTINATIONS OF *Small Business* *Exporters*

Using 2009 data from Statistics Canada's Exporter Register Database, Industry Canada identified and examined the export destinations of Canadian small businesses. Constituting about 86 percent of all exporters in Canada, small businesses contributed \$68 billion (25 percent) of the total value of exports in 2009, corresponding to an average of \$2 million per firm.

In 2009, the main export destination of Canadian small businesses was the United States, which received 66 percent of the total value of exports produced by small businesses (Figure 1). However, the share of the total value of small business exports to the United States has been decreasing since 1999. In 2008, United States received 75 percent of the total value of small business exports, but in 1999 the share was 82 percent. In contrast, the percentage of the total value of small business exports to the European Union increased from 5 percent in 1999 to 6 percent in 2008 and 8 percent in 2009. Other important export destinations of Canadian small businesses in 2009 included Japan (4.8 percent), China (4.6 percent) and South Korea (2 percent).

Figure 1: Main Export Destinations for Canadian Small Businesses (Percentage of Total Value of Small Business Exports), 1999, 2008 and 2009



Source: Industry Canada calculations, Exporter Register Database, 2008 and 2009.

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SELF-EMPLOYMENT *By Education Level*

According to the latest results of Statistics Canada's *Labour Force Survey*, the total number of self-employed workers increased by 46 700 between 2008 and 2010, corresponding to an increase of 1.8 percent (Table 4). This result suggests that Canadians were still able to enter self-employment in spite of the recent recession. A breakdown by education level reveals that most individuals entering self-employment are highly educated, while the number of individuals with some high school education or less is dropping.

Table 4: Share of Self-Employed Workers by Education Level, Canada, 2008 to 2010

Education Level	Self-Employed		
	Share (%)		Percent Change ¹
	2008	2010	
0–8 years	3.6	3.2	-8.4
Some high school	9.7	8.4	-12.2
<i>subtotal</i>	<i>13.3</i>	<i>11.6</i>	<i>-11.1</i>
High school graduate	19.2	19.0	0.8
Some post-secondary	6.6	6.5	0.1
<i>subtotal</i>	<i>25.8</i>	<i>25.5</i>	<i>0.6</i>
Post-secondary certificate or diploma	34.2	34.5	2.7
University degree	26.6	28.3	8.2
<i>subtotal</i>	<i>60.8</i>	<i>62.8</i>	<i>5.1</i>
All levels	100.0	100.0	1.8

Source: Statistics Canada, *Labour Force Survey*, 2008 and 2010.

¹ Percent change in the number of self-employed workers from 2008 to 2010.

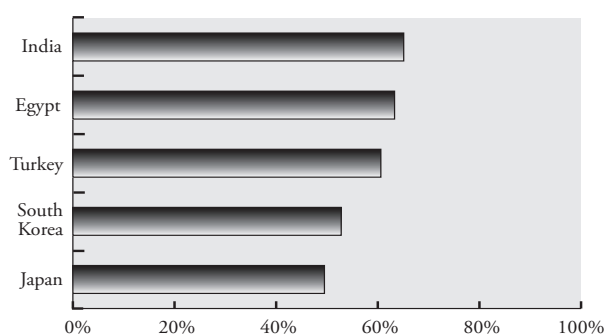
Between 2008 and 2010, the number of self-employed workers in Canada with at least one post-secondary certificate/diploma or university degree increased by 81 300, corresponding to an increase of 5.1 percent. As a result, the share of self-employed workers in Canada with completed post-secondary education increased to 62.8 percent in 2010 from 60.8 percent in 2008. In sharp contrast, the number of self-employed workers with some high school education or less decreased by 38 900 between 2008 and 2010; consequently, the share of self-employed workers at this education level dropped to 11.6 percent from 13.3 percent during this period.

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Although the United States received the lion's share of exports produced by Canada's small businesses in 2009, the majority of Canadian exports to the U.S. originated from medium-sized and large businesses. To gain a better understanding of the global role Canadian small businesses play in exporting activities, Industry Canada calculated the percentage of the total value of Canadian exports attributed to small businesses for each export destination. After the destinations were ranked by the share attributed to small businesses, a different story began to unfold.

Figure 2: Canadian Export Share Attributed to Small Businesses (within Destination) (Top 5 Destinations), 2009



Source: Industry Canada calculations, Exporter Register Database, 2009.

As shown in Figure 2, small businesses contributed at least half of the total value of Canadian exports sent to India, Egypt, Turkey, South Korea and Japan in 2009. In that year, 65 percent of the total value of Canadian exports sent to India was produced by small businesses, while for Egypt and Turkey the shares were 63 percent and 61 percent respectively.

Interestingly, South Korea and Japan were among the top five destinations for Canadian small businesses in terms of both the total value of small business exports and the Canadian export share. This finding indicates that these two countries represent key export markets for small businesses in Canada.

Additional information on small business exporters will be available shortly in Industry Canada's *Key Small Business Statistics, Special Edition: Canadian Small Business Exporters*. This report investigates the importance of small businesses in international markets by examining the number of exporters and the value of exports by industry, province, destination and firm size over the 1999–2009 period. The report also provides a financing profile of Canadian SMEs that exported in 2007 and explores the involvement of SMEs in global value chains.

To receive the publication, please subscribe online at www.ic.gc.ca/SMEstatistics/subscription.

BUSINESS *Insolvencies*

Businesses in Canada have faced many economic and financial challenges over the last decade from bursting of the dot-com bubble in 2000 to the recent financial crisis and the recession that followed. In these difficult times, business insolvencies¹ are a useful indicator of the health of Canadian SMEs.

Figure 3 displays the annual number of business insolvencies in Canada over the past decade. The number of business insolvencies has steadily decreased from 12 246 in 2001 to 5226 in 2010, corresponding to an annual average decline of 9.0 percent. As shown in Figure 3, the recent recession

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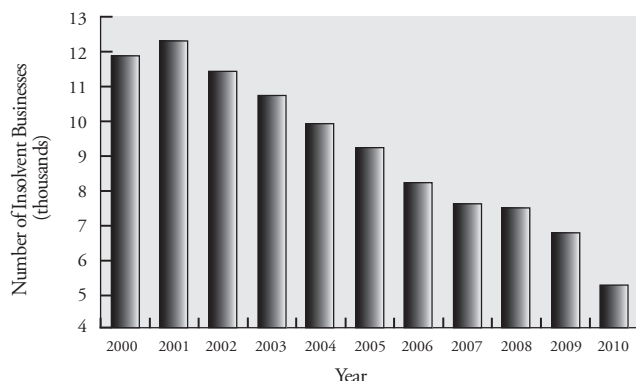
SELF-EMPLOYMENT By Education Level

In contrast to the increase in self-employment levels, the total number of employees fell by 0.6 percent between 2008 and 2010 (Table 5). However, a similar change in composition by education level is occurring among employees in Canada. Between 2008 and 2010, the number of employees with at least one post-secondary certificate/diploma or university degree increased by 3.6 percent, while the number of employees with some high school education or less dropped by 14.2 percent during the same period. As a result, the share of employees with completed post-secondary education increased to 60.8 percent from 58.3 percent between 2008 and 2010, while the share of employees with some high school education or less decreased to 10.9 percent from 12.7 percent during this period.

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(Q4 2008 to Q2 2009) did not trigger a surge in business insolvencies in Canada as the number of insolvencies continued to fall on an annual basis. This unexpected result can be partly explained by the fact that domestic demand for goods and services increased at an average annual rate of 4.2 percent between 2007 and 2009. Since Canadian SMEs are less export oriented than larger firms (about 1 in 50 small businesses export, whereas slightly more than 1 in 3 large firms export), this increase in domestic demand helped prevent a surge in the number of business insolvencies in Canada as the recession affected mostly exporters.

Figure 3: Number of Business Insolvencies,
2000 to 2010



Source: Office of the Superintendent of Bankruptcy Canada (www.osb.ic.gc.ca).

From 2009 to 2010, the annual number of insolvencies dropped in all major industries, corresponding to an overall decline of 22 percent. By industry, the number of insolvencies for construction, retail trade, and accommodation and food services — industries that have historically accounted for approximately 40 percent of all business insolvencies — decreased by 14 percent, 21 percent and 22 percent respectively.

Although not shown here, the average value of liabilities per insolvency on an annual basis increased from \$855 000 in 2007 to \$1.1 million in 2008 before falling back to \$1 million in 2009. However, the average value of liabilities per insolvency abruptly increased to \$1.9 million in 2010, suggesting that some of the bankruptcies occurring in that year involved large liabilities.

¹ Insolvencies include both proposals (i.e., propositions to creditor to restructure) and bankruptcies. Bankruptcies account for 78 percent of insolvency cases.

Table 5: Share of Employees
by Education Level, Canada,
2008 to 2010

Education Level	Employed		Percent Change ¹
	Share (%)		
	2008	2010	
0–8 years	2.2	1.9	-12.8
Some high school	10.5	9.0	-14.5
<i>subtotal</i>	<i>12.7</i>	<i>10.9</i>	<i>-14.2</i>
High school graduate	20.1	19.8	-1.9
Some post-secondary	9.0	8.5	-6.5
<i>subtotal</i>	<i>29.1</i>	<i>28.3</i>	<i>-3.3</i>
Post-secondary certificate or diploma	35.0	35.7	1.3
University degree	23.3	25.1	7.1
<i>subtotal</i>	<i>58.3</i>	<i>60.8</i>	<i>3.6</i>
All levels	100.0	100.0	-0.6

Source: Statistics Canada, *Labour Force Survey*, 2008 and 2010.

¹ Percent change in the number of employees from 2008 to 2010.

RECENT *Development*

OECD REPORT:

Science, Technology and Industry Outlook 2010

Released in December 2010, the Organisation for Economic Co-operation and Development (OECD) *Science, Technology and Industry Outlook 2010* reviews key trends in science, technology and innovation in OECD countries and emerging economies. In particular, it discusses the performance of OECD countries in science and innovation, identifies trends in R&D and innovation, and examines the challenges faced by policy-makers.

The full report is available for purchase at www.oecd.org/sti/outlook.

Small Business Quarterly Small Business and Tourism Branch

The *Small Business Quarterly* (SBQ) provides a quick and easy-to-read snapshot of the recent performance of Canada's small business sector. The SBQ is published by the Small Business and Tourism Branch of Industry Canada.

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UPCOMING *Events*

CANADIAN COUNCIL FOR SMALL BUSINESS AND ENTREPRENEURSHIP (CCSBE)

Annual Conference, September 28 – October 1, 2011

The Canadian Council for Small Business and Entrepreneurship (CCSBE) is an organization whose goal is to promote and advance the development of small business and entrepreneurship through research, education and training, networking, and dissemination of scholarly and policy-oriented information.

From September 28 to October 1, the CCSBE Annual Conference will be hosted by the Odette School of Business at the University of Windsor in Windsor, Ontario.

For more information on this event, visit www.ccsbe.org.

NATIONAL FRANCHISE & *Business Opportunities Show*

The National Franchise & Business Opportunities Show is an opportunity for entrepreneurs to meet representatives from popular franchises and to learn about full-time and part-time franchise opportunities in their region. Show highlights include free daily seminars that offer legal, financing and business planning advice from industry experts. This event will take place in Toronto (September 10–11, 2011) and Montréal (October 29–30, 2011).

For more information on this event, visit www.franchiseshowinfo.com.