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EXECUTIVE SUMMARY

This report is an update of *SME Profile: Tourism Industries in Canada* (Bédard-Maltais, 2015). It provides an overview of business characteristics, owner characteristics and recent financing activities of Canadian small and medium-sized enterprises (SMEs) in tourism industries in comparison with SMEs in all industries. It accomplishes this by comparing points in time using 2007, 2011 and 2014 data. As such, this report aims to capture the change in financing tourism SMEs as the Canadian economy strengthened and the tourism sector grew.

The report highlights the importance of tourism SMEs to the Canadian economy—they account for 99.9 percent of businesses in tourism industries. A detailed analysis of recent financing activities, innovation activities and financial performance follows.

The report reveals:

- Tourism SMEs tend to be older and larger businesses than all SMEs. There are also more female, Indigenous and visible minority business owners operating in tourism industries.
- Principal challenges faced by tourism SME owners include fluctuations in consumer demand, rising costs of inputs and increased competition.
- Personal financing; credit from financing institutions, such as domestic chartered banks; and loans from friends were the three main sources of financing used by tourism SMEs during start-up.
- Debt financing is the most common type of financing sought by tourism SME owners and all SME owners. Both groups experienced more difficulty obtaining this type of financing than other types of financing that are seen as being less risky.
- Tourism SME owners intended to use debt financing primarily for working capital, operating capital, and land and buildings.
- Tourism SMEs introduced less overall innovation than all SMEs, but were more likely to introduce a new way of selling goods or services than all SMEs.
- On average, small businesses in tourism industries have higher average total revenues than small businesses in all industries, but they also have lower average profits due to higher total expenses.
- Tourism businesses operating in the accommodations industry had the highest average net profit, whereas those in food and beverage services had the lowest.
- Tourism SMEs experienced slower growth and anticipated lower future growth compared with all SMEs.

1. INTRODUCTION

TOURISM INDUSTRIES IN CANADA

Every year, Canada welcomes tourists from around the world, with travellers from the United States accounting for the majority of total international arrivals to Canada. In recent years, the increasing demand for tourism has fuelled growth in Canadian tourism industries.

Tourism plays a vital role in Canada's economy. It is the largest service export sector and accounts for over 2 percent of Canada's gross domestic product. One in ten jobs in Canada - about 1.8 million - depends on tourism. This sector is the number one employer of youth and an important provider of employment for new Canadians.

Tourism drives key service industries such as accommodations, food and beverage services, transportation, recreation and entertainment, and travel services. SMEs constitute the backbone of tourism in Canada, accounting for 99.9 percent of businesses in tourism industries.

In many cases, SMEs experience difficulty obtaining the financing they need to acquire assets, cover day-to-day expenses or expand into new markets.

Obtaining financing can be particularly difficult for SMEs in tourism industries because financial institutions may view them as relatively risky compared with SMEs in all industries.

Given the importance of financing to the success and growth of a business, this report investigates the financing activities of tourism SMEs and identifies the financing needs and obstacles they face. This report is an update of *SME Profile: Tourism Industries in Canada* (Bédard-Maltais, 2015). It provides an overview of business characteristics, owner characteristics and recent financing activities of Canadian tourism SMEs in comparison with all SMEs in Canada. It uses data from Statistics Canada's *Survey on Financing of Small and Medium Enterprises, 2007*; *Survey on Financing and Growth of Small and Medium Enterprises, 2011*; and *Survey on Financing and Growth of Small and Medium Enterprises, 2014*. The focus is on results from the 2014 survey and comparisons are made with the 2007 and 2011 surveys when possible.

DATA AND DEFINITIONS

This report uses the comprehensive database of the *Survey on Financing of Small and Medium Enterprises, 2007*; *Survey on Financing and Growth of Small and Medium Enterprises, 2011*; and *Survey on Financing and Growth of Small and Medium Enterprises, 2014*. The Statistics Canada survey, generally conducted every three years, measures the demand for, and sources of, financing for Canadian SMEs. The database includes information on requests for financing, firm characteristics and demographic characteristics of SME owners. The representative samples consist of 9,977 respondents in 2011 and 10,397 in 2014.

For the purpose of this report, an SME is defined as a business with 1 to 499 paid employees with a minimum annual revenue of \$30,000. Non-employer businesses and the self-employed are excluded from the report. Also excluded from this population are non-profit and government organizations, schools, hospitals, subsidiaries, co-operatives, and financing and leasing companies.

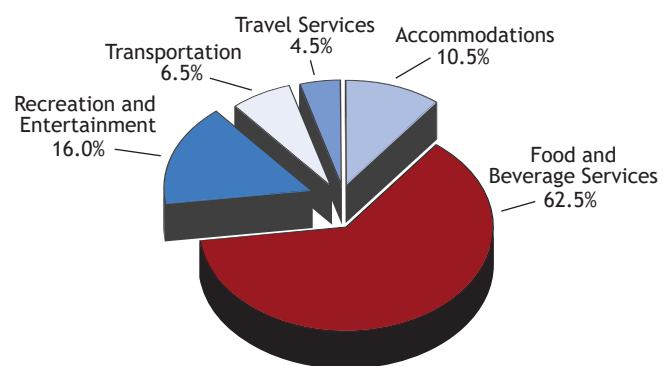
A tourism SME is defined as a business that meets the above criteria and operates within tourism industries. Table A, in the Appendix, provides a list of North American Industry Classification System (NAICS) codes included in tourism industries based upon the methodology developed for Statistics Canada's *Canadian Tourism Satellite Account (CTSA)*. According to the CTSA, a tourism industry "would cease or continue to exist only at a significantly reduced level of activity as a direct result of an absence of tourism."¹ This implies that a tourism business may serve both tourists and local customers, as is the case with restaurants and hotel facilities. It should be noted that due to difficulty in measuring the share of economic activity attributable to tourism, this report considers all SMEs operating in these tourism industries as tourism SMEs unless otherwise specified.

In 2011, the unweighted sample consisted of 698 respondents in tourism industries and 9,279 respondents in all industries. In 2014, the sample included 835 respondents in tourism industries and 9,562 respondents in all industries. These observations were weighted to represent the whole economy.

2. DISTRIBUTION BY INDUSTRY

Tourism businesses are distributed across five main industry groups: food and beverage services, recreation and entertainment, transportation, accommodations and travel services. In 2014, 8 percent of the estimated 1.24 million SME employers in Canada operated in tourism industries. The majority of tourism SMEs operated in the food and beverage services industry (62.5 percent), followed by recreation and entertainment (16.0 percent), accommodations (10.5 percent), transportation (6.5 percent) and travel services (4.5 percent) (Figure 1).

Figure 1: Distribution of Tourism SMEs by Industry, 2014



Source: Statistics Canada, Business Register, 2014.

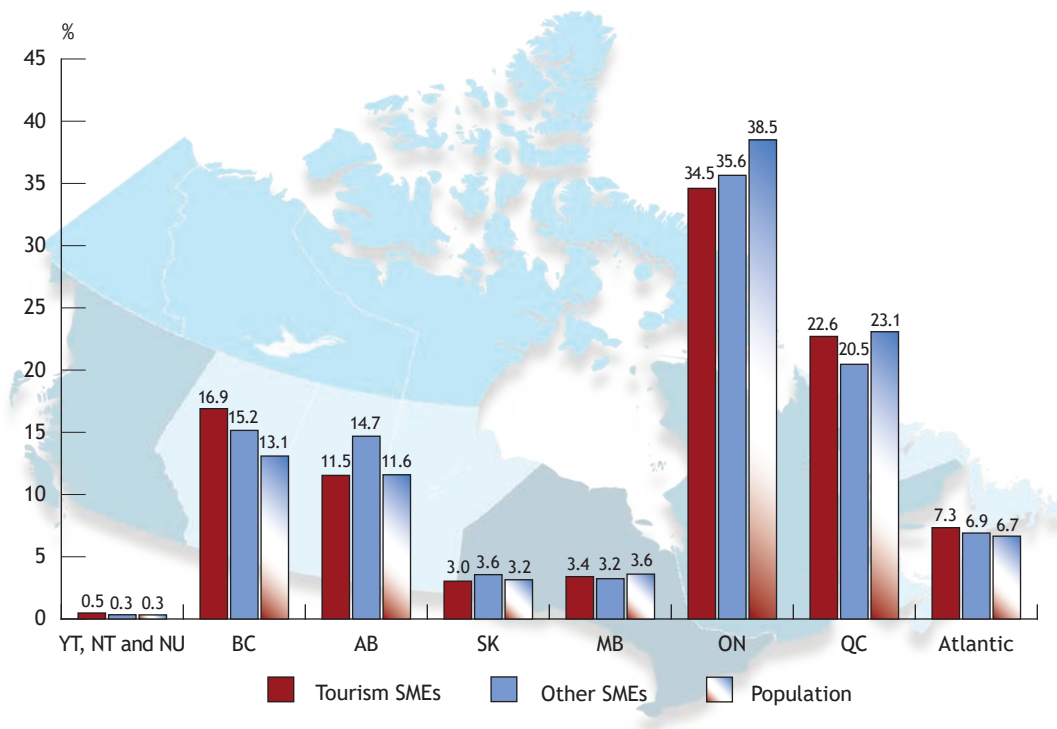
1. Statistics Canada, *Canadian Tourism Satellite Account Handbook*, 2007. Available at <http://www.statcan.gc.ca/pub/13-604-m/13-604-m2007052-eng.pdf>.

3. DISTRIBUTION BY GEOGRAPHY

Tourism SMEs operate in every province and territory in Canada and their geographical distribution is roughly proportional to the distribution of other SMEs (Figure 2). Tourism SMEs are predominantly concentrated in Ontario (34.5 percent) and Quebec (22.6 percent). In British Columbia, Manitoba, Quebec, the Territories

and Atlantic Canada, the concentration of SMEs in tourism industries surpasses the concentration of SMEs in other industries. Ontario, Quebec and Manitoba are the only jurisdictions in which the share of the Canadian population exceeds the share of tourism and other businesses.

Figure 2: Regional Distribution of Tourism SMEs, 2014



Sources: Statistics Canada, Business Register, 2014; and Statistics Canada, Table 051-0005, CANSIM.

The food and beverage services industry has the highest representation of tourism SMEs in Canada (62.5 percent), ranging from 54.1 percent in Atlantic Canada to 67.5 percent in Ontario (Table 1). Recreation and entertainment has the second-highest representation of tourism

SMEs at 16.0 percent, ranging from 14.0 percent in Alberta to 18.4 percent in Atlantic Canada. In general, the travel services industry has the lowest share of tourism SMEs in every province and territory, except for Ontario where transportation is slightly lower.

Table 1: Distribution of Tourism SMEs by Region and Industry, 2014

| | Food and Beverage Services (%) | Recreation and Entertainment (%) | Accommodations (%) | Transportation (%) | Travel Services (%) |
|---|--------------------------------|----------------------------------|--------------------|--------------------|---------------------|
| Canada | 62.5 | 16.0 | 10.5 | 6.5 | 4.5 |
| Atlantic Canada | 54.1 | 18.4 | 18.2 | 6.1 | 3.2 |
| Newfoundland and Labrador | 45.1 | 18.6 | 22.0 | 10.6 | 3.7 |
| Prince Edward Island | 48.2 | 19.5 | 24.9 | 4.7 | 2.6 |
| Nova Scotia | 57.9 | 18.2 | 15.7 | 4.9 | 3.3 |
| New Brunswick | 58.5 | 18.0 | 16.4 | 4.2 | 2.8 |
| Quebec | 61.9 | 16.8 | 9.4 | 8.0 | 3.9 |
| Ontario | 67.5 | 15.4 | 7.6 | 4.5 | 5.0 |
| Manitoba | 53.9 | 17.0 | 14.2 | 11.8 | 3.2 |
| Saskatchewan | 56.4 | 16.5 | 19.2 | 4.9 | 3.0 |
| Alberta | 65.3 | 14.0 | 11.4 | 5.4 | 4.0 |
| British Columbia | 58.8 | 16.2 | 11.1 | 8.5 | 5.4 |
| Yukon, Northwest Territories and Nunavut* | 27.6 | 14.7 | 33.1 | 20.2 | 4.4 |

*In the territories, SMEs operating in tourism industries are more focused on serving local customers than tourists due to low population density and large distances between communities. As a result, statistics on the territories are not comparable with other regions and are presented for information purposes only.

Source: Statistics Canada, Business Register, 2014.

4. EMPLOYMENT

The *Provincial-Territorial Human Resource Module of the Tourism Satellite Account* captures data on employment in tourism industries and complements Statistics Canada's 2011 and 2014 surveys. It should be noted that data from that module include all jobs in businesses of all sizes

within tourism industries, not just those in SMEs that depend upon tourism activities.

Tourism industries employed almost 1.8 million Canadians in 2015,² a 7.0 percent increase over 2011 (Table 2). Despite this increase, the share of tourism in total employment remained flat at roughly 9.6 percent during the period. Overall, tourism industries outperformed all industries over the 2011-15 period.

Table 2: Jobs in Tourism Industries and the Total Economy (thousands),¹ 2011-15

| | | | | | | Percentage Change ² |
|-------------------------------|--------|--------|--------|--------|--------|--------------------------------|
| | 2011 | 2012 | 2013 | 2014 | 2015 | 2011-15 |
| Tourism industries | 1,665 | 1,698 | 1,728 | 1,736 | 1,782 | 7.0 |
| All industries | 15,908 | 16,066 | 16,276 | 16,370 | 16,497 | 3.7 |
| Total economy | 17,572 | 17,764 | 18,004 | 18,106 | 18,278 | 4.0 |
| Share of tourism in total (%) | 9.5 | 9.6 | 9.6 | 9.6 | 9.7 | |
| Tourism Industries | | | | | | |
| Transportation | 260 | 268 | 259 | 262 | 263 | 1.2 |
| Accommodations | 205 | 204 | 191 | 188 | 194 | -5.7 |
| Food and beverage services | 892 | 921 | 961 | 976 | 1,007 | 12.9 |
| Recreation and entertainment | 256 | 253 | 262 | 256 | 264 | 3.2 |
| Travel services | 52 | 53 | 55 | 54 | 54 | 4.2 |

Note 1: Figures may not add up due to rounding.

Note 2: The percentage change is based upon non-rounded figures.

Sources: Statistics Canada, Supplementary tables from the *Provincial-Territorial Human Resource Module of the Tourism Satellite Account*, 2015; and Innovation, Science and Economic Development Canada calculations.

2. The broad dimension of employment in tourism industries is described in Statistics Canada's *Provincial-Territorial Human Resource Module of the Tourism Satellite Account*, 2015, available at <http://www.statcan.gc.ca/daily-quotidien/170607/dq170607b-eng.htm>.

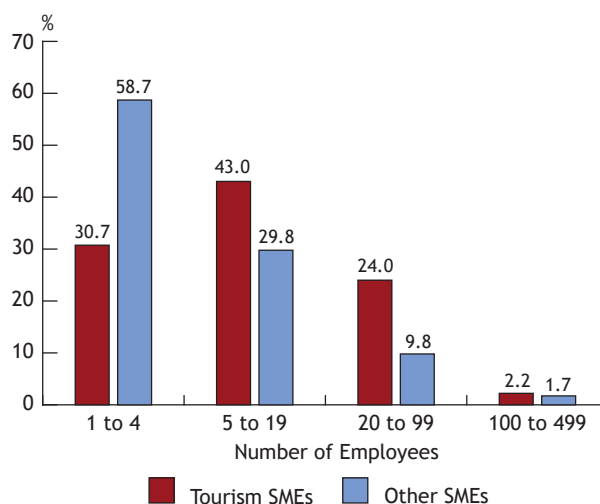
Looking at each industry, food and beverage services experienced the fastest growth in employment (up 12.9 percent) over the 2011-15 period, followed by travel services (up 4.2 percent), recreation and entertainment (up 3.2 percent), and transportation (up 1.2 percent). Jobs in accommodations decreased 5.7 percent over the period.

5. BUSINESS CHARACTERISTICS

BUSINESS SIZE

The majority of SMEs in tourism industries (almost 98 percent) are considered small, with fewer than 100 employees. The distribution of these businesses differs from that in other industries. A majority of tourism SMEs have between 5 and 99 employees, whereas the majority of other SMEs have fewer than five employees (Figure 3).

Figure 3: Distribution of Tourism SMEs by Size (number of employees), 2014



Source: Statistics Canada, Business Register, 2014.

There are also differences across tourism industries in the concentration of businesses of different sizes. A large share of SMEs in recreation and entertainment, transportation and travel services are micro-businesses that employ fewer than five workers (Table 3). More than three quarters of food and beverage services businesses (76.4 percent) fall within the 5-19 and 20-99 employees range. The transportation industry has the largest share (5.0 percent) of businesses with 100-499 employees.

Table 3: Distribution of Tourism SMEs by Industry and Size (number of employees), 2014

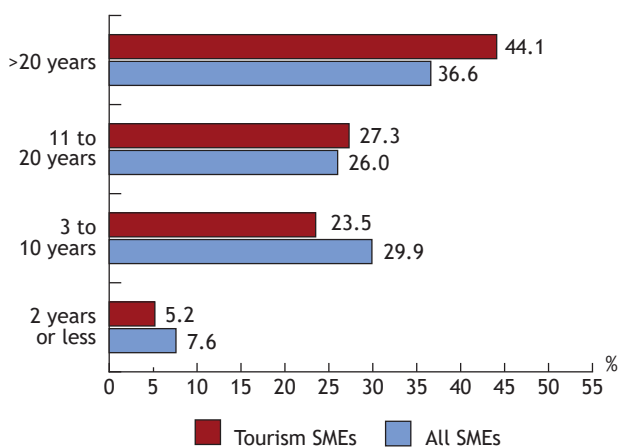
| | Accommodations (%) | Food and Beverage Services (%) | Recreation and Entertainment (%) | Transportation (%) | Travel Services (%) |
|-------------------|--------------------|--------------------------------|----------------------------------|--------------------|---------------------|
| 1-4 employees | 36.3 | 22.2 | 44.6 | 49.7 | 58.0 |
| 5-19 employees | 37.7 | 48.5 | 33.5 | 29.9 | 33.9 |
| 20-99 employees | 22.1 | 27.9 | 18.4 | 15.5 | 7.0 |
| 100-499 employees | 3.8 | 1.4 | 3.4 | 5.0 | 1.2 |

Source: Statistics Canada, Business Register, 2014.

BUSINESS AGE

In Statistics Canada’s *Survey on Financing and Growth of Small and Medium Enterprises, 2014*, tourism SMEs were older than the average of all SMEs in Canada (Figure 4). The average age for tourism SMEs was 23.8 years, whereas the average for all SMEs was 19 years. A higher share of the SMEs in tourism industries (71.4 percent) was established over 10 years ago compared with SMEs in all industries (62.6 percent).

Figure 4: Distribution of Tourism SMEs by Age, 2014

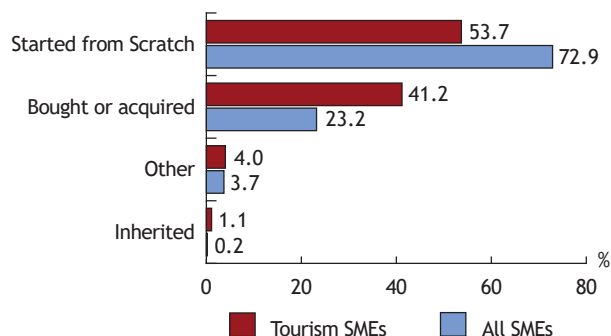


Source: Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises, 2014*.

METHOD OF POSSESSION

In 2014, more owners of tourism SMEs (41.2 percent) bought or acquired their business compared with owners of all SMEs in Canada (23.2 percent) (Figure 5). This figure is driven by SME owners in the accommodations and food and beverage services industries, where 48.1 percent of owners bought or acquired their business. This may suggest that once established, tourism SMEs change ownership more often than all SMEs. It could also mean that it is easier to acquire tourism businesses than to start them from scratch.

Figure 5: Distribution of Tourism SMEs by Method of Possession, 2014



Source: Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises, 2014*.

6. BUSINESS OWNER CHARACTERISTICS

Statistics Canada’s 2014 survey reveals notable differences in demographic characteristics between owners of tourism businesses and the average business owner in Canada. Comparing the 2014 survey results with those surveys from 2007 and 2011 also reveals how these characteristics have shifted over time within tourism industries.

Women business owners were more involved in tourism SMEs (21.2 percent) compared with the average of all industries (15.7 percent) in 2014, even though tourism SMEs were predominantly majority male-owned (Table 4). Compared with the average of all industries (64.6 percent), tourism SMEs had a smaller proportion of majority male-owned businesses (55.5 percent). Almost one quarter of tourism SMEs were owned equally by men and women compared with the Canadian average of one in five. Since 2007, the overall share of majority male-owned tourism SMEs has increased, despite falling from 2011 levels.

Majority female ownership has seen an overall decrease from 30 percent in 2007, but has remained relatively stable since 2011. Equal ownership between men and women has grown in tourism industries since 2007.

Business owners who were part of a visible minority group were more concentrated in tourism industries

in 2014 compared with all industries. The share of visible minority tourism business owners declined from 20.3 percent in 2007 to 13.3 percent in 2014. Indigenous business owners³ accounted for 2.3 percent of tourism SMEs compared with just one percent for all SMEs in 2014.

Table 4: Owner Characteristics, 2007, 2011 and 2014

| | 2007 | | 2011 | | 2014 | |
|--|------------------|--------------|------------------|--------------|------------------|--------------|
| | Tourism SMEs (%) | All SMEs (%) | Tourism SMEs (%) | All SMEs (%) | Tourism SMEs (%) | All SMEs (%) |
| Gender | | | | | | |
| Majority male-owned | 49.3 | 64.3 | 59.1 | 66.4 | 55.5 | 64.6 |
| Majority female-owned | 30.0 | 16.4 | 21.3 | 15.5 | 21.2 | 15.7 |
| Owned equally by men and women | 20.7 | 19.3 | 19.6 | 18.1 | 23.3 | 19.7 |
| Background | | | | | | |
| Visible minority | 20.3 | 9.6 | 14.3 | 9.8 | 13.3 | 9.3 |
| Indigenous | 3.2 | 2.4 | 0.3 | 1.6 | 2.3 | 1.0 |
| Age of primary decision maker (years) | | | | | | |
| Less than 40 | 17.1 | 14.8 | 15.2 | 12.2 | 13.0 | 14.6 |
| Education and managerial experience | | | | | | |
| Post-secondary education | n/a | n/a | 61.8 | 66.7 | 70.7 | 69.2 |
| College, CEGEP or trade school diploma | n/a | n/a | n/a | 32.1 | 29.6 | 30.7 |
| Bachelor's degree | n/a | n/a | n/a | 21.8 | 29.9 | 24.1 |
| Master's degree or above | n/a | n/a | n/a | 12.8 | 11.2 | 14.4 |
| More than 10 years of managerial experience | 61.3 | 71.3 | 67.9 | 77.2 | 75.6 | 75.0 |

Note: "n/a" indicates that data are not available for the reference period.

Sources: Statistics Canada, *Survey on Financing of Small and Medium Enterprises, 2007*; Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises, 2011*; and Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises, 2014*.

The majority of SME owners were 40 years of age or older, independent of the business group or the year the survey was conducted. Over time, the percentage of tourism SME owners under the age of 40 years has declined from 17.1 percent in 2007 to 13.0 percent in 2014.

A large majority of SME owners surveyed in 2014 had some level of post-secondary education. For tourism SME owners, this share increased from 61.8 percent in 2011 to 70.7 percent in 2014.

Although tourism SME owners have a larger share of bachelor's degrees compared with all SME owners, fewer have master's degrees or above. Tourism SME owners had a similar level of managerial experience compared with all SMEs. From 2007 to 2014, the share of tourism SME owners with more than 10 years of managerial experience increased from 61.3 percent to 75.6 percent.

3. The survey question asked "What percentage of your business is owned by Aboriginal persons?" Aboriginal persons refers to those persons who identify with at least one Aboriginal group (i.e., North American Indian, Métis or Inuit). "North American Indians" are those who are a Treaty Indian or a Registered Indian as defined by the *Indian Act of Canada* and/or who are members of an Indian Band or First Nation.

7. GROWTH

Tourism SMEs experienced faster growth in 2011 than all SMEs, with growth of 68.4 percent and 61.8 percent, respectively, compared with 2014 when tourism SMEs experienced slower growth than all SMEs (65.2 percent versus 70.1 percent). In 2014, more tourism SMEs reported negative or no growth (34.8 percent) compared with all SMEs (30.0 percent). Tourism SMEs also reported growing more than 20 percent over the three-year period less frequently than all SMEs (Table 5).

Fewer tourism SMEs grew by more than 20 percent in 2014 (3.5 percent) than in 2011 (7.9 percent). One possible explanation for this accelerated growth is increased spending during the recovery period following the 2008-09 recession.

Tourism business owners also appeared to be less optimistic in 2014 about future growth than all SMEs, with a larger share anticipating negative or no growth (25.8 percent) than all SMEs (22.8 percent), and a smaller share anticipating growth over 20 percent (3.0 percent) than all SMEs (7.9 percent) (Table 6).

Table 5: Business Growth over the Previous Three Years, 2011 and 2014

| | 2011 | | 2014 | |
|--|------------------|--------------|------------------|--------------|
| | Tourism SMEs (%) | All SMEs (%) | Tourism SMEs (%) | All SMEs (%) |
| Actual growth over the last three years | | | | |
| Negative growth | 14.4 | 16.1 | 14.0 | 11.5 |
| No growth | 17.2 | 22.1 | 20.8 | 18.5 |
| Between 1 and 10% | 51.6 | 43.6 | 49.5 | 49.7 |
| Between 11 and 20% | 8.9 | 10.5 | 12.2 | 11.1 |
| More than 20% | 7.9 | 7.7 | 3.5 | 9.3 |

Sources: Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*, 2011; and Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*, 2014.

Table 6: Projected Growth over the Next Three Years, 2014

| | 2011 | |
|---|------------------|--------------|
| | Tourism SMEs (%) | All SMEs (%) |
| Projected growth over the next three years | | |
| Negative growth | 5.3 | 5.9 |
| No growth | 20.5 | 16.9 |
| Between 1 and 10% | 60.9 | 56.0 |
| Between 11 and 20% | 10.3 | 13.3 |
| More than 20% | 3.0 | 7.9 |

Source: Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*, 2014.

PERCEIVED OBSTACLES TO GROWTH

Tourism industries operate in challenging environments, having to adapt to changing demographics, fluctuating economic conditions and evolving tourist tastes. Tourism businesses are required to compete over new offerings in a growing number of domestic and international destinations that are increasingly easier to get to with worldwide expansion in transportation.

SMEs in tourism industries identified fluctuations in consumer demand as the most frequent moderate or major obstacle to growth, followed by the rising cost of inputs and increasing competition (Table 7).

These top three obstacles were also identified as the three most common obstacles to growth across all industries in Canada. Recruiting and retaining skilled employees, the corporate tax rate, maintaining sufficient cash flows and a shortage of labour were identified as obstacles less frequently than the average for all industries.⁴

Table 7: Perceived Moderate or Major Obstacles to Growth, 2014

| | Tourism SMEs (%) | All SMEs (%) |
|--|------------------|--------------|
| Fluctuations in consumer demand | 47.8 | 41.2 |
| Rising cost of inputs | 45.2 | 40.8 |
| Increasing competition | 43.2 | 43.1 |
| Recruiting and retaining skilled employees | 33.3 | 34.7 |
| Government regulations | 31.7 | 28.4 |
| Corporate tax rate | 31.2 | 33.8 |
| Maintaining sufficient cash flows | 29.0 | 34.6 |
| Shortage of labour | 23.0 | 27.4 |
| Obtaining financing | 18.2 | 17.6 |
| Other | 17.2 | 16.2 |

Source: Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises, 2014*.

8. CAPITAL STRUCTURE

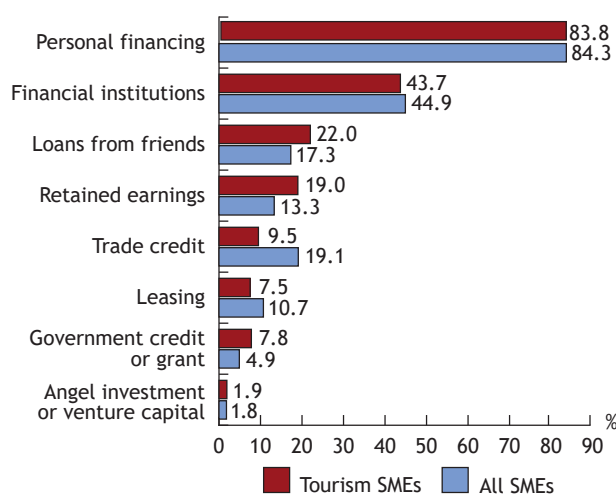
Financing plays an important role in the growth and development of a business. Statistics Canada’s 2011 survey took place at the end of the recovery period following the most recent financial crisis. The credit environment had returned to conditions similar to those existing before the recession, but lenders remained cautious when granting loans to small businesses. Statistics Canada’s 2014 survey took place during a period when the economy was strong. Consumer confidence had peaked and the spending habits of consumers had returned to their normal levels.

4. Tourism Industry Association of Canada, *Gateway to Growth, Travel & Tourism Labour Force Report, 2014*.

The top three sources of financing used by tourism SME owners to start their businesses were personal financing, credit from financial institutions and loans from friends (Figure 6). Tourism SME owners were also more likely to use retained earnings and government credit or grants. Compared with all SME owners who started a business in 2014, significantly fewer tourism SME owners used trade credit as a source of financing to start a business.

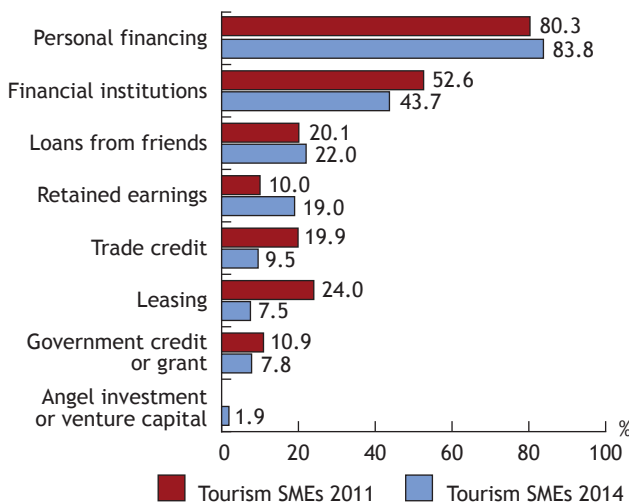
About one quarter of tourism SME owners who started a business in 2011 used leasing as a source of financing compared with less than one in ten in 2014 (Figure 7). Trade credit was also used less frequently by tourism business owners in 2014 compared with 2011 (9.5 percent versus 19.9 percent). Tourism business owners relied on financial institutions 52.6 percent of the time in 2014 compared with just 43.7 percent in 2011.

Figure 6: Top Eight Sources of Financing Used by All SMEs and Tourism SMEs During Start-Up, 2014



Source: Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises, 2014*.

Figure 7: Top Eight Sources of Financing Used by Tourism SMEs During Start-Up, 2011 and 2014



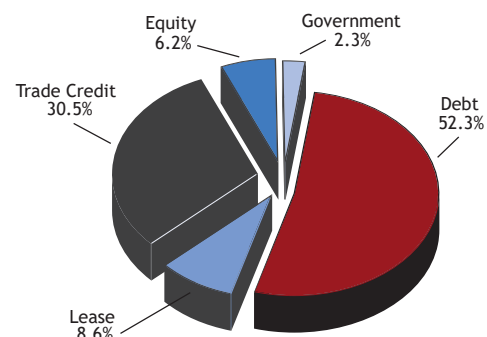
Sources: Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*, 2011; and Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*, 2014.

9. FINANCING ACTIVITIES

Only 41.8 percent of tourism SMEs requested external financing in 2014 compared with 51.3 percent of all SMEs. Of the tourism SMEs that did not request external financing, 91.1 percent reported they did not need it, 2.3 percent reported they did not make a request because they were unaware of financing sources available to businesses and the remaining 6.6 percent reported other reasons.⁵

When looking at the amount of financing authorized, debt financing is the most important source of financing used by small businesses. In 2014, just over one quarter of SMEs requested debt financing, but debt financing accounted for over half (52.3 percent) of the total amount of all external financing authorized to SMEs (Figure 8 and Table 8).

Figure 8: Share of Financing Instruments Used in Total Financing Authorized to SMEs, 2014



Source: Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*, 2014.

Request rates were similar between tourism SMEs and all SMEs for all types of financing except for trade credit. Only 17.1 percent of tourism SMEs requested trade credit financing compared with 29.4 percent of all SMEs (Table 8). Trade credit was also the most requested type of financing for all SMEs, whereas debt financing was the most requested for tourism SMEs.

Table 8: Type of Financing Requested and Approved, 2014

| | Type of Financing | Tourism SMEs (%) | All SMEs (%) |
|---------------|-------------------|------------------|--------------|
| Request rate | Debt | 25.4 | 28.1 |
| | Lease | 5.5 | 7.9 |
| | Trade credit | 17.1 | 29.4 |
| | Equity | 0.5 | 0.9 |
| | Government | 6.1 | 4.4 |
| Approval rate | Debt | 83.2 | 84.9 |
| | Lease | 100.0 | 98.2 |
| | Trade credit | 100.0 | 98.3 |
| | Equity | n/a | n/a |
| | Government | 85.8 | 82.8 |

Note: "n/a" indicates that data are not available for the reference period.

Source: Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*, 2014.

On average, in 2014, tourism SMEs were fully approved for lease and trade credit financing

5. Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*, 2014.

when requested,⁶ whereas only 83.2 percent of requests for debt financing were approved and 85.8 percent of requests for government financing were approved.

One risk factor affecting approval rates for financing is the level of risk associated with each type of financing (see Box 1).

BOX 1: DIFFERENT TYPES OF EXTERNAL FINANCING HAVE DIFFERENT LEVELS OF RISK

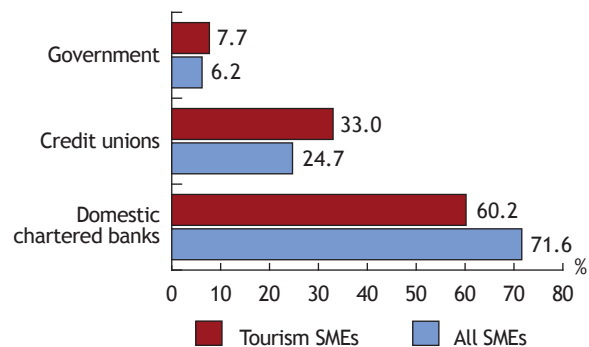
Compared with debt or equity financing, trade credit and lease financing involve less risk for the lender. Trade credit is commonly used by businesses as a source of short-term financing where the borrower agrees to buy now and pay the lender within a 30- to 60-day time frame. Risk is minimized because the lender bases this type of credit on his/her experience with the borrower. Risk is also lower for lease financing. In case of non-payment, the lender can seize his/her property as the lender continues to be the owner of the asset.

MAIN PROVIDER OF DEBT FINANCING

Domestic chartered banks were the largest provider of debt financing for all SMEs (71.6 percent) and SMEs in tourism industries (60.2 percent) (Figure 9), although tourism SMEs used domestic chartered banks less frequently. Credit unions (33.0 percent for tourism SMEs versus 24.7 percent for all SMEs) and government institutions (7.7 percent for tourism SMEs versus 6.2 percent for all SMEs) were used more frequently as the main provider of debt financing for tourism SMEs.

Tourism SMEs may rely more on government financing because they conduct business in riskier industries and, therefore, may fail to obtain financing from domestic chartered banks more often. Risk is the main reason credit providers hesitate to lend to SMEs in the accommodations and food and beverage services industries.^{7,8}

Figure 9: Main Provider of Debt Financing, 2014



Source: Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*, 2014.

Tourism SMEs may turn to government institutions, for example, the Business Development Bank of Canada (BDC) (see Box 2), to obtain external financing or access loan guarantees, for example, under the Canada Small Business Financing Program (see Box 3). While tourism SMEs represent 8 percent of SMEs in Canada, they account for 13 percent of the BDC portfolio.

6. Approval rates do not distinguish between full and partial approval. In other words, a request for financing was considered “approved” as long as some amount (not necessarily the full amount) was approved. Approval rates do not consider scale and each request for financing was given the same weight in the calculations, i.e., a request for \$500 carried the same weight as a request for \$50,000.

7. Just under three quarters of tourism SMEs (73.5 percent) operate in accommodations and food and beverage services. Source: Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*, 2014.

8. “Project was considered too risky” was the principal reason provided to 55.7 percent of SMEs operating in accommodations and food and beverage services that had their debt financing request turned down. Source: Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*, 2014.

BOX 2: BUSINESS DEVELOPMENT BANK OF CANADA

The Business Development Bank of Canada has a mission to help create and develop Canadian business through financing, venture capital and consulting services, with a focus on SMEs.

BDC's financing aims to help entrepreneurs innovate and grow their businesses in Canada and around the world, increase their productivity and sharpen their competitive edge. It serves a range of purposes, including realty, refinancing, change of ownership, working capital, equipment, and information and communications technology adoption.

For Fiscal Year 2013-14, which ended in March 2014, the BDC had 3,353 tourism-related clients for an outstanding financing commitment of \$2.6 billion, or approximately 13 percent of BDC's total loans and guarantees portfolio.

Source: Business Development Bank of Canada, *BDC at a Glance*, 4th Quarter F2014.

BOX 3: CANADA SMALL BUSINESS FINANCING PROGRAM

The Canada Small Business Financing Program (CSBFP) helps small businesses with their financing needs. Under the program, the Government of Canada makes it easier for small businesses to obtain loans from financial institutions by sharing the risk with lenders.

Small businesses or start-ups may access up to a maximum of \$1 million for any one borrower, of which no more than \$350,000 can be used for leasehold improvements or the purchase or improvement of new or used equipment.

For Fiscal Year 2013-14, Canadian small businesses received 5,622 loans valued at \$852.8 million. Accommodations and food and beverage services were the largest industry sectors,* receiving 37.1 percent, or \$316.2 million, of the total value of loans, up 33.5 percent from the previous fiscal year. These loans were distributed across 1,586 small businesses.

For more information, visit www.ic.gc.ca/csbfp.

* Accommodations and food and beverage services represent 73.5 percent of all tourism SMEs in Canada.

Sources: Industry Canada, *Canada Small Business Financing Act, Annual Report 2013-14*; and Innovation, Science and Economic Development Canada, *Canada Small Business Financing Program*.

INTENDED USE OF DEBT FINANCING

Working capital/operating capital was identified as the most common intended use of debt financing for tourism SMEs and for all SMEs in Canada in 2014. Tourism SMEs intended to use debt financing less frequently for working capital/operating capital (48.1 percent for tourism SMEs versus 61.9 percent

for all SMEs) and for other machinery or equipment (19.5 percent for tourism SMEs versus 27.0 percent for all SMEs) than all SMEs, but intended to use debt financing more frequently for land and buildings (29.0 percent for tourism SMEs versus 16.9 percent for all SMEs) (Table 9).

Table 9: Intended Use of Debt Financing, 2014

| | Tourism SMEs (%) | All SMEs (%) |
|-----------------------------------|------------------|--------------|
| Working capital/operating capital | 48.1 | 61.9 |
| Land and buildings | 29.0 | 16.9 |
| Other machinery or equipment | 19.5 | 27.0 |
| Other | 14.8 | 10.4 |
| Vehicles/rolling stock | 12.6 | 18.6 |
| Computer hardware or software | 12.5 | 15.7 |
| Debt consolidations | 12.3 | 8.1 |
| Enter a new market | 7.5 | 7.9 |

Source: Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*, 2014.

FINANCING TERMS AND CONDITIONS

When a business is perceived as being risky, it is not unusual for a lender to provide less favourable loan terms and conditions. Statistics Canada's *Survey on*

Financing of Small and Medium Enterprises, 2007 showed that 56.8 percent of tourism SMEs were required to pledge collateral to obtain the credit requested, despite being offered the same interest rate as all SMEs.

The availability of credit dropped significantly during the 2008 economic recession and terms and conditions remained tight for several years. Over this period, financial institutions managed risk by extending less financing to SMEs in general. The terms and conditions improved for tourism SMEs in 2011, with fewer (45.3 percent) being required to pledge collateral in 2011 (Table 10). In 2014, a larger share of tourism SMEs were required to pledge collateral (67.9 percent).

Table 10: Debt Financing Terms and Conditions, 2011 and 2014

| | 2011 | | 2014 | |
|---|--------------|-----------|--------------|-----------|
| | Tourism SMEs | All SMEs | Tourism SMEs | All SMEs |
| Non-residential mortgage, average interest rate (%) | n/a | n/a | 4.5 | 4.7 |
| Line of credit, average interest rate (%) | n/a | n/a | 4.6 | 5.2 |
| Term loan, average interest rate (%) | n/a | n/a | 5.2 | 5.2 |
| Credit card, average interest rate (%) | n/a | n/a | 15.7 | 17.3 |
| Average financing requested | \$136,589 | \$183,647 | \$179,267 | \$194,500 |
| Average financing authorized | \$116,100 | \$172,621 | \$119,250 | \$167,541 |
| Collateral requested (%) | 45.3 | 65.1 | 67.9 | 66.6 |

Note: "n/a" indicates that data are not available for the reference period.

Sources: Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*, 2011; and Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*, 2014.

Tourism SMEs requested less financing and received a smaller proportion of what they requested, on average, compared with all SMEs in 2014. Tourism SMEs had a lower total financing authorized-to-requested ratio than all SMEs in 2014, with 66.5 percent of all financing requested being approved compared with 86.1 percent for all SMEs. This suggested that tourism SMEs had more difficulty obtaining debt financing than the average SME in Canada.

10. INNOVATION

Innovation is a key accelerator for business growth and increasing productivity. It constitutes a competitive asset for SMEs and is particularly important for attracting new and repeat customers in the competitive environment of tourism industries.

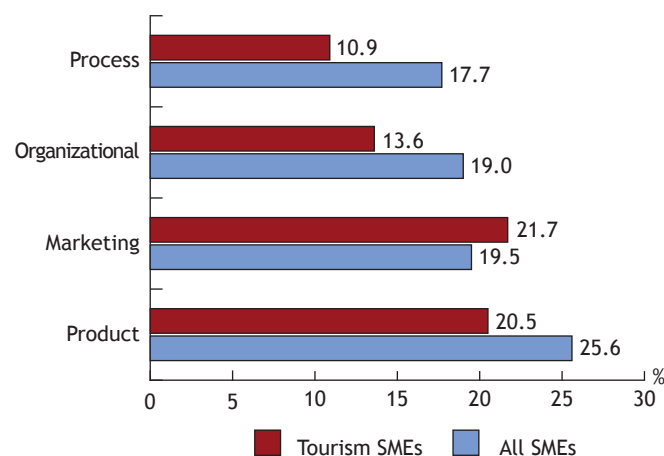
In 2014, over one third of SMEs (36.9 percent of tourism SMEs versus 41.6 percent of all SMEs) reported introducing at least one type of innovation within the previous three-year period (2012-14):

- A new or significantly improved good or service (product innovation);
- A new or significantly improved production process or method (process innovation);
- A new organizational method associated with business practices, workplace organization or external relations (organizational innovation); or
- A new way of selling goods or services (marketing innovation).

Tourism SMEs developed or introduced less innovation overall compared with all SMEs over the 2012 to 2014 period (Figure 10). Marketing innovation (a new way of selling goods or services) was the primary type of innovation for tourism SMEs (21.7 percent) and the only type of innovation to outpace all SMEs. Product innovation (a new or significantly improved good or service) was the most common type of

innovation for all SMEs (25.6 percent) and the second most common for tourism. Marketing plays an important role in tourism as attracting visitors to Canada fuels the success of the tourism sector. Acknowledging the importance of marketing to these industries, Destination Canada offers tool kits that are designed to help tourism SMEs promote their products and leverage market opportunities (see Box 4).

Figure 10: Innovation Developed or Introduced between 2012 and 2014



Source: Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*, 2014.

BOX 4: INNOVATION IN TOURISM INDUSTRIES

Destination Canada is dedicated to promoting the growth and profitability of the Canadian tourism industry by marketing Canada as a desirable travel destination and providing timely and accurate information to the Canadian tourism industry to assist in its decision making.

Destination Canada has designed specialized tool kits to help Canadian tourism businesses fully leverage market opportunities. Of note, the EQ Tool Kit (Explorer Quotient) is a useful and innovative tool kit available to small tourism businesses. It helps businesses understand segmentation of their markets by geography and provides key demographic and socio-cultural indicators of their current and prospective customers. Businesses can use the tool kit to develop better targeted and evidence-based marketing strategies.

For more information, visit the Destination Canada Tools web page at <https://www.destinationcanada.com/en/tools>.

11. FINANCIAL PERFORMANCE

This section of the profile examines the financial performance of Canadian businesses with annual revenues between \$30,000 and \$5,000,000 using complete financial data for 2014. Note that this section uses a definition of small business based upon annual gross revenue,⁹ as opposed to the definition based upon the number of employees used elsewhere in this profile, because financial information is only available through the Department of Innovation, Science and Economic Development's *Financial Performance Data*.¹⁰

On average, small businesses in tourism industries had higher total revenues than the average for small businesses in all industries, but they had lower average profits due to higher total expenses (Table 11). In 2014, the average revenue of small businesses in tourism industries was \$431,100

compared with \$347,800 for small businesses in all industries. However, the average net profit was only \$26,400 for small businesses in tourism industries compared with \$62,000 for small businesses in all industries.

A larger proportion of small businesses in all industries (83 percent) were profitable in 2014 compared with small businesses in tourism industries (75 percent). The average net profit of these small businesses in all industries was \$93,700 compared with \$53,200 for small businesses in tourism industries. Although a larger share of small businesses in tourism industries were not profitable, these businesses reported a smaller net loss (-\$42,900), on average, compared with non-profitable small businesses in all industries (-\$89,700) in 2014.

Table 11: Profitable and Non-Profitable Small Businesses,¹ 2014

| | | Tourism Businesses | All Businesses |
|---------------------------|-----------------------------------|--------------------|----------------|
| All businesses | Number of businesses ² | 147,585 | 1,724,653 |
| | Average total revenue | \$431,100 | \$347,800 |
| | Average total expenses | \$404,700 | \$285,800 |
| | Average net profit | \$26,400 | \$62,000 |
| Profitable businesses | Percentage | 75 | 83 |
| | Average total revenue | \$470,000 | \$338,800 |
| | Average total expenses | \$416,800 | \$245,100 |
| | Average net profit | \$53,200 | \$93,700 |
| Non-profitable businesses | Percentage | 25 | 17 |
| | Average total revenue | \$392,700 | \$394,000 |
| | Average total expenses | \$435,600 | \$483,700 |
| | Average net profit | -\$42,900 | -\$89,700 |

Note 1: Canadian businesses with annual revenues between \$30,000 and \$5,000,000.

Note 2: The number of small businesses is based upon the revenue definition and differs from figures used elsewhere in this profile that are based upon the employment definition.

Source: Industry Canada, *Financial Performance Data*, 2014.

9. It should be noted that the definition based upon annual gross revenue includes businesses of all employment size, including non-employers and businesses with more than 500 employees. Large employer businesses, however, such as large hotel chains or transport carriers, would likely be excluded as they tend to generate more than \$5 million in annual revenue.

10. The size of a business can be defined in many ways. The number of employees is the most frequently used definition, but when this information is not available, a good alternative is to use annual sales, shipments, or gross or net revenue.
Source: Statistics Canada, *Small Business Profiles*, 2011.

Among small businesses in tourism industries, those engaged in accommodations and recreation and entertainment industries had the highest average net profit in 2014 at \$40,300 and \$34,900 respectively (Table 12). Despite having the highest average net profit, only seven in ten small businesses were profitable in the accommodations industry. Over nine in ten small businesses were profitable in the transportation industry (93 percent), the highest of all tourism industries. Despite having the second highest average total revenue, the food and beverage services industry had the lowest average net profit (\$19,200) and the lowest percentage of

profitable small businesses (63 percent) due to having the highest average total expenses (\$628,100) of all tourism industries.

Looking only at profitable small businesses, the accommodations industry had the largest average net profit (\$86,800) compared with the transportation industry, which had the lowest average net profit of profitable small businesses (\$34,100). Looking only at non-profitable small businesses, those in the accommodations industry experienced the largest average net loss (-\$70,500), whereas businesses in the transportation industry experienced the smallest average net loss (-\$35,800).

Table 12: Profitable and Non-Profitable Small Businesses by Tourism Industry,¹ 2014

| | | Transportation | Travel Services | Recreation and Entertainment | Accommodations | Food and Beverage Services |
|---------------------------|-----------------------------------|----------------|-----------------|------------------------------|----------------|----------------------------|
| All businesses | Number of businesses ² | 29,160 | 5,325 | 38,431 | 14,181 | 60,488 |
| | Average total revenue | \$152,000 | \$648,200 | \$247,800 | \$497,700 | \$647,300 |
| | Average total expenses | \$128,500 | \$622,700 | \$212,900 | \$457,400 | \$628,100 |
| | Average net profit | \$23,500 | \$25,500 | \$34,900 | \$40,300 | \$19,200 |
| Profitable businesses | Percentage | 93 | 73 | 81 | 70 | 63 |
| | Average total revenue | \$146,000 | \$612,500 | \$239,500 | \$536,400 | \$744,600 |
| | Average total expenses | \$111,900 | \$559,200 | \$184,900 | \$449,600 | \$690,900 |
| | Average net profit | \$34,100 | \$53,300 | \$54,600 | \$86,800 | \$53,700 |
| Non-profitable businesses | Percentage | 7 | 27 | 19 | 30 | 37 |
| | Average total revenue | \$271,400 | \$745,800 | \$294,200 | \$404,700 | \$479,900 |
| | Average total expenses | \$307,200 | \$795,900 | \$335,700 | \$475,200 | \$519,900 |
| | Average net profit | -\$35,800 | -\$50,100 | -\$41,500 | -\$70,500 | -\$40,000 |

Note 1: Canadian businesses with annual revenues between \$30,000 and \$5,000,000.

Note 2: The number of small businesses is based upon the revenue definition and differs from figures used elsewhere in this profile that are based upon the employment definition.

Source: Industry Canada, *Financial Performance Data*, 2014.

12. CONCLUSIONS

SMEs are the backbone of tourism industries: 99.9 percent of tourism businesses are SMEs and approximately 8 percent of all Canadian SMEs are concentrated in tourism industries. These industries outperformed the rest of the economy during the financial recession and have recovered in recent years, with employment growing more rapidly in tourism industries than in all industries. In 2014—the most recent year for which data are available—three quarters of small businesses in tourism industries were profitable and over 65 percent of tourism SME owners reported growing their business in the previous three years.

Tourism SMEs were older and had more employees, on average, compared with all SMEs in Canada. These businesses also had larger shares of female, visible minority and Indigenous ownership. Owners of tourism businesses experienced slower than average growth over the past three years and were less optimistic about future growth.

Credit providers view tourism SMEs as operators in relatively risky industries compared with SMEs operating in all industries. Compared with all SMEs,

tourism SMEs found it slightly harder to obtain debt financing. They were also less likely to use domestic chartered banks and more likely to use credit unions or government institutions as their main provider of debt financing.

Tourism SMEs introduced less overall innovation compared with SMEs in all industries over the 2012-14 period, but were more likely to introduce new methods of selling their goods or services (marketing innovation).

Statistics Canada's *Survey on Financing and Growth of Small and Medium Enterprises* will be conducted again in 2018 and will provide updated insights into tourism industries. In particular, it will be interesting to see if increased global competitiveness in tourism sectors will drive the creation of more enterprises and increased innovation in tourism businesses. It will also be notable to study the effects of increased tourism demand associated with Canada's 150th anniversary of Confederation on the demand for financing, job creation and business revenues.

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APPENDIX

Table A: North American Industry Classification System (NAICS) Codes Included in Tourism Industries

| NAICS | Description |
|--|--|
| Air Transportation | |
| 4811 | Scheduled Air Transport |
| 4812 | Non-Scheduled Air Transport |
| Rail Transportation | |
| 4821 | Rail Transportation |
| Water Transportation | |
| 4831 | Deep Sea, Coastal and Great Lakes Water Transportation |
| 4832 | Inland Water Transportation |
| Bus Transportation | |
| 4851 | Urban Transit Systems |
| 4852 | Interurban and Rural Bus Transportation |
| 4854 | School and Employee Bus Transportation |
| 4855 | Charter Bus Industry |
| 4859 | Other Transit and Group Passenger Transportation |
| Scenic and Sightseeing Transportation | |
| 4871 | Scenic and Sightseeing Transportation, Land |
| 4872 | Scenic and Sightseeing Transportation, Water |
| 4879 | Scenic and Sightseeing Transportation, Other |
| Taxicabs | |
| 4853 | Taxi and Limousine Service |
| Travel Services | |
| 5615 | Travel Arrangement and Reservation Services |

| NAICS | Description |
|-------------------------------------|--|
| Recreation and Entertainment | |
| 51213 | Motion Picture and Video Exhibition |
| 7111 | Performing Arts Companies |
| 7112 | Spectator Sports |
| 7115 | Independent Artists, Writers and Performers |
| 7121 | Heritage Institutions |
| 7131 | Amusement Parks and Arcades |
| 7132 | Gambling Industries |
| 7139 | Other Amusement and Recreation Industries |
| Hotels & Motels | |
| 7211 | Traveller Accommodation |
| Camping | |
| 721211 | RV (Recreational Vehicle) Parks and Campgrounds |
| Other Accommodations | |
| 721212 | Hunting and Fishing Camps |
| 721213 | Recreational (except Hunting and Fishing) and Vacation Camps |
| 721198 | All Other Traveller Accommodation |
| Food and Beverage Services | |
| 7224 | Drinking Places (Alcoholic Beverages) |
| 7225 | Full-Service Restaurants and Limited-Service Eating Places |