

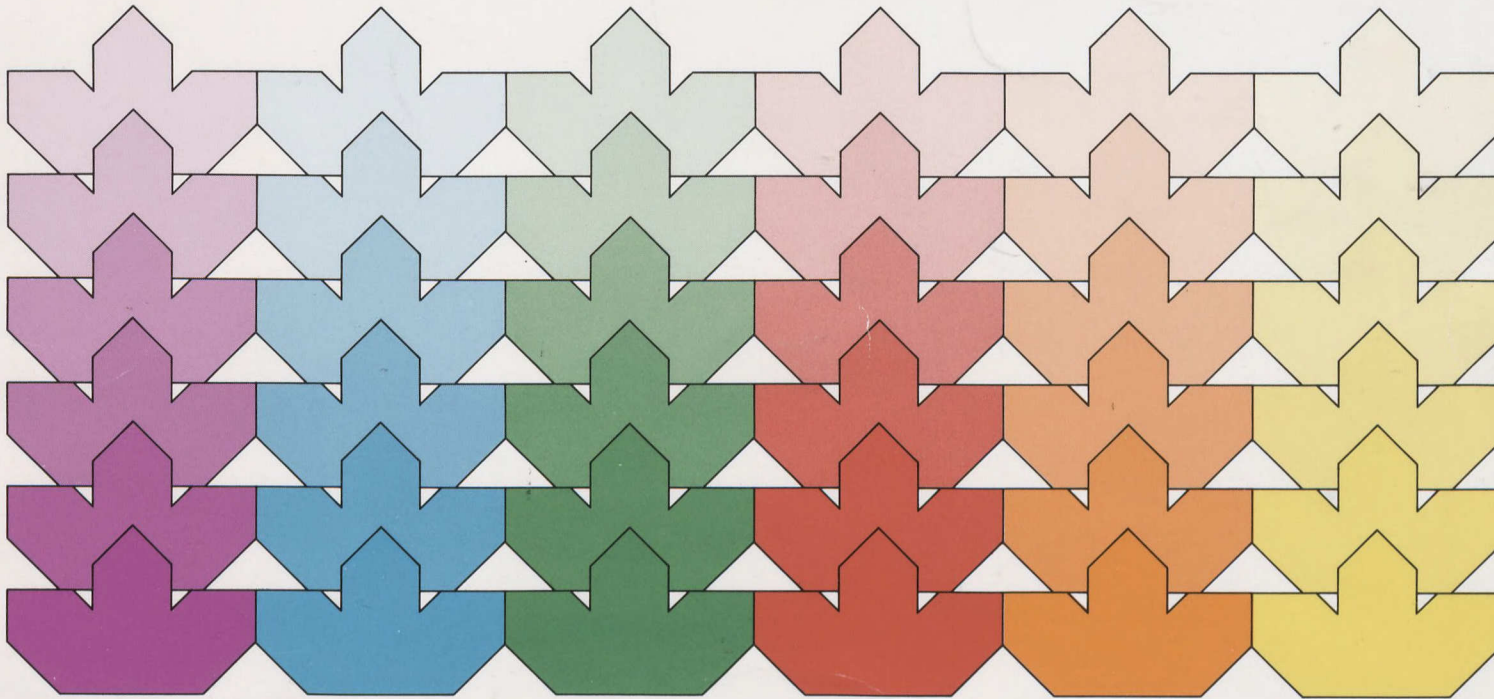
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Small Business in Canada: A Statistical Profile

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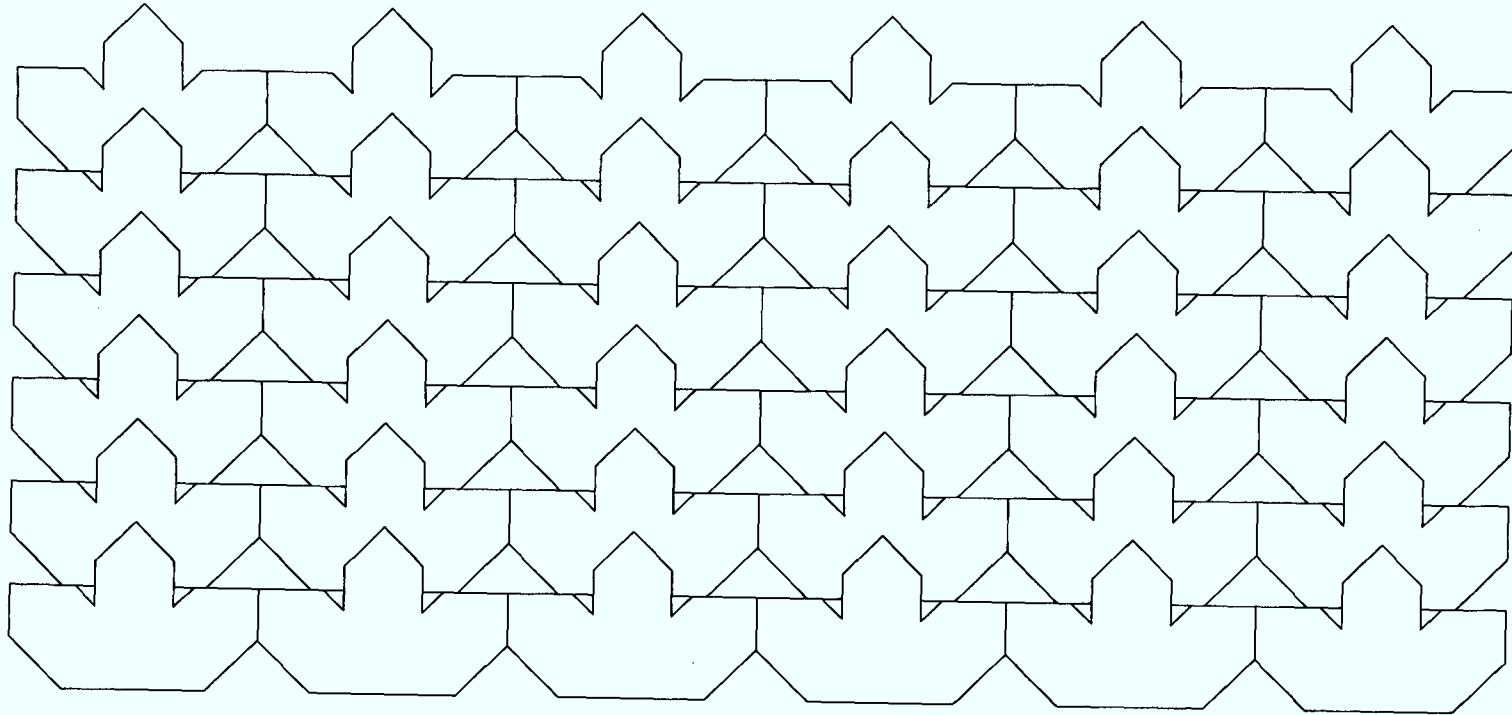
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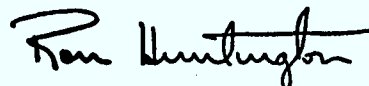
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Message from the Minister

In recent years governments around the world have become more aware of the importance of the small business sector to national output, employment and economic growth generally. In order to understand and assess better the place of small business in the industrial mosaic of Canada substantive efforts have been made to develop new and improved statistics on small business. This Profile presents a broad perspective of the small business contribution to the Canadian economy for the year 1976 and, in the case of employment data, also for 1978.

A more in-depth look at the performance by size of business, including data on foreign ownership and profitability by industrial sector, is presented in a companion book entitled "New Statistics for Small Business — 1979". Readers wishing to obtain additional detail may contact: Small Business Secretariat Department of Industry, Trade and Commerce, Ottawa, Ontario, K1A 0H5.



Hon. Ron Huntington
Minister of State for Small
Business and Industry

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Introduction

Small business is an integral part of the industrial and commercial fabric of nations, making substantial contributions to their economic development. Canada is no exception. There is general recognition and agreement that a viable and competitive small business sector is essential for continued Canadian economic and industrial development.

The purpose of this statistical profile is to provide an overview of smaller businesses in the context of the Canadian economy and to highlight their contribution to the creation of output, employment and economic growth.* Information herein relates to the 1976 taxation year. Where available, data for more recent years are also shown.

The Size Question

Defining or categorizing businesses as small, medium-scale or large is always a very subjective exercise — one which is highly dependent on the context in which the definition is to be used. For example, a firm might be large in a provincial context, medium-scale nationally, and small in the international markets in which it competes.

An assessment of the relative size of businesses can be based on a variety of criteria, such as assets, sales, equity, profits, number of employees, type of ownership or management structure. The determination of business size in this profile is based on 'sales' because detailed statistics on the entire business universe are only consistently available on this basis.

The use of the term 'sales' differs slightly between unincorporated and incorporated businesses. For the unincorporated sector, 'sales' is defined as reported gross business income. Generally, this does not include investment, rental or employment income. For the incorporated sector, all major revenue items including corporate dividends are considered in the 'sales' estimate.

The distribution of all businesses in Canada — both incorporated and unincorporated — is tabulated for five sales classes as follows:

- Class 1
Annual sales up to \$50,000
- Class 2
Annual sales between \$50,000 and \$250,000
- Class 3
Annual sales between \$250,000 and \$2,000,000
- Class 4
Annual sales between \$2,000,000 and \$20,000,000
- Class 5
Annual sales greater than \$20,000,000.

This method of subdivision, while not a definitional panacea, tries to relate the characteristics of firms to the magnitude of sales, and recognizes the continuum of small, medium and large. Small businesses can be described arbitrarily as those having less than \$2 million in annual sales; medium-scale businesses as those having between \$2 million and \$20 million in annual sales.

The industry sector breakdown was achieved by fusing the many detailed industrial classifications used by Statistics Canada into five major categories: manufacturing, transportation, construction, trade and services.

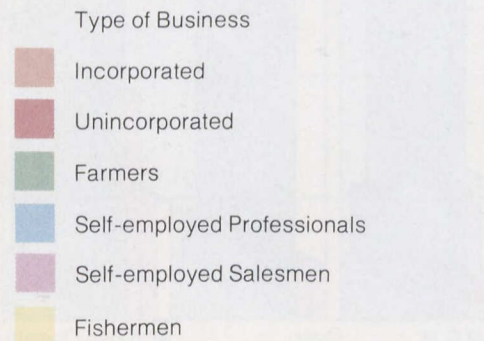
Source Data

This profile of the Canadian business universe was developed using source data from Statistics Canada, principally financial statements from the Tax Record Access Sub-Division and Business Finance Division. Representative samples of T1 unincorporated and T2 incorporated income tax returns were addressed for this purpose. Businesses recording less than \$10,000 in sales were excluded from all statistics for unincorporated businesses as these were not considered to be full-time businesses.

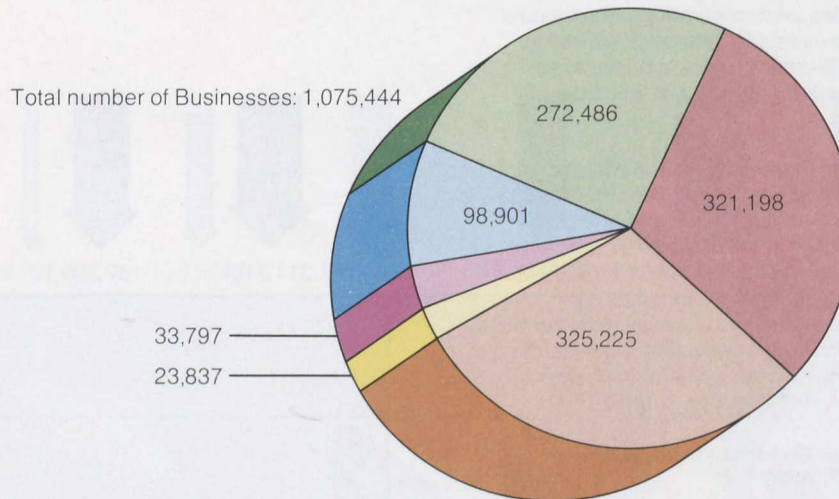
*Those seeking more detailed statistics may refer to a companion publication entitled "New Statistics on Small Business in Canada — 1979".

The 1976 Canadian business universe totalled 1,075,000 businesses including 325,000 incorporated businesses and 750,000 unincorporated businesses. Included in the total number of unincorporated businesses were approximately 429,000 self-employed professionals, salesmen, farmers and fishermen. Some 99 percent of the total number of businesses had annual sales of less than \$2 million.

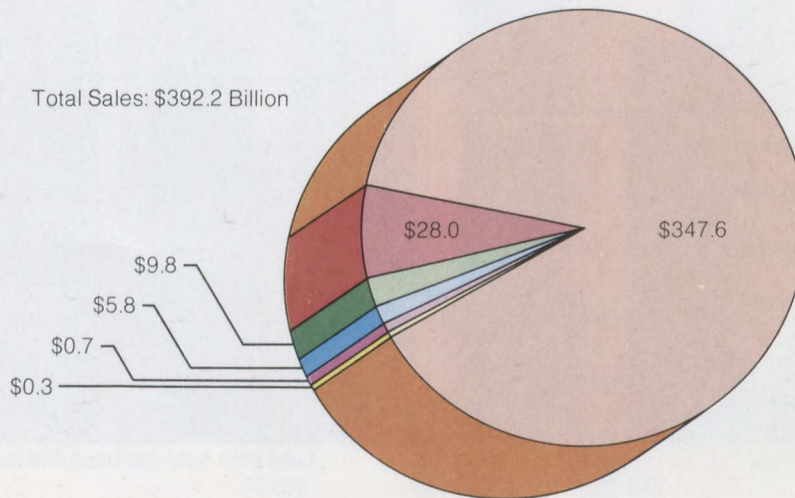
Total sales for all businesses amounted to \$392.2 billion in 1976. Incorporated businesses had sales of \$347.6 billion, while unincorporated business sales totalled \$44.6 billion including \$16.6 billion for the unincorporated self-employed. Businesses having less than \$2 million in annual sales accounted for about 28 percent of total sales. Small and medium-scale businesses together — that is, all business with annual sales of \$20 million or less — accounted for 49 percent of total sales in 1976.



Total Number of Businesses, by Type of Business: 1976



Total Sales, by Type of Business: 1976



Number of Businesses by Size — 1976

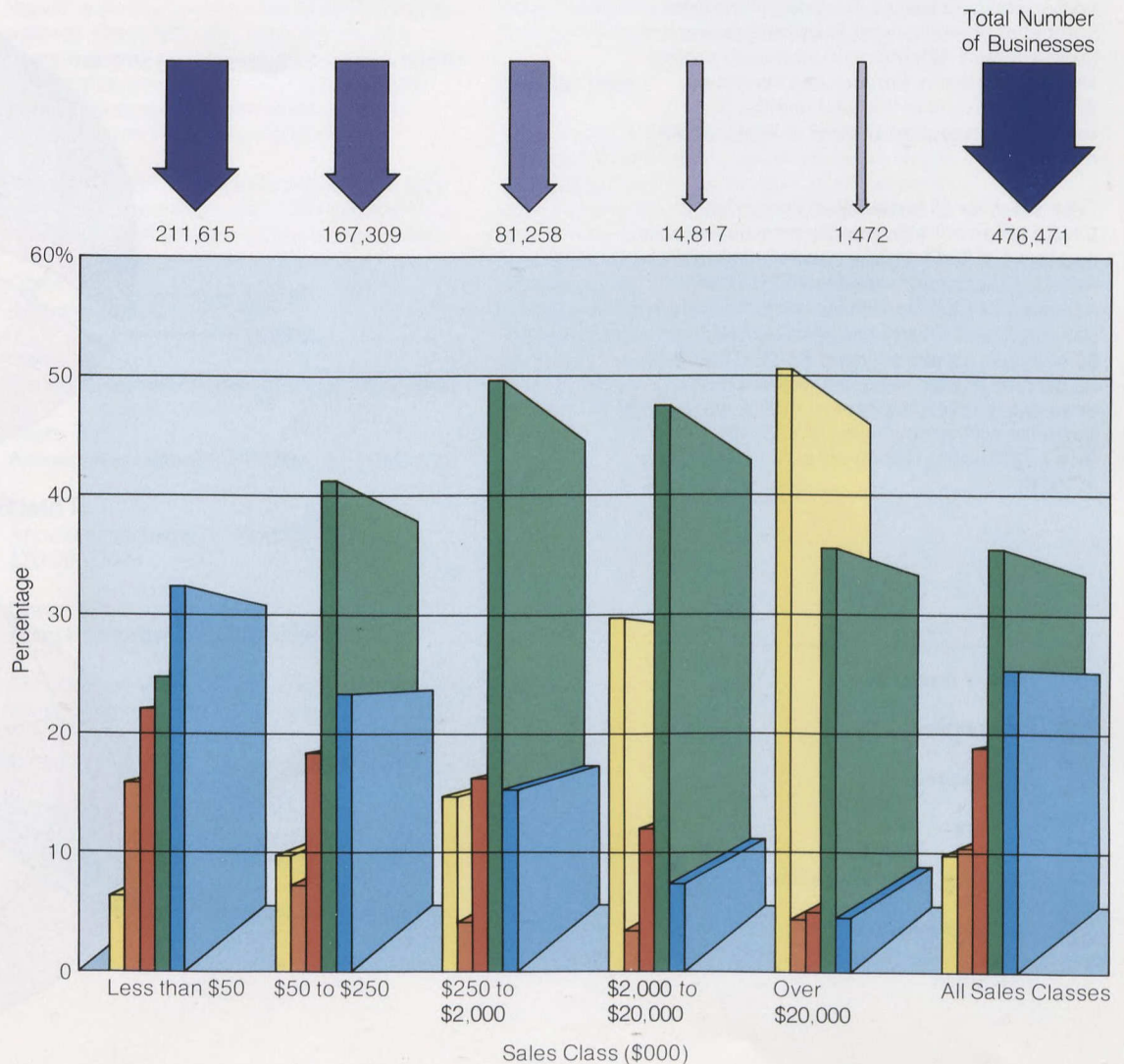
In 1976, incorporated and unincorporated businesses in Canada totalled 646,423. This figure excludes unincorporated professionals, salesmen, farmers and fishermen as well as some 225,000 unincorporated businesses which reported annual sales of less than \$10,000.

The five major industrial and commercial sectors described on the right encompassed a total of 476,471 incorporated and unincorporated businesses in 1976. Some 97 percent of these businesses had less than \$2 million in annual sales. The percentage* of these smaller businesses in each major commercial sector in 1976 were: manufacturing — 89 %; transportation — 99 %; construction — 98 %; trade — 96 %, and services — 99%.

*Data from "New Statistics on Small Business in Canada — 1979" publication.



Distribution of Businesses *Within a Sales Class*, by Sector: 1976



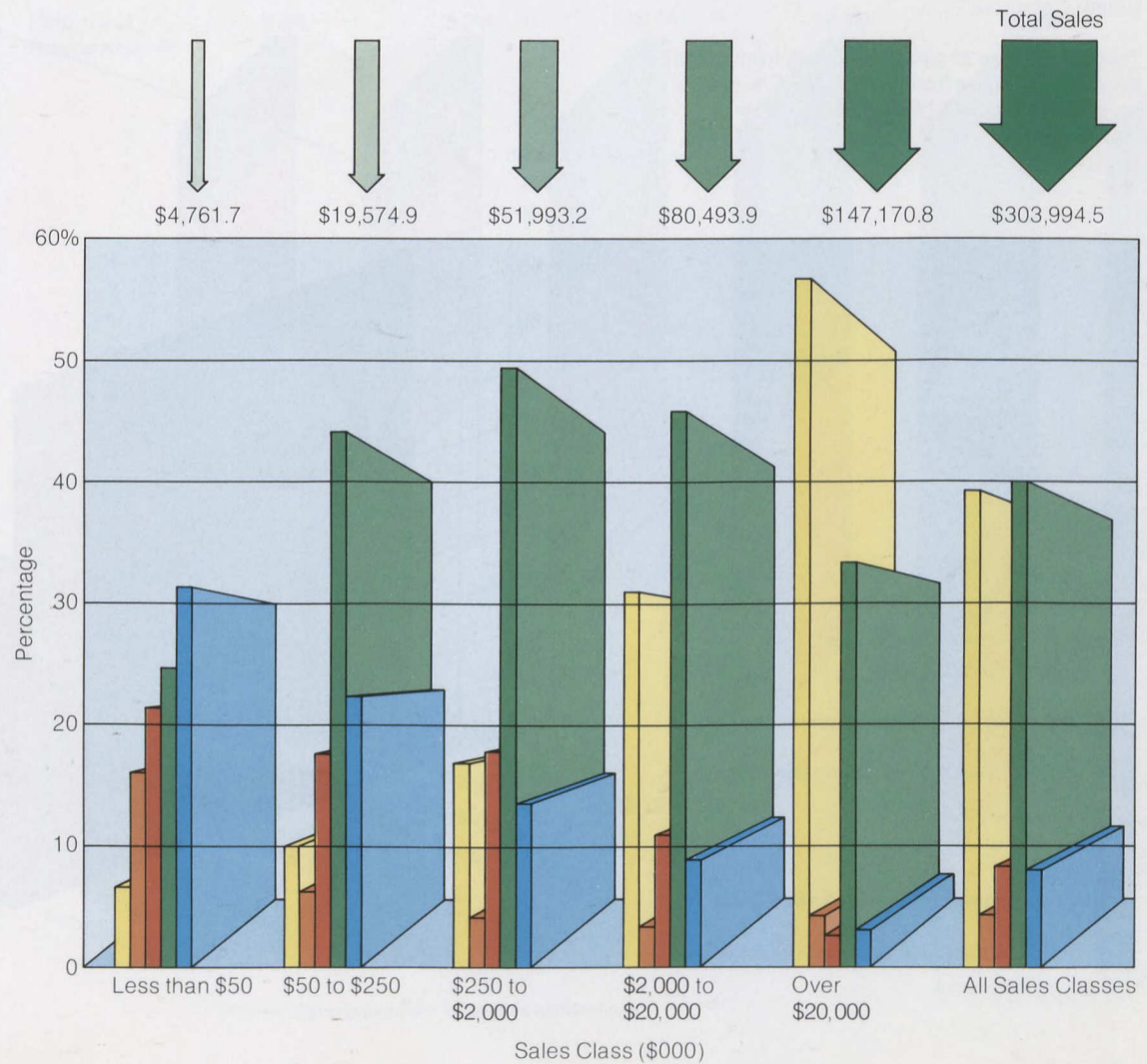
Sales, by Size of Business — 1976

Sales by businesses in the five sectors illustrated totalled some \$304 billion in 1976. Smaller businesses in these same sectors comprise 97 % of the number of all businesses and account for about 25 % of the total sales of all businesses. Medium-scale businesses accounted for an additional 27 percent of total sales.

The graph at the right apportions the total value of sales among five commercial sectors within a given sales volume class. It is interesting to note that smaller firms in the construction and service sectors contributed a higher percentage of the volume of sales relative to the other sectors.



Distribution of Sales *Within a Sales Class*, by Sector: 1976



Source: Statistics Canada

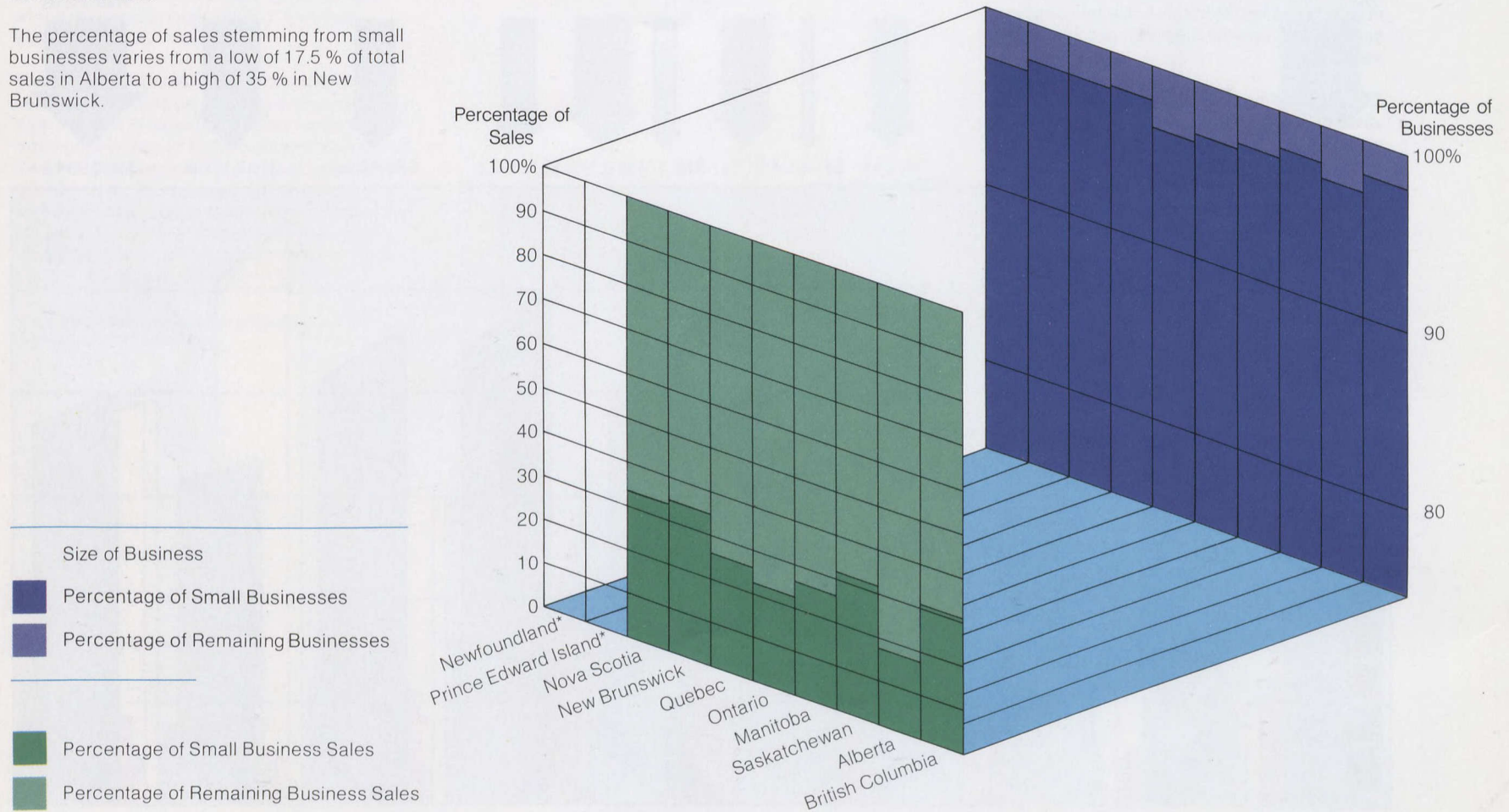
Small Business Secretariat, Department of Industry, Trade and Commerce.

Percentage of Businesses and Sales, by Province — 1976

This illustration shows that the vast majority of businesses in each of the Canadian provinces are small businesses — the proportion ranging from 96.5 % in Quebec to 98.1 % in British Columbia.

The percentage of sales stemming from small businesses varies from a low of 17.5 % of total sales in Alberta to a high of 35 % in New Brunswick.

Relative Distribution of Businesses and Sales, by Size and Province: 1976



*Data omitted because of confidentiality requirements

Business Contribution to GNP, by Size — 1976

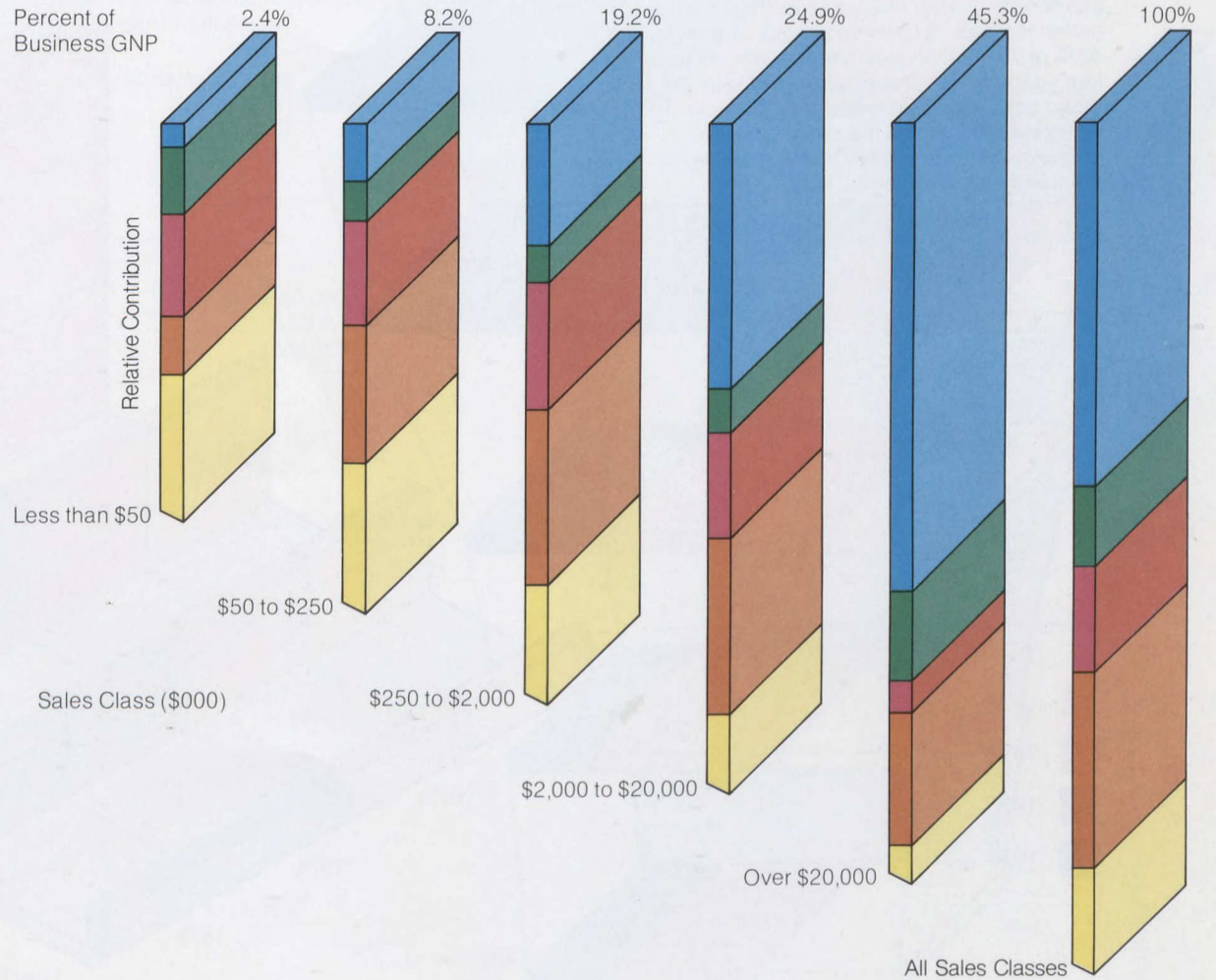
In 1976 the five major industrial and commercial sectors, that is, manufacturing, transportation, construction, trade, and services accounted for 42 % of Canada's Gross National Product (GNP) or some \$79.5 billion; the remaining 58 % being accounted for by governments, financial institutions, hospitals, schools and "others". Small businesses were responsible for about 30 % of the total contribution to GNP made by businesses in these five sectors; small and medium-scale businesses combined, i.e. those with sales below \$20 million per annum, accounted for 55 % of business GNP.

In commercial sectors that are relatively labour intensive, for example, services, construction and trade, the small business portion of the total business contribution to GNP was substantial — 58 %, 53 % and 37 % respectively for these three sectors. In the sectors that are relatively capital intensive — manufacturing and transportation — the small business contribution to business GNP was 12 % and 25 % respectively.*

*Data from "New Statistics on Small Business in Canada — 1979" publication.



Relative Contribution to GNP Made by Businesses *Within a Sales Class*, by Sector: 1976

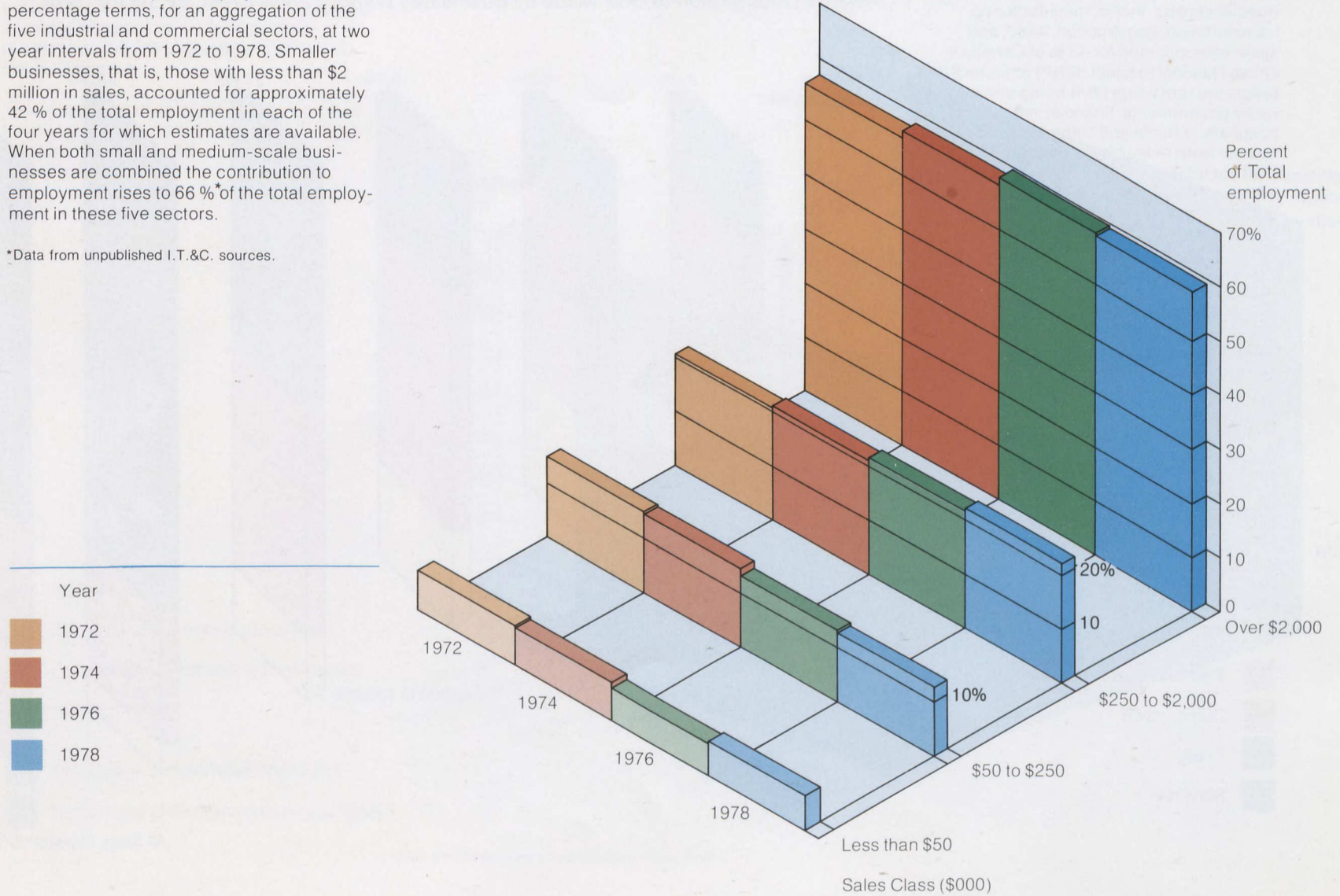


Employment Trend by Size of Business — 1972-78

The illustration depicts employment trends, in percentage terms, for an aggregation of the five industrial and commercial sectors, at two year intervals from 1972 to 1978. Smaller businesses, that is, those with less than \$2 million in sales, accounted for approximately 42 % of the total employment in each of the four years for which estimates are available. When both small and medium-scale businesses are combined the contribution to employment rises to 66 %* of the total employment in these five sectors.

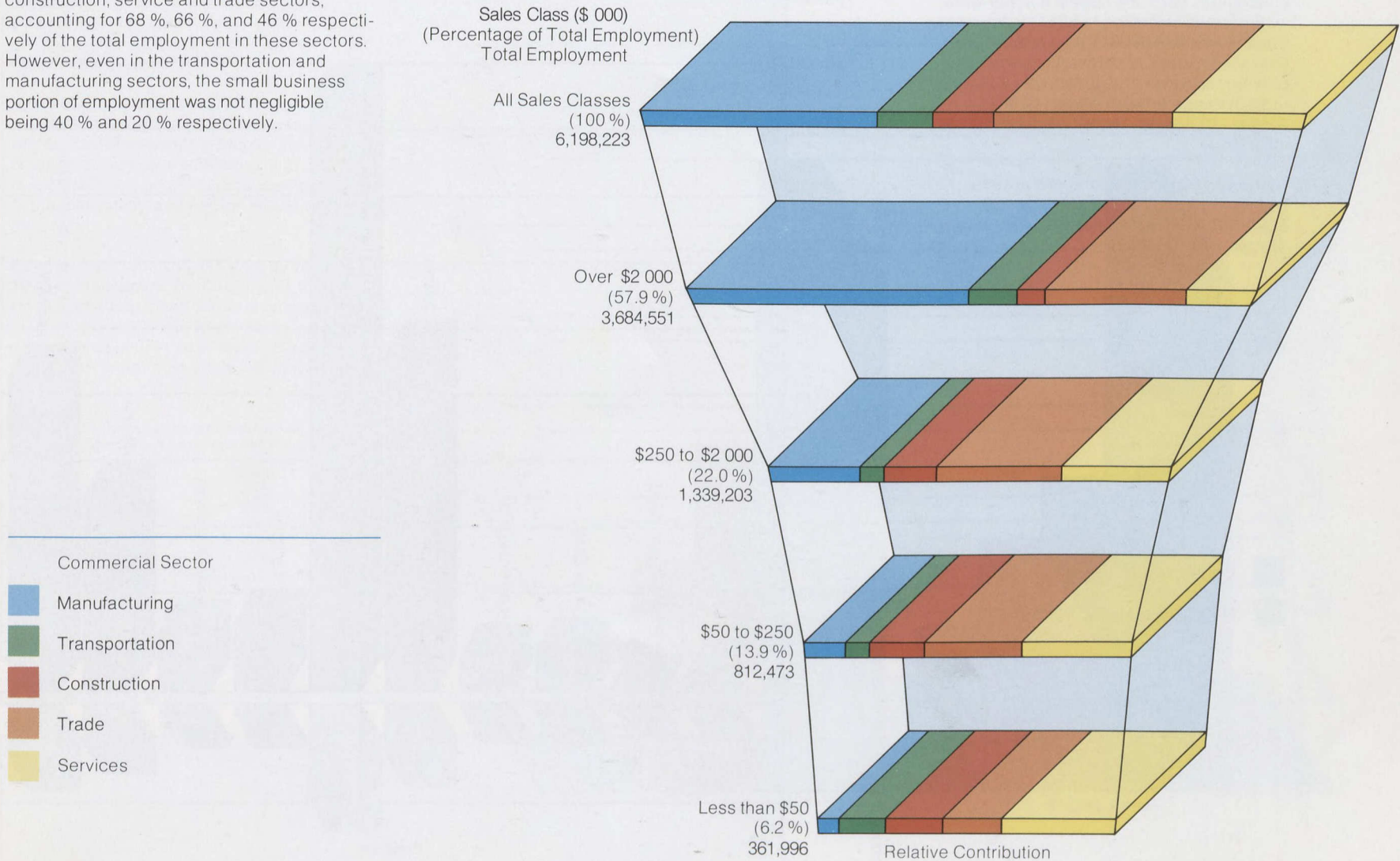
*Data from unpublished I.T.&C. sources.

Percentage of People Employed in Five Commercial Sectors for Various Sales Classes and Years



The share of employment represented by smaller businesses in 1976 was largest in the construction, service and trade sectors, accounting for 68 %, 66 %, and 46 % respectively of the total employment in these sectors. However, even in the transportation and manufacturing sectors, the small business portion of employment was not negligible being 40 % and 20 % respectively.

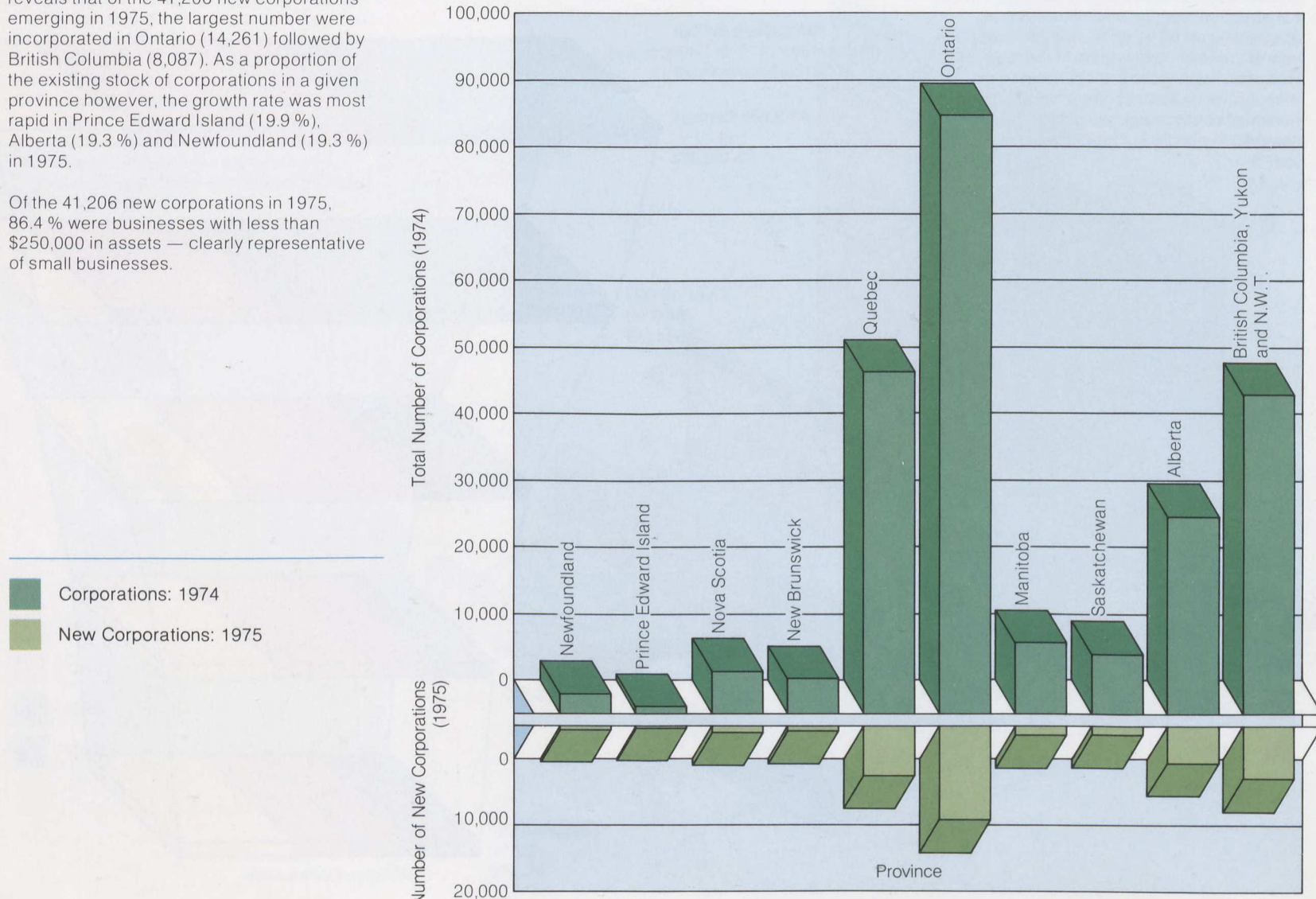
Proportion of People Employed *Within a Sales Class*, by Sector: 1976



Data pertaining to new company formation reveals that of the 41,206 new corporations emerging in 1975, the largest number were incorporated in Ontario (14,261) followed by British Columbia (8,087). As a proportion of the existing stock of corporations in a given province however, the growth rate was most rapid in Prince Edward Island (19.9%), Alberta (19.3%) and Newfoundland (19.3%) in 1975.

Of the 41,206 new corporations in 1975, 86.4% were businesses with less than \$250,000 in assets — clearly representative of small businesses.

Total Number of Corporations (1974) Versus New Corporations (1975), by Province



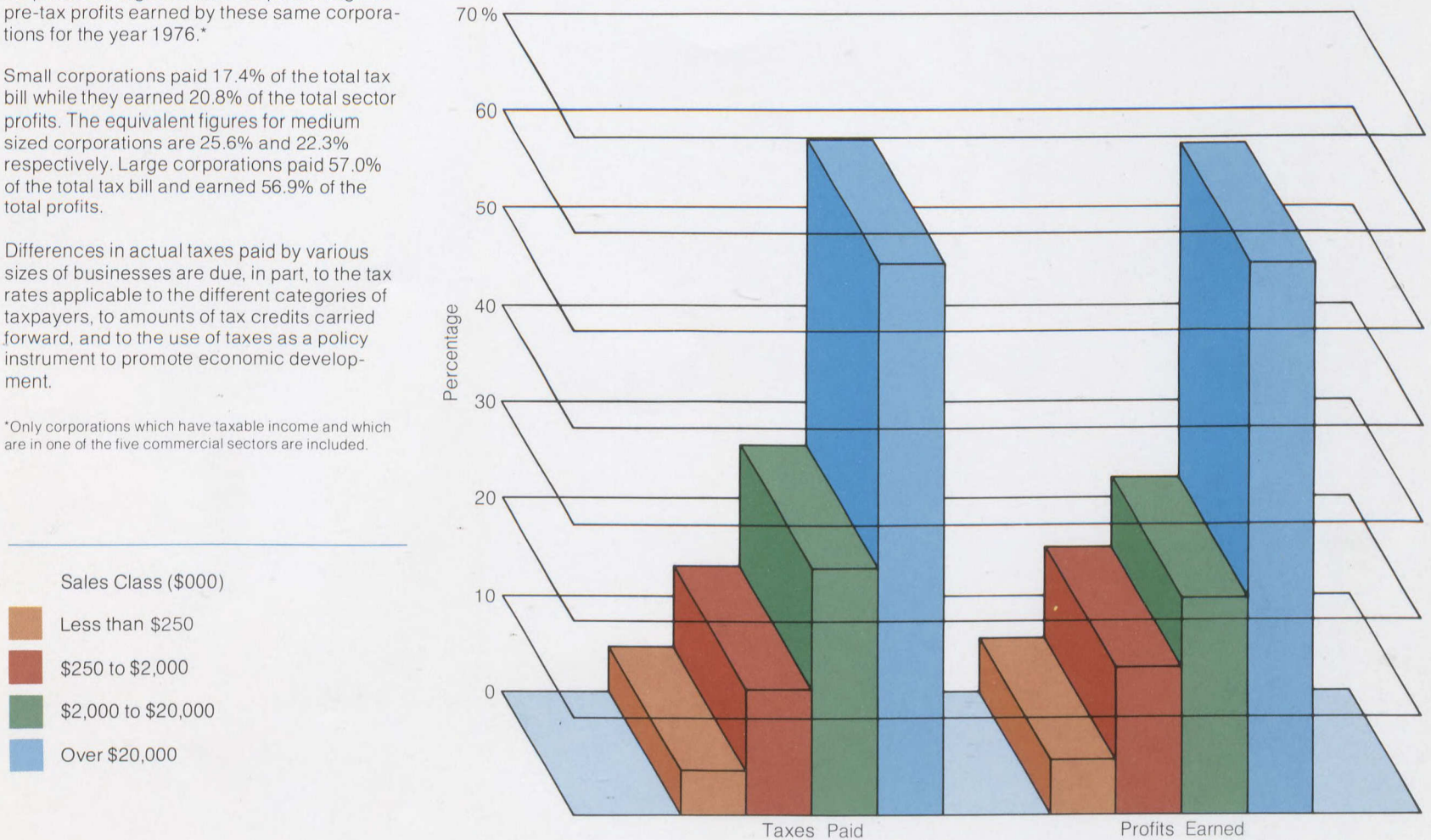
The accompanying illustration compares, for each of the four sales volume classes shown, the percentage of the total tax bill paid by corporations together with the percentage of pre-tax profits earned by these same corporations for the year 1976.*

Small corporations paid 17.4% of the total tax bill while they earned 20.8% of the total sector profits. The equivalent figures for medium sized corporations are 25.6% and 22.3% respectively. Large corporations paid 57.0% of the total tax bill and earned 56.9% of the total profits.

Differences in actual taxes paid by various sizes of businesses are due, in part, to the tax rates applicable to the different categories of taxpayers, to amounts of tax credits carried forward, and to the use of taxes as a policy instrument to promote economic development.

*Only corporations which have taxable income and which are in one of the five commercial sectors are included.

Percentage Comparison of Taxes Paid Versus Pre-tax Profits Earned for Various Sales Classes for All Profitable Incorporated Business for Five Commercial Sectors: 1976





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