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# SMALL *Business*

VOL. 1, NO. 1

Q U A R T E R L Y

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## PERFORMANCE

### *Trends*

Close to 208 000 net new jobs were created in employer businesses between the third quarter of 1997 and the third quarter of 1998; this pace of job creation is much lower than the 437 976 jobs recorded during the same period in 1996-97.

There were nearly 2.6 million self-employed workers in December 1998, representing an increase of almost 120 000 from the previous year.

Both medium-sized firms (\$5 million to \$25 million in revenues) and large enterprises (those with more than \$25 million in revenues) increased their profit margins during the third quarter of 1998.

Despite a slight dip in the level of optimism of manufacturers in the first quarter of 1999, manufacturers expressed general satisfaction with their prospects for production and employment.

There were 2486 bankruptcies reported in the third quarter of 1998 compared with 2715 bankruptcies in the second quarter (a decline of 8.4 percent), significantly down from the 3260 business bankruptcies in the third quarter of 1996 (a decline of 24 percent).

## THE CANADA SMALL BUSINESS FINANCING ACT:

*Continuing 38 Years of Facilitating Access to Financing for Small Business*

**T**he federal government's main support program for small business is changing on April 1, 1999. *The Small Business Loans Act* is being replaced by the new *Canada Small Business Financing Act*.

### Access to Financing: The Challenge

Small and medium-sized enterprises (SMEs) are the backbone of the Canadian economy, and the financial services sector has an integral role to play in the success or failure of our SMEs. The availability of adequate financing is a perennial issue for small businesses, an issue largely related to access—not cost. Although it appears that entrepreneurs are willing to absorb the cost of financing business ventures, gaining access to financing, particularly in amounts of less than \$100 000 for debt financing and under \$1 million for equity financing, is difficult for small businesses.

Since 1961, the *Small Business Loans Act* (SBLA) has adhered to its central purpose: to increase the availability of loans for small business enterprises by sharing the risk of loans made by financial institutions, thereby facilitating access to financing that the small business borrower may otherwise not have had. In 1995, the SBLA began to move toward cost-recovery, a goal that continues to be on track.

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### Profile of SBLA Borrowers

Based on recent analysis, the SBLA appealed to younger, smaller businesses; roughly 75 percent of firms that borrowed under the program had fewer than five employees. By comparison, it is estimated that no more than 56 percent of non-SBLA borrower clients of the major banks were firms with fewer than five employees. Approximately 45 percent of SBLA borrowers were firms that were less than one year old at the time of the loan. In stark contrast, only 5 percent of non-SBLA borrowers were start-up firms. In 1997-98, lenders made more than 28 700 SBLA loans that totalled nearly \$2 billion. Borrowers estimated that 74 600 additional jobs would be created as a direct result of loans made that year.

### Lenders Under the SBLA

The SBLA was delivered to small businesses across Canada by 1500 lending institutions and through 13 000 points of service. SBLA lenders were made up of chartered banks, trust companies, credit unions and caisses populaires. Although Canada's six largest chartered banks issued the majority (73 percent) of SBLA loans, the wide variety of lending institutions and points of service made the SBLA accessible to small businesses across the country. This ensured that SBLA loans were available for businesses no matter where they operated.

### 1999 and Beyond...

Lending under the *Canada Small Business Financing Act* (CSBFA) will commence April 1, 1999, replacing the SBLA but offering

#### Figure 1: Key Criteria of a CSBFA Loan

- for amounts of up to \$250 000
- for the acquisition of fixed assets
- for a maximum term of 10 years
- to for-profit, non-farm businesses with annual gross revenues of less than \$5 million
- CSBFA guarantees 85 percent of net losses incurred on defaulted loans

borrowers the same access to asset-based financing as the SBLA. It will retain the fundamental program parameters (see Figure 1) that allowed for the SBLA's success in supporting small business in recent years, while maintaining its path toward cost-recovery.

The CSBFA permits the creation of two pilot projects to test new market niches to determine if cost-recovered risk sharing can increase access for small businesses in the context of the CSBFA.

One pilot project could extend to not-for-profit enterprises provisions similar to those for small businesses. Another pilot project could provide guarantees for eligible capital leasing, a rapidly growing form of asset financing that has gained appeal among small businesses. Preliminary research shows that firms needing less than \$100 000 in financing and with less than two years' business experience have difficulty accessing this form of financing.

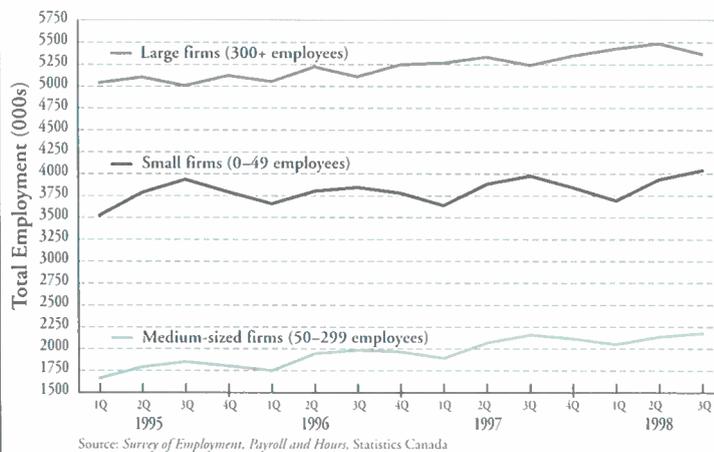
For more information, contact: <http://strategis.ic.gc.ca/sbla>

## JOB Creation

Approximately 208 000 net new jobs were created in employer businesses in Canada between the third quarter of 1997 and the third quarter of 1998, a much lower pace of job creation than the 437 976 jobs recorded during the same period in 1996-97. Small and medium-sized enterprises (SMEs) accounted for almost 40 percent of this employment growth.

Chart 1 illustrates the quarter-by-quarter variation in employment by size of firm (excluding self-employment). It indicates that both small and medium-sized firms

Chart 1: Payroll Employment in Canada by Firm Size, All Industries



Data as of March 17, 1999

posted net gains from the second to the third quarter of 1998, but that large firms recorded job losses of 118 654 for this quarter. However, of the new jobs created between the third quarter of 1997 and the third quarter of 1998, small firms (less than 50 employees) created 62 767 net new jobs (30 percent increase), medium-sized firms (50–299 employees) created 17 311 net new jobs, and large firms (300 or more employees) created 127 530 net new jobs.

The largest number of new jobs in the third quarter of 1998 were added in the service sector (41.0 percent), followed by manufacturing (33.0 percent), the construction industry (12.0 percent) and trade (8.0 percent). SMEs accounted for the largest increase in job growth in the trade sector (58.5 percent) and the construction industry (48.5 percent).

## BUSINESS Profitability

**C**hart 2 contrasts the quarterly profit margin position since 1990 of medium-sized businesses with those of large firms.

Both medium-sized firms (\$5 million to \$25 million in revenues) and large enterprises (those with more than \$25 million in revenues) increased their profit margins in the third quarter of 1998. Large firms reversed a trend of declining profit margins that commenced in the second quarter of 1997, and medium-sized businesses continued the upward trend that began in the first quarter of 1997 (despite a slight dip in the second quarter of 1998).

Chart 2: Business Profitability Trends  
(total non-financial industries)



### The Canadian economy...

rose 4.6 percent (annual rate) in the fourth quarter of 1998, boosted by strong investment in M&E, higher net exports and a rebound in housing. Output rose 3.0 percent overall in 1998.

### The unemployment rate...

fell to 7.8 percent in January, its lowest rate since June 1990. The unemployment rate has been pushed down by robust job growth in the last few months.

### The outlook...

is for slower economic growth in 1999. The consensus of private sector forecasts calls for real GDP growth of just above 2.8 percent in 1999.

### CPI inflation...

edged down to 0.6 percent in January, and averaged 1.0 percent for all of 1998. This was the lowest annual rate of inflation in 36 years (not accounting for 1994, when a sharp reduction in cigarette taxes depressed the CPI).

### Mortgage rates...

have edged up from record lows in December. The five-year mortgage rate is currently at 7.15 percent.

### The Business Conditions Survey...

shows that manufacturers were generally satisfied with prospects for production and employment in the first quarter of 1999. There were almost twice as many manufacturers expecting to increase production in the coming three months than there were expecting to lower production.

### Capacity utilization...

rose to 82.5 percent in the fourth quarter of 1998, an increase of 0.7 percentage points over the third quarter. Recovery from strikes earlier in the year and strong exports to the U.S. were responsible for an increase in production. Capacity also increased due to very strong investment in plant and equipment in recent years.

### The Canadian dollar...

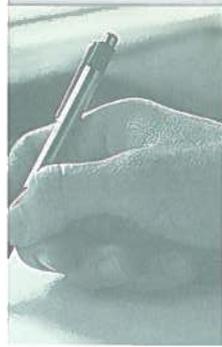
rallied in January, posting its best three-day performance in more than a decade—after finishing 1998 down \$0.05 on the year. The dollar stood at US\$0.654 on March 17.

### The merchandise trade surplus...

for 1998 fell to \$19 billion. Exports increased 7.4 percent in 1998, but were outpaced by a 9.8 percent rise in imports.

### The federal budget...

is expected to be balanced — or better — in the 1998-99 fiscal year, following a surplus of \$3.5 billion in the 1997-98 fiscal year (the first in 28 years). The last time the budget was deficit-free for two consecutive years was 1951-52.



## BUSINESS Conditions

According to Statistics Canada's January 1999 *Business Conditions Survey*, manufacturers expressed a continued general satisfaction with prospects for production and employment despite a slight dip in their optimism in the first quarter of 1999. On a four-quarter moving average basis, small manufacturers were less optimistic than medium-sized and large manufacturers about their economic outlook for the first quarter of 1999 (see Chart 3). However, overall optimism and expected production looks satisfactory for the next three months.

According to the survey, working capital concerns continue to be low priorities for medium-sized and large manufacturers (only 3.0 percent of firms); 6.0 percent of small manufacturers reported problems with working capital (see Chart 4).

### International Small Business Congress (ISBC) '99

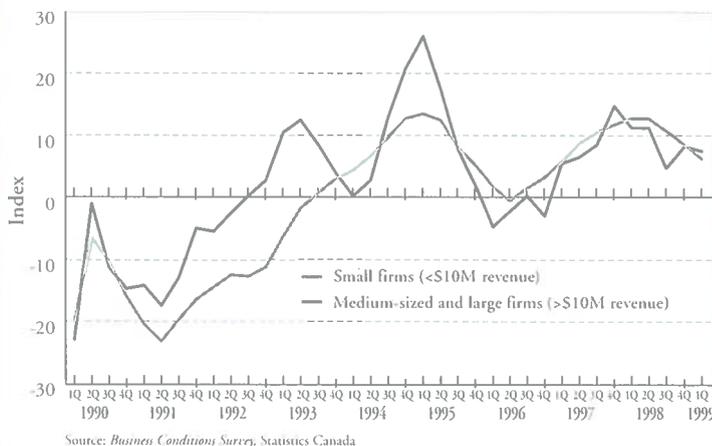
#### "Small Business...Smart Business"

Registration is under way for the 26th annual International Small Business Congress, to be held in Toronto, October 12-15, 1999, and hosted by Industry Canada and the Canadian Federation of Independent Business. A Registration Secretariat has been established at:

**ISBC Registration Secretariat**  
275 Bay Street  
Ottawa ON K1R 5Z5  
Tel.: (613) 238-2304  
Fax: (613) 236-2727  
E-mail: [isbc99@intertask.net](mailto:isbc99@intertask.net)

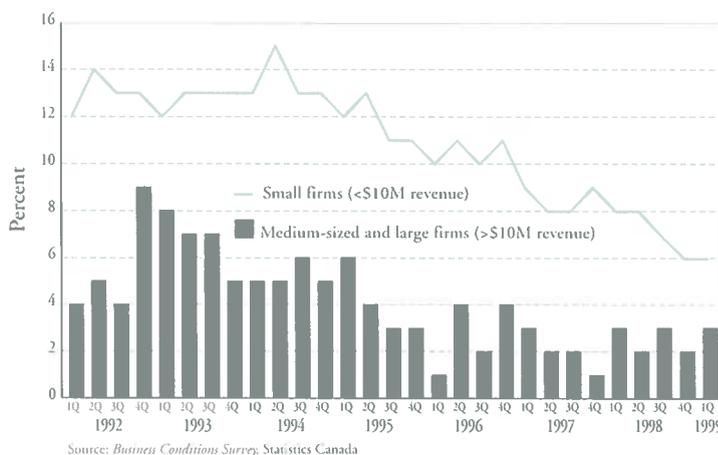
More information on the ISBC can be obtained at:  
[isbc1999@ic.gc.ca](mailto:isbc1999@ic.gc.ca)  
or by visiting our Web site at:  
<http://strategis.ic.gc.ca/isbc>

Chart 3: Manufacturers' Optimism:  
Balance of Opinion on Production



Source: Business Conditions Survey, Statistics Canada

Chart 4: Working Capital Difficulties:  
Small and Medium-sized and Large Manufacturers



Source: Business Conditions Survey, Statistics Canada

## SELF- Employment

In the first eight years of the 1990s, self-employment expanded by an average of 4.1 percent per year, generating over three out of four new jobs created in the economy. This dramatic upward trend continued into 1998. There were nearly 2.6 million self-employed workers in December 1998, representing an increase of almost 120 000 from the previous year.

This rapid growth in self-employment in the midst of high unemployment in the 1990s has sparked increasing interest in the nature of self-employment and its

association with macroeconomic conditions. Are people pushed into self-employment because they cannot find suitable paid employment or are they attracted to it because they enjoy the comparative advantages associated with running one's own business (for example, independence and a flexible work schedule)?

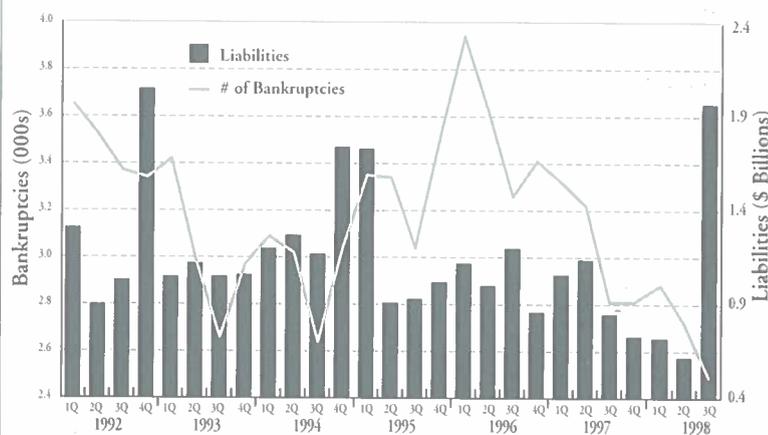
In recent studies, Z. Lin, J. Yates and G. Picot of Statistics Canada find no evidence supporting the notion that people are pushed into self-employment by labour market hardships, at least not at the aggregate level. In fact, it appears that a series of non-cyclical factors (for example, demographic shifts and technological improvements) are substantially behind the recent surge in self-employment. They also find that, between 1982 and 1994, an average of a quarter million people entered self-employment on an annual basis and nearly 220 000 self-employed workers left self-employment, contributing to the steady net increase of nearly 30 000 per year (see Table 1). These numbers refer to unincorporated self-employed people for whom self-employment forms their main source of earnings.

## BUSINESS *Bankruptcies*

Chart 5 shows that there were 2486 bankruptcies reported in the third quarter of 1998 compared with 2715 bankruptcies in the second quarter of 1998 (a decline of 8.4 percent), down notably from the 3260 business bankruptcies in the third quarter of 1996 (a decline of

(continued on page 6)

Chart 5: Business Bankruptcies and Liabilities, 1st Quarter 1992 – 3rd Quarter 1998



Source: Office of the Superintendent of Bankruptcy, Industry Canada

Table 1: Self-Employment Entry and Exit Flows in Canada, 1981–1995\*

| Level<br>(1) | Entry         |                           | Exit          |                           | Net Flow              |                           |
|--------------|---------------|---------------------------|---------------|---------------------------|-----------------------|---------------------------|
|              | Number<br>(2) | % of Level<br>(3)=(2)/(1) | Number<br>(4) | % of Level<br>(5)=(4)/(1) | Number<br>(8)=(2)-(4) | % of Level<br>(9)=(8)/(1) |
| 1981         | 915 140       | n.a.                      | 178 620       | 19.5                      | n.a.                  | n.a.                      |
| 1982         | 931 240       | 194 750                   | 175 470       | 18.8                      | 19 280                | 2.1                       |
| 1983         | 953 350       | 197 700                   | 172 810       | 18.1                      | 24 890                | 2.6                       |
| 1984         | 988 590       | 208 030                   | 194 820       | 19.7                      | 13 210                | 1.3                       |
| 1985         | 990 980       | 197 280                   | 193 490       | 19.5                      | 3 790                 | 0.4                       |
| 1986         | 1 019 390     | 221 760                   | 198 280       | 19.5                      | 23 480                | 2.3                       |
| 1987         | 1 069 690     | 248 630                   | 218 600       | 20.4                      | 30 030                | 2.8                       |
| 1988         | 1 099 470     | 248 370                   | 227 110       | 20.7                      | 21 260                | 1.9                       |
| 1989         | 1 125 410     | 253 710                   | 236 300       | 21.0                      | 17 410                | 1.5                       |
| 1990         | 1 159 370     | 269 500                   | 240 580       | 20.8                      | 28 920                | 2.5                       |
| 1991         | 1 191 930     | 273 190                   | 231 870       | 19.5                      | 41 320                | 3.5                       |
| 1992         | 1 253 290     | 293 330                   | 231 750       | 18.5                      | 61 580                | 4.9                       |
| 1993         | 1 334 050     | 312 620                   | 264 170       | 19.8                      | 48 450                | 3.6                       |
| 1994         | 1 400 760     | 330 810                   | 284 730       | 20.3                      | 46 080                | 3.3                       |
| 1995         | 1 471 800     | 355 940                   | n.a.          | n.a.                      | n.a.                  | n.a.                      |
| Average      | 1 126 964     | 257 544                   | 217 757       | 19.7                      | 29 208                | 2.5                       |

\* For personal income tax filers whose self-employment earnings are their main source of earnings in the year  
Source: T1 files of Revenue Canada, based on 10 percent random samples





(continued from page 5)

24.0 percent). However, there was a significant increase in liabilities associated with business bankruptcies in this quarter caused primarily by a large corporate bankruptcy that took place in July 1998.

The industries showing the biggest improvement over the last year were the fishing and trapping industries (34.0 percent decline), transportation and storage industries (31.0 percent decline), wholesale trade industries (26.0 percent decline), followed by the logging and forestry industries (17.0 percent decline) and the finance and insurance industries (15.0 percent decline). By way of contrast, the mining, quarrying and oil exploration industries reported an increase of almost 39.0 percent in the number of bankruptcies.

## CROSS-COUNTRY Business Profile

**S**mall enterprises remain one of the driving forces of the Canadian economy. Although these businesses do not always have the same high profile as their larger counterparts, their numbers testify to their importance. A recent Statistics Canada report stated that in 1995, there were more than 1 000 000 small business enterprises in Canada with gross revenues between \$25 000 and \$5 million; these businesses had combined gross revenues of more than \$300 billion and provided one out of every six jobs in Canada, totalling almost 2.5 million of the employed labour force of 13.5 million.

The ratio of small businesses to population in Canada is 361:10 000. This figure varies across the country, with the lowest ratios in the Atlantic provinces (Newfoundland, 187:10 000; Nova Scotia, 262:10 000; Prince Edward Island, 237:10 000; and New Brunswick, 288:10 000) and the Northwest Territories (242:10 000), while the Yukon (533:10 000), Alberta (480:10 000) and British Columbia (466:10 000) round out the top three positions.

Small businesses are more dominant in certain industry sectors than others. For example, in the large business category (over \$5 million in annual revenue), 23 percent are in manufacturing, 21 percent in wholesale trade and 18 percent in retail trade. In contrast for small businesses (\$5 million or less in annual revenue), 16 percent are in retail trade, 14 percent in construction, 13 percent in business services, 11 percent in other services and only 5 percent in manufacturing (see Table 2).

*Table 2: Industrial Distribution for Small and Large Businesses*

| Industry                                  | Percentage distribution |        |            |
|---|-------------------------|--------|------------|
|   | Large                   | Small  | Difference |
| Agriculture, Fishing and Forestry         | 1.29                    | 4.04   | 2.75       |
| Mining                                    | 1.71                    | 0.61   | -1.10      |
| Manufacturing                             | 23.19                   | 4.85   | -18.35     |
| Construction                              | 7.51                    | 14.39  | 6.87       |
| Transportation                            | 3.70                    | 6.96   | 3.26       |
| Utilities including Communication         | 1.08                    | 1.08   | 0.01       |
| Wholesale Trade                           | 20.99                   | 6.02   | -14.97     |
| Retail Trade                              | 17.72                   | 15.83  | -1.89      |
| Finance and Insurance                     | 4.41                    | 5.95   | 1.54       |
| Real Estate and Insurance Agent           | 2.28                    | 7.88   | 5.60       |
| Business Service                          | 5.01                    | 12.94  | 7.93       |
| Government, Education and Health Services | 5.33                    | 3.05   | -2.28      |
| Accommodation and Food                    | 1.87                    | 5.58   | 3.70       |
| Other Services                            | 3.91                    | 10.84  | 6.93       |
| All Industries                            | 100.00                  | 100.00 | 0.00       |

*Table 3: Revenue, Expenses and Employment by Industry, Canada, 1995*

|   | Manufacturing | Business Services | Manufacturing        | Business Services |
|---|---------------|-------------------|----------------------|-------------------|
|   | (\$000)       | (\$000)           | (% of gross revenue) |                   |
| <b>Average gross operating revenue</b>  | <b>623.6</b>  | <b>174.5</b>      | <b>100.0</b>         | <b>100.0</b>      |
| <b>Average total expenses</b>           | <b>601.5</b>  | <b>147.7</b>      | <b>96.5</b>          | <b>84.6</b>       |
| Cost of goods sold                      | 297.8         | 11.8              | 47.8                 | 6.8               |
| Wages, salaries and benefits            | 172.5         | 65.7              | 27.7                 | 37.7              |
| Occupancy expenses                      | 49.8          | 16.1              | 8.0                  | 9.2               |
| Financial expenses                      | 14.7          | 8.7               | 2.4                  | 5.0               |
| General expenses                        | 17.2          | 6.9               | 2.8                  | 4.0               |
| Other expenses                          | 49.4          | 38.6              | 7.9                  | 22.1              |
| <b>Average net profit/loss</b>          | <b>22.2</b>   | <b>26.8</b>       | <b>3.6</b>           | <b>15.4</b>       |
| <b>Average number of paid employees</b> | <b>5.2</b>    | <b>1.7</b>        |                      |                   |

Source: 1995 Small Business Profiles Report, Statistics Canada

The average size of a small business varies by industry sector; for example, in the manufacturing sector a small business had an average gross revenue of \$623 600 in 1995. The majority of these firms (73.0 percent) were incorporated. Not surprisingly, the cost of goods sold generally represented the largest share of expenses (48.0 percent)—see Table 3. Small firms providing business services (for example, employment agencies and management consultants) contrasted greatly with

manufacturing firms in a number of different areas: the average gross revenue in business services was comparably lower at \$174 500; a much smaller proportion (55.0 percent) were incorporated; and wages and salaries absorbed a larger percentage of gross revenue (38.0 percent versus 28.0 percent). Business services employed an average of 1.7 employees compared with 5.2 employees in small manufacturing businesses.

Unincorporated businesses (two thirds of all businesses) tend to be much smaller than incorporated firms, reporting an average gross revenue in 1995 of \$106 400 compared with \$411 600 for incorporated businesses. Unincorporated firms also had lower average employment rates than incorporated firms (0.5 employees versus 3.8 employees)—see Table 4.

*Table 4: Revenue, Expenses and Employment by Business Type, Canada, 1995*

|   | Unincorporated<br>(\$000) | Incorporated<br>(\$000) | Unincorporated<br>(% of gross revenue) | Incorporated |
|---|---------------------------|-------------------------|--|--------------|
| <b>Average gross operating revenue</b>  | <b>106.4</b>              | <b>411.6</b>            | <b>100.0</b>                           | <b>100.0</b> |
| <b>Average total expenses</b>           | <b>89.8</b>               | <b>389.3</b>            | <b>84.4</b>                            | <b>94.6</b>  |
| Cost of goods sold                      | 38.2                      | 142.0                   | 35.9                                   | 34.5         |
| Wages, salaries and benefits            | 11.4                      | 104.7                   | 10.7                                   | 25.4         |
| Occupancy expenses                      | 14.5                      | 46.2                    | 13.6                                   | 11.2         |
| Financial expenses                      | 3.3                       | 22.5                    | 3.1                                    | 5.5          |
| General expenses                        | 5.8                       | 14.3                    | 5.5                                    | 3.5          |
| Other expenses                          | 16.5                      | 59.6                    | 15.5                                   | 14.5         |
| <b>Average net profit/loss</b>          | <b>16.6</b>               | <b>22.3</b>             | <b>15.6</b>                            | <b>5.4</b>   |
| <b>Average number of paid employees</b> | <b>0.5</b>                | <b>3.8</b>              |  |              |

Source: 1995 Small Business Profiles Report, Statistics Canada

Unincorporated businesses tend to be more profitable, having average net profits of 15.6 percent of gross revenue (5.4 percent for incorporated businesses). However, unincorporated business owners draw their earnings directly from profits, while owners of incorporated businesses may deduct their personal wages and salaries as an expense.

Regional variations, based on a number of business characteristics, exist across Canada (see Table 5). For example, in 1995 small businesses in Quebec and Ontario had the highest average gross revenue (\$313 200 and \$295 200 respectively). In addition, these two provinces accounted for almost 70 percent of small manufacturing businesses. Average gross revenue was lowest in the Northwest Territories (\$156 600) and the Yukon (\$161 700).

Variations also exist in average employment size of small firms. Newfoundland is in the lead with 2.9 employees per business followed by Quebec and Manitoba with 2.8 employees each. In contrast, the Yukon and the Northwest Territories had the lowest levels of paid employment with 0.8 and 1.0 employees per firm respectively. Variations among provinces and territories are due, in part, to the diversity of industrial structures and mix of business types across Canada.

*Table 5: Revenue, Expenses and Employment by Province and Territory, Canada, 1995*

|   | NF           | PE           | NS           | NB           | QC           | ON           | MB           | SK           | AB           | BC           | YT           | NT           |
|---|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
|   |              |              |              |              |              |              |              |              |              |              |              |              |
| <b>Average gross revenue</b>            | <b>270.4</b> | <b>200.4</b> | <b>272.1</b> | <b>274.8</b> | <b>313.2</b> | <b>295.2</b> | <b>280.0</b> | <b>217.4</b> | <b>264.2</b> | <b>260.1</b> | <b>161.7</b> | <b>156.6</b> |
| <b>Average total expenses</b>           | <b>262.7</b> | <b>185.1</b> | <b>256.3</b> | <b>259.8</b> | <b>293.0</b> | <b>274.1</b> | <b>260.0</b> | <b>199.4</b> | <b>243.8</b> | <b>241.3</b> | <b>131.9</b> | <b>141.9</b> |
| Cost of goods sold                      | 108.6        | 70.8         | 103.7        | 97.8         | 122.7        | 101.2        | 101.0        | 70.0         | 83.1         | 78.9         | 31.4         | 36.3         |
| Wages and salaries                      | 61.9         | 37.8         | 60.9         | 62.0         | 67.8         | 67.7         | 64.6         | 43.8         | 64.7         | 67.5         | 27.6         | 31.9         |
| Occupancy expenses                      | 30.3         | 25.2         | 29.7         | 34.7         | 35.2         | 32.4         | 32.2         | 32.7         | 34.9         | 31.0         | 23.5         | 23.1         |
| Financial expenses                      | 13.0         | 14.2         | 13.8         | 12.6         | 16.5         | 14.6         | 12.4         | 10.8         | 12.7         | 14.7         | 12.9         | 15.1         |
| General expenses                        | 11.5         | 7.1          | 10.9         | 12.0         | 10.7         | 11.4         | 11.5         | 9.0          | 10.1         | 9.9          | 7.5          | 8.5          |
| Other expenses                          | 37.2         | 29.8         | 37.3         | 40.8         | 40.1         | 46.8         | 38.1         | 33.1         | 38.2         | 39.2         | 29.1         | 27.0         |
| <b>Average net profit/loss</b>          | <b>7.7</b>   | <b>15.4</b>  | <b>15.8</b>  | <b>15.0</b>  | <b>20.2</b>  | <b>21.1</b>  | <b>20.1</b>  | <b>18.0</b>  | <b>20.4</b>  | <b>18.8</b>  | <b>29.8</b>  | <b>14.7</b>  |
| <b>Average number of paid employees</b> | <b>2.9</b>   | <b>1.7</b>   | <b>2.5</b>   | <b>2.7</b>   | <b>2.8</b>   | <b>2.3</b>   | <b>2.8</b>   | <b>1.9</b>   | <b>2.4</b>   | <b>2.3</b>   | <b>0.8</b>   | <b>1.0</b>   |

Source: 1995 Small Business Profiles Report, Statistics Canada

# RECENT *Developments*

## *The Electronic @dvantage Canada's Electronic Commerce Strategy*

**E**lectronic commerce is radically altering the global economy. A recent study by Forrester Research indicates that the total value of sales made over the Internet could reach as much as US\$3.2 trillion by 2003, a figure that represents 17.5 percent of total global sales. While Canadian Internet commerce is already growing very rapidly, Forrester expects Canada to begin a period of Internet commerce "hypergrowth" by 2001. Most of this growth will come from Internet transactions between and within businesses; business-to-consumer transactions, however, will continue to grow and become an important factor encouraging companies to establish an on-line presence. Already 37 percent of Canadians have access to the Internet and, of those, 17 percent made an on-line purchase during

1998. Opportunities are rife for small and medium-sized enterprises (SMEs) to access untapped markets and to increase their performance and efficiency through electronic commerce.

In September 1998, Prime Minister Jean Chrétien announced the Canadian strategy to make Canada a world leader in electronic commerce by 2000. The Canadian Electronic Commerce Strategy addresses four key goals:

**Building trust in the digital economy:** increasing consumer and business confidence in electronic commerce by addressing security, privacy and consumer protection concerns.

**Clarifying marketplace rules:** removing barriers to the use of electronic commerce by updating the rules governing how the market functions, including legal and commercial frameworks, financial issues and taxation, and intellectual property protection.

**Strengthening the information infrastructure:** ensuring networks support the growth of electronic commerce and allow interoperability.

**Realizing the opportunities:** maximizing jobs and the growth potential of electronic commerce by developing skills and awareness and showing government leadership as model users.

To achieve these goals, all players in the digital economy must work together, including SMEs. SMEs make a key contribution to economic growth, job creation and community development. Electronic commerce holds the potential to transform the way business is conducted: reducing transaction costs, decreasing marketing and communication costs, improving networking, providing opportunities for virtual alliances, and allowing global expansion. Canadian SMEs are getting on-line to seize these opportunities. A Canadian Federation of Independent Business survey found that 43 percent of Canadian SMEs had Internet access by 1998, a figure nearly three times what it was in 1996.

The Government of Canada is working closely with business and consumers to develop our electronic commerce strategy. Industry Canada has put in place a number of programs to support SMEs seeking to do business electronically. The Community Access Program is working to link all Canadians in rural and urban communities to the Internet by 2000. The Community Storefront Program is a pilot project enabling community businesses to present products and services to the world. The Student Connection Program provides low-cost, high-quality on-site training for SME managers who want to explore the on-line environment for their business.

For further information on electronic commerce, consult the Electronic Commerce Task Force Web site (<http://e-com.ic.gc.ca>) and Industry Canada's *Strategis* (<http://strategis.ic.gc.ca>).

### Small Business Quarterly Entrepreneurship and Small Business Office

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 Entrepreneurship and Small Business Office of Industry Canada.

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