

NUMBER 79 2004

Western Canada's Small Business Markets:

A Survey of Selling

Western Centre for Economic Research
School of Business, University of Alberta

By Edward J. Chambers, Jean Frost and Stephen Janzen

Western Canada's Small Business Markets: A Survey of Selling

By Edward J. Chambers, R. Jean Frost and S. Stephen Janzen

The Western Centre for Economic Research gratefully acknowledges the financial support of the Government of Canada through Western Economic Diversification Canada and the financial support of the Centre for Entrepreneurship and Family Enterprises, School of Business, University of Alberta.

Western Centre for Economic Research
School of Business, University of Alberta
T6G 1Z8
www.bus.ualberta.ca/wcer

Library and Archives Canada Cataloguing in Publication

Chambers, Edward J.

Western Canada's small business markets : a survey of selling / by Edward J. Chambers, R. Jean Frost and S. Stephen Janzen.

(Information bulletin ; no. 79)

Includes bibliographical references and index.

ISBN 1-55195-090-1

1. Small business—Canada, Western. 2. Export marketing—Canada, Western. I. Frost, Ruth Jean, 1951- II. Janzen, S. Stephen III. University of Alberta. Western Centre for Economic Research IV. Title. V. Series: Information bulletin (University of Alberta. Western Centre for Economic Research) ; no. 79.

HD2346.C22A53 2004

338.6'42'09712

C2004-905764-2

Western Canada's Small Business Markets:

A Survey of Selling

Western Centre for Economic Research
School of Business, University of Alberta

By Edward J. Chambers, Jean Frost and Stephen Janzen



Western Economic
Diversification Canada

Diversification de l'économie
de l'Ouest Canada

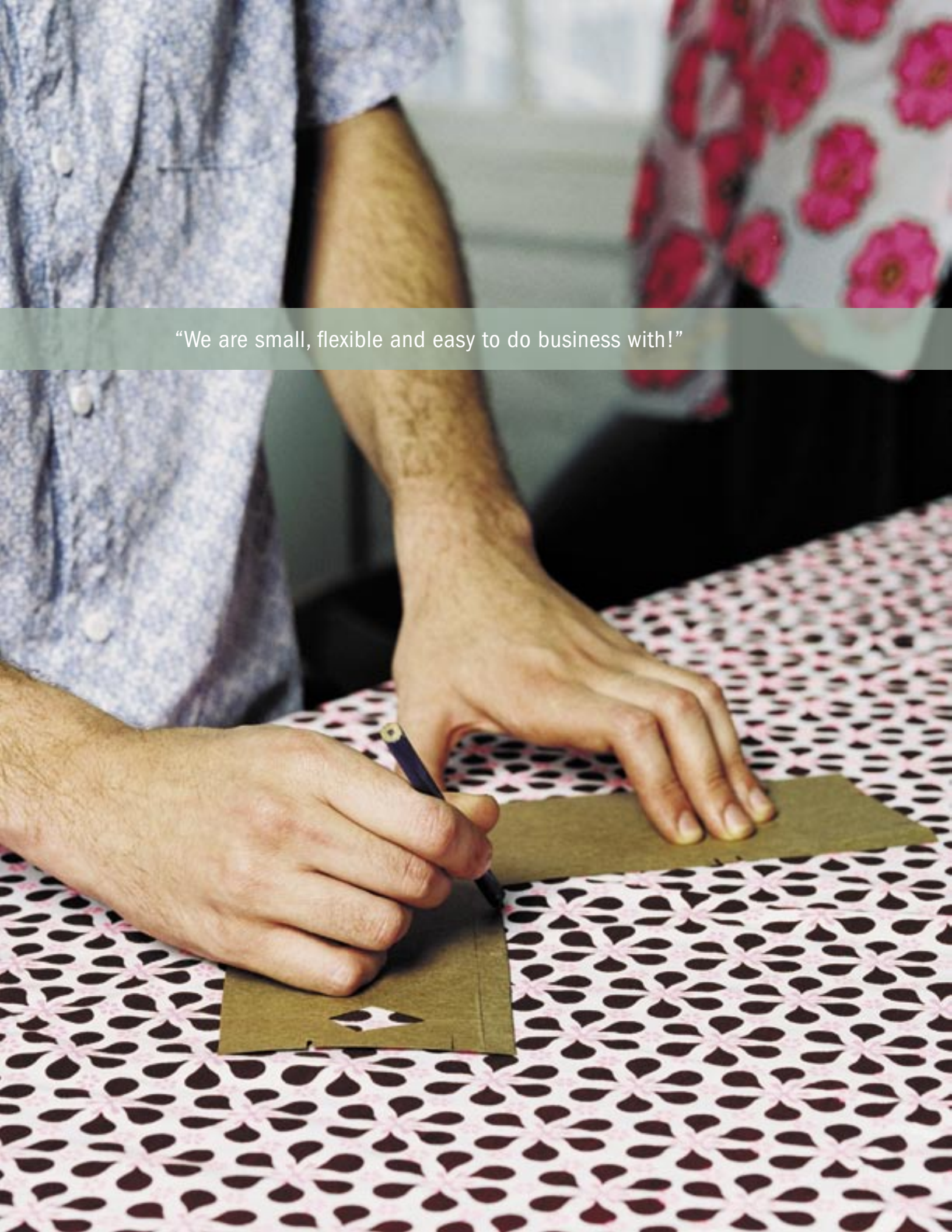
Canada



Highlights

- ➔ **The sampled firms are well established**, as evident by their median age of 17 years. A large proportion of owners and employees have a post secondary education. The owners themselves are older—85% were over the age of 40.
- ➔ **Entering new markets is challenging**. Firms are more likely to have an optimistic view of prospects in the markets where they are already competitive. An important result is the overwhelming dependence on local markets.
- ➔ **In the seven major metropolitan areas of the West, owners are more likely than non metro respondents to have foreign work experience**. Firms whose owners are members of a visible minority are concentrated in the metropolitan areas.
- ➔ **Initial business plans are an important indication of market choice**. Intensity in any market, be it domestic or international, is often related to the firm's intentions as laid out in their original plan.
- ➔ **Experience selling nationally and internationally lowers the constraints to broader market involvement**. External constraints, those beyond the control of the firm, are perceived as more important than internal constraints. Experience and success elsewhere give firms a notable amount of confidence to expand further into international markets.

- ➔ Selling to exporters does not necessarily broaden a firm's marketing horizons. 'Indirect' exporters (*i.e.* those who have customers who export) view constraints on market expansion just like firms who do not export.
- ➔ A firm's industry sector makes a difference to job quality, patents held, research and development spending levels, and whether the firm is a family enterprise. In manufacturing, for example, job quality and research and development (R&D) spending levels are lower, while patents held and family ownership are more frequent.
- ➔ Firm size is an important factor. For example, human resource training programs, R&D programs, and the presence of a web site are positively related to firm size.
- ➔ About one-half of the survey respondents have on-going R&D programs, and amongst firm owners, over 10% are patent holders. For the firms composing the sample, R&D will be an important factor determining their growth and ultimately, their survival.
- ➔ When firms promote their products, reliability, meeting customer needs, reputation and word-of-mouth advertising are favoured over institutionalized forms (radio, TV, telemarketing and newspapers). Internet advertisements and the use of professional/trade journals are the most popular institutionalized forms of advertising.

A close-up photograph of a person's hands writing on a piece of brown paper. The person is wearing a light blue button-down shirt. The paper is placed on a table covered with a white and pink patterned tablecloth. The person's right hand is holding a dark blue pen, and their left hand is resting on the paper. The background is slightly blurred, showing a floral patterned object.

“We are small, flexible and easy to do business with!”

Contents

- 04 Highlights
- 09 Preface
- 11 What small businesses were considered? Who was surveyed?
- 13 Who are the respondents and what characterizes the Western Canadian small business?
- 16 Where do they sell?
- 18 How intensive is market participation?
- 24 Was selling in particular markets part of the original business plan?
- 28 What about firms that export indirectly?
- 30 What constrains a firm's market expansion?
- 34 What about the employees?
- 38 What about research and development commitment?
- 40 How do firms create market visibility?
- 45 How Western Canada's small businesses sell: a summary of findings
- 47 Appendix A

Preface

This is the third report in a series investigating the small business sector in Western Canada. The series was launched with *A Portrait of Small Business Growth and Employment in Western Canada*, a quantitative analysis that emphasized the importance of the small business sector to the region. The *Portrait* document was followed by *A Primer on Western Canadian Entrepreneurship* which described various models and concepts related to the dynamics of new venture creation and looked at the often arduous process of establishing and sustaining a small business.

This study takes stock of a recent WCER telephone survey of over 670 small businesses (less than 100 employees). These are Western Canadian firms working in technology, manufacturing and business services. They are the types of firms that greatly enhance the export base of their communities and show the greatest potential to contribute to future economic well being. Their markets are not automatically tied to geographic space—like retailers and firms offering personal services—and largely consist of business to business sales and exports. They are an increasingly important part of the region's ever expanding linkages with other parts of Canada and the rest of the world.

The ability of these firms to grow depends on their access to broader spatial markets. To better understand this concept, we asked for information about current markets served and their relative importance, whether these markets were part of the original business plan, and the growth and variability in the various markets. The survey furnished information about the advertising instruments used and the surprising significance of informal avenues of maintaining and expanding the customer base. Firms were also asked about the barriers surrounding decisions to enter national and international markets.

To begin this study of market channels¹ and the small Western Canadian business, some context is provided by taking a look at the attributes of owners and their firms. The survey solicited owner information including age, gender, education, work experience, and whether the respondent was a member of a visible minority. Information requested about the firm included age, sector, product mix, province, metro/non metro location, commitment to research and development (R&D), if home based, if family owned and if linked as a supplier to firms selling internationally.

¹ Here we are defining 'market channels' as the functions taken by the small business to sell their product or service to the consumers.



“Our products are innovative.”



What small businesses were considered? Who was surveyed?²

The 676 small businesses surveyed employed less than 100 people and were included in the sample because they carried out one or more of the following activities:

- Professional, Scientific and Technical Services (including services related to computer systems, software, information and data processing)
- Manufacturing: Durable Goods (for example, raw material processing, machinery and equipment, including furniture) and Non-durable Goods (for example, foodstuffs)
- Cultural arts

Unlike those in retail trade and personal services, these firms possess a greater potential to serve customers beyond local area markets. The firms surveyed are representative of the value-added economy that naturally engages in foreign trade and serving the national market. They were asked about current markets, the growth and variability of their markets in the recent past, and how such growth might evolve over the next five years. Survey questions addressed advertising, the role of informal marketing, and barriers to market expansion.³

FIRMS SAMPLED:
A SUMMARY

	NUMBER OF FIRMS	SERVICE	MANUFACTURING	METRO LOCATION	NON METRO LOCATION
WESTERN CANADA	676	56.8%	43.2%	63.8%	36.2%
BRITISH COLUMBIA	234	77.8%	22.2%	52.6%	47.4%
ALBERTA	247	54.3%	45.7%	80.2%	19.8%
SASKATCHEWAN	98	27.6%	72.4%	42.3%	57.7%
MANITOBA	97	42.3%	57.7%	68.0%	32.0%

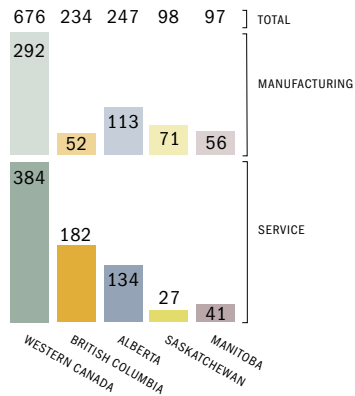
² Refer to Appendix A for a more detailed description of the sample.

³ See complete survey questionnaire on the Western Centre for Economic Research website: <http://www.bus.ualberta.ca/WCER>

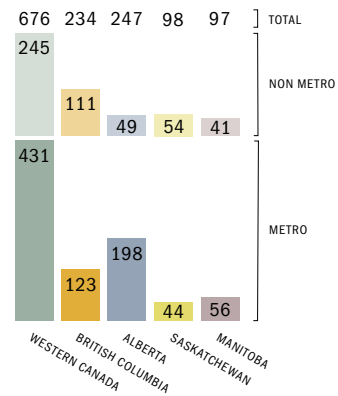
What firms were sampled?

A profile of respondents from across the four provinces shows that they have much in common. The bulk of surveying was carried out in British Columbia and Alberta with Saskatchewan and Manitoba evenly sharing the remainder. When broken down by province, the sample approximates the relative size of the respective provincial economies: 71% of the respondents were in Alberta and British Columbia and 29% in Manitoba and Saskatchewan. With the exception of Saskatchewan, the sample favoured firms working in the service sector. Close to 47% of the sample were classified in the Professional, Scientific and Technical Services sector, some 43% worked in Durable and Non-Durable Manufacturing and the remainder of firms were in Software, Information Processing and Cultural Arts activities. And again, in each province but Saskatchewan, the majority of the firms sampled were situated in a metropolitan centre: 64% of the firms were located in the seven major metropolitan areas of Calgary, Edmonton, Regina, Saskatoon, Vancouver, Victoria and Winnipeg. The urbanized nature of the sample is largely a function not only of the region's demography but also of the study's focus on the business services industry and manufacturing.

SECTOR OF FIRMS SAMPLED



LOCATION OF FIRMS SAMPLED





Who are the respondents and what characterizes the Western Canadian small business?

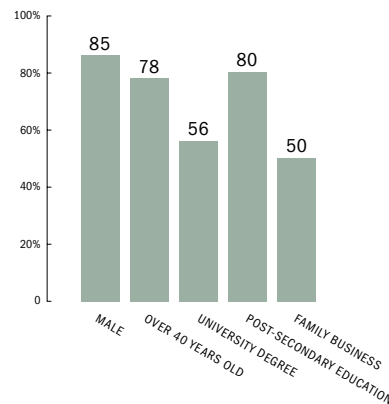
In each of the provinces more than four-fifths of the owners were over 40 years old and just over three-quarters were male.⁴ In three provinces—Alberta, British Columbia and Manitoba—over one half had a university education, a result that reflects the technical requirements of firms working in the sectors sampled. About one half of the firms were family enterprises, not a surprising fact given that family businesses play such a dominant role in economies worldwide. Just over 7% of owners were members of a visible minority, the majority of whom were in British Columbia.

RESPONDENTS:
A SUMMARY
(% of firms)

	OWNER OVER 40 YEARS OLD	MALE OWNER	OWNER WITH UNIVERSITY DEGREE	OWNER WITH POST-SECONDARY EDUCATION	FAMILY BUSINESS
WESTERN CANADA	85.4	77.8	55.6	81.5	49.6
BRITISH COLUMBIA	82.0	71.8	64.3	88.5	41.5
ALBERTA	89.5	85.8	53.6	82.5	50.4
SASKATCHEWAN	85.7	69.4	34.6	61.5	61.2
MANITOBA	83.3	80.4	59.2	80.3	55.7



The sample of 676 small businesses included a mix of manufacturers and service firms. Service providers were better represented in the sample by a margin of 13% which explains, to some extent, the fact that most firms were located in metro areas.



⁴ The relatively high average age and the number of male owners might also reflect the sample's general bias towards mature firms. Because the samples were drawn from government and commercial databases we can assume that the firms survived sufficiently long enough to be listed.

? Who are the respondents and what characterizes the Western Canadian small business? **CONTINUED**



Comparatively there is a heavy representation of service firms in the BC sample. This is reflected in the high educational attainment of owners with almost two-thirds reporting a university degree. A sizeable minority of the firms is outside of the Vancouver and Victoria metro areas. There are fewer family held firms compared with the other provinces.



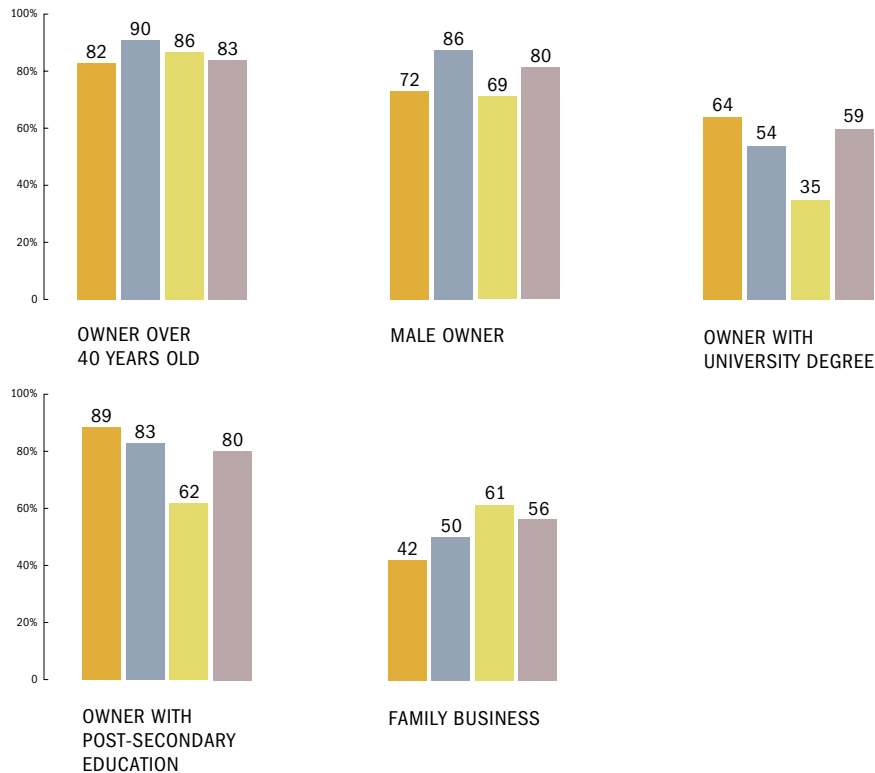
Four-fifths of the firms are located in the Calgary and Edmonton metro areas. Respondent owners are also more likely to be well educated males. One-half are family owned businesses.



Manufacturing is strongly represented in the sample. Most firms were outside the Regina and Saskatoon metro areas. Owners had lower levels of educational attainment than in the other provinces and the proportion of family businesses exceeded that in other provinces.



Respondents were close to the regional average in almost every category, though family businesses and metro location were slightly more likely than in the rest of the West.





“It can be difficult to provide good service at a distance.”



Where do they sell?

As expected, the results show that market participation declines as geographic markets become more extensive and complex. About one-third of firms received 95% of their revenues from local markets. Virtually all firms (92.7%) selling locally had that market as part of their original business plan. However, intentions to serve other markets were much less evident in their original business plans. For example, only slightly more than one-half (53.4%) of these firms had the intention to serve the U.S. market. Their present involvement outside their locale of operation is evidence that firms are taking advantage of new opportunities as they emerge. Selling nationally, like exporting, offers greater opportunity to the small enterprise for scale and/or scope advantages.

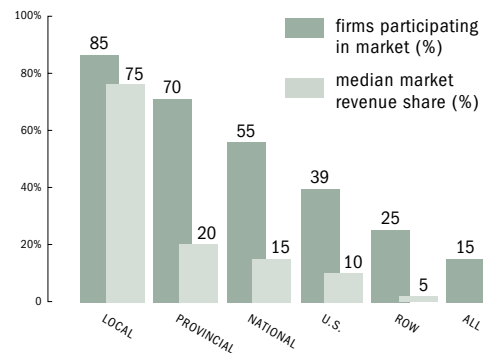
More intense involvement in national markets is associated positively with intentions found in the original business plan, with manufacturing, patent holding, owner age and a Manitoba location. Not surprisingly, the greater the involvement in national markets the more optimism regarding future sales growth in that market.

WHERE THE WEST SELLS:
A SUMMARY
(% of firms)

	LOCAL	PROVINCIAL	NATIONAL	U.S.	REST OF WORLD (ROW)
WESTERN CANADA	85.4	70.3	55.2	38.5	24.6
BRITISH COLUMBIA	87.6	59.4	36.8	30.8	22.2
ALBERTA	91.5	76.9	61.1	39.3	26.7
SASKATCHEWAN	73.5	72.4	60.2	33.7	20.4
MANITOBA	76.3	77.3	79.4	59.8	28.9



Market participation is very strong in local markets and declines as markets become more distant from the firm's location. Remarkably more than one-half of the firms sell in national markets, over one-third export to the U.S. and one-quarter sell to other international markets. Operating revenues, however, are very dependent on local market sales.





BRITISH COLUMBIA

Very heavy dependence on local markets is reflected both in participation and in revenue shares. National participation is low relative to the other provinces, perhaps due to the province's location. Export participation is also relatively low.

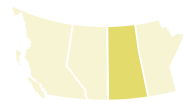
- firms participating in market (%)
- median market revenue share (%)



ALBERTA

A dynamic and diversified small business economy is apparent here. Not only were Alberta firms busier than the regional average in every market considered, their percentage of revenues was higher than British Columbia and Manitoba when provincial sales were considered.

- firms participating in market (%)
- median market revenue share (%)



SASKATCHEWAN

Firms are equally active in local and provincial markets and three-fifths sold nationally. Local markets dominate revenue shares. U.S. and Rest of World markets are of less than average significance when compared with the other western provinces.

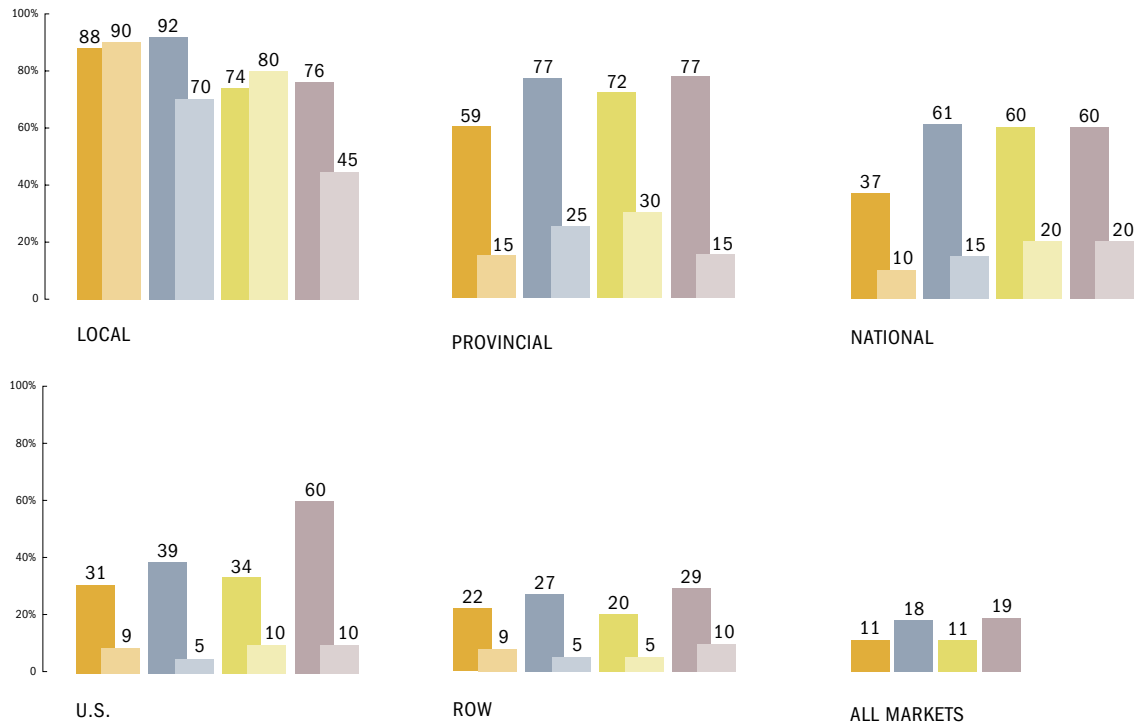
- firms participating in market (%)
- median market revenue share (%)



MANITOBA

The balanced and diversified nature of the markets served by Manitoba firms is striking. More likely to sell nationally than they are to sell locally, these firms are also tremendously active in international markets. This diversification of markets was accurately reflected in the distribution of market revenues.

- firms participating in market (%)
- median market revenue share (%)





“We are content with remaining solely in the local market.”





How intensive is market participation?

For further analysis we divided the firms into categories based on the level of participation or dependency on the various defined markets. Intensively engaged firms were defined as those whose revenue shares exceed a floor level of 60% in local markets, 45% in provincial markets, 20% in the national markets and 10% in the U.S. and Rest of World (ROW) markets. Results clearly show the local market is critical but there are firms that are highly dependant on broader markets.

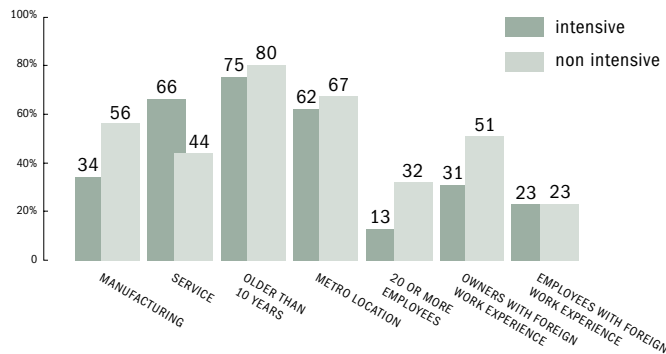
MARKET PARTICIPATION: A SUMMARY (% of firms)

	LOCAL		PROVINCIAL		NATIONAL		U.S.		ROW	
	intensive	non intensive	intensive	non intensive	intensive	non intensive	intensive	non intensive	intensive	non intensive
MANUFACTURING	33.9	56.0	46.8	41.7	58.5	39.6	57.8	39.7	38.4	36.4
SERVICE	66.1	44.0	53.2	58.3	41.5	60.4	42.2	60.3	61.6	63.6
OLDER THAN 10 YEARS	75.1	79.9	68.1	74.9	79.6	85.6	71.9	93.4	75.3	77.2
METRO LOCATION	61.7	66.5	65.2	63.0	71.0	73.3	68.9	72.7	72.6	73.9
20 OR MORE EMPLOYEES	13.2	31.7	24.8	19.6	30.9	22.5	39.6	24.8	37.0	28.4
OWNER WITH FOREIGN WORK EXPERIENCE	30.5	51.0	39.9	41.5	54.9	52.9	74.8	52.9	86.3	59.1
EMPLOYEES WITH FOREIGN WORK EXPERIENCE	22.6	23.0	21.6	23.8	24.4	26.5	21.1	29.9	36.1	29.1

Firms selling intensively in the local market

The majority of respondents, some 85%, serve local markets. Holding other variables constant, the intensive local market firm will likely be smaller, will be in the service sector, will have fewer patents, will be less likely to have an R&D program, will have an owner with lower educational attainment and one who is less likely to have a more prolonged foreign work experience and, using other provinces as a baseline, will be less likely to be found in Manitoba.

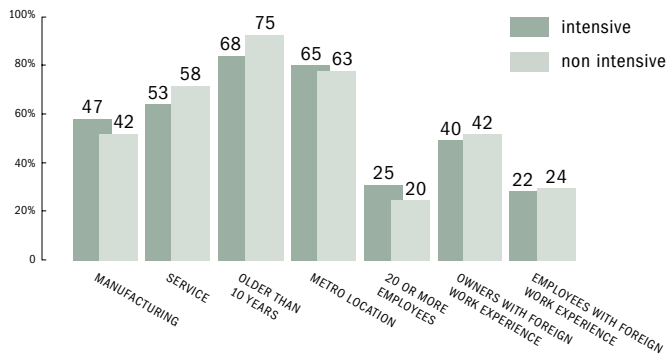
MARKET PARTICIPATION: LOCAL (% of firms)



Firms selling intensively in the provincial market

Provincially intensive firms are defined as those firms who earn 45% or more of their revenue from provincial markets. These firms differ only slightly from those not selling frequently throughout their home province.

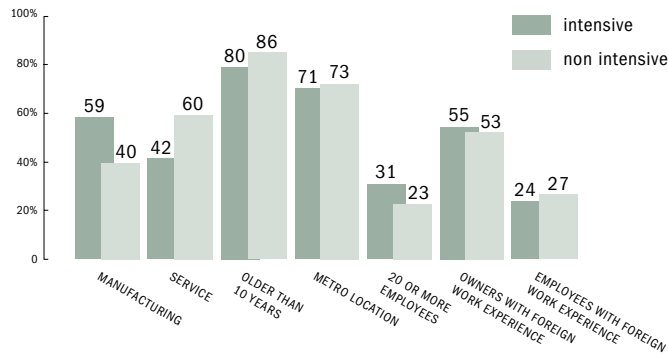
MARKET PARTICIPATION: PROVINCIAL (% of firms)



Firms selling intensively in the national market

Over half of survey respondents stated that they served national markets. Participation in national markets, like involvement in foreign markets, offers greater opportunity to the small enterprise for scale and/or scope advantages. Analysis of survey returns suggested that the respondents serving the national market could be separated into 'intensive' and 'opportunistic' firms. Respondents whose revenues from national markets amounted to 20% or more of total revenues were deemed as intensively involved. Further analysis of this group indicates that intensity in the national market is associated positively with intention in the original business plan, with the manufacturing sector, with patent holding by the owner, with younger owners and with firm location in Manitoba.

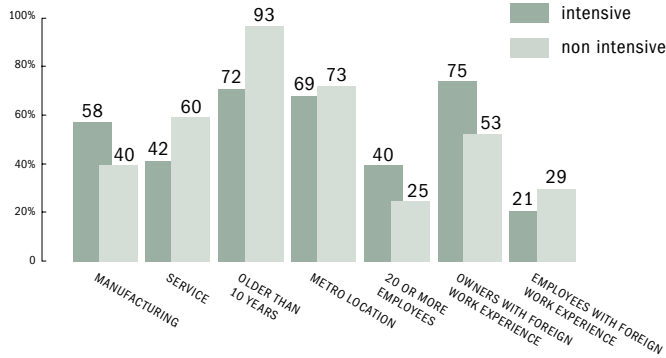
MARKET PARTICIPATION: NATIONAL (% of firms)



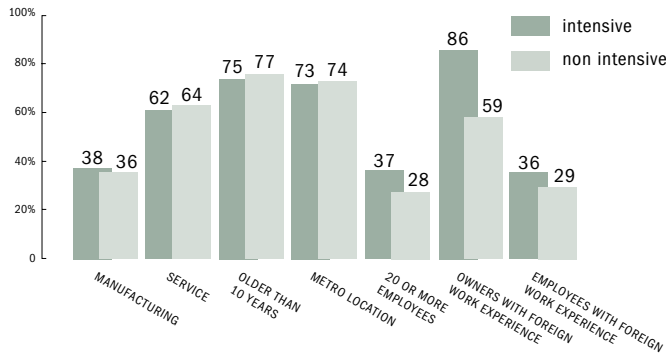
Firms selling intensively in the U.S. and ROW markets

For firms exporting intensively to the U.S. (10% or more of revenue), intent outlined in the business plan, the manufacturing sector, years of international experience, patent holding and a younger firm age were all significant. For those firms classified as intensive exporters to the ROW (10% or more of revenue), years of international experience was significant. These findings suggest that deciding to export to ROW markets is a personal decision and not solely a reaction to opportunity.

MARKET PARTICIPATION: U.S. (% of firms)



MARKET PARTICIPATION: ROW (% of firms)





“Our firm uses agents in other countries to build contacts and help with transportation and infrastructure issues.”



Was selling in particular markets part of the original business plan?

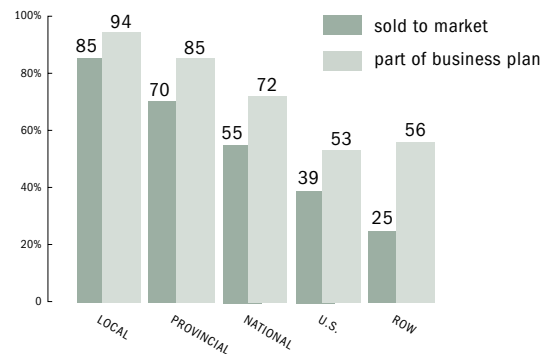
Virtually all firms (93.7%) selling locally had the intent as part of their original business plan but the percentages are very much lower for other markets. This suggests that small business in its initial stages will rely very heavily on its local market. New opportunities emerge with experience, however, and the involvement in other markets occurs as these opportunities are realized and acted on.

MARKETS PART OF THE ORIGINAL BUSINESS PLAN: A SUMMARY (% of firms)

	LOCAL		PROVINCIAL		NATIONAL		U.S.		ROW	
	sold to market	part of original plan	sold to market	part of original plan	sold to market	part of original plan	sold to market	part of original plan	sold to market	part of original plan
WESTERN CANADA	85.4	93.7	70.3	84.6	55.2	72.4	38.5	53.4	24.6	56.2
BRITISH COLUMBIA	87.6	96.6	59.4	80.9	36.8	69.4	30.8	51.4	22.2	56.9
ALBERTA	91.5	93.8	76.9	88.4	61.1	73.5	39.3	56.8	26.7	53.1
SASKATCHEWAN	73.5	87.0	72.4	85.3	60.2	70.2	33.7	45.5	20.4	55.0
MANITOBA	76.3	91.9	77.3	81.3	79.4	75.3	59.8	54.7	28.9	63.0



How a small business initially perceives its opportunities is made clear in their reduced interest as markets broaden out. Opportunity recognition will be based very much on experience. The intent to sell to the Rest of the World is slightly more planned than selling in the U.S. market suggesting that participation in the wider international market requires more forethought.





BRITISH COLUMBIA

The focus of BC firms on the local market is reflected in their original business plans. Intentions to sell in other markets still need to be realized.

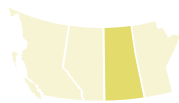
- sold to market
- part of business plan



ALBERTA

Intentions were quite well realized in local, provincial and national markets. Alberta firms included selling to the U.S. market slightly more often than did firms in other provinces. The realization of this intent is not, however, reflected in sales revenue.

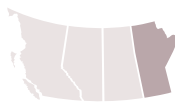
- sold to market
- part of business plan



SASKATCHEWAN

As reflected in sales revenue, Saskatchewan firms were less likely to include the local market in their original business plan. Reflecting a smaller and substantial rural population the interest in finding non-local markets was very strong, with the surprising exception of the U.S. market.

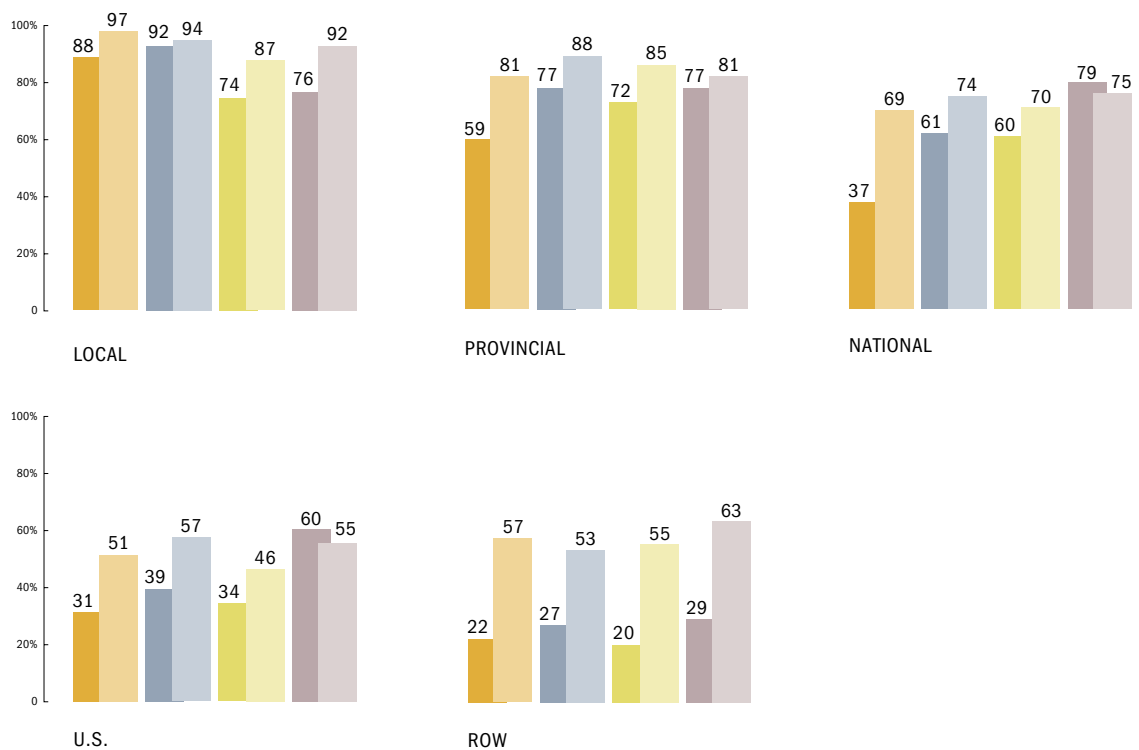
- sold to market
- part of business plan



MANITOBA

Many respondents included non-local markets, in particular ROW markets, in their original business plans. Their intentions have been generally well realized.

- sold to market
- part of business plan



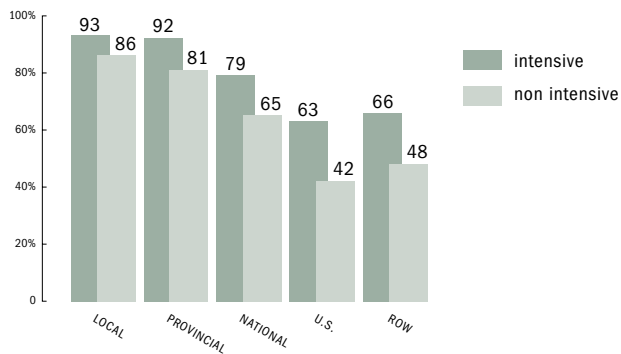
Intensive participants

The importance of the original business plan is emphasized with the categorization of firms by the intensity of their participation in various markets. Intensive participants were more likely to focus on a particular market in their plan than non intensive participants. This likelihood increased as markets broadened.

INCLUSION OF MARKETS IN ORIGINAL BUSINESS PLAN: A SUMMARY (% of firms)

	LOCAL	PROVINCIAL	NATIONAL	U.S.	ROW
WESTERN CANADA	93.5	84.1	72.4	53.4	56.2
INTENSIVE	97.8	92.0	78.6	62.6	65.8
NON INTENSIVE	85.8	80.7	65.0	41.9	47.6

INCLUSION OF MARKETS IN ORIGINAL BUSINESS PLAN: A SUMMARY (% of firms)





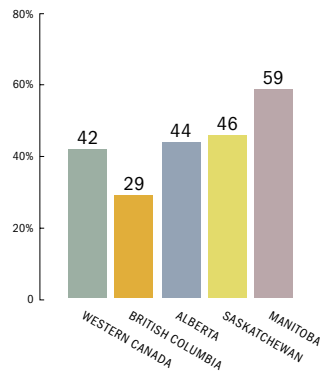
“Going to markets beyond this region is difficult and unnecessary.”



What about firms that export indirectly?

Indirect exporters are those firms whose output is incorporated into products sold outside of Canada. The sample ranged from a high of 59.1% in Manitoba to a low of 29.2% in British Columbia with Alberta and Saskatchewan in the 44% to 46% range. These shares reflect both the wider geographic markets in which Manitoba firms participate and the narrow markets served by British Columbia respondents.

INDIRECT EXPORTERS: A SUMMARY (% of firms)



Of the 254 respondents who identified themselves as indirect exporters, 128 or almost one-half of them were also exporters to the U.S. market, and 96 or approximately 38% also sold to the Rest of the World. 110 indirect exporters did not directly participate in exporting. These 110 exporters represent 43.3% of all indirect exporters.



“We are growing our international market but don’t want to move too fast.”



What constrains a firm's market expansion?

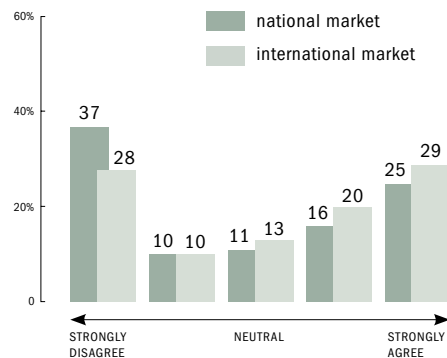
Firms in the sectors surveyed will be leaders in expanding the export base and generating community growth. Unlike a dentist or an electrician, whose market is almost exclusively community members, the firms sampled sell 'tradable' goods—goods or services with potential customers far beyond the bounds of the community where they are located.

Expansion into national and international markets will be influenced by a number of factors, some of which are external and others internal to the enterprise. To explore these influences, respondents were asked to evaluate a series of constraints affecting their ability to expand into new markets. Constraints internal to the firm included managerial expertise and interest, a preoccupation with other geographical markets, loss of control over products, and general issues of risk and uncertainty. Broader market and institutional forces give rise to external constraints like the availability of financial resources, qualified labour, market information and efficient distribution channels.

On the whole, respondents did not view internal constraints as an important limit to serving wider markets, particularly the national market. The only internal constraint that appeared to be an issue for some firms was their 'preoccupation with serving existing markets' or, to put it another way, a preoccupation with serving markets closer to home. Interestingly, Manitoba firms viewed this as less of a constraint than did firms in other provinces, a reflection of their higher rates of current participation in international markets.

INTERNAL
CONSTRAINT:
MARKET
PREOCCUPATION
(% of firms)

"Preoccupation with other markets constrains our expansion into national and international markets."

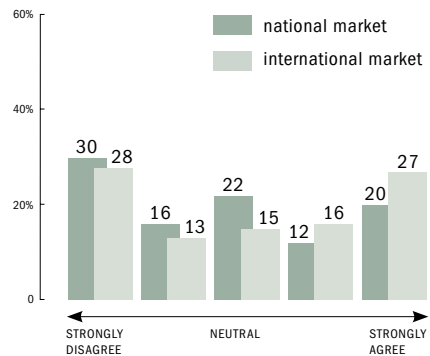


When looking at external factors influencing participation in markets, a wider divergence of opinion is evident. While many firms are not concerned with these factors—availability of labour, distribution channels, market information, and financial resources—other firms do view them as impediments. Once again, these constraints are viewed as more important when considering expansion into international markets. British Columbia firms, for example, showed the greatest concern when considering the availability of financial resources.

Survey respondents were grouped in order to understand better the responses to these constraint questions. A first grouping separated those who sell nationally from those who do not; a second grouping separated those who sell to foreign markets from those who do not. When grouped in this manner, Western Canadian firms not active in national and foreign markets view the barriers—both internal and external to the firm—as significantly more important than participants in these broader markets. This is particularly so in the case of international market involvement. Hence experience does much to explain the perceptions that respondents held of the constraints to market expansion.

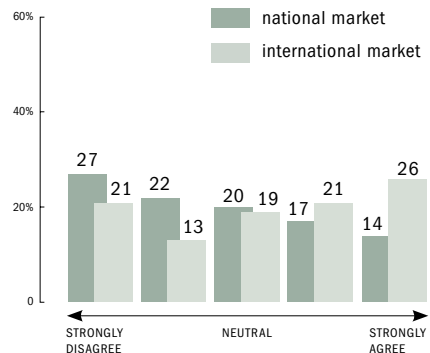
EXTERNAL
CONSTRAINT:
FINANCIAL
RESOURCES
(% of firms)

*“Difficulty in obtaining financial resources
constrains our expansion into national and
international markets.”*



EXTERNAL
CONSTRAINT:
DISTRIBUTION
CHANNELS
(% of firms)

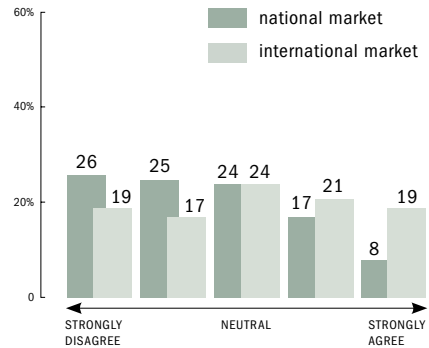
*“Difficulty in obtaining the right distribution
channels constrains our expansion into
national and international markets.”*



What constrains a firm's market expansion? **CONTINUED**

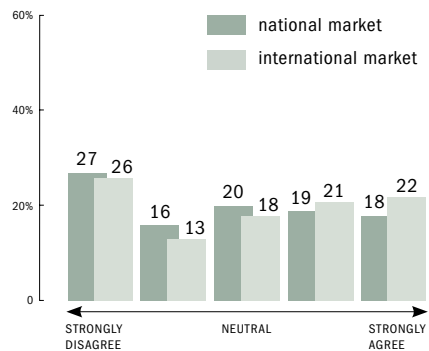
EXTERNAL
CONSTRAINT:
RELIABLE MARKET
INFORMATION
(% of firms)

"Difficulty in obtaining reliable market information constrains our expansion into national and international markets."



EXTERNAL
CONSTRAINT:
QUALIFIED LABOUR
(% of firms)

"Difficulty in hiring qualified labour constrains our expansion into national and international markets."



How do indirect exporters' view constraints to participation in international markets?

Indirect exporters are effectively linked to the export market and are in a position to gain experience from networking with those firms serving foreign markets. That experience might encourage them to participate down the road in direct exporting.

We compared the perception of constraints on exporting of the indirect exporters not currently exporting directly with the perceptions of all non exporting firms. With the exception that indirect exporters do not view managerial preoccupation with other geographic markets as a constraint, indirect exporters have the same view of constraints as those who do not export at all.



“My employees are critical to our success.”



What about the employees?

FIRMS DEVELOPING EMPLOYEES THROUGH TRAINING: A SUMMARY* (% of firms)

* These responses include owners and/or their employees engaged in training.

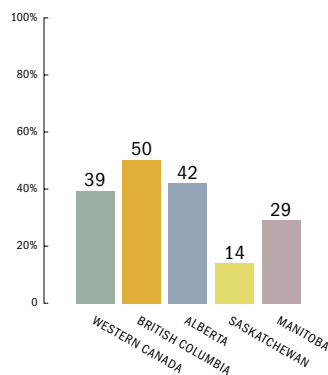
	EMPLOYEES WITH DEGREE (MEAN)	TECHNICAL TRAINING	MANAGEMENT TRAINING	MARKETING TRAINING	OTHER TRAINING
WESTERN CANADA	38.7	72.9	50.6	38.7	15.9
BRITISH COLUMBIA	49.8	68.1	47.8	33.8	21.7
ALBERTA	42.0	80.2	52.6	38.6	14.6
SASKATCHEWAN	14.3	66.3	48.0	42.9	12.2
MANITOBA	28.7	72.2	54.6	46.4	9.3

Educational attainment

In the region, the mean share of employees requiring a university or college degree was 38.7% and the median share 30.0%. The mean shares vary from 49.8% (BC) to 14.3% (SK). The need for well-educated employees in these small businesses presents a number of challenges: How can this level of educational attainment be sustained or improved in the future labour force? As technology advances, will these types of firms require even more highly educated employees?

Educational attainment is also significant in firm ownership and reflects the activities of the industry sectors covered by the sample. The majority of owners had a university degree, a number that contrasts with an estimate of 20% for all 'self-employed' in Western Canada.⁵

EMPLOYEES WITH DEGREE (% of firms)



⁵ Western Centre for Economic Research Information Bulletin No. 60. *Small Business Growth and Change in Western Canada: 1988-1999*.

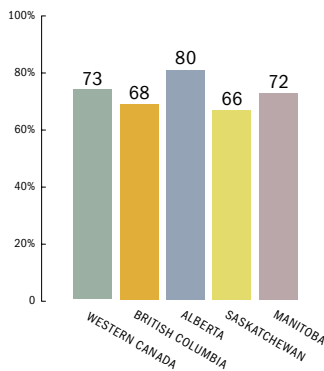
How do firms view employee training?

The survey also asked how firms view training activities, a key instrument in keeping enterprises abreast of new knowledge and in evaluating the potential for improving a firm's way of doing things—for increasing productivity if you will, and in increasing competitiveness.

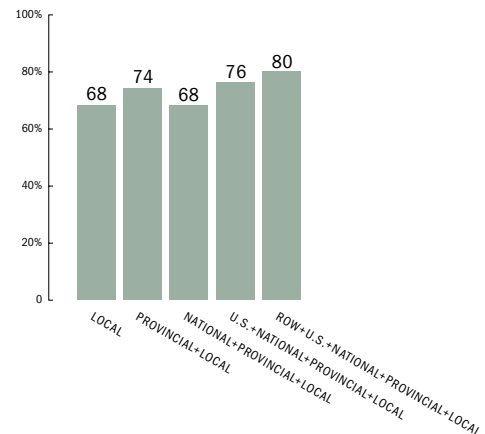
Firms developing employees through technical training

Technical training was a popular form of human resource development. Almost 75% of the sample had at least one person in the firm engaged in technical training. The wider the market served, the more likely the firm was to participate in technical training. For those serving local markets, just over two of every three firms were involved in technical training. This ratio increased to four of every five firms when international exporters were considered. More important to participation in technical training were firm size, having an R&D program and owner international work experience.

DEVELOPMENT THROUGH TECHNICAL TRAINING (% of firms)



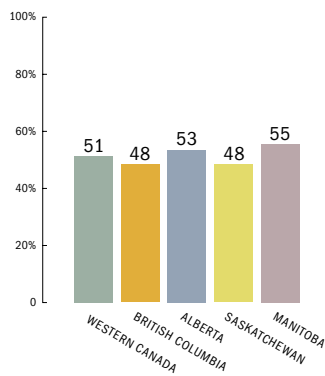
INCREASED TECHNICAL TRAINING (% of firms Western Canada)



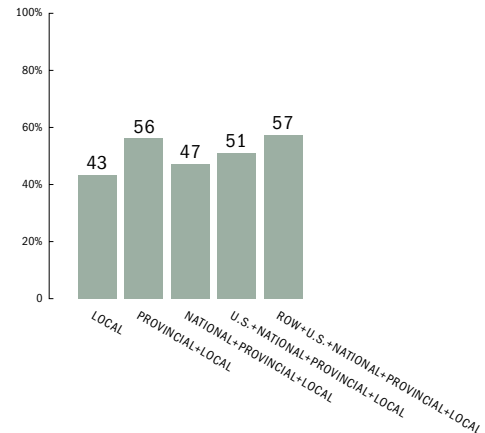
Firms developing employees through management training

One-half of the firms engaged in management training. Here too the firms participating in all the markets were 14.5% more likely to be involved in management training than respondents serving only local markets. However, more important in explaining participation in management training are firm size, commitment to an R&D program, the share of jobs requiring a post-secondary education, and visible minority ownership.

DEVELOPMENT THROUGH MANAGEMENT TRAINING (% of firms)



INCREASED MANAGEMENT TRAINING (% of firms Western Canada)

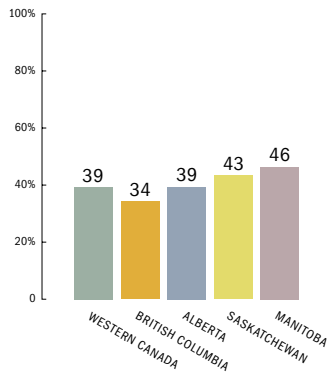


Firms developing employees through marketing training

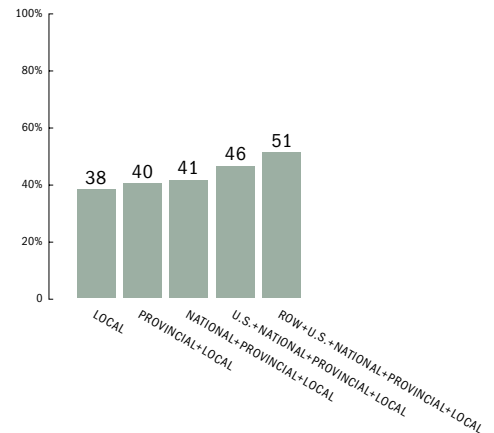
Involvement in marketing training was related to market breadth though this type of training had measurably lower participation than other forms. For surveyed firms serving international markets, 50.5% participated in marketing training compared with 40.1% for those limited to local and provincial markets. The comparable ratios for technical training are 79.8% and 73.7%.

Other factors increasing the likelihood of engagement in marketing training are firm size, the owner both having worked in a large enterprise and having international experience, the firm having used a marketing consultant and the owner being a member of a visible minority.

DEVELOPMENT THROUGH MARKETING TRAINING (% of firms)



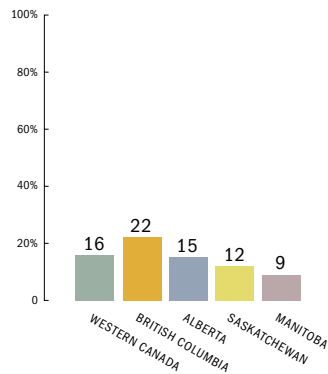
INCREASED MARKETING TRAINING (% of firms Western Canada)



Firms developing employees through other types of training

Other forms of training included safety, language, financial, legal, and personal growth. Firms also participated in training students through work placements and co-operative programs.

DEVELOPMENT THROUGH OTHER TRAINING (% of firms)

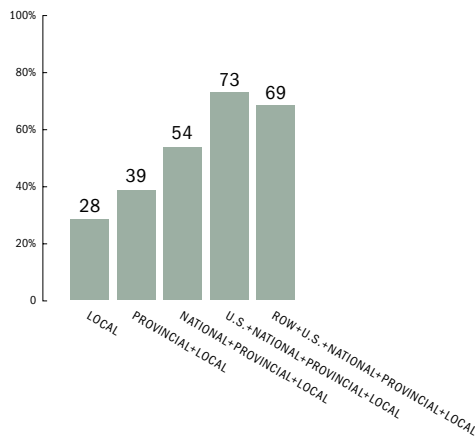




What about research and development commitment?

Wider markets are related to research and development (R&D) commitment. Only 27.6% of firms exclusively serving local markets engage in R&D activities. However, 39.1% of firms serving both local and provincial markets engage in R&D programs, and when they also serve national markets the participation rate rises above 50%. Once international markets are added, the incidence of R&D moves to the 70% range. The findings are that serving broader markets (evidence of heightened competition) combined with firm size (evidence that resources can be allocated to research) and work force requirements for higher educational attainment (evidence of a pool of research oriented labour) increase the likelihood of having an R&D program. Results also indicate that firms having R&D programs are more likely to be located in Manitoba, Saskatchewan and Alberta than in British Columbia.

FIRMS WITH R&D PROGRAMS (% of firms Western Canada)





“Innovation. Creativity. Brilliant ideas.”

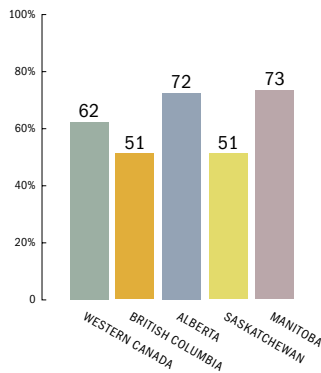


How do firms create market visibility?

Are web sites used by small business?

The importance of high speed internet to overcome disadvantages of distance and access for rural firms was emphasized in *A Primer on Western Canadian Entrepreneurship*. Almost two-thirds of surveyed firms use web sites to promote their enterprises.

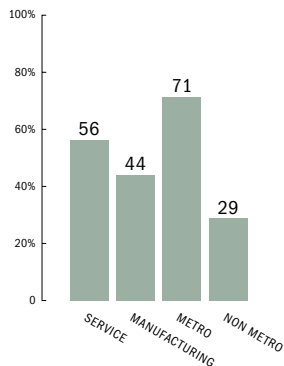
NUMBER OF FIRMS WITH WEBSITES (% of firms)



Who has a web site?

Alberta and Manitoba firms are most likely to have a web site. Firms in these provinces were more active in all markets. Small businesses located in metro areas are much more likely to use websites to promote their company than are rural firms. This may reflect the greater availability of high speed internet in metro areas. Slightly more service firms have a web site than do manufacturing firms.

TYPES OF FIRMS WITH WEBSITES (% of firms, Western Canada)



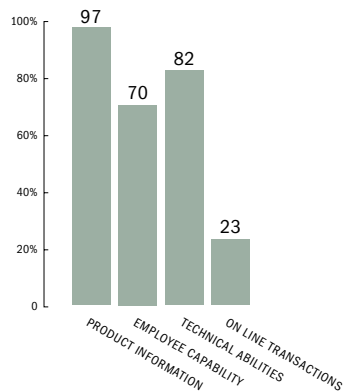
What kind of information is on the web site?

Not surprisingly, almost every firm presented information about their product on their website. The technical ability of the company was available for four-fifths of the firms and information on the capabilities of employees was given for approximately 70% of firms. Less than a quarter of all firms enabled purchases of their product to be made on line. There was little variance between provinces, though web pages of Manitoba firms were more likely to allow on line transactions. This could reflect the wider markets in which these firms participate. Alberta firms were slightly more likely to provide information on employee training and technical capabilities.

TYPES OF INFORMATION ON WEBSITES: A SUMMARY (% of firms)

	PRODUCT INFORMATION	EMPLOYEE CAPABILITY	TECHNICAL ABILITY	ON LINE TRANSACTIONS
WESTERN CANADA	97.4	69.6	82.2	22.6
BRITISH COLUMBIA	97.5	70.1	80.5	20.8
ALBERTA	96.6	73.3	86.4	20.2
SASKATCHEWAN	95.9	62.5	78.7	22.9
MANITOBA	100.0	64.3	77.1	31.4

TYPES OF INFORMATION ON WEBSITES (% of firms, Western Canada)



Who uses direct advertising?

Direct advertising is infrequently used by three-quarters of the respondents. The exception is the use of the Internet, where regular use dominated. Trade or professional journals were used either regularly or occasionally by one-half of firms.

FIRMS USING
ADVERTISING
CHANNELS:
A SUMMARY
(% of firms)

	REGULARLY	OCCASIONALLY	NEVER
INTERNET	45.1	17.7	37.2
TRADE OR PROFESSIONAL JOURNALS	14.6	6.1	49.3
LOCAL NEWSPAPERS	11.5	29.0	59.5
MAGAZINES	7.0	20.5	49.3
RADIO	3.4	10.7	85.9
TELEMARKETING	4.3	6.4	89.3
NATIONAL NEWSPAPERS	1.2	5.1	59.5
TELEVISION	1.2	4.8	94.0

Who uses the internet to advertise?

As expected, if a firm has a website, it is likely to use the Internet for advertising although this is not always the case. Use of the Internet for advertising also increases if the owner has worked for a large enterprise for more than one year, if the firm is located in a metropolitan area and if the firm has an active R&D program.

Who uses trade or professional journals to advertise?

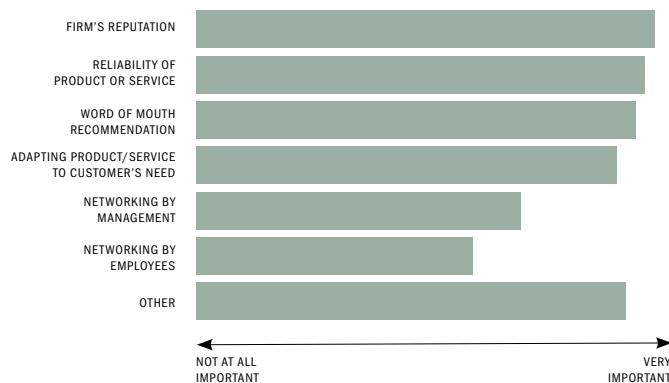
A firm is more likely to use trade or professional journals to advertise if the firm has a web site, if the firm is pursuing an R&D program, the larger the firm and if the firm is a family owned business.

Who uses indirect advertising?

Our survey is consistent with research that found small businesses are less likely to use conventional media outlets to advertise than are larger enterprises. For the small business, the likely alternative to larger scale formal marketing efforts is to stress the importance of adding value to product offerings.

Respondents were asked to rate the following types of value added marketing: the reputation of the firm, the reliability of the product or service, the ability to adapt the product or service to a customer's need, word of mouth recommendation, and networking by employees and management. Other important marketing factors included the price of the product and involvement in trade shows and conventions.

RATINGS OF VALUE ADDED MARKETING



The importance of adding value to a firm's product was underscored in the respondents answers. The firm's reputation and the quality of the product were highly rated as effective advertising means by over 90% of respondents. However, respondents identified networking by management or employees as moderately important. This is of interest given the extreme significance attached to networking in the current literature on successful entrepreneurship. (See, for example, *The Primer on Western Canadian Entrepreneurship*.)



“Word of mouth is our best advertiser.”



How Western Canada's small businesses sell: a summary of findings

A Survey of Selling identifies important features of small business active in selected value added sectors of the Western Canadian economy. These features relate to markets served, prospects for market expansion, and some key attributes of the firms and their owners. The results indicate that for the firms covered in this survey, there are more similarities than differences across the four provinces so that it is appropriate to speak of a regional small business community in Western Canada. There can be no doubt about the heavy but not the exclusive dependence of small business—even in these value added sectors—on local market customers. The health of small business is closely intertwined with the health of local communities.

It is also clear that some small businesses in the manufacturing and business service sectors strive for markets beyond the bounds of their communities. What is the process by which this occurs? The results underscore that choices about geographic market targets begin early in the life of some small businesses.

For many respondents selling in national and international markets was part of their original business plan. This suggests that a frequently presented model of incremental market growth, one in which the firm builds on the knowledge foundation acquired in more localized markets, is inadequate. Furthermore, firms who included these intentions in their initial business plans were better performers in broader markets. Put simply, one model or approach to market development does not fit all small businesses.

Perceived constraints to expansion were mostly external factors and beyond the control of the firm. These factors included the ability to find qualified labour and financial resources, and the accessibility of market information and distribution channels. It was no surprise that firms already serving wide geographic markets felt fewer constraints to broader market involvement. Experience and success elsewhere gave firms a notable amount of confidence.

Another key finding emphasizes how learning by doing is integral to small business. The survey here reveals two specific illustrations of the important role of experience in expanding the markets of small business. First, when small business owners have foreign work experience the likelihood of exporting is substantially increased. Second, experience significantly lowers the perceived barriers to selling in national and international markets. Those 'who do' and those 'who don't' view these barriers very differently.

Market development is also about the ability of a small business to present itself effectively to potential customers. Our respondents clearly prefer informal means of spreading the news about their businesses. Trustworthiness, a reputation for tailoring product to customer needs, networking, and reliability are all considered to be crucial advertising instruments. These are also most likely to be effective in a local market setting. More common formal advertising approaches include the yellow pages and the use of trade and professional journals. Findings also point to the increasing usefulness of the Internet.

Our results suggest that as markets widen, particularly into national and US markets, firm involvement in R&D programs and in alternative forms of human resource training increase. For market growth and survival in the value added sectors covered by the sample, these forms of knowledge investment must be considered essential.

Appendix A

How were the firms selected?

The samples were drawn in a similar fashion for each province. Reliance on commercial directories means that the firms captured were generally mature and that relatively fewer young firms are represented. This sampling bias means that the report cannot place a fine focus on the issues most relevant to start-ups.

British Columbia: InfoCANADA randomly pulled 1000 firms based on the study's criteria (meeting designated size, sector, region). 175 successful telephone interviews were conducted in October, 2003. The BC government initially helped by conducting an e-survey of their directories yielding 76 complete surveys.

Alberta: Firms were selected from the provincial government's Business Attraction Information Database (BAIS), a public access database at www.albertafirst.com. The random sample was then cross-referenced with business directories.

Saskatchewan: Firms meeting the survey criteria were selected on a random basis by the Policy Division of Saskatchewan Industry and Resources.

Manitoba: Firms were selected from the Manitoba Information Service Company Directory at www.manitoba.bis.com. The list drawn was reviewed and deemed representative by Manitoba Trade and Investment.

Western Centre for Economic Research recent publications pertaining to small business

Available at www.bus.ualberta.ca/wcer

*Assessing the Export Market Participation of Manufacturing and Business Service Sector
Small Businesses in Western Canada*

by Edward J. Chambers, Jean Frost and Stephen Janzen (forthcoming)

*Are Small Firms Pushed or Pulled into Exporting? Comparing 'New' and 'Old'
Economy Firms* by Rolf Mirus and Barry Scholnick (forthcoming)

No. 76 *A Primer on Western Canadian Entrepreneurship*

by Edward J. Chambers and Stuart E. Shaw (April 2004)

No. 70 *Alberta's Small and Medium Sized Enterprises and Their Export Activity*

by S. Stephen Janzen, Stuart E. Shaw and R. Jean Frost (May 2002)

No. 63 *A Portrait of Small Business Growth and Change in Western Canada*

by Edward J. Chambers and Nataliya Rylska (March 2001)

No. 60 *Small Business Growth and Change in Western Canada: 1988-1999*

by Edward J. Chambers and Nataliy Rylska (March 2001) Available on line only.

No. 58 *Alberta Non-Tariff Trade Barriers Study, 2000*

by S. Stephen Janzen and R. Jean Frost (November 2000)

No. 50 *The Rural Renaissance in Alberta: Some Empirical Evidence*

by Edward J. Chambers and Mae Deans (May 1998)

No. 47 *Communications Technology and the Business Service Sector: A Renaissance
for Alberta's Communities?* by Mae Deans and Edward J. Chambers (December 97)

Other recent WCER publications

No. 82 *Fifteen Years of Free Trade: Looking Back-Looking Forward.*
Conference Proceedings (December 2004)

No. 81 *Streamlining Tariffs Among NAFTA Partners: Potential Savings for Alberta*
by Mary Ballantyne, Katrin Hoffmann and Rolf Mirus (October 2004)

No. 80 *Alberta's and Western Canada's Exports: 15 Years of Free Trade Agreements*
by Xiaozhan Liu and Rolf Mirus (September 2004)

No. 79 *Western Canada's Small Business Markets: A Survey of Selling*
by Edward J. Chambers, Jean Frost and Stephen Janzen (December 2004)

No. 78 *Shared Services Arrangements: Determinants of Success. A Study of Economic Development and Recreation and Culture Shared Service Arrangements Among Alberta Municipalities of The Alberta Capital Region* by Neil Hepburn, Edward LeSage and Mel McMillan (June 2004)

No. 77 *Canadian FDI in the US: Geographic Dispersion, Industry Characteristics and Economic Impact* by Joe Haizhou Huang and Rolf Mirus (April 2004)

No. 75 *What's Wrong with the WTO: Reform Anti-Dumping and Countervailing Subsidy Provisions* by Matthew Saunders and Rolf Mirus (November 2003)

No. 74 *The Alberta and Western Canada Export Experience Under the Free Trade Agreements: 1988-2002* by Xiaozhan Liu (June 2003)

No. 73 *Alberta Tariff Reduction and Elimination Priorities, 1997-2001* by Katrin Anna Hoffmann (November 2002)

No. 72 *Natural Resource Trust Funds: A Comparison of Alberta and Alaska Resource Funds* by Allan A. Warrack and Russell R. Keddie (September 2002)

The Western Centre for Economic Research

Since its creation in 1985, the primary objective of the Western Centre for Economic Research has been the dissemination of timely and balanced research findings relevant to the Western Canadian economy to a wide audience of concerned citizens and, in particular, to decision makers within government and industry throughout Western Canada and beyond. Sponsored by the School of Business and the Departments of Economics and of Rural Economy, the Western Centre is able to draw on a wide range of expertise and to offer academic research, conferences, workshops and seminars on a diversity of issues pertaining to the performance of Western Canada's economy.

The results of research findings and conference deliberations are distributed through a series of Information Bulletins and similar monographs, where emphasis is placed on ensuring that the information is presented in a non technical, accessible format. Information Bulletins are available from the WCER office or online at www.bus.ualberta.ca/wcer.

Funding for the Western Centre is derived from two primary sources: fee-for-service contract work and financial support from the George Cormie Foundation. The revenue stream from this endowment permits the Western Centre to consider some independent initiatives, and to involve academic staff and graduate students in its research activities.

Western Centre for Economic Research
School of Business, University of Alberta T6G 2R6
(780) 492-2235
www.bus.ualberta.ca/wcer

DESIGN: PLUMBHEAVY DESIGN

Western Canada's Small Business Markets: A Survey of Selling



Western Economic
Diversification Canada

Diversification de l'économie
de l'Ouest Canada

Canada

