

# Small Business Profile 2005

## A profile of small business in British Columbia

### Highlights

- **Small Business** – In 2004, 98 per cent of all businesses in British Columbia were small businesses. Micro-businesses (those with fewer than five employees) comprised 83 per cent of small businesses.
- **Small Business Growth** – For the third consecutive year, the number of small businesses operating in the province increased, up 0.5 per cent compared to 2003.
- **Employment** – Small businesses in British Columbia employed approximately 971,000 people in 2004, accounting for 57 per cent of private sector jobs in the province. Almost 40 per cent of this small business employment was in the form of self-employed individuals working alone.
- **Self-Employed** – On average, the self-employed tend to be older, are more often men and work longer hours compared to those who work as paid employees. In British Columbia, 35 per cent of the self-employed are women, which is higher than the national average of just under 34 per cent.
- **Gross Domestic Product** – Approximately 26 per cent of British Columbia's GDP was generated by small business in 2004, the highest ratio of any province.
- **High Technology Sector** – Approximately 95 per cent of employers in high technology were small businesses in 2004.
- **Regional Focus** – The Northeast region recorded the highest rate of growth in the province in net new small businesses, expanding at an average rate of 4.3 per cent per year from 1999 to 2004.
- **Exports** – British Columbia small businesses shipped almost \$8.9 billion worth of merchandise to international destinations in 2003, or almost a third of the total value of goods exported from the province.

## **Preface**

*Small Business Profile 2005: A Profile of Small Business in British Columbia* is an update of previous versions published annually since 1997. This report is designed to answer some common questions about the role of small business in British Columbia through an examination of trends in growth over the last decade. Key issues addressed include the number of businesses, growth in employment, contribution to the economy, industry breakdown, impact on regional economies and the role of small business exporters.

Statistical information in this report was prepared by BC STATS with data provided by Statistics Canada from various statistical databases such as the Business Register, the Survey of Employment, Payrolls and Hours, the Labour Force Survey and the Exporter Registry. Data regarding e-commerce is derived from the results of member surveys by the Canadian Federation of Independent Business.

*Small Business Profile 2005* is produced in co-operation with the federal and provincial governments. The report was prepared by BC STATS in the British Columbia Ministry of Labour and Citizens' Services with assistance from Western Economic Diversification Canada, the British Columbia Ministry of Small Business and Revenue and Small Business BC.

Information on programs and services for small businesses can be obtained by contacting:

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Statistics related to small business are available at:

BC STATS  
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553 Superior St.  
Box 9410 Stn Prov Govt  
Victoria, BC V8W 9V1  
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Information on provincial and federal government programs and services can be found at:

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# 1. Small Business Growth

The small business sector has become a key instrument of job creation and economic growth in British Columbia. It is the primary provider of private sector jobs in the province, reflecting an ongoing trend toward economic diversification. It is also a vital source of innovation: approximately 95 per cent of high technology businesses in British Columbia are small businesses with fewer than 50 employees.

The growth in entrepreneurship has had a profound impact on the economic landscape of the province and should continue to do so for some time to come. British Columbia small business owners report high expectations for the future. According to the Canadian Federation of Independent Business (CFIB), a quarterly survey of its members indicates that business confidence in British Columbia is the highest it has been since they began surveying.<sup>1</sup> Data from surveys, such as the CFIB's *Quarterly Business Barometer*, are useful subjective measures of the health of small business in British Columbia, but it is also important to examine objective measures such as business counts, employment, GDP and revenues to see if they provide the same conclusion that small business in the province is thriving.

## What is a small business?

Before embarking upon a study of the scope and growth of small business, the concept of "small business" must first be defined. A business can be classified as small or large using a number of different methods, including revenues generated or volume of production, but the most common definition focuses on the number of employees. For the purposes of this report, a small business is defined as one with fewer than 50 employees, or a business operated by a person who is self-employed, without paid help.

A business is defined as a small business if it is either:

- A business with fewer than 50 employees
- A business operated by a self-employed person with no paid help

## How many businesses are there in British Columbia and is that number growing?

There were a total of 363,000 businesses operating in British Columbia in 2004. Of those, 355,600, or 98 per cent, were small businesses. Just over 56 per cent of all businesses in the province were operated by self-employed individuals with no paid employees. By comparison, less than 54 per cent of all Canadian businesses were comprised of self-employed people with no paid help. However, three provinces had larger proportions of businesses run by self-employed working alone than British Columbia: Saskatchewan (59 per cent), Ontario (57 per cent) and Manitoba (57 per cent).

**Figure 1.1: Breakdown of businesses in BC, 2004**

	Number of businesses	Per cent of total
<b>Total small businesses</b>	<b>355,600</b>	<b>98.0%</b>

<sup>1</sup>Mallett, Ted. (Jan. 2002-June 2005). *Quarterly Business Barometer: Results of CFIB Business Outlook Survey*. Canadian Federation of Independent Business.

Self-employed without paid help <sup>†</sup>	204,600	56.4%
Businesses with less than 50 employees	151,000	41.6%
<b>Total large businesses</b>	<b>7,300</b>	<b>2.0%</b>
<b>Total all businesses<sup>‡</sup></b>	<b>363,000</b>	<b>100.0%</b>

<sup>†</sup>To avoid double counting, incorporated self-employed are not included in this figure.

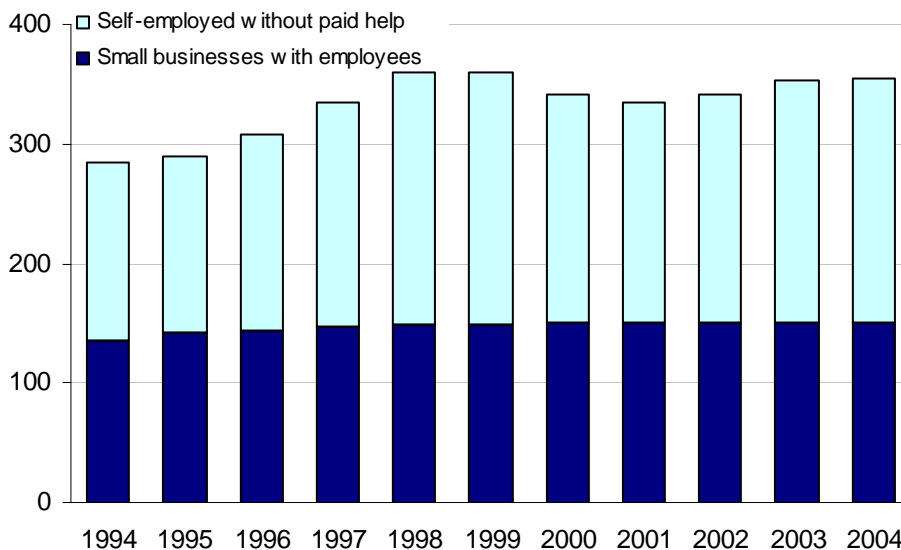
<sup>‡</sup> Figures do not add due to rounding.

Source: BC STATS using data supplied by Statistics Canada

The total number of small businesses operating in the province increased for the third consecutive year in 2004, edging up 0.5 per cent from 2003. The expansion was entirely due to rising numbers of (unincorporated) self-employed individuals with no paid help (+1.1 per cent) as the number of small businesses with employees actually declined slightly (-0.2 per cent).<sup>2</sup> This is the first time in at least the last 15 years that there has been a drop in the number of small businesses with employees, although there has been very little growth in the number of these businesses over the last several years, with rates below one per cent since 1998. Over the last decade, the number of small businesses with employees has basically remained stable.

In fact, the year-to-year fluctuations in the number of small businesses have generally been driven by the rise and fall in the count of self-employed without paid help, which has been on a bit of a roller coaster ride, experiencing three years of double-digit increases in the mid-nineties, then dropping for three straight years, before rebounding with increases in each of the last three years.

**Figure 1.2: Number of small businesses in BC (000's), 1994-2004**



Source: BC STATS using data supplied by Statistics Canada

<sup>2</sup> The self-employed can be categorised as either incorporated or unincorporated and each of these classifications can further be divided between those operating with paid help or without paid help (i.e., working by themselves). This produces four major categories of self-employed workers.

The number of large businesses (50 or more paid employees) in British Columbia climbed 3.7 per cent in 2004, almost completely recovering from an identical 3.7 per cent decline in 2003. Unlike small businesses with employees, there has been considerable volatility over the last several years in the number of large businesses in the province.

### What is the size distribution of small businesses?

By far, most of the small businesses in British Columbia are micro-businesses with fewer than five employees. There were 295,200 businesses fitting this description in 2004, accounting for 83 per cent of all small businesses. Of these, 69 per cent were self-employed persons without paid help and the remaining 31 per cent had one to four employees.

**Figure 1.3: Size distribution of small business in BC, 2004**

	Number of businesses	Per cent of total
Total businesses with 0 to 4 employees	295,200	83.0%
Self-employed without paid help	204,600	57.5%
Businesses with 1-4 employees	90,600	25.5%
Businesses with 5-19 employees	47,500	13.4%
Businesses with 20-49 employees	13,000	3.7%
<b>Total small businesses<sup>†</sup></b>	<b>355,600</b>	<b>100.0%</b>

<sup>†</sup> Figures do not add due to rounding.

Source: BC STATS using data supplied by Statistics Canada

The number of small businesses in the province expanded by an average of 7,100 per year in the last decade (1994 to 2004), which translates to an average annual growth rate of 2.5 per cent. The fastest growing segment of the small business sector has been self-employed workers with no paid help. This group grew at an average rate of 3.7 per cent per year, or an annual increase of 5,600 net new businesses comprised of self-employed individuals working alone. However, the rate of growth of small businesses of any size lagged that of businesses with 50 or more employees. There was an average annual net increase in large businesses in the province of 5.1 per cent from 1994 to 2004.

**Figure 1.4: Growth in number of BC businesses, 1994-2004**

	Average annual growth (#s)	Average annual growth rate
<b>Total small businesses</b>	<b>7,100</b>	<b>2.5%</b>
Self-employed without paid help	5,600	3.7%
Businesses with 1-4 employees	900	1.1%
Businesses with 5-19 employees	400	1.0%
Businesses with 20-49 employees	200	2.1%
<b>Total large businesses</b>	<b>200</b>	<b>5.1%</b>
<b>Total all businesses<sup>†</sup></b>	<b>7,400</b>	<b>2.5%</b>

<sup>†</sup> Figures do not add due to rounding.

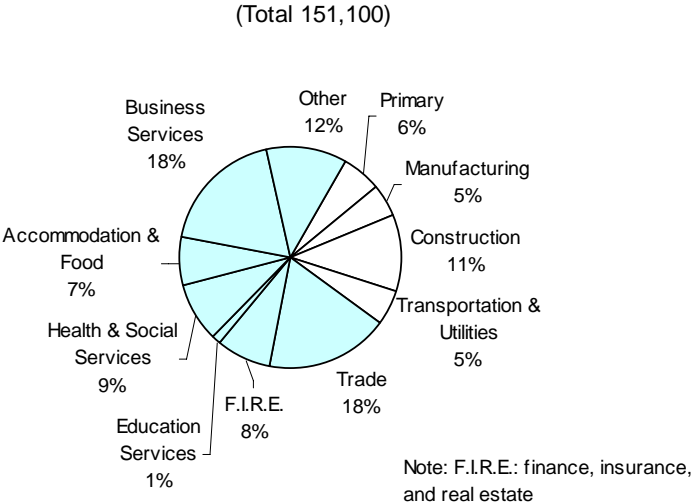
Source: BC STATS using data supplied by Statistics Canada

### In which sectors do small businesses operate?

There is a wide variety of activities in which small businesses in British Columbia are engaged, ranging from “mom-and-pop” corner stores to self-employed computer programmers to small lumber milling operations, just to name a few. Almost three-quarters of all businesses in the province are in service sector industries, with small businesses only slightly more likely to be providing a service compared to large businesses.

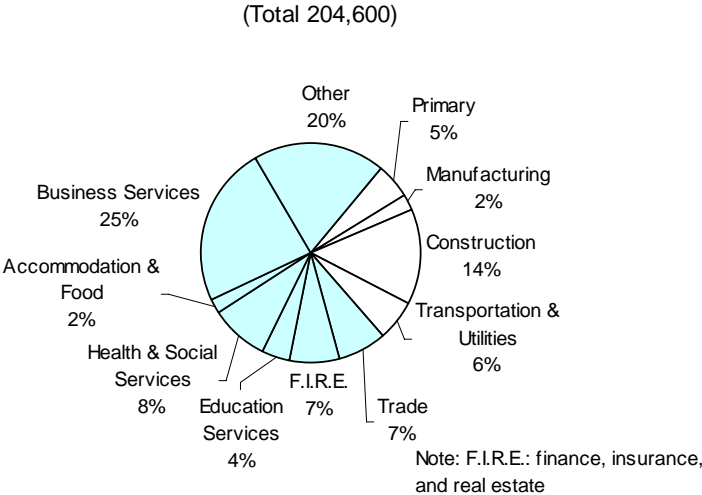
Figures 1.5a and 1.5b show the industry breakdown for small businesses with employees and for businesses comprised of a self-employed person with no paid help. For the small business service sector as a whole, the largest concentration is in business services, which contains almost 22 per cent of all British Columbia small businesses, followed by wholesale and retail trade with 12 per cent. Business services, which include occupations such as lawyers and accountants, are more prevalent in businesses with no employees, while firms involved in trade are more likely to have employees.

**Figure 1.5a: Small businesses with 1 to 49 employees**



Source: BC STATS using data supplied by Statistics Canada

**Figure 1.5b: Small businesses with no paid employees**



Source: BC STATS using data supplied by Statistics Canada

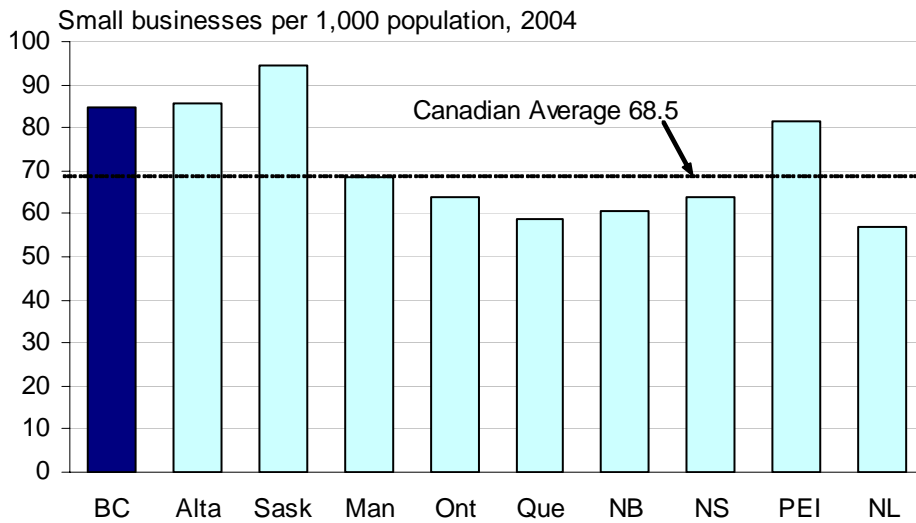
In the goods sector as a whole, construction is the most significant industry, accounting for 13 per cent of all small businesses in the province. Construction is more amenable to smaller operations than most manufacturing industries, for example, so it makes sense that it has the largest concentration of small businesses among industries outside the service sector.

**How does small business growth in British Columbia compare with other provinces?**

Small businesses are more prevalent in Western Canada compared to the rest of the country, at least in terms of businesses per capita. In 2004, British Columbia ranked third among the provinces with 84.7 small businesses per 1,000 people. Saskatchewan had the highest ratio of small businesses to population with 94.4 per 1,000 people, followed by Alberta (85.9). The only other provinces exceeding the Canadian average of 68.5 small businesses per 1,000 people were Prince Edward Island (81.5) and, marginally, Manitoba (68.6).



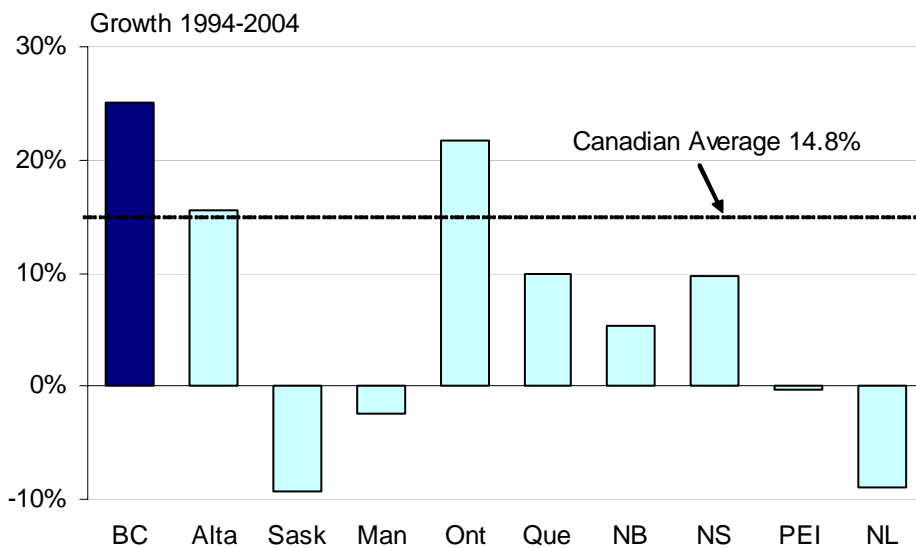
**Figure 1.6: Western Canada generally has more small businesses per capita**



Source: BC STATS using data supplied by Statistics Canada

Over the last decade, British Columbia has led the country in growth in the number of small businesses. Between 1994 and 2004, the count of small businesses in the province climbed 25.0 per cent, well above the national average of 14.8 per cent growth. The only other provinces to exceed the Canadian average were Ontario, with a 21.8 per cent rise in the number of small businesses and Alberta, where the small business count jumped 15.5%.

**Figure 1.7: BC is the leader in small business growth, 1994-2004**



Source: BC STATS using data supplied by Statistics Canada

Most of the expansion across the country occurred early in the decade. Between 1994 and 1999 the number of small businesses in Canada increased 19.1 per cent. British Columbia led the way

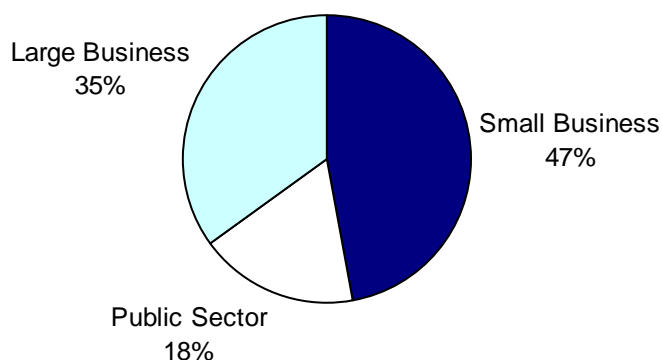
with a 26.2 per cent spike in small business counts. Only Newfoundland and Labrador (-1.4 per cent) experienced a drop in small businesses over that five-year period. However, the next five years were a completely different story. There were fewer small businesses in Canada in 2004 compared to five years earlier. Between 1999 and 2004 the count of small businesses in the country fell 3.6 per cent. Only Alberta (+3.7 per cent) experienced an increase in the number of small businesses. British Columbia had the smallest decline of all other provinces (-1.0 per cent), followed closely by Ontario (-1.4 per cent), the only other province with a better performance than the national average. The poorer performance over the last half of the decade was mainly due to a contraction in manufacturing businesses and establishments engaged in primary industries such as agriculture, forestry, fishing and hunting. The North American manufacturing sector has been struggling in recent years in the face of economic and geopolitical shocks, such as 9/11, as well as increased competition from burgeoning economies such as China.

## 2. Small Business Employment

### How many jobs does small business provide in British Columbia?

British Columbia's small business sector was the source of 971,000 jobs in 2004, or almost half of all the jobs in the province.<sup>3</sup> The 47 per cent share of total employment is unchanged from 2003.

**Figure 2.1: Almost half of all jobs in British Columbia were in small business, 2004**



Source: BC STATS using data supplied by Statistics Canada

The private sector (both small and large businesses) employed 1,691,400 people in British Columbia in 2004. The 971,000 people working for a small business translate to 57 per cent of private sector jobs. This ratio has remained essentially unchanged over the last five years. Self-employed workers represented 23 per cent of total private sector employment. Of those people who were employed by a business, 45 per cent worked for a small business and the remaining 55 per cent were employees of large businesses.

**Figure 2.2: Private sector employment in British Columbia by size of business, 2004**

	Employment	Per cent of total
<b>Total small business employment</b>	<b>971,000</b>	<b>57%</b>
Self-employed	388,100	23%
Employed by small business	582,900	34%
<b>Large business employment</b>	<b>720,400</b>	<b>43%</b>
<b>Total private sector employment</b>	<b>1,691,400</b>	<b>100%</b>

Source: BC STATS using data supplied by Statistics Canada

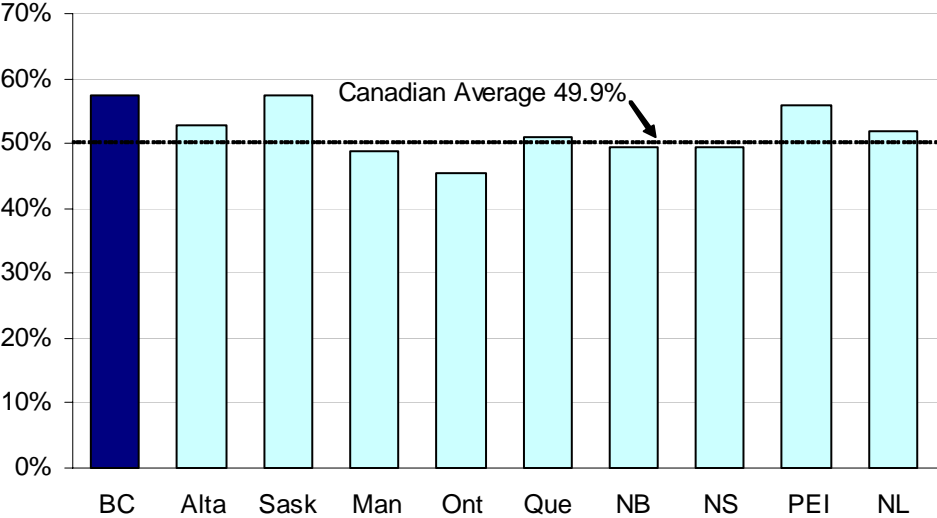
<sup>3</sup> There is no comprehensive measure of small business employment available. Although Statistics Canada's Survey of Employment, Payrolls and Hours (SEPH) does offer data on employment by business size, it is an employer survey and therefore excludes self-employed individuals as well as those employed in agricultural or fishing operations. The data published by BC Stats is an estimate that uses data from SEPH adjusted for agriculture and fishing employment using a multiplier, then prorated to sum to Labour Force Survey (LFS) totals and augmented by adding the number of self-employed from the LFS.

Small business employment in British Columbia climbed 3.3 per cent in 2004, marking the third straight year of growth, following on the heels of two years of declines. Both employees of small businesses and self-employed individuals have contributed to the expansion in employment in the last few years. However, despite the upsurge in self-employed individuals in recent years, they still number less than the peak level achieved in 1999, before a steep 7.8 per cent plunge in 2000 and a smaller 1.9 per cent decline a year later reduced the count. In 2004, there were 4,000 fewer self-employed workers in British Columbia compared to 1999, a drop of 1.0 per cent over the five-year period. On the other hand, employees of small businesses increased 6.5 per cent, which helped boost overall small business employment (including self-employed) to 3.4 per cent in the five-year period from 1999 to 2004. Employment in large businesses jumped 15.3 per cent over that same period.

**How does British Columbia’s small business employment compare to other provinces?**

With just over 57 per cent of private sector jobs derived from small business in 2004, British Columbia ranked second among the provinces, marginally behind Saskatchewan by one-tenth of a percentage point. By comparison, only half (50 per cent) of private sector employment in Canada as a whole was supplied by small business, a difference of seven percentage points. Prince Edward Island ranked third behind British Columbia, with 56 per cent of jobs in that province attributable to small business. Ontario, with slightly less than 46 per cent, had the least dependence on small business for private sector employment.

**Figure 2.3: British Columbia ranks second in small business as a per cent of private sector employment, 2004**



Source: BC STATS using data supplied by Statistics Canada

The significant variation among the provinces in terms of small business employment is likely related to regional differences in economic structure. For example, Saskatchewan and Prince Edward Island have significant agricultural sectors and these farming operations are often small

businesses with fewer than 50 employees. Ontario is a manufacturing hub and has a greater percentage of large manufacturers, particularly automobiles, and is therefore more likely to have a higher percentage of employment in large businesses.

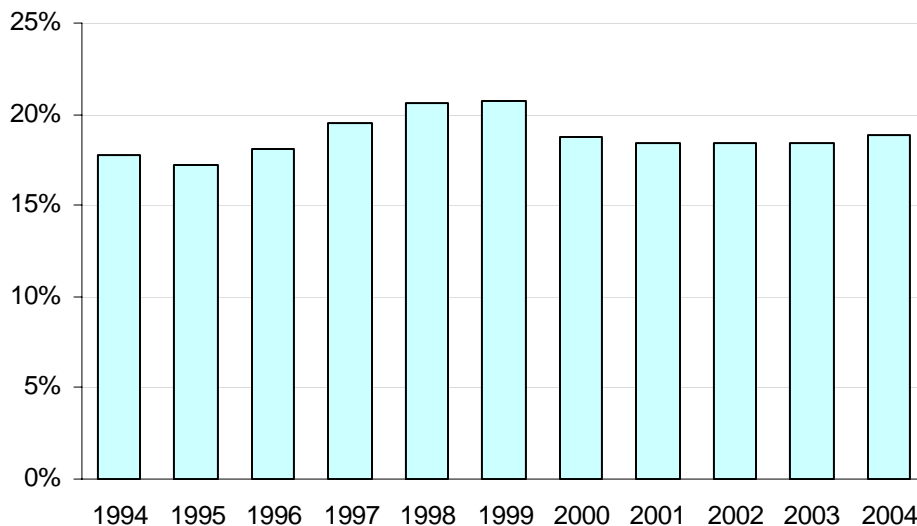
The 3.3 per cent rise in small business employment in British Columbia between 2003 and 2004 was among the best in the country and well above the Canadian average of 1.9 percent. Only Newfoundland and Labrador (+4.3 per cent) had a higher rate of growth than British Columbia.

## Self-Employment

### What proportion of total employment is comprised of the self-employed?

People who spend most of their working hours operating their own businesses are classified as “self-employed.” Over the past five years in British Columbia, the proportion of total employment comprised of self-employed workers has remained fairly steady at between 18 and 19 per cent. In 2004, self-employment accounted for just under 19 per cent of total employment, up marginally from 2003.

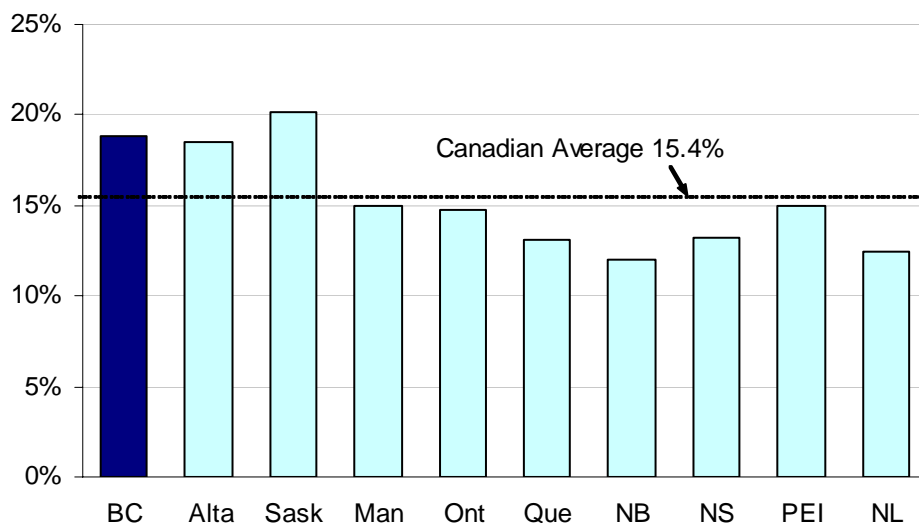
**Figure 2.4: British Columbia’s self-employment as a per cent of total employment, 1994-2004**



Source: Statistics Canada / Prepared by BC STATS

Only Saskatchewan (20 per cent) had a higher proportion of self-employed workers than British Columbia in 2004. The significant reliance on family farming operations in that province explains the higher ratio of self-employed. The number of farmers in Saskatchewan has been falling and this is reflected in the proportion of self-employed workers, which has also been dropping over the last couple of decades.

**Figure 2.5: Self-employment as a per cent of total employment by province, 2004**



Source: Statistics Canada / Prepared by BC STATS

To put British Columbia's 19 per cent into context, the lowest proportion of self-employed was in New Brunswick at 12 per cent, while the Canadian average was just over 15 per cent.

**How many self-employed people are there in British Columbia and how fast are they growing?**

In 2004, there were 388,100 self-employed individuals in British Columbia. Of these, 2,000 were working in family businesses without pay, leaving 386,100 self-employed business owners, a 5.2 per cent increase over 2003. The large majority (63 per cent) of self-employed businesses were unincorporated. Unincorporated individuals working on their own with no employees made up the largest class of self-employed small businesses, with 53 per cent of all self-employed in this category.

**Figure 2.6: Number of self-employed business owners in British Columbia, 2004**

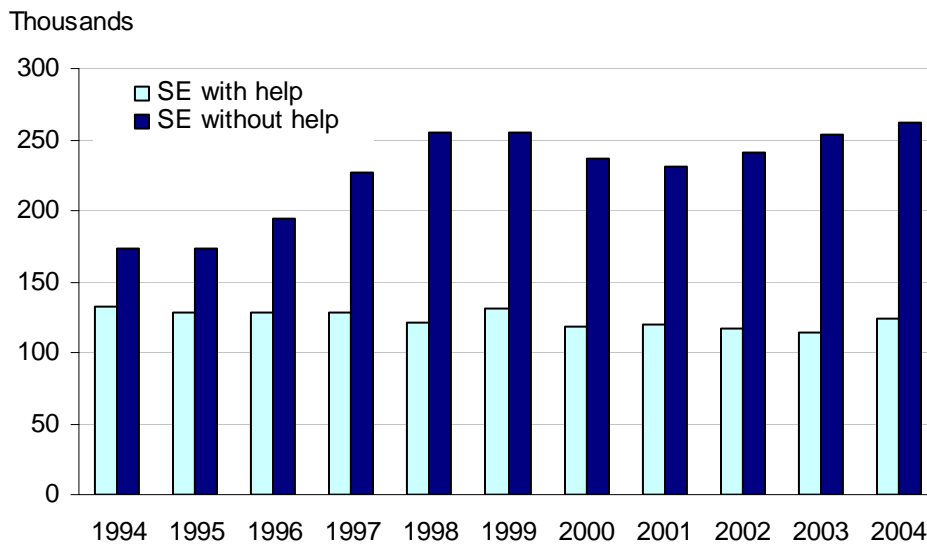
	With paid help	Without paid help	Total	Per cent
Incorporated	85,100	57,300	142,400	37%
Unincorporated	39,100	204,600	243,700	63%
<b>Total self-employment</b>	<b>124,200</b>	<b>261,900</b>	<b>386,100</b>	<b>100%</b>

Source: Statistics Canada / Prepared by BC STATS

The number of self-employed *without* paid help (regardless of incorporation status) was more than double that of self-employed *with* paid help in 2004 in British Columbia. This is a substantial transformation from a decade earlier when the margin between the two groups was much smaller. In 1994, there were 1.3 self-employed without paid help for every self-employed person with employees. The number of self-employed working alone soared between 1995 and 1998 and has since retained close to a two-to-one ratio to self-employed with paid employees.

Self-employed workers tend to produce less output per hour worked compared to employees, since they generally have far fewer opportunities to invest productivity-boosting capital into their business compared to larger firms. As a result, the strong growth in self-employed without paid help was a major factor contributing to stalled productivity (the ratio of output to input, or in other words, production per hours worked).

**Figure 2.7: Self-employed without paid help have grown the fastest, 1994-2004**



Source: Statistics Canada / Prepared by BC STATS

The rapid growth in self-employed individuals working alone is not a phenomenon unique to British Columbia. The same pattern is evident throughout the country and even around the world. There are a multitude of possible reasons for the rise in this type of self-employment, including structural changes to the economy that “pushed” people into self-employment and increased entrepreneurial opportunities that “pulled” people toward working for themselves. Some of these “push” and “pull” factors include government and corporate downsizing during the 1990s, the shift toward contracting out some business functions in response to increasing competition resulting from globalization and the corresponding need to drive down costs, the increasing participation of women in the labour force and the need to balance family and work, and technological changes giving people more flexibility to work at home.

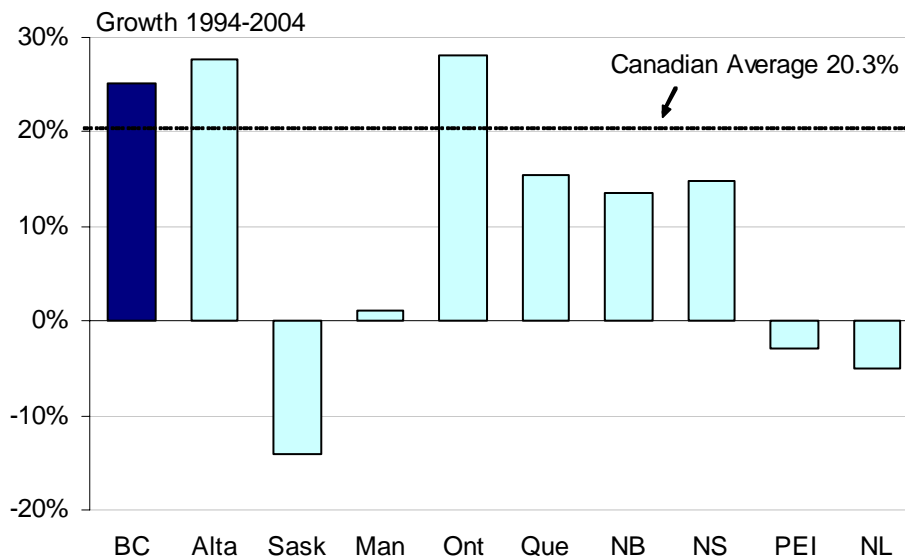
The question of whether the majority of self-employed are forced to accept self-employment because paid employment is not available or are self-employed by choice has garnered considerable debate. According to a Statistics Canada survey of the self-employed conducted in 2000, for four-fifths of self-employed people, working for themselves was a voluntary choice.<sup>4</sup> Only 20 per cent of respondents reported that they were self-employed because they could not find suitable paid employment.

<sup>4</sup> Statistics Canada (2002). *Survey of Self-Employment, catalogue no. 71M0017XCB* (CD-ROM).

## How does self-employment growth in British Columbia compare with other provinces?

Between 1994 and 2004, there was a 25.2 per cent increase in the number of self-employed in British Columbia, compared to a national average of 20.3 per cent. Only Ontario (+28.0 per cent) and Alberta (+27.7 per cent) saw greater growth in the number of self-employed than British Columbia. No other province exceeded the Canadian average. Saskatchewan bucked the national trend with a 14.1 per cent decline in self-employed over the last decade. This reflects a drop in the number of farmers as non-agricultural self-employment in Saskatchewan has climbed. Newfoundland and Labrador (-5.0 per cent) and Prince Edward Island (-2.9 per cent) also experienced smaller numbers of self-employed.

**Figure 2.8: Self-employment growth in British Columbia exceeds the national average, 1994-2004**



Source: Statistics Canada / Prepared by BC STATS

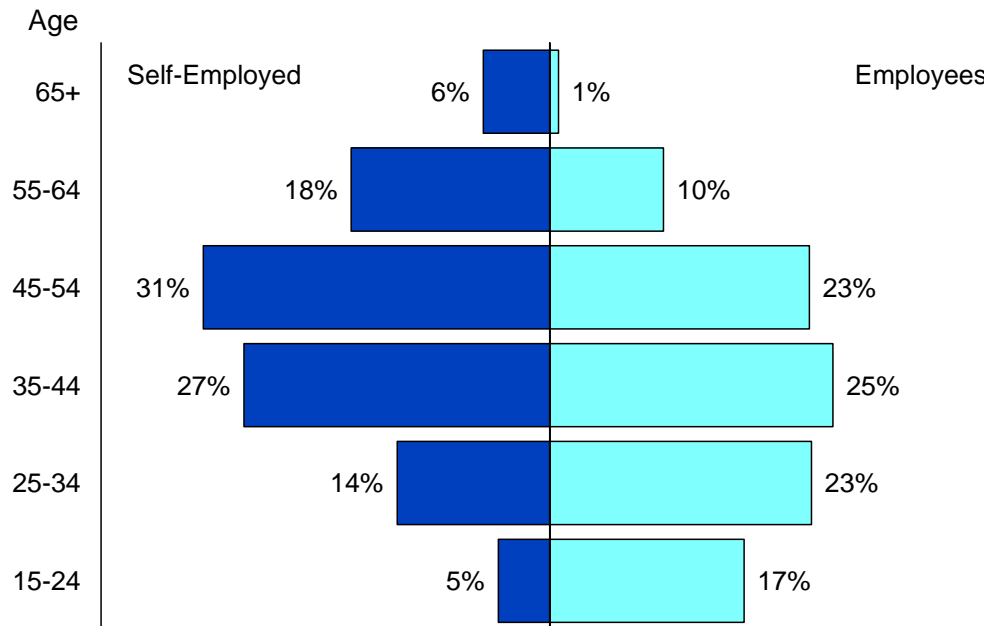
## What is the profile of a self-employed person in British Columbia?

On average, self-employed people tend to be older, are more often men, work longer hours and are less likely to be Aboriginal peoples compared to workers who are employees.

Well over half (58 per cent) of the self-employed are between the ages of 35 and 54, compared to only 48 per cent of employees. While 40 per cent of employees are under the age of 35, only 19 per cent of self-employed business owners fit this description. At the other end of the scale, 24 per cent of entrepreneurs are aged 55 and over, compared to only 11 per cent of employees.



**Figure 2.9: Self-employed workers tend to be older, on average – British Columbia, 2004**

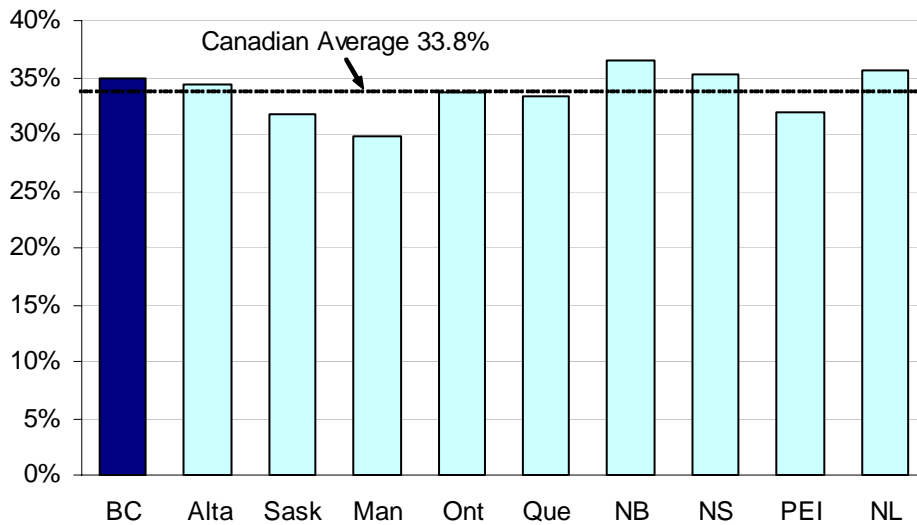


Source: Statistics Canada / Prepared by BC STATS

There are at least a couple of reasons for the different age structure of self-employed persons versus employees. For older workers, self-employment may be used as a transition from working at a full-time job to moving into retirement. The reason there are not a lot of young self-employed entrepreneurs is likely due to a lack of skills and capital needed to start and operate a business.

Another difference between self-employed persons versus employees is in terms of gender balance. While workers who are employees are equally likely to be men or women, those that are self-employed are more often men. In 2004, in British Columbia, almost two-thirds (65 per cent) of the self-employed were men. However, there is a higher proportion of self-employed that are women in British Columbia (35 per cent) compared to the national average (just under 34 per cent). Among the provinces, British Columbia ranks fourth in terms of the proportion of entrepreneurs that are women, behind all the Atlantic provinces with the exception of Prince Edward Island. At 30 per cent, Manitoba has the lowest share of women that are self-employed business owners.

**Figure 2.10: Proportion of self-employed who are women, 2004**

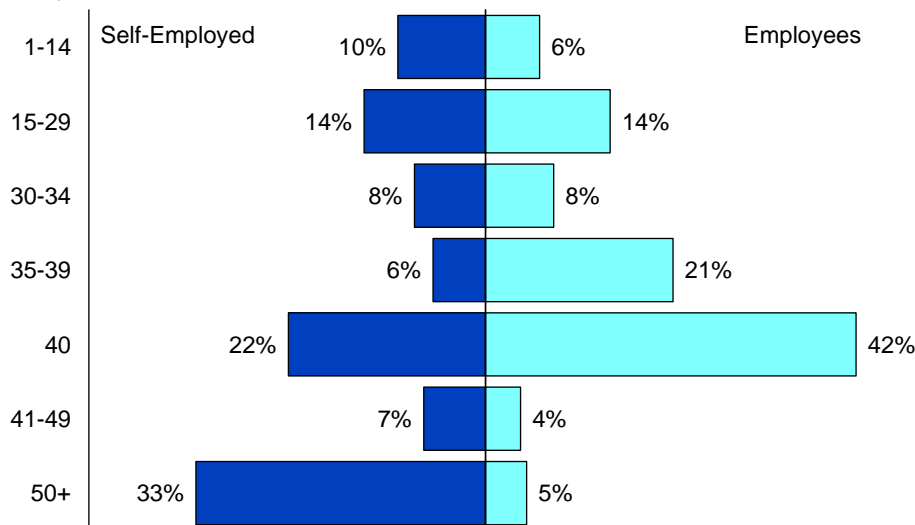


Source: Statistics Canada / Prepared by BC STATS

A substantial difference between self-employed and employees is the usual number of hours worked per week. On average, the self-employed have much longer work days compared to employees. While a significant majority of employees work between 35 and 40 hours per week (63 per cent), only 28 per cent of the self-employed fit in this category. A full third of the self-employed work 50 or more hours per week, compared to only 5 per cent of employees. The average work week for all self-employed workers is 40.1 hours, compared to 34.9 hours for all employees.

**Figure 2.11: Self-employed tend to work longer hours – British Columbia, 2004**

Usual hours worked per week



Source: Statistics Canada / Prepared by BC STATS

Starting in April 2004, Statistics Canada expanded sampling of Aboriginal peoples on the Labour Force Survey such that there are now data on labour characteristics of off-reserve Aboriginal peoples that was previously available only in census years. Based on data for the period from April 2004 through March 2005 it appears that Aboriginal peoples living off-reserve are significantly less likely to be self-employed compared to non-aboriginals. During that period, 19.2 per cent of non-Aboriginal peoples in British Columbia were self-employed, but only 14.9 per cent of Aboriginal peoples worked for themselves. Those Aboriginal peoples that identified themselves as Métis were slightly more likely to be self-employed (15.2 per cent) than those that are classified as North American Indian (14.7 per cent).

### 3. Contribution to the Economy

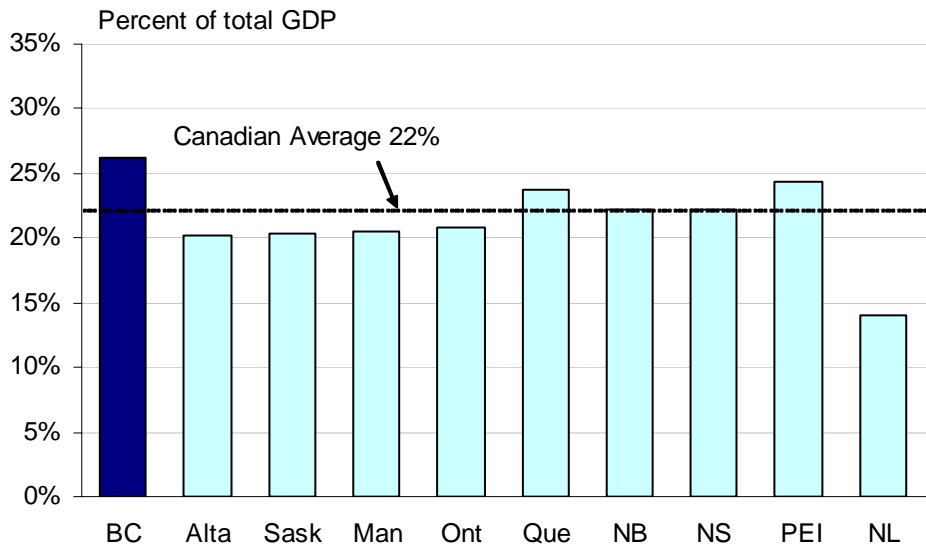
#### How large is the contribution of small business to British Columbia's economy relative to other provinces?

Small business contributes to the provincial economy in a number of ways: by creating and maintaining employment, through production of goods and services, and by meeting payrolls that support families and stimulate further economic activity.

The key measure of economic production of a sector is its gross domestic product (GDP). GDP represents the value that a sector adds to the materials and services it uses.

In 2004, British Columbia ranked first among the provinces in terms of small business' proportion of provincial GDP. At 26 per cent, small business in British Columbia accounted for a much larger share of GDP compared to the national average of 22 per cent, emphasizing the importance of small business to the provincial economy. At just over 24 per cent, Prince Edward Island ranked next after British Columbia, followed closely by Quebec at just under 24 per cent. The province with the smallest contribution to GDP from small business was Newfoundland and Labrador, at 14 per cent. This likely reflects the increased role of large businesses in the offshore oil industry in that province's economy.

**Figure 3.1: British Columbia ranked first among the provinces in terms of proportion of GDP comprised of small business, 2004**



Source: BC STATS

#### How does average pay compare between small and large businesses?

Large businesses tend to pay their employees more, on average, compared to small businesses. The average small business employee earned \$31,086 in 2004, compared to \$39,184 for employees of large businesses, which amounts to a 26 per cent premium for those working for

large businesses. The reason for the wage shortfall in small businesses is probably related, at least in part, to productivity. Larger firms tend to be more productive than small businesses because they can take advantage of economies of scale and they can better afford necessary capital improvements, such as machinery and equipment that can substitute for low-skilled labour. As a result, larger firms tend to achieve more output per employee and therefore can afford to pay their employees higher wages. Another possible factor in the wage difference is that small businesses are far less likely to be unionized. In general, employees who belong to unions tend to earn higher wages than non-unionized employees.

**Figure 3.2: Changes in average annual earnings, British Columbia, 1999-2004**

	Small Business	Large Business
Earnings 1999 (payroll/employee)	\$26,459	\$36,238
Earnings 2004 (payroll/employee)	\$31,086	\$39,184
<b>Percent change</b>	<b>17%</b>	<b>8%</b>

Source: BC STATS using data supplied by Statistics Canada

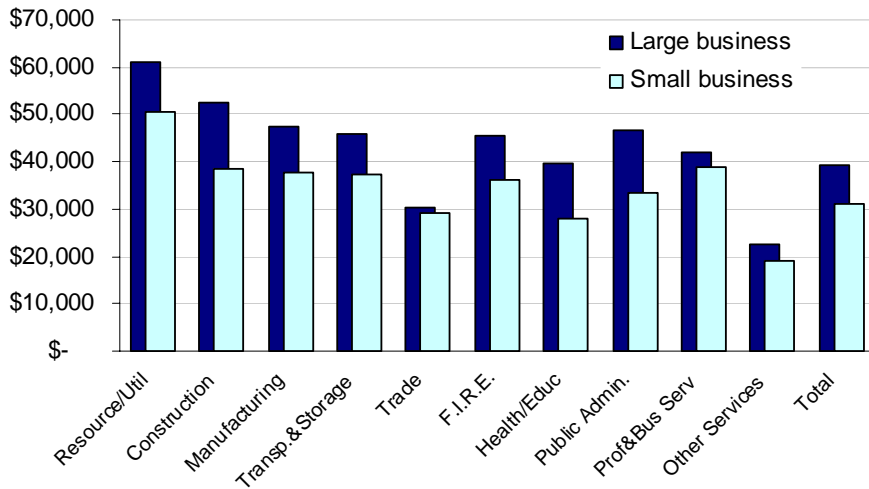
Between 1999 and 2004, the disparity between wages of employees of small and large businesses contracted somewhat as growth in average earnings of small business employees outpaced that of employees of large businesses. Employees of small businesses saw their average wages increase 17 per cent over that period, compared to only an 8 per cent boost for those working for larger businesses. However, most of the growth occurred between 1999 and 2000 when earnings for small business workers climbed 11 per cent, while employees of larger firms received only a four per cent raise in pay. Since that time, the gap between earnings of employees at small and large businesses has remained fairly steady at approximately \$8,000.

### **How does average pay compare across industries for small versus large businesses?**

Over all major industry groupings, wages in businesses with 50 or more employees are higher than those in small businesses. The largest wage gap is in the construction industry, where large businesses pay approximately \$13,800 more, on average, than their counterparts in small businesses. The smallest wage difference is in wholesale and retail trade businesses, where larger firms pay their employees less than \$1,200 more per year than small businesses. For businesses of any size, employees in the accommodation and food sector (included in “other services” in Figure 3.3) earned the lowest wages, on average. The highest wage earners were in the utilities and resource industries.<sup>5</sup>

<sup>5</sup> The resource industries included here are forestry, logging and support, mining and oil and gas extraction. The data are from Statistics Canada’s *Survey of Employment, Payrolls and Hours*, which does not include data for the agriculture and fisheries industries. Utilities are included with the resource industries as data for the separate industries were suppressed by Statistics Canada in order to meet confidentiality requirements and residual numbers had to be used (i.e., the difference between the industry aggregate and the sum of all unsuppressed industries).

**Figure 3.3: Average annual earnings by industry, British Columbia, 2004**



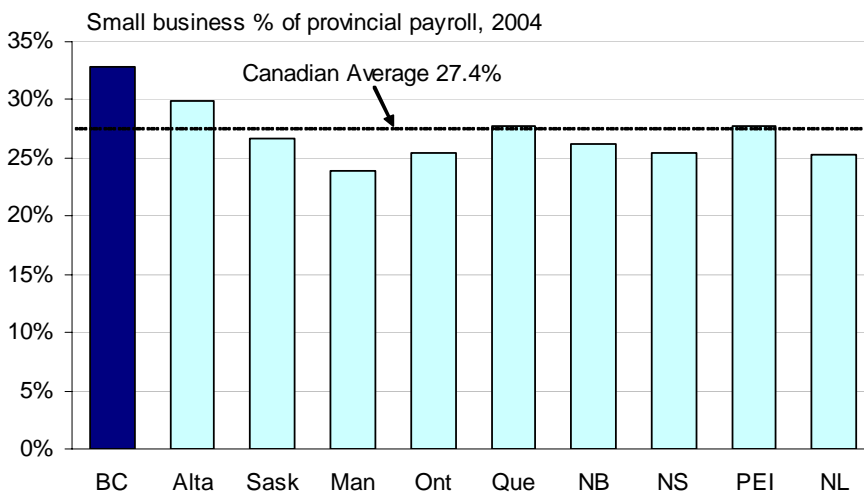
Note: "F.I.R.E.": finance, insurance and real estate

Source: BC STATS using data supplied by Statistics Canada

**How does British Columbia compare in terms of the portion of total payroll generated by small business?**

Small business accounted for close to 33 per cent of wages paid to workers in British Columbia in 2004, the highest ratio of any province. This compares to the Canadian average of just over 27 per cent. Second-ranked Alberta was almost three percentage points lower, with 30 per cent of its provincial payroll comprised of wages paid to small business employees. The province with the smallest percentage of payroll derived from small business was Manitoba at 24 per cent.

**Figure 3.4: British Columbia small business represents almost a third of the 2004 provincial payroll**



Source: BC STATS using data supplied by Statistics Canada

## 4. Growth Industries and Specially Defined Sectors

Historically, British Columbia was developed around its resources. Resource extraction-based industries, such as forestry and mining, still play a prominent role in the province's economy. However, sectors such as tourism, high technology and secondary manufacturing have emerged to become significant industries as well and are often thought to be the most likely sources of growth for the future economy of the province. Since they are less reliant on capital-intensive resource extraction, they are a good fit for development by small business.

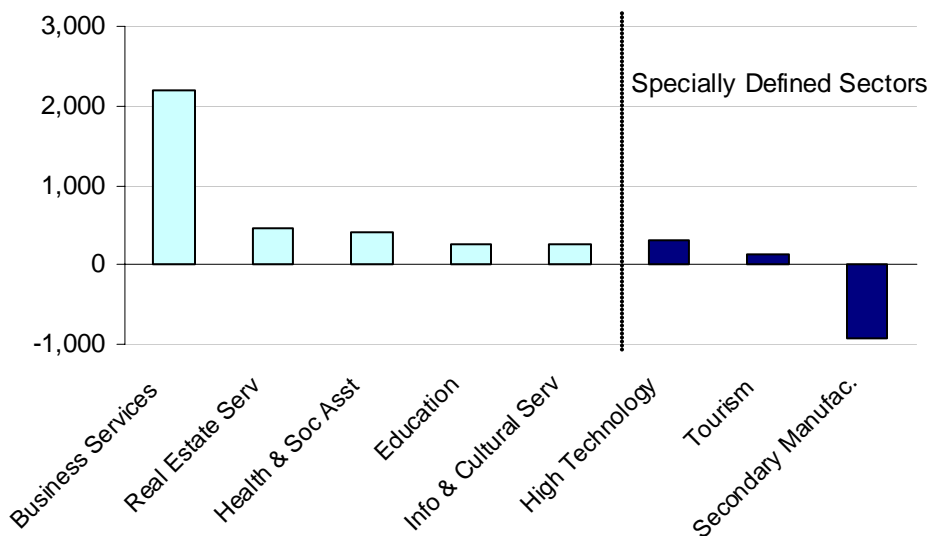
For example, in the high technology sector, 95 per cent of employers are small businesses.<sup>6</sup> Innovation is the basis for growth in this sector and these services can often be performed efficiently from homes, small offices or small plants by a small number of employees.

### Number of Small Businesses

#### Which industries show the greatest increase in the number of small businesses?

In British Columbia, the business services sector is by far the leader in small business growth. Between 1999 and 2004, there was a net addition of almost 2,200 small business establishments in business services industries, an average of 440 per year. The next highest growth in net new small businesses was in real estate services, where about 450 establishments were added in the five-year period, or only slightly more than business services added in just one year.

**Figure 4.1: Number of new small businesses – fastest growing sectors in British Columbia, 1999-2004**



Note: Excludes self-employed without paid help

Source: BC STATS using data supplied by Statistics Canada

<sup>6</sup> Note that reliable data on self-employment by industry is not available; therefore, the figures provided in this chapter are for paid employees only and may differ from other parts of this report.

## Specially Defined Sectors

Tourism, high technology and secondary manufacturing are not standard industries defined in the North American Industry Classification System (NAICS) used by Statistics Canada. These “specially defined sectors” are in fact composites of smaller parts of traditionally defined industries under NAICS. Tourism, for example, includes data from parts of the transportation industry, accommodation and food services, and information, culture and recreation services, among others. High technology includes both manufacturing and services components.

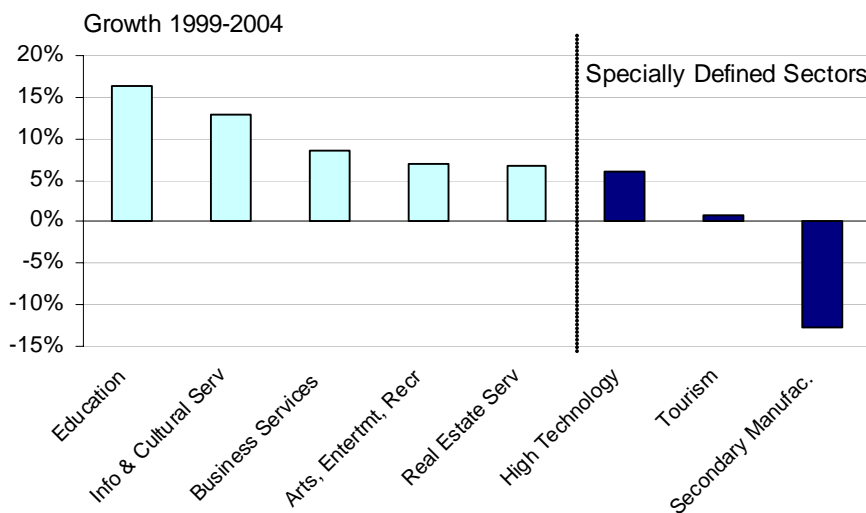
Of these three specially defined sectors, only two have experienced an increase in the number of small businesses over the last five years. High technology led the way with a net addition of almost 300 new businesses, although all the gains were in the service sector, as the number of high technology manufacturing establishments actually fell over the five-year period.

There was also an increase in tourism businesses with a net addition of approximately 130 new establishments between 1999 and 2004. On the other hand, the secondary manufacturing sector saw a net decline of just over 900 businesses over the five-year period. The drop in value added manufacturing is likely due to a combination of factors including increased global competition, political and economic uncertainty and, for those firms manufacturing wood products, the lingering softwood lumber dispute that has driven some value added manufacturers south of the border to avoid duties.

### Which industries show the fastest rates of growth in new businesses?

Among the standard sectors, the fastest growth in number of establishments was in small businesses providing education services. Between 1999 and 2004, there was a 16.3 per cent increase in small businesses in education service industries. Information and cultural services also saw strong growth in net new small businesses (+12.9 per cent).

**Figure 4.2: Sector growth rates for number of small businesses, 1999-2004**



Note: Excludes self-employed w without paid help

Source: BC STATS using data supplied by Statistics Canada



In the specially defined sectors, high technology set the pace with a 6.1 per cent rise in the number of establishments, while the number of tourism firms edged up 0.9 per cent. Secondary manufacturing experienced a 12.8 per cent drop in the number of firms in that sector.

**Small Business Employment**

**Which industries are experiencing the most job growth?**

Between 2000 and 2004, industries in the arts, entertainment and recreation sector were the largest provider of new small business jobs in British Columbia.<sup>7</sup> Employment in this sector surged 36.9 per cent during this period. There was also substantial growth in the number of people employed in information and culture industries (+33.5 per cent).

**Figure 4.3: Small business employment – fastest growing industries in British Columbia, 2000-2004**



Source: BC STATS using data supplied by Statistics Canada

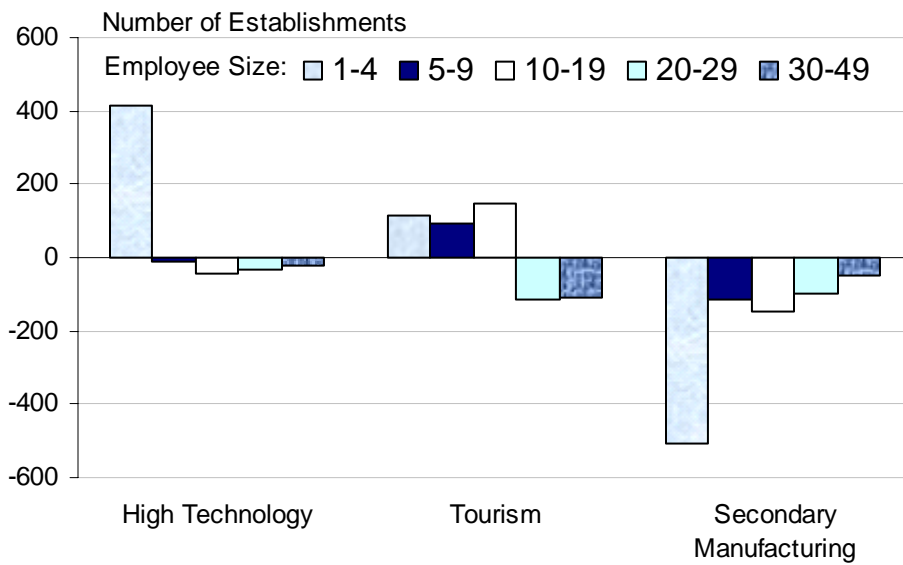
The softwood lumber dispute has taken its toll on those working in small businesses involved in logging and forest support services (e.g., silviculture), as small business employment in this industry has plummeted 41.8 per cent in the last four years. The loss was not due to industry consolidation either, as forestry and logging employment in larger businesses fell 71.7 per cent.

Data on employment by size of business are not readily available for the specially defined sectors; however, Statistics Canada’s *Business Register* does have industry detail by employee-size class. Based on this data, it appears that, between 1999 and 2004, employment levels probably fell for all three specially defined sectors.

<sup>7</sup> This data is from Statistics Canada’s *Survey of Employment, Payrolls and Hours* and data by industry by size of enterprise are not available prior to 2000; therefore, analysis of growth over a five-year period is not possible at this time.

There was a drop in the number of establishments in every employee size category in the secondary manufacturing sector over the five-year period. The overall employment reduction likely ranged from around 5,900 to 11,000 workers. The rising Canadian dollar and increased global competition could continue to create challenges for this sector.

**Figure 4.4: Small business employment in the specially defined sectors – British Columbia, 1999-2004**



Source: BC STATS using data supplied by Statistics Canada

In the high technology sector there was considerable growth in micro-businesses with fewer than five employees (over 400 net new businesses), but the number of small business establishments in each other employee-size category fell. The increase in micro-businesses was probably not enough to mitigate the losses in the other size categories.<sup>8</sup> Most of the high technology job loss was in manufacturing businesses and was reflective of the downturn in the manufacturing sector in general. The bursting of the high tech bubble after the rash of “dotcom” failures in 2001 was likely another major factor in the drop in employment. The high technology sector in British Columbia has begun to turn around and employment in small businesses in this sector could soon see a turnaround as well.

The tourism sector saw growth in the number of businesses employing fewer than 20 employees, but there was a substantial drop in the number of establishments with between 20 and 49 employees. Once again, it does not appear likely that the growth in the number of smaller businesses was enough to offset the losses in the 20 to 49 employee size category. Events such as 9/11, the SARS epidemic and geo-political tensions have had a detrimental effect on the tourism sector, which in turn has affected employment. Tourism is on the rebound and employment in small businesses in the tourism sector will likely pick up as well.

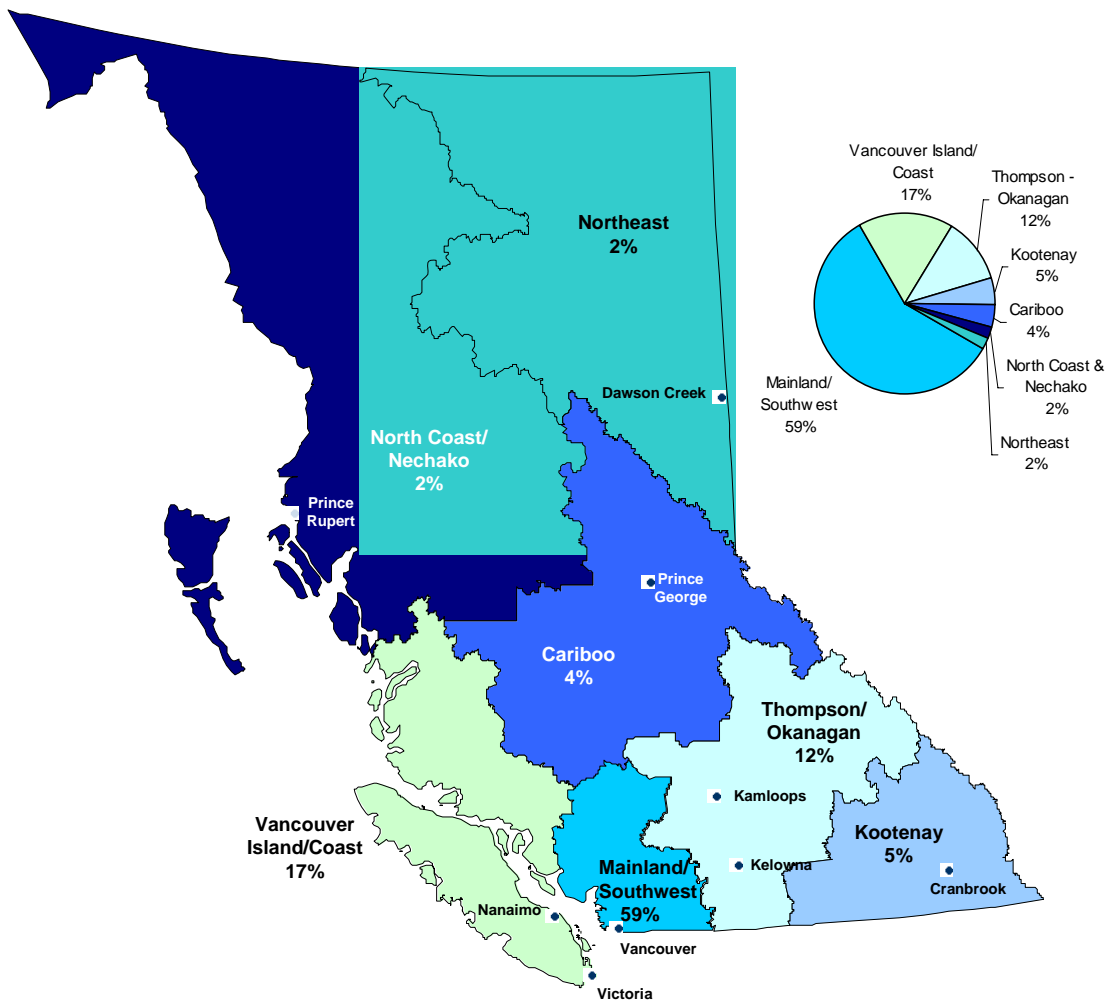
<sup>8</sup> It is possible that there was some shifting within the size ranges such that the average size within each range increased over the period; therefore, it is impossible to say with any certainty whether or not there was indeed a drop in employment based on this data, but it seems likely that this is the case.

## 5. Regional Focus

### Which regions have the greatest number of small businesses?

Not surprisingly, the regional distribution of small businesses in British Columbia is closely related to the distribution of population. The Mainland/Southwest region, which includes Greater Vancouver, was home to about 59 per cent of the province's people in 2004 and the region also contained the same percentage of British Columbia's small businesses. Vancouver Island/Coast was the location of about 17 per cent of the province's small businesses, slightly lower than its population share of just under 18 per cent. Third-ranked Thompson-Okanagan had a 12 per cent share of both small businesses and population, while the remaining regions together accounted for around 13 per cent of small businesses, slightly higher than their 12 per cent share of population.

**Figure 5.1: Mainland/Southwest accounted for over half of all small businesses in British Columbia, 2004**



Source: BC STATS using data supplied by Statistics Canada

## In which regions are the greatest numbers of small businesses forming?

The Northeast region of British Columbia has been booming as a result of activity in the oil and gas sector and this economic growth has been reflected in rising numbers of small businesses in the area. From 1999 to 2004, the Northeast led the province in growth in the number of small businesses with an average annual growth rate of 5.4 per cent.

At the other end of the spectrum, the Cariboo region experienced the fastest drop in small businesses, losing an average of 500 businesses per year, which translates to a rate of decline of 3.1 per cent. Struggles in the forest sector related to the softwood lumber dispute were likely a major contributor to the falling numbers of small businesses.

The Vancouver Island/Coast region also experienced significant losses in the number of small businesses, with a 2.5 per cent drop between 1999 and 2004. A 20.5 per cent plunge in the number of unincorporated self-employed without paid help was responsible for the overall decline as small businesses with employees in the region climbed 1.8 per cent. It is possible that some of the self-employed moved into paid employment as the number of employees in both small and large businesses climbed 14.4 per cent over the five-year period.

**Figure 5.2: Number of small businesses by region, 1999-2004**

	Average annual growth (#)	Average annual growth rate
Vancouver Island/Coast	-1,700	-2.5%
Mainland/Southwest	1,300	0.6%
Thompson/Okanagan	-30	-0.1%
Kootenay	200	1.5%
Cariboo	-500	-3.1%
North Coast & Nechako	-200	-2.2%
Northeast	300	5.4%
<b>Provincial Total</b>	<b>-700</b>	<b>-0.2%</b>

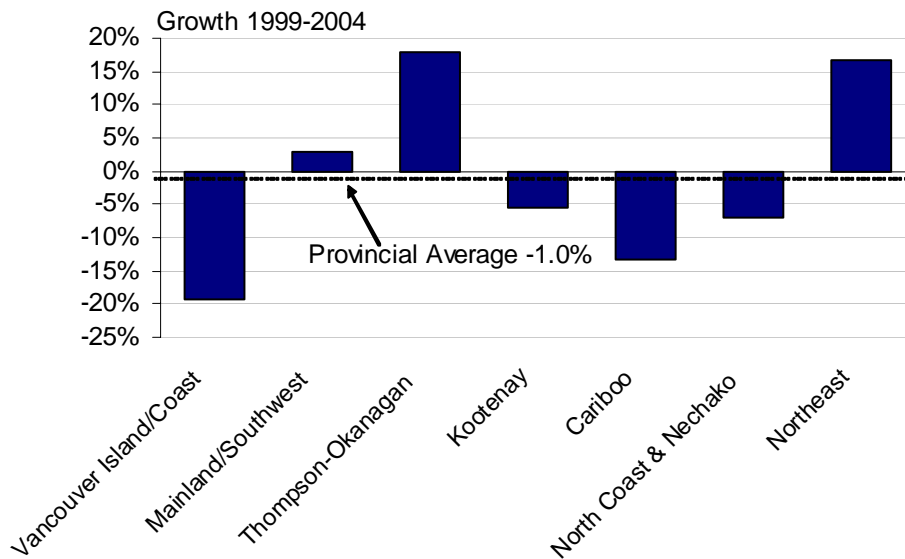
Source: BC STATS using data supplied by Statistics Canada

## In what regions is self-employment growing the fastest?

The Thompson-Okanagan was the region with the strongest growth in the number of self-employed between 1999 and 2004. The 17.9 per cent increase in self-employment in that region slightly outstripped the 16.7 per cent rise recorded in the Northeast. The only other region with positive growth in entrepreneurs was Mainland/Southwest, with a 3.0 per cent jump. Vancouver Island/Coast saw the largest drop, with 19.2 per cent fewer self-employed.<sup>9</sup> Cariboo (-13.3 per cent) also experienced a double-digit decline. For the province as a whole, self-employment dropped 1.0 per cent from 1999 to 2004.

<sup>9</sup> This is total self-employed, which includes incorporated and unincorporated and those with and without paid help, which is why this figure is different from the one quoted in the previous paragraph. The 20.5 per cent drop was for unincorporated self-employed without paid help only. This figure is used for business counts in order to avoid double counting those self-employed already included in data from the *Business Register*.

**Figure 5.3: Self-employment growth rate for regions in British Columbia, 1999-2004**



Source: Statistics Canada / Prepared by BC STATS

**In what regions are the specially defined sectors growing the fastest?**

Secondary manufacturing small business establishments disappeared in every region of the province between 1999 and 2004. Regions in the northern half of the province suffered the highest rates of decline, but the southern half of the province also lost significant numbers of small businesses in secondary manufacturing.

The high technology sector expanded the number of small businesses in the two regions with the highest concentration of high technology establishments. Vancouver Island/Coast recorded a 2.5 per cent jump in high tech establishments, while Mainland/Southwest posted a 1.6 per cent increase. The only other region of the province to see an increase in high technology small businesses was the Northeast (+3.3 per cent). The Cariboo region suffered the largest drop, losing 6.4 per cent of its high tech small business establishments in the five-year period.

There was marginal growth in the number of tourism-related small business establishments in the Mainland/Southwest (+1.0 per cent) and Kootenay (+0.1 per cent) regions, but all other parts of the province experienced a drop in the number of small businesses in tourism.

**Figure 5.4: The specially defined sectors lost establishments in most regions of the province between 1999 and 2004**

DEVELOPMENT REGION	Tourism		High Technology		Secondary Manufacturing	
	Average annual change (#)	Average annual rate of change	Average annual change (#)	Average annual rate of change	Average annual change (#)	Average annual rate of change
Vancouver Island/Coast	-7	-0.3%	21	2.5%	-15	-1.6%
Mainland/Southwest	81	1.0%	52	1.6%	-127	-2.7%
Thompson/Okanagan	-28	-1.3%	-2	-0.6%	-18	-2.3%
Kootenay	1	0.1%	-2	-1.4%	-3	-1.4%
Cariboo	-13	-1.9%	-10	-6.4%	-11	-4.7%
North Coast & Nechako	-6	-1.3%	-1	-2.1%	-7	-5.7%
Northeast	-4	-1.5%	1	3.3%	-3	-4.7%

Source: BC STATS using data supplied by Statistics Canada

## 6. Small Business Exporters

### How is a small business exporter defined?

An export can consist of either a good or a service and can be shipped to either another country or another province or territory. Data on service exports and interprovincial trade are scarce and such data tabulated by business size are simply not available; therefore, for the purposes of this report, an exporter is defined as a business that ships merchandise to international destinations. A business with fewer than 50 employees that exports goods out of the country is defined as a small business exporter.

Note that export data for businesses by employee size are available for 2003 only and data for British Columbia on its own are not readily available. In order to meet confidentiality requirements, Statistics Canada has grouped the Territories (Yukon, Northwest Territories and Nunavut) into a region with British Columbia. Therefore, the data reported here include exporters in the Territories. However, the inclusion of exporters from the Territories should not significantly influence the numbers. Most of the exports from the Territories are diamonds from the Northwest Territories and these are generally large business exports. The numbers for small businesses in British Columbia are probably inflated by less than half of a per cent. The value of exports for large businesses may be slightly more overstated due to the inclusion of diamonds shipped from the Northwest Territories, but should not exceed two to three per cent of the total.

### How many British Columbia small businesses export?

There were 6,371 businesses in British Columbia that exported goods to international destinations in 2003. Of these, 80 per cent were small businesses with fewer than 50 employees. The 5,100 small business exporters accounted for about 1.4 per cent of all small businesses in the province. They employed over 70,000 people in 2003, which amounted to 7.5 per cent of total small business employment.

Despite the fact that only a small fraction of small businesses are exporters, they shipped about 31 per cent of the total value of exports from the province in 2003, or about \$8.9 billion worth of goods.

**Figure 6.1: Number of British Columbia\* exporters, employees and value of exports, 2003**

	Number of Establishments	Number of Employees	Value of Exports (\$millions)
Small business exporters	5,100	70,075	\$8,857.6
Large business exporters	1,271	277,292	\$19,865.8
<b>Total all exporters</b>	<b>6,371</b>	<b>347,367</b>	<b>\$28,723.4</b>

\*Includes data for the Territories

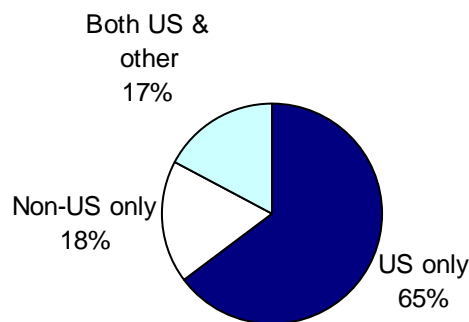
Source: Statistics Canada / Prepared by BC STATS

A couple of reasons why there are so few small businesses that export are the high start-up costs associated with an exporting business and the fact that, in order to compete internationally, businesses need to achieve economies of scale that may not be attainable for most businesses with fewer than 50 employees.

## What is the destination of goods shipped by British Columbia small business exporters?

Almost two-thirds (65 per cent) of British Columbia small business exporters shipped exclusively to the United States in 2003 and another 17 per cent exported to the United States and at least one other country. Only 18 per cent of small businesses that exported did not ship any goods at all to the United States. The high cost of transportation is one reason for the lack of destination diversification, since small businesses are less likely to be able to afford these costs. Those businesses that did export to other destinations tended to ship greater volumes, which probably helped defray some of the transportation costs.

**Figure 6.2: Most British Columbia\* small business exporters shipped exclusively to the United States in 2003**



\*Includes data for the Territories

Source: Statistics Canada / Prepared by BC STATS

## How do British Columbia small business exporters compare to those in other regions of the country?

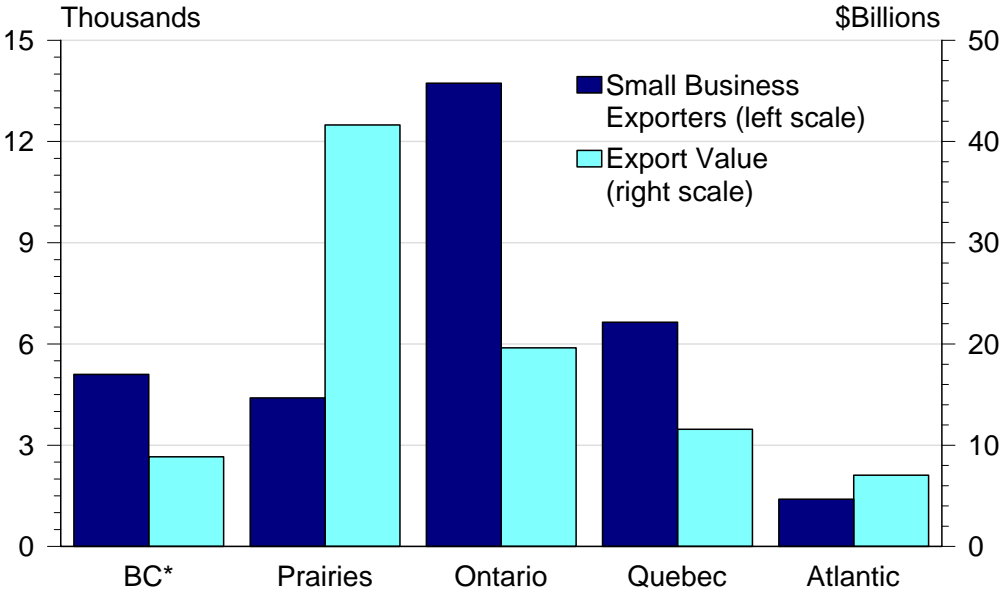
There were more small business exporters in British Columbia than in all the Prairie provinces combined in 2003. This is due, at least in part, to the fact that many small farms in the Prairies have their exports handled by large co-operatives such as the Canadian Wheat Board. Ontario has the most small business exporters in the country, with more than twice as many than second-ranked Quebec.

There is significant regional variation within Canada in terms of export intensity. In some regions small businesses export far more by value, on average, compared to other regions. For example, although there were fewer small business exporters in the Prairies than in the top three provinces, the value of shipments by those businesses in the Prairie provinces was far in excess of any other region in the country. In fact the value of small business exports from the Prairies was more than double those from Ontario, which was already more than double the amount shipped by small business exporters in British Columbia. It is possible that Alberta oil and gas producers hire small firms in the finance and insurance sector to deal with exporting their product, which helps explain the relatively higher export intensity in the Prairies. Average exports by small business exporters in the Prairies were close to \$9.5 million per firm. This is



well above the average value of exports from businesses in central Canada and British Columbia. In both British Columbia and Quebec, exporters averaged shipments of \$1.7 million, while in Ontario small businesses exported an average of \$1.4 million per firm. Small business exporters in Atlantic Canada averaged exports of \$5.0 million. The regional differences in terms of the number of small business exporters and export intensity are likely driven by the provincial variation in industry composition.

**Figure 6.3: Export intensity for small businesses varies widely by region, 2003**

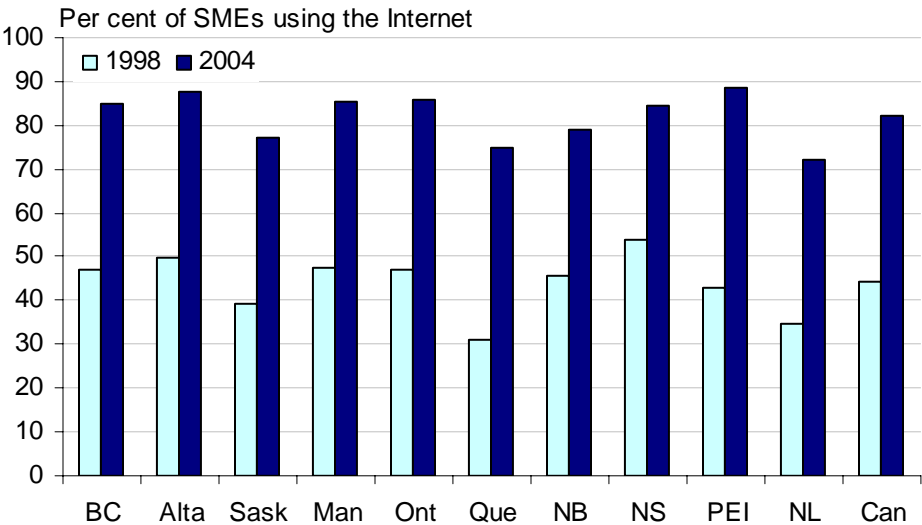


Source: Statistics Canada / Prepared by BC STATS

**How is technology affecting small business exporters?**

One area where small businesses may be able to compete with larger firms on a global scale is in niche markets. Small businesses are often better suited to produce specialized items for these smaller markets, but the problem is getting the word out to customers around the world. The continuing development of e-commerce may be an invaluable tool for small businesses seeking to expand their market globally. Based on data from the Canadian Federation of Independent Business (CFIB), small and medium-sized enterprises (SMEs) in British Columbia and across the country are embracing the Internet as a business tool. In 1998, only 46.9 per cent of SMEs in British Columbia were using the Internet, but by 2004 this percentage was up to 84.8 per cent.

**Figure 6.4: Internet use by small and medium-sized businesses by province**



Source: Canadian Federation of Independent Business / Prepared by BC STATS

Internet use by SMEs in British Columbia is higher than the Canadian average (82.4 per cent), but trails that of four other provinces. Prince Edward Island is at the top of the list with 88.7 per cent of its SMEs on-line. Newfoundland and Labrador lags well behind, ranking last in the country with 72.1 per cent of SMEs using the Internet.

The growth in the Internet as well as other communications technologies has helped make the world a smaller place, at least in a business sense. Small businesses are getting more involved in exporting than ever before. This includes the export of services, which are expanding quickly as Canadian companies compete globally to provide services such as computer programming and call centres. The small business sector is already an important part of the British Columbia economy and new technology could help it grow and become even more important in the future.

## Technical Notes

All statistics presented in this document are based on the best data currently available. A comprehensive listing of all businesses operating in British Columbia or elsewhere does not exist; therefore, business counts must be estimated to some extent. BC STATS has combined data from several sources to produce estimates of the total number of large and small businesses operating in British Columbia and other provinces, as well as the employment and payrolls generated by these businesses.

The results may differ from estimates produced in other studies using different data and different methodologies. Differences will potentially be more in terms of absolute numbers, rather than direction of trends or the relative standing of British Columbia compared to other provinces. This edition of the *Small Business Profile* incorporates statistical revisions, such that year-over-year comparisons should not be made using last year's edition. This is particularly important with the current edition, because Statistics Canada revisions to the *Labour Force Survey* have had a significant effect on self-employment data, which are a critical component of both small business counts and estimates of employment in small businesses.

## Data Sources

Estimates of the number of businesses have been produced using data from Statistics Canada's *Business Register* and *Labour Force Survey*. Estimates of employment and payrolls have been produced using Statistics Canada's *Survey of Employment, Payrolls and Hours* and *Labour Force Survey*. All self-employment numbers have been obtained directly from the *Labour Force Survey*. Data describing small business exporters is derived from Statistics Canada's *Exporter Registry*. Data on the percentage of small businesses using the Internet is from the Canadian Federation of Independent Business' *Members' Opinions Surveys*.

## Special Sector Definitions

*Tourism* includes industries such as transportation, accommodation, food services, and other tourism-related activities.<sup>10</sup>

*High technology* industries may employ a high proportion of scientists and researchers or invest a high proportion of revenues in research and development.<sup>11</sup> Other industries that produce high technology products are also included.

*Secondary manufacturing* industries are those that produce goods from the products of other manufacturers. For example, a sawmill is a manufacturing operation, but not a secondary manufacturer, because its logs do not come from another manufacturer. A factory producing wooden doors with lumber obtained from sawmills, on the other hand, is a secondary manufacturer.

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<sup>10</sup> Further information on the tourism sector is available at: [www.bcstats.gov.bc.ca/data/bus\\_stat/busind/tourism.htm](http://www.bcstats.gov.bc.ca/data/bus_stat/busind/tourism.htm)

<sup>11</sup> Further information on the high technology sector is available at: [www.bcstats.gov.bc.ca/data/bus\\_stat/busind/hi\\_tech.htm](http://www.bcstats.gov.bc.ca/data/bus_stat/busind/hi_tech.htm)

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