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# ECONOMIC STUDY

# *SURVEY OF LANGUAGE INDUSTRY COMPANIES IN CANADA*

*Translation, interpretation and language training*

*Based on a survey conducted by Statistics Canada in 2005*

**August 2006**

This study was prepared for Industry Canada by the consulting companies <u>Amiral Partenaires</u> and <u>Gestion Auri</u>.


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# Summary

This document presents an analysis of the results of a survey of language enterprises conducted during the summer of 2005 by the Small Business and Special Surveys Division of Statistics Canada. More specifically, the survey concentrated on translation and interpretation businesses (NAICS 541930) and on language training schools (NAICS 611630).

Although these businesses represent a significant part of the language industry, many activities were not covered by the survey, such as public-sector language schools, governmental translation bureaus, translation departments of large companies and freelancers, which together account for a major part of the language industry's activity.

The survey included 607 businesses, of which 369 (60.8%) belong to the translation and interpretation sector and 238 (39.2%) to the language training sector.

Canada-wide, 63% of businesses surveyed offer translation services, 41% language training, 17.1% language assessment services, and 16.8% interpretation services.

With a few exceptions, businesses offer services primarily in their fields of expertise. Thus, the services offered in another field are relatively marginal. Slightly less than 5% of businesses in the field of translation offer language training, and of those in the field of language training, 12% offer translation services. These percentages approach zero when viewed from the perspective of income generated and staff employed.

Overall, firms generate sales of $404.1 million. When considered with revenues from interest and dividends, this total increases to nearly $410 million.

Firms in the translation sector (NAICS 541930) generate $174.6 million in sales (43.1%), whereas those in the language training sector (NAICS 611630) generate $229.5 million (56.9%).

Ontario firms produce $174.2 million worth of goods and services linked to the language industry, accounting for 43.1% of revenues. Quebec ranks second, accounting for one quarter of overall revenues ($101.7 million). British Columbia follows with $91.2 million, whereas the other provinces and territories generate $37 million, or less than 10% of revenues.

In Ontario, revenues are distributed almost equally between the translation sector (45%) and the language training sector (55%). In Quebec, the translation sector dominates with 73%, whereas the opposite can be said for British Columbia, where the language training sector represents 93%. In other regions, the situation is similar to that in Ontario.

In addition, the survey reveals that 170 businesses had billings of $500,000 or more. These businesses account for no more than 28% of businesses in the industry, despite generating 83% of sales in both sectors analyzed.

However, 283 businesses generated sales of less than $150,000. Although they account for 46% of businesses, they generate less than 5.4% of revenues.


The sources of revenues by type of client are quite varied. The translation sector obtains its revenues mainly from the private sector, as well as from governments, public institutions (hospitals, schools, etc.) and individuals. For its part, the language training sector obtains its

revenues primarily from individuals, as well as from private-sector businesses, governments and public institutions.

Approximately 25% of revenues ($103.5 million) is derived from exports. However, the proportion of businesses engaged in exporting is slightly higher, at 30%.

Nearly two-thirds (63.6%) of export revenues ($65.8 million) are generated by businesses in the language training sector, whereas only 18% of them state that they export. However, export volume does not reflect all activities related to foreign students, as more than two-thirds of language schools offer courses to foreign students. Consequently, a large share is not accounted for under export revenues.

Close to half of export revenues of the language training sector comes from Asia, the other half originating in equal parts from Latin America and Europe.

The translation sector generates 36.4% of export revenues, or $37.7 million. However, the proportion of businesses exporting is much greater (37.7%) than in the language training sector.

In the translation sector, business is conducted mainly with the United States, generating more than two-thirds of export revenues for the sector, compared to 25% for Europe.

Translation firms that export earn an average $271,000 in export revenues, compared to $1.5 million for language training schools.

Regarding the future outlook for the international market, half of businesses in the language training sector say that they would like to set up operations or extend their activities in this market, compared to 21.5% of businesses in the translation sector.

With respect to production costs, salaries and benefits make up the main share of expenses in both the translation (50.5%) and language training sectors (45.3%).

In the translation sector, subcontracting costs account for 31% of overall expenses, compared to only 2.5% in the language training sector. In the latter, however, sales commissions account for 7.4 % of expenses.

Operating and other costs are much higher in the language training sector (37.8%) than in the translation sector (16.5%).

Although none of the questions in the survey addressed the issue of profits, the deduction of expenses from stated revenues indicate that businesses in the translation sector are more profitable that those in the language training one.

Firms from both sectors employ 7,405 persons, of whom a little less than half have full-time positions. This figure represents less than a quarter of that estimated for the entire language industry. Firms, especially in the translation sector, often use the services of subcontractors (6,954).

Among the 3,649 language teachers, 70% teach English, 17% French and 13% a language other than the two official languages. British Columbia accounts for the largest number of English teachers (857), followed by Ontario (788) and Quebec (584).

Among the 1,512 professionals in the business of translation, terminology and interpretation, 68% are translators, 24% are interpreters, 3% are writers and editors, 3% are proofreaders

and 2% are terminologists. Businesses in Ontario account for the largest number of translators (482), followed by Quebec (368). Firms in British Columbia account for the largest number of interpreters, followed by Quebec. In British Columbia, businesses in the translation sector employ approximately 50% more interpreters than translators. Notwithstanding, the proportion of revenues generated by this sector is relatively small.

Average revenue from sales per employee is $76,002 in the translation sector, compared with $44,940 in language training. The difference between the two sectors is largely attributable to the large proportion of part-time employees in the language training sector.

Regarding the question of forecast growth in the number of employees during the next fiscal year, 21.7% of businesses anticipate an increase, whereas 6.5% expect a reduction. The others do not envisage any changes in employee numbers. In this respect, language training schools are more optimistic than translation companies (34% compared to 13.7%).

Insofar as recruiting problems are concerned, 23.1% of firms indicated that they have had difficulties, whereas 50.7% had none and 26.2% did not reply, as they were not recruiting at the time of the survey. The difficulties appear to be greater in the language schools, with 27.8% having experienced difficulties, compared to 20% for translation companies.

The 249 language schools recorded just under 200,000 enrolments in 2004. The average number of enrolments per school was 800 in Canada, but this varied from one region to another: 1,584 in Ontario and 444 in Quebec.

A little less than 15% of language schools are very small, with fewer than 50 enrolments. The largest schools, falling into categories of 1,000 to 2,999 enrolments and 3,000 enrolments or more, represent 15.9% and 5.8% of establishments, respectively. Half the language schools ranged from 50 to 499 enrolments.

Summer study programs, international students, youth and the general public are categories of clients targeted by more than 40% of businesses in Canada. The business and public administration clientele are less targeted than thought, the former attracting 36% of businesses and the latter, 23%.

Overall, 64% of Canadian language schools target foreign students. In British Columbia, this proportion reaches 89%. In Ontario, it is 66% and in Quebec, only 29%.

Asia ranks first as the place of origin of foreign students.

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# Introduction

This study combines and analyzes the results of a survey of language industry businesses conducted in the summer of 2005 by the Small Business and Special Surveys Division of Statistics Canada. It was conducted at the request of Industry Canada within the framework of the federal government's Action Plan for Official Languages.

The results of this study will enable businesses, sector and professional associations, and government departments and organizations to better understand the role, economic contribution, performance and structure of the Canadian language industry, and in so doing, to set policy more effectively.

The survey was aimed specifically at private translation and interpretation companies (NAICS 541930) and language training businesses (NAICS 611630) based on Statistics Canada's business register. It did not include the translation departments of large and medium-sized businesses, government translation departments, or public language schools categorized under various sectors of economic activity.

It is also important to note that the results of the survey of the language technology industry are not considered here, due to the low response rate obtained from this type of business. Similarly, as mentioned in the methodology section, the study does not cover all businesses of the language industry, but rather, aims to better understand the industry's economic structure and main trends that drive it.

This study is an addition to previous research regarding the language industry, and provides new insight into operations, clientele, economic structure and an overview of activities. It is the first such study to examine in great detail the sources of revenues of businesses working within this industry, the relative importance of services offered, the main types of clients, and export-related activities. It thus contributes to a better understanding of the industry's growth and profitability factors.

It also covers in more detail certain aspects linked to human resources, employment and subcontracting. Considering the nature of the language industry—which is strongly dependent on human resources—this data will contribute towards current and future development of the industry.

Finally, a special section examines the client base of Canadian language schools. This sector is experiencing rapid growth, and a better knowledge of its client base may contribute towards its development in the future.

This study complements and elaborates on several others previously conducted on the industry, mainly:

– *Survey of the Canadian Translation Industry: Human Resources and Export Development Strategy.* Final report of the Canadian Translation Industry Sectoral Committee, 1999.

   This report provides a snapshot of the translation industry based on a survey of translation businesses, and presents various recommendations for smooth industry performance.

— *Profile of Canadian language industries* (March 2004), Statistics Canada.

This study uses census data to create a profile of the group of professions that includes translators, terminologists and interpreters. The study traces the evolution from 1999 to 2002 of production and profits derived from businesses in the translation and interpretation sectors, as well as those involved in language training, based on tax data provided by Revenue Canada. It also provides an overview of the language technology sector and the difficulties encountered while trying to obtain reliable data on this sector.

— *The Language Industry – A Source of Interesting Career Choices (January 2005)*, by Fernand Rioux, for Industry Canada.

This report examines the size of the labour market of Canada's language industry, along with trends and main factors affecting human resources in the three subsectors of the industry.

— *Financing of the language industry* (December 2005), by Martin Duchaîne, for AILIA.

This study covers a comprehensive economic overview and an analysis of industry trends, examines available sources of financing, and presents the main elements of economic success.

The main conclusions and recommendations of this study are made regarding the strong growth of the industry observed in British Columbia, especially in the language training sector geared toward Asian markets.

In addition, certain research trends will be presented, based on conclusions formed in an attempt to learn more about the industry and to fill the important information gap observed in previous studies, which was a direct consequence of the structure and inherent complexity of the language industry.

# Methodology

Annex A presents the methodology of the survey prepared by Statistics Canada. We should mention that the survey was conducted with businesses having at least one employee providing translation and interpretation services (NAICS 541930) and language schools (NAICS 611630) found in Statistics Canada's business register.

Given its frame of reference, the survey excludes independent workers, in-house departments (translation and language training) and public language training institutions. The registers used contain 892 businesses meeting these criteria, of which 874 were active and thus constituted the total survey population[1].

The Small Business and Special Surveys Division of Statistics Canada made first contact with these businesses by telephone. Next, 825 questionnaires were sent out in summer 2005. The response rate was 35.5% and the results were statistically attributed to 607 of them; many businesses had ceased operations or did not meet industry criteria. The response rate may have been influenced by any number of factors:

- First, the survey was conducted during the summer.

- Second, many businesses refused to respond and provided a general comment to the effect that they did not have time to respond. Certain businesses in the translation industry, during preliminary questioning, also mentioned that individuals were paid according to the number of words translated and they only had little time to dedicate to responding to surveys.

- Third, the questionnaire was relatively long (10 pages) and requested a great deal of financial data that is sometimes difficult to obtain.

Annex C reproduces the questionnaire that comprises five sections: Section A seeks basic information on businesses in the industry, sections B and C deal with information regarding business income and expenses, Section D deals with certain aspects of human resources, and Section E specifically addresses businesses that offer language training services.

A similar questionnaire was designed for the language technology sector. Although it was to be submitted to 185 businesses, a large number of them did not meet the necessary conditions to be classified within the industry. Thus, although 135 questionnaires were sent out, the response rate was so small that no meaningful analysis could have been conducted from the responses received.

Moreover, certain survey factors had repercussions on the analysis of the results and must therefore be mentioned.

The survey was conducted in summer 2005 with the participation of businesses that were active at that time. Consequently, it is a snapshot, an image of a specific point in time. It cannot be used to determine how the industry has changed in comparison with earlier data, as no other survey of this nature has been conducted before. The target population,

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1. Refer to the Statistics Canada register used for the survey in Annex B.

although similar, differs from the profile created by the same division of Statistics Canada in 2004. At that time, T2 tax forms were used, and the number of businesses was estimated at 1,097 for both sectors of activity in 2002[2]. The criteria requiring that each firm have at least one employee was not used in the previous study, which explains at least part of the difference between the two sets of data.

Consequently, the overall picture differs considerably depending on which data source is used. This is particularly true for the translation and interpretation sector, where a large number of players are freelancers.

During the analysis, it was also necessary to take into account the limitations in data reliability. The results presented have been extrapolated for each sector studied based on responses received from participating businesses. These projections, especially when the numbers are small, carry a significant margin of error, to the point that certain data was not included in this study. As a general rule, the proportions specified as a percentage have greater validity than absolute figures. Thus, for example, the margin of error is considered to be smaller if one states that 17% of businesses included in the survey offer interpretation services, rather than stating that 102 of participating businesses offer said services.

Within this context, absolute data regarding revenues listed in the study, among other data, is provided only as an indication to facilitate analysis of the economic structure of the industry. The selection of businesses was made using criteria chosen in order to facilitate the understanding of the economic structure of the industry, and not to present the most complete or detailed picture possible of the size of the industry, whether from the perspective of revenues or all the industry's players.

Moreover, businesses reported their financial data for the 12-month period of their last fiscal year. This period varies from one firm to another.

Finally, it is important to note that, unless otherwise indicated, all tables and graphs presented herein are derived from data collected by Statistics Canada in summer 2005 while conducting this survey of the language industry.

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2. *Profil des industries de la langue* (March 16, 2004), Small Business and Special Surveys Division of Statistics Canada.

# 1 Portrait of Businesses According to the Survey

The methodology section of this report indicates that the translation and language training sectors that were the object of this survey form a partial but significant section of the language industry.

Several activities, including public-sector language schools, government translation bureaus, translation departments of large companies and most independent workers (according to the 2001 Statistics Canada census, 37.5% of translators are independent), do not appear in the data used which covers this sector. According to estimates on sales and the number of employees working in the industry who appear in this study compared with data from other studies, the businesses included in this survey account for approximately half of the Canadian language industry[3].

## 1.1 Types and Distribution of Businesses Surveyed

The results presented below include 607 establishments with one or more employees. The distribution by sector shows 369 businesses belonging to the translation and interpretation sector and 238 to the language training sector, a proportion of 60.8% and 39.2%, respectively.

Quebec leads with the largest number of translation businesses (180) and the largest total of both sectors (228). It is British Columbia, however, that shows the single largest number of language training establishments (81). Ontario ranks second in the number of businesses in both sectors combined (171).

*Table 1*

| Number of businesses by sector | | | | | | |
|---|---|---|---|---|---|---|
| **Regions** | **Translation NAICS 541930** | **%** | **Training NAICS 611630** | **%** | **Total** | **%** |
| **Canada** | **369** | **60.8** | **238** | **39.2** | **607** | **100** |
| Quebec | 180 | 29.7 | 48 | 7.9 | 228 | 37.6 |
| Ontario | 111 | 18.3 | 60 | 9.9 | 171 | 28.2 |
| British Columbia | 35 | 5.8 | 81 | 13.3 | 116 | 19.1 |
| Other regions | 43 | 7.1 | 49 | 8.1 | 92 | 15.2 |

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3. Chapter 2 addresses this subject in greater detail.

Figure 1 below presents the types of businesses in the industry. A large majority of firms (83.7%) are corporations (private companies). The proportion is higher in the translation sector (87.9%) than in the language training sector (77.3%).

*Figure 1*
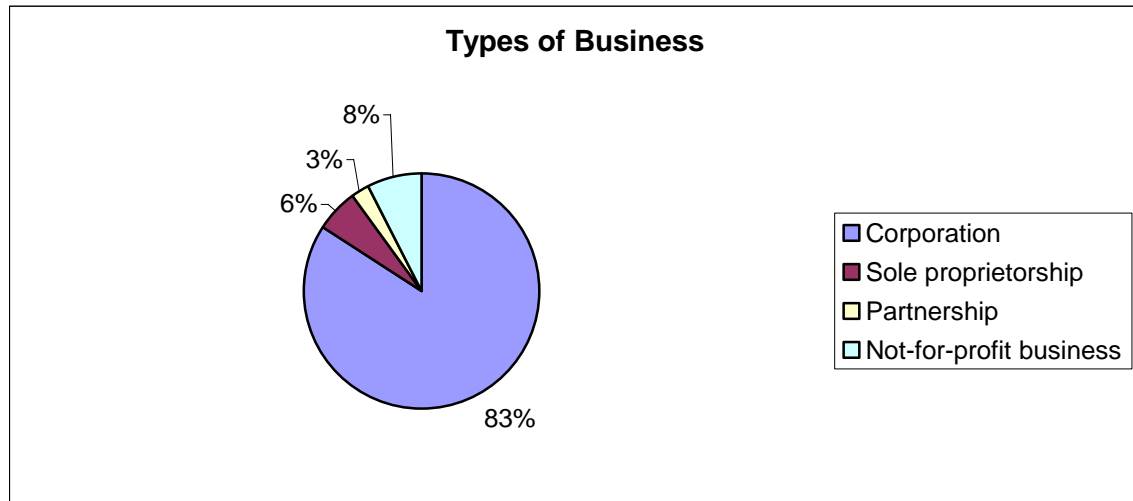
**Types of Business**



Two other main types of businesses were surveyed. They were, firstly, not-for-profit businesses, which account for 7.5% of the total. They are found in the training sector in British Columbia and in the other regions[4], where they constitute 10% and 17% of establishments, respectively.

Secondly, sole proprietorships represent 5.8% of businesses surveyed. Unlike the not-for-profit businesses, sole proprietorships are found mainly in the translation services sector. They are more strongly concentrated in Quebec, where they account for 9% of businesses.

Finally, two other types of businesses complete the table: partnerships, which represent less than 3% of businesses surveyed, and public businesses[5] representing 0.4% of businesses surveyed, which is deemed marginal.

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4. The category "other regions" includes all Canadian provinces and territories except Quebec, Ontario and British Columbia.
5. "Public" businesses as defined by the *Securities Act*, including publicly traded companies.

## 1.2   Years Since Establishment of Businesses

The businesses surveyed are relatively new: close to 60% are less than 10 years old. It is in British Columbia that the number of new businesses is the highest: 44% are less than five years old and 72% were registered after 1994. Inversely, it is in Quebec that they are the oldest, with 50% among them being more than 10 years old (see Figure 2).

*Figure 2*
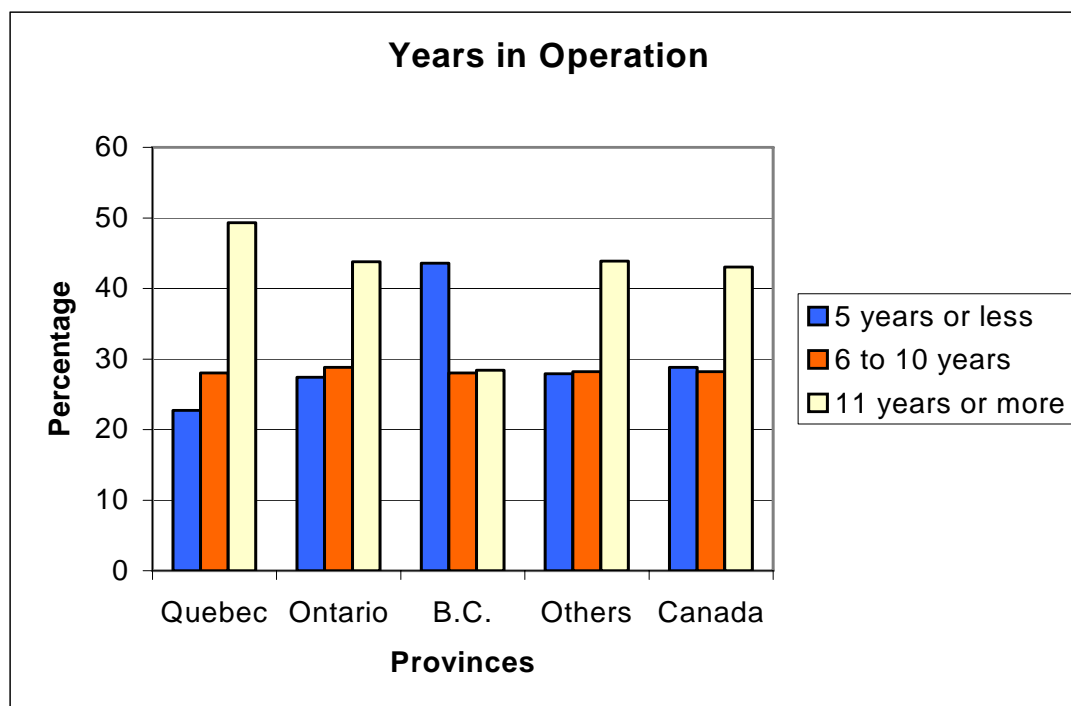


The age of businesses is linked to the sector of activity. Half of the businesses in the translation sector are ten years old or less, whereas this proportion increases to two-thirds in the language training sector. Firms in this sector are therefore more recent, and those located in British Columbia are younger than in the rest of Canada (see Table 2).

*Table 2*

| Year of incorporation under current legal structure | | | | | |
|---|---|---|---|---|---|
| Year | Canada % | Quebec % | Ontario % | B.C. % | Other regions% |
| Between 2000 and 2005 | 28.8 | 22.7 | 27.4 | 43.6 | 27.9 |
| Between 1995 and 1999 | 28.2 | 28.0 | 28.8 | 28.0 | 28.2 |
| Between 1990 and 1994 | 14.2 | 17.1 | 9.5 | 11.2 | 19.3 |
| Between 1980 and 1989 | 16.4 | 21.0 | 15.5 | 9.7 | 15.1 |
| Between 1970 and 1979 | 8.2 | 6.7 | 13.6 | 3.8 | 7.5 |
| Before 1970 | 4.2 | 4.6 | 5.2 | 3.8 | 2.0 |

## 1.3  Main Services Offered by Businesses

Across Canada, 62.9% of businesses surveyed offer translation services, 41.1% offer language training, 17.1% offer language testing and 16.8% offer interpretation services. Other services generally associated with the language industry are also offered, such as language technology development (3.6% of businesses) and dubbing (2.4%).

Finally, 5.5% of businesses conduct other unspecified activities (see Figure 3).

*Figure 3*
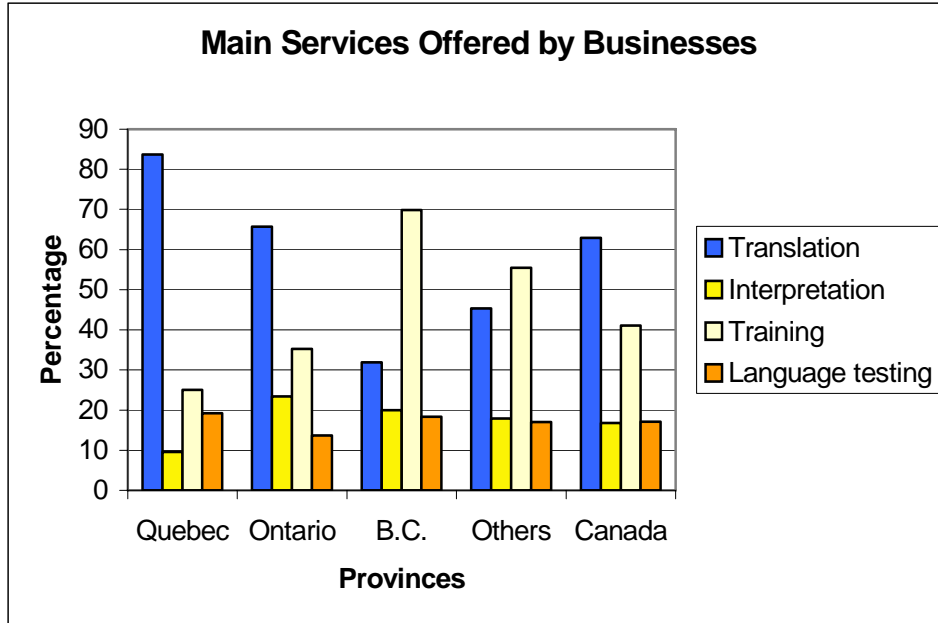


The vast majority (83.7%) of businesses in Quebec offer translation services, whereas only a quarter of them offer language training. In Ontario, two-thirds of businesses offer translation services, and a little more than one-third offer language training.

Inversely, in British Columbia and other regions, the proportion of businesses that offer language training dominate, with 69.9% in British Columbia and 55.5% in the other regions. Interpretation services are offered by close to 20% of businesses, except in Quebec, where fewer than 10% offer them (see Table 3).

*Table 3*

| Regional distribution of businesses by services offered[6] | | | | | |
|---|---|---|---|---|---|
| **Services** | **Canada %** | **Quebec %** | **Ontario %** | **B.C. %** | **Other regions%** |
| Translation | 62.9 | 83.7 | 65.7 | 31.9 | 45.3 |
| Interpretation | 16.8 | 9.6 | 23.4 | 20 | 17.9 |
| Dubbing | 2.4 | 1.9 | 3.7 | 2 | 2 |
| Language courses | 41.1 | 25 | 35.3 | 69.9 | 55.5 |
| Language assessment | 17.1 | 19.2 | 13.7 | 18.3 | 17 |
| Language technologies | 3.6 | 5.7 | 0 | 6.2 | 2 |
| Other activities | 5.5 | 5 | 8.1 | 0 | 8.8 |

## 1.4 Services Offered in Each Sector

An analysis of services offered by businesses in their respective sector gives a better idea of business diversity. Tables 4 and 5 present detailed data for the translation and interpretation sector (NAICS 541930) and the language training sector (NAICS 611630).

*Table 4*

| Services offered by businesses in the translation sector[6] | | | | | |
|---|---|---|---|---|---|
| **Services** | **Canada %** | **Quebec %** | **Ontario %** | **B.C. %** | **Other regions%** |
| Translation | 95.5 | 99 | 93.8 | 93.5 | 86.6 |
| Interpretation | 25.3 | 10.9 | 32.5 | 60.2 | 38.5 |
| Dubbing | 2.3 | 1 | 2.1 | 6.5 | 4.4 |
| Language courses | 4.8 | 5.2 | 3.8 | 6.5 | 4.4 |
| Language assessment | 4.3 | 7.7 | 1.7 | 0 | 0 |
| Language technologies | 5.3 | 5.9 | 0 | 20.4 | 4.4 |
| Other activities | 6 | 3.8 | 8.6 | 0 | 14 |

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6. The sum of percentages exceeds 100, as businesses may offer more than one service.

*Table 5*

| Services | Canada % | Quebec % | Ontario % | B.C. % | Other regions % |
|---|---|---|---|---|---|
| Translation | 12.3 | 25.7 | 14 | 5.1 | 9 |
| Interpretation | 3.6 | 4.9 | 6.8 | 2.6 | 0 |
| Dubbing | 2.7 | 4.9 | 6.8 | 0 | 0 |
| Language courses | 97.4 | 100 | 93.2 | 97.4 | 100 |
| Language assessment | 37.1 | 62.6 | 35.8 | 26.3 | 31.9 |
| Language technologies | 1 | 4.9 | 0 | 0 | 0 |
| Other activities | 4.7 | 9.7 | 7.4 | 0 | 4.3 |

*Services offered by businesses in the language training sector[7]*

*First finding* — With few exceptions, businesses mainly offer services specific to their sector. Thus, services aimed at another sector are relatively marginal. For all of Canada, a little less than 5% of businesses in the translation sector offer language courses.

Concerning language training, 12% of businesses say they also offer translation services. This rate remains nonetheless negligible from the perspective of revenues generated and total number of employees, as will be seen later in this report.

*Second finding* — Not all businesses in the translation sector offer translation services, which leads one to believe that certain businesses, for example, specialize in interpretation only. The proportion of businesses that offer translation services in this sector is 93.8% in Ontario and 93.5% in British Columbia, whereas they reach close to 100% in Quebec.

*Third finding* — This specialization also applies to the language training sector. Certain businesses do not offer language courses, which is nonetheless the service most widely offered. Thus, 97.4% of Canadian businesses and 93.2% of businesses in Ontario offer language courses. Here again, it is possible to deduce that certain businesses can specialize, for example, in language assessment only.

*Fourth finding* — Interpretation services rank second among translation businesses. Throughout Canada, they are offered by a quarter of all businesses. Nevertheless, this varies greatly from one region to another: 60% of businesses in the translation sector in British Columbia offer interpretation services, compared with only 10.9% in Quebec. Ontario surpasses the Canadian average with 32.5%.

*Fifth finding* — Not surprisingly, language assessment service businesses come second in the language training sector. They exist in 37.1% of Canadian businesses. It is in Quebec that the proportion is the highest, with 62.6%, followed by Ontario with 35.8%. The situation in Quebec appears to be attributable to a strong proportion of clients from the private sector and public sector departments, where linguistic capabilities before and after training need to be tested.

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7. The sum of percentages exceeds 100, as businesses may offer more than one service.

*Sixth finding* — Research and development in the field of language technologies is conducted in only 5.3% of businesses in the translation sector, and is even lower in the language training sector (1%). In these two sectors, revenues derived directly from language technologies represent only $1.48 million.

*Seventh finding* — Translation firms in British Columbia and language training businesses in Quebec appear more diversified, with the highest percentages of different services offered. Inversely, training businesses in British Columbia and translation businesses in Quebec have the highest rate of specialization, with the highest percentage of activities within their own sector. These two elements indicate a high level of concentration of activities in translation in Quebec and of language training activities in British Columbia.

# 2   Revenues and Type of Clientele

An analysis of revenues of the businesses studied is a key element in gaining an understanding of the economic structure of the language industry. Therefore, this chapter addresses the distribution of revenues by sector and by region, the size of businesses according to income, services offered, typical clients, as well as export data collected.

Overall, the nearly 600 businesses surveyed generate sales of $404.1 million. When considered with revenues from interest and dividends, this total increases to nearly $410 million.

When viewed by sector, businesses in the translation sector (NAICS 541930) generate $174.6 million in sales (43.1%), whereas those in the language training sector (NAICS 611630) generate $229.5 million (56.9%).

Firms in Ontario produce $174.2 million in goods and services related to the language industry, equal to 43.1% of revenues (excluding interest and dividends). Quebec ranks second with one-quarter of revenues, or $101.7 million. British Columbia follows in third place with $91.2 million, whereas the other provinces and territories generate $37 million in sales, representing less than 10% of revenues (see Figure 4).

*Figure 4*



**Regional distribution of revenues**
**Total: $404.1 M**

$37 M
$101.7 M
$91.2 M
$174.2 M

☐ Quebec
☐ Ontario
☐ British Columbia
☐ Other regions
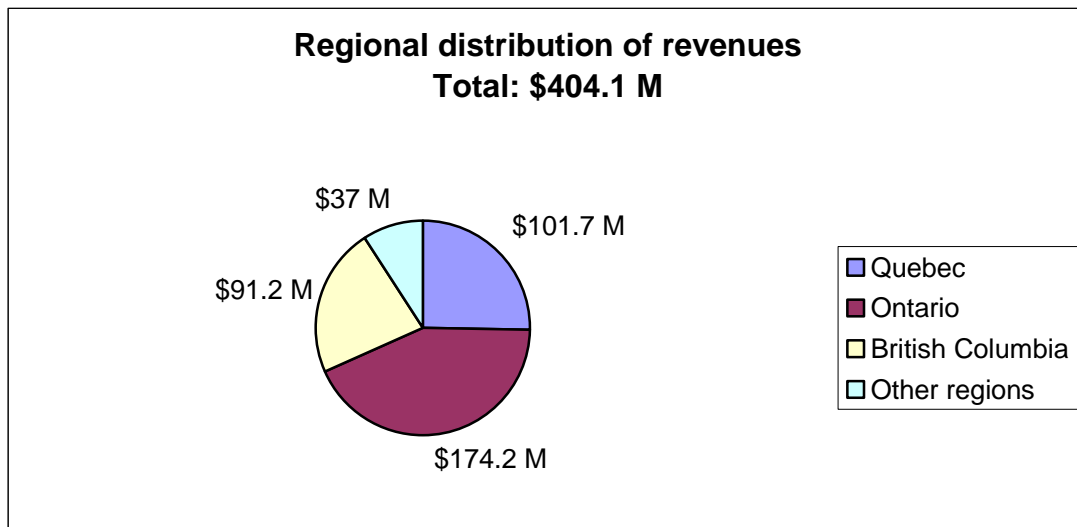
In comparison, the synthesis of industry data presented under *Financing of the language industry*[8] was used to assess the size of the Canadian industry to be between $600 million and $1 billion in annual revenues. The figure of $600 million represents the minimum known and documented figure for the industry, whereas that of $1 billion is the best estimate currently available. This latter estimate takes into account revenues still poorly documented, mainly those originating from public institutions[9] and activities linked to the

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8. Page 3, Section 2.1 "*Faits saillants et défis*", in Martin Duchaîne, *Le financement de l'industrie de la langue* (2005), for AILIA.

9. Notably universities and public colleges that offer language training, as well as the Translation Bureau of Canada.

industry which are performed by larger corporations whose main activity is not within the language industry.

Regarding the distribution of revenues, Quebec's revenues come mainly from the translation sector (73.3%), whereas in the rest of Canada, businesses from the language training sector dominate. This is particularly true in British Columbia, where language training generates 93.3% of revenues. In Ontario and other regions of Canada, the situation is a little more balanced (see Table 6).

*Table 6*

| Distribution of revenues according to region and sector | | | | | |
|---|---|---|---|---|---|
| | Canada % | Quebec % | Ontario % | B. C. % | Other regions % |
| Translation sector (NAICS 541930) | 43.1 | 73.3 | 45.1 | 6.7 | 41.7 |
| Training sector (NAICS 611630) | 56.9 | 26.7 | 54.9 | 93.3 | 58.3 |
| Both sectors | 100 | 100 | 100 | 100 | 100 |

## 2.1  Size of Businesses According to Revenues

An analysis of the distribution of revenues in the industry demonstrates that they are concentrated in the hands of a small number of larger businesses. Thus, 29% of businesses (176) show an income of $500,000 and more. Combined, these larger businesses account for 83% of all revenues in the two sectors surveyed.

On the other hand, we observe a fragmentation of revenues among small businesses. The majority of businesses (61%) generate revenues in the order of $50,000 to $500,000. This distribution takes into account all sources of business revenues, including interest and dividends. Meanwhile, 46% of businesses (283) have sales of less than $150,000. These businesses, which account for almost half of those surveyed, generate only 5.4% of revenues (see Figure 5).

*Figure 5*



**Distribution of Businesses According to Revenues, by Region (%)**

Legend:
- $1M +
- $500K to $999K
- $150K to $499K
- $100K to $149K
- $50K to $99K
- $1K to $49K
- $0

Regions: Canada, Quebec, Ontario, B.C., Others
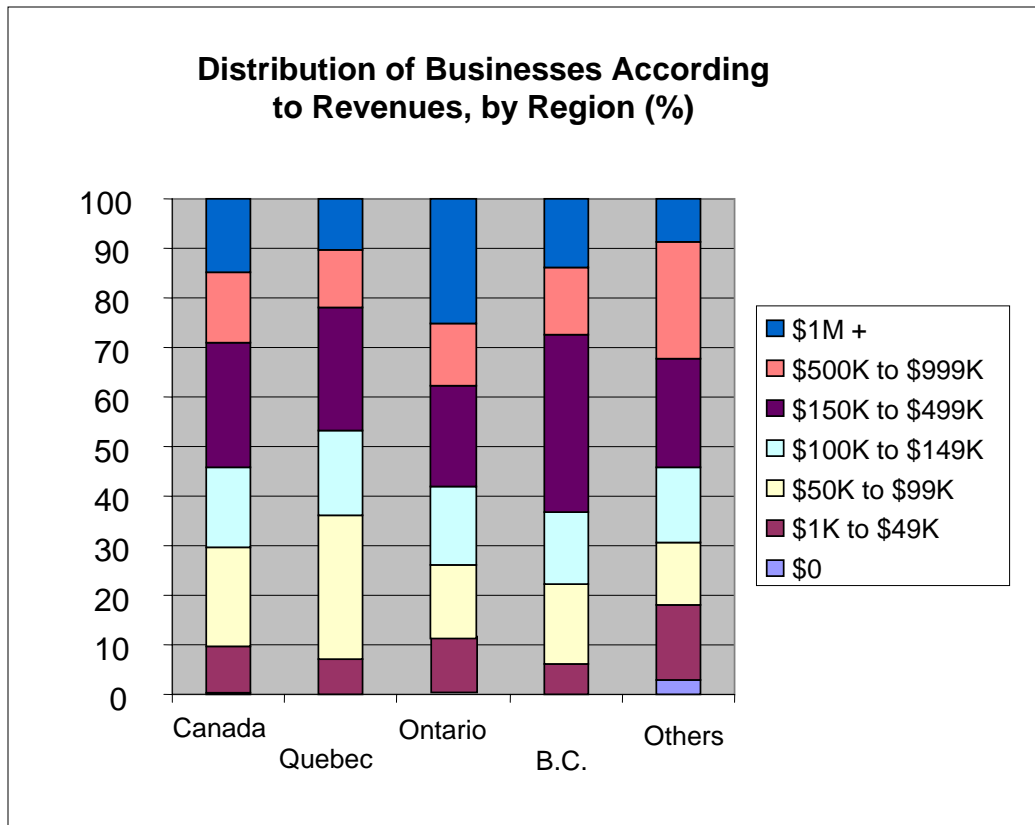
Thus, the majority of businesses surveyed are small, with annual revenues of less than $500,000 per year[10].

Medium-sized businesses are nonetheless well represented:

— 25% of businesses have revenues between $150,000 and $499,000.
— 14% have revenues between $500,000 and $999,000.
— 15% recorded revenues of more than $1 million.

An analysis by regional distribution shows an important difference between Ontario and the rest of Canada insofar as the size of businesses is concerned. Ontario has the largest proportion of businesses with revenues of more than $1 million (25%). Quebec accounts for only 10%, British Columbia 14%, and the other regions 8.7%.

For medium-sized businesses with revenues of $500,000 or more, the distribution is the same: 38% of Ontario's businesses are medium-sized, while Quebec has 22%, British Columbia has 27%, and other regions differ somewhat with 32%. This breakdown by company size also influences the regional distribution of total revenues. Ontario has 43% of total revenues, Quebec 25%, British Columbia 23% and other regions 9.7%.

___

10. Some active businesses (7) have not declared sales revenues.

A possible explanation is the presence of major government clients in the capitals of Ontario (Toronto) and Canada (Ottawa) and a greater concentration of major private clients in Canada's largest city, Toronto, Ontario.

Among small businesses (those with less than $150,000 in revenues), Quebec has the largest proportion with 53%, Ontario has 42% and the other regions account for 46%.

British Columbia has only 36.8% of these businesses, perhaps because of the strong presence of language schools in this province.

Paradoxically, Ontario has more very small businesses—those with less than $50,000 in revenues—(11%) than Quebec (7%). The other regions account for the most very small businesses, with 18%.

The analysis of "typical" sized businesses shows an important difference between average and median revenues of these businesses (see Table 7).

*Table 7*

| Revenues by types of businesses, including interest and dividends ($) | | | | | |
|---|---|---|---|---|---|
| | **Canada** | **Quebec** | **Ontario** | **British Columbia** | **Other regions** |
| Total average revenues | 675,357 | 447,989 | 1,025,548 | 803,334 | 429,624 |
| Median total revenues | 196,864 | 144,110 | 287,008 | 227,510 | 202,572 |

Thus, across Canada, more than 50% of businesses surveyed generate less than $200,000 in gross revenues. These figures confirm that small businesses are particularly concentrated in Quebec, where the median revenue reaches only $144,000, which puts the national median at under $200,000.

This data also confirms the major difference between the size of businesses in Ontario and those in other provinces. Thus, average revenues for businesses in Ontario are more than double those in Quebec or other regions and 50% higher than the national average.

According to sector data, there is an important difference between revenues in the translation sector (NAICS 541930) and those in the language training sector (NAICS 611630), as illustrated in Figure 6.

*Figure 6*

**Distribution of Businesses According to Revenue, by Sector (%)**
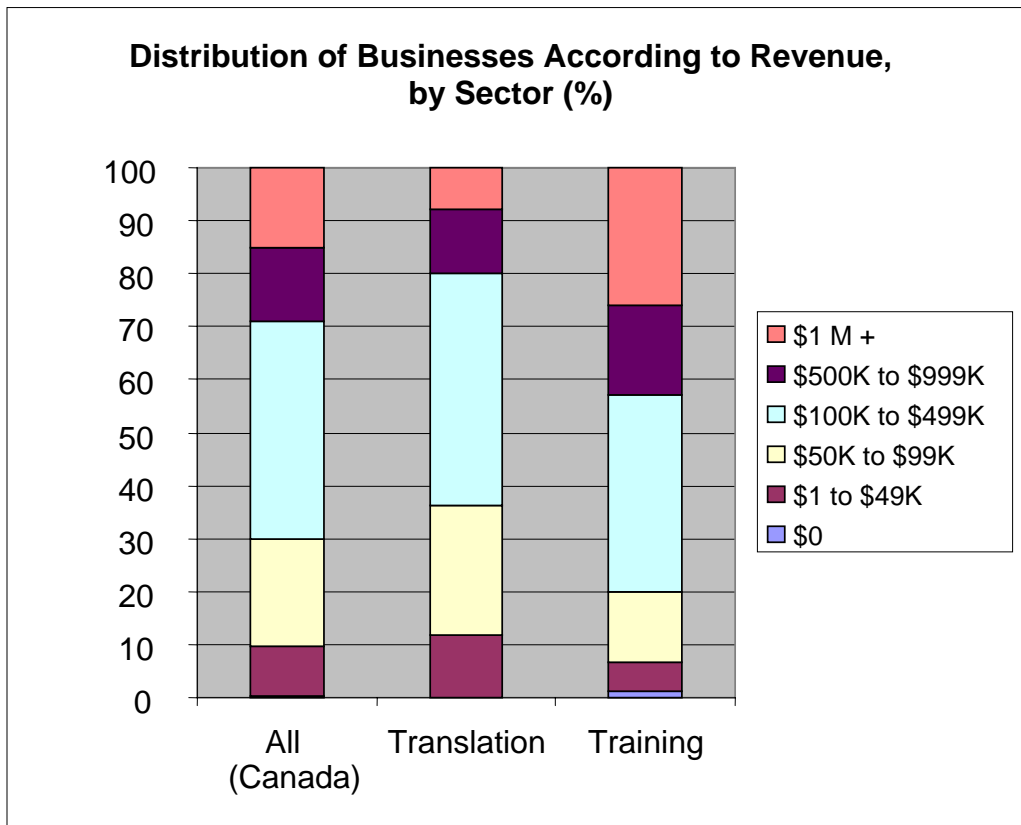


A major difference exists in the concentration of businesses with revenues of more than $1 million between the translation sector, which accounts for 8%, and the language training sector, with 26%. This difference is also found with medium-sized businesses (those with more than $500,000 in revenues): the translation sector only accounts for 20%, versus 43% in language training.

On the other side of the scale, the situation is the same: 36% of translation businesses have revenues of less than $100,000, whereas in the language training sector, the figure is 20%.

Data on average and median revenues for these sectors confirms this trend (see Table 8).

*Table 8*

| Revenue by sector, including interest and dividends ($) | | | |
|---|---|---|---|
| | **All (Canada)** | **Translation**<br>**NAICS 541930** | **Training**<br>**NAICS 611630** |
| Total average revenues | 675,357 | 481,092 | 977,202 |
| Total median revenues | 196,864 | 134,006 | 450,000 |

It is clear that businesses in the language training sector have average revenues of more than double those of the translation sector. Moreover, although both sectors are highly

fragmented, with average revenues much higher than the median, the translation sector appears much more fragmented than the training sector.

The nature of businesses in the translation sector may partly explain this difference. Start-up and operating costs for a small translating firm require less investment than language schools, where higher office space and support staff costs are often necessary.

Finally, the age of businesses also influences their revenues. As shown in Figure 9, average revenues of businesses increase considerably with time: revenues of companies that have been in business for more than ten years are more than double those that have been in operation for less than five years.

*Table 9*

| Revenue by businesses age, including interest and dividends ($) | | | |
|---|---|---|---|
| | Less than 5 years | From 5 to 10 years | More than 10 years |
| Average revenues | 365,000 | 657,000 | 824,000 |
| Median revenues | 169,000 | 152,000 | 219,000 |
| Total revenues | 48,000,000 | 116,000,000 | 245,000,000 |

What is even more significant is the strong contribution to total revenues by the oldest businesses: total revenues of businesses in operation for ten years or more were five times as high as those of businesses less than five years old.

## 2.2  Sources of Revenues

An examination of revenues by service offered—independent of the businesses that generated them—provides a much more precise picture of the economic activity of translation and interpretation businesses and language training establishments.

### 2.2.1  Revenues by services offered

The data in Figure 7 presents the percentage of sales for businesses according to the different types of services offered.

The difference between this data and that in Table 3 is that this data presents the share of businesses that offer these different types of services, without considering their revenues from the various services.

The data in Figure 7 thus shows that the largest portion of industry revenues comes from language courses given in-class, with 40%. If one adds online training and language assessment, both of which are related to the same sector, the share of revenues climbs to 49%. This share excludes accommodation costs (5.7%), even if, in reality, they are linked to language training services.

*Figure 7*

## Revenue Distribution According to Services Offered

| Legend | Service |
|--------|---------|
| ☐ | Translation |
| ☐ | Interpretation |
| ☐ | Localization |
| ☐ | Language courses |
| ☐ | Online language training |
| ☐ | Accommodation fees |
| ☐ | Language assessment |
| ☐ | Others – language industry |
| ☐ | Others - outside language industry |

Pie chart values: 2.0%, 2.3%, 1.2%, 5.7%, 7.5%, 38.1%, 2.1%, 0.7%, 40.3%
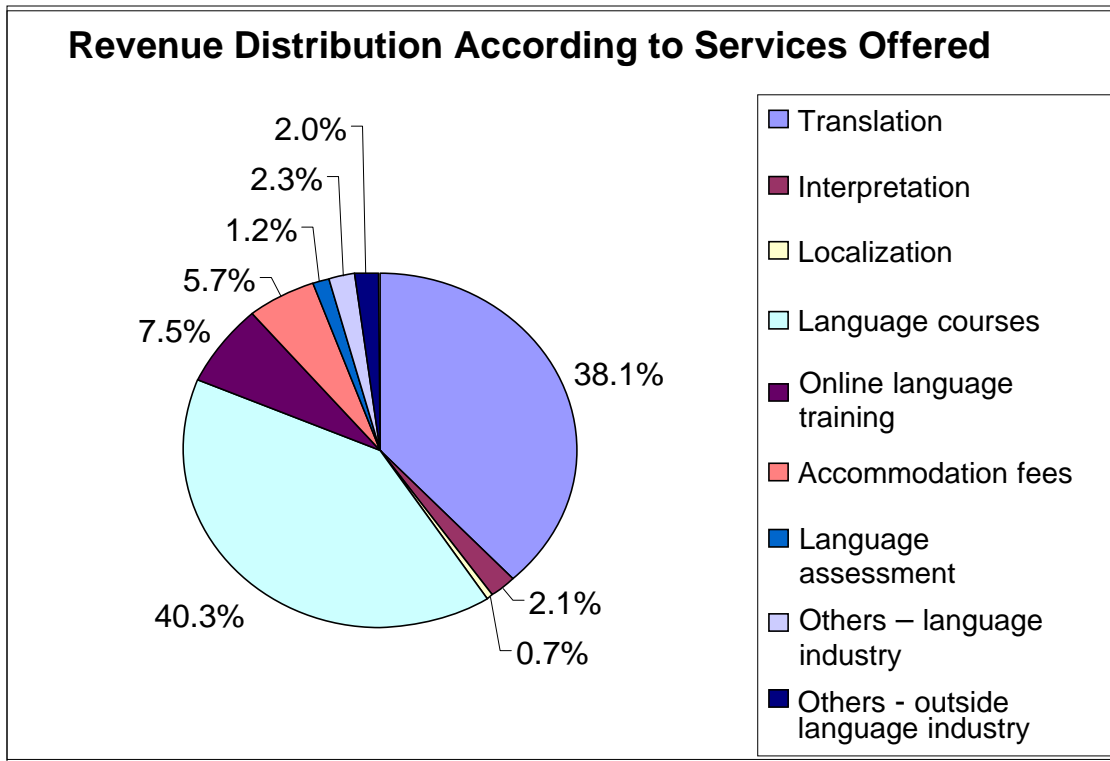
Revenues linked to translation services represent 38% of revenues listed. By adding revenues from interpretation, localization, dubbing and terminology[11], the consolidated translation sector increases to 41% of revenues.

By comparing this information with data from the table, it is noteworthy that translation services are offered by 63% of businesses surveyed, though this type of service represents only 38% of total revenues.

Considering that translation businesses are concentrated primarily in Quebec, where average revenues per firm are also among the lowest, these results appear to be consistent with previous findings.

Language courses offered by 41% of businesses generate 40% of industry revenues.

Thus, firms that offer language courses contribute more to industry revenues, as confirmed by the difference between average revenues for businesses in both sectors (see Table 8).

Table 10 indicates the distribution of consolidated revenues within the various regions.

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11. Due to their small percentages (0.1%, 0.2% and 0.4%, respectively), revenues from dubbing, terminology and technology are included in the section "Others - Language Industry".

*Table 10*

| Revenues by services offered | | | | | |
|---|---|---|---|---|---|
| **Services** | **Canada %** | **Quebec %** | **Ontario %** | **B.C. %** | **Other regions %** |
| Translation | 38.1 | 64.8 | 41.7 | 4.2 | 31.8 |
| Interpretation | 2.1 | 2.2 | 1.8 | 0.9 | 6.6 |
| Terminology | 0.2 | 0.9 | 0 | 0 | 0 |
| Dubbing | 0.1 | 0 | 0.1 | 0 | 0 |
| Localization | 0.7 | 2.3 | 0 | 0.1 | 1 |
| Language courses | 40.3 | 17.2 | 39.5 | 67.2 | 41.7 |
| Online language training | 7.5 | 8.8 | 5 | 12.5 | 3.1 |
| Accommodation costs | 5.7 | 0 | 6.3 | 11.7 | 3.9 |
| Language assessment | 1.2 | 1.4 | 2 | 0 | 0.1 |
| Language technologies | 0.4 | 0.5 | 0 | 1.1 | 0 |
| Others – language industry | 1.6 | 0.7 | 1.4 | 1.1 | 6.5 |
| Others- non-language industry | 2 | 1.2 | 2.2 | 1.2 | 5.3 |
| TOTAL | 100 | 100 | 100 | 100 | 100 |

The distribution of revenues in different regions confirms the trends previously observed. The translation industry, and related revenues, is represented particularly well in Quebec and Ontario, whereas language training has a stronger presence in British Columbia and in other regions.

Some important points remain concerning the distribution of businesses offering different types of services (see Table 3):

— In Quebec, 84% of businesses in the industry state that they offer translation services, but this field accounts for only 65% of revenues for businesses in the Quebec language industry.

— In Ontario, which has almost twice as many businesses offering translation services (66%) than language courses (35%), there is a nearly equal distribution between translation services (42%) and language courses (39.5%). By consolidating revenues for these two sectors, revenues from language training in Ontario (47%) slightly exceed those of translation (44%).

— The situation for Canada as a whole is similar to that in Ontario: the portion of revenues linked directly to translation services (38%) is almost the same as language courses (40.3%). However, language training ranks first in terms of

revenues generated directly by Canadian businesses with 49%, versus 41% for the translation sector.

— The gap between revenues and number of businesses that offer translation services is even greater in British Columbia, where 32% of businesses offer such services while generating only 4. 2% of revenues.

— Firms in British Columbia derive one of the highest proportions of their revenues from online language training (12.5%), compared to 8.8% in Quebec. They are also the first in revenues from accommodation, which represents 12% of their overall revenues. A likely reason for this is the province's numerous training programs and language immersion courses aimed at foreign students.

— Firms in other regions appear to be more diversified, with a higher proportion of their revenues coming from interpretation services (6.6%) and other types of revenues either related to the industry (6.5%) or not (5.3%).

## 2.2.2 Revenues by age of businesses

Figure 8 presents a summary of revenues according to the number of years in business, for all sectors combined.

*Figure 8*



**Revenue Distribution According to Age of Business**
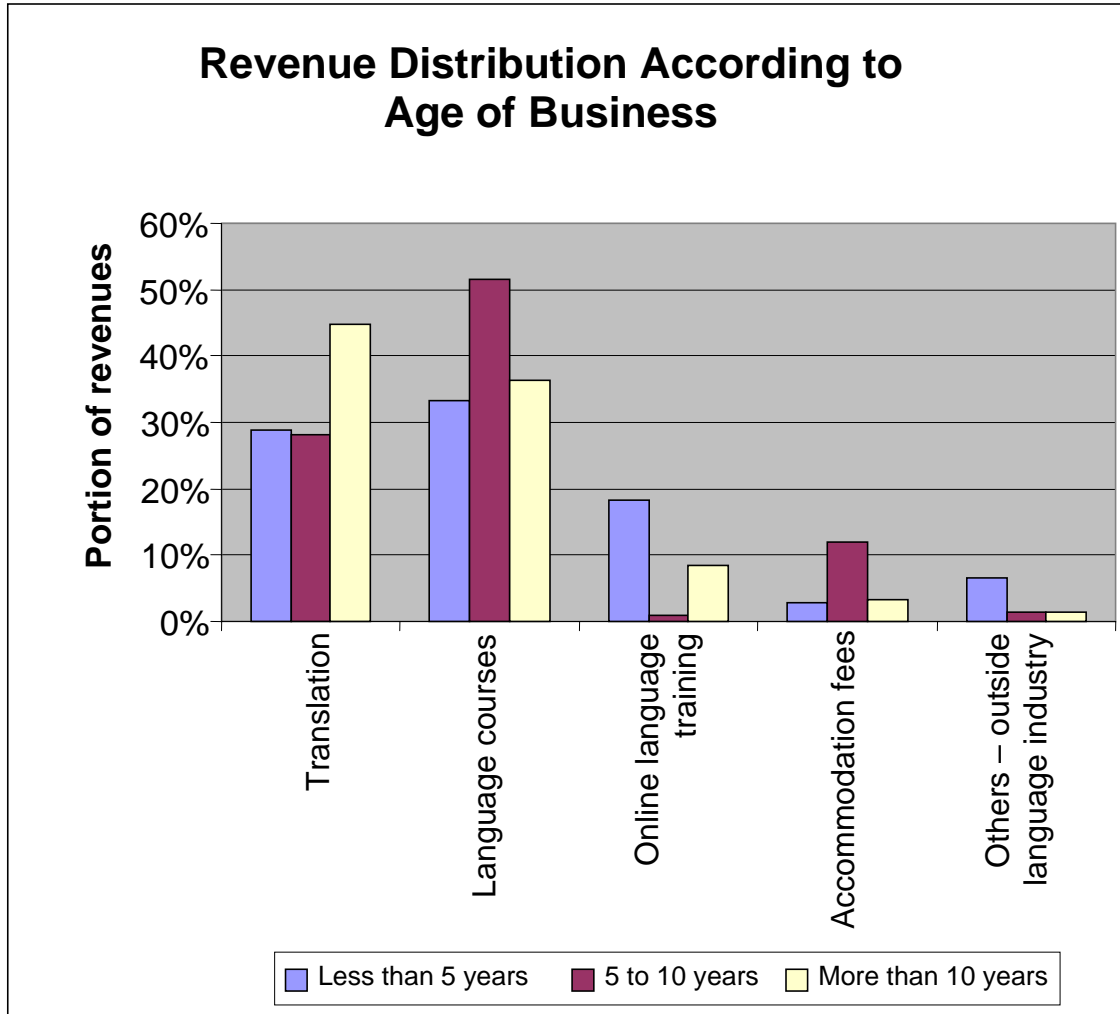
Revenues linked to translation represent a higher proportion among older businesses (45% for those more than ten years old), whereas revenues linked to language courses constitute a greater share (52%) among businesses that have been in operation for between five and ten years. This coincides with previous observations which indicate that the language training sector is generally newer than translation.

Online training constitutes an important share among more recent businesses, accounting for 18% of their revenues. However, in terms of revenues, online training is twice as prominent among businesses in operation for more than ten years, representing sales of $20.4 million, than it is among those in operation for less than five years, where online training accounts for sales of $8.7 million.

Accommodation revenues account for a higher share of revenues among businesses in operation for between five and ten years (12%), compared with the Canadian average of 5.7%. Finally, newer businesses (in operation for less than five years) maintain a higher share of their revenues from sources not linked to the language industry (6.5%).

### 2.2.3  Main sources of revenues

Figure 9 presents main sources of industry revenues (translation services, classroom language training, online training and accommodation costs) in terms of their contribution to revenues.

*Figure 9*
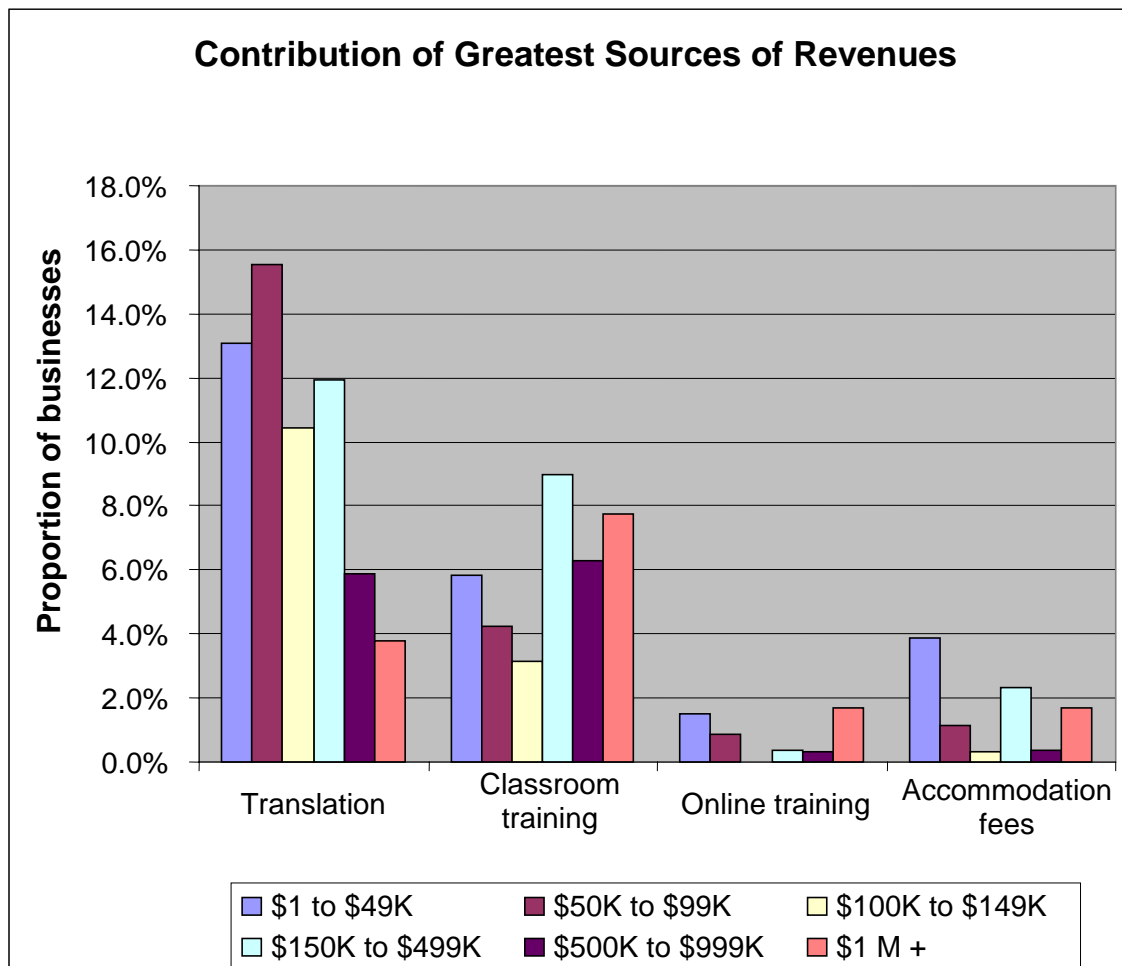


Revenues from translation services are those which contribute the most in small income brackets:

— They account for less than $150,000 in revenues for 78% of businesses (including those that do not have any revenue from translation) and contribute revenues of between $1 and $149,000 for 39% of these businesses.

— On the other hand, revenues from translation services account for between $500,000 and $999,000 in revenues for 5.9% of businesses, and more than $1 million for 3.8% of businesses.

Classroom training is the activity that contributes the most for businesses in higher revenue brackets:

  – They account for $500,000 to $999,000 in revenues for 6.3% of businesses, and more than $1 million for 7.7% of businesses.

  – Businesses that generate between $1 and $149,000 in revenues from classroom training represent only 13% of those surveyed.

Firms that generate revenues from online training have a unique profile, as they demonstrate the extremes in terms of contribution to revenues:

  – 2.3% of businesses generate between $1 and $149,000 of revenues for online training, and only 0.7% have revenues of between $150,000 and $999,000.

  – 1.7% of businesses generate more than $1 million in sales.

Finally, accommodation costs appear to contribute to business revenue in a proportional manner to that of classroom training revenues; this appears to be the case in each income bracket examined. Thus, accommodation costs represent:

  – Between $1 and $149,000 for 5.3% of businesses.

  – Between $150,000 and $999,000 for 2.7% of businesses.

  – More than $1 million for 1.7% of businesses, which is considerable for revenues linked indirectly to the language industry.


### 2.2.4  Sources of revenues by sector

This sector profile provides insight into the diversification of sources of revenue for each sector and the relative importance of complementary revenues.

Firms from the translation sector (NAICS 541930) generate most of their revenues from activities linked to translation services (87.6%), while those from the language training sector (NAICS 611630) generate revenue from activities linked to classroom language training (69.7%).

Figure 10 presents the typical distribution of revenues for businesses in the translation sector. Interpretation services rank second, at 4.9% of revenues. Localization services represent 1.6% of revenues, which seems low considering the growth observed in localization requirements related specifically to the Web and software.

*Figure 10*

## Revenue Distribution, Translation Sector

2.0%
2.2%
1.7%
1.6%
4.9%

**Legend:**
- Translation
- Interpretation
- Localization
- Language courses
- Others - language industry
- Others - outside language industry

87.6%
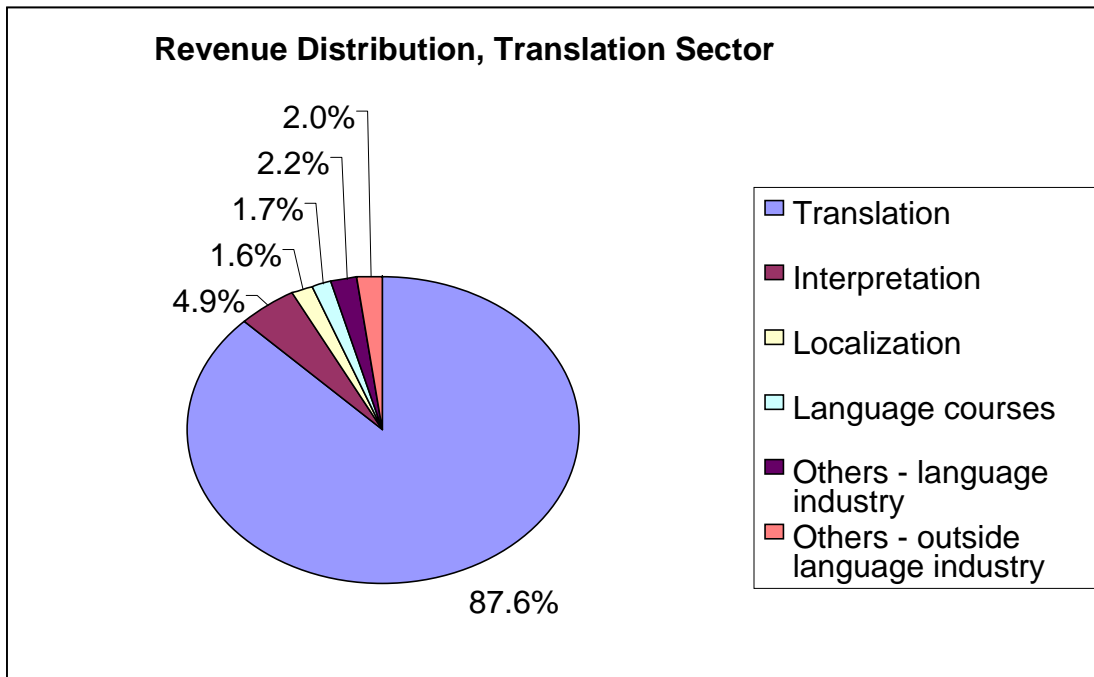
Language courses represent only 1.7% of sector revenues; 2.2% come from other revenues linked to the industry and another 2% not linked to the industry. The fact that these other types of non-translation-related revenues represent less than 10% of total revenues gives the impression that businesses in the translation sector are generally not very diversified.

Figure 11 provides the profile of revenues derived from language training.

At first glance, the distribution of revenues may appear to be more diversified here than in the translation sector. However, revenues from accommodation, which account for 13.2% of sector revenues, are derived mainly from language courses offered to foreign students on temporary stays. Moreover, when including revenues generated directly by language training, including online training (13.2%) and language assessment (2.1%), the figure climbs to 95.1% of sector revenues.

Thus, businesses in the language training sector appear to be less diversified in their activities than those in translation, especially if one considers that the revenues linked to the translation service sector account for only 0.6% of overall revenues.

*Figure 11*

**Revenue Distribution, Language Training Sector**

Legend:
- Translation and related services
- Language courses
- Online language training
- Accommodation fees
- Language assessment
- Others - language industry
- Others - outside language industry

2.0%
2.4%
0.6%
2.1%
10.1%
13.2%
69.7%
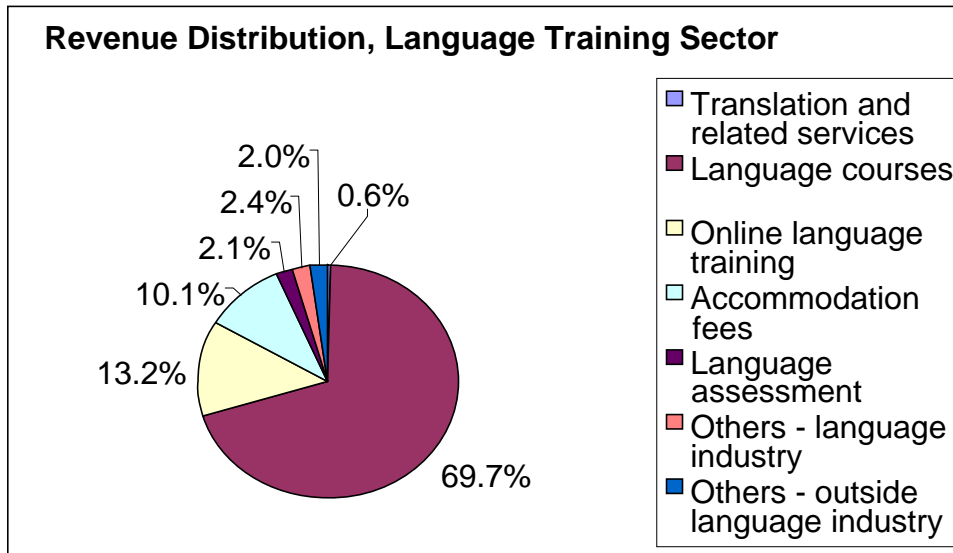
## 2.3  Revenues by Type of Client

The clientele purchasing products and services from the language industry are a particularly diversified group that shapes all business in the industry. This study constitutes a first formal evaluation of the types of clients that do business with the Canadian language industry.

### 2.3.1  Types of clientele

Figure 12 shows the proportions represented by the various different clientele types according to the responses obtained in the survey. It should be noted that a single firm might have more than one category of clients.

A large proportion of firms do business with individuals and private businesses. For all of Canada, 59% of businesses serve individuals, whereas 78% serve clients from the private sector.

British Columbia shows the highest proportion of businesses that conduct business with individuals (84%), followed by other regions (69%). These results are consistent with the strong presence of businesses that offer language training in these regions, where the client base is made up primarily of individuals.

Firms in Quebec and Ontario have the highest proportion of clients in public institutions and governments, with 34% and 61% for Quebec, respectively, and 35% and 60% for Ontario, respectively. These results are above the Canadian average, where 30% and 52% of businesses serve public-sector clients, respectively.

There is a link between these results and the high concentration of public institutions and federal government departments concentrated in the Ottawa-Gatineau region, which are major clients of the language industry.

*Figure 12*

## Client Types
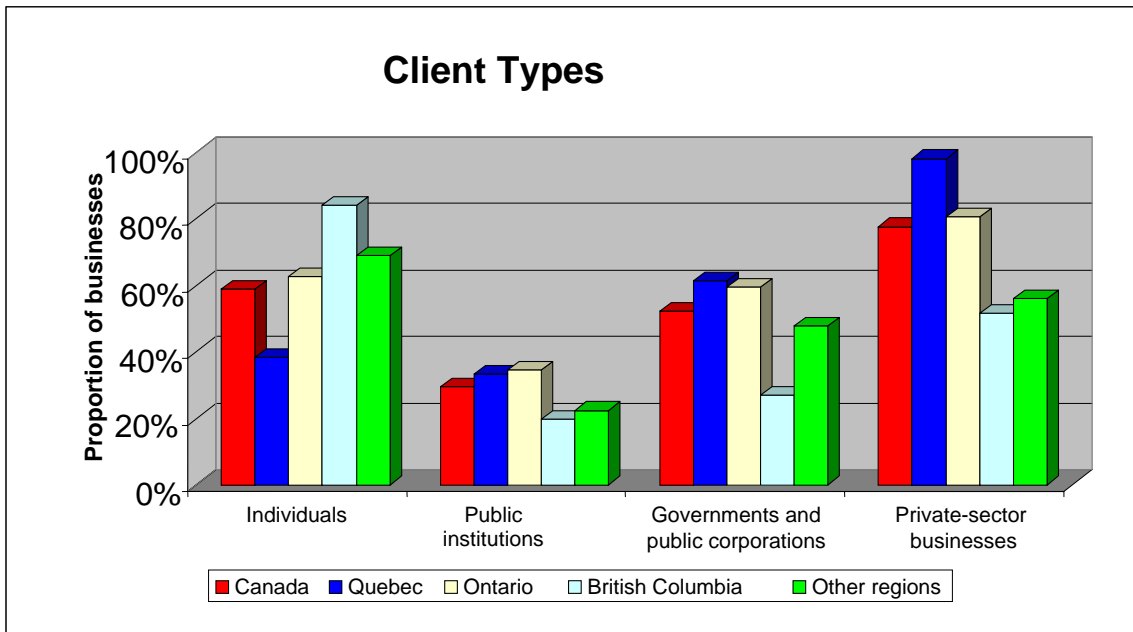


Quebec also presents the highest proportion of companies doing business with the private sector, with 98%, followed by Ontario, with 81%. We can establish a link between the strong presence of businesses from the translation sector in these provinces, where private-sector clients make up a large portion of the client base.

Figure 13 illustrates the sector distribution of types of clients. The sector differences are clear: the language training sector caters mainly to individuals in 90% of businesses whereas individuals account for only 39% of translation company clients.

*Figure 13*



**Client Types, by Sector**
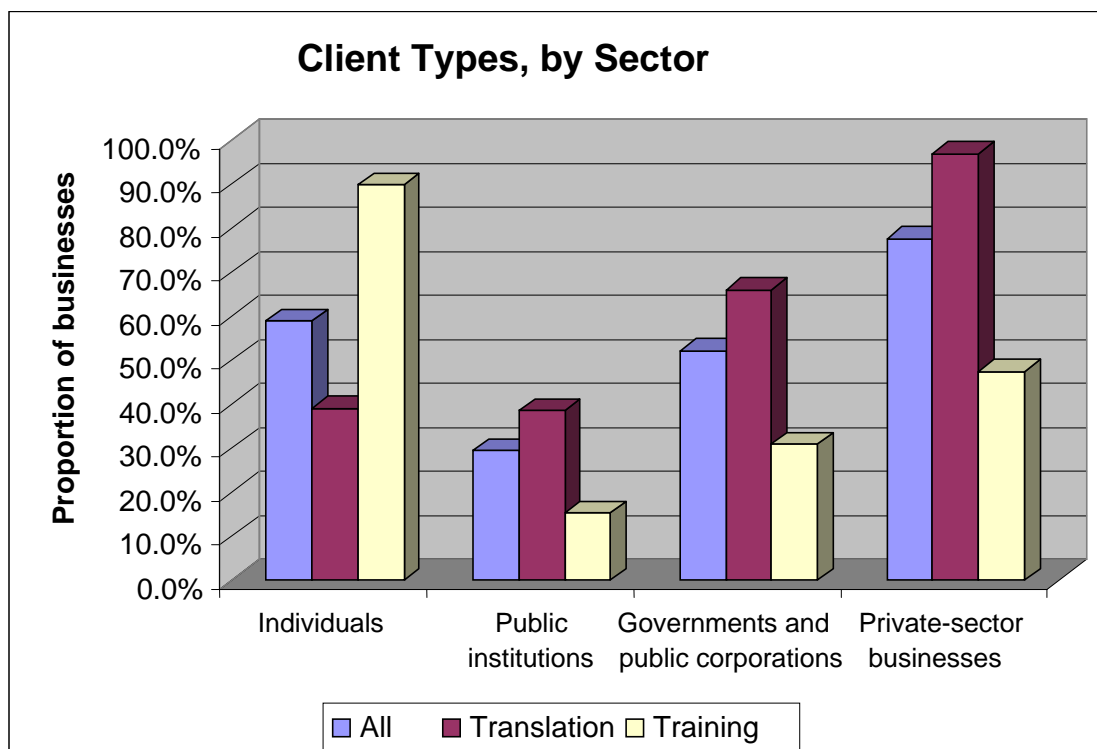
For all other types of clients, translation businesses are those that provide the most services:

— 39% of businesses in the translation sector serve public institutions, compared with 15% of those in the language training sector.

— 66% of businesses in the translation sector serve governments and public corporations, compared with 31% of those in the language training sector.

— 97% of translation businesses serve private-sector companies, compared with only 47% of businesses in the language training sector.

It is clear that businesses in the language training sector offer their services primarily to individuals, whereas those in the translation sector primarily address private enterprises, public corporations and government institutions.

### 2.3.2 Distribution of revenues by type of clients

The proportion of revenues from different types of clients is presented in Table 11.

*Table 11*

| Distribution of businesses, by revenues and type of clients | | | | |
|---|---|---|---|---|
| **Percentage of revenues** | **Public institutions (%)** | **Governments and public corporations (%)** | **Individuals (%)** | **Private-sector businesses (%)** |
| 0 | 70.5 | 47.8 | 41.1 | 22.5 |
| 1 to 24 | 24.3 | 20.6 | 26.8 | 19.2 |
| 25 to 49 | 3.4 | 12.3 | 2.1 | 14.1 |
| 50 to 74 | 1.3 | 6.9 | 4.6 | 11 |
| 75 to 99 | 0 | 11.4 | 7.1 | 19.7 |
| 100 | 0.4 | 1.1 | 18.4 | 13.5 |

Thus, for all of Canada, even though 30% of firms do business with public institutions, it appears that this type of client generates only a small share of revenues. These clients represent in effect between 1% and 24% of revenues for 24.3% of businesses, and only 5.1% of Canadian businesses generate 25% or more of their revenues from this client type.

However, this situation is different insofar as revenues from governments. In Canada, 52% of firms do business with governments and public corporations and derive a major part of their revenues from them:

- 20.6% of businesses derive between 1% and 24% of their revenues from government corporations, and in total, 31.6% of Canadian language businesses derive more than 25% of their revenues from them.

- 19.4% of businesses derive most of their revenues from government-related clients.

It therefore appears that individuals constitute a major part of industry revenues—in fact, more so than governments, as 60% of businesses serve individuals:

- 26.8% of businesses derive between 1% and 24% of their revenues from individuals; for 32% of businesses, the percentage is greater than 25%.

- 30.1% of businesses derive most of their revenues from individuals. This high percentage appears to be linked to the strength of the language training sector in Canada, which largely serves individuals.

Finally, as the most frequent type of clientele and biggest source of revenues for most businesses, the private sector constitutes another major source of revenues:

- 44% of businesses derive most of their revenues from private-sector businesses.

- 19.2% of businesses derive between 1% and 24.9% of their revenues from private-sector businesses.

This data on the source of language industry revenues demonstrates that individuals, public institutions and government bodies constitute important clients. This diversity and balance between different types of clients appears to be a sign of economic health. The

industry is thus not dependent on one type of client, but rather, caters to different types of markets.

## 2.4 Revenue Growth Forecasts

In the survey of language industry business managers, Statistics Canada asked the following question: "What are your forecasts for total revenues for the next fiscal year?" The results are presented in Figure 14.

*Figure 14*

**Revenue Forecasts for the Next Year**
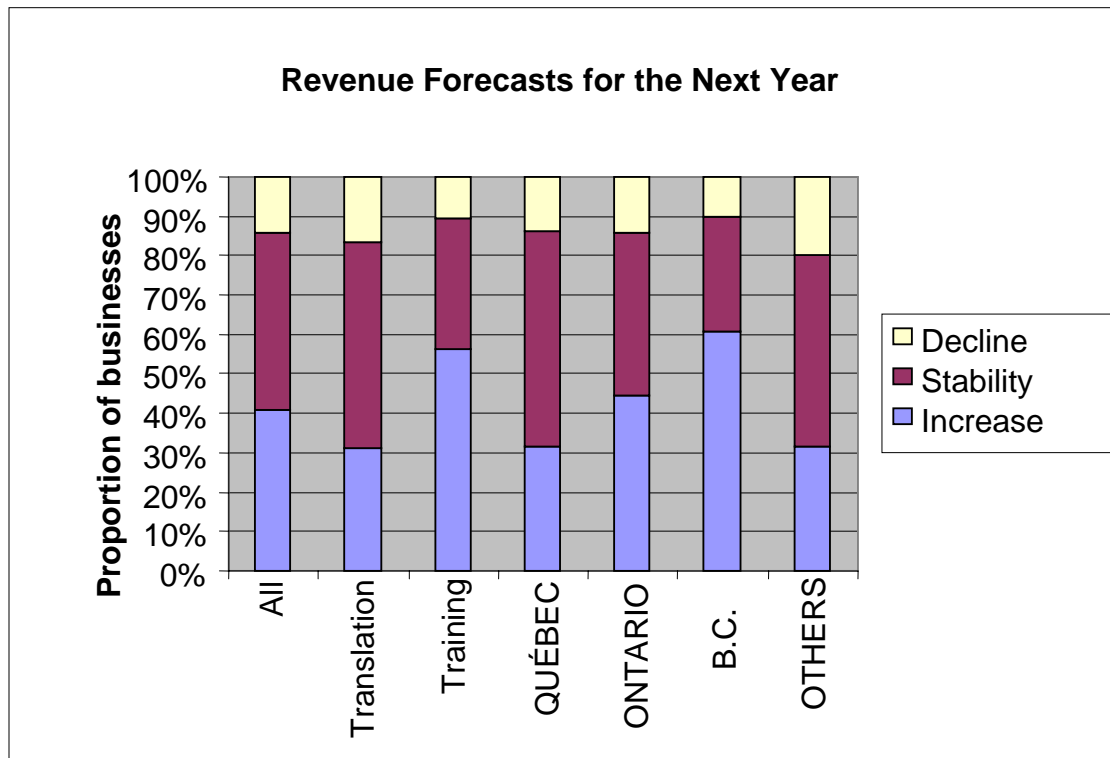
First and foremost, positive forecasts of an increase in revenues dominated with 41% of businesses surveyed, compared with only 14% that anticipated a decline across Canada, indicating a vibrant industry.

The training sector, concentrated in British Columbia, appears to be the most dynamic, with growth forecasts among 56% of businesses, compared with 11% that anticipate a decline. The translation sector also appears to be doing well: 31% of businesses expect growth, whereas 17% forecast a decline. It appears that in both cases, the current rapid growth in China in particular and the Asian market in general—which are being served primarily by businesses in British Columbia (see Section 2.5)—plays an important role in these optimistic forecasts.

Regionally, the degree of optimism of businesses appears to vary proportionally to the concentration of businesses of the two sectors:

- In Quebec, which accounts for the largest number of translation businesses, 32% of businesses anticipate growth.

30

- In British Columbia, where language training dominates, 61% of businesses are optimistic.
- Ontario, where both sectors are well represented, is practically sitting on the fence, with 41% of its businesses anticipating revenue growth.
- In other regions, 32% of businesses anticipate growth and 20% anticipate a decline.

Growth forecasts also vary according to age of businesses, as indicated in Figure 15.

*Figure 15*



Forecasts According to Business Age
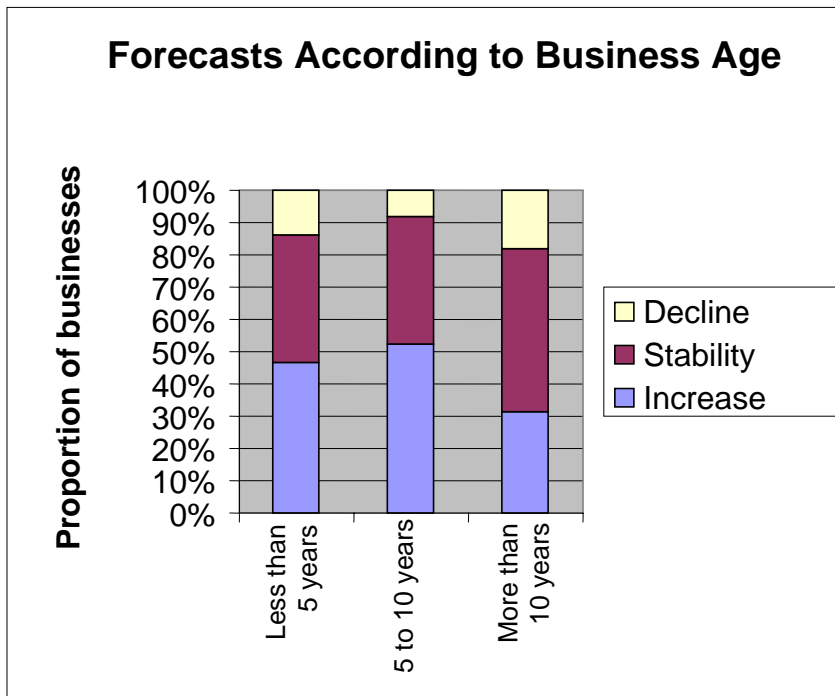
Businesses in operation for more than ten years appear less optimistic: 18% of these businesses, which account for most of the revenues, anticipate a decline, compared with 31% that anticipate an increase.

Forty-seven percent of businesses in operation for less than five years anticipate an increase in their revenues, whereas 47% expect a decline. Among businesses in operation for between five and ten years, 53% are optimistic and 8% pessimistic.

Thus, the segment with the highest anticipated net growth rate[12] consists of businesses that have been in operation for between five and ten years (44%), followed by businesses in operation for less than five years (33%) and finally, businesses that have been around for over ten years (13%).

It is important to note that, for all sectors, the net rate remains positive: businesses mostly anticipate growth rather than decline.

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12. Net growth rate: percentage of businesses experiencing growth minus the percentage of businesses experiencing a decline, for each segment.

## *2.5 Export Revenues*

Considering that the language industry affects professional and training services and that the domestic Canadian market is large, the share of foreign-sourced revenues for the industry constitutes data that has up until now been relatively unknown. This study can therefore be credited for offering some clarification on this issue.

Moreover, the survey offers insight into the share of export revenues:

— Approximately 25% of revenues ($103.5 million) emanate from exports. The proportion of businesses that export is a little higher (30%).

— Close to two-thirds (63.6%) of export revenues ($65.8 million) are generated by businesses in the language training sector, whereas only 18% among them state that they export.

— The volume of exports does not reflect all activities conducted with foreign students, as more than two-thirds of language schools provide courses to foreign students. Thus, a significant part of these revenues is not included in calculations of export revenues.

### 2.5.1 Distribution of exporting businesses

Some 30% of businesses state that they export goods and services (see Figure 16). Other data reveals that 38% of businesses in the translation sector (NAICS 541930) compared with 18% in the language training sector (NAICS 611630) state having exported. However, the data indicates that most export revenues (63.6%) come from the training sector, compared with 36.4% for the translation sector.

*Figure 16*

**Proportion of Businesses Exporting Goods and Services**
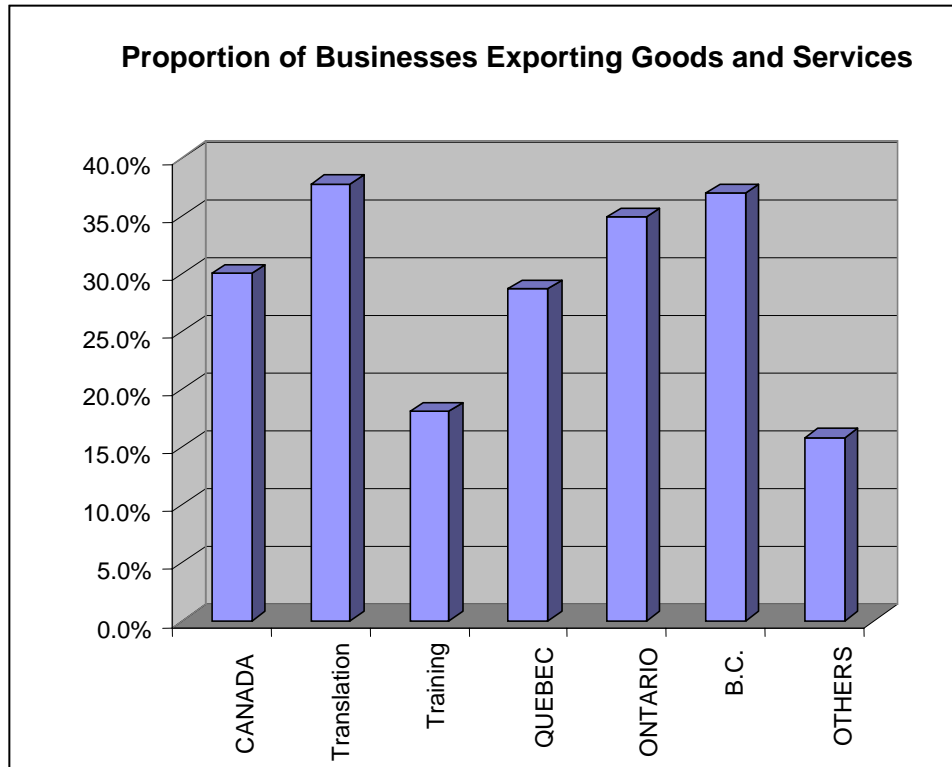


Regionally, British Columbia has the largest proportion of export businesses (37%), versus Ontario (35%) and Quebec (29%). Businesses in British Columbia offer mainly language training (70%) and only a little translation (32%).

Interestingly, although the translation sector appears to have the largest share of exporting businesses, this does not prevent British Columbia from having the largest number of export businesses. In terms of export volume, British Columbia is also ahead, with 41% of revenues ($42 million).

Sixty percent of businesses in the translation sector in British Columbia export their products and services. Due to the strong presence of Asian languages, the province appears to have turned its sights towards Asia. As well, B.C.'s language training sector is more involved than other regions in exports, with 27% of companies engaged in these activities.

The industry in Ontario also has good export performance, with 35% of its businesses involved, whereas Quebec is close to the national average with 29%. With respect to export revenues, the picture is similar: Ontario generates 28% of overall exports ($29 million) and Quebec 19% ($20 million).

Accounting for only 16% of export businesses, few of Canada's other regions generate revenues abroad. Moreover, these other regions account for only 12% of exports ($12.5 million).

### 2.5.2 Regions where exporting firms do business

A portrait of regions where businesses in the industry operate reveals the diversity of these export markets.

*Figure 17*

**Countries Where Exporting Language Businesses Operate**
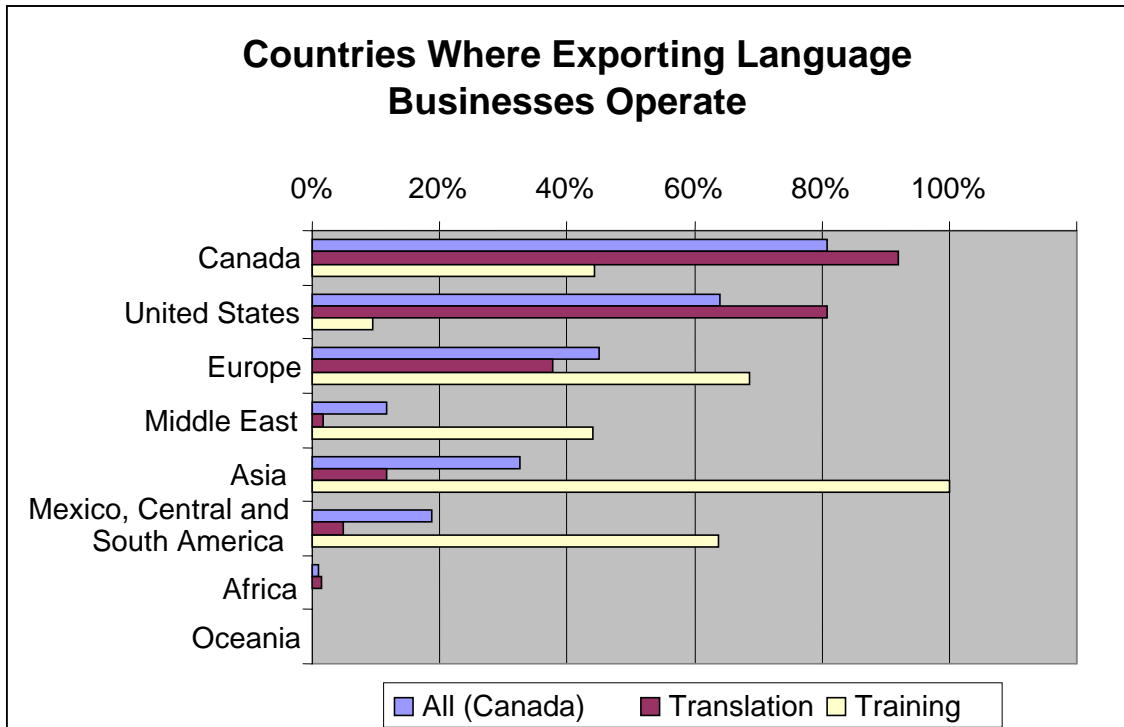


Thus:

— 92% of exporting businesses from the translation sector (NAICS 541930) do business in Canada and other countries.

— This is the case with only 44% of businesses in the language training sector (NAICS 611630), compared with the national average of 81%.

Because fewer exporting businesses from the language training sector serve both the domestic and foreign markets, it appears that their clientele is more specialized than those of the translation sector.

Figure 17 shows a marked difference between sources of revenues for the translation sector and those for language training. It appears that these two sectors are complementary in terms of exports.

In the translation sector, business is done mainly with the United States. This country is responsible for more than two-thirds (67%) of export revenues, whereas Europe comes in second place with 25%. Thus:

— It is clear that more businesses in the translation sector do business in the United States (81%) or in Europe (38%).

- This trend is similar for all Canadian language-related businesses, with 64% of them doing business with the United States and 45% with Europe.

- Few of these translation businesses do business elsewhere: 12% in Asia, 5% south of the United States and less than 2% in Africa or the Middle East.

- Regarding revenues generated, it is noteworthy that export businesses in the translation sector have an average $271,000 in export revenues, compared with $1.5 million on average for language training schools.

Export businesses from the language training sector show a rather different profile:

- One hundred percent of these firms do business with Asia.

- This yet again demonstrates the dominant role of language schools as exporters in British Columbia, where this sector's exports are concentrated.

- Sixty-nine percent of firms also do business with Europe, 64% with countries located south of the United States, and 44% with the Middle East.

- Close to half of export revenues from the training sector come from Asia (47%), while the other half comes in equal parts from countries in Latin America (24%) and Europe (25%).

- A little less than 10% of businesses from the training sector do business with the United States.

The regional distribution of countries to which businesses export is presented in Figure 18. Thus, in Quebec:

- The United States is targeted by the largest number of exporting businesses from Quebec (80%).

- One hundred percent of these Quebec businesses also do business with Canada, 37% with Europe, 10% with Latin America (Mexico, Central or South America) and 4% in the Middle East and Asia.

In Ontario:

- Trade with the United States is also important to 71% of these businesses.

- A distinctive trait of Ontario is diversity: 52% of firms do business in Europe, and Ontario has a far greater presence than Quebec in Asia (29%), Latin America (22%) and the Middle East (14%).

- Ninety-three percent of exporting businesses in Ontario also do business elsewhere in Canada.

*Figure 18*

## Regional Distribution of Language Industry Partner Countries
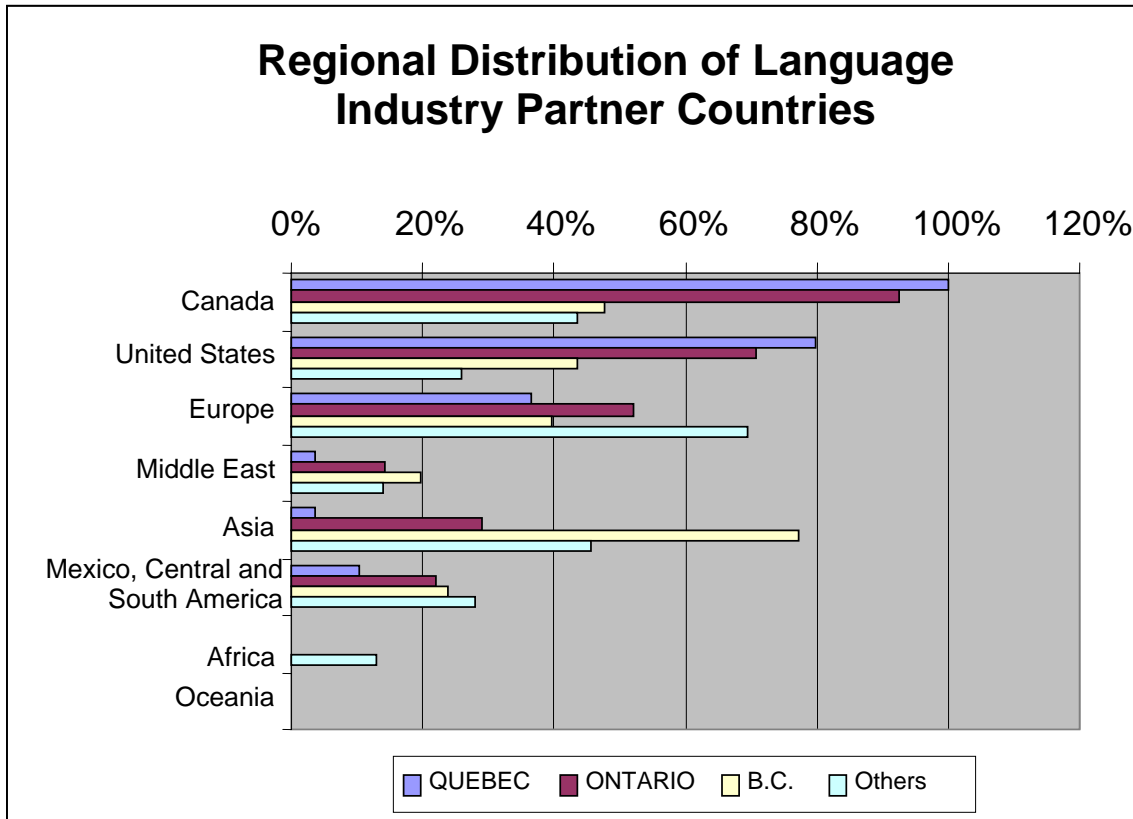


In British Columbia, there is a good balance between the different regions served:

— Asia dominates with 77% of exporting businesses doing business there.

— The United States follows with 44%, along with Europe (40%), Latin America (24%) and the Middle East (20%).

— Only 48% of B.C. exporters also do business with Canada. Thus, businesses from British Columbia appear to be more export-oriented.

Given their small number, exporting businesses in other regions of Canada are less significant. Their profile is also different because the largest share of these businesses is oriented towards Europe (69%), Latin America (28%) and even Africa (13%).

It therefore appears that export businesses from other Canadian regions have developed specialties in languages other than French or English, mainly Spanish and other European or African languages.

### 2.5.3  Firms' main export markets

On a quantitative scale, the survey was also useful in evaluating the main export countries for the businesses surveyed. Thus, the distribution of the main export countries is shown in Figure 19.

This distribution demonstrates the value of principal export revenues for each country, which provides a better understanding of the size of revenues generated.

*Figure 19*



**Distribution of Main Language Industry Partner Countries**

Legend:
- Africa
- Mexico, Central and South America
- Asia
- Middle East
- Europe
- United States

Categories: All, Translation, Training, QUEBEC, ONTARIO, B.C., OTHERS
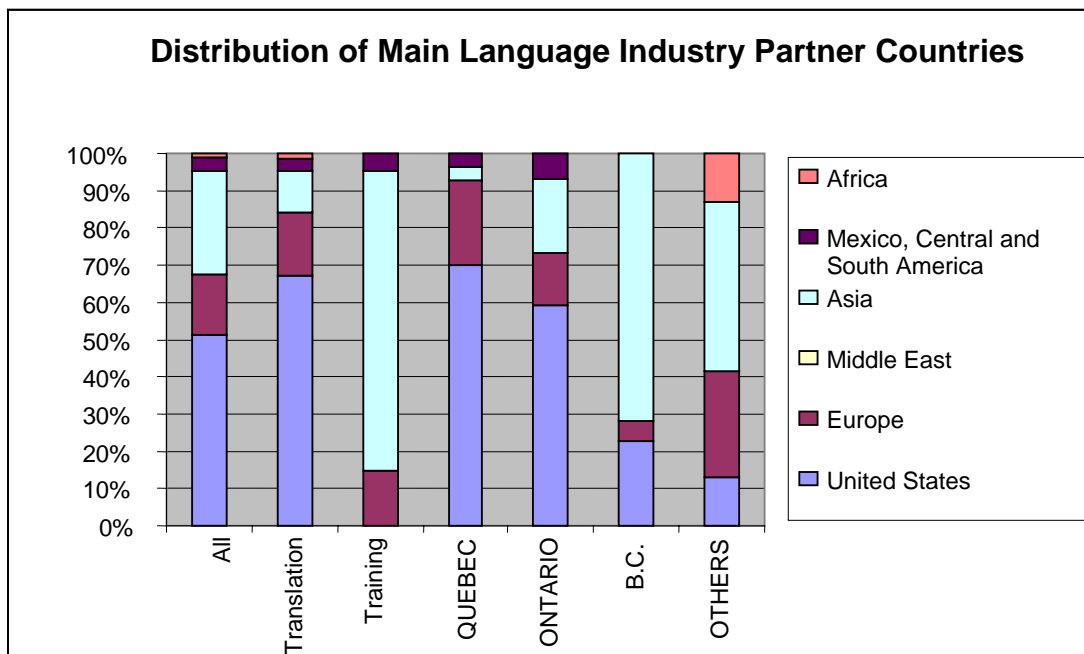
Thus:

— The United States is the main importing country to which 53% of businesses surveyed export, which is evidence of that country's importance to the industry. The U.S. is responsible for 25% of export revenues.

— This relative weight is nonetheless smaller than among other Canadian industry sectors where the United States most often claims the title of Canada's largest trading partner. Overall, the United States is Canada's most significant trading partner. Thus, businesses in the Canadian language industry are more diversified in terms of export markets than the rest of the Canadian economy.

— It is also noted that in the language training sector, the United States was not identified as a main export market for any of the businesses surveyed. This sector, therefore, appears to have significant economic diversification with respect to Canadian exports.

For the entire language industry in Canada, Asia comes in second place as the main region receiving Canadian exports, although it dominates by far in terms of the economic role it plays:

— Asia is the main destination of exports among 29% of export businesses.

— Europe comes next with 17%, followed by Latin America with 4%.

— Revenues attributable to Asia ($33 million) constitute 32% of total exports.

— Exports to Europe represent approximately the same volume as that for the United States, at $25 million or 24% of the total.

Comparing both sectors surveyed, it is clear that, unlike language training, translation is strongly oriented towards the United States:

- The United States constitutes the main export market for 70% of businesses operating in this sector and is responsible for 67% of export revenues.

- Europe ranks second: 17% of translation businesses derive 24% of their revenues from there.

- Asia is placed third: 12% of businesses export to Asia, though it accounts for only 5.2% of export volume.

- Although Latin America is the main export market for 3.5% of translation businesses, it nevertheless represents 24% of their export volume. It is also interesting to note that Latin America represents 0.6% of the exports carried out by the language training sector.

In the language training sector, export activities are directed essentially towards Asia:

- Eighty-four percent of exporting language training businesses do business mainly with Asia, which accounts for 47% of export revenues for the sector.

- Europe is far behind, with only 16% of businesses deriving 25% of their export revenues from there.

- No firm listed the Middle East as their main market, despite the fact that 12% of export businesses stated that they do business there.

With respect to regions, there is a direct relationship between location in Canada (east vs. west) and the relative size of the United States and Asia as main trading partners. Thus:

- The United States is the main partner for 73% of exporting businesses in Quebec and 64% in Ontario, compared with only 23% in British Columbia and 13% in other regions.

- Asia is the main partner for only 4% of export businesses in Quebec and 22% in Ontario, but for 72% of businesses in British Columbia and 46% in other regions.

Firms that consider Europe to be their main export market appear to be concentrated in Eastern Canada:

- Europe is the main market for 24% of export businesses in Quebec, for 15% in Ontario and only 6% in British Columbia.

- The other regions nonetheless do well in Europe, which is the main export market for 29% of businesses.

For the other markets, 4% of exporting businesses in Quebec and 7% of those in Ontario list Latin America as their main export market. Africa is the main export market for 13% of exporting businesses in other regions.

### 2.5.4  Types of export clients

What kind of clients do businesses find in foreign markets? To answer the question, a comparison must be made with those in Canada.

*Figure 20*

**Businesses According to Their Main Clients Outside Canada**
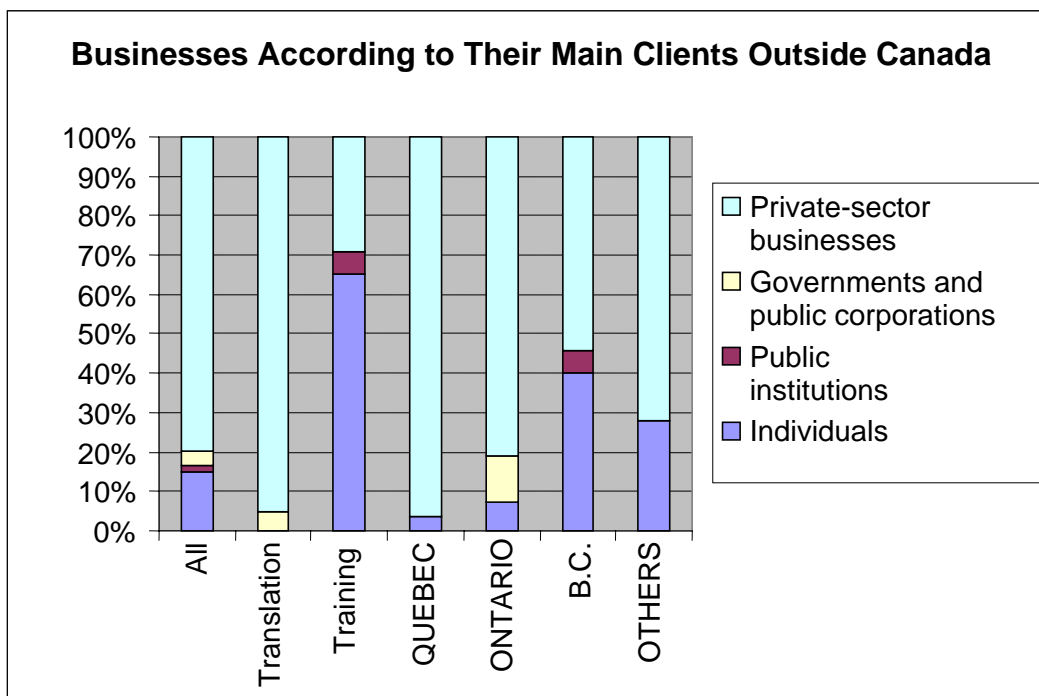


First, private-sector businesses are the dominant type of export client:

  — For 80% of exporting businesses, private companies represent the main type of client outside Canada. This trend is consistent with what has been observed domestically.

  — For 15% of these businesses, the second type of client is made up of individuals.

  — The main difference between export markets and the domestic market is that with exports to markets, public and government institutions are major clients for only a small percentage of Canadian businesses, representing 1% and 4%, respectively.

  — Local market data hints at a much larger role for these client groups, which seems consistent given that these institutions normally favour local suppliers.

Sector data indicate the same fundamental difference in the types of clients of both sectors in the study. Thus:

  — Firms from the private sector are the most important clients in the export sector for 95% of translation businesses, whereas this is the case for only 30% of businesses in the language training sector.

  — Individuals constitute the most important clients in the export market for 65% of businesses in the language training sector, whereas it is not the case for any businesses in the translation sector.

Other types of export clients are far less important:

- Governments and state businesses are the main clients outside of Canada for only 5% of translation businesses that export.
- Foreign public businesses are main clients for 5.5% of businesses in the language training sector.

This data is reflected in the regional distribution of main types of export clients.

- Private businesses are the most important clients for export businesses in Quebec (96%), Ontario (81%), British Columbia (54%) and the other regions (72%).
- British Columbia has the largest concentration of language training schools and the largest amount of businesses that do business mainly with individuals in export activities (40%), followed by the other regions (28%), Ontario (7%) and Quebec (4%).
- Ontario, that has essentially Canadian government institutions, is the only region that has government businesses as main clients outside Canada among 12% of its export businesses.
- British Columbia is the only one that has public institutions as main export clients for 5.5% of its businesses.

The predominance of private businesses and individuals among the export businesses surveyed suggests that the Canadian language industry, of which 30% exports, enjoys a competitive position in the international market.

Private businesses and individuals are, in effect, most often influenced by price and quality above other considerations that could be of a political nature. This is even more remarkable considering that the language industry is essentially a value-added service industry, where exports often constitute a challenge.

## 2.5.5  Analysis of trends in exports

Firms surveyed were asked to submit their forecast regarding exports for the next 12 months. The results appear in Figure 21.

*Figure 21*

**Businesses Who Anticipate Entering or Expanding into International Markets**
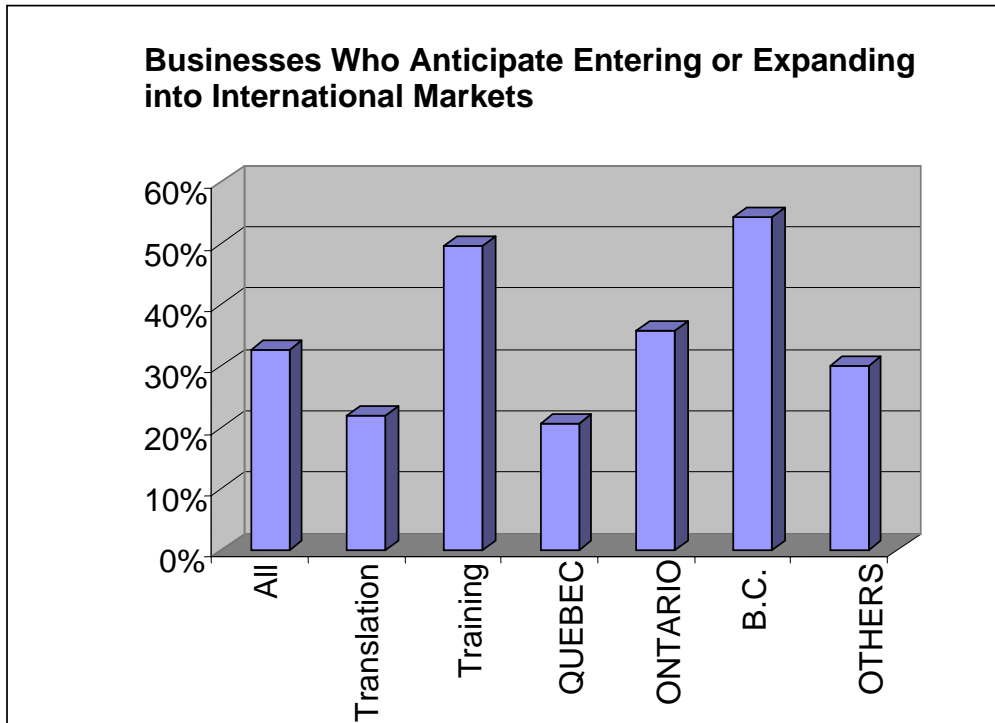


Some 33% of businesses said they had the intention of increasing their presence outside of Canada, which appears rather high considering that 30% of businesses are present in the export market.

Growth forecasts abroad are primarily more important among language training businesses (50%) than in translation (22%). This seems to testify to the dynamism of the Canadian language training industry, in particular at its international level.

Regional data also demonstrate the vitality of this sector in the export market. The more the region has export businesses—specifically language training—the better the perspectives of growth abroad appear:

 ─ In Quebec, only 20% of businesses will attempt to establish or expand their presence in the international market, against 36% in Ontario and 54% in British Columbia.

 ─ At 30%, businesses from other regions that wish to do the same are less numerous than the Canadian average.

Different data collected regarding export markets show that presently the most dynamic is language training aimed at individuals coming from the Asian market, and this rapidly expanding market is mainly concentrated in British Columbia. Exports linked to language training also account for 64% of the total. The fast economic growth currently underway particularly in China, and its subsequent training requirements linked to its international development are certainly not unfamiliar.

Nevertheless, the translation sector has more export businesses (38%) than language training (18%). Thus, even if it does not appear to experience the same growth in exports, this sector continues to show an important part of its businesses deriving revenues from exports. In this case, the main international client is the United States for 70% of these businesses, mainly consisting of private businesses at 95%.

### 2.5.6 Factors that limit international expansion

The Statistics Canada survey included several questions regarding factors that limited the development of businesses outside of Canada. These limiting factors are presented here for all businesses studied and the two sectors of translation and language training (see Figure 22).

For businesses that attempted to expand their presence abroad, the main limiting factors mentioned were:

— Lack of money, which had a considerable (28%) or moderate (31%) incidence among 59% of businesses.

— Lack of staff, with a considerable (22%) or moderate (27%) incidence among 49% of businesses.

*Figure 22*



**Factors that Have Slowed Expansion of Businesses into International Markets**

42
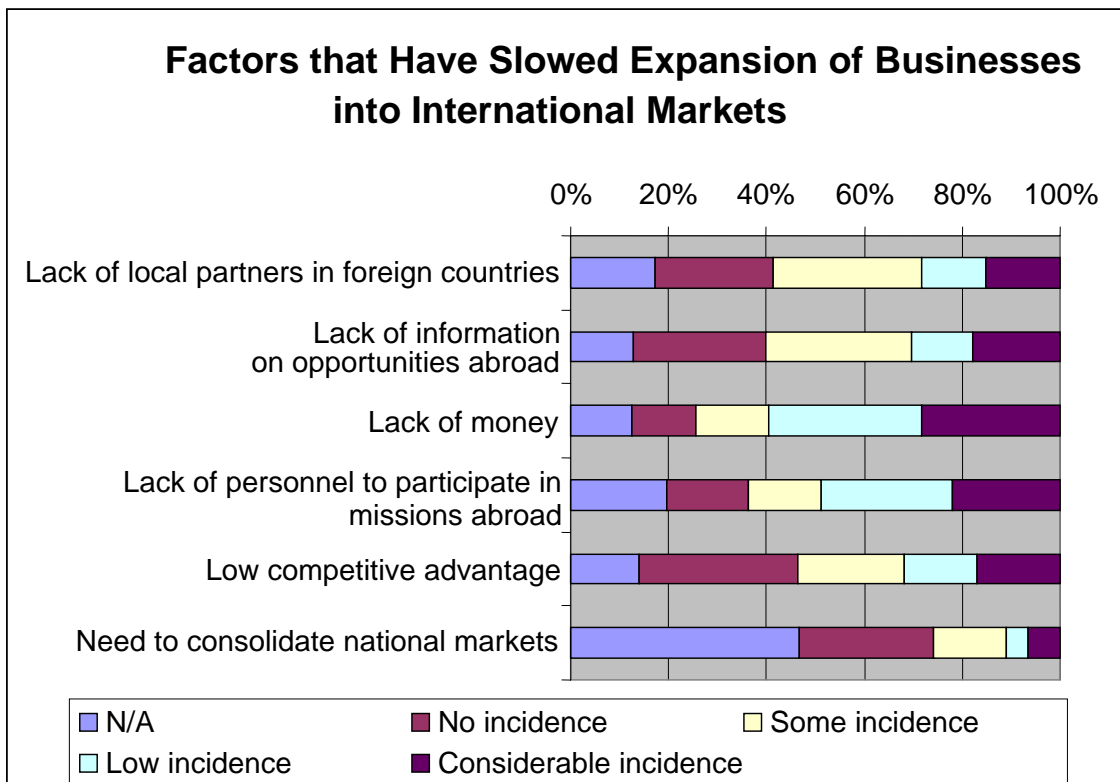
A hypothesis to consider when faced with these two first factors is linked to the nature of the language industry, where the largest part of expenses is salaries[13] and where revenues are directly linked to the time spent working for these clients.

Thus, the number of staff assigned to international development of foreign markets often means a reduction in revenues with an effect on the financial resources of businesses. Therefore, these investments must be made as a function of profitable business opportunities in order to minimize financial risk.

Three other factors also seem to be important:

- A too small competitive advantage (32%).
- A lack of information on opportunities abroad (30%).
- A lack of local partners in foreign countries (28%).

These three factors have an incidence that is not negligible among a significant proportion of businesses, and could be the object of policies to be adopted.

The last factor mentioned is the need to consolidate the domestic market, but it presents a moderate to considerable incidence for only 11% of businesses.

*Figure 23*



**Factors that Have Slowed Expansion of Businesses into International Markets**
**Translation**

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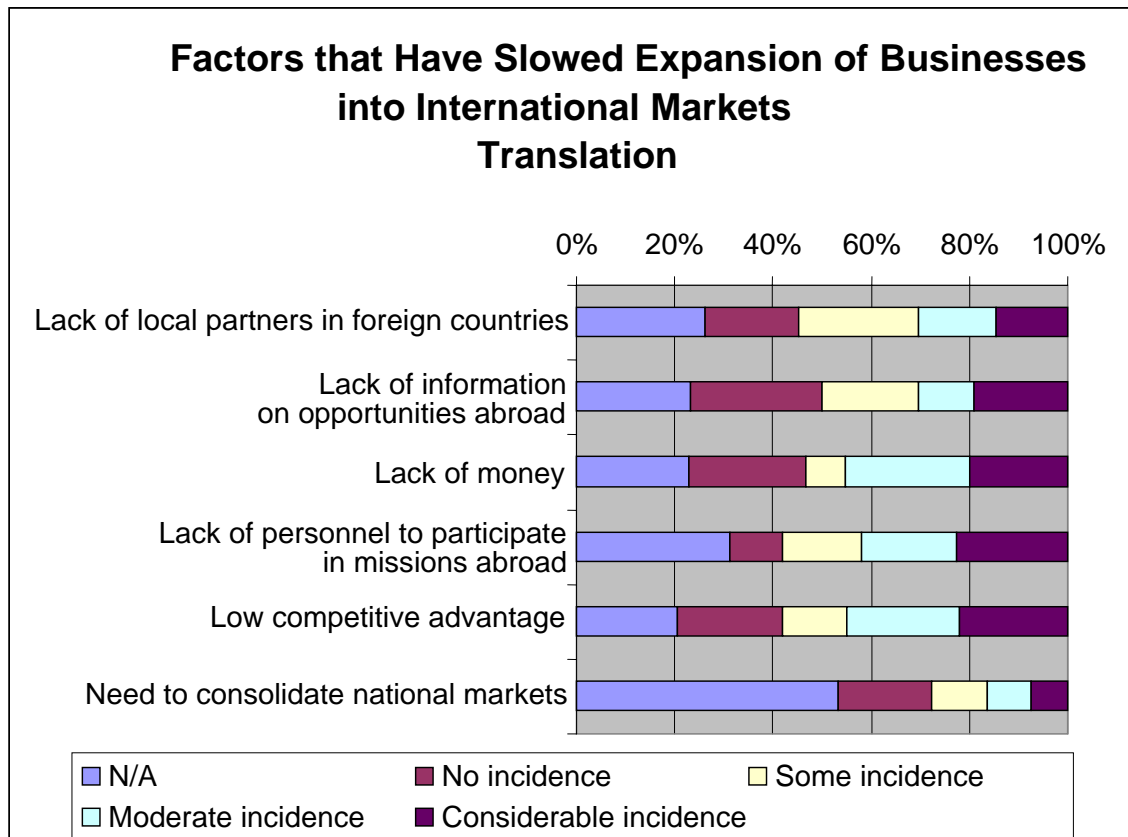
13. See the business cost structure data presented in Section 3.1.

An important difference in relation to all businesses surveyed is the incidence in the translation sector (see Figure 23) of too small a competitive advantage among a number of businesses wanting to increase their presence abroad:

— This factor has a moderate (23%) to considerable (22%) incidence among 45% of these businesses.

— It is the same rate of incidence (45%) than the lack of money in this sector.

— By adding the businesses that indicate this factor has a small incidence, the competitive advantage factor becomes more important (58%) than lack of money (53%).

Two hypotheses can be put forward regarding the factor linked to the low competitive advantage in translation:

— The costs associated with translation in Canada appear as higher than those found in several other markets.

— Local expertise (for example, American or British English relative to Canadian English) is favoured in several foreign markets.

As the advantage often mentioned by the Canadian translation industry is linked to quality and professionalism of work, it would be appropriate to define the clients for whom Canadian advantages are more important in comparison to factors associated with costs or local expertise.

In addition, steps aimed at improving productivity in the sector (reduce costs while maintaining the same quality) could offer avenues to finding solutions for exporting.

The other factors that hold back the expansion of international activities in the translation sector are compared to industry averages:

— Lack of staff to participate in missions (42%).
— Lack of information regarding opportunities abroad (30%).
— Lack of local partners in foreign countries (30%).
— The need to consolidate domestic markets (16%).

The factors that impede international expansion of businesses in language training are combined in Figure 24.

*Figure 24*

**Factors that Have Slowed Expansion of Businesses into International Markets**
**Language Training**
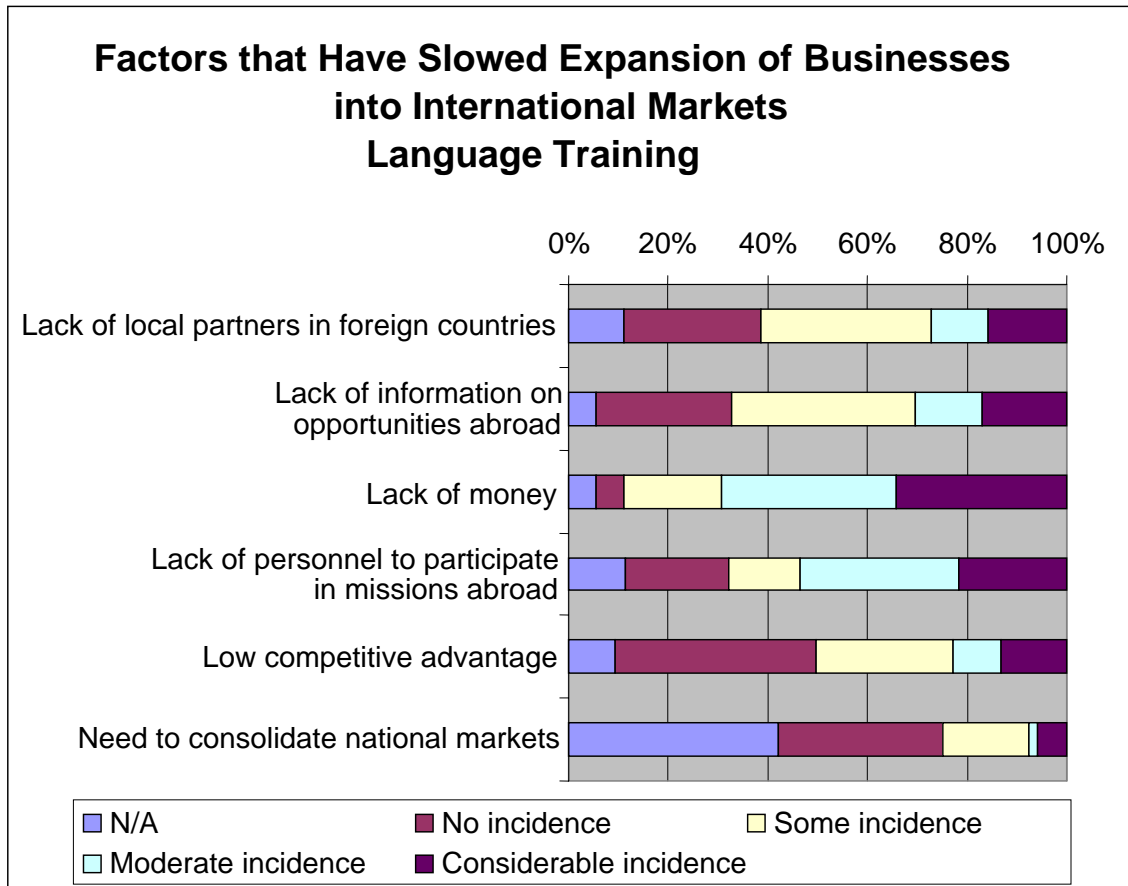


In the language training sector, the factors that limit expansion for businesses wishing to increase their presence abroad are the following:

- Lack of money appears as the most important with a moderate (35%) to considerable (34%) incidence among 69% of these businesses.

- Lack of staff to participate in missions has a moderate (32%) to considerable (22%) incidence among 54% of businesses affected.

The main hypotheses that can be raised for this sector in Canada are growth expectations both domestically [14] as well as internationally[15].

This growth strongly risks exerting important pressure on businesses in the language training sector, in both the lack of money as well as the human resources issues. Considering this encouraging situation for the Canadian economy, financing these businesses' growth, operating costs as well as hiring and training of employees should constitute a priority.

The other factors mentioned are less important for the industry of language training:

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14. See Section 2.4 *Revenue growth forecasts*.
15. See Section 2.5.5 *Analysis of trends in exports*.

— Lack of information on opportunities abroad (30%).
— Lack of local partners in foreign countries (27%).
— Small competitive advantage (23%).
— Need to consolidate domestic market (7.5%).

An important difference in the translation sector relates to the weak competitive advantage abroad. This factor has, in effect, a moderate to considerable incidence among 45% of translation businesses, compared to 23% for the language training sector. Thus, the competitive international situation of the Canadian language training industry appears much stronger.

# 3 Costs and Profitability

In the study of the economic structure of the language industry, profitability analyses are based essentially on sources of revenue and costs.

Unlike sources of revenue, businesses' cost structures are covered regularly and precisely in the financial data on small and medium-sized businesses published by Statistics Canada. Some of this data can be found in the appendices to the report prepared for AILIA, entitled *Le financement de l'industrie de la langue*[16]. This report also contains a chapter on economic performance indicators for the industry.

Businesses' main items of expenditure are presented here in a manner consistent with other data, thus providing an overview of the challenges these businesses face in their quest for profitability.

It is also worth noting that the cost structures between the two sectors studied are quite different, and that the data for the industry as a whole is presented for information purposes only. This data was obtained by means of a questionnaire rather than from the records of Revenue Canada, as is the case for other Statistics Canada studies.

## 3.1 Cost Structure

### 3.1.1 Businesses' costs

Among the businesses surveyed, the cost structure presented in Figure 25 includes the following elements:

- Wage costs are predominant, be they for salaries and benefits (47.5% of expenses) or subcontracting fees (14.5%).

- Operating expenses (rent, heating, electricity, hardware, supplies, etc.) come second at 18.6% of overall costs.

- The portion of expenditures dedicated to employee and owner training, representing only 0.6% of overall expenditures, seems low for an industry based on the skills of its employees[17].

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16. Martin Duchaîne, *Le financement de l'industrie de la langue*, 2005, pour l'AILIA.
17. For example, Quebec law requires that large businesses (those with revenues of over $1 million) in all sectors dedicate at least 1% of their payroll to training.

*Figure 25*

## Cost structure of businesses surveyed
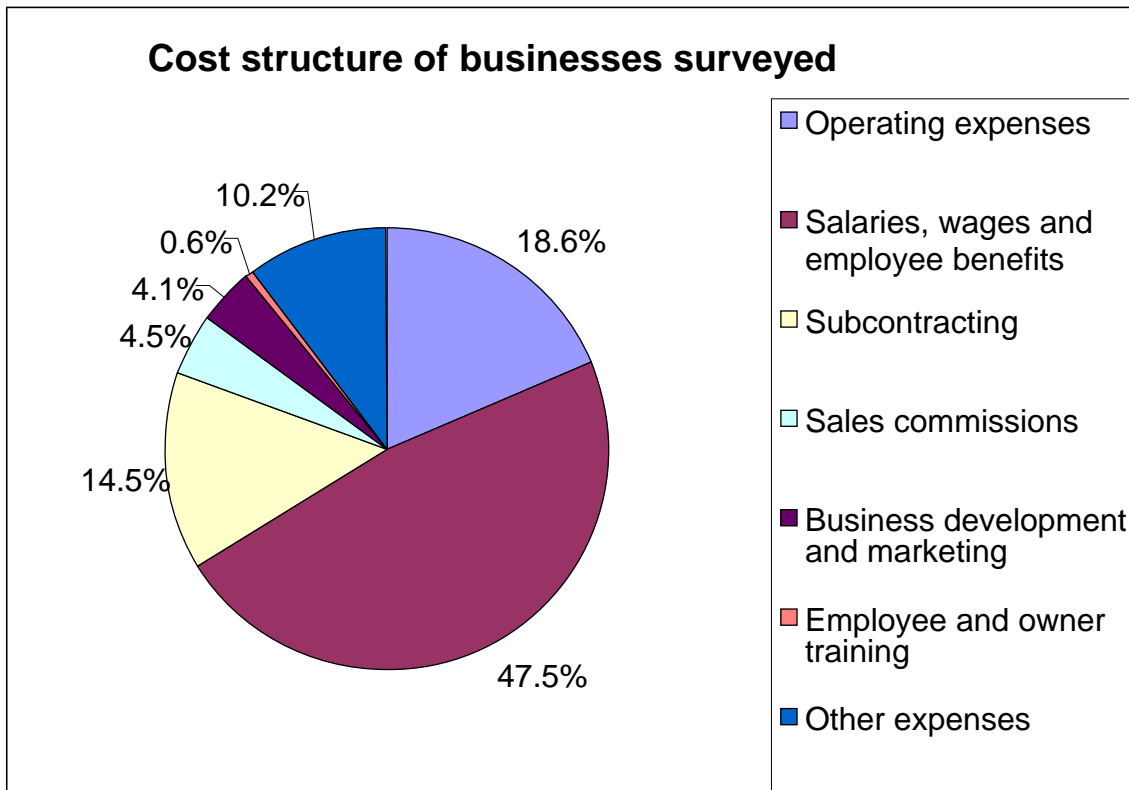


One final highlight: the item "other expenses" appeared to be relatively substantial, representing 10.2% of businesses' costs. Therefore, a significant portion of these business' costs stems from other expenses.

### 3.1.2  Costs in the translation sector

The cost structure of the translation sector differs in many respects from that of the language training sector (see Figure 26).

The first observation relates to the substantial cost of salaries and benefits, which represent 50.5% of expenses. Added to subcontracting expenses (31%), labour costs alone amount to 81.5% of overall costs. In fact, the use of subcontractors is particular to the translation sector (see Section 4.3 below).

Operating expenses rank third, representing 12% of costs.

Other expenditure items are less significant: sales commissions (0.6%) and business development and marketing expenses (1.1%) are lower than they are for all language industry businesses combined, as are employee and owner training costs (0.4%) and other expenses (4.5%).

*Figure 26*



**Cost structure of translation sector businesses**

- Operating expenses — 12.0%
- Salaries, wages and employee benefits — 50.5%
- Subcontracting — 31.0%
- Sales commissions — 0.6%
- Business development and marketing — 1.1%
- Employee and owner training — 0.4%
- Other expenses — 4.5%
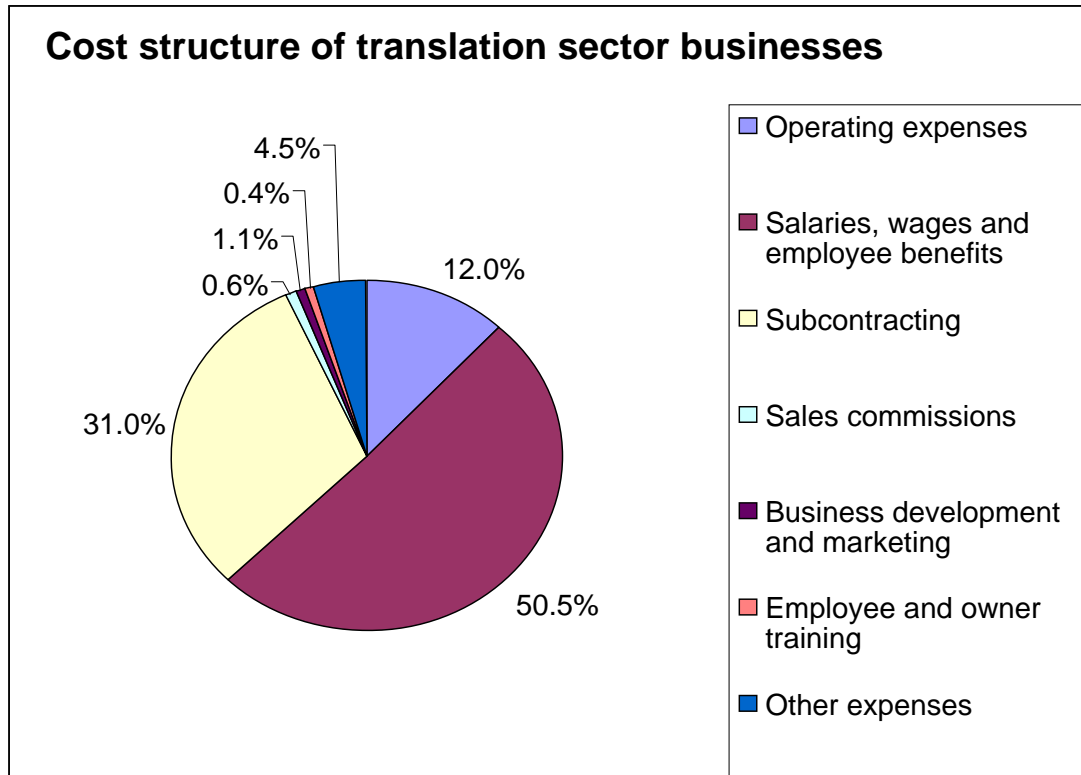
This data presents the translation sector as being dominated primarily by the cost of labour, which itself relies directly on profitability. Controlling these and other costs appear to be a priority in this sector.

### 3.1.3  Costs in the language training sector

Costs in the language training sector paint a different picture of language industry businesses. Although they play a substantial role, costs related to salaries and benefits (45.3%) are slightly lower, proportionally, than those in the translation sector.

As for subcontracting, the difference is more significant: these costs represent only 2.5% for language training businesses.

In this sector, operating expenses (23.4%) and "other expenses" (14.4%) are the most distinctive, ranking second and third, respectively, as in-class training involves classrooms, infrastructure and significant operating expenses (electricity, heating).

The other expenses can be explained in part by the proportion of revenues linked to online training and accommodation[18] or to administration, personnel management and infrastructure maintenance costs (see Figure 27).

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18. Refer to Section 2.2.4 Sources of revenue, by sector.

*Figure 27*

**Cost structure of language training businesses**

14.4%

0.8%

6.2%

7.4%

2.5%

23.4%

45.3%

- □ Operating expenses
- ■ Salaries, wages and employee benefits
- □ Subcontracting
- □ Sales commissions
- ■ Business development and marketing
- ■ Employee and owner training
- ■ Other expenses
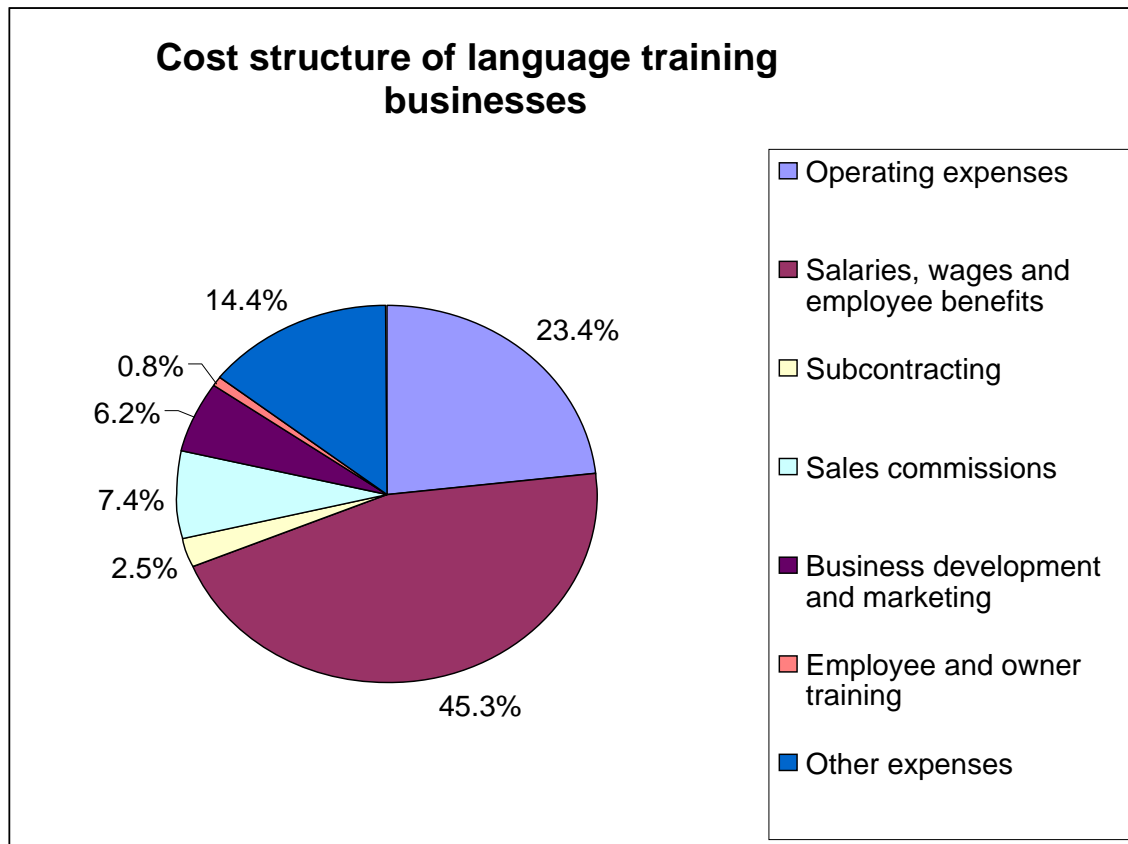
Considering that revenues for businesses in the language training sector are twice as high on average as for those in the translation sector[19], it is easier to measure the proportion of non-salary-related costs in language training.

Expenses linked to marketing are also much higher than they are for translation businesses. Sales commissions (7.4%) and marketing and business development costs (6.2%) together constitute a major share of overall costs.

At 0.8% of expenditures, expenses relating to the training of employees and owners in the language training sector are higher than they are in the translation sector. However, they seem rather low for a sector whose main business activity is training itself.

Consequently, in the language training sector, the cost structure is more diversified. Also, profitability depends on controlling not only labour costs, but also operating costs, "other expenses" and marketing expenses.

### 3.1.4 Influence of size on costs

The data obtained during the Statistics Canada survey was also used to evaluate how the cost structure changes according to the size of the business. This makes it possible to calculate the most significant economies of scale which develop as these businesses grow.

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19. See Table 8.

Figure 28 represents the most significant differences observed in the cost structure according to business size.

*Figure 28*
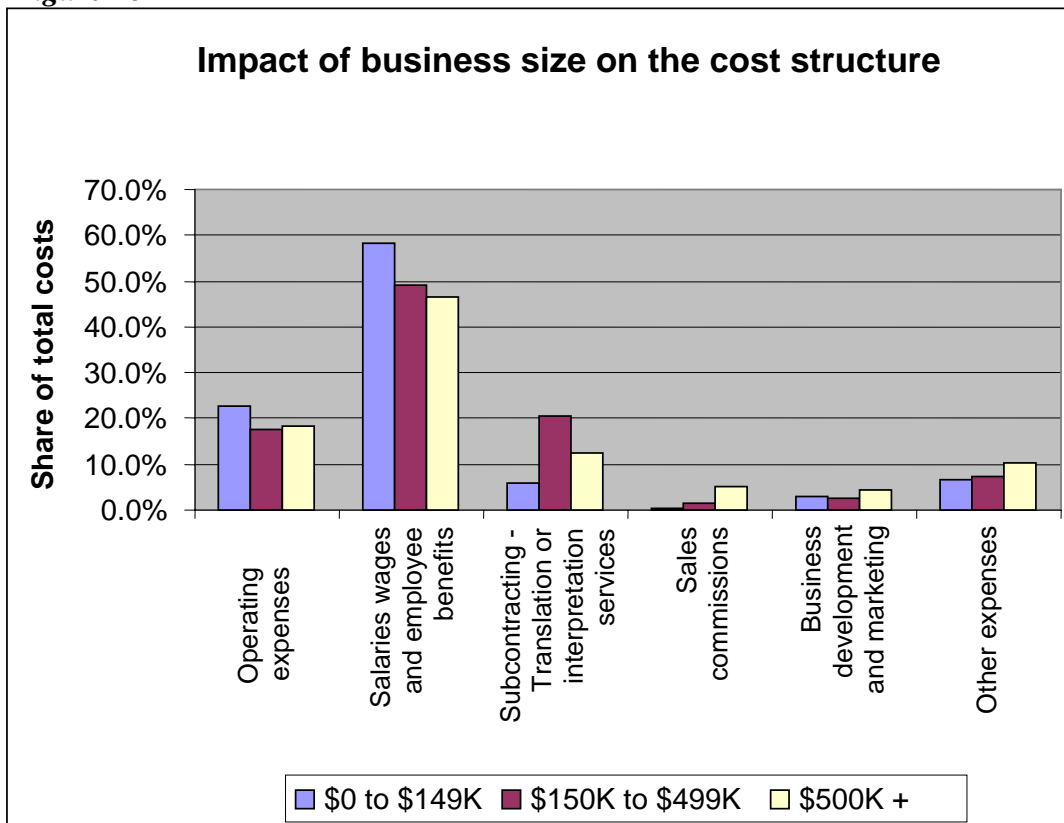


The most significant aspect involves the costs of salaries and benefits, which diminish as businesses increase in size: from 58% for those with revenues of less than $150,000 to 47% for those with revenues of $500,000 or more.

The proportion of operating expenses also declines with an increase in the size of a business, ranging from 23% for businesses with revenues of less than $150,000 to 18% for those with more than $500,000 in revenues.

The other types of costs seem to increase in proportion with size when one compares businesses with less than $150,000 in revenues with those with more than $500,000:

—   Subcontracting costs increase from 5.9% to 12.5%.

—   Sales commissions rise from 0.4% to 5.2%, and other marketing costs from 3% to 4.3%.

—   The "other expenses" item increases from 6.6% to 10.3% of costs.

It appears that economies of scale occur in operating expenses and direct labour costs. The costs linked to subcontracting, marketing and "other expenses" rise significantly, in direct proportion to the size of a business.

## 3.2 Profitability Analysis

The Statistics Canada survey on which this study is based included elements relating to the profitability of businesses, i.e. their revenues and expenses.

However, the questions asked did not deal directly with profitability. The profitability data presented in this review are therefore indirect, deducted from other data collected during the survey. They are not official numbers provided by Statistics Canada[20]. Moreover, because the source of information was a survey rather than accounting or taxation data, the scope of analysis was somewhat limited. **It is therefore important to bear in mind that this profitability data is provided for information only, and for the purposes of evaluating the trends observed and to understand the incidence of other sections of the study of profitability of targeted businesses.**

However, this data did provide some insight into the profitability and economic vitality of these businesses by indicating which sectors and regions appear to be most profitable.

The notions of "profits" and "profit margins" presented herein do not correspond to any formal or accounting definition: they are, in essence, profitability indices obtained by subtracting overall sales from overall operating expenses. Moreover, these "profits" do not take into account expenses such as taxes, depreciation or other financial expenses. Nor can this data be compared with other profitability data for the industry obtained from official sources.

### 3.2.1 Profitability according to region

Table 12 contains the data used to evaluate the profitability of the businesses surveyed.

Overall, the profit margin observed varies significantly from region to region. Although Quebec-based business profitability is slightly higher than the Canadian average, businesses in Ontario have even greater margins.

*Table 12*

| Revenues, expenses and profits, by region | | | | | |
|---|---|---|---|---|---|
| | **Canada** | **Quebec** | **Ontario** | **B.C.** | **Other regions** |
| Total revenues surveyed | $410 M | $102 M | $175 M | $93 M | $39.6 M |
| Total expenses surveyed | $376 M | $93.3 M | $152 M | $93.4 M | $37.1 M |
| Total "profits" calculated | $34 M | $9 M | $23 M | -$318,000 | $2.5 M |
| Profit margin calculated | 8.35% | 8.78% | 13.2% | -0.34% | 6.34% |

One hypothesis that could explain this situation is the influence of business size. According to the results, the average sales volume of Ontario businesses is more than double that of businesses in Quebec[21].

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20. Due to a lack of sufficient precision needed to meet the minimum standards laid out by Statistics Canada, the original profitability data could not be published. Consequently, for information only, the profitability indices used in this report were calculated using data on the revenues and expenses of all surveyed businesses combined, which were available in the previous sections.
21. See Table 7.

A second hypothesis is linked to the local Ontario market, which is generally made up of older and larger businesses. The client bases of these businesses include a large number of public institutions, government bodies and private-sector businesses[22].

In the case of the private-sector businesses in particular, their importance as sources of revenue for the language industry has been clearly established[23]. The stability of the client base and the revenue volume thus have a direct influence on the profitability of Ontario businesses.

A point worthy of mention pertains to British Columbia businesses, which demonstrate almost zero profitability. In this case, the main hypothesis concerns the accelerated growth currently being experienced by businesses in B.C., both locally and internationally[24]. The fact that these businesses are newer also implies that this growth has occurred within the last five years[25].

This growth has clearly exerted pressure on these businesses, which need to invest in personnel, infrastructure and working capital. This situation also indicates that the main factor slowing the international growth of businesses in British Columbia is a lack of money, with a moderate (32%) to significant (40%) incidence affecting 72% of these businesses[26].

The low level of profitability of businesses in British Columbia appears essentially to be a cyclical problem linked to the strong growth of the industry and seemingly to the explosion in the Asian market's demand for linguistic services[27]. This situation indicates that providing financial and logistical support to the language industry in British Columbia, and to all Canadian businesses providing linguistic services to the Asian market, especially language training, is strategic for the Canadian industry if it is to claim a significant share of this promising market.

### 3.2.2  Profitability according to sector

Table 13 provides sector-specific data on the profitability of businesses.

*Table 13*

| Revenues, expenses and profits, by sector | | | |
|---|---|---|---|
| | **All (Canada)** | **Translation** NAICS 541930 | **Training** NAICS 611630 |
| Total revenues surveyed | $410 M | $178 M | $232 M |
| Total expenses surveyed | $376 M | $159 M | $217 M |
| Total "profits" calculated | $34 M | $19 M | $15 M |
| Profit margin calculated | 8.35% | 10.5% | 6.69% |

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22. See Figure 12.

23. See Table 11.

24. See figures 14 and 21.

25. See Figure 2.

26. See also Figure 24, whose data concerns businesses in the translation sector, where most exporting businesses are located in British Columbia.

27. See Figure 19.

This data shows a marked difference in profitability between the translation and language training sectors.

Consequently, profitability in the translation sector seems to be greater and more stable. This data indicates that growth and consolidation in this sector may be buoyant, creating jobs for the Canadian economy over both the short and long terms. The largest businesses are generally the most profitable; thus, increasing revenues and, in particular, exports in a profitable sector is particularly vital to economic growth.

The language training sector, for its part, has a profit margin that is markedly lower than that of translation. It seems that the economic pressure imposed on this sector by the strong growth of the Asian market, especially in British Columbia, might have diminished this profit margin. Hence, as this growth stabilizes and as the Canadian industry claims a significant share of this foreign market, this profitability could increase, as is the case in the more stable Ontario market.

### 3.2.3 Profitability according to business size

A final analysis of the industry's profitability was conducted according to the size of the businesses (based on revenues) for the two sectors in question. The results are shown in Table 14.

*Table 14*

| Revenues, expenses and profits according to business size | | | |
|---|---|---|---|
| | **$0 to $149 K** | **$150 K to $499 K** | **$500 K +** |
| Total revenues surveyed | $24 M | $43 M | $343 M |
| Total expenses surveyed | $22 M | $40 M | $315 M |
| Total "profits" calculated | $2.5 M | $3.6 M | $28 M |
| Profit margin calculated | 10.6% | 8.3% | 8.2% |

It should be noted that businesses with sales of $500,000 or greater claim a large share (83%) of the industry's revenues. However, when their profitability is examined, one notes that profit margins decrease as the business size increases. This same phenomenon was already observed in a previous report entitled *Le financement de l'industrie de la langue,* which dealt primarily with the marked drop in profit margins of translation businesses with annual sales over $500,000.

In the language training sector, the data presented in the abovementioned report by Statistics Canada showed that profitability increased slightly as business size increased, which could be explained by the economies of scale related to operating costs.

The main hypothesis provided to explain the drop in profitability of businesses is that as businesses grow, they become increasingly complex to manage.

With smaller businesses, a team of professionals can easily manage operations, clients and financial resources. For larger businesses, management quickly becomes arduous: it can be particularly difficult for language professionals to become managers, or for professional managers unfamiliar with the language industry to manage these kinds of

businesses. Because the quality of the management team is often the main factor affecting profitability, particularly in a knowledge-based field such as the language industry, the extent of this challenge can directly be measured from the data obtained in this survey.

Finally, considering the substantial growth of businesses in the language industry, it would be worth conducting a deeper analysis of both the factors influencing profitability in the industry as well as the size of the industry itself. Several key factors affecting profits, such as the profitability of the types of services offered, could later be studied using the data collected by Statistics Canada.

This analysis could be further improved through a deeper understanding of all of the industry's components, namely the contribution of self-employed workers and of public and government institutions, the colleges and universities providing major language training programs, and the Government of Canada's Translation Bureau.

# 4  Human Resources

According to the survey conducted by Statistics Canada, businesses in the language training and translation sectors combined accounted for 7,405 workers, which seems low considering the information available on the industry.

According to the data from the last census, the number of jobs in the group consisting of professional translators, terminologists and interpreters was 13,545 in 2001[28]. As for the language training sector, the number of jobs was estimated at 11,000[29] in 1998. Moreover, according to the profile of Canadian language industries ("*Profil des industries canadiennes de la langue*") released by Statistics Canada's Small Business and Special Surveys Division in 2004, these two sectors have experienced substantial growth over the past few years.

It is worth remembering a few facts that can explain the low number of employees. First, official data on the language industry is drawn from two industry sectors: NAICS 541930 for translation and interpretation businesses and NAICS 611630 for language schools. However, a large proportion of the translators, terminologists and interpreters work in a wide variety of economic sectors, including public institutions, educational services, finance and insurance, and so on. Many language teachers are also found in distinct sectors, specifically in public education establishments. Yet these professionals are members of the language industry in the wider sense.

Second, the survey dealt solely with businesses with one or more employees. Consequently, in the translation sector, only 496 businesses out of 2,488 included in the business register, or 20%, met this criteria. In the training sector, the proportion was higher, accounting for 396 businesses (or 78%) of the 509[30] surveyed.

Third, as indicated above and below, businesses in the language industry make substantial use of subcontractors, especially in the translation sector.

## 4.1  Distribution of Human Resources

Based on the above, the 7,405 employees—including both employees and owners—represent an incomplete picture of the jobs to be found in the language industry based on the 607 businesses covered by the survey.

To be noted, women hold more than two-thirds of the jobs. This is comparable to what is observed in the census for translation professionals. The proportion is similar in both sectors and in every region, with the exception of British Columbia, where the majority of translation professionals are men.

The analysis also concludes that the proportion of full-time employees is fairly low in the industry, representing only 48.3% of the labour force. Part-time employees account for a similar proportion (47.8%), the remainder (3.9%) being students whose employment

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28. Statistics Canada 2001 Census (97F0012XCB01017), data covered in *Profil des industries canadiennes de la langue*, Small Business and Special Surveys Division, March 2004.
29. A profile of providers of training in English or French as a second language, Canadian Heritage, 1998.
30. In Annex B, refer to the table presenting the number of businesses on the register.

status is unknown. Ontario is the only province where full-time employees outnumber part-timers (see Table 15).

*Table 15*

| Number of employees according to employment status and region | | | | | |
|---|---|---|---|---|---|
| | **Canada** | **Quebec** | **Ontario** | **B.C.** | **Other regions** |
| Total number of employees | 7,405 | 1,861 | 2,577 | 1,963 | 1,004 |
| Full-time employees | 48.3% | 46.9% | 55.5% | 43.3% | 42.3% |
| Part-time employees | 47.8% | 49.3% | 39% | 53.3% | 56.6% |
| Students (full- and part-time) | 3.9% | 3.8% | 5.5% | 3.4% | 1.1% |

Also, Ontario has the largest number of employees (2,577), followed by British Columbia (1,963) and Quebec (1,861). The other regions combined have a total of 1,004 employees, or a little less than 15% of the total labour force. This differs somewhat from the number of businesses, an area in which Quebec ranks first (see Figure 29).

*Figure 29*



**Employees, by province**
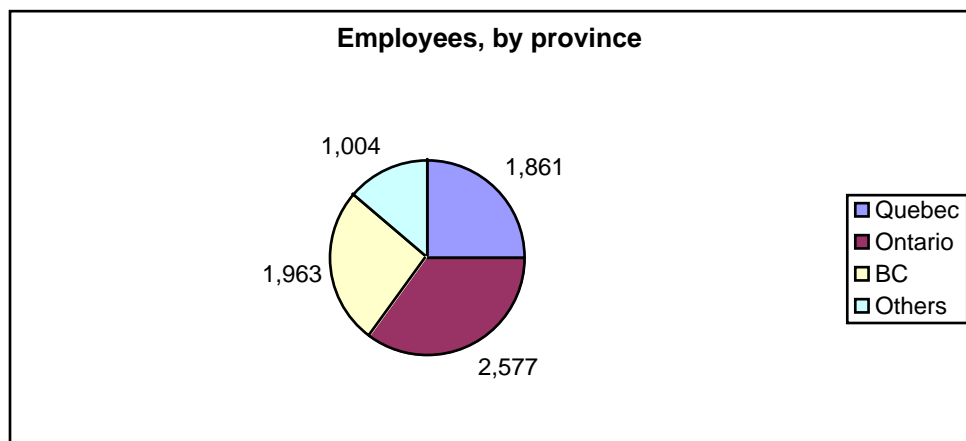
Clearly, the structure has something to do with this. Whereas the translation sector accounts for 60.8% of the businesses, it accounts for only 31% of employees. Businesses in the language training sector have more employees on average (21.5) than do translation businesses. They also have more full-time employees, an average of 8.2 vs. 4.4 for translation.

It is worth noting that 70% of employees in the translation sector have full-time status, compared to only 38.5% in the language training sector (see Table 16).

*Table 16*

| Number of employees according to sector | | | |
|---|---|---|---|
| | **Translation**<br>**NAICS 541930** | **Training**<br>**NAICS 611630** | **Total** |
| Number of employees | 2,297 | 5,108 | 7,405 |
| Average number of employees per business | 6.2 | 21.5 | 12.2 |
| Full-time employees | 70% | 38.5% | 48.3% |
| Average number of full-time employees per business | 4.4 | 8.2 | 5.9 |
| Part-time employees | 27.5% | 56.9% | 47.3% |
| Average number of part-time employees per business | n/a | 12.2 | 5.8 |

By region, Ontario has the highest average number of employees in the language training sector, with 29.5 (see Table 17).

*Table 17*

| Number of employees according to employment status, region and sector | | | | | |
|---|---|---|---|---|---|
| | **Canada** | **Quebec** | **Ontario** | **B.C.** | **Other regions** |
| Average number of employees | | | | | |
| – translation | 6.22 | 4.88 | 7.27 | n/a | 5.29 |
| – training | 21.49 | 20.58 | 29.52 | 19.55 | 15.26 |
| – both sectors | 12.20 | 8.15 | 15.10 | 16.95 | 10.89 |
| Proportion of full-time employees (%) | | | | | |
| – translation | 70 | 71.7 | 90 | 21 | 76.2 |
| – training | 38.5 | 24.6 | 39.8 | 48.7 | 32.4 |
| – both sectors | 48.3 | 46.9 | 55.5 | 43.3 | 42.3 |

Ontario also has the highest proportion of full-time employees in the translation sector, at 90%. This is a notable contrast with British Columbia, where only 21% of employees have full-time status. Quebec is on par with the Canadian average, with 72%.

However, in the language training sector, British Columbia has the highest proportion of full-time employees (48.7%).

The average number of employees per business for both sectors combined is 12 for all of Canada. In Quebec, the number is 8; in Ontario, 15; and in British Columbia, 17.

## 4.2  Size of Businesses According to Number of Employees

Businesses are often grouped by number of employees to get a sense of the size of an industry as well as its revenues. In this regard, only 108 businesses in both sectors combined have more than 20 employees, representing just under 20% of businesses.

Inversely, this means more specifically that 82.3% of businesses have fewer than 20 employees, and more than half (55%) have fewer than five. These figures show that the language industry is made up almost exclusively of small businesses. What's more, of the businesses that have been operating for more than 10 years, the proportion of businesses with over 20 employees increases only slightly to reach 20%; this proportion also climbs for the category of businesses in operation for between one and four years, where the number reaches 57%. In other words, a large number of businesses have chosen to remain small, despite having been in business for a long time.

*Figure 30*
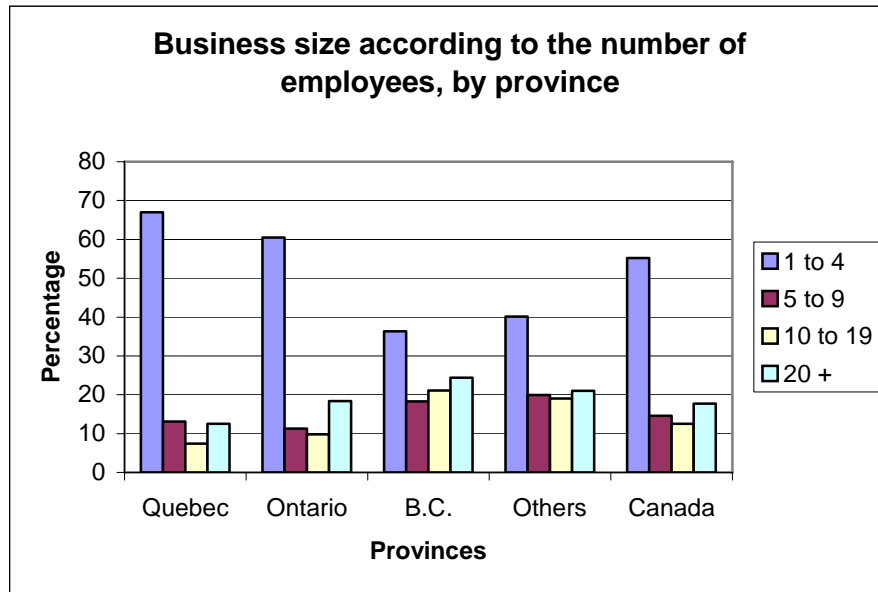


Business size is greater in the language training sector, as indicated above by the average number of employees per business. Hence, only 5.3% of Canadian businesses in the translation sector, representing some 20 businesses, have 20 or more employees, in comparison with 37% for the language training sector (see tables 18 and 19). As for translation, 76.9% of businesses have fewer than five employees. This proportion would have been even higher had the survey included freelance workers. For the language training sector, the proportion is 21.6%.

*Table 18*

| Businesses according to the number of employees – translation sector | | | | | |
|---|---|---|---|---|---|
| Number of employees | Canada % | Quebec % | Ontario % | B.C. % | Others % |
| 1 to 4 | 76.9 | 75.3 | 83.2 | 79.7 | 64.9 |
| 5 to 9 | 12.4 | 14.1 | 9.3 | 7.3 | 17.6 |
| 10 to 19 | 5.4 | 5.4 | 2.0 | 6.5 | 13.2 |
| 20 or more | 5.3 | 5.2 | 5.5 | 6.5 | 4.4 |

In the translation sector, the trends observed in the regions reflect the Canadian average.

As for language schools, Ontario and Quebec are slightly higher than the average in terms of the proportion of businesses with 20 or more employees, with 42.1% and 40.4%, respectively.

*Table 19*

| Businesses according to the number of employees – language training sector | | | | | |
|---|---|---|---|---|---|
| Number of employees | Canada % | Quebec % | Ontario % | B.C. % | Others % |
| 1 to 4 | 21.6 | 35.5 | 18.6 | 17.4 | 18.5 |
| 5 to 9 | 18.1 | 9.3 | 15.1 | 23.1 | 22.0 |
| 10 to 19 | 23.4 | 14.8 | 24.2 | 27.4 | 24.0 |
| 20 or more | 37.0 | 40.4 | 42.1 | 32.1 | 35.4 |

## 4.3  Subcontracting

The number of contract workers and subcontractors (6,954) used by businesses is almost as high as the number of employees (7,405). However, it must be noted that a subcontractor can offer services to more than one firm. More than half of all businesses use the services of subcontractors and contract workers: 57% of businesses surveyed declare having used them at least once a year.

The proportion of Ontario businesses dealing with contract workers is comparable to the Canadian average, but proportionally, they represent more than half of such workers in Canada (3,689). Even if two-thirds of businesses in Quebec call on subcontractors, they number less than 2,000. Businesses in British Columbia call on subcontractors the least: 36% of them have called on the services of only 336 contract workers.

*Figure 31*



**Employees and contract workers, by province**
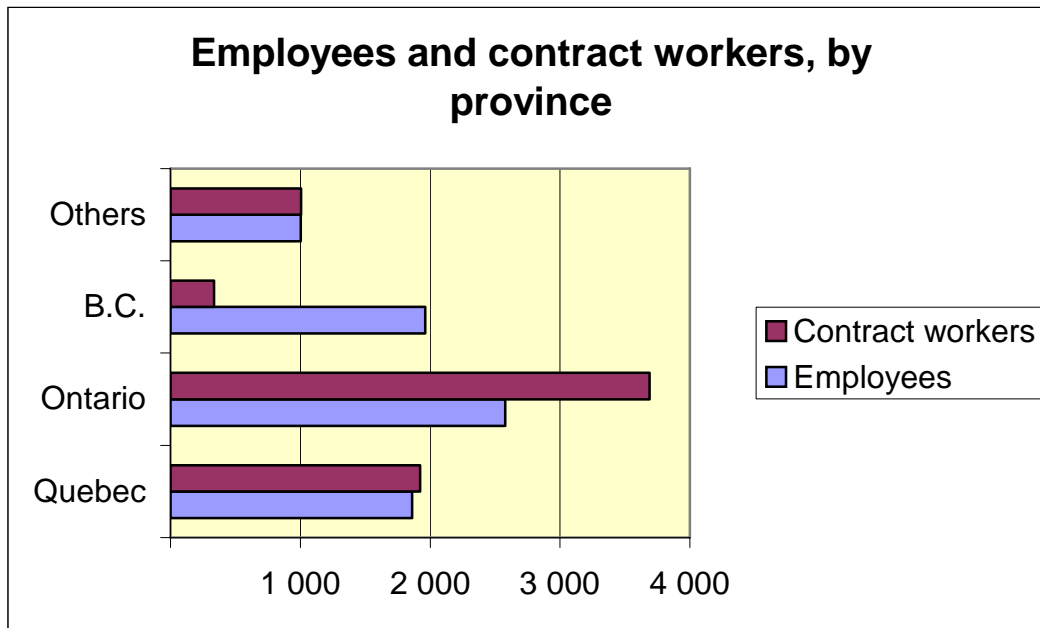
Seven out of 10 subcontractors work in the translation sector. Furthermore, 70% of businesses in this sector have dealt with one or more subcontractors over the course of the previous fiscal year. However, only 37.3% of businesses in the language training sector called on the services of subcontractors.

## 4.4  A Few Indicators

An examination of revenues and salary- and subcontractor-related expenditures by employee and by contract worker reveals that, overall, businesses generate relatively little revenue per employee ($54,576), and that salary expenses per employee are only $24,107. The revenues generated by subcontractors are even lower, with an annual average of $7,858 per person (see Table 20).

*Table 20*

| Revenue and expense indicators, per employee and contract worker | |
|---|---|
| **Indicators** | **Amounts ($)** |
| Sales revenue per employee – both sectors | 54,576 |
| Sales revenue per employee – translation | 76,002 |
| Sales revenue per employee – training | 44,940 |
| Salary expenses per employee – both sectors | 24,107 |
| Salary expenses per employee – translation | 34,962 |
| Salary expenses per employee – training | 19,226 |
| Subcontracting expenses per contract worker – both sectors | 7,858 |
| Subcontracting expenses per contract worker – translation | 9,739 |
| Subcontracting expenses per contract worker – training | 2,317 |

The translation sector seems to be at an advantage in terms of revenues. The average revenue from sales per employee is $76,002 in the translation sector, compared with $44,940 in language training. The difference between the two sectors is largely attributable to the large proportion of part-time employees in the language training sector. Translation subcontractors also generate greater revenues than those in the training sector. Between them, they account for an average of $9,739 of subcontractor-related business expenses, compared with $2,317 in the training sector.

## 4.5  Industry Professions

Once again, regarding the 7,405 salaried employees of the language industry, half of them work as teachers. Approximately 20% belong to the professional group of translators, terminologists and interpreters recognized in the National Occupation Classification (NOC) under the code 5125. Some 23% of them hold administrative or management positions, and 7.2% of the labour force could not be associated with a specific profession (see Figure 32).

What seems most surprising in this data is the low number of translators. The number of employees derived by the survey, which belong to the professional group NOC 5125— translators, terminologists and interpreters—is only 1,512, which is extremely low in comparison with the 13,545 persons who belonged to this professional group in June 2001 according to census data. This points to a weak link between businesses and translators.

In actual fact, businesses make substantial use of the services of translation subcontractors. The data collected on business expenditures shows that:

— The amount spent on translation subcontractors is eight times higher than that spent on language training subcontractors;

— Sixty-seven percent (67%) of companies surveyed offering translation services declare expenses for translation or interpretation subcontracting services;

— Twenty-one percent (21%) of businesses in the translation sector declare translation or interpretation subcontracting expenses of over $100,000; the average subcontracting expenditure for those using these services is $193,646.

*Figure 32*

**Employees, by profession**

536

1 512

1 708

3 649

- Translators, terminologists and interpreters
- Language teachers
- Managers and administrators
- Other professions
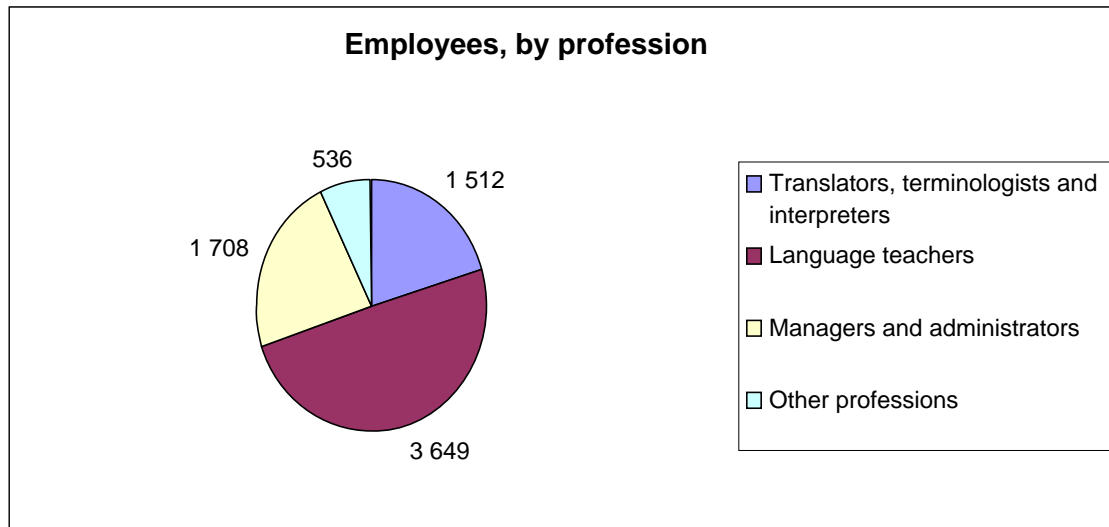
Among the 3,649 language teachers, 70% are English teachers, 17% are French teachers and 13% teach a language other than the two official languages (see Figure 33). British Columbia accounts for the largest number of English teachers (857), followed by Ontario (788) and Quebec (584).

*Figure 33*
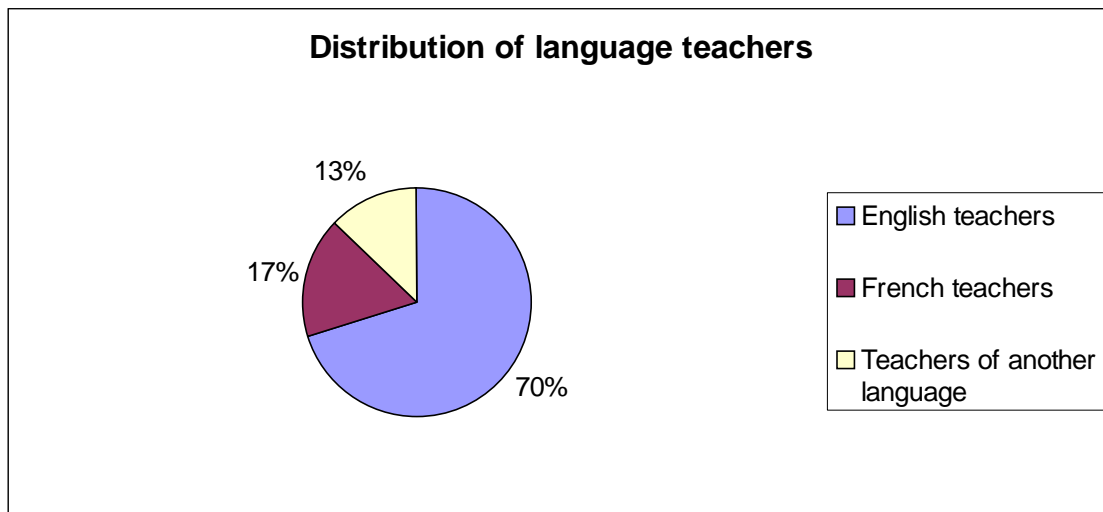
**Distribution of language teachers**

13%

17%

70%

- English teachers
- French teachers
- Teachers of another language

Among the 1,512 professionals in the business of translation, terminology and interpretation, 68% are translators, 24% are interpreters, 3% are writers and editors, and 2% are terminologists (see Figure 34).

Ontario has the largest number of translators (482), followed by Quebec (368). This contrasts with the distribution of people who worked in the large professional group of translators in 2000 according to census data[31], in which Quebec accounted for nearly half the workers, and Ontario a little less than a third.

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31. Statistics Canada, findings of the 2001 Census, Internet 97F019XCB01003.

Moreover, British Columbia accounts for the largest number of interpreters, followed by Quebec. Together, the two provinces account for 87% of the interpreters declared by businesses. In British Columbia, businesses in the translation sector employ approximately 50% more interpreters than translators, quite likely because the main activity of several firms is interpretation.

*Figure 34*

**Distribution of translation professionals**

- Translators: 68%
- Terminologists: 2%
- Interpreters: 24%
- Writers and editors: 3%
- Proofreaders: 3%
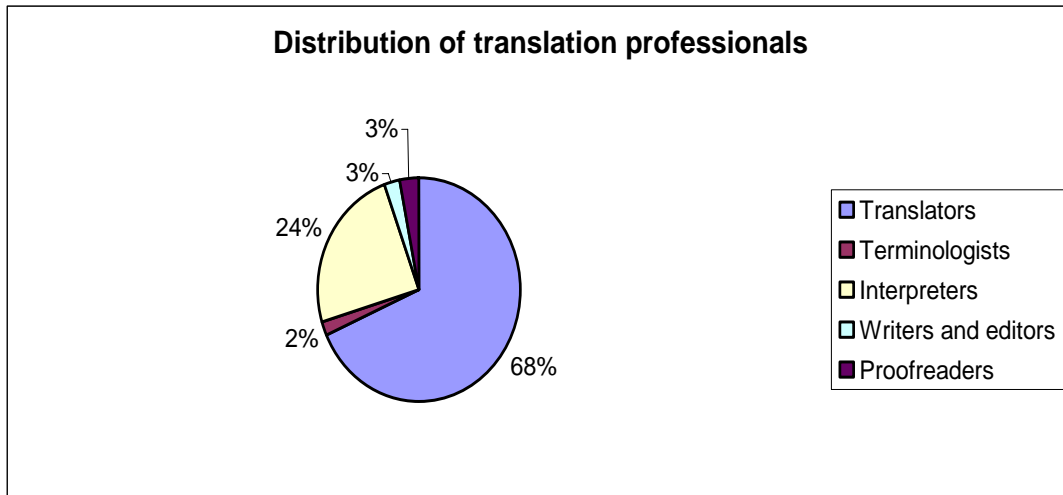
Of the 1,708 employees engaged in management and administration, 55% hold administrative positions, 23% hold upper management positions and 22% hold project management positions (see Figure 35).

*Figure 35*

**Distribution of managers and administrators**

- Upper managers: 23%
- Project managers: 22%
- Administrative and office personnel: 55%
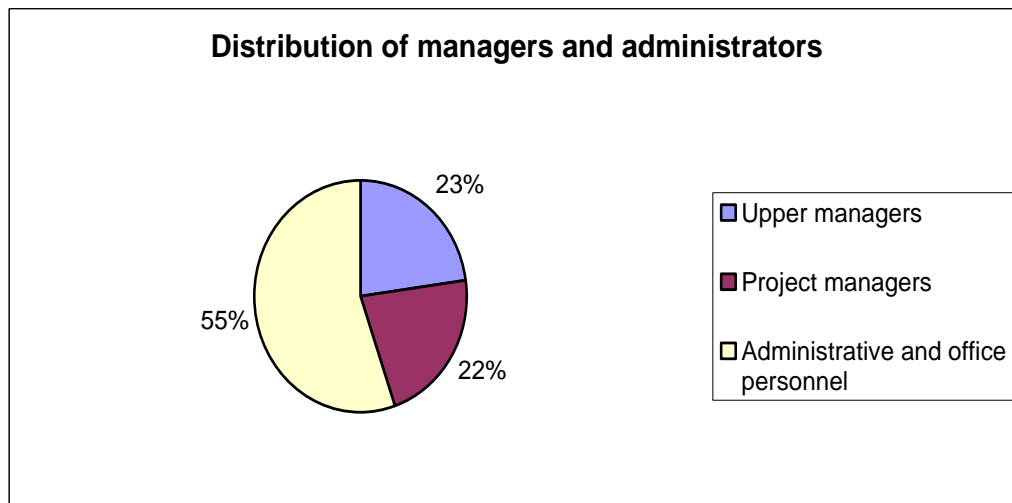
An examination of the professions in the two sectors shows that, firstly, even if the businesses in a given sector draw revenues from the other sector, they have few or no employees belonging to the other sector. As such, businesses in the translation sector hire

few language teachers—in fact, less than 1% do—and language schools do not hire any translators (see figures 26 and 37).

*Figure 36*

**Distribution of professions - translation sector**

7%

27%

1%

65%

- Translators, terminologists and interpreters
- Language teachers
- Managers and administrative personnel
- Other professions
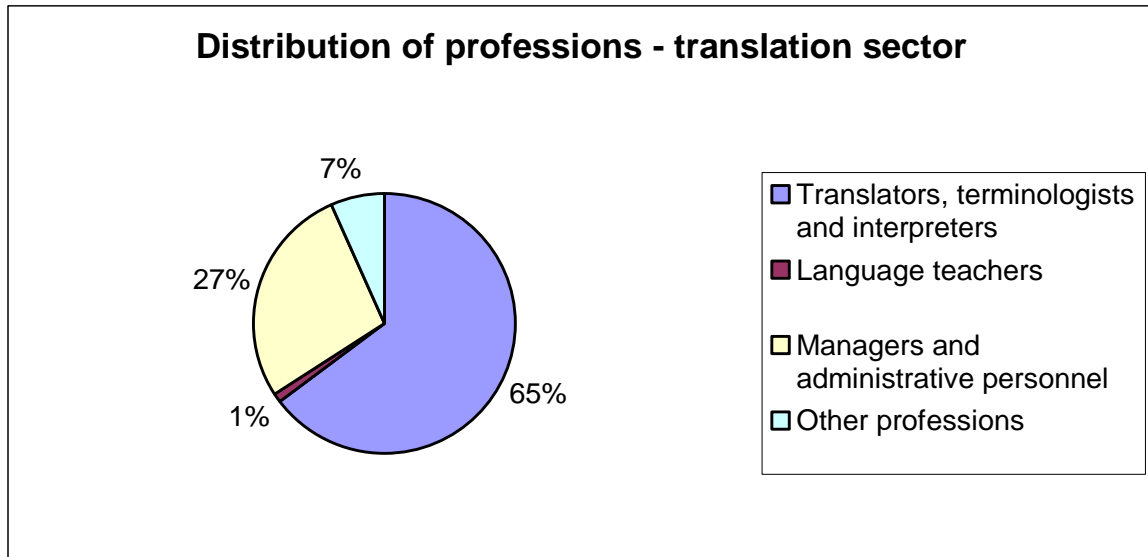
Secondly, the translation sector employs a higher proportion of managers and administrative personnel (27%) than does the language training sector (21%). This is probably because in the translation sector, the activity is carried out to a greater extent by subcontractors.

*Figure 37*

**Distribution of professions - language training sector**

8% 0%

21%

71%

- Translators, terminologists and interpreters
- Language teachers
- Managers and administrative personnel
- Other professions
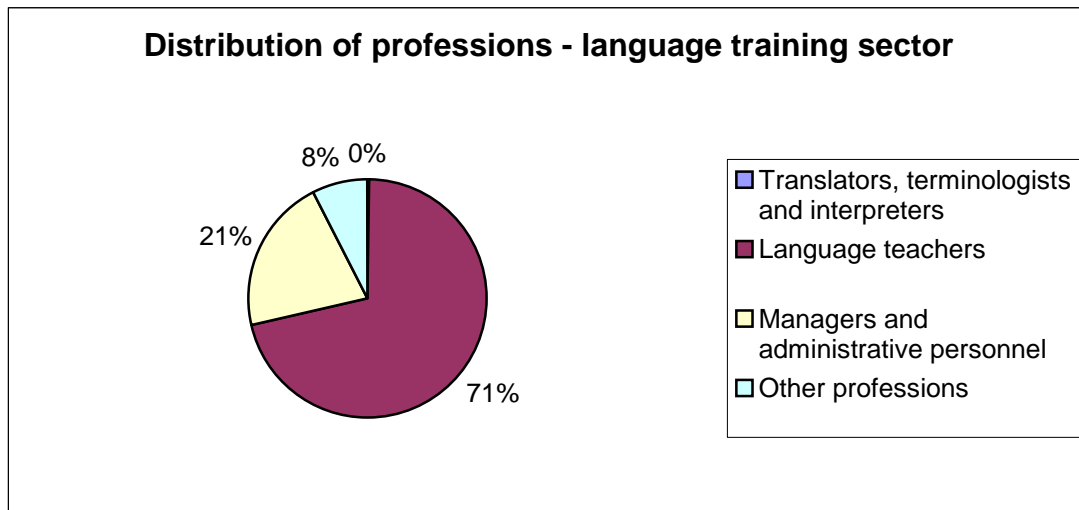
## 4.6  Employment Outlook

The survey covered two other subjects related to human resources: employment outlook and recruiting problems. It asked businesses to state their forecasts as to employee numbers for the following fiscal year. In response, 21.7% of businesses expected an increase in employee numbers, whereas only 6.5% expected a drop. The others did not foresee any changes in employee numbers. These responses correlated with the information received in response to a similar question about revenues: 41% expected an increase in revenues, and 14% a decline.

By sector, language schools were more optimistic than translation firms: 34% of language schools expected to increase employee numbers in the following year, whereas only 13.7% of translation firms expected the same. The proportion of businesses expecting to reduce their employee base is virtually the same for both sectors, at around 6% (see Table 21).

*Table 21*

| Businesses' intentions with respect to employee numbers over the following year | | | |
|---|---|---|---|
| | Translation NAICS 541930 % | Training NAICS 611630 % | Total %  |
| Increase | 13.7 | 34.0 | 21.7 |
| Remain stable | 80.0 | 59.2 | 71.9 |
| Decrease | 6.2 | 6.9 | 6.5 |

British Columbia is the province where businesses are most optimistic about the short-term employment outlook: 37.6% of them plan to increase employee numbers, and 61% hope to increase revenues. Businesses in Ontario followed, with 24.8% of them planning to increase employee numbers, and 45% planning to increase their revenues. Businesses in Quebec are the least optimistic of all, with only 13% expecting to increase their employee base. Businesses in the translation sector in Quebec are the country's least optimistic, with only 9.2% of them intending to increase their employee base. Conversely, 45% of language schools in British Columbia expect to increase the number of their employees (see Table 22).

*Table 22*

| Percentage of businesses planning to increase employee numbers over the following year | | | | | |
|---|---|---|---|---|---|
| | Canada % | Quebec % | Ontario % | B.C. % | Others % |
| Translation NAICS 541930 | 13.7 | 9.2 | 19.2 | 20.4 | 13.2 |
| Training NAICS 611630 | 34 | 25.9 | 35 | 45 | 22.4 |
| Both sectors | 21.7 | 12.7 | 24.8 | 37.6 | 18.1 |

## 4.7 Difficulty in Recruiting

With respect to recruiting difficulties, 23.1% of businesses claim to have some, whereas 50.7% have none, and 26.2% had no opinion as they were not recruiting at the time. The difficulties seem the greatest among language schools: 27.8% of them experienced problems. As for translation firms, 37.6% were not recruiting at the time the survey was conducted (see Table 23). However, due to the aging translator population, they will need to boost recruitment efforts considerably over the medium term.

*Table 23*

| Difficulty recruiting according to sector | | | |
|---|---|---|---|
| **Difficulty recruiting** | **Translation**<br>**NAICS 541930**<br>**%** | **Training**<br>**NAICS 611630**<br>**%** | **Total**<br><br>**%** |
| Yes | 20 | 27.8 | 23.1 |
| No | 42.4 | 63.6 | 50.7 |
| Not currently recruiting | 37.6 | 8.6 | 26.2 |

Businesses in the "other regions", which have the lowest concentrations of translation and language training businesses, have an even harder time recruiting. That was the case for 31.6% of the them; for the language training sector, the rate climbed to 40%. In Quebec, 37.4% of language training schools also have difficulty recruiting staff.

In the translation sector, the greatest difficulty recruiting is found in Quebec, where 23.7% of businesses are experiencing difficulty, even though 38% of translation business in Quebec are not actively recruiting. In British Columbia, translation businesses are less subject to recruiting difficulties, although 13.1% of them claim to be experiencing some degree of difficulty in hiring. Recruiting in the language training sector seems to be less of a concern in Ontario than anywhere else (see Table 24).

The **main difficulty** expressed by those surveyed is trouble finding qualified workers. This reason was given by 63% of businesses claiming to have difficulties recruiting. In fact, this is the main issue raised by businesses throughout the country. Next come complaints of being unable to find experienced workers and providing the salaries expected by these workers. Businesses in British Columbia were the most likely to express that they were having such difficulties.

*Table 24*

| Percentage of businesses stating that they were having recruiting difficulties, by region | | | | | |
|---|---|---|---|---|---|
| **Businesses** | **Canada**<br>**%** | **Quebec**<br>**%** | **Ontario**<br>**%** | **B.C.**<br>**%** | **Others**<br>**%** |
| **Translation**<br>**NAICS 541930** | 20 | 23.7 | 15.5 | 13.1 | 21.9 |
| **Training**<br>**NAICS 611630** | 27.8 | 37.4 | 16.9 | 22.7 | 40 |
| **Both sectors** | 23.1 | 26.6 | 16 | 19.8 | 31.6 |

# 5 Language School Clientele

This section examines the programs offered by language schools and enrolment in these various programs.

One section of the survey dealt with language schools. Businesses that offered language training were asked to respond to seven additional questions. Consequently, 249 businesses (41%) did so. A little under 5% of businesses in the translation sector also offered language training, versus 97.4% of language training businesses.

It is worth recalling that the proportion of businesses in the language training sector covered by the survey is higher than the proportion of translation businesses. Moreover, the survey was not submitted to public language schools, which often compete with private schools for market share.

Of the 249 language schools, 84% belong to the category of private schools, whereas 9% constitute non-profit organizations. For the remaining 7%, the category to which they belong is unknown (see Figure 38).

*Figure 38*
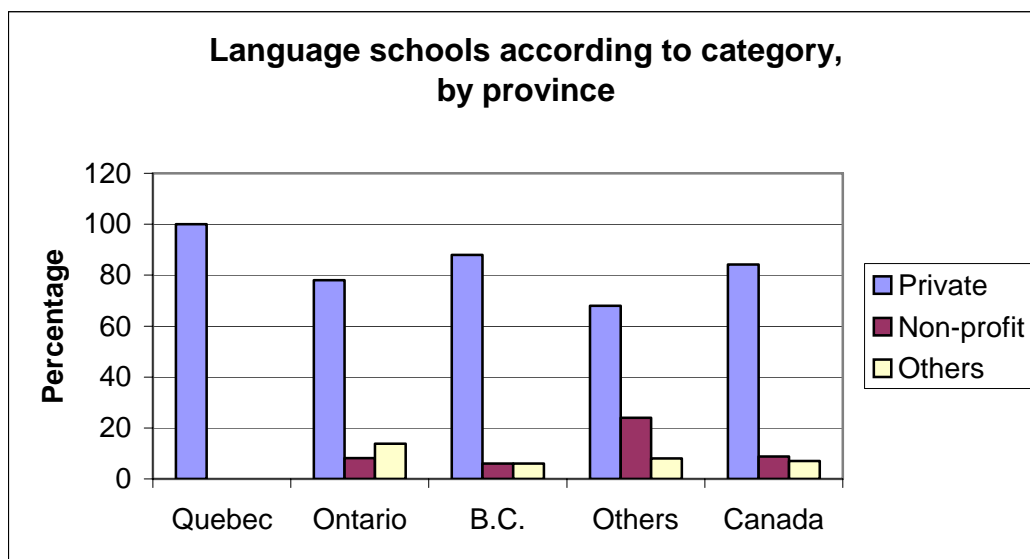


## 5.1 Enrolment

For the country as a whole, the 249 language schools recorded a little fewer than 200,000 enrolments in 2004. Note that some students may have enrolled for more than one session over the course of a given year. The average number of enrolments per school for the same year was 800. The average varies greatly from region to region, with Ontario having recorded an average of 1,584 enrolments, versus only 444 in Quebec.

A little less than 15% of language schools are very small, with fewer than 50 enrolments. The largest schools, falling into categories of 1,000 to 2,999 enrolments and 3,000 enrolments or more, represent 15.9% and 5.8% of establishments, respectively. Half the language schools ranged from 50 to 499 enrolments.

Ontario had the highest number of enrolments in 2004 with 95,302, followed by British Columbia with 55,231 and Quebec with 25,301. Ontario also has the highest percentage of schools with enrolments numbering at 1,000 or more, or 38.2%, and a third of them had 3,000 or more enrolments. That province also dominated in the 500 to 599 enrolment category, with 18% of establishments meeting this criterion (see Table 25).

*Table 25*

| Percentage of language schools, by number of enrolments in 2004 | | | | | |
|---|---|---|---|---|---|
| **Number of enrolments** | **Canada %** | **Quebec %** | **Ontario %** | **B.C. %** | **Other regions %** |
| Fewer than 50 | 14.8 | 25.3 | 10.4 | 11.7 | 13.3 |
| 50 to 499 | 50.9 | 45.1 | 33 | 56.6 | 69.1 |
| 500 to 999 | 12.7 | 11.3 | 18.4 | 11.2 | 9.7 |
| 1,000 to 2,999 | 15.9 | 18.4 | 24.2 | 15.4 | 4 |
| 3,000 or more | 5.8 | 0 | 14 | 5 | 4 |
| *Average per school* | *800* | *444* | *1 584* | *682* | *461* |

Based on the information received from language schools that participated in the survey, the number of enrolments is on the rise throughout the country. Between 2002 and 2004, the country as a whole saw an increase in enrolments of 15.1%. Enrolments increased by 14.5% in both Ontario and British Columbia.

However, the growth was substantially weaker in Quebec, at 4.9%. In the other regions, enrolments increased by 33.6%. The average number of enrolments per school therefore increases nation-wide. Throughout Canada, growth took place mostly between 2003 and 2004, as the number of students remained virtually the same in 2002 and 2003 (see Table 26).

However, the data on the changing enrolment situation must be interpreted cautiously, as this reflects the reality only of businesses operating in 2005, without taking into account businesses that either ceased operations over one of these years or did not yet exist in 2002 or 2003.

*Table 26*

| Changes in language school enrolment from 2002 to 2004 | | | |
|---|---|---|---|
| | **2002** | **2004** | **Variation %** |
| Quebec | 24,126 | 25,301 | 4.9 |
| Ontario | 83,255 | 95,302 | 14.5 |
| British Columbia | 48,219 | 55,231 | 14.5 |
| Canada | 173,239 | 199,399 | 15.1 |

## 5.2  Origin of Client Base

Table 27 presents the main clients targeted by language schools, according to the proportion enrolled across Canada.

*Table 27*

| Distribution of language schools, by target clientele[32] | | | | | |
|---|---|---|---|---|---|
| **Target clientele** | **Canada %** | **Quebec %** | **Ontario %** | **B.C. %** | **Others %** |
| International students (six months or less) | 52 | 15 | 63 | 72 | 50 |
| Summer study programs | 44 | 28 | 56 | 52 | 33 |
| International students (more than six months) | 42 | 19 | 52 | 59 | 29 |
| Children and youth (5 to 18 years of age) | 40 | 47 | 32 | 45 | 35 |
| General public | 40 | 68 | 34 | 27 | 34 |
| Business clients | 36 | 85 | 38 | 13 | 17 |
| Preparatory courses for college or university students | 35 | 35 | 34 | 41 | 29 |
| New Canadians and refugees | 30 | 14 | 21 | 42 | 41 |
| Public-sector clients | 23 | 59 | 17 | 10 | 8 |

Based on the data, 52% of Canadian language training businesses offer programs and courses to international students on stays of six months or less. Clearly, most language schools target more than one client type. Summer study programs, international students, youth and the general public are categories of clients targeted by more than 40% of businesses in Canada. Contrary to what one might expect, private- and public-sector clients rank last in importance, the former being targeted by 36% of businesses, and the latter by 23%.

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32. The sum total of percentages exceeds 100 because respondents were able to choose more than one answer.

However, this varies greatly from one region to another. Whereas businesses and public-sector entities are the main target groups in Quebec, they come in last place everywhere else in Canada. What's more, language schools in Quebec target the general public more than those in any other province (68%).

International students are fairly high on the list of target clients for language schools in British Columbia, whereas in Quebec, they seem less interested in providing language training to this group.

In response to the question "Does the business offer language training to foreign students?", only 29% of Quebec schools answered "yes", compared with 89% in British Columbia and 66% in Ontario. Overall, 64% of Canadian language schools target foreign students. Of these, 81% recruited foreign students in 2004 (see Table 28).

*Table 28*

| *Percentage of businesses offering programs to foreign students and recruited some in 2004* | | | | | |
|---|---|---|---|---|---|
| | **Canada %** | **Quebec %** | **Ontario %** | **B.C. %** | **Others %** |
| Businesses offering language training to foreign students | 64 | 29 | 66 | 89 | 63 |
| Businesses offering language training to foreign students and who recruited some in 2004 | 81 | n/a | 84 | 94 | 79 |

## 5.3  Origin of Foreign Students

Asia is the predominant origin of foreign students. Table 29 presents the ranking of each region or country based on the declarations of businesses as to the origin of foreign students in 2004. Across Canada, 90% of language schools offering language training to foreign students mentioned having provided training to students from Asia. The group comprised of Mexico, Central America and South America came second, with 84%, followed by Europe at 64%, and the Middle East at 47.4%. Lagging behind are the United States with 17.6%, Africa with 12.4%, and Oceania with 5.6%.

*Table 29*

| Distribution of foreign students' regions or countries of origin in 2004[33] | | | | | |
|---|---|---|---|---|---|
| **Region or country of origin of foreign students** | **Canada** %| **Quebec** % | **Ontario** % | **B.C.** % | **Others** % |
| Asia | 90 | 86 | 89 | 87 | 100 |
| Mexico, Central America, South America | 84 | 84 | 89 | 77 | 92 |
| Europe | 64 | 70 | 79 | 48 | 78 |
| Middle East | 47 | 30 | 78 | 29 | 60 |
| United States | 18 | 68 | 26 | 6 | 7 |
| Africa | 12 | 43 | 5 | 6 | 21 |
| Oceania | 6 | 27 | 6 | 3 | 0 |

For the first three rows, all provinces do business with the same countries or regions, and they do so in the same order. In fact, the proportions vary very little between provinces. However, a few surprising findings did emerge. For one, Quebec showed fairly high proportions in comparison with other provinces when it came to students originating from the United States, Africa and Oceania. Ontario, for its part, claimed a high proportion of students from the Middle East when compared with other provinces, with 78% of businesses having recruited such students in 2004.

Another way of examining the origin of foreign clients is to determine which area is the greatest source of students for each business. Here again, the Asian clientele leads hands down. From this perspective, 73% of the language schools offering training to foreign students declared that Asian students are their most substantial client group. Comparable figures emerge across the country, except in Quebec, where only 46% of businesses made the same claim.

Across Canada, the second most substantial origin of students is the group consisting of Mexico, Central America and South America, though still significantly behind Asia. This

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33. The sum total of percentages exceeds 100 because respondents were able to choose more than one answer.

client group leads in only 17% of Canadian businesses, though the figure reaches more than 20% in Quebec and Ontario (see Table 30).

*Table 30*

| Percentage of language schools by main region of clientele origin[34] | | | | | |
|---|---|---|---|---|---|
| **Region or country of origin of foreign students** | **Canada %** | **Quebec %** | **Ontario %** | **B.C. %** | **Others %** |
| **Asia** | 73 | 46 | 63 | 78 | 87 |
| **Mexico, Central America, South America** | 17 | 27 | 21 | 14 | 14 |
| **Europe** | 8 | 13 | 16 | 3 | 7 |
| **Middle East** | 3 | 0 | 6 | 3 | 0 |
| **United States** | 4 | 14 | 5 | 3 | 0 |
| **Africa** | 4 | 16 | 5 | 0 | 7 |
| **Oceania** | 2 | 6 | 0 | 0 | 0 |

## 5.4  Recruiting Methods

The last issue raised was the method used by language schools to recruit foreign students. The three most widespread methods, which are favoured by most of the businesses, are recruitment through agents, direct recruitment and the Web. These three methods are used by more than 80% of businesses that recruit students abroad (see Table 31).

*Table 31*

| Methods used by businesses that recruited abroad in 2004 | |
|---|---|
| **Methods** | **% of businesses** |
| Agents | 89 |
| Direct recruitment | 84 |
| The Web | 83 |

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34. The sum total of percentages exceeds 100 because respondents were able to choose more than one answer.

# Conclusion and Recommendations

The aim of the survey of translation firms and private language schools was to obtain a better understanding of the language industry's market. Which services generate revenues? Who are the clients? Where are the businesses located? How significant are exports in the overall revenue mix? What are the main costs involved in doing business?

The picture of the Canadian language industry painted by the Statistics Canada survey shed light on the economic environment of more than 600 businesses, including revenue sources, expenses, the employment market and market developments. The report illustrates the business potential of Canada's language industry and determines the most promising courses for growth and development.

### *An Industry Where Businesses Enjoy Reasonable Revenues*

The analysis of the main sources of revenues for the industry reveals that they are based on two markets: translation services (38.1% of revenues) and classroom language training (40.3%).

The Canadian language business market emerges as particularly strong, with surveyed revenues of $404.1 million shared by the translation businesses (NAICS 541930: $174.5 million) and the language training businesses (NAICS 611630: $229.5 million). The survey also reveals not only that the language training market is now the largest[35], but also that it is the one undergoing the fastest growth. More businesses in this sector, 56% of them, expect to see continued growth. Language training businesses are also newer, especially in British Columbia, which seems to confirm that this growth has been going on for a few years now.

Generally speaking, businesses have a varied client base, and in this sense, the language training and translation sectors are in fact complementary. The clientele are divided between private-sector businesses (78% of businesses), individuals (59%), government corporations (52%) and public establishments (30%). Businesses in the language training sector serve individuals primarily (90% versus 39% in translation) and all other client types are served above all by businesses in the translation sector.

The data regarding the relative proportion of revenues from these client types paints a rather contrasted picture:

— Most revenues come from private businesses, as 33% of language businesses derive over 75% of their revenues from private enterprises.

— Individuals also represent a major source of revenues: 26% of language businesses derive 75% of their revenues from them.

— Businesses deriving more than 75% of their revenues from governments or public corporations constitute only 13% of the whole, and less than 1% of businesses derive this level of revenues from public institutions.

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35. However, certain subtleties must be explained. The study covered only businesses, excluding freelance workers who account for substantial sales in the translation business. As for language training, these figures also exclude public institutions such as colleges and universities, which also account for substantial sales.

Although governments, public corporations and public institutions play a major role, most businesses draw the biggest share of their revenues from private enterprises and individuals. The diverse nature of clientele, as well as the predominance of private-sector clients, indicate that this industry is a healthy one that does not depend on a single type of client, and which serves the needs of several types of markets.

By evaluating the revenues of each sector, one notes that the language businesses surveyed usually focus on a single type of activity. Translation businesses are not very diversified at all, as they draw 87.6% of their revenues from the provision of translation services. And although language training businesses may appear to be more diversified, they are actually less so than translation businesses, as 95.1% of their revenues are derived from in-class training, accommodation, online training and language assessment.

Businesses in the translation and language training sectors have very different revenue profiles. Businesses in the language training sector have average per-business revenues of $977,000, which is slightly more than double those for businesses in the translation sector, whose average revenues were $481,000. Although the average Canadian revenues for both sectors combined is $675,000, revenues actually vary considerably between regions: $448,000 in Quebec, over $1 million in Ontario, $803,000 in British Columbia, and $430,000 in the other regions.

The size of the local market for language industry businesses, the diversity of client groups, the revenues per business and the types of services offered show that the industry is both mature and balanced in terms of revenues.

### *Growth in Language Training and the Asian Opportunity*

The language training sector is experiencing strong growth in both the local and export markets.

The first finding concerns the substantial revenues the industry is deriving from clients outside Canada: they account for 25% of revenues surveyed, or $103.5 million. This proportion is more than substantial for a professional services industry where exports often constitute the greatest challenge. These revenues are earned by 30% of the businesses that stated they export. Businesses in the language training sector claim 63.6% of export-related revenues, compared with 36.4% for the translation sector. However, a much greater proportion of translation businesses export: 38% versus only 18% for language training businesses.

The second finding concerns the substantial level of exports in British Columbia, where 37% of businesses declared that they export, versus 35% in Ontario and 29% in Quebec.

The third finding is the relative importance of the Asian market among exports. Asia generates the biggest share of export revenues: 32% or $33 million. It also represents the main export market for 29% of exporting businesses, and 100% of these businesses in the language training sector declare doing business with Asia, which is the main export market for 84% of them. Asia also constitutes the main export market for businesses in British Columbia: 77% of exporting businesses do business with Asia, which constitutes the main export region for 72% of them. However, the phenomenon of exporting to Asia seems to be concentrated in British Columbia.

The fourth finding regards the complementarity of the translation and language training sectors with respect to exports. Although language training sector exports concern Asia for the most part, exports in the translation sector are concentrated mainly in the United States, a country 92% of exporting businesses deal with and which is also the main export region for 70% of translation sector businesses. Even though exports to the United States represent 25% of overall revenues, the U.S. does not constitute the main export region for any of the language training businesses surveyed. This complementarity can also be seen at the regional level: the United States is the main trading partner of both Quebec (73% of exporting businesses) and Ontario (64%).

These last two findings clearly show that the language industry appears to be a factor contributing to economic diversification in Canada.

A fifth finding concerns export clientele, which consists mostly of private enterprises and individuals. Private businesses constitute Canada's main foreign trading partners for 80% of exporting businesses; for 15% of these businesses, individuals constitute the main foreign trading partners. Moreover, it is worth noting that 5% of exporting businesses have public corporations or governments as their main clients, and 5.5% have foreign public institutions as their main clients, despite the fact that these two types of clients typically favour local suppliers. This indicates that the Canadian language industry seems to enjoy an excellent competitive edge on the international stage by attracting clients interested in the quality of the offer.

These findings can be linked to the strong economic growth being experienced by Asian countries—China in particular. The growth of the Chinese economy is well known, and British Columbia is home to a substantial Chinese-Canadian population. In this respect, it would be interesting if the industry further developed the Chinese market and its growth potential, both for English-language training specifically for this market, and for Chinese-to-English translation services. Considering the enormity of China's expansion and the strong growth of its exports, the Canadian language industry could generate much greater revenues from this region. Also, in light of the enormous trade deficit with China experienced by most industrialized nations, Canada could benefit even more from economic spin-offs linked to China's growth.

Moreover, the main factor limiting the growth of exports is lack of money (59% of businesses surveyed), a factor that weighs even heavier in the language training sector (69%).

In the Canadian language industry, businesses experiencing the most rapid growth are language training businesses located in British Columbia. Their client base consists of individuals, and their exports are destined mostly for Asia.

### *Profitability in the Translation Sector—an Opportunity for Consolidation*

The analysis of factors determining profitability suggests that businesses in the translation sector are generally more profitable than those in the language training sector. The profitability data provided here is intended solely for information in order to uncover possible trends.

This profitability can likely be explained by several factors, including the size of businesses. The analysis of profitability according to business size tends to demonstrate

that the largest businesses have a lower profitability index. This is confirmed by the greater profitability of businesses in the translation sector, which are generally smaller, over those in the language training sector.

To explain the difference in profitability between businesses in the two sectors, hypotheses point to their respective cost structures. In both sectors, the labour costs prevail, representing 47.5% of expenses, to which are added subcontracting fees, which represent an additional 14.5% of expenses. This implies that costs linked to managing these businesses can become very substantial as the businesses grow.

Hence, self-employed workers and the smallest businesses, where directors also generate revenues as professionals, are more profitable than those where directors' salaries must be derived entirely from profits generated by the work of the professionals. The cost analysis according to size tends to confirm this hypothesis: "other expenses", which generally include administrative costs, increase in proportion with the size of the business.

This phenomenon is more significant in the translation sector, where 81.5% of expenses are linked to labour costs (50.5%) and subcontracting (31%). As translation businesses constitute a majority of the businesses surveyed (60.8%), this factor would have an influence on profitability, which was determined to be inversely proportional to the size of the businesses.

With regard to language training businesses, the cost structure is more diversified and depends to a greater extent on operating costs (23.4%). The analysis demonstrates that operating costs and labour costs tend to diminish as businesses grow. As such, language training businesses are less likely to see lower profits as their businesses increase in size.

However, the growth observed in the language training sector appears to have a negative effect on the profitability of the sector as a whole. British Columbia has the largest proportion of language training businesses and of businesses with strong growth potential in both the local and export markets. This growth affects large businesses, as average revenues in British Columbia are higher than the Canadian average.

However, businesses in British Columbia have the lowest profitability index. It therefore seems that these businesses are having difficulty financing this growth with their own profits, which would have an observable effect on the lower profitability noted among the largest businesses in the industry. This hypothesis seems to be confirmed by the main factor limiting the growth of exports in language training—a lack of funds.

As the growth of sales stabilizes and reaches a critical mass, the profitability of the largest businesses should, with time, become greater than that of the smallest businesses. The situation in Ontario seems to confirm this last hypothesis: its market is more stable than British Columbia's, its businesses are larger in terms of revenues and have the highest profitability index in Canada.

The measures most likely to increase profitability of these businesses are those that aim to provide support to managers, to help them plan for and cross the initial phase of growth and increased complexity of managing their businesses. Reaching a critical mass in terms of revenues and management skills would help a number of businesses to

considerably increase their profitability and competitiveness. This necessary critical mass also presents opportunities for industry consolidation, especially in the translation sector. In so doing, a business with a stronger management team could acquire other companies that have a strong professional skills base in translation or language training.

The most profitable businesses in the industry are the translation businesses located in Ontario. Their clients are private-sector businesses, and they export mostly to the United States.

### *The Employment Market*

The primary objective of the survey of businesses was not to obtain information on human resources. However, a section of the survey was dedicated to this issue in light of the major role played by language professionals in this industry. The number of employees working in both sectors combined is lower than one might expect, mainly because of the large number of translation professionals who work in sectors of economic activity other than business services companies, the category into which translation firms fall.

However, the survey did reveal and confirm a certain number of facts. Calling on subcontractors is common practice in translation firms. Language schools call mostly on the services of part-time workers. Nearly a quarter of businesses have trouble recruiting workers. Whereas it was initially believed that translation companies had the greatest difficulty, the survey revealed the contrary: language training businesses are the ones having the most difficulty recruiting. Moreover, it is in this sector that businesses are recruiting the most, and they are more optimistic about the outlook for hiring and revenue growth over the course of the next year.

### *Recommendations*

As mentioned on several occasions, the survey data only partially covers the language industry.  In order to present a more complete picture, work will need to be undertaken to collect and analyze data for the remaining parts of the industry including: public sector language training and translation services, medium and large companies' internal language services, language technology companies and the self employed.

Also, there is a need to better define the boundaries of the industry and attempt to estimate the value of activities and the level of employment. Thereafter, this data would need to be kept up-to-date and made accessible through the Language Industry Association's (AILIA) Web site and that of the industry.

Because censuses are precious sources of information, an attempt should be made to increase findings that can be derived from them. For example, adding a professional classification code for language teachers would provide a clearer picture of the language training sector.

The analysis of the survey's results demonstrated that the country is home to a multitude of small businesses, but that a relatively high share of revenues (83%) is in the hands of a relatively small number (170) of larger businesses. Producing a profile of these businesses could help create a basic framework for the benefit of newcomers to this

ector of activity. The data exists, but it would require special processing and slightly further analysis.

Perhaps most importantly, it may be necessary to determine the key indicators using the data sources to track the development of the industry. It may be worthwhile to describe the indicators obtained during this survey. These could be used as a source of comparison for a subsequent survey. For instance, one could compare the number of businesses with twenty or more employees, average revenues per employee, average revenues per business, and so on. Census and taxation data constitute other sources of information well worth exploring.

It remains more difficult to get a grasp of the language technologies sector. Consequently, efforts to determine which businesses are part of this sector must be pursued, and basic information on the sector must be gathered, such as an estimate of employment numbers and sales revenues. It would also be interesting to establish profiles of the sectors' professions based on European profiles.

# Annex A



# Methodology of the 2005 Language Industry Survey – Translation, Interpretation and Training

January 2006

**Prepared by:**
**James Ahkong**
**Business Survey Methods Division**
**Statistics Canada**
**R.H. Coats Building 17-B**
**Ottawa, Ontario**
**K1A 0T6**

# Methodology of the 2005 Language Industry Survey – Translation, Interpretation and Training

## Survey Objective

The purpose of this survey is to obtain information from various businesses that will provide an up-to-date summary and insight into the Canadian language industry. The results from the survey will be used by businesses and trade associations as well as by government departments and agencies to understand the economic output of the language industry in Canada, to study industry performance and structure and to assist in policy development.

## Population

The population for the Language Industry Survey is made up of all establishments in the North American Industrial Classification System (NAICS) codes 541930 '*Translation and Interpretation Services*' and 611630 '*Language Schools*' having one or more employees. The population is extracted from Statistics Canada's Business Register, a repository of information reflecting the Canadian Business population and that exists primarily for the purpose of supplying frames for all economic surveys in Statistics Canada. All establishments with NAICS codes of 541930 or 611630 and having at least one employee on the Business Register were targeted for this survey.

The distribution of the population size by NAICS with each unit of the population representing one establishment is as follows:

| NAICS | Population |
|---|---|
| 541930 | 496 |
| 611630 | 396 |

The total population size is 892 establishments.

## Sample Design

The sampling strategy for this survey is a straightforward census of all establishments in the target population. The 892 establishments were extracted from the Business Register. Eighteen of these establishments were "deaths"—establishments that are no longer in business. As a result, the final sample contained 874 establishments.

## Collection

The collection process took place during a three-month period and included mail-out, data capture and preliminary edits.

The status of the 874 establishments selected for the survey is detailed below:

| Translation, Interpretation and Training Establishments | |
| --- | --- |
| # of Cases | Status |
| 307 | Completed Questionnaires |
| 5 | Duplicate cases |
| 2 | Temporarily Inactive |
| 11 | Businesses that are 'Out of Business' |
| 17 | Business that are 'Out of Scope' |
| 152 | Refusals that we were unable to convert |
| 80 | Businesses that we were unable to locate |
| 251 | Unresolved Units |
| **825** | **Total Number of Establishments** |
| 49 | Unknown (unable to contact) |

The response rate at the collection stage is calculated in the following manner:

$$\text{Response Rate} = \frac{\text{Number of Responding Units (Complete and Partial)}}{\text{\# of resolved in-scope units} + \text{\# of unresolved units}}$$

$$\text{Response Rate} = \frac{307 + 5}{251 + 152 + 80 + 307 + 5 + 49}$$

**Collection Response Rate = 37.0%**

## *Edit & Imputation*

Following collection, edits were applied to the data in order to prepare for the imputation process. Examples of the type of edits applied include the resolution of outlier responses and consistency edits, which make sure that from a logical standpoint the responses make sense. An example of a consistency edit is ensuring that the sum of parts of a total is equal to the value in the total box. If inconsistencies could be resolved manually, values were updated during the editing stage, otherwise, values had to be resolved during the imputation stage.

Data were imputed through the use of the hot-deck imputation method. For the most part, donors were selected based upon a match of their response to question 1 on the questionnaire (type of language industry service provided by the business).

For the revenue and expenses quantitative variables, an additional nearest neighbour criteria was used in selecting a donor, so that the donor record selected was the one having the closest revenue value as reported on the Business Register (and also matching the response to question 1). Likewise, for the number of employees quantitative variable a similar nearest neighbour strategy was used, but with the number of employees reported on the Business Register.

All quantitative variables were calculated through the use of ratios using the values of the donor and recipient records, and auxiliary variables from the Business Register for revenue and number of employees, when needed. For quantitative variables, all totals—if they were missing—were resolved first, followed by the resolution of the parts of the totals. Qualitative variables simply took the value of the donor.

## *Estimation*

Estimates for this survey were calculated using the Generalized Estimation System (GES) software. Prior to being entered into GES, the data were post-stratified by NAICS and by a derived revenue size variable based upon the revenue reported from the BR.

The revenue size variable was defined in the following manner:

| Revenue Size Category | Definition |
|---|---|
| 1 | BR revenue < $25,000 |
| 2 | BR revenue >= $25,000 and BR revenue < $100,000 |
| 3 | BR revenue >= $100,000 and BR revenue < $500,000 |
| 4 | BR revenue > $500,000 |

The response status for the 892 establishments at the estimation stage is the following:

| Status Code | Count |
|---|---|
| Complete | 272 |
| Out of Business | 53 |
| Out of Scope | 73 |
| Non-Response | 494 |
| Total | 892 |

$$\text{Response Rate} = \frac{272}{272 + 494}$$

**Response Rate at Estimation Stage = 35.5%**

All estimates produced for this survey will have a sampling error attached to them. For estimates that are percentages of totals, a standard error will be associated with the estimate. For all other estimates, the coefficient of variation (CV) will be used. The CV is a percentage that expresses the size of the standard error as a proportion of the estimate to which it is related.

For each estimate, a letter code is assigned that measures the reliability of the estimate based upon the sampling error and the imputation rate. The letter codes are assigned in the following manner:

**Quality Indicator used in the publication of estimated**
**TOTALS**

| CV | Imputation Rate | | | |
|---|---|---|---|---|
| | 0,00 – | 0,10-0,33 | 0,33-0,60 | 0,60 ++ |
| 0,00-0,05 | A | B | C | F |
| 0,05-0,15 | B | C | D | F |
| 0,15-0,30 | C | D | E | F |
| 0,30 ++ | F | F | F | F |

**Quality Indicator used in the publication of estimated**
**PERCENTAGES**

| Standard error | Imputation Rate | | | |
|---|---|---|---|---|
| | 0,00 – 0,10 | 0,10-0,33 | 0,33-0,60 | 0,60 ++ |
| 0,00-0,025 | A | B | C | F |
| 0,025-0,075 | B | C | D | F |
| 0,075-0,15 | C | D | E | F |
| 0,15 ++ | F | F | F | F |

| Code | Rating |
|---|---|
| A | Excellent |
| B | Very Good |
| C | Good |
| D | Acceptable |
| E | Use with caution |
| F | Unpublishable |

Estimates were produced at the overall level as well as by sector, region, revenue size category and sector and region together. The quality of the estimates was much better for the percentages than for the totals. Furthermore, the quality of the estimates was much lower when produced in the domains (groupings) mentioned above compared to at the overall level. This is because the number of establishments contributing to each estimate within each grouping was not large enough to produce stronger estimates.

# Annex B

# Statistics Canada Business Register

| Number of businesses on the Statistics Canada Business Register in 2004 | | | |
|---|---|---|---|
| | **Translation**<br>NAICS 541930 | **Training**<br>NAICS 61630 | **Both sectors** |
| Non-incorporated businesses* | 1,663 | 109 | 1,772 |
| Incorporated businesses | 825 | 400 | 1,225 |
| Total | 2,488 | 509 | 2,997 |
| Businesses without employees | 1,992 | 113 | 2,105 |
| Businesses with one or more employee | 496 | 396 | 892 |

\* Non-incorporated businesses were included only if their GST-eligible sales were greater than $30,000.

**Source**: Statistics Canada, Small Business and Special Surveys Division, note dated December 8.