

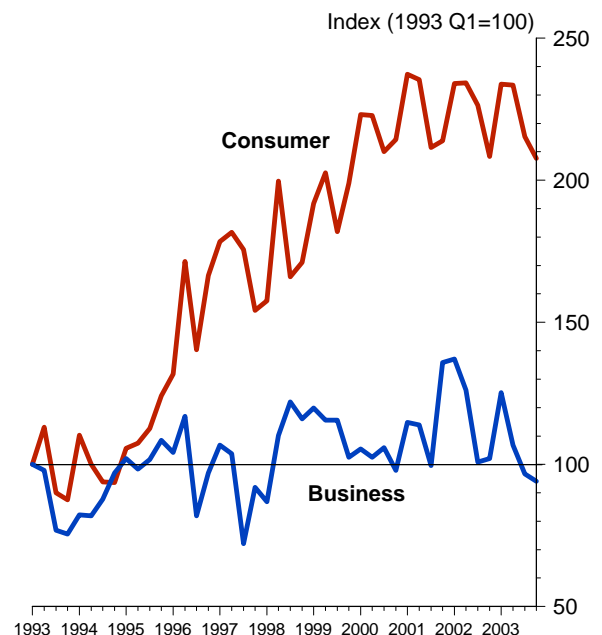
## Small Business Quarterly ♦ 4<sup>th</sup> Quarter 2003

- The number of small businesses in BC (excluding self-employed persons) edged up 0.7% in the fourth quarter compared to the same period in 2002. The increase bumped the average number of small businesses in BC in 2003 to just short of the 2002 average (-0.1%).
- There was a significant expansion in the number of self-employed in BC in the fourth quarter (+4.9% year-over-year). The growth was due to an increase in self-employed without paid help (+7.1%) as those with paid help dipped 0.8%. Over the course of 2003, the number of self-employed rose 2.3% compared to 2002. Once again, self-employed without paid help were responsible for all of the increase (+4.8%) as the number of self-employed with paid help dropped 3.7%.
- Employment in all British Columbia businesses edged up 0.7% in the third quarter of 2003 compared to the same period in 2002. Employment in small businesses climbed 1.6%, while employment in larger businesses (50 or more employees) was flat (+0.1%).
- The number of new business incorporations grew 9.3% in 2003. The 9.4% jump in the fourth quarter (compared to the same quarter in 2002) marked the seventh consecutive quarter in which there has been an increase.
- Business bankruptcies were down again in the fourth quarter, dropping 7.9% compared to the same period a year earlier. Consumer bankruptcies edged down 0.3%. Over the entire year, business bankruptcies

experienced a substantial decline (-9.3%) while consumer bankruptcies fell at a more moderate pace (-1.4%) despite low interest rates.

- Chartered bank business loans declined 1.0% in 2003, with most of the drop in small loans of less than \$200,000 (-8.8%) and medium loans of up to \$500,000 (-6.8%). Loans over half a million dollars actually increased, rising 1.3%.
- The value of commercial building permits issued in BC continued its roller coaster ride, falling 12.4% in the fourth quarter after climbing 33.1% in the third quarter, to end the year 1.2% over the number issued in 2002. Meanwhile industrial building permits grew 6.0% in 2003 with much of the growth occurring in the fourth quarter (+19.8%).

Consumer bankruptcies in British Columbia have soared over the last decade



## Small Business is Embracing the Internet

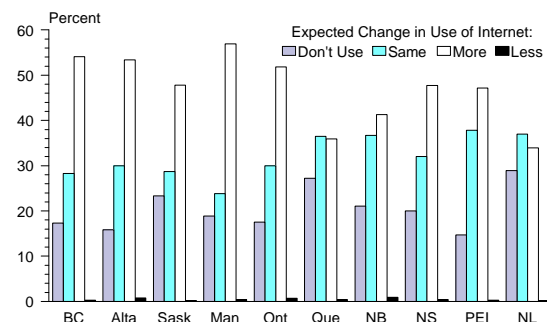
In the last decade, the Internet has exploded in popularity, moving away from being mainly a research-oriented system towards becoming a worldwide communication system. In British Columbia, household Internet use expanded from only 33.2% of households in 1997 to 65.7% in 2002.<sup>1</sup> BC has slipped to second among the provinces behind Ontario where 67.4% of households use the Internet. The Canadian average is 61.6%.

For Canada as a whole, e-mail (48.9% of all households) is the most popular use of the Internet, but activities such as purchasing goods and services (15.7%) and obtaining information and making arrangements for travel (30.4%) are becoming more popular.<sup>2</sup> In fact, the percentage of Canadian households purchasing goods and services on the Internet grew from a paltry 1.5% in 1997 to 15.7% in 2002. This points to a significant opportunity for businesses to increase their market share. Since the Internet is worldwide and websites are relatively inexpensive to establish, it offers an expanded market even for small businesses.

A study by the Canadian e-Business Initiative (CeBI) suggests that businesses that adopt Internet business solutions (IBS) will increase their revenues through a combination of cost savings and expanded markets.<sup>3</sup> The study found that firms that implemented IBS

increased their revenues, on average, by about 7.0%, while reducing costs by 9.5% for goods sold and 7.5% for sales, general and administrative expenses. With these kinds of economic benefits, it is not surprising that small businesses are embracing the Internet in greater numbers each year. According to a members' survey by the Canadian Federation of Independent Business (CFIB), 54.1% of small businesses in BC expected to increase their Internet use in 2003.<sup>4</sup> Just 17.3% of businesses reported not using the Internet at all. Only Prince Edward Island (14.7%) and Alberta (15.8%) had lower proportions of businesses not using the Internet.

The majority of Canadian small businesses expect to increase their use of the Internet



Source: CFIB, Members' Opinions #52, Jan-Jun 2003

According to the CeBI report, public sector firms were among those with the highest level of IBS adoption, realized some of the most significant savings and had the highest level of satisfaction with IBS investment. This is not all that surprising given data from Statistics Canada that indicates that virtually all public sector enterprises (99.6% in 2002) make use of the Internet compared to only 75.7% of private sector firms.<sup>5</sup> The most significant barriers to adopting

<sup>1</sup> Source: Statistics Canada, Table 358-0002. Household use includes use from any location including home, work, school, etc.

<sup>2</sup> Source: Statistics Canada, Table 358-0006.

<sup>3</sup> Canadian e-Business Initiative, *Net Impact Study Canada: The SME Experience* (November 2002).

<sup>4</sup> Canadian Federation of Independent Business Members' Opinions #52, Jan-Jun 2003.

<sup>5</sup> Source: Statistics Canada, Table 358-0007.

IBS, according to the CeBI report, are the cost of new infrastructure and the time needed to implement projects.

Despite the fact that these perceived barriers were common across businesses of all sizes, it appears that larger businesses have been quicker to overcome these obstacles and adopt the Internet. According to the CFIB's Members' Opinions surveys, at the end of 2001, 96% of Canadian firms with between 100 and 499 employees used the Internet, compared to only 63% of businesses with fewer than five employees.<sup>6</sup> However, growth in Internet use has been strong over the last several years regardless of business size. Usage by the larger firms stood at somewhere around 30% in 1996, while for enterprises with fewer than five employees, less than 15% were using the Internet. For those firms and businesses of all sizes in between, Internet usage rates climbed between 50 and 60 percentage points in just six years.

The CFIB surveys, as well as other studies, indicate that while small businesses may be slower to incorporate the Internet into their business plans, they are nonetheless embracing it. A recent study released by Statistics Canada showed that small enterprises have narrowed the gap in terms of use of basic information and communication technology use compared to larger enterprises, but are still far behind in the adoption of more advanced technology.<sup>7</sup> For example, while larger enterprises are more or less

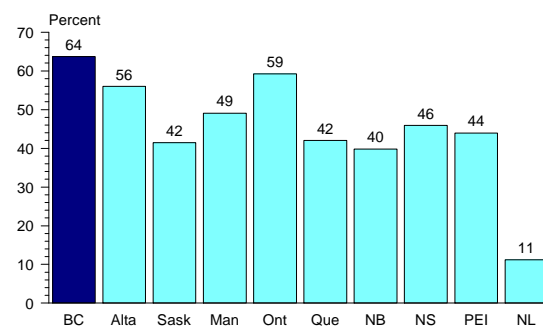
<sup>6</sup> Andreea Dulipovici, *The Impact of Internet Use on Small and Medium-Sized Canadian Businesses during a Recession*, Canadian Federation of Independent Business (October 2002).

<sup>7</sup> Mark Uhrbach and Bryan van Tol, *Information and Communication Technology Use: Are Small Firms Catching Up?* Statistics Canada, catalogue no. 11-621-MIE – No. 009 (February 2004).

universally using e-mail, small business e-mail use has grown from 56% in 2000 to 68% in 2002, a 12 percentage point jump in just a couple of years. However, small businesses are well behind in establishing web sites, with only 27% having a web site in 2002 compared to 77% of larger enterprises.

The proportion of small and medium-sized enterprises in BC having a web site was 63.7% in 2002, the highest of any province in Canada.<sup>8</sup> However, only 25.4% of businesses were involved in on-line sales, although this is still higher than the Canadian average of 18.7%.

BC businesses are more likely to have a web site than businesses in any other province



Source: CFIB, Members' Opinions #50, Jan-Jun 2002

These figures are much higher than Statistics Canada figures, which place the percentage of Canadian private enterprises selling over the Internet in 2002 at 7.5%, compared to 14.2% of public firms.<sup>9</sup> Nevertheless, the value of Internet sales has grown substantially, expanding by 86.2% (private plus public) in just two years.

There are still some barriers to overcome before Internet commerce will be

<sup>8</sup> Canadian Federation of Independent Business Members' Opinions #50, Jan-Jun 2002.

<sup>9</sup> Source: Statistics Canada, Table 358-0010. The Statistics Canada figures are based on a survey across all businesses while the CFIB survey is of members only, which likely explains the difference.

come more prevalent. Both customers and businesses still have concerns over security and confidentiality, although the advent of better encryption software has helped ease some of those worries. For many businesses, the types of goods sold simply do not lend themselves to transactions over the Internet.

Two issues that have the potential to seriously harm the effectiveness of the Internet as a business tool are the proliferation of malicious viruses and the explosion of e-mail "spam" (i.e., unsolicited mass mailings). Recent evidence indicates that these two issues may be closely related. Many of the viruses currently circulating are using victim's e-mail address books to further propagate the virus and the suspicion is that they are also being used to send out the spam. In other words, the viruses infiltrate computers with backdoor Trojans that allow spammers to take control of the machines and use them to send out massive volumes of spam.

Investigators who have looked into the code of these viruses have discovered threatening messages from one hacker to another. The viruses are sometimes designed to destroy other viruses so that the hacker has monopoly access to the lucrative spam market.

Spam has become such a huge problem that it is expected to comprise 80 per cent of all e-mail sent around the world by the third quarter of 2004.<sup>10</sup> This is more than just a nuisance because it is clogging up bandwidth and increasing costs of e-mail servers, not to mention the effect it is having on employee productivity. One solution that has been suggested is to develop a postage pay-

ment system for e-mail. While that would certainly discourage spammers, it would also be costly for business.

Viruses, spam and security issues are all valid concerns for businesses looking to implement Internet business solutions, but based on the number of firms moving onto the Internet and the increasing volume of e-commerce, the benefits of doing business on the Internet outweigh the costs. While small businesses appear to be slower in moving toward using the Internet, they are starting to close the gap between themselves and larger enterprises and are embracing the Internet in greater numbers.

*For an example of e-commerce, visit BC Stats' web store at:*

*<http://www.bcstats.gov.bc.ca/store.htm>*

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<sup>10</sup> Sharon Gaudin, *Viruses Blamed for Expected 80% Spam Saturation by Q3*, [www.internetnews.com](http://www.internetnews.com) (February 24, 2004).

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