



SMALL BUSINESS IN SAULT STE. MARIE

Prepared by

Kevin MacDonald

Under the Direction of

Dr. Jong You

May 2005



Introduction

One important economic component for any community is the vitality of its small business sector. Whether the community is defined as a nation, region or locality, the health of its small business sector is often a harbinger of the overall economic health of the community. A TD Economics Topic Paper from August 2003 states that:

Businesses with less than 100 employees may be small of scale but they are a big part of the Canadian economy. Of the 2.2 million business entities in Canada, over 95 per cent are small businesses. Of course, due to their relative size, these firms do not account for the bulk of Canada's economic output. Nevertheless, small businesses still represent roughly a third of Canadian real GDP, excluding public administration, and employ almost 40 per cent of all working Canadians, or about 5 million people.

In seeking to identify the importance of the small business sector to the economy of Sault Ste. Marie there are several factors that may be considered. The impact of small business sector may be evaluated by its economic impact, the level of employment that it provides, the proportion of businesses it represents, or in terms of other social and economic perspectives. Due to availability of information this analysis is confined to the level of employment and concentration of businesses in the small business sector. However, it is unquestionable that in Sault Ste. Marie, as in other communities, small businesses contribute in many ways to the community. This contribution includes the economic impact of firms through the employment they create, the spin-off jobs and wealth that they generate and other social benefits such as involvement in or sponsorship of local events.

The small business sector is largely comprised of firms operating in the non-basic industries (internally focused businesses not necessarily reliant upon exports) that depend upon the spin-off effects of the basic industries. The basic industries, which are primarily export oriented, (e.g. steel, lumber etc.) either create markets directly for the non-basic industries or indirectly through the purchasing power they have in the market for the goods and services produced by the non-basic industries. Hence the health of the basic sector by and large determines the fortunes of the primarily non-basic small business sector.

Small Business in Sault Ste. Marie

The assertion that healthy basic industries gives rise to healthy non-basic industries implies that diversification of the community's economic base is probably the best way to strengthen the small business sector, which is one of the main objectives of Destiny Sault Ste. Marie. Destiny, through infrastructure development and capacity building, is attempting to lay a strong foundation for economic diversification, thereby creating opportunities for both the basic and non-basic industries, large and small business alike. Additionally, programs specifically designed to assist small business such as counselling, financing, incubation, and market research are of great value.

Community economic development can be viewed in many ways. It can be perceived as a linear process with a singular goal and all efforts can be expended in getting from here to there with little or no heed paid to ulterior issues. This approach contains the risk that segments of the community will either be left behind or be disenchanted with the direction of development – solely because they were not involved. Another more holistic approach to community economic development is where the views of all stakeholders – political, economic, social and cultural – are considered in devising an economic development plan for the community. By undertaking economic development in this fashion there is less potential for dissent. True participation, active, involved and effective, can overcome many of the concerns of groups that feel disengaged from the process of economic development.

Economic diversification efforts often focus on luring large-scale manufacturers or other high profile firms to the community. This, in and of itself is not necessarily a bad thing, however the existence of the complementary relationship between basic industries (large scale manufacturers and the like) and the largely non-basic small business sector suggests that a symbiotic relationship exists between the two. Thus, in addition to the large-scale basic industries providing markets for non-basic small businesses the presence of a strong, vibrant, and capable small business sector may well act as a precursor to the attraction of firms operating in the basic industries. Resultantly, the generation and maintenance of a pro-business economic climate cannot focus solely on the needs of large businesses that the community wishes to attract. As part of a holistic approach to development the concerns of small business should play a role; specifically it must be remembered that the small business community and the large business sector have a complementary relationship.

In Sault Ste. Marie, as well as in the broader context of Ontario and Canada, it is indeed seen that the small business sector (employers with fewer than 50 workers) plays a large role in the economy (For a more detailed overview of small business activity in Sault Ste. Marie please see Appendix A). Recent Statistics Canada data indicates that:

- There were 2,346,881 businesses establishments in Canada as of June 2004¹
 - Of these 1,300,536 were listed as indeterminate²
 - Of the remaining 1,046,345,
 - 990,951 or 94.7% employ less than 50 workers.
- There were 349,410 employer businesses in Ontario in June 2004.
 - 93.5% of which employed less than 50 workers.

These numbers show that the small business sector is an important component of the Ontario and Canadian economies with in excess of 90% of all businesses employing less than 50 workers in 2004. In addition it is interesting to note the level of employment provided by the small business sector in Ontario and Canada. Statistics Canada data for the first quarter of 2004 indicates³

- There was total employment of 13,049,512 in Canada (industrial aggregate).
 - Firms of less than 50 workers employed 4,173,690 or 31.9% of this total.
- There was total employment of 5,098,819 in Ontario (industrial aggregate).
 - Firms of less than 50 workers employed 1,457,115 or 28.6% of this total.

Unfortunately, the same data as used in the Industry Canada report or from Statistics Canada are not as readily available for Sault Ste. Marie as it is for Canada or Ontario. However, the Sault Ste. Marie Economic Development Corporation prepares an annual business directory that provides similar information. The 2004 edition of this business directory indicates that⁴:

- 96.1% of 2829 businesses in Sault Ste. Marie employ less than 50 workers.
- Firms of less than 50 employees employed a total of 15,575 workers.
 - This represents 41.5% of the total employment of 37,509 in 2004.

¹ *Key Small Business Statistics* Industry Canada, Ottawa, 2005. page 4.

² Indeterminate category consists of incorporated or unincorporated businesses that do not have a CRA payroll deductions account. (page 4)

³ Table 281-0041: Employment by Enterprise Size of Employment (SEPH) for All Employees, for Selected Industries, using North American Industrial Classification System (NAICS) quarterly

⁴ The Business Directory information does not perfectly correlate with information from other sources such as Statistics Canada. However, the Business Directory is utilized in this report because of its availability.

It is apparent that the small business sector is an integral component of the economies of Sault Ste. Marie, Ontario and Canada. In fact it would appear that the small business sector in Sault Ste. Marie is proportionally larger than in Ontario or Canada. This is not an unexpected observation since there may be many reasons for this including the tendency for a less diversified economic base in smaller communities as well as the high degree of concentration of economic activity in locations such as Southern Ontario. With 96.1% of the firms in the community employing less than 50 employees and accounting for nearly 41.5% of total employment in Sault Ste. Marie the small business sector is obviously a significant contributor to the economy of the community.

With the knowledge that the small business sector is such a vital component of the community it must then be asked: Is enough being done to support small business in this community? The existence of strong supportive partnerships within the community between agencies including the City, Chamber of Commerce, Economic Development Corporation, Innovation Centre, Community Development Corporation and various funding groups/agencies are necessary to assist local businesses in capitalizing on their strengths and overcoming their weaknesses. The above agencies provide a wide array of services to small businesses in the community. (For an overview of services provided to small businesses in Sault Ste. Marie, and the agencies providing them, please see Appendix B). Given the significance of the small business sector in Sault Ste. Marie, it is imperative that supportive agencies seek to continuously improve the level and quality of services offered to small businesses. To that end it is recommended that:

- 1) The community as a whole (Chamber of Commerce, the City, etc.) should continue dialogues with the small business sector to address their concerns on an ongoing basis
 - a. Regular monitoring should be implemented to ensure the effectiveness of these dialogues in meeting the needs of small business.
 - b. The small business sector, or representatives thereof, must be more actively involved in the development of future economic development strategies for Sault Ste. Marie.
 - i. This involvement must not only be to advocate at the decision making level on behalf of small business but also to advocate to small business in regards to the decisions being made.

- 2) The various groups and agencies, federal, provincial, and local, that support small business development, must work in a collaborative fashion to support small business.
 - a. The development of a 'one-stop shopping' type of arrangement via which small businesses can access the services they need can enhance the ability of small business to operate in the community
 - i. The development of online resources for the small business sector such as a website dedicated to information sharing would go a long way towards fulfilling this goal. (Efforts are currently underway in regards to the development of such an online resource for businesses).

- 3) Efforts towards creating and fostering environments in which cross-fertilization between local academic institutions (Algoma University, Sault College) and the small business sector can occur must be encouraged.
- a. The academic institutions in the community can become an integral component to the further economic development of the community and the region through the concentration of knowledge, research and other skills that exist within them.
 - b. At present the two main academic institutions in Sault Ste. Marie are underutilized by the community as a source of knowledge generation – they have the ability to assist businesses in addressing their future needs should the business community effectively engage them. The incubator space located in the new Information and Communications Technology Centre at Algoma University is an example of this closer collaboration that will ultimately benefit not just the partners but also the broader community.

Conclusion

The economic growth and diversification that is desired by many parties within Sault Ste. Marie cannot occur without considering the wants, needs, strengths and weaknesses of the small business sector in the community. It is imperative that small business and its concerns be incorporated in economic development planning. Additionally, small business must be willing and able to participate in this development. Participation is a necessary precursor to inclusion, but inclusion is necessary to encourage participation. The small business community will continue to play a strong and central role in the future economy of this community. The contribution the small business sector makes to the economies of smaller communities is typically of greater importance than is the case in larger communities. Sault Ste. Marie is no exception. Through support offered by agencies such as the Chamber of Commerce, the CDC, the EDC, the City and others it is possible to ensure the long-term sustainability and vitality of the small business sector.

Appendix A

Small Business in Sault Ste. Marie

Concentration of Firms and Level of Employment

The Sault Ste. Marie Economic Development Corporation (SSMEDC) conducts an annual survey of businesses in Sault Ste. Marie in conjunction with the Chamber of Commerce (COC). The information contained in the tables below comes from this business directory. It is important to note that this information is meant to provide an overview of the small business sector in the community over the past few years given the best information available. For the purposes of this assessment of the small business sector in Sault Ste. Marie some important distinctions need to be made.

- 1) For the purposes of this assessment the term small business refers to any firm *operating* in Sault Ste. Marie that employs fewer than 50 employees. This classification results in the inclusion of businesses that are part of larger corporations within the overview of the small business sector. Given the information available it is infeasible to separate all businesses that are a part of larger chains or to exclude all ‘non-traditional’ businesses in order to focus solely on locally owned operations. The intent is to look at the business community in Sault Ste. Marie in terms of employment in the local market and to provide an overview of the prevalence of small businesses in the community by looking solely at level of employment of firms operating in the local market.
- 2) The information contained in the EDC/COC business directory is obtained through surveys of businesses in the community. This methodology is dependent upon the respondents in order to achieve appropriate results. This analysis of the small business sector in Sault Ste. Marie is based on the information provided to the EDC/COC by the respondents to the survey and is thus reliant upon the veracity of those results.

The data indicate that in 2001, as well as 2004 the small business sector accounted for approximately 96% of all firms operating in Sault Ste. Marie. Over this time period there was a net increase of 30 firms employing fewer than 50 employees, an increase of 1.1%. Between 2001 and 2004 total small business employment increased by 186 employees from 15,389 to 15,575, an increase of 1.2%. Utilizing either measure – employment or number of firms – indicates that the small business sector retains its importance to the community and that the small business sector has remained relatively stable over the time period studied.

TABLE 1: DISTRIBUTION OF FIRMS AND EMPLOYMENT BY SIZE OF FIRM 2001-2004

	<i>Firms</i>			Employment		
	<50	Total	% <50	<50	Total	% <50
2001	2690	2805	95.9%	15389	37917	40.6%
2002	2727	2841	96.0%	15861	38720	41.0%
2003	2667	2784	95.8%	16111	39555	40.7%
2004	2720	2829	96.1%	15575	37509	41.5%

Source: EDC Business Directory 2001-2004 (Active Businesses)

Table 2: Change in Number of Small Businesses and Small Business Employment 2001-04

Percent Change Over Time Period (Year over Year and 2001 - 2004)						
	Firms			Employment		
	<50	Total	%<50	<50	Total	%<50
2001-2002	1.4%	1.3%	0.1%	3.1%	2.1%	0.9%
2002-2003	-2.2%	-2.0%	-0.2%	1.6%	2.2%	-0.7%
2003-2004	1.9%	1.6%	0.3%	-3.3%	-5.2%	1.9%
2001-2004	1.1%	0.9%	0.2%	1.2%	-1.1%	2.2%

Source: EDC Business Directory 2001-2004 (Active Businesses)

Contrasted to the size and impact of the small business sector in Sault Ste. Marie is the impact of firms of greater than 100 employees. In 2001 there were 59 such firms employing 18,829 people for 49.7% of employment with 2.1% of firms. For that year the six firms with more than 500 employees employed 24.1% of all employed persons, 9,137 in total. By 2004 there were 56 firms of greater than 100 employees collectively employing 18,544 persons - 49.4% of all employed – while representing 2% of the firms in Sault Ste. Marie. Meanwhile in 2004 there were eight firms employing more than 500 employees that in total employ 9877 or 26.3% of total employment.

Small Business by Destiny Growth Engine

Businesses were allocated to the different growth engines by looking at their North American Industrial Classification System (NAICS) codes. Although using the NAICS codes provides a rudimentary system of allocating businesses under the individual growth engines – since it is difficult to determine direct correlation between the Destiny Growth Engines and NAICS groupings - it is necessary to utilize some classification system in order to allocate businesses under the different growth engines in order to analyze them within the context of Destiny Sault Ste. Marie and its efforts. The Destiny Growth Engines are:

- GE 1** – Traditional and New Industry Development
- GE 2** – Tourism Development
- GE 3** – Small Business Development
- GE 4** – Knowledge-Based Development
- GE 5** – Health, Social and Public Sector Development
- GE 6** – Trade and Export Development⁵

⁵ Trade and Export Development is analysed in the section titled *Growth Engine #6 – Trade and Export Development*. It was separated from the analysis of the other growth engines since many of the firms identified as exporters also operate under one of the other growth engines and to allocate firms under two growth engines would skew the analysis.

Between 2001 and 2004 there was an overall increase of 30 small businesses (1.1) in Sault Ste. Marie. The allocation of businesses under the different growth engines listed above indicates that two of them saw an increase in the number of firms between 2001 and 2004 while the other three saw declines in the number of small businesses. As for the level of employment under each growth engine only one saw a decrease in the number of workers employed by small business. The growth engines that saw a decline in the number of small businesses were Traditional and New Industry Development where in 2004 there were eleven fewer firms, a drop of 2.5% and Health Social and Public Sector Development where there was one less firm employing under 50 workers in 2004 as opposed to 2001. The other growth engines saw an increase in the number of small businesses with the greatest increase in the number of businesses coming under Tourism Development where there was an increase of 6 firms or 5.6%. The final growth engine listed in the table below is Knowledge-Based Development which saw an increase of 2 firms (2.0%) between 2001 and 2004.

TABLE 3: NUMBER OF SMALL BUSINESSES BY GROWTH ENGINE

	GE 1		GE 2		GE 3		GE 4		GE 5	
	#	Change	#	Change	#	Change	#	Change	#	Change
2001	439	-	107	-	2690	-	98	-	539	-
2002	445	1.4%	113	5.6%	2727	1.4%	95	-3.1%	523	-2.9%
2003	440	-1.1%	119	5.3%	2667	-2.2%	88	-7.4%	550	5.2%
2004	428	-2.7%	113	-5.0%	2720	2.0%	100	13.6%	538	-2.2%
2001-04	-	-2.5%	-	5.6%	-	1.1%	-	2.0%	-	-0.2%

Source: EDC Business Directory 2001-2004 (Active Businesses)

In regards to the level of employment in the small business sector in Sault Ste. Marie the majority of growth engines witnessed an increase in the level of employment. It was the Traditional and New Industry Development growth engine that saw a decline in employment with there being 54 fewer workers employed by small businesses, a drop of 1.9%. Tourism Development (5.4%) Knowledge-Based Development (8.8%) and Health, Social and Public Sector Development (3.1%) all saw increases in the level of employment between 2001 and 2004. Overall the small business sector evidenced a shift in the composition of its workforce and the industries in which firms operate. In terms of either measure – employment or number of firms – the small business sector expanded between 2001 and 2004. This is an important observation especially in light of the challenging business environment that has existed since 2000 with the stock market decline and the terrorist attacks of September 11, 2001. The ability of the small business sector to withstand the negative occurrences of the early part of the time period studied is evidence of the overall vitality and resiliency of the small business sector in the community.

Table 4: Small Business Employment by Growth Engine

	GE 1		GE 2		GE 3		GE 4		GE 5	
	#	Change	#	Change	#	Change	#	Change	#	Change
2001	2909	-	738	-	15389	-	591	-	2347	-
2002	2917	-0.3%	784	6.2%	15861	3.1%	512	-13.4%	2421	3.2%
2003	3003	2.9%	899	14.7%	16111	1.6%	562	9.7%	2653	9.6%
2004	2855	-4.9%	778	-13.5%	15575	-3.3%	605	7.7%	2618	-1.3%
01-04	-	-1.9%	-	5.4%	-	1.2%	-	2.4%	-	11.5%

Source: EDC Business Directory 2001-2004 (Active Businesses)

GROWTH ENGINE #6 - TRADE AND EXPORT DEVELOPMENT

In addition to allocating firms to the various growth engines as above there are several firms that should also be included under the sixth growth engine: Trade and Export Development. These firms are already calculated under the various growth engines above yet they export as well. As with the business directory compiled by the Economic Development Corporation there is an attempt to compile data on exporting firms in the community that had been run under the auspices of RAPIDS. This information has been compiled through the use of a survey and thus is reliant upon the respondents for accuracy and veracity. The data from the export surveys have been cross-referenced with the data from the EDC business directories for the years 2001 and 2004 to yield the following:

- In 2001 there were 71 small businesses involved in exporting – 2.6% of small businesses
 - These 71 firms employed a total of 684 persons – 4.4% of small business employment
- In 2004 there were 103 small businesses involved in exporting – 3.4% of small businesses
 - These 103 firms employed a total of 1163 persons – 7.4% of small business employment

Table 5: Small Businesses and Exporting

	2001	2004	Change from 01-04
Number of Small Business Exporters	71	103	45%
Number of Small Businesses	2690	2720	1.1%
Percent of Small Businesses that Export	2.6%	3.8%	45%
Level of Small Business Exporter Employment	684	1163	70%
Total Small Business Employment	15389	15575	1.2%
Percent of Total Small Business Employment with Small Business Exporting Firms	4.4%	7.4%	70%

The data above indicate that there is a small yet significant proportion of the small business sector in the community involved in exporting activities. Over the period of time looked at there has also been an intensification of exporting activity on behalf of small businesses in Sault Ste. Marie with both the number of small businesses involved in exporting and total employment in exporting small businesses increasing between 2001 and 2004.

Appendix B

Services for Small Business

Community Development Corporation of Sault Ste. Marie

Mandate: To work with individuals, businesses and community partners to facilitate the creation and maintenance of jobs and to build healthy, sustainable communities.

Services: Investments and Loans to Business
Self-Employment Benefit
Wage Subsidy Program
Business Counseling/Resource Centre
Business Registration Services

Between April 1, 2004 and December 31, 2005 the CDC has had the following activity:

- 9,672 incoming phone calls
 - An average of 806 per month
- 2,644 walk ins
 - An average of 220 per month
- 1,524 individuals utilize its business resource centre
 - An average of 171 per month
 - Of those visits 324 were for business name registrations
 - An average of 27 per month
- Disbursed 11 loans to businesses
 - Average value of loans was \$56,309
 - Assisted in the creation/retention of 111 jobs
- Counselling 121 clients
 - An average of 10 per month
 - Assisted in the creation/retention of 97 jobs
- Assisted in the creation of 41 businesses through the Self-Employment Benefit program
 - Led to the creation of 45 jobs in total
- Assisted 46 businesses through the Wage Subsidy Program
 - Total support through this program was \$416,762
 - An average of \$9,060 per business
 - Led to the creation of 46 jobs in the community

Contact Info: Community Development Corporation of Sault Ste. Marie
672 Queen Street East
Sault Ste. Marie, Ontario
P6A 2A4
(705) 942-9000
e-mail: cdc@on.aibn.com
website: <http://www.ssmcdc.com/>

Enterprise Centre of Sault Ste. Marie

Mandate: to assist people in the evaluation and process of business start up and to provide stability and early-stage growth support to existing small business, typically less than 5 years in operation and with fewer than 10 employees.

Services: Business Advisory Services
Business Seminars, Workshops, and Training Sessions
Resource Library
Youth Entrepreneurship Programs
 Summer Company
 My Company
 Algoma District Secondary Business Plan Competition

Between April 1, 2004 and March 31, 2005 the Enterprise Centre has had the following activity:

- 5,273 telephone calls
 - An average of 439 per month
- 339 walk-ins
 - An average of 28 per month
- 537 consultations
 - An average of 45 per month
 - Of these 388 were new consultations
 - An average of 32 per month
- 13,267 web hits
 - An average of 1,106 per month
- 3,128 general outreach activities
 - An average of 261 per month
- 1,241 youth outreach activities
 - An average of 103 per month
- Received 723 inquiries regarding Summer Company
- Had 575 attendees at four career fairs
 - An average of 144 per event
- Assisted in the start up of 53 businesses (including Summer Company)
- Assisted in the creation of approximately 91 jobs

Contact Info: Enterprise Centre of Sault Ste. Marie
99 Foster Drive, Level 3
Sault Ste. Marie, Ontario
P6A 5X6
(705) 759-5461
e-mail: j.dimma@ssmedc.ca
website: www.ecssm.com

Sault Ste. Marie Chamber of Commerce

Mission: To be the recognized voice of business, committed to the enhancement of economic prosperity in Sault Ste. Marie

Services: Advertising Opportunities
Advocacy Services
Chamber Events for Members
Group Insurance Plan
...and many more valuable services

For the year 2004:

- The Chamber had 900 members
- There were 170,827 visits to the Chamber's website
 - An average of 14,235 per month

Contact Info: Sault Ste. Marie Chamber of Commerce
334 Bay Street
Sault Ste. Marie, Ontario
P6A 1X1
(705) 949-7152
e-mail: info@ssmcoc.com
website: <http://www.ssmcoc.com/>

Sault Ste. Marie Innovation Centre

Mandate: The Sault Ste. Marie Innovation Centre was established in 1999 to function as a catalyst for economic development and diversification in the information technology and knowledge-based sectors.

Services: Small and Medium Sized Enterprise (SME) Support including:

- Opportunity identification services
- Partnership development efforts
- Referral services
- Project facilitation
- Research and development extension services
- Networking events/training/workshops

Business incubator including:

- Affordable rental space
- Shared services such as photocopier
- Boardroom rentals
- Mentoring services
- Seminars/workshops

Activities since January 2005:

- Provide consulting services to approximately 20 companies
- Monthly TAG (Tech Advisory Group) – average of 40 participants
- Monthly breakfast meetings – average of 12 participants
- Monthly workshops – average of 15-20 participants
- 3 new business start-ups in incubator

Contact Info: Sault Ste. Marie Innovation Centre
1520 Queen Street East, Room NW307
Sault Ste. Marie, Ontario
P6A 2G4
(705) 942-7927
e-mail: info@ssmic.com
website: www.ssmic.com