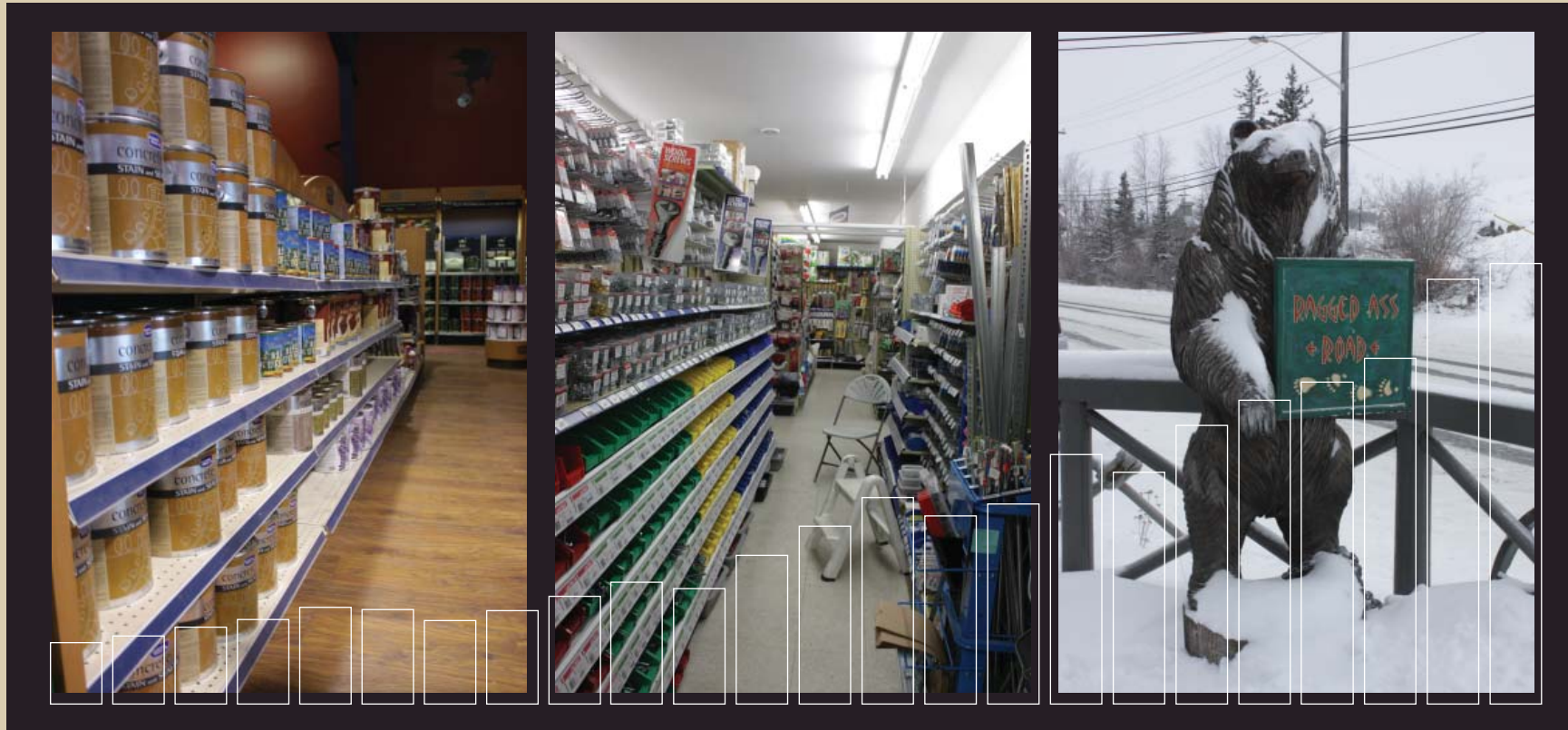


Small Business in the NWT

Performance Compared with the Yukon, Alberta and Saskatchewan

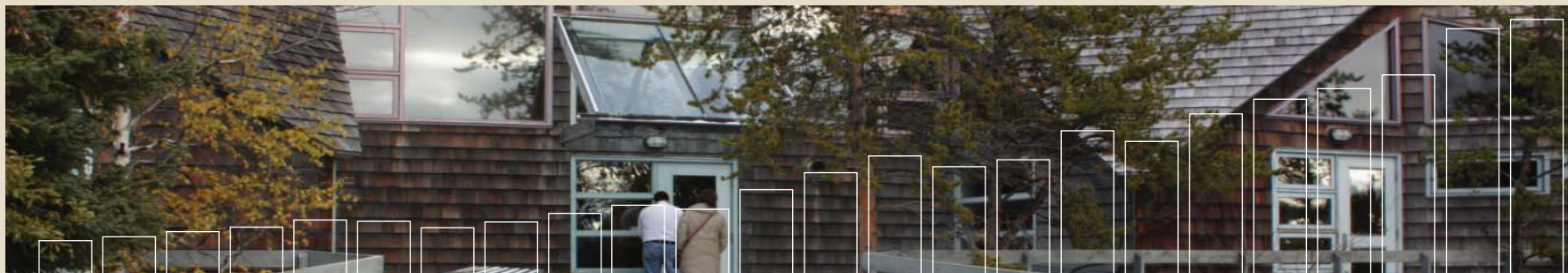


Aidan Cartwright, GNWT/ITI

Prepared by:
Department of Industry, Tourism and Investment
Government of the Northwest Territories
(July 2010)

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Small Business Statistics - Comparative Analysis



Aidan Cartwright, GNWT/ITI

Compiled by:

Investment and Economic Analysis,
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Government of the Northwest
Territories

Updated May 2010

Introduction and Summary

Canadian small business statistics have just been released for 2006. Small businesses are defined as those with annual sales under \$5 million.

This publication reviews Northwest Territories (NWT) results, and our business statistics are compared to the neighbouring jurisdictions of Alberta, the Yukon, and Saskatchewan. In general, most small businesses in the NWT are comparable with other regions. However, some businesses, like wholesale businesses, are more profitable in the NWT.

Labour costs are generally higher (four to five percent) in the NWT. A number of factors might be at work here, including: a general shortage of labour, the need to transport and house staff in remote locations, and possible structural differences within the industry.

Another major variance is found in manufacturing, where indirect costs for small NWT manufacturers account for 63 percent of the total costs of goods produced. The average in the other three jurisdictions is just over 40 percent.

We have included all available NWT industries. However, industries like manufacturing and air transport are represented by a relatively small sample, which might not be representative.

In addition to small business statistics, a number of key business costs are compared to those in the Yukon, Alberta and Saskatchewan. This provides a broader comparison, as NWT businesses have likely adjusted to comparative costs. For example, with high energy costs it is likely that NWT businesses have invested in energy savings or shifted towards less energy intensive activities.

The report includes data on wage rates, electrical costs, heating degree days, fuel prices, GDP per business and taxes. Of these, the NWT is least competitive on electrical and fuel prices, and heating degree days.

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Table of Contents

Table of Contents

<i>Wholesale Trade</i>	<i>1</i>
<i>Retail Trade</i>	<i>3</i>
<i>Manufacturing</i>	<i>5</i>
<i>Transportation</i>	<i>7</i>
<i>Air Transportation</i>	<i>9</i>
<i>Construction</i>	<i>11</i>
<i>Accommodation and Food Services</i>	<i>13</i>
<i>Broad Competitive Factors</i>	<i>16</i>
<i>Employment Costs</i>	<i>17</i>
<i>Electrical Costs</i>	<i>18</i>
<i>Fuel Costs</i>	<i>19</i>
<i>Heating Degree Days</i>	<i>20</i>
<i>Gross Domestic Product Per Business</i>	<i>21</i>
<i>Taxes</i>	<i>22</i>



Aidan Cartwright, GNWT/ITI

Wholesale Trade



Aidan Cartwright, GNWT/ITI

Summary:

Wholesale trade in the NWT has set record levels of growth in sales, reaching \$639 million in 2008. Since 2001 industry sales have grown by \$432 million, an increase of 208 percent. In general, this growth has paralleled the development of the NWT's diamond industry.

As shown in the table to the right, 85 percent of NWT wholesale businesses are profitable - a higher percentage than in neighbouring jurisdictions. Average sales far exceed any other jurisdiction; \$1.4 million compared to \$890,000 in the Yukon and \$854,000 in Alberta.

Variable costs, which vary with sales, are on par with other jurisdictions; 61 percent in the NWT compared to 68 percent in the Yukon. Overall operating expenses approximate other jurisdictions.

As shown at the bottom of the table, profitable companies in the NWT substantially outpace their counterparts. Average revenues of profitable companies in the NWT are \$1.5 million, compared to only around \$1 million in other jurisdictions. Profits, however, are similar to Alberta, although significantly higher than the Yukon.

Wholesale Trade

Table 1. Small Business Statistics for the Wholesale Trade Sector.

	Northwest Territories				Yukon Territory		Alberta		Saskatchewan	
Average of all Businesses	Whole Industry	Lower Half *	Upper Half **	Whole Industry	Whole Industry	Whole Industry	Whole Industry	Whole Industry	Whole Industry	
Number of Businesses	27				25		5,328		1,101	
	Gross Revenue				Gross Revenue		Gross Revenue		Gross Revenue	
	%			(\$000s)	%	(\$000s)	%	(\$000s)	%	(\$000s)
Total revenue	100	100	100	1,378.5	100	888.1	100	854.3	100	893
Cost of sales (direct expenses)	61.2	57.8	61.8	843.1	67.7	601.4	59	503.9	62.7	560.2
Wages and benefits	5	3.1	5.4	68.7	2.6	23.5	3.2	27.2	2.3	20.4
Purchases, materials and sub-contracts	56.5	55.4	56.7	778.6	65.8	584	57.4	490.1	61.2	546.6
Opening inventory	15.3	15.7	15.3	211.4	15.5	137.7	12.4	106.3	16.9	150.7
Closing inventory	15.6	16.4	15.5	215.6	16.2	143.8	14	119.7	17.6	157.5
Operating expenses (indirect expenses)	33.1	31.7	33.4	456	28.1	249.4	36.6	312.9	33.1	295.8
Labour and commissions	16.8	12.8	17.6	231.9	13.1	116.2	16.3	139	14.5	129.3
Amortization and depletion	2.4	1.3	2.6	33	1.9	16.9	2.2	18.7	2	17.9
Repairs and maintenance	0.7	0.9	0.7	9.8	0.7	6.2	1.2	10.2	1.2	11.1
Utilities and telephone/telecommunication	1.7	1.9	1.7	23.7	1.6	14	1.3	11.1	1.5	13.2
Rent	2.1	4	1.7	29	1.8	16.4	2	17.4	1.5	13.3
Interest and bank charges	1.3	1.3	1.4	18.6	1	9	1.1	9.6	1.3	11.3
Professional and business fees	1.5	2.6	1.3	20.7	1.6	13.8	2.3	19.6	1.6	14
Advertising and promotion	0.7	0.5	0.7	9.3	1	8.8	0.9	7.7	0.8	6.9
Delivery, shipping and warehouse expenses	0.1	0.5	0	1.2	0.2	1.7	0.4	3.5	0.4	3.6
Insurance	0.8	0.8	0.8	11.6	0.7	6.3	0.7	6.2	0.7	6
Other expenses	4.9	5	4.8	67.2	4.5	40.2	8.2	69.9	7.8	69.2
Total expenses	94.2	89.5	95.2	1,299.2	95.8	850.8	95.6	816.8	95.9	856
Net profit/loss	5.8	10.5	4.8	79.4	4.2	37.3	4.4	37.5	4.1	37
FINANCIAL RATIOS										
Interest coverage ratio	5.3	9.1	4.5	5.3	5.1	5.1	4.9	4.9	4.3	4.3
Gross margin (%)	38.8	42.2	38.2	38.8	32.3	32.3	41	41	37.3	37.3
PROFITABLE vs NON-PROFITABLE BUSINESSES				(\$000s)		(\$000s)		(\$000s)		(\$000s)
Profitable										
Percent of businesses (%)				85.2		72.0		70.2		67.6
Total revenue				1,537.7		957		970.7		1,006.7
Total expenses				1,437.3		888.4		872.8		921.9
Net profit				100.4		68.6		97.9		84.8
Non-Profitable										
Total revenue						710.7		580.5		655.9
Total expenses						754.1		684.9		718.7
Net loss						-43.4		-104.5		-62.8

Source: Statistics Canada, 2006 Small Business Profiles <http://www.ic.gc.ca/eic/site/pp-pp.nsf/eng/home>

* The lower half consists of the 50 percent of businesses with the lowest reported operating revenue.

** The upper half consists of the 50 percent of businesses with the highest reported operating revenue.

Retail Trade



Aidan Cartwright, GNWT/ITI

Summary:

Over the past decade retail sales have exhibited strong growth in the NWT and the Yukon, despite limited population growth. There have also been new investments by retailers in both territories.

In relation to other jurisdictions, NWT businesses have significantly higher sales. Average sales for retailers in the NWT are \$1.1 million, compared to \$876,000 in the Yukon and under \$700,000 in Alberta and Saskatchewan.

On the other hand, NWT retail costs are higher. While the cost of sales is comparable as a percentage, indirect expenses or overhead is higher in the NWT. In particular, indirect labour costs, which include positions involved with management and finance, account for over 15 percent of costs in the NWT, compared to 10 percent in the Yukon and 12 percent in Alberta and Saskatchewan.

As shown in the bottom section of the table to the right, only 65 percent of retail businesses in the NWT make a profit. In competing jurisdictions about 71 percent of retail businesses make a profit. On the other hand, NWT businesses that are profitable have significantly higher sales and higher profits. Average profits in the NWT are \$86,400 compared to \$52,600 in the Yukon.

Retail Trade

Table 2. Small Business Statistics for the Retail Trade Sector.

Average of all Businesses	Northwest Territories				Yukon Territory		Alberta		Saskatchewan	
	Whole Industry	Lower Half	Upper Half	Whole Industry	Whole Industry	Whole Industry	Whole Industry	Whole Industry	Whole Industry	Whole Industry
Number of Businesses	142				168		14,104		4,024	
	Gross Revenue				Gross Revenue		Gross Revenue		Gross Revenue	
	%			(\$000s)	%	(\$000s)	%	(\$000s)	%	(\$000s)
Total revenue	100	100	100	1092.4	100	875.9	100	707	100	693.1
Cost of sales (direct expenses)	65.5	51.9	67.5	715.1	70.3	615.8	66.5	470.4	70.8	490.8
Wages and benefits	2.1	2.3	2.1	22.9	3.2	27.9	1.9	13.3	1.5	10.1
Purchases, materials and sub-contracts	64.2	52.2	66	700.9	67.9	594.5	66	466.4	70.1	485.7
Opening inventory	13.8	17.2	13.3	150.5	18.6	162.8	12.4	87.6	14.2	98.5
Closing inventory	14.6	19.9	13.8	159.2	19.3	169.5	13.7	96.8	14.9	103.6
Operating expenses (indirect expenses)	31.1	46.4	28.8	339.8	26.8	234.7	29	204.8	25.7	177.9
Labour and commissions	15.1	19.5	14.4	164.6	10.4	90.8	12.8	90.6	12.3	85.1
Amortization and depletion	1.6	2.2	1.5	17.3	1.8	16	1.3	9.4	1.2	8.2
Repairs and maintenance	0.8	1.2	0.7	8.7	0.7	6.2	0.6	4.5	0.7	4.8
Utilities and telephone/telecommunication	2.3	3.1	2.2	25.3	1.8	15.9	1.3	9	1.5	10.3
Rent	2.8	5.2	2.4	30.6	2.4	21.4	3.8	26.8	1.9	13.5
Interest and bank charges	1.5	2.5	1.4	16.7	1.6	14	1	7.2	1	6.9
Professional and business fees	1.5	1.9	1.5	16.9	1.2	10.8	1.3	9.1	1	7
Advertising and promotion	0.7	1.2	0.6	7.2	0.8	7.2	1.2	8.6	1.2	8.5
Delivery, shipping and warehouse expenses	0.1	0.2	0.1	1	0.2	1.4	0.2	1.2	0.2	1.5
Insurance	0.7	1.1	0.7	7.8	0.6	5.6	0.5	3.6	0.5	3.3
Other expenses	4	8.4	3.3	43.8	5.2	45.6	4.9	34.9	4.2	28.8
Total expenses	96.6	98.3	96.3	1054.9	97.1	850.5	95.5	675.3	96.5	668.7
Net profit/loss	3.4	1.7	3.7	37.5	2.9	25.4	4.5	31.7	3.5	24.4
FINANCIAL RATIOS										
Interest coverage ratio	3.2	1.7	3.7	3.2	2.8	2.8	5.4	5.4	4.6	4.6
Gross margin (%)	34.5	48.1	32.5	34.5	29.7	29.7	33.5	33.5	29.2	29.2
PROFITABLE vs NON-PROFITABLE BUSINESSES				(\$000s)		(\$000s)		(\$000s)		(\$000s)
Profitable										
Percent of businesses (%)				64.8		71.4		70.9		71.9
Total revenue				1266		939		782.3		753.4
Total expenses				1,179.5		886.4		723.2		706.7
Net profit				86.4		52.6		59.1		46.6
Non-Profitable										
Total revenue				773.2		718.2		523.7		539
Total expenses				825.7		760.7		558.6		571.4
Net loss				-52.4		-42.5		-34.9		-32.4

Source: Statistics Canada, 2006 Small Business Profiles <http://www.ic.gc.ca/eic/site/pp-pp.nsf/eng/home>

Manufacturing



Aidan Cartwright, GNWT/ITI

Summary:

Manufacturing is challenging in the NWT. We have a relatively small population, a cold climate, limited transportation access and high utility charges. However, there are some advantages, like access to raw materials (i.e. rough diamonds), industry demand and transportation advantages. Some companies produce products for local markets and conditions, such as core sample boxes, storage tanks and more.

Current sales for the NWT manufacturing sector are around \$39 million, up from \$26 million in 2000. However, sales are down from the peak of \$91 million in 2005.

The NWT's percentage of profitable manufacturing businesses is similar to the Yukon, but is less than Saskatchewan or Alberta.

While average sales in the NWT are comparable to the Yukon and Alberta, indirect costs in the NWT are much higher (20 percent higher than in the Yukon). Indirect cost in the NWT consume 63 percent of total revenue, while the average indirect costs in the other three regions is just over 40 percent.

Manufacturing

Table 3. Small Business Statistics for the Manufacturing Sector.

	Northwest Territories				Yukon Territory		Alberta		Saskatchewan	
Average of all Businesses	Whole Industry	Lower Half	Upper Half	Whole Industry	Whole Industry	Whole Industry	Whole Industry	Whole Industry	Whole Industry	
Number of Businesses	10				27		5,006		1,054	
	Gross Revenue				Gross Revenue		Gross Revenue		Gross Revenue	
	%			(\$000s)	%	(\$000s)	%	(\$000s)	%	(\$000s)
Total revenue	100	100	100	872.2	100	880.4	100	788.8	100	675.8
Cost of sales (direct expenses)	33.9	13.3	36	295.6	51.9	456.9	52.4	413.6	53.8	363.4
Wages and benefits	7.7	8.6	7.6	67.5	11.4	100.7	12.4	97.6	10.4	70.1
Purchases, materials and sub-contracts	27.1	3.3	29.6	236.3	42.1	370.2	41.9	330.7	45.2	305.7
Opening inventory	8.5	6.9	8.7	74.5	10.7	94	8.5	66.8	10.3	69.7
Closing inventory	9.5	5.5	9.9	82.7	12.3	108	10.3	81.5	12.2	82.2
Operating expenses (indirect expenses)	63	77.6	61.5	549.8	42.5	374.6	42.1	332.2	40.7	274.9
Labour and commissions	23.1	26.5	22.8	201.7	16	140.5	18	142	16.8	113.8
Amortization and depletion	2.8	3.3	2.7	24.3	3.8	33.3	3.3	26.1	3.6	24.5
Repairs and maintenance	0.2	0.8	0.1	1.8	1.7	14.8	1.2	9.6	1.7	11.5
Utilities and telephone/telecommunication	3.3	2.3	3.4	28.8	2.5	21.6	1.7	13.3	2.2	15.1
Rent	1.6	4.6	1.3	13.7	2.2	19	3.2	25.4	2.2	15.1
Interest and bank charges	1.7	3.1	1.5	14.6	2.1	18.8	1.2	9.8	1.6	10.6
Professional and business fees	3.5	4.1	3.5	30.8	2.8	25	2.5	20	2.2	14.6
Advertising and promotion	1.3	0.3	1.4	11	1	8.4	0.9	6.9	1	6.8
Delivery, shipping and warehouse expenses	0	0	0	0	0	0.1	0.4	3.5	0.5	3.2
Insurance	0.6	0.8	0.6	5.3	0.6	5.2	0.9	7.1	1	6.6
Other expenses	25	32	24.2	217.7	10	88.1	8.7	68.6	7.9	53.1
Total expenses	96.9	91	97.5	845.4	94.4	831.5	94.5	745.8	94.4	638.3
Net profit/loss	3.1	9	2.5	26.8	5.6	48.9	5.5	43	5.6	37.5
FINANCIAL RATIOS										
Interest coverage ratio	2.8	4	2.6		3.6		5.4		4.5	
Gross margin (%)	66.1	86.7	64		48.1		47.6		46.2	
PROFITABLE vs NON-PROFITABLE BUSINESSES				(\$000s)		(\$000s)		(\$000s)		(\$000s)
Profitable										
Percent of businesses (%)				60.5		63.1		73.3		69.2
Total revenue				1148		829.6		874.4		737.8
Total expenses				1,092.8		734.5		776		660.5
Net profit				55.2		95.1		98.4		77.3
Non-Profitable										
Total revenue						967.3		554.1		536.8
Total expenses						997.6		663		588.5
Net loss						-30.3		-108.8		-51.6

Source: Statistics Canada, 2006 Small Business Profiles <http://www.ic.gc.ca/eic/site/pp-pp.nsf/eng/home>

Transportation



J.F. Bergeron, GNWT/ITI

Summary:

Transportation is a major industry in the NWT, closely associated with community and resource company supply. Within the small business category, the percentage of profitable businesses in the NWT is lower than in competing provinces, but is similar to the Yukon.

Overall, the average NWT transport company has average sales exceeding \$605,000. That is 40 percent larger than competing jurisdictions. However, costs are also higher in the territories, and profitability is lower in the NWT and the Yukon than in Alberta or Saskatchewan.

The structure of the industry, especially larger transport businesses, is substantially different from the Yukon, Saskatchewan or Alberta. Subcontracts and purchased materials are far more significant in the NWT, accounting for approximately 40 percent of every sale. In the other jurisdictions, subcontracts only account for between 11 and 14 percent of sales.

The reliance on subcontractors likely reflects the realities of northern re-supply, which often requires huge volumes over a short supply window. For example, the Tibbitt to Contwoyto Ice Road is a 568 kilometre (353 mile) supply route to mines and exploration projects in the NWT. During the peak year of 2007, between January 27 and April 9, close to 11,000 loads were hauled on the road. With such short operating seasons and huge workloads, it makes sense for companies to subcontract added capacity.

Additional information is also available on the NWT's air transportation industry, which is presented in the following section.

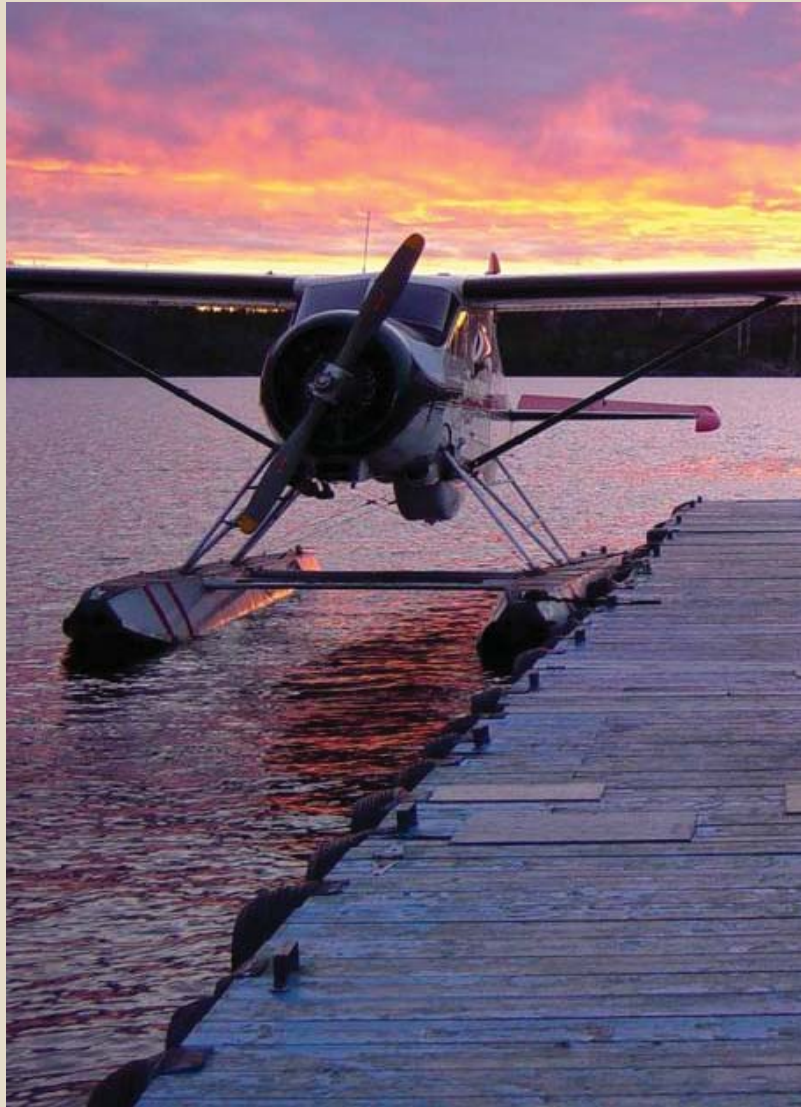
Transportation

Table 4. Small Business Statistics for the Transportation Sector

	Northwest Territories				Yukon Territory		Alberta		Saskatchewan		
Average of all Businesses	Whole Industry	Lower Half	Upper Half	Whole Industry	Whole Industry	Whole Industry	Whole Industry	Whole Industry	Whole Industry	Whole Industry	
Number of Businesses	102				71		12295		2785		
	Gross Revenue				Gross Revenue		Gross Revenue		Gross Revenue		
	%			(\$000s)	%		(\$000s)		%		(\$000s)
Total revenue	100	100	100	605.4	100	395.9	100	381.8	100	376.9	
Cost of sales (direct expenses)	44.2	12	46.7	267.5	11.4	45.2	17	65	13.4	50.4	
Wages and benefits	5	2	5.3	30.5	0.8	3.2	3.6	13.8	2.3	8.6	
Purchases, materials and sub-contracts	41.1	10.6	43.5	248.8	11.5	45.4	13.6	52.1	11.2	42.3	
Opening inventory	0.9	0.4	0.9	5.4	0.8	3.1	0.7	2.7	0.6	2.3	
Closing inventory	2.8	1	3	17.2	1.6	6.5	0.9	3.6	0.7	2.8	
Operating expenses (indirect expenses)	52.8	76.8	51	319.9	83.3	329.9	74.6	284.9	79.5	299.5	
Labour and commissions	12	19.2	11.4	72.6	25.5	100.8	20.2	77.1	19.4	73.1	
Amortization and depletion	6	10.6	5.7	36.5	7.6	30.1	7.4	28.1	6.8	25.6	
Repairs and maintenance	2.7	5.4	2.5	16.6	8.8	34.7	7	26.7	9.2	34.8	
Utilities and telephone/telecommunication	4.6	5.2	4.6	27.9	9.5	37.5	6.5	25	9.3	35.1	
Rent	3.4	1.9	3.5	20.8	4.5	17.9	3.5	13.3	3.6	13.6	
Interest and bank charges	2.9	1.7	3	17.4	2.6	10.4	2.8	10.5	1.9	7	
Professional and business fees	2	1.9	2.1	12.3	1.3	5.1	1.9	7.3	1.6	6.1	
Advertising and promotion	0.3	0.2	0.3	1.6	0.4	1.4	0.4	1.5	0.3	1	
Delivery, shipping and warehouse expenses	0.2	0.2	0.2	1.4	0.1	0.4	0.5	2	0.6	2.3	
Insurance	2.9	2.9	2.8	17.3	4.1	16.3	2.9	11.1	2.7	10	
Other expenses	15.8	27.5	14.9	95.5	19	75.3	21.6	82.3	24.1	90.8	
Total expenses	97	88.7	97.7	587.4	94.8	375.1	91.7	349.9	92.8	350	
Net profit/loss	3	11.3	2.3	18	5.2	20.7	8.3	31.9	7.2	27	
FINANCIAL RATIOS											
Interest coverage ratio	2	7.5	1.8	2	3	3	4	4	4.8	4.8	
Gross margin (%)	55.8	88	53.3	55.8	88.6	88.6	83	83	86.6	86.6	
PROFITABLE vs NON-PROFITABLE BUSINESSES				(\$000s)		(\$000s)		(\$000s)		(\$000s)	
Profitable											
Percent of businesses (%)				66.6		67.0		77.9		77.1	
Total revenue				524.8		411.4		392.3		366	
Total expenses				440.7		363.2		336		320.9	
Net profit				84.1		48.2		56.2		45.1	
Non-Profitable											
Total revenue				766.3		364.3		344.9		413.7	
Total expenses				880.3		399.4		399		447.9	
Net loss				-114		-35.1		-54.1		-34.2	

Source: Statistics Canada, 2006 Small Business Profiles <http://www.ic.gc.ca/eic/site/pp-pp.nsf/eng/home>

Air Transportation



Shutterstock.com (NWT)

Summary:

Air businesses in the NWT are world leaders in transporting goods and people in a remote, and often harsh, environment. Today, the industry is actively involved in transporting people between communities, community re-supply, and meeting the needs of mining exploration and development companies.

The table on page 10 highlights NWT air transportation in relation to competing jurisdictions. Average sales of NWT air transportation businesses were \$1.5 million, over three times that of the Yukon, and twice as large as air businesses in Alberta and Saskatchewan.

Subcontracting is more important in the NWT and Alberta than in the Yukon or Saskatchewan. The common element between the NWT and Alberta is the scale and pace of development. Rather than building excess capacity, companies are better off leasing equipment or space rather than buying it.

Fifty-seven percent of companies make a profit in the NWT; this compares to just over fifty percent in Saskatchewan and the Yukon. Overall, profit levels in the NWT are slightly higher than companies located in Alberta, and more than double the levels of companies in Saskatchewan and the Yukon.

Interest coverage ratio calculates the average number of times that interest owing is earned and, therefore, indicates the debt risk of a business. The larger the ratio, the more able a firm is to cover its interest obligations on debt. Air transport companies have a fairly low interest coverage ratio in the NWT, but this is consistent with companies in other jurisdictions.

Air Transportation

Table 5. Small Business Statistics for the Air Transportation Sector

	Northwest Territories Air Transportation		Yukon Territory Air Transportation		Alberta Air Transportation		Saskatchewan Air Transportation	
Average of all Businesses	Whole Industry	Whole Industry	Whole Industry	Whole Industry	Whole Industry	Whole Industry	Whole Industry	Whole Industry
Number of Businesses	21		12		114		29	
	Gross Revenue		Gross Revenue		Gross Revenue		Gross Revenue	
	%	(\$000s)	%	(\$000s)	%	(\$000s)	%	(\$000s)
Total revenue	100	1,494.8	100	458.4	100	776.6	100	752.2
Cost of sales (direct expenses)	46	687.3	14.5	66.7	38.2	297	7	52.7
Wages and benefits	5.9	88.1	2.6	11.8	7.7	59.7	1	7.8
Purchases, materials and sub-contracts	44	657.9	12.1	55.6	31.3	242.9	6.4	48.2
Opening inventory	1.1	16	1.5	6.7	2.1	16.3	2.8	20.7
Closing inventory	5	74.8	1.6	7.4	2.8	22	3.2	24.1
Operating expenses (indirect expenses)	50.1	749.5	83.4	382.2	54.9	426.5	90.1	677.8
Labour and commissions	8.1	121.5	11.7	53.6	10.9	84.9	25.7	193.2
Amortization and depletion	3.5	52.4	11	50.3	8.3	64.3	14.8	111.6
Repairs and maintenance	2	29.8	11.6	53.3	6.8	52.6	8	60
Utilities and telephone/telecommunication	4	59.5	8.5	38.8	2.7	21.1	9.6	72.2
Rent	4.9	73.7	11.3	51.9	4.6	35.9	11.5	86.6
Interest and bank charges	3.9	58.9	2.2	9.9	2.5	19.8	2.3	17.1
Professional and business fees	1.9	28	2.4	11.1	3.1	24.2	3.1	23.2
Advertising and promotion	0.3	4.1	0.6	2.8	0.5	4.1	0.3	1.9
Delivery, shipping and warehouse expenses	0.3	4.3	0.1	0.6	0.2	1.5	0.7	5.1
Insurance	3.3	49.6	7.6	34.6	3	23.5	5.5	41.1
Other expenses	17.9	267.7	16.4	75.1	12.2	94.7	8.7	65.8
Total expenses	96.1	1,436.8	97.9	448.8	93.2	723.5	97.1	730.5
Net profit/loss	3.9	58	2.1	9.6	6.8	53.1	2.9	21.7
FINANCIAL RATIOS								
Interest coverage ratio	2	2	2	2	3.7	3.7	2.3	2.3
Gross margin (%)	54	54	85.5	85.5	61.8	61.8	93	93
PROFITABLE vs NON-PROFITABLE BUSINESSES								
Profitable		(\$000s)		(\$000s)		(\$000s)		(\$000s)
Percent of businesses (%)		57.1		50.0		71.6		51.9
Total revenue		1,576.7		502.9		831.4		1,072.5
Total expenses		1,251.7		415.6		709.7		922.2
Net profit		325.0		87.3		121.7		150.4
Non-Profitable								
Total revenue		1,385.7		413.9		638.4		406.1
Total expenses		1,683.5		482.1		758.3		523.4
Net loss		-297.9		-68.2		-119.9		-117.3

Source: Statistics Canada, 2006 Small Business Profiles <http://www.ic.gc.ca/eic/site/pp-pp.nsf/eng/home>

Construction



GNWT/ITI

Summary:

Construction sales in the NWT are closely linked with mineral investment. Activity is also influenced by household construction and public sector spending.

In general, construction businesses are less profitable in the NWT than in competing regions. Direct wages, as a percentage of sales, are almost twice as high in the NWT as in competing regions. Most other costs are relatively comparable with construction companies in Alberta, Saskatchewan and the Yukon.

The average profitable small business NWT construction company has sales of \$640,000 per year and profits of \$68,000. Average sales of profitable businesses are about \$150,000 higher than in Saskatchewan and Alberta, while profits are similar.

However, NWT companies have assumed higher debt loads. An interest coverage ratio below one indicates the company is not generating sufficient revenues to satisfy interest expenses. The interest coverage ratio of NWT construction companies is 3.4, compared to nine or above in the other jurisdictions.

Construction

Table 6. Small Business Statistics for the Construction Sector

	Northwest Territories				Yukon Territory		Alberta		Saskatchewan		
Average of all Businesses	Whole Industry	Lower Half	Upper Half	Whole Industry	Whole Industry	Whole Industry	Whole Industry	Whole Industry	Whole Industry		
Number of Businesses	227				234		29,509		4,665		
	Gross Revenue				Gross Revenue		Gross Revenue		Gross Revenue		
	%			(\$000s)	%		(\$000s)		%		(\$000s)
Total revenue	100	100	100	652.4	100	515.5	100	445.9	100	417.1	
Cost of sales (direct expenses)	49.9	34.1	51.4	325.6	45.4	233.8	46.1	205.3	46.2	192.7	
Wages and benefits	14.9	9.5	15.4	97	8.1	41.6	7.7	34.4	7.8	32.3	
Purchases, materials and sub-contracts	35.7	26.1	36.6	232.6	38.7	199.2	42	187.4	40.4	168.6	
Opening inventory	3.9	1.2	4.2	25.5	4	20.6	7.3	32.6	5.1	21.4	
Closing inventory	4.5	2.7	4.7	29.6	5.4	27.6	11	49.1	7.1	29.8	
Operating expenses (indirect expenses)	46	52.3	45.5	300.4	43.1	222	43.4	193.6	43.4	180.9	
Labour and commissions	16.8	12.5	17.2	109.8	14.7	75.9	17.2	76.6	17.5	73.1	
Amortization and depletion	4.8	4.5	4.9	31.5	4	20.8	3.4	15.2	3.5	14.8	
Repairs and maintenance	2.6	1.5	2.7	17.1	2.8	14.5	1.7	7.4	2.4	9.9	
Utilities and telephone/telecommunication	3	2.8	3	19.3	1.9	10	1.5	6.7	2.1	8.7	
Rent	1.5	2.5	1.4	9.6	1.3	6.5	1.7	7.8	1.6	6.8	
Interest and bank charges	1.7	2	1.7	11.2	1.1	5.5	1.3	5.6	1.1	4.8	
Professional and business fees	1.4	2.3	1.3	8.8	2.1	11	2.6	11.4	1.6	6.7	
Advertising and promotion	0.3	0.5	0.3	2.2	0.2	1.1	0.5	2.1	0.5	1.9	
Delivery, shipping and warehouse expenses	0.1	0.4	0.1	1	0.2	1.2	0.1	0.4	0.1	0.6	
Insurance	1.5	1.7	1.5	9.9	1	5.4	1.1	4.9	1	4.1	
Other expenses	12.3	21.7	11.4	80.1	13.6	70	12.4	55.5	11.9	49.6	
Total expenses	96	86.4	96.8	626	88.4	455.8	89.5	398.9	89.6	373.6	
Net profit/loss	4	13.6	3.2	26.4	11.6	59.6	10.5	47	10.4	43.6	
FINANCIAL RATIOS											
Interest coverage ratio	3.4	7.7	2.9	3.4	11.8	11.8	9.4	9.4	10.2	10.2	
Gross margin (%)	50.1	65.9	48.6	50.1	54.6	54.6	53.9	53.9	53.8	53.8	
PROFITABLE vs NON-PROFITABLE BUSINESSES											
Profitable				(\$000s)		(\$000s)		(\$000s)		(\$000s)	
Percent of businesses (%)				69.8		77.9		79.8		83.0	
Total revenue				639.4		562.7		468.4		429	
Total expenses				572.2		474.4		397.2		370.2	
Net profit				67.3		88.3		71.3		58.8	
Non-Profitable											
Total revenue				682.4		349.1		357.1		359.1	
Total expenses				750.4		390.4		405.7		390	
Net loss				-68		-41.3		-48.6		-30.9	

Source: Statistics Canada, 2006 Small Business Profiles <http://www.ic.gc.ca/eic/site/pp-pp.nsf/eng/home>

Accommodation and Food Establishments



Aidan Cartwright, GNWT/ITI

Summary:

The accommodation and food industries include a wide range of businesses. While many serve the local market, the tourism industry represents an important market segment. Some businesses, such as catering companies, also service the mining industry and government.

Fewer NWT businesses are engaged in this sector than in the Yukon. In both the Yukon and NWT, utility costs are higher than in Alberta and Saskatchewan. In general, profit margins are lowest in the two territories, but are generally low across all jurisdictions. Debt is also high for accommodation and food businesses in the two territories. When a business has an interest coverage ratio of 1.5 percent or lower, its ability to meet interest expenses is questionable. The NWT average for this industry is 1.8 percent.

Other than these differences, the cost structure across jurisdictions is relatively similar.

Accommodation and Food Establishments

Table 7. Small Business Statistics for the Accommodation and Food Sectors

	Northwest Territories				Yukon Territory		Alberta		Saskatchewan	
Average of all Businesses	Whole Industry	Lower Half	Upper Half	Whole Industry	Whole Industry	Whole Industry	Whole Industry	Whole Industry	Whole Industry	
Number of Businesses	99				143		7,591		2,069	
	Gross Revenue				Gross Revenue		Gross Revenue		Gross Revenue	
	%			(\$000s)	%	(\$000s)	%	(\$000s)	%	(\$000s)
Total revenue	100	100	100	906.1	100	672.6	100	649.2	100	522.7
Cost of sales (direct expenses)	38.1	30.2	39.5	345.3	43.8	294.6	38	246.5	40.1	209.8
Wages and benefits	8.3	4.4	9	75.2	7.3	49	6.1	39.8	3.2	16.6
Purchases, materials and sub-contracts	30	25.7	30.7	271.4	37	248.9	31.9	207.3	37	193.5
Opening inventory	2.5	1.9	2.7	23.1	2.9	19.4	1.8	11.7	2	10.7
Closing inventory	2.7	1.8	2.8	24.4	3.4	22.6	1.9	12.3	2.1	11
Operating expenses (indirect expenses)	60.1	68	58.7	544.5	53.6	360.5	56.5	367	56.4	295
Labour and commissions	21.8	21.2	22	197.9	19.8	132.9	23	149.6	25.3	132.3
Amortization and depletion	4.2	5.4	4	38.4	4.4	29.3	3.4	22.2	3.4	18
Repairs and maintenance	2.2	2.7	2.1	20.1	2.5	16.9	2.4	15.4	2.4	12.8
Utilities and telephone/telecommunication	6.1	7.3	5.9	55.6	6	40.5	3.5	22.8	4.3	22.6
Rent	5.5	8.1	5	49.8	2.7	17.9	6.7	43.5	4.8	25
Interest and bank charges	3.1	2.6	3.1	27.7	3.2	21.2	2	12.8	1.9	9.9
Professional and business fees	2.4	2.4	2.4	21.5	2.3	15.6	2.9	18.6	1.8	9.4
Advertising and promotion	2.8	1.8	3	25.7	1.7	11.7	2.6	17	2.4	12.8
Delivery, shipping and warehouse expenses	0.3	0.3	0.3	2.3	0.2	1.2	0.2	1	0.3	1.3
Insurance	1.3	1.9	1.2	11.9	1.5	10.2	0.9	5.6	0.9	4.5
Other expenses	10.3	14.3	9.6	93.7	9.4	63.2	9	58.6	8.9	46.5
Total expenses	98.2	98.2	98.2	889.8	97.4	655.2	94.5	613.6	96.6	504.8
Net profit/loss	1.8	1.8	1.8	16.3	2.6	17.4	5.5	35.6	3.4	17.9
FINANCIAL RATIOS										
Interest coverage ratio	1.6	1.7	1.6	1.6	1.8	1.8	3.8	3.8	2.8	2.8
Gross margin (%)	61.9	69.8	60.5	61.9	56.2	56.2	62	62	59.9	59.9
PROFITABLE vs NON-PROFITABLE BUSINESSES				(\$000s)		(\$000s)		(\$000s)		(\$000s)
Profitable										
Percent of businesses (%)				57.2		60.6		67.9		67.7
Total revenue				962.4		751.3		741.5		562.5
Total expenses				881.8		692.3		666		517.5
Net profit				80.6		59		75.5		45
Non-Profitable										
Total revenue				830.9		551.7		453.9		439.4
Total expenses				900.6		598.1		502.5		478.2
Net loss				-69.6		-46.4		-48.7		-38.9

Source: Statistics Canada, 2006 Small Business Profiles <http://www.ic.gc.ca/eic/site/pp-pp.nsf/eng/home>

Broad Competitive Factors

The small business statistics reviewed on the previous pages highlight industry characteristics at one point in time. This perspective has certain limitations. For example, it does not take into consideration larger environmental factors that affect small and large businesses as well as the public at large. In the following sections of this publication we examine some of these external factors and compare them to competing jurisdictions: Alberta, Saskatchewan and the Yukon. This will help create a complete picture of the performance of small businesses in the NWT. The key factors we will focus on are:

1. Employment costs
2. Electrical costs
3. Other energy costs
3. Heating degree days and heating costs
4. Market potential - GDP per business.
5. Corporate and personal taxation.



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Employment Costs

Wage Costs

Wages impact businesses on both sides of the income statement. For many trade and service businesses, people and incomes determine markets. High wages are a major factor in migration.

On the other hand, wages are a cost. For some industries, like construction, where wages represent a major expense, high wages can place local businesses at a competitive disadvantage.

Table 8 compares average hourly wages since 2004 in the NWT and competing jurisdictions. While wages in the NWT have increased, they have lost ground to other provinces, especially Alberta. In fact, average wages in the NWT started off in 2004 about 18 percent higher than in Alberta, but by 2008 NWT wages were only seven percent higher.

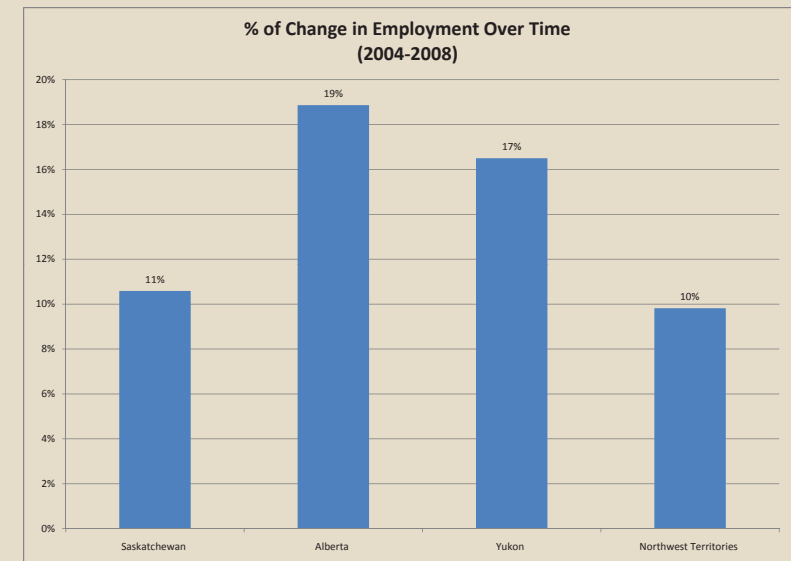
Table 8. Average Hourly Wages

Province	2004	2005	2006	2007	2008	Growth	% Change
Saskatchewan	16.5	17.45	18.21	19.19	20.12	3.62	22%
Alberta	18.46	19.48	20.65	21.75	23.14	4.68	25%
Yukon	18.03	18.78	19.68	20.55	20.85	2.82	16%
Northwest Territories	22.44	22.98	22.25	23.2	24.86	2.42	11%

Source: Statistics Canada, CANSIM, table 281-0030 and Catalogue no. 72-002-X.

Employment Creation

Chart 1 - Employment Change Over Time



Source: Statistics Canada, CANSIM, table 281-0024 and Catalogue no. 72-002-X.

Although the NWT has enjoyed rapid economic growth since 2004, employment growth has been the lowest of any competing jurisdiction. For example, 2,700 new jobs have been created in the Yukon compared to 2,300 in the NWT. The chart above plots percentage increases in employment between 2004 and 2008.

Electrical Costs

Chart 2 plots base electrical rates for the capital cities of each region competing for business and investment with the NWT. Table 9 contains similar data. On average, the rates show a:

- 65 percent advantage in Alberta
- 64 percent advantage in Saskatchewan, and
- 49 percent advantage in the Yukon

Table 9. Comparative Power Rates and Cost Differences

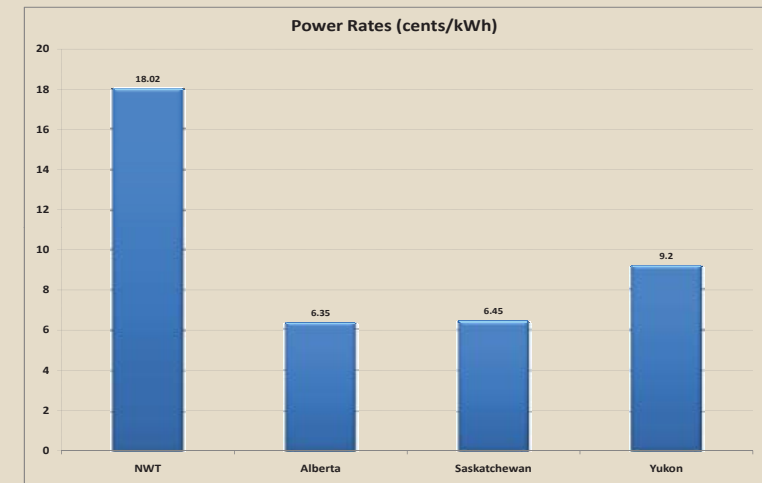
Jurisdiction	cents/kWh	Savings Over NWT
NWT	18.02	0%
Alberta	6.35	65%
Saskatchewan	6.45	64%
Yukon	9.2	49%

Note: Rates exclude the GST and the basic monthly charges.

Source: InfoMine

As highlighted in the small business statistics on pages seven to 12, for most existing businesses in the NWT, electrical power rates and other utilities represent a relatively small percentage of total sales.

Chart 2 - Comparative Power Rates



Source: InfoMine

Fuel Costs

Table 10 lists fuel prices, per litre, in selected western Canadian cities. The prices include taxes.

In general, gasoline pricing appears to be less competitive than diesel or propane prices. However, prices in Yellowknife are competitive with Whitehorse.

Diesel prices show less variability than gasoline. Yellowknife prices are up to 15 percent higher than Edmonton, but largely competitive with other jurisdictions, and slightly

lower than Vancouver or Whitehorse.

Propane prices are even more competitive in the NWT than diesel. Only Calgary has a distinct price advantage.

It should be noted that natural gas is the heating fuel of choice in most western provinces.

These prices would likely be significantly less than propane.

Table 10. Fuel Prices in Competing Jurisdictions

City	Gasoline		Motive Diesel		Propane	
	¢/litre	Savings	¢/litre	Savings	¢/litre	Savings
YELLOWKNIFE	119.4	0%	103.0	0%	68.0	0%
WHITEHORSE	102.4	14%	104.4	-1%	90.9	-34%
VANCOUVER *	106.6	11%	103.9	-1%	65.3	4%
VICTORIA	104.6	12%	101.7	1%	63.9	6%
PRINCE GEORGE	104.1	13%	97.8	5%	65.9	3%
KAMLOOPS	101.7	15%	96.2	7%	65.9	3%
KELOWNA	101.9	15%	101.6	1%	65.9	3%
FORT ST. JOHN	106.9	10%	102.4	1%	62.9	8%
CALGARY *	89.5	25%	90.5	12%	50.9	25%
RED DEER	89.9	25%	90.2	12%	79.9	-18%
EDMONTON	87.9	26%	87.3	15%	63.9	6%
LETHBRIDGE	95.2	20%	89.2	13%	Not available	
LLOYDMINSTER	89.9	25%	91.9	11%	Not available	
REGINA *	97.9	18%	97.4	5%	89.9	-32%
SASKATOON	96.9	19%	95.4	7%	Not available	
PRINCE ALBERT	97.9	18%	94.9	8%	Not available	

Prepared by MJ Ervin & Associates Inc, January 2010

Diesel includes both full-serve and self-serve prices.

Heating Degree Days

Heating Degree Days (HDD) measure the relative cost to heat a home or business in different regions, everything else being equal. There are many ways to calculate HDD. One popular approximation method is to take the average temperature on any given day, and subtract it from the base temperature of a building. If the value is less than or equal to zero, that day has zero HDD. But if the value is positive, that number represents the number of HDD on that day.

Table 11 shows HDD for select regions of Western Canada. As shown, an identical building in Yellowknife should cost 18 percent more to heat over the year than the same building in Whitehorse.

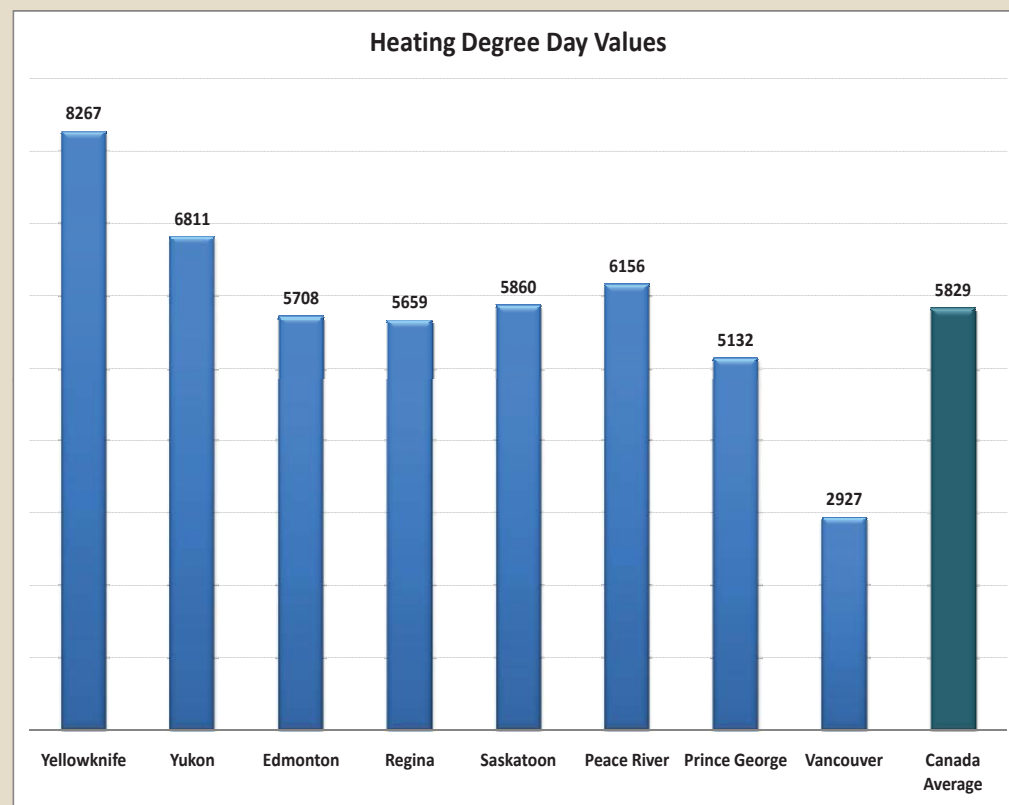
Savings in heating costs in provincial locations are significant. For example, it would cost 30 percent less to heat the same building in Saskatoon as in Yellowknife.

Table 11. Heating Degree Days

City	Degree Day Value	Comparison with Yellowknife
Yellowknife	8267	0
Yukon	6811	18%
Edmonton	5708	31%
Regina	5659	32%
Saskatoon	5860	29%
Peace River	6156	26%
Prince George	5132	38%
Vancouver	2927	65%
Canada Average	5829	

Source: Heating Degree Days - Industry Canada Database

Chart 3 - Heating Loads Compared



Source: Heating Degree Days - Industry Canada Database

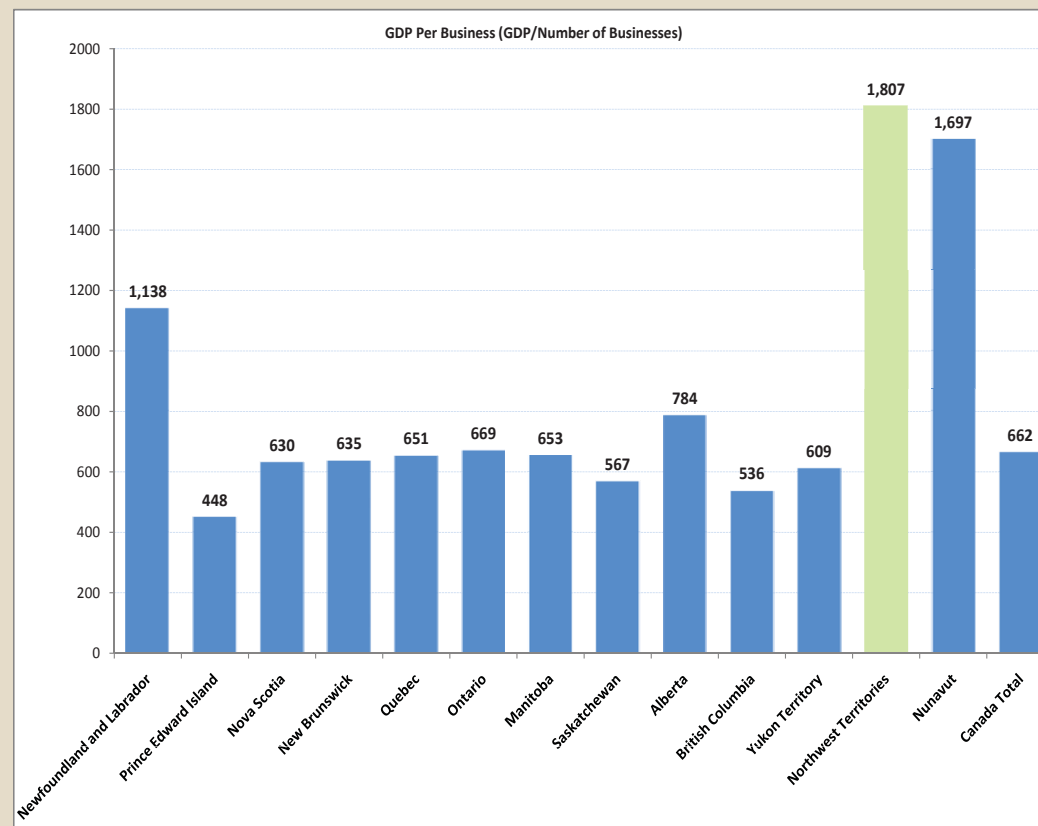
Gross Domestic Product Per Business

Gross Domestic Product (GDP) measures the total market value of goods and services produced by workers and capital within the NWT.

As shown in Chart 4, the GDP per business over 2008 in the NWT was by far the highest in Canada. This indicates, everything else being equal, significant opportunity for business development and expansion.

There is a tendency for resource regions, especially in more remote areas of Canada, to have a high GDP per business. In these regions large resource projects, smaller residential markets, and high costs contribute to relative large imports and capital transfers. However, it also indicates room for growth, and considerable market size.

Chart 4 - GDP per Business



Source: Industry Canada Statistics, 2008
Updated 2009

Taxes

Table 12. A Comparison of Corporate Tax Rates

	Small Business Income Thresholds	Corporate Income Tax		PST (%)	GST (%)
		Small Business (%)	Large Business (%)		
NWT	\$500,000.00	4	11.5	0	5
Yukon	\$400,000.00	4	15	0	5
Alberta	\$500,000.00	3	10	0	5
Saskatchewan	\$500,000.00	4.5	12	5	5

Source: CRA, KPMG and GNWT websites

Corporate Tax Rates

Corporate income tax rates apply to taxable income earned in the NWT. The low small business rate of the NWT income tax is 4%, which applies to taxable income earned in the NWT that qualifies for the federal small business deduction.

Table 12 above compares corporate income tax rates in the NWT, Yukon, Alberta and Saskatchewan. As shown, the general corporate income tax in the NWT is significantly lower than the Yukon rate (11.5% versus 15%),

and comparable to both Alberta and Saskatchewan, which have rates of 10.0% and 14.0% respectively.

The “small business” rates for the NWT and Yukon are equal, but the NWT threshold for small rates is higher. The Yukon has a special manufacturing or processing tax rate. Such a rate in the NWT could potentially benefit some manufacturing in the NWT, like diamond cutting and polishing.



Aidan Cartwright, GNWT/ITI

