



SME Profile 2020: Tourism Industries in Canada

Industry Sector, Tourism Branch
Innovation, Science and Economic Development Canada

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EXECUTIVE SUMMARY

On March 2, 2022, Statistics Canada released the Survey on Financing and Growth of Small and Medium Enterprises for the reference year of 2020. The survey is carried out every three years on behalf of Innovation, Science and Economic Development (ISED) and for this release, data was collected between April and August 2021. ISED's Tourism Branch has contributed funding to this survey every cycle for the past ten years and for this reason, the survey includes a reference sample for Canada's tourism sector.

This report contains a summary of key findings for Canada's tourism sector from the 2020 Survey on Financing and Growth of Small and Medium Enterprises, and analysis on employment and financial performance from Statistics Canada's Provincial-Territorial Human Resources Module of the Tourism Satellite Account and ISED's Financial Performance Data, respectively. It provides an overview of business characteristics, innovation activities, and recent financing activities of Canadian small and medium-sized enterprises (SME) in tourism industries in comparison with Canadian SMEs in all industries.

The report reveals:

- Tourism SMEs tend to be younger and larger businesses than all SMEs. More decision makers in tourism industries identify themselves as female, visible minority, or people with disabilities.
- Faced with the unique circumstances of the COVID-19 pandemic, tourism businesses were more likely to close their doors in 2020 and closed for longer than businesses across all industries.
- Personal financing was the primary source of financing used by tourism SMEs during start-up.
- Debt financing is the most common type of financing sought by tourism SMEs and all SMEs, but both groups experienced more difficulty obtaining this type of financing.
- Tourism SMEs intended to use debt financing primarily on working capital, operating capital and land and buildings.
- Principal challenges faced by tourism SMEs include rising costs of inputs and labour challenges, including shortages and the recruitment and retention of skilled labour.
- Tourism SMEs introduced more overall innovation than all SMEs and were more likely to introduce new product and a new way of selling goods or services than all SMEs.
- Tourism businesses were less likely to be profitable in 2020 than businesses across other sectors but had lower average net losses than other businesses.

The data in this report is appropriately referenced ([click to go to references page](#)) and derived from Government sources reflecting the year 2020 unless otherwise specified, e.g. Employment data from the Provincial-Territorial Human Resources Module, for which the latest available data is for the year 2019.

1. INTRODUCTION

Tourism plays a vital role in Canada's economy, accounting for over \$45 billion – or over 2% – of Canada's gross domestic product and representing 3.8 of Canada's total exports in 2019. Tourism drives key service industries such as food and beverage services, transportation, accommodations, recreation and entertainment, and travel services. Small and medium-sized enterprises (SMEs) constitute the backbone of tourism in Canada, accounting for 99.9% of businesses in tourism industries.

In 2020, the COVID-19 pandemic completely changed the nature of how tourism operators did business. International tourism demand fell nearly to zero with public health measures limiting non-essential travel into the country and many businesses in the tourism sector, like restaurants, recreation businesses like theatres and festivals, and tour companies running sightseeing tours by bus or boat, were required to close or significantly limit customer capacity to meet public health policy on physical distancing of guests and employees.

The pandemic brought about unique conditions for financing of SMEs, including the introduction of new government liquidity programs as well as modifications to eligibility requirements for existing financing programs. In many cases, SMEs experience difficulty obtaining the financing they need to acquire assets, day-to-day expenses or expand into new markets. Obtaining financing can be particularly difficult for SMEs in tourism industries because financial institutions may view them as relatively risky compared with the SMEs in other industries¹.

Given the importance of financing to the success and growth of a business, this report investigates the financing activities of tourism SMEs and identifies the financing needs and obstacles they face. This report is an update of *SME Profile: Tourism Industries in Canada* (Bédard-Maltais, 2015) and provides an overview of business characteristics, ownership characteristics, and recent financing activities of Canadian tourism SMEs in comparison with all SMEs in Canada. It uses data from Statistics Canada's *Survey on Financing and Growth of Small and Medium Enterprises, 2017-2020*. The focus is on results from the 2020 survey and comparisons are made with the 2017 and earlier surveys where relevant.

¹ "Project was considered too risky" was the principal reason provided to 28.5% of tourism SMEs that had their debt financing request turned down, according to the Survey on Financing and Growth of Small and Medium Enterprises in 2017. Total financing authorized-to-requested ratios are also historically lower for tourism SMEs compared to all SMEs. In 2017, tourism SMEs received 82.1% of requested financing (70.8% in 2014) compared to 92.8% for all SMEs (86.1% in 2014). This difference in ratios between tourism businesses and all businesses, as well as the consistency in this difference over time, suggests that tourism SMEs generally have a harder time obtaining financing.

Box 1: Data and Definitions

The primary data source for this report is Statistics Canada's Survey of Financing and Growth of Small and Medium Enterprises. The survey defines an SME as a business with a minimum annual revenue of \$30,000, with 1 to 499 paid employees. Non-employer businesses and the self-employed are excluded from the survey sample, as are non-profit and government organizations, schools, hospitals, subsidiaries, co-operatives and financing and leasing companies.

For the purposes of this report, a tourism SME is defined as a business that meets the above criteria (except where otherwise indicated) and operates within the tourism industries as defined by Statistics Canada's *Canadian Tourism Satellite Account (CTSA)*. Table A in the Appendix provides a list of North American Industry Classification System (NAICS) codes that define the tourism industries. According to the CTSA, a tourism industry "would cease or continue to exist only at a significantly reduced level of activity as a direct result of an absence of tourism." This implies that a tourism business may serve both tourists and local customers, as is the case with restaurants and hotel facilities. It should be noted that due to difficulty in measuring the share of economic activity attributable to tourism, this report considers all SMEs operating in these tourism industries as tourism SMEs unless otherwise specified.

For the reference year of 2020, the total sample size for the Survey of Financing and Growth of Small and Medium Enterprises was 19,283 enterprises across all sampled industries. The final estimates for this survey were generated from the responses of 9,957 SMEs that in 2020 employed between 1 and 499 employees, generating an annual gross revenue of \$30,000 or more. The response rate, as a percentage of in-scope businesses, is 55.5%. Survey collection took place from April to August 2021.

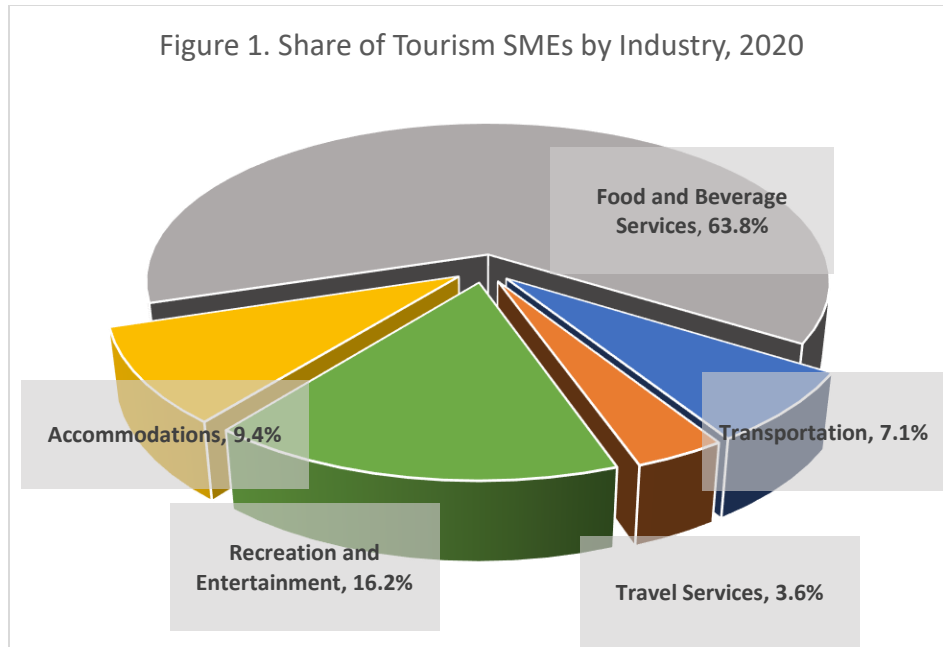
The estimates for tourism industries include firms in a number of sectors, such as transportation, recreation and entertainment, accommodations, and food services. It is a special aggregation of Statistics Canada's standard industry categories that is used by Statistics Canada's Tourism Satellite Account, Innovation, Science and Economic Development Canada, and other organizations. Estimates for the tourism industries were generated from the responses of 1,048 SMEs.

2. DISTRIBUTION BY INDUSTRY

Tourism businesses are distributed across five main industry groups: food and beverage services, recreation and entertainment, transportation, accommodations, and travel services. In 2020, 8% (or 108,000) of the estimated 1.30 million² SME employers in Canada operated in tourism industries.

According to Statistics Canada's Business Register, the majority of tourism SMEs operated in the food and beverage services industry (63.8%), followed by recreation and entertainment (16.2%), accommodations (9.4%), transportation (7.1%), and travel services (3.6%), as shown in Figure 1.

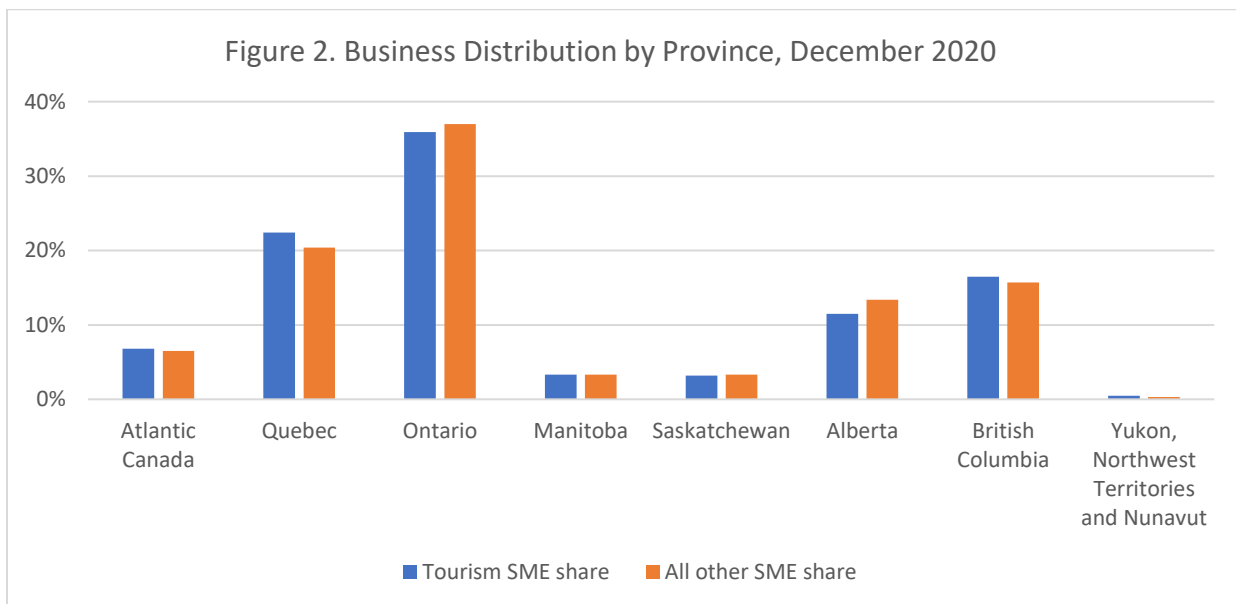
² For the purposes of this report, the business counts presented **exclude** large employer and non-employer businesses. Across Canada, there were an additional 3,000 employer businesses (large employer businesses which employed 500+ people) and 2.9 million non-employer businesses. In Canada's tourism sector (as defined in the Appendix to this report), there were 170 large employer businesses and 138,298 non-employer businesses. Non-employer businesses are those that did not maintain a payroll account in the year of reference.



Source: Statistics Canada, Canadian Business Counts

3. DISTRIBUTION BY GEOGRAPHY

Tourism SMEs operate in every province and territory in Canada and their geographical distribution is roughly proportional to the distribution of other SMEs. As seen in Figure 2, tourism SMEs are predominantly concentrated in Ontario (35.9%) and Quebec (22.4%). In Atlantic Canada, Quebec, British Columbia and Canada's North (as an aggregate of Yukon, Northwest Territories and Nunavut), the concentration of SMEs in tourism industries surpasses the concentration of SMEs in all other industries.



Source: Statistics Canada, Canadian Business Counts

As shown in Table 1, the food and beverage services industry has the highest representation of tourism SMEs in Canada (63.8%), ranging from 55.4% in Atlantic Canada to 68.2% in Ontario. The northern territories of Yukon, Northwest Territories and Nunavut are the only jurisdiction where food and beverage services is not the majority share of tourism businesses, at 29.9% coming second to accommodations industries (at 30.8%). Recreation and entertainment has the second-highest representation of tourism SMEs at 16.2%, ranging from 13.9% in the North to 18.3% in Atlantic Canada. In general, the travel services industry has the lowest share of tourism SMEs in every province and territory.

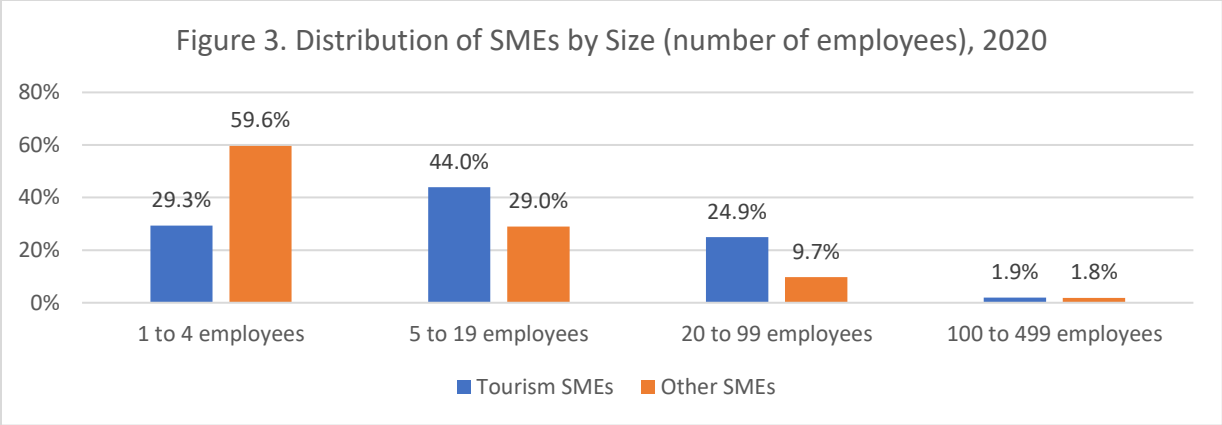
Table 1. Geographic Distribution of Tourism SMEs, by Industry and Region

	Transportation	Travel Services	Recreation and Entertainment	Accommodations	Food and Beverage Services
Canada	7.1%	3.6%	16.2%	9.4%	63.8%
Atlantic Canada	6.9%	2.9%	18.3%	16.5%	55.4%
Quebec	8.2%	3.0%	16.7%	8.9%	63.1%
Ontario	6.0%	3.9%	15.5%	6.5%	68.2%
Manitoba	13.1%	2.6%	17.1%	12.3%	55.0%
Saskatchewan	5.7%	2.4%	16.5%	16.4%	59.0%
Alberta	6.5%	2.9%	14.4%	9.8%	66.5%
British Columbia	7.1%	4.7%	17.6%	10.3%	60.3%
Yukon, Northwest Territories and Nunavut	19.7%	5.6%	13.9%	30.8%	29.9%

Source: Statistics Canada, Canadian Business Counts

4. DISTRIBUTION BY EMPLOYEE SIZE

Small and medium enterprises are defined by the Survey on Financing and Growth of Small and Medium Enterprises as those that employ between 1 and 499 employees. On average, tourism SMEs tend to be larger than SMEs in other industries: while 59.6% of non-tourism SMEs have between 1 and 4 employees, only 29.3% of tourism SMEs are this size. Nearly half (44.0%) of tourism SMEs have between 5 and 19 employees, and a further quarter (24.9%) have between 20 and 99 employees, as shown in Figure 3.



Source: Statistics Canada, Canadian Business Counts

Although the majority of tourism businesses are those with 5 to 99 employees (in contrast to SMEs across all industries, the majority of which are those with 1-4 employees), this is because nearly two-thirds of tourism SMEs are in the food and beverage sector and these businesses tend to be larger in size: as shown in Table 2, 48.9% of these SMEs have between 5 and 19 employees and a further 28.8% have between 20 and 99 employees. Across the five tourism industries, there is significant variation in business size by industry. For example, more than half (56.6%) of all travel services industries have between 1 and 4 employees but the same is true for only 21.1% of food and beverage businesses. Businesses with more than 100 employees comprised the smallest share of any tourism industry, less than 5.0% of SMEs for all of the five tourism industries.

Table 2. Distribution of businesses by industry and employee size, 2020 (%)

	1 to 4 employees	5 to 19 employees	20 to 99 employees	100 to 499 employees
Transportation	45.3	34.8	15.9	4.0
Travel Services	56.6	34.2	8.3	0.9
Recreation and Entertainment	43.9	35.0	18.4	2.7
Accommodations	37.0	36.5	22.9	3.6
Food and Beverage Services	21.1	48.9	28.8	1.2

Source: Statistics Canada, Canadian Business Counts

5. EMPLOYMENT

The Provincial-Territorial Human Resource Module of the Tourism Satellite Account captures data on employment in tourism industries and complements Statistics Canada’s Surveys on Financing and Growth of Small and Medium Enterprises. It should be noted that data from that module include all jobs in businesses of all sizes within tourism industries, not just those in SMEs that depend upon tourism activities. The most recent release of the Provincial-Territorial Human Resource Module of the Tourism Satellite Account provides an overview on employment for the reference year of 2019 and may not reflect the state of employment in 2020.

Tourism industries employed 1.9 million Canadians in 2019³, a 9.4% increase since 2015. This includes jobs of all tenures. As seen in Table 3, overall employment growth in tourism industries over this period was stronger than the growth seen in the rest of the Canadian economy, where growth was only 6.4% over this period. The share of tourism in total employment remained stable at roughly 10% of total employment.

Looking at each industry, the accommodations industry experienced the fastest growth in employment (up 25.9%) over the 2015-2019 period, followed by travel services (up 10.2%), recreation and entertainment (up 10.1%), and transportation (9.4%). Jobs in the food and beverage services industry had the slowest growth, up 4.2% over the period.

Table 3. Jobs in Tourism Industries and the Total Economy (thousands), 2015-2019						Percentage Change
	2015	2016	2017	2018	2019	2015-2019
Total, tourism industries	1,737	1,822	1,850	1,872	1,900	9.4%
Total, all other industries	16,057	16,090	16,431	16,696	17,085	6.4%
Total, economy	17,794	17,912	18,281	18,568	18,986	6.7%
Share of Tourism in total (%)	9.8%	10.2%	10.1%	10.1%	10.0%	
Tourism Industries						
Transportation	254	262	271	276	278	9.4%
Accommodations	180	192	193	194	198	25.9%
Food and Beverage Services	987	1,040	1,063	1,077	1,088	4.2%
Recreation and Entertainment	266	280	277	280	289	10.1%
Travel Services	50	48	46	45	47	10.2%

Note 1: Figures may not add up due to rounding.

Note 2: The percentage change is based on non-rounded figures.

Sources: Statistics Canada Supplementary tables from the Provincial-Territorial Human Resource Module of the Tourism Satellite Account, 2015-2019; and Innovation, Science and Economic Development Canada calculations.

6. BUSINESS CHARACTERISTICS

Age of Tourism Businesses

Tourism businesses tend to be younger, on average, than other businesses across the Canadian economy. In 2020, the average age of an SME in Canada was 18 years while tourism SMEs averaged an age of 14 years. 38.9% of tourism businesses are between 3 and 10 years old, compared to 31.4% for all businesses (Table 4).

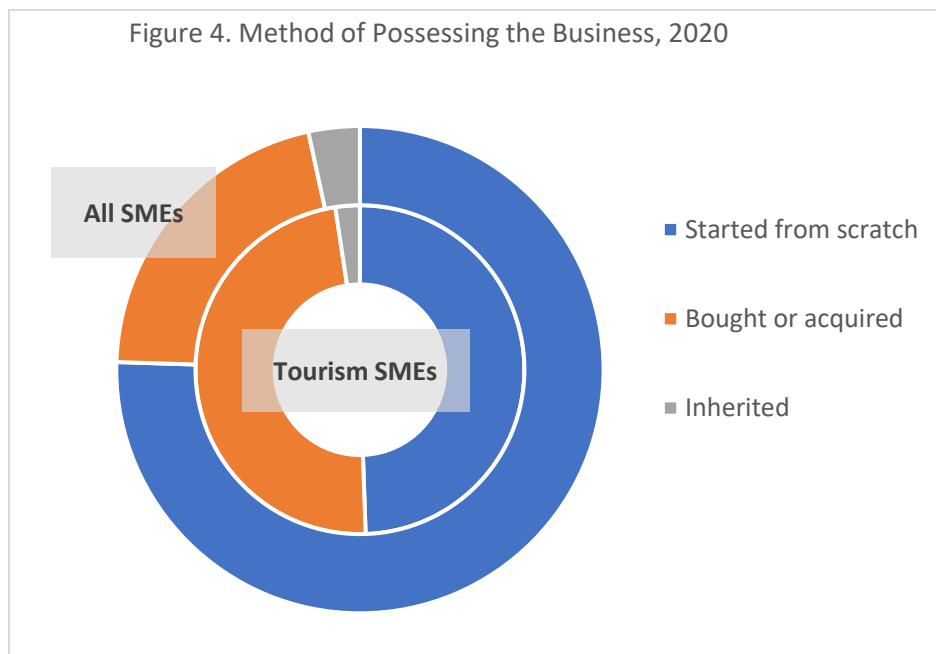
³ The broad dimension of employment in tourism industries is described in Statistics Canada's Provincial-Territorial Human Resource Module of the Tourism Satellite Account, 2012, available online at <http://www.statcan.gc.ca/pub/13-604-m/13-604-m2014074-eng.htm>

Table 4. Year the business was established	Tourism	All industries
2018 to 2020 (2 years or younger)	13.5	7.6
2010 to 2017 (3 to 10 years old)	38.9	31.4
2000 to 2009 (11 to 20 years old)	21.4	27.3
Prior to 2000 (More than 20 years old)	26.2	33.7
Average Business Age (in years)	14	18

Source: Statistics Canada, Survey on Financing and Growth of Small and Medium Enterprises

Method of Possessing the Business

Only half (49.4%) of tourism SMEs were started from scratch by the current owner, compared to three-quarters (75.5%) of SMEs in all industries. Tourism businesses were more than twice as likely to have been bought or acquired by the current owner (48.1% of tourism businesses were bought or acquired as the method of possessing the business, compared to 21.1% of businesses in all industries). Inheritance of a business was the least common method of possession, accounting for only 2.4% of tourism businesses and 3.4% of all businesses (Figure 4).

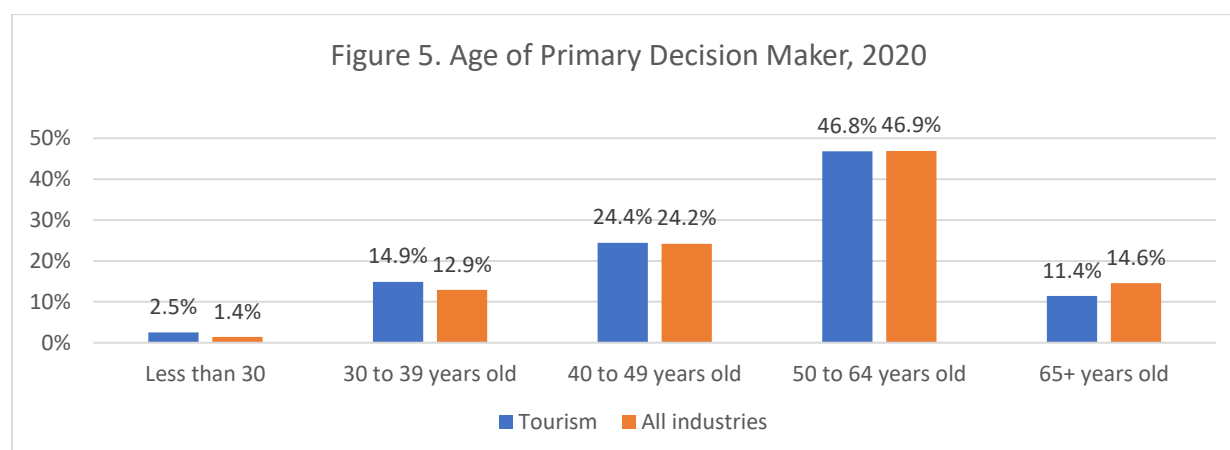


Source: Statistics Canada, Survey on Financing and Growth of Small and Medium Enterprises

Of those owners that started their business from scratch, more than three-quarters of owners used personal financing for start-up funds regardless of industry (tourism or all); however, owners of businesses in tourism industries were 1.4x more likely to use credit from financial institutions, 2.1x more likely to use financing from friends or family, and 2.5x more likely to use government loans, grants, subsidies, or non-repayable contributions to finance start-up costs. For owners that acquired their business, tourism businesses were more likely to use personal financing or financing from friends or family for acquisition costs, while owners across all industries were more likely to use credit from financial institutions.

7. CHARACTERISTICS OF PRIMARY DECISION MAKERS

The age distribution of primary decision makers in tourism businesses is comparable to that of decision makers across all industries. Although more than half of tourism respondents reported that the primary decision maker of the business is over the age of 50, younger decision makers are more common in tourism businesses than across all industries (Figure 5).



Source: Statistics Canada, Survey on Financing and Growth of Small and Medium Enterprises

As seen in Table 5, tourism SMEs are more likely to have a primary decision maker that is an immigrant to Canada. Across the economy, 71.3% of primary decision makers report their place of birth as Canada, compared to only 51.1% of tourism decision makers. For those tourism decision makers who were not born in Canada, the average period of time they have resided in Canada is 25 years. 1.8% of tourism decision makers who were not born in Canada have resided in Canada for less than 5 years, compared to 1.1% of decision makers in all industries who were not born in Canada. 32.2% of tourism decision makers have a mother tongue other than English or French, compared to only 19.5% in all industries.

Table 5. Characteristics of Primary Decision Makers, 2020		
	Tourism SMEs (%)	All SMEs (%)
Place of Birth		
Canada	51.5	71.3
Outside of Canada	48.5	28.7
Number of years resided in Canada (if not born in Canada)	25 years	27 years
Mother Tongue		
English	52.5	62.4
French	15.3	18.1
Other	32.2	19.5
Education and Managerial Experience		
Post-secondary		
College, CEGEP, or trade school diploma	23.8	30.4
Bachelor's degree	34.0	24.6
Master's degree or above	8.5	15.4
More than 10 years of managerial experience	70.5	75.1

Source: Statistics Canada, Survey on Financing and Growth of Small and Medium Enterprises

Table 5 also shows that two-thirds (66%) of tourism decision makers reported having attained some level of post-secondary education, compared to 70% of decision makers across the economy. Tourism decision makers were slightly more likely to report their highest level of education was a Bachelor's degree or a Master's degree or above, at 42.5%, compared to decision makers in all industries, at 40%.

Tourism SMEs are more likely to be majority female-owned than businesses across all industries (Table 6). In 2020, woman held a minimum 51% ownership stake in 18.1% of tourism SMEs, compared to 16.8% in all industries. Equal ownership stakes were held by woman in 22.4% of tourism SMEs, compared to only 14.3% in all industries. Tourism SMEs were also more likely to be majority owned by visible minorities, at 15.5% compared to only 9.3% in all industries, and by people with disabilities, at 1.1% compared to 0.6% in all industries.

Table 6. Majority ownership, 2020	Tourism	All industries
Women, 50% ownership share	22.4	14.3
Women, 51-99% ownership share	4.3	2.5
Women, 100% ownership share	13.8	14.3
Indigenous	0.9	1.1
Visible Minority	15.5	9.3
Persons with a disability	1.1	0.6

Source: Statistics Canada, Survey on Financing and Growth of Small and Medium Enterprises

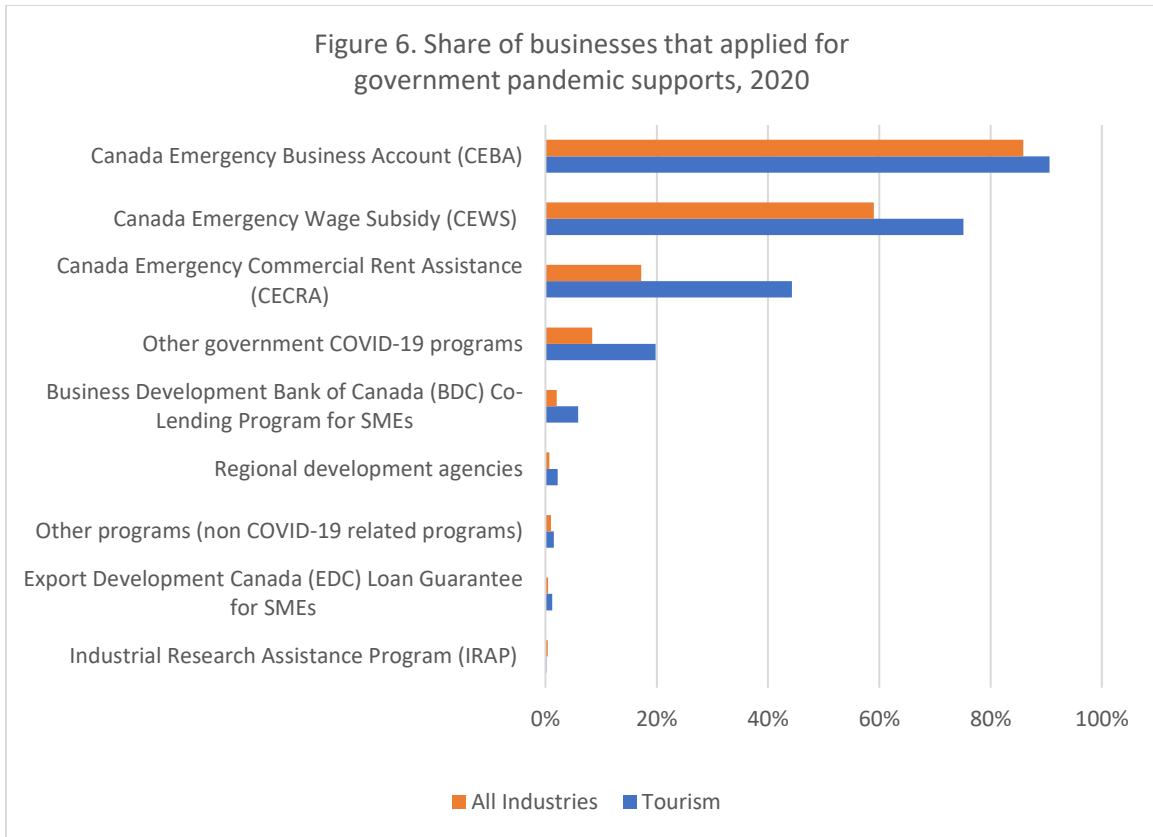
8. COVID-19 PANDEMIC

In the 2020 survey, respondents were asked several questions related to the COVID-19 pandemic and the impact of the pandemic on their business. More than half of tourism businesses (57.8%) reported that they had to close temporarily due to the pandemic, compared to only a third of businesses across all sectors (33.4%). Tourism businesses reported having to close for an average of 14.0 weeks in 2020.

Significant government support, such as the Canada Emergency Business Account (CEBA) and the Canada Emergency Wage Subsidy (CEWS), was made available to businesses throughout 2020. More than 75% of SMEs in Canada applied for at least one type of government financing in 2020⁴, such as CEBA or CEWS. The same was true of more than 85% of tourism SMEs, suggesting these industries experienced a more critical need for support during the pandemic. Most tourism SMEs that applied for government financing during this period reported having applied for CEBA (91%) or CEWS (75%)⁵, and almost half (44%) said they applied for the Canada Emergency Commercial Rent Assistance (CECRA). By comparison, of SMEs in all industries who applied for government financing in 2020, 86% reported having applied for CEBA, 59% for CEWS and only 17% for CECRA (Figure 6).

⁴ In this text, the term government financing refers to grant, subsidies, government guaranteed loans or non-repayable contributions.

⁵ SMEs may have requested more than one type of government financing.



Source: Statistics Canada, Survey on Financing and Growth of Small and Medium Enterprises

Box 2: Government of Canada supports during the COVID-19 Pandemic

To help the tourism sector weather the challenges of the COVID-19 pandemic, the Government of Canada has provided an estimated \$23 billion in emergency supports for tourism businesses over the course of the pandemic (Budget 2022). This includes supports provided via economy-wide programs such as CERS and CEWS, as well as supports provided via sector-specific programs such as the Tourism and Hospitality Recovery Program, the Hardest Hit Businesses Program, the Local Lockdown Program, and the Canada Recovery Hiring Program.

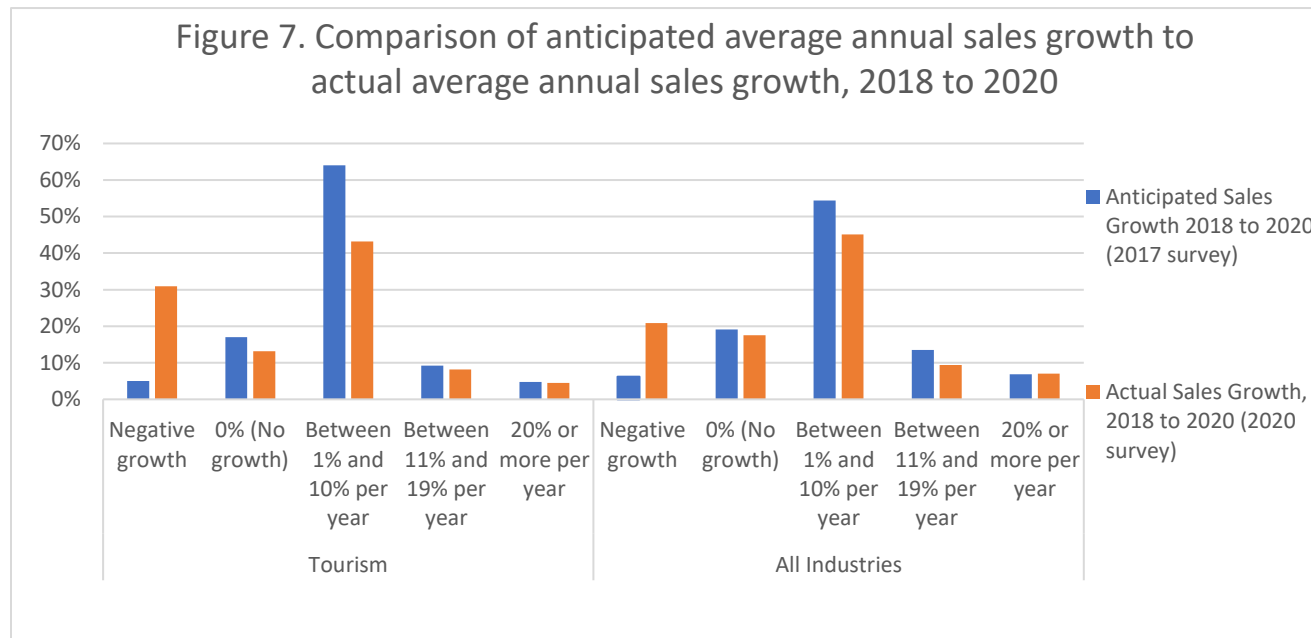
In addition to federal government supports, tourism businesses may also have received financial support from provincial, territorial and municipal government programs during this time.

9. GROWTH

When asked in 2017 about anticipated average sales growth for their business over the coming three years, tourism businesses were optimistic, with more than 60% of SMEs sampled for the survey in that year⁶ anticipating annual sales growth of between 1% and 10%. When asked about their actual average

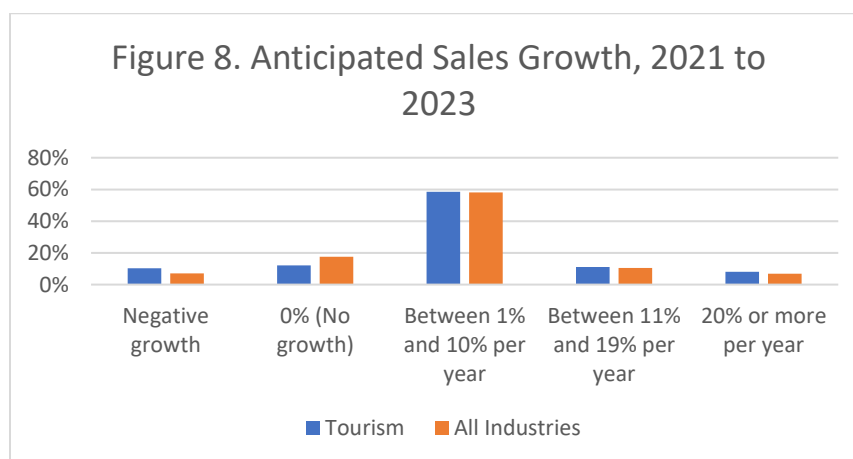
⁶ The sample for the Survey on Financing and Growth of Small and Medium Enterprises is redrawn when a new iteration of the survey is carried out. The businesses included in the 2017 sample may differ from the 2020 sample, and the 2020 sample may not include any of the same businesses that have been previously sampled.

sales growth between 2018 and 2020, only 43.2% of the tourism businesses sampled reported that the growth was in this range. Over this period of time, tourism businesses are more likely to have reported negative sales growth than businesses across the economy, at 30.9% compared to 20.9%, respectively (Figure 7).



Source: Statistics Canada, Survey on Financing and Growth of Small and Medium Enterprises

As shown in Figure 8, emerging from the COVID-19 pandemic, businesses regardless of industry are optimistic about the next three years, with more than half of businesses anticipating sales growth of between 1% and 10% from 2021 to 2023. However, tourism businesses are more likely to anticipate negative growth in the next three years (2021 to 2023) than businesses across all industries, at 10.3% compared to 7.1%, respectively.



Source: Statistics Canada, Survey on Financing and Growth of Small and Medium Enterprises

When asked about the challenges SMEs perceived to be the major obstacles to growth of their business, businesses across the economy and in tourism indicated the same obstacles: the rising cost of inputs,

the challenge of recruiting and retaining skilled employees, and a shortage of labour. However, tourism SMEs reported these concerns as major obstacles to growth at much higher rates compared to businesses across all sectors. Fluctuations in consumer demand and government regulation were also seen to be major obstacles to growth. The ability of a business to obtain financing has been considered by some as a challenge for small businesses, especially in the tourism and hospitality sector. Although it does not rank in the top 5 perceived major obstacles, 15.6% of tourism SMEs believed the ability to obtain financing was a major obstacle to their business, compared to only 9.5% of SMEs in all industries (Table 7).

Table 7. Perceived Major Obstacles, 2020 (Top 5)	Tourism	All industries
Rising cost of inputs	47%	31%
Recruiting and retaining skilled employees	39%	28%
Shortage of labour	38%	25%
Fluctuations in consumer demand	31%	23%
Government regulations	29%	17%

Source: Statistics Canada, Survey on Financing and Growth of Small and Medium Enterprises

A higher proportion of tourism SMEs have plans to sell, transfer or close their business in the next five years, at 32.2% compared to 24.9% of businesses in all industries. For those businesses that plan to sell, transfer or close their business, most tourism businesses (54.8%) intend to sell to external parties.

10. FINANCING ACTIVITIES

Credit Availability and Approval

In 2017, 47.1% of SMEs required external financing⁷ with goods-producing sectors like manufacturing and resource extraction relying on this financing more frequently than service-producing sectors. More than 61% of manufacturing firms and 56% of resource extraction firms (agriculture, forestry, fishing, hunting, mining, oil and gas extraction) reported a need for external financing in 2017, while for Canada's tourism sector, only 45.9% reported the same need.

In 2020, given the challenging operating conditions of the COVID-19 pandemic, the percentage of firms requiring external financing was significantly higher across the whole of the economy. 82.4% of all SMEs requested some degree of external financing in 2020, compared to an average of 88.9% of tourism SMEs (Table 8). SMEs in accommodations and food services industries reported the highest need, at 90.4%.

Table 8. Percentage of SMEs applying for external financing, 2017 and 2020	Tourism SMEs (%)	All SMEs (%)
Applied for external financing in 2017	45.9	47.1
Applied for external financing in 2020	88.9	82.4

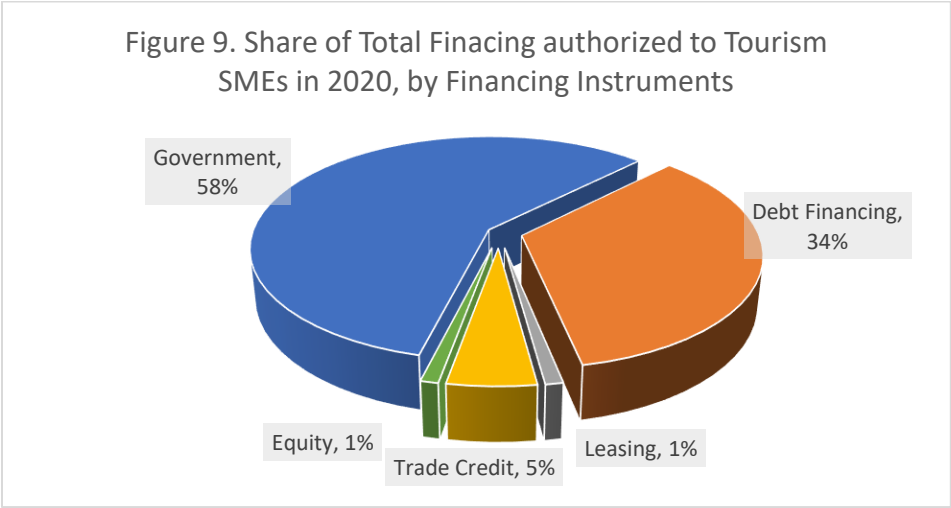
Source: Statistics Canada, Survey on Financing and Growth of Small and Medium Enterprises

Of those firms that reported that they did not request external financing in 2020, the most common reason was that external financing was not required (79.6% for tourism businesses and 86.5% for

⁷ External financing is defined as financing from third-parties. This may include debt financing, leases, loans from friends and family, trade credit, equity financing and government grants, subsidies or loans. SMEs may have requested more than one type of external financing.

businesses across all industries). 6.4% of non-applicants in the tourism sector thought their request would be turned down, compared to an average of 3.1% across all industries. The percentage of non-applicants that thought their request would be turned down is higher for businesses in the accommodations and food services industry at 11.3%, suggesting that the impact of COVID-19 on sector financing was uneven across tourism industries.

When looking at the amount of financing authorized, government financing and debt financing were the most important sources of financing used by small businesses. In 2020, more than 85% of tourism SMEs requested government financing (Table 9), accounting for more than half (58%) of all financing received in that year (Figure 9). Just over 16% of tourism SMEs requested debt financing and debt financing accounted for more than one-third (34%) of the total amount of all external financing authorized to tourism SMEs.



Source: Statistics Canada, Survey on Financing and Growth of Small and Medium Enterprises

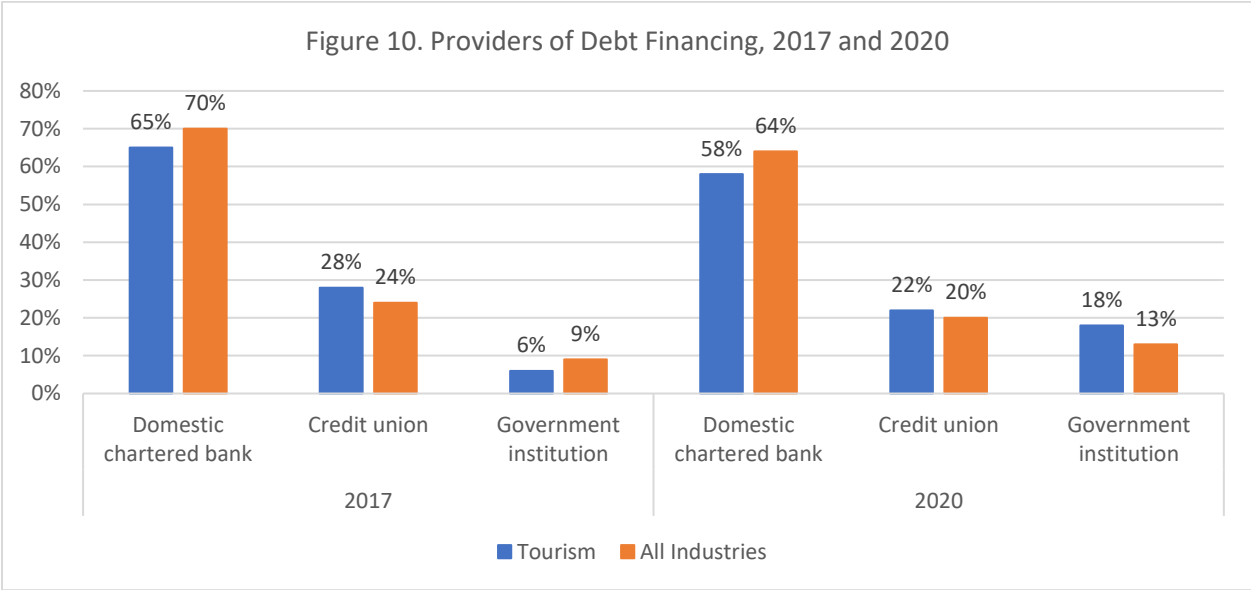
Table 9. Request and approval rates, by financing instrument, 2020			
	Type of Financing	Tourism SMEs (%)	All SMEs (%)
Request rate	Debt	16.8	16.3
	Lease	4.6	5.8
	Trade credit	24.6	24.3
	Equity	1.4	1.0
	Government	85.6	75.9
Approval rate	Debt	88.0	90.8
	Lease	98.8	98.5
	Trade credit	89.3	96.8
	Equity	N/A	N/A
	Government	98.4	98.2

Source: Statistics Canada, Survey on Financing and Growth of Small and Medium Enterprises

In 2020, of those tourism businesses whose debt financing requests were turned down, 24.3% of them indicated that the lender turned down the request because the project was considered too risky, compared to the average of 8.3% for businesses across all industries. In the context of the COVID-19 pandemic, business needs for debt financing were generally higher in the absence of typical market demand. Federal, provincial and territorial governments implemented new eligibility rules for existing financing programs as well as created new temporary financing programs, which may explain the rise in government institutions as the providers of debt financing between 2017 and 2020.

Main provider of Debt Financing

The majority of debt financing regardless of sector was sought from domestic chartered banks or credit unions. As in 2017, domestic charter banks were the main provider of debt financing in 2020, but a larger share of debt financing was obtained through government institutions in 2020 compared to previous years, indicative of the unique conditions of the COVID-19 pandemic (Figure 10).



Source: Statistics Canada, Survey on Financing and Growth of Small and Medium Enterprises

In 2014 and 2017, tourism SMEs reported the most common reasons for lenders turning down their financing requests was that the project was too risky or the business operated in an unstable industry, and reported these reasons at higher rates than SMEs across the economy. Given this perception of risk, tourism SMEs may have relied more on government institutions like the Business Development Bank of Canada (BDC) to obtain external financing or to programs such as the Canada Small Business Financing Program to access loan guarantees (see Box 2).

Box 3: Government Financing through the Business Development Bank of Canada and the Canada Small Business Financing Program

For the 2020-21 Fiscal Year, which ended in March 2021, the BDC had an outstanding financing commitment of \$3.74 billion to tourism-related clients, or approximately 11.6% of BDC's total loans and guarantees portfolio. [Source: Business Development Bank of Canada, BDC 2021 Annual Report]

For Fiscal Year 2020-21, Canadian small businesses received 3,655 loans valued at \$864 million through the Canada Small Business Financing Program. Accommodation and food services was the largest industry sector*, receiving 37.7%, or \$326 million, of the total value of loans, a decrease of 41.4% compared to the previous year. These loans were distributed across 1,244 small businesses. For more information, visit www.ic.gc.ca/csbfp

[Source: Innovation, Science and Economic Development Canada, Canada Small Business Financing Act, Overview and Highlights 2020-21.]

* Accommodations and food services represent 73% of all tourism SMEs in Canada.

Amount of Financing, Terms and Conditions

On average, the ratio of authorized funding to requested funding was close to or exceeded 90% for tourism SMEs. This means that, on average, a tourism businesses received 89.9% of the amount of debt financing they requested, and 99.2% of the amount of lease financing they requested. These rates are similar to those of businesses across all industries (92.3% for debt financing and 95.2% for lease financing) (Table 10).

Table 10. Financing Statistics, 2020		Tourism ⁸	All Industries
Average Financing Approved per Application (\$)	Debt	192,802	313,749
	Lease	N/A	100,091
	Trade credit	22,490	79,494
	Equity	N/A	936,551
	Government	64,326	69,614
Total Financing Approved (\$)	Debt	2,259,376,040	39,352,569,605
	Lease	N/A	4,537,245,869
	Trade credit	352,985,089	14,746,378,692
	Equity	N/A	7,253,176,478
	Government	3,870,518,431	40,933,655,159
	Total	6,651,994,950	106,823,025,803

Source: Statistics Canada, Survey on Financing and Growth of Small and Medium Enterprises

⁸ Financing estimates with a Coefficient of Variation (CV) in excess of 20% have been excluded from this table. Debt and equity financing estimates shown have a CV between 15-20% and should be used with caution.

Tourism SMEs received 6.2% of the external financing that was authorized in 2020, a sizeable share considering that the tourism sector (pre-pandemic) accounts for only 2.1% of Canada’s GDP. 41% of authorized external financing in 2020 went to production industries such as agriculture, forestry, fishing and hunting, mining, oil and gas extraction; construction; and manufacturing.

On average, tourism SMEs were granted similar terms and conditions on their external financing as compared to businesses across all industries. Interest rates did not vary substantially, although tourism businesses were more likely to finance for longer terms (e.g. 138 month term for non-residential mortgages, compared to 111 months for all businesses) and were more likely to provide personal assets as financing collateral than the average SME (49.2% for tourism businesses, compared to 36.9% for all businesses).

Intended Use of Debt Financing

Nearly 70% of tourism SMEs who requested debt financing in 2020 intended to use this financing for working or operating capital, such as inventory, paying suppliers, etc. This is common across all industries regardless of sector, although tourism SMEs report this as the intended use of their debt financing more frequently (only 60% of SMEs across all industries reported this as the intended use of their debt financing). Other machinery or equipment (16%) or land/building (15.2%) were the next most common intended uses among tourism businesses.

Table 11. Intended Use of Debt Financing, 2020	Tourism SMEs (%)	All SMEs (%)
Working capital / operating capital	69.9	59.8
Other machinery or equipment	16.0	19.3
Computer hardware	10.2	8.4
Computer software	10.4	6.9
Land and buildings	15.2	14.0
Vehicles / rolling stock	14.0	14.4
Debt consolidation	6.6	6.3
Other	9.8	11.2
Research and development	4.8	3.2
Enter a new market	3.0	4.9

Source: Statistics Canada, Survey on Financing and Growth of Small and Medium Enterprises

11. INNOVATION AND ADOPTION OF ADVANCED TECHNOLOGY

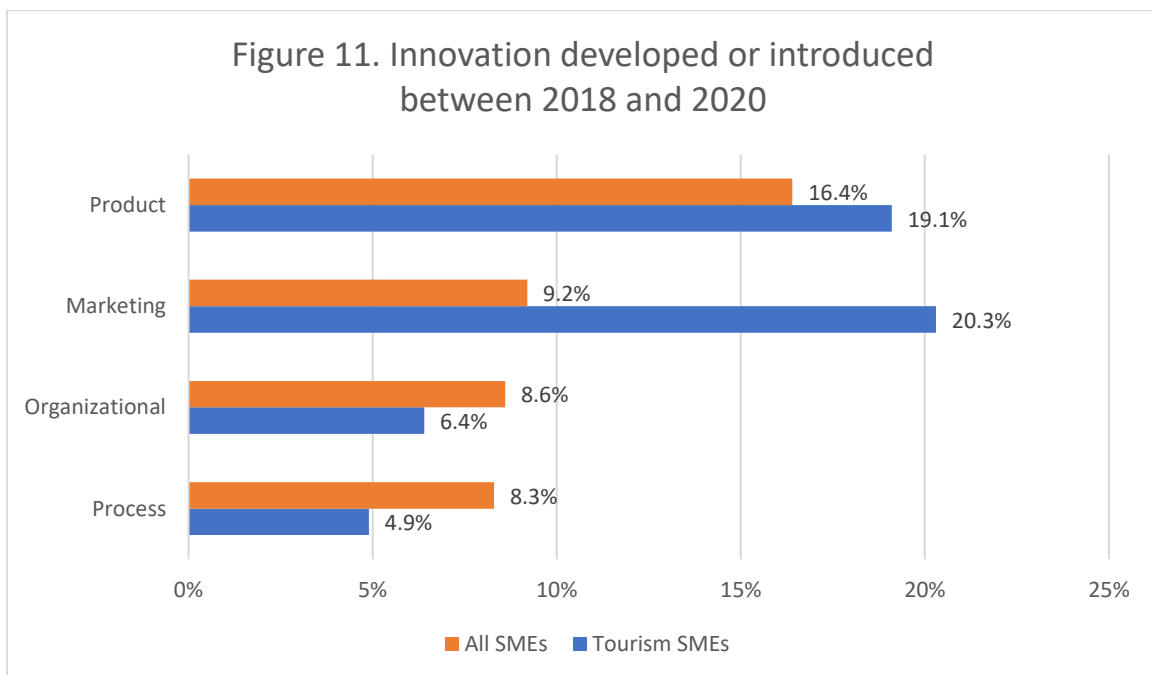
In 2011, the survey introduced a series of questions on the innovation practices of SMEs. Innovation is a key accelerator for business growth and increasing productivity. It constitutes a competitive asset for SMEs and is particularly important for attracting new or repeat customers in the context of very competitive tourism industries. Respondents are asked about their innovation activities in four key areas:

- **Product** innovation: a new or significantly improved good or service;
- **Process** innovation: a new or significantly improved production process or method;
- **Marketing** innovation: a new way of selling goods or services; and

- **Organizational** innovation: a new organizational method in business practices, workplace organization or external relations.

In the 2020 survey⁹, more than one-third of tourism businesses (36.4%) reported themselves as an innovator, implementing at least one type of the above innovation activities over the last three years. This is more than the average across all industries, where only 28.4% of businesses reported the same (figure 11)

One in five tourism businesses reported implementing a marketing innovation compared to one in ten businesses across all industries. One in five tourism businesses also reported implementing a product innovation, compared to one in six businesses across all industries.



Source: Statistics Canada, Survey on Financing and Growth of Small and Medium Enterprises

Although half (52.8%) of all tourism SMEs indicated that the adoption or use of advanced technologies were not applicable to the business’s activities, almost 20% of tourism SMEs adopted at least one advanced technology between 2018 and 2020. Business intelligence technologies were the most frequent technology adopted by tourism and other businesses, followed by security or advanced authentication systems and Internet of Things (IoT) systems, which include non-traditional computing devices and machines enabled with network connectivity (Table 12).

⁹ Survey responses may differ from other Statistics Canada surveys on innovation, such as the Survey of Innovation and Business Strategy due to differences in methodology and sampling strategies.

Table 12. Advanced technology adopted between 2018 and 2020	Tourism (%)	All Industries (%)
Business intelligence technologies	11.3	13.7
Design or information control technologies	2.9	7.8
Security or advanced authentication systems	6.5	10.6
Material handling, supply chain or logistics technologies	5.5	7.9
Processing or fabrication technologies	1.7	4.0
Internet of Things (IoT) systems	6.3	7.4
Clean technologies	3.0	5.1
Other	0.4	1.3

Source: Statistics Canada, Survey on Financing and Growth of Small and Medium Enterprises

Tourism businesses were also more likely than other businesses to have an online presence in 2020, with more than three-quarters (77.2%) of tourism businesses reporting being active online, compared to only 58.5% of all businesses. In 2017, only 63.3% of tourism businesses and 53.6% of all businesses reported having a website, but in 2020, more than 80% of businesses in both categories reported having a website (80.6% of tourism SMEs and 82.9% of all SMEs) (table 13).

Tourism businesses also reported being more active on social media in 2020 than businesses across the economy: 77.8% of tourism SMEs reported having social media accounts compared to only 66.2% of all businesses. Tourism businesses were more likely to have adopted digital marketing services and e-commerce platforms, with one in five tourism businesses indicating they had an e-commerce payment system for their customers (compared to one in seven businesses across the whole economy).

Table 13. Online activities, 2020	Tourism (%)	All Industries (%)
Digital marketing services	35.9	27.6
Social media accounts	77.8	66.2
Google reviews	66.8	42.7
Website	80.6	82.9
E-commerce platform	18.4	12.1
E-commerce payment system for its customers	20.3	14.6
Other	3.8	2.2

Source: Statistics Canada, Survey on Financing and Growth of Small and Medium Enterprises

12. FINANCIAL PERFORMANCE

This section of the profile examines the financial performance of Canadian businesses with annual revenues between \$30,000 and \$5,000,000 using complete financial data for the 2020 year. The analysis in this section uses data obtained through ISED's Financial Performance Data (link available in references at end of report). **This section uses a definition of small business based upon annual gross revenue, as opposed to the definition based upon the number of employees used elsewhere in this profile,** because the Financial Performance Data is not available based on the number of people employed by a business.¹⁰ The definition of tourism industries is consistent with the definition as described in the Appendix.

On average, small businesses in tourism industries had lower total revenues, total expenses, and net profits than the average for small businesses in all industries. In 2020, the average revenue of small businesses in tourism industries was \$460,652 compared with \$630,959 for small businesses in all industries. Small businesses in tourism industries also had lower than average net profits, at \$15,997 compared with \$33,763 for small businesses in all industries. A smaller proportion of small businesses in tourism industries (67%) were profitable in 2020 compared with small businesses in all industries (75%). The average net profit of these small businesses in tourism industries was \$82,210 compared with \$105,479 for small businesses in all industries. A larger share of small businesses in tourism industries were not profitable, but these businesses reported a smaller net loss (-\$122,683) on average, compared with non-profitable small businesses in all industries (-\$198,802) in 2020.

Table 14. Average Revenues, Expenses and Profitability, 2020		Tourism	All Industries
All Businesses	Number of Businesses	124,780	1,989,189
	Average Total Revenue	\$460,652	\$630,959
	Average Total Expenses	\$445,276	\$597,268
	Average Net Profit	\$15,997	\$33,763
Profitable Businesses	Percentage	67	75
	Average Total Revenue	\$456,734	\$656,001
	Average Total Expenses	\$374,424	\$550,523
	Average Net Profit	\$82,210	\$105,479
Non-Profitable Businesses	Percentage	33	26
	Average Total Revenue	\$500,338	\$584,472
	Average Total Expenses	\$623,446	\$783,291
	Average Net Profit	-\$122,683	-\$198,802

Source: ISED, Financial Performance Data, 2020

¹⁰ The size of a business can be defined in many ways. The number of employees is the most frequently used definition, but when this information is not available, a good alternative is to use annual sales, shipments, or gross or net revenue. Source: Statistics Canada, *Small Business Profiles*, 2011

Box 4: The impact of the COVID-19 pandemic on financial performance

Although the data presented in this section incorporates full year financial data for the 2020 Fiscal Year, it is important to note that in the context of the COVID-19 pandemic, the financial performance data displayed may not represent a typical year for tourism or other businesses.

In 2017, 80% of tourism businesses with revenues between 30K and 5M were profitable, compared to 78% of businesses in all industries. Although net profit margins for profitable businesses remain relatively unchanged despite the pandemic (tourism businesses had an average net profit of \$82,210 in 2020 and \$76,307 in 2017), the net loss for non-profitable businesses was much larger in 2020 (-\$122,683 compared to -\$81,133 in 2017).

Among small businesses in tourism industries, those engaged in transportation and food and beverage service industries had the highest average net profit in 2020 at \$19,786 and \$10,550 respectively. Despite having the highest average net profit, only three quarters (74%) of small businesses were profitable in the transportation industry and just over half (54%) of the small businesses in the food and beverage services industry were profitable. The travel services industry had the highest average total revenue and highest average total expenses of all tourism industries, and as such it also had the lowest average net profit (an average loss of \$7,100) and the lowest percentage of profitable businesses at 51%.

Looking only at profitable small businesses, the transportation industry had the largest average net profit at \$90,171 compared to the food and beverage services industry, which had the lowest average net profit of profitable small businesses at \$60,400. Looking at only non-profitable small businesses, those in the transportation industry experienced the largest average net loss (-\$170,100), whereas businesses in food and beverage services experienced the smallest average net loss (-\$49,500).

Table 15. Average Revenues, Expenses and Profitability, 2020, by Tourism Industry

		Transport	Travel Services	Recreation and Entertainment ¹¹	Accommodations	Food and Beverage Services
All Businesses	Number of Businesses	20,163	4,128	25,854	9,901	63,019
	Average Total Revenue	\$480,764	\$597,500	\$361,783	\$450,675	\$590,050
	Average Total Expenses	\$460,964	\$604,500	\$354,317	\$444,200	\$579,550
	Average Net Profit	\$19,786	-\$7,100	\$10,533	\$6,425	\$10,550
Profitable Businesses	Percentage	74	51	61	61	54
	Average Total Revenue	\$457,707	\$537,300	\$347,833	\$480,225	\$684,850
	Average Total Expenses	\$367,543	\$467,800	\$283,600	\$392,000	\$624,450
	Average Net Profit	\$90,171	\$69,500	\$63,733	\$88,225	\$60,400
Non-Profitable Businesses	Percentage	26	49	39	39	46
	Average Total Revenue	\$618,091	\$661,100	\$405,883	\$289,067	\$469,200
	Average Total Expenses	\$788,209	\$749,200	\$485,617	\$392,600	\$518,600
	Average Net Profit	-\$170,100	-\$88,100	-\$78,067	-\$103,500	-\$49,500

Source: ISED, Financial Performance Data, 2020

13. CONCLUSIONS

Before the COVID-19 pandemic, tourism industries accounted for 2% of Canada's gross domestic product, 3% of Canada's total exports and 4% of jobs across the country. SMEs are the backbone of tourism industries: more than 99% of tourism businesses are SMEs and approximately 7% of all Canadian SMEs are concentrated in tourism industries. Tourism SMEs were younger and were more likely to be owned by women, visible minorities, immigrants to Canada, and people with disabilities.

¹¹ Average revenues, expenses, and profitability ratios were not available for NAICS 7111 – Performing Arts Companies and NAICS 7112 – Spectator Sports as this data was suppressed by Statistics Canada for confidentiality.

Tourism SMEs introduced more overall innovation compared to SMEs in all industries over the 2018-2020 period, and were more likely to introduce new products or services (product innovation) and new methods of selling their goods or services (marketing innovation).

Credit providers tend to view tourism SMEs as operators in relatively risky industries compared with SMEs operating in other industries. Compared with all SMEs, tourism SMEs found it slightly harder to obtain debt financing in 2020 under the pandemic conditions. They obtained most of their debt financing from domestic charter banks, and were more likely than other businesses to use credit unions and government institutions as their provider of debt financing. Tourism SMEs were more likely to be closed during the first year of the pandemic, and closed for a longer duration, than businesses across the rest of the economy.

Tourism businesses were less likely to be profitable in 2020 than the rest of the economy, with the most acute challenge to profitability seen in the travel services industry, where only half of businesses in 2020 reported being profitable. Though tourism businesses were more likely to be unprofitable in 2020, their average net loss was less than that of unprofitable businesses across the rest of the economy.

Statistics Canada's Survey on Financing and Growth of Small and Medium Enterprises is expected to be conducted again in 2024, providing updated insights into tourism industries during the post-pandemic period. In particular, it will be interesting to see if and how business adaptations during the pandemic period influence growth in this unique sector as demand returns to pre-pandemic levels.

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APPENDIX – NORTH AMERICAN INDUSTRY CLASSIFICATION CODES FOR TOURISM INDUSTRIES

NAICS	Description
Air Transportation	
4811	Scheduled Air Transport
4812	Non-Scheduled Air Transport
Rail Transportation	
4821	Rail Transportation
Water Transportation	
4831	Deep Sea, Costal and Great Lakes Water Transportation
4832	Inland Water Transportation
Bus Transportation	
4851	Urban Transit Systems
4852	Interurban and Rural Bus Transportation
4854	School and Employee Bus Transportation
4855	Charter Bus Industry
4859	Other Transit and Group Passenger Transportation
Scenic and Sightseeing Transportation	
4871	Scenic and Sightseeing Transportation, Land
4872	Scenic and Sightseeing Transportation, Water
4879	Scenic and Sightseeing Transportation, Other
Taxicabs	
4853	Taxi and Limousine Service
Travel Services	
5615	Travel Arrangement and Reservation Services

NAICS	Description
Recreation and Entertainment	
51213	Motion Picture and Video Exhibition
7111	Performing Arts Companies
7112	Spectator Sports
7115	Independent Artists, Writers and Performers
7121	Heritage Institutions
7131	Amusement Parks and Arcades
7132	Gambling Industries
7139	Other Amusement and Recreation Industries
Hotels & Motels	
7211	Traveller Accommodation
Camping	
721211	TV (Recreational Vehicle) Parks and Campgrounds
Other Accommodations	
721212	Hunting and Fishing Camps
721213	Recreational (except Hunting and Fishing) and Vacation Camps
721198	All Other Traveller Accommodation
Food and Beverage Services	
7224	Drinking Places (Alcoholic Beverages)
7225	Full-service restaurants and limited-service eating places