

TRADE & SERVICES

NWT retail and service businesses have grown at 3 times the national average. In 1996, 47% of all people working were employed by retail or service businesses.

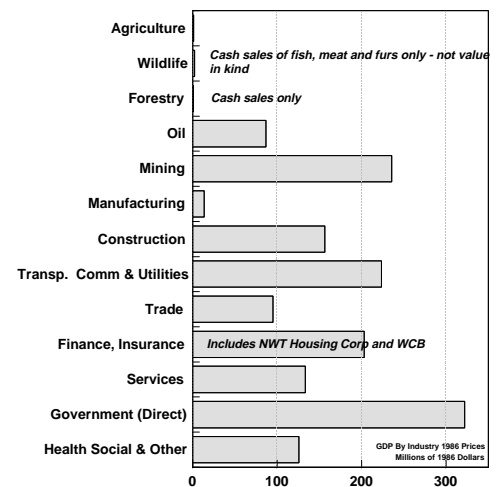
1. RETAIL TRADE AND SERVICES IN THE NWT

Over the past 10 years, retail and service businesses have created over 3,000 new jobs, which is more than 75% of all new jobs created in the economy. During the same period there were less than 400 new jobs in the public sector and under 200 in the "goods-producing" sectors. Clearly, trade and service businesses are a major force behind economic growth and development.

Retail trade and services are a broad category of businesses, ranging from professional companies like law firms and dental clinics, through to daycare homes and video rental establishments. While most businesses are small (97% have fewer than 50 employees), a number of retail businesses have sales in excess of \$10 million per year.

We have grouped these two large business sectors together for a number of reasons. First, most businesses in these categories are community based. Second, sales in either sector are closely tied to consumer, industry and government spending. Third, both sectors face similar problems with taxation, financing and government regulation.

THE ECONOMY



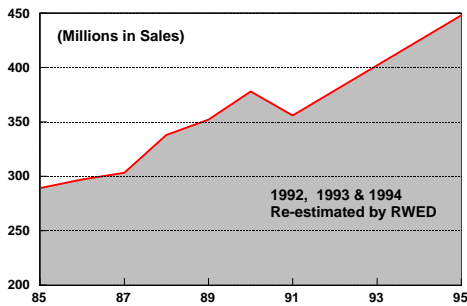
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1.1 TRENDS

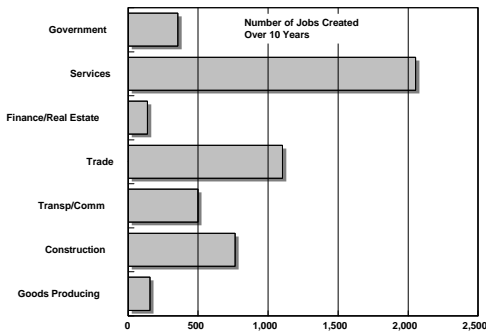
Trends in retail sales have been very positive, both compared to other industries in the NWT and other areas of Canada. Over the 10 years shown in the chart below, retail sales in the NWT have increased by 56%, higher than the Canadian average of 48% but less than our sister territory, the Yukon (65%).

Retail Sales Over 10 Years



This rapid growth in sales has translated into rapidly increasing employment. As shown in the chart below, services and trade (retail and wholesale) contributed the most to employment creation over the past 10 years.

Employment Growth in the NWT by Sector



Over the past 10 years, service businesses in the NWT have created more than 2,000 new jobs, while retail businesses created over another 1,000. Over the same time period government jobs increased by only 355.

1.2 FUTURE GROWTH NOT ASSURED

For all our past success, future sales and employment are not assured. It would be a big mistake to assume past levels of growth will continue indefinitely. Both the business climate and job creation are dynamic; conditions can change over time and between regions.

It would also be a mistake to look at one measure, like employment creation, and assume this measures relative growth within these sectors. In reality, it overly simplifies changes. Businesses open and close every year in response to local and territorial business conditions.

Nor do we have a good understanding of regional and community impacts. Some communities may have seen little change in retail or service sector employment, even though territorial averages increased rapidly. Growth, while very positive at the NWT level, may be concentrated in just a few centers.

The retail and service sectors must rapidly react to market forces. If demand for products is changing, the business needs to locate a supplier and order new inventory. If sales and economic conditions are down, the business may have to quickly reduce hiring and investment.

1.3 THE TYPICAL RETAIL BUSINESS

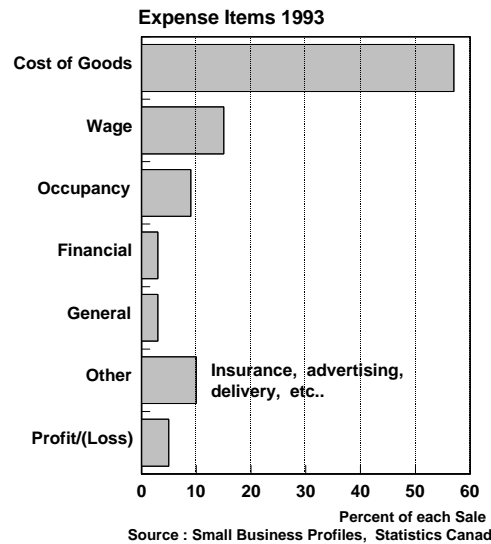
The profile of a typical NWT service or retail business is similar to the Canadian average. We can expect about 30% of businesses to have fewer than 5 employees, 50% to have between 5-19 employees, while the remaining 20% employ more than 20.

Small business profiles compiled by Statistics Canada indicate that the typical retail business in the NWT has sales between \$25,000 and \$5 million. The major expense for retail businesses is the "cost of goods sold", or the merchandise they purchase for retailing. On average, the costs of goods sold account for

57 cents of every dollar sold. Other major costs include:

- 15 cents of every dollar in sales to wages and salaries, and
- 9 cents to occupancy expenses.

While most retail businesses are making money, only 5 cents out of every dollar in sales goes to profits. In 1993, 55% of retail businesses were profitable, down from 62% in 1991. Average sales per business were also down between the same two years, but profits improved slightly. This may indicate a growing disparity between marginal and successful retail businesses in the NWT.



1.4 SERVICE BUSINESS

Service businesses are even more diverse than retail businesses. Service businesses in the NWT can be broken into 4 major groups:

- personal and other services;
- business services;
- accommodation/food services;
- health and social services.

1.5 PERSONAL AND SERVICE BUSINESSES

Businesses involved with providing personal services to people include amusement arcades, barber and beauty shops, home maintenance firms, laundries and dry cleaners, rental companies, travel agents, cleaners and a host of other services. Sales for these businesses typically range between \$25,000 to over \$1 million. Profits in the industry have increased since 1991, with 82% reporting a profit in 1993 (compared to 75% in 1991). As would be expected by this type of business, the single largest expense is wages and salaries (24% of every sale). Surprisingly, occupancy expenses are also much higher than in retail, with 15% of every sale being directed towards rent, depreciation and utilities.

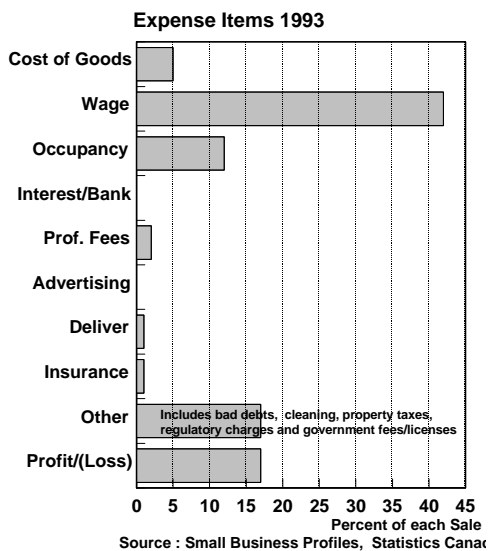


1.6 BUSINESS SERVICES

Businesses involved with providing services to other businesses include computer maintenance and consulting, accounting and bookkeeping, consulting, engineering and design services. Sales within this category typi-

cally range from \$25,000 to a maximum of \$1 million per year. The highest revenue firms are involved with engineering and architectural services.

Like personal services, profits are relatively high; in fact, 93% of all firms made a profit. This may simply reflect the fact that most businesses in this sector are owned and operated by professionals. Since a lot of the work in these businesses involves professional staff, their highest cost item is labour and salaries, accounting for 42% of every sale. Occupancy expenses constitute the second highest category, 12% of sales.

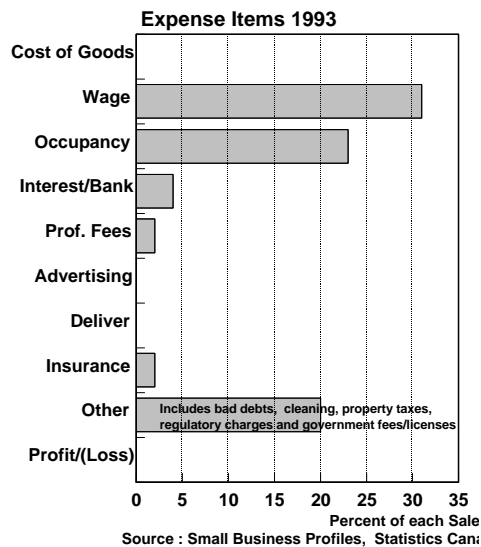


1.7 ACCOMMODATION & FOOD BUSINESSES

This category includes a wide variety of businesses in the hospitality and travel business. It includes hotels, lodging houses, recreation/fishing camps, outfitters, restaurants and pubs.

Sales range between \$25,000 and close to \$5 million. The highest sales in the group were recorded by hotels, while the lowest were found in outfitters and tourism camps. Most businesses in this category made little money,

with the overall profit level being 0%. However, within this group, the average hotel and outfitter lost money, while restaurant profits averaged about 8%. Major expense items were wages, occupation or office expenses and "other" expenses; see the chart below.



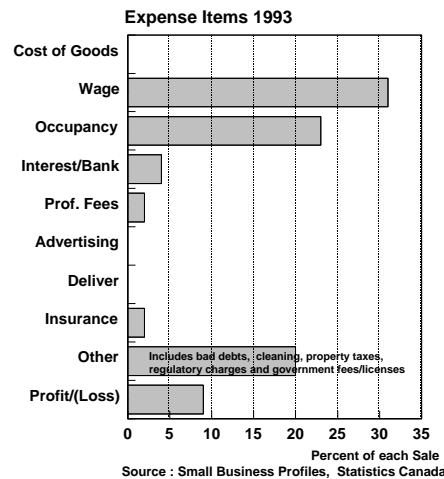
1.8 HEALTH AND SOCIAL SERVICE BUSINESSES

A number of businesses are also involved with providing social and health services to people in the NWT. This would include businesses owned and operated by health professionals, like optometrists, medical clinics, dentist offices, nursing homes and daycares.

Sales ranged from a low of \$25,000 to the extreme of \$2.5 million. The highest sales are recorded by dental offices, the lowest by day-care businesses.

Most businesses within this category are profitable (93%), with average profits being 9% of gross sales. The industry's major expense items are wages, other, financial and occupancy expenses. Other expense items include regulatory charges and licenses, real estate taxes, cleaning costs and other charges. Health and social service activities are closely related to government expenditures. While there may

be some cutbacks in government expenditures, overall spending is closely associated with population growth. Since the NWT, at over 3% growth rate, has one of the fastest growing populations in Canada, sales within this sector should exceed 3% over next year.



2. GLOBAL AND NATIONAL TRENDS

Most small businesses in the NWT are involved with retail or service activities; the local corner store, hairdresser or video rental store. In Canada, small businesses accounted for 87% of new job creation during the 1980's.

Over the current decade, however, small business employment growth has slowed significantly. Businesses hire people for 2 specific reasons:

- To help with increased sales or customer relations;
- To get new skills into the company so as to reduce costs or expand into new markets.

Since the beginning of the 1990's, demand for goods and services has declined significantly. Over 1995, retail sales in Canada grew at a modest rate (about 2%). While sales are expected to increase during 1996 and 1997, the degree of this expansion will depend upon

personal incomes, consumer confidence and the expansion of our export sectors (manufacturing, agriculture, mining and oil/gas).

Services fared worse than trade, with an average growth rate of only 1.6% during 1995. Within this sector, communications services were the fastest growing, a trend which is expected to continue during 1996 and 1997.

Personal and business service activities are expected to have slow growth during 1997. Expenditures are closely tied to overall earnings, and the expectations of businesses and consumers.

3 INGREDIENTS FOR SUCCESS

3.1 INTRODUCTION

Trade and service businesses are the major employer in the NWT. Together, these 2 sectors created over 3,000 new jobs over the past decade, more than 75% of all new jobs. During the same period there were less than 400 new jobs in the public sector and under 200 in the "resource" sectors.

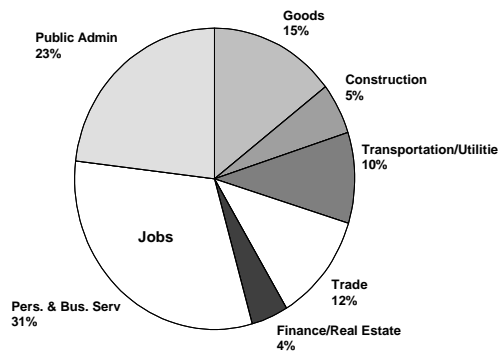
As shown in the pie chart on the next page, businesses involved with personal and business services account for 31% of total employment - the largest of any sector, including public administration. Retail trade accounts for 12%.

The business environment in the NWT is dynamic and active. Statistics on job creation, sales and other territorial trends mask large and significant developments within the NWT. Every year, hundreds of new businesses are created and fail. Some regions may benefit while others lose. Businesses in some sectors may gain, while in others sales and employment may decline dramatically.

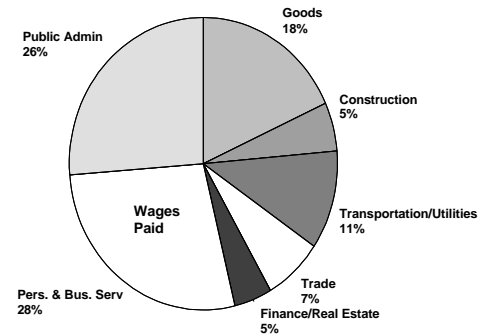
Information about these critical developments in the NWT is lacking. We know how many business licenses are issued by municipal governments but we have no records on new business starts and closures outside ma-

for communities. The Department of Justice, which issues business licenses does not maintain an electronic database on new business starts. The WCB, which registers all businesses, has a good database, but is unwilling to share information. The same is true of the Department of Finance's payroll tax database, which could provide excellent intelligence on business employment by region. In fact, the only source of ongoing publicly available business information in the NWT is from Revenue Canada and the RWED/ NWT Chamber of Commerce business directory.

Employment By Sector 1995



Wages and Incomes Paid By Sector 1995



Note: The "goods" sector is dominated by mining and oil. The "Finance Real Estate" sector includes quasi- government agencies like the NWT Housing Corporation and the Worker's Compensation Board. Their inclusion within this sector tends to understate "Public Admin" employment. The "Goods" industry pays the highest average wages in the NWT, followed by "Public Administration". The lowest average wages are paid in retail and service producing industries.

3.2 RESOURCES (OPPORTUNITIES)

Both the service and retail sectors rely on other sectors spending money. If people are concerned about their jobs they will spend less, which translates into reduced retail and service sales, and eventually falling employment within these sectors. This can lead to a downward spiral of lost jobs, lower sales and business failures.

On the other hand, when people are making good money and the future looks secure, they will spend more. Even having 5 or 10 people employed in high-paying mine jobs can have a major impact on community incomes and spending power. For example, in Gameti (Rae Lakes) total reported income was just under \$2 million in 1993. Ten jobs at BHP could increase this by \$500,000 or 25%. The highest-paying jobs in the NWT, aside from professionals, are in oil, mining and government.

3.2.1 MINERALS

The NWT has a long history of trade and of services; in fact the vast majority of communities started around trading posts. People came to the posts to trade furs, fish and meat for other goods. Most of these products were then exported outside the NWT. At the same time, people offered their services, usually under contract, to cut firewood, unload supplies, assist with hunting, cleaning and a host of other tasks.

The same is true today, although the NWT now exports more commodities than before and the trading and service environment has grown far larger and more complex. The bottom line is that we still rely on exports to bring needed cash into the economy. Today it is furs, crafts, fish and minerals. In the Deh Cho, North Slave, Kitikmeot and Keewatin, mineral development is bringing needed investment and money into local economies.

Exploration and development expenditures provide significant opportunities for trade and service businesses to develop and expand. These relate to servicing the development directly as well as the needs of families and workers.

3.2.2 NUNAVUT

The development of Nunavut will create new opportunities for retail and service businesses in the Eastern Arctic, especially in Iqaluit and other centers where new government offices are being established. Opportunities will develop from government, business and growing consumer demand.

3.2.3 HIGH BIRTH RATE

For retail and service businesses, the high birth rate of the NWT represents opportunity. Whether they are working or not, people need basic services and goods, and businesses will have to be there to supply them. Everything from the demand for food, clothing, fuel and a range of other sales should increase as the population grows.

3.2.4 LOW MORTGAGE AND LENDING RATES

A family with a \$100,000 mortgage over 25 years can save almost \$3,000 per year at today's rates compared to just 2 years ago. This means people have more money to spend, or to pay off their mortgages. Aside from increased consumer buying power, lower interest rates directly reduce business mortgage costs, finance charges and inventory holding charges. At the same time, reduced interest rates make large investments, like those associated with resource development, more attractive. New investment in resource industries will create significant growth in the trade and service sectors.

However, it remains difficult to secure mortgage financing outside major market communities; this is true in the NWT and most other regions of Canada.

3.2.5 DEVELOPING ECONOMY

The NWT is a developing economy, a fact that creates problems and advantages for businesses. Opportunities exist to displace southern imports in a number of areas. In particular, more mining and exploration services could be established in the NWT if the volume of business continues to expand. Every year,

mines and exploration companies purchase millions in goods and services from NWT businesses.

3.2.6 COMMITMENT TO THE INTERNET

The GNWT has made a strong commitment to the Internet and to its expansion at the community level. The Internet provides opportunities for reducing business costs, increasing market exposure and expanding trade connections.

CHALLENGES

3.2.7 LOW EDUCATION LEVELS

Although training and skill development within the NWT is improving, we still have the lowest education levels in Canada. And, like many other areas of Canada, there is a growing mismatch between skills and the qualifications needed for many jobs.

3.2.8 HIGH DEVELOPMENT AND OPERATING COSTS

It simply costs a lot of money to start and to operate a business in the NWT. Development costs here can be twice as high as in Edmonton.

3.2.9 LIMITED SUPPORT SERVICES

Outside major centers, businesses have very few support services. Even simple services such as electrical service or repairs may have to be flown in from a major center. In many cases bookkeeping, banking, computer repairs and other essential services may not be available. The lack of these services can add significantly to the cost of doing business.

3.2.10 COMMUNICATION COSTS

Phone services remain regulated within the NWT. For many businesses, long distance costs can add significantly to the cost of doing business.

3.2.11 LOW PER CAPITA INCOMES

Outside major centers, per capita incomes are among the lowest in Canada. This means

that people have less money to spend, and can support only a limited range of service and retail businesses.

3.2.12 LEASE-ONLY POLICIES

In most smaller communities within the NWT, lease-only policies are in effect for new land purchases. This type of policy sends the wrong message to investors and in some cases may actually prevent bank financing, or may put restrictions on the terms which could increase monthly payments (and reduce viability).

3.3 HUMAN RESOURCE DEVELOPMENT IN BUSINESS

Employment has always been a major issue in the NWT, especially in smaller communities. In places like Fort Providence and Hall Beach, recent unemployment rates have approached 40%. Yet as noted in a recent study by the Federation of Independent Businesses,

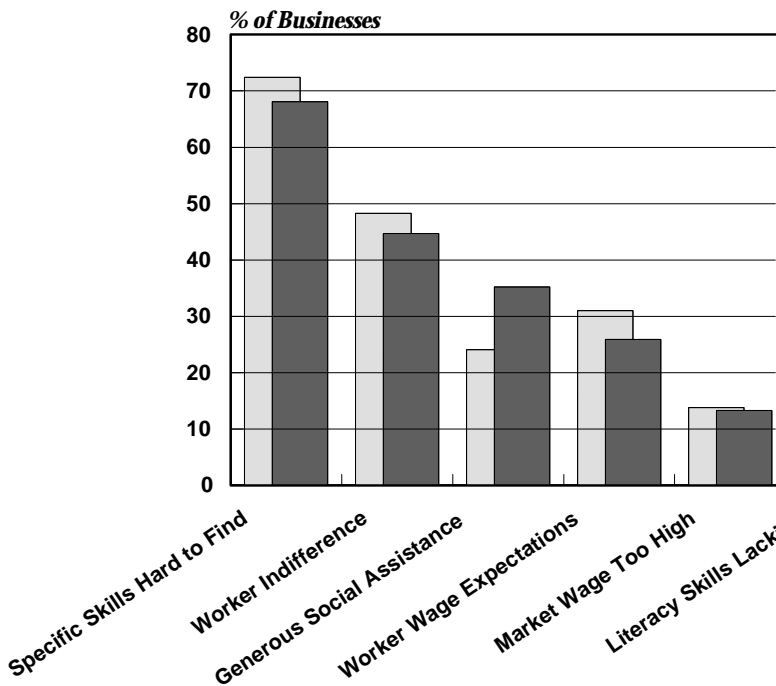
over 70% of NWT businesses had difficulty finding people with the necessary skills. Businesses either have to spend extra time and money on training, or they will hire staff or contractors from some other region.

The second major problem according to the survey, both here and in Canada, was worker indifference and poor attitudes. This problem is likely linked to the next two reasons, high social assistance payments and unrealistic expectations. Some people may think they are as well off staying home and collecting social assistance as seeking work.

Although many businesses in the NWT felt social assistance limited worker interest, it was not as significant a problem here as in southern Canada. NWT businesses felt that high wage expectations were a greater problem.

Another major difference between Canada and the NWT was literacy and numeracy skills.

Problems In Hiring New Staff - NWT versus Canada



Source: Canadian Federation of Independent Businesses - Survey Summary

3.3.1 OCCUPATIONS AND WAGES OF NEW EMPLOYEES IN BUSINESS

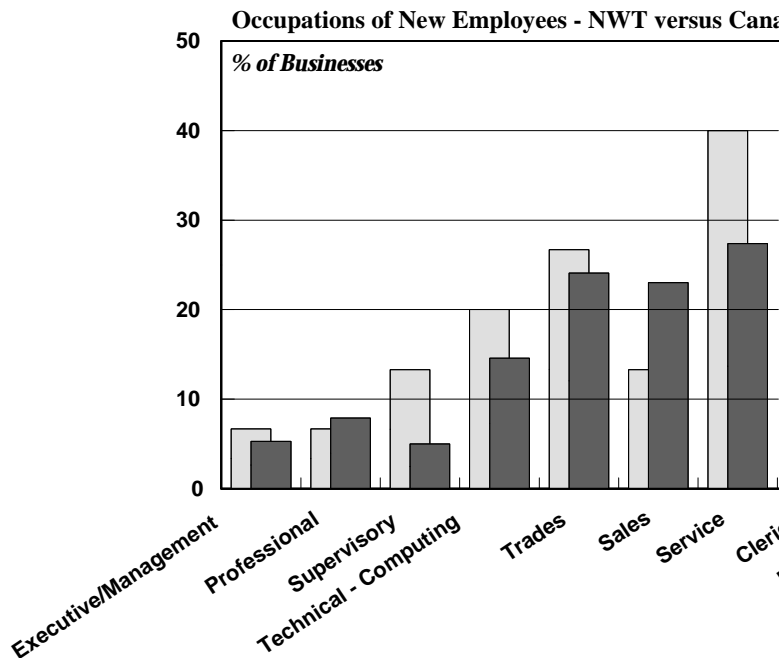
Small businesses are often thought of as hiring low-skilled, minimum-wage staff. Yet the real situation is far different. According to the employment survey completed by the Federation of Independent Businesses, firms in the NWT and Canada plan to hire a wide range of skills. As shown in the chart below, the hiring needs of NWT firms closely parallel those of their southern counterparts. However, firms in the NWT are looking for more people with computer and technical training, staff in the service area (looking after customers and servicing their needs), trades (electricians, plumbers, etc.) and supervisory staff.

The demand for computer staff is also likely to increase. According to another survey, businesses in the NWT are the highest Internet users in Canada.

Demand for new staff is also lower in some key areas. First, there is far less demand for sales staff than in the rest of Canada. This may reflect the concentration of retail businesses in major centers like Yellowknife and Hay River, where employees have far higher education levels and more exposure to the wage economy.

Firms in the NWT are also less interested in hiring production staff. Since manufacturing activity makes up only 1.5% of the GDP, much lower than the Canadian average. This result simply reflects the lower presence of manufacturing activities within the NWT.

Student hires in the NWT are lower than in Canada. This may reflect a number of factors. First, it may reflect the lower education and training levels within the NWT, especially in more rural communities.



Source: Canadian Federation of Independent Businesses - Survey Summer

3.3.2 WAGES PAID NEW STAFF IN BUSINESS

There is a widely held belief that small businesses pay low wages. While wages in the private sector may still be well below government, only a very small percentage of companies pay new staff the minimum wage. In fact, in the NWT only 6% of businesses plan to hire people at the minimum wage.

Looking at the chart below we can see that businesses in the NWT pay far higher wages to new staff than in Canada. Most small businesses in the NWT plan to pay staff between \$10 to \$15 per hour. A significant number also expect to pay between \$15 and \$20.

The higher wages for new staff in the NWT likely reflects a couple of unique factors.

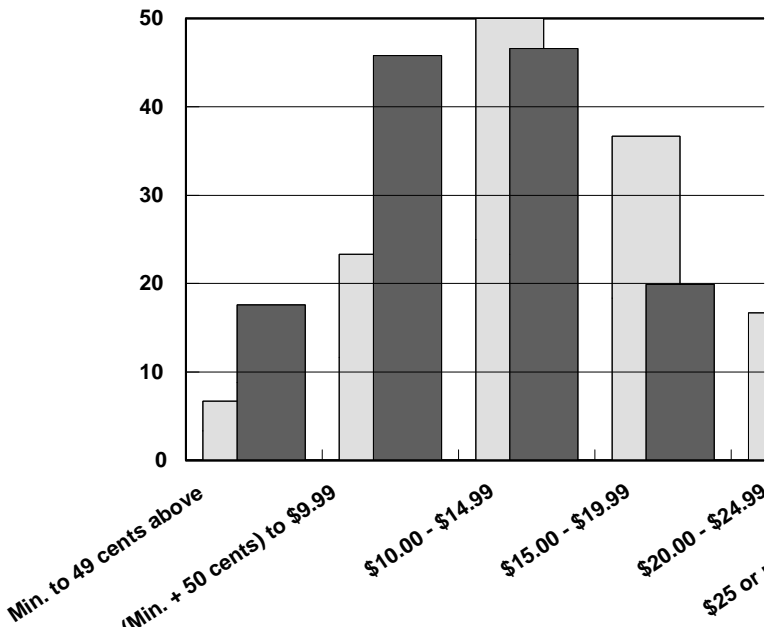
First, it simply costs a lot of money to live and work in the NWT. Businesses have to pay a competitive wage that assures a certain standard of living.

Second, government and the mineral industries remain a major competitor for skilled staff. Government wages are well above national averages, and mineral jobs are among the highest paying in Canada. If businesses want to compete for staff they have to offer competitive remuneration.

Third, skilled staff are harder to find in the NWT. Training staff takes time and money, and businesses can often save money by attracting people with the necessary skills.

Fourth, businesses plan to hire more technical and skilled staff in the NWT than in other parts of Canada. Attracting qualified staff means paying more money. There has always been a fairly close relationship between education levels and employment earnings within the NWT. In 1989, for example, the income of a working person with a degree was over twice that of a non-Grade 12 graduate.

Wages Businesses Expect to Pay New Employees - NWT vs



Source: Canadian Federation of Independent Businesses - Survey Summary

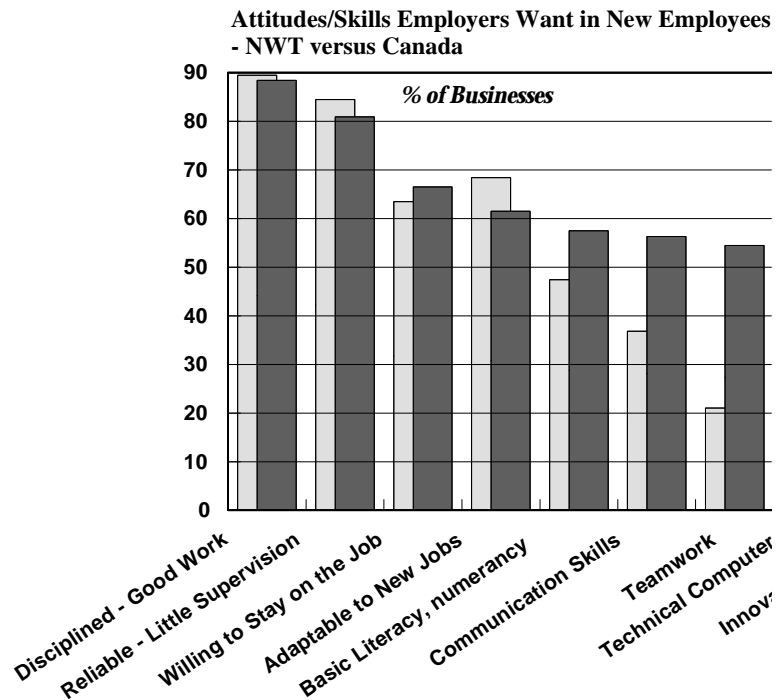
3.3.3 ATTRIBUTES EMPLOYERS WANT IN YOUTH

The NWT is a young and growing population. Although our birth rate is falling, it remains almost twice the national average. If we want these youths to stay in the NWT, and to lead productive lives, we need to provide real opportunities.

One of the most interesting aspects of the Federation of Independent Businesses study of small business employment was its finding on the attributes small business want in youth. As shown in the chart, the 4 most significant characteristics in the NWT and in Canada have nothing to do with skills or technical training. Rather they have everything to do with good working habits. Businesses want to hire people who are going to show up to work, are reliable and who can be trusted to work with limited supervision. In the NWT, the ability to adapt to new jobs and learn new skills takes on added importance.

Due to the heavy use of computers and other equipment in retail and service businesses, computer skills are also more important in the NWT than in the rest of Canada. Conversely, teamwork and communications skills were rated less critical to NWT employers than nationally. This difference may reflect the differing nature of our industrial structure. For example, teamwork and communications are more important in manufacturing plants, communications businesses and warehousing industries.

At the national level, the survey also found that younger and smaller firms seek young people who are willing, adaptable and innovative, but who are also reliable.



Source: Canadian Federation of Independent Businesses - Survey Summary

3.3.4 HIRING AND TRAINING CONSIDERATIONS

An interesting finding of the survey conducted by the Canadian Federation of Independent Businesses was that employers are looking for a positive attitude towards work, not just raw skills. While the mix of skills varies by business, discipline and hard work was rated the single most important characteristic. While this is not a specific skill taught in schools, it is reflected in a student's attendance and work habits. Leaving school early, or missing a lot of days, indicates a lack of discipline and commitment.

The vast majority of businesses in the NWT also found it hard to hire people with specific skills. In particular, computer and technical skills were more of a problem with businesses in the NWT than with those in the rest of Canada.

Although data was not released for the NWT, the same survey asked businesses what measures Government could take to encourage more employment growth. Only a few businesses suggest direct government participation in the market place. Between 34 and 40 percent of businesses stated that indirect job strategies would be more effective. In other words, create an environment where businesses can grow, and where people want to invest their money.

In particular, more businesses said they would hire more staff if payroll taxes were reduced. While this includes programs like the NWT payroll tax, it also includes WCB payments, Pension Plan Contributions and Employment Insurance.

In general, programs like social assistance were not seen as a major impediment to job creation.

Employee subsidies and infrastructure spending were mentioned by about 1 in 5 businesses. However, many businesses felt these were short-term measures, having little real impact on long-term employment.

The least effective programs were employee matching and referral services. Only

4% of businesses surveyed would be encouraged to hire more staff by improved government matching or employment programs. According to the Canadian Federation of Independent Businesses, many Canadian firms are making better use of employment services available through the Internet.

3.4 CAPITAL AND INVESTMENT

Capital is the "life blood" of modern business. Capital basically comes in two forms:

- Investment capital, which involves an ownership position;
- Debt capital, which involves borrowing money from an institution like a bank.

Debt capital can also come in a variety of forms, demand loans, mortgages, secured lines of credit and so on. It can also be long term or short term. Usually, the term of financing is tied to the type of activity or asset being financed. For example, loans toward the construction of a building usually exceed 10 to 15 years, while trade credit or accounts are payable within 1 to 2 months.

3.4.1 SOURCES OF CAPITAL

There is really no shortage of loan and contribution programs for businesses within the NWT. Since many of these agencies only have offices in major centres, however, access to their services may be more difficult for smaller community businesses.

Capital is available from a wide variety of sources within the NWT, including:

- all major commercial banks;
- the GNWT Business Credit Corporation;
- the Community Futures Program;
- the Federal Government's Business Development Centers;
- the Aurora Fund (immigrant investor program); and,
- contribution capital from RWED's Business Development Fund.

Aside from these sources of debt financing, there are a number of specialized programs. The NWT Development Corporation may consider an equity or partnership investment, and for aboriginal people there are a variety of federal programs.

3.4.2 PROBLEMS WITH ACCESSING BUSINESS CAPITAL

Financing is an issue common to most small businesses in Canada. In the NWT. Following is an overview of specific problems.

Limited investment money in most communities

Within the NWT, the 5 largest communities account for 68% of all income. This means businesses in smaller communities face two major problems: access to local investment capital and small markets.

Trade & Inventory Credit

Trade credit for expanding sales is a problem with most businesses in Canada. Even with significantly increased sales, businesses can get into serious cash flow problems. In the NWT where a large percentage of business revenues may depend on one customer, delays in payment can lead to major cash flow problems.

In southern Canada, improved communications and transportation networks have enabled small businesses to significantly reduce their inventory handling costs. Due to the high costs of shipping to most northern communities and reliance on air only during part of the year, many northern retail businesses have not been able to reduce their inventory carrying costs.

Lease-Only Policy

All communities in Nunavut and many smaller communities in the western Arctic have implemented "lease only" policies with respect to land.

The problem with this approach to development is that it:

- complicates development, creating uncer-

tainty with regard to selling property;

- sends the wrong message to investors who have the capital and expertise to create local jobs; and,
- depending on the conditions of the lease, may even preclude new community investment.

Development and Operating Costs

Although business development costs may seem high in a city like Yellowknife, it can cost far more to build a business in small remote communities. Average construction costs can easily be twice that of Yellowknife.

Furthermore, development is complicated by a lack of access to business and construction services. Even finding someone to fix an electrical problem may involve major expenditures.

In communities off the road system, businesses may need to finance their inventory for extended periods of time. Since the cost of goods sold can account for up to 50% of every sale for retail businesses, this can create a significant cash-flow problem. Secondly, in communities off the road system, it costs even more to purchase and acquire goods for sale.

3.5 PUBLIC INFRASTRUCTURE

With regard to retail and trade business, infrastructure needs relate to the availability of land for development, services at a reasonable cost (including reasonable taxes), access to banking, accounting and legal services, access to the Internet, reasonable Workers Compensation services and to transportation and communications services.

3.5.1 SERVICE AND UTILITY CHARGES

Service and utility charges can add significantly to the cost of doing business. Water utility charges, garbage fees, regulatory licenses and business fees can add significant costs to operating a business. For the typical service business in the NWT, these charges, along with property taxes, can account for up to 32% of every sale; in retail businesses, up to 10% of total sales.

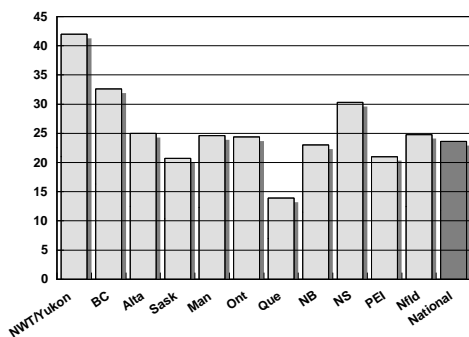
3.5.3 ACCESS TO BANKING SERVICES

Banking services are critical to the development and growth of any business. Cashing and issuing cheques, processing VISA, line of credit, inventory financing and a host of other financial services are day-to-day necessities.

3.5.3 THE INTERNET

Internet usage is on the rise in the NWT and in Canada. In fact, businesses in the NWT are the most enthusiastic users of the Internet, with over 40% being plugged in. This is because businesses in the NWT have the most to gain - especially in terms of competing costs.

Percentage Internet Usage



As more businesses sign on the service, both here and in Canada, the benefits will increase. E-Mail, on-line ordering, bank transactions and a host of other services become readily available.

On the down side, access to the Internet will always be more difficult for small, rural communities.

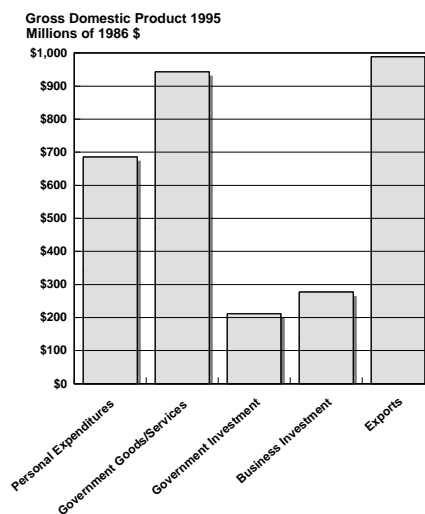
3.6 MARKETS AND SALES

Markets for retail and service businesses can be grouped into 4 major categories:

- government - including local, territorial and federal levels of government;
- consumers - residents of the NWT, business and leisure visitors and export sales to consumers;
- industry - in particular, the mineral industry represents a major investor and market in the NWT economy;

- other Businesses - businesses need a host of services, everything from tax services through to janitorial contracting and street cleaning.

A good measure of the relative market associated with each of these sectors is found in GDP expenditures measures. The following chart shows expenditure or spending and its contribution to the GDP:



As highlighted in the chart, expenditures on goods and services by consumers and government represent a significant portion of spending within the economy. Mining and oil, which dominates exports, makes up another significant component.

IMPORT REPLACEMENT

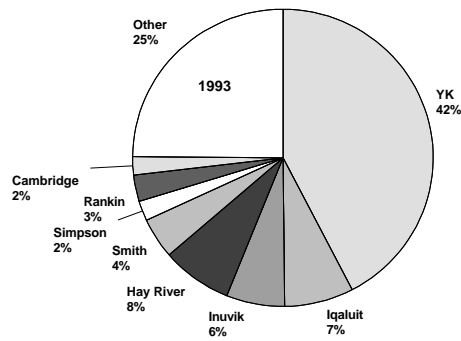
Another large market for NWT businesses is import replacement. In general, a number of major studies have identified room for a greater share of NWT business in:

- communications and networks;
- computer maintenance;
- food and field supplies to operators;
- accommodation and food;
- air services;
- general and office supplies;
- construction

Consumer and business sales, for both service and retail businesses, are closely tied to disposable income, or how much money people have to spend. The following chart shows the distribution of markets within the NWT.

As can be seen from the chart, over 3/4 of all income in the NWT are in 8 communities, with business services to match.

Distribution of Incomes - 1993



The distribution of incomes is based on personal income statements for NWT communities - Source: Revenue Canada

3.7 REGULATIONS AND TAXES

3.7.1 CREATING AN ENVIRONMENT FOR JOBS

There is no magic formula associated with creating an environment for growth and development. In most cases it simply means knowing your customer or client, working with them, and putting their needs first, not last. In the case of businesses, it means getting value for money from government, getting good service, and it means going to one office and getting the answers you need, and not being referred to another program or put-off.

It also means a government that works for job creation and investment, not against it. If you run a business, you ought to expect reasonable and common sense regulations. It is possible to protect the public interest without stifling business development and growth.

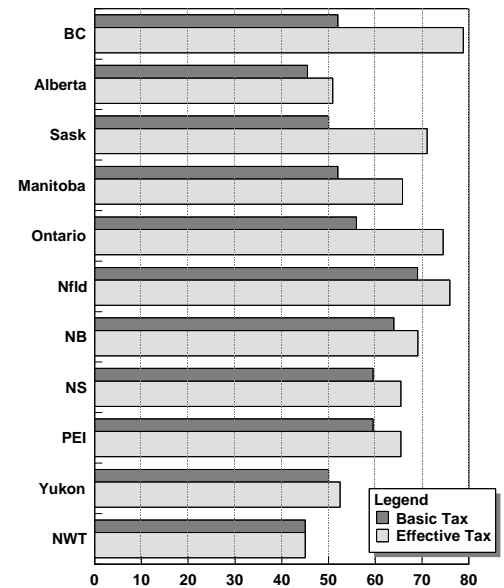
3.7.2 LOW TAXES

One of the NWT's major advantages is its low tax rate. In fact, of all the provinces and territories the NWT still has the lowest overall tax rate. At the same time, the NWT has no sales tax. Both these factors work in favor of

trade and service businesses, first by reducing costs and second by increasing the disposable income or buying power of residents.

The chart at right compares actual and effective tax rates in each province; the NWT is lowest in both categories. The effective tax rates reflect the added impact of provincial flat taxes and surcharges; the NWT has none.

Tax Rates in Each Province and Territory



3.7.3 REGULATIONS

Regulations have become so complex that businesses, especially smaller businesses, spend much of their creative energy dealing with complicated rules. Although we have no direct statistics on the NWT, a recent survey by the Canadian Federation of Independent Businesses found that 70% of small businesses thought government paperwork is a significant problem. Making clear and simple rules, and reducing the amount of time spent on paperwork, will allow businesses to do what they should be doing, expanding sales and employment.

If the NWT is going to rely on businesses to create new jobs, we should start by making it easier for businesses to grow and prosper. This has to start with an atmosphere of trust. The truth is that business people, like other residents of the NWT, are as concerned about jobs, the environment, community wellness, education and other issues as any other citizen. What they hate is being buried in paperwork and forms.

Consideration 1 - Simplifying and reducing regulations and policy

Few regulations or policy are written in plain language, many refer to other regulations or Acts, and most departments publish little or no information on their existing or proposed legislative and policy framework. The following example is taken from the NWT's tourism outpost regulations:

"Outpost camp" means a camp operated in conjuncture with a tourism establishment in which guests of the main tourist establishment may be accommodated, which is remote from the base of operations and is accessible by means other than a public highway."

Policy was initially envisioned as a simpler, more flexible, approach to legislation. Today many policies are as, or more complicated. If people and businesses are to understand and abide by legislation or policy, it should be as clear and concise as possible; this is even more important in a multilingual jurisdiction like the NWT.

Consideration 2 - Making Information more accessible.

New regulations, policy and ministerial directives are being issued every month. Businesses, big and small, are expected to be aware of and abide by them.

Consideration should be given to making copies of this material freely available on the Internet and on CD ROM for public distribution. The costs of development should be born by the originating departments and agencies.

Consideration 3 - Develop a Business Impact test to assess the impact of new and existing policy and legislation.

In many cases, the government has passed policy and legislation with only limited information on unnecessary or unintended economic burdens to business. Treasury Board, Industry Canada and the Canadian Manufacturers Association has developed a Business Impact Test to assess these impacts. In summary, this program assesses how regulations:

- impact on the direct business costs of firms;
- change the way a firm operates, organizes or innovates (e.g. contracting more)
- allows the collection of valuable comments from businesses within the review processes.

CONSIDERATION 4 - REDUCE THE PAPER AND SURVEY BURDEN ON BUSINESSES

In order to maintain accurate and timely information on the development of businesses within the NWT, over time, by sector and between regions, both government and industry need to create a new level of cooperation. In particular, we need to look at using existing sources of information rather than new surveys, which place additional burdens on the business community. Sources which need to be made available include:

- NWT payroll tax information on employment and payroll;
- NWT Workers Compensation records on new business creations by region;
- basic license information from the Department of Justice for NWT business activity, including non-NWT business registration;
- make better use of existing Statistics Canada data by "piggybacking" questions on their survey rather than conducting a new survey;
- work towards improving the coordination of GNWT departmental business surveys.

- make better use of existing market information - e.g. using data from the health care card system to ensure information on migration and population.

4. CONCLUSIONS

1 The trade and services sector created 75% of the new jobs in the NWT over the last ten years. Retail sales growth is higher than the Canadian average. The weakness of this rapid growth is that it cannot continue without increases in export sectors such as minerals, oil and gas, tourism, or government sectors, which create demand for these goods and services.

2 Government spending remains critical to retail sales and incomes in many smaller communities. Reductions in government spending could have a significant impact on business development within rural or small communities in the NWT.

3 Exploration activity has put millions of dollars into the economy through service businesses and wages. The extent to which growth can be maintained will depend on whether exploration leads to development, which in turn supports further exploration.

4 The NWT has a rapidly-growing population in need of goods and services. Although income support is available to those who cannot find work, jobs provide the best means for a developing economy. Wage incomes are higher, spending is greater, and social costs are reduced.

5 The business community is growing in variety and competitiveness. Larger businesses are seeing new opportunities in the NWT, creating problems for some businesses, but new opportunities for others.

6 While there is a high level of unemployment in the NWT, worker attitudes can be improved. Employees have to want to work, and they have to improve their basic skills.

7 Although growing rapidly, the NWT

population is still smaller than many small cities. Local markets are very limited, costs of operations are high, and there are often only limited or no business support services in many communities. In addition, most goods are imported, decreasing benefits to local businesses. The up side of this is that there are many opportunities for replacing those imports through better services or lower cost goods from northern businesses.

8 In terms of human resources, the retail and service sector provides a wide range of job opportunities and is the largest employment sector. Finding employees with the right skills, however, is difficult. Skill levels of the general population are low, and many business-specific skills are lacking, such as computer, trades, or supervisory positions. Those that have skills are sought after by employers in all sectors.

9 Investment capital is critical to this sector. Businesses require a variety of financing: equity, various term loans, working capital, bonding, and others. Financing costs are currently very low, however, not all communities have the necessary equity to develop businesses.

10 Banks, the GNWT Department of Resources, Wildlife and Economic Development, and the federal government have a variety of financing programs and options, to stimulate growth. High costs of doing business, limited local markets, and local policies such as lease-only make accessing those funds difficult for many, however.

11 One way to improve access to financing is to better coordinate existing programs, both within the GNWT and with other governments.

12 Contributions are another issue. Most provinces now provide loan or debt financing. At issue is whether contributions are still necessary in the NWT, or whether we should move towards a more flexible system of loans.

13Public infrastructure in the NWT is limited in most communities. We have high transportation and communication costs and high costs for utilities. Larger centres are developing excellent infrastructure, but the benefits are not widespread. Increasing access to the Internet will improve businesses' ability to market their products and obtain necessary information and resources to conduct business.

14 Market growth is dependent on continued export sector development. There is potential for increasing import replacement to fulfill specific Northern needs. Government sales are likely to shrink, at least in the West, while Nunavut companies should benefit from development of a new government structure there. The GNWT Business Incentive Policy provides benefit to Northern businesses, but government purchases are declining.

15The trade and services sector and other businesses are subject to a wide range of regulations and taxes that impede growth. Although we have the lowest tax rates in the country, operational costs are high and time spent dealing with regulations could, if simplified, be better spent dealing with customers.

16Business information, although collected by a variety of agencies, is lacking in terms of accessibility and usability. Instead of relying on information already provided to the government or public agencies, departments simply undertake a new study. All this paperwork adds to the cost and complexity of running a business in the NWT.

17Market and development data, applications, licenses and other material remain difficult to find, especially in smaller communities. While it may prove useful to have this information on the Internet, many small businesses still have no Internet access. An effort needs to be made to distribute this material to clients on CD Rom disks.