

DRAFT

# YUKON DEVELOPMENT STRATEGY

## TRADES AND SERVICES

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*Building the Future*

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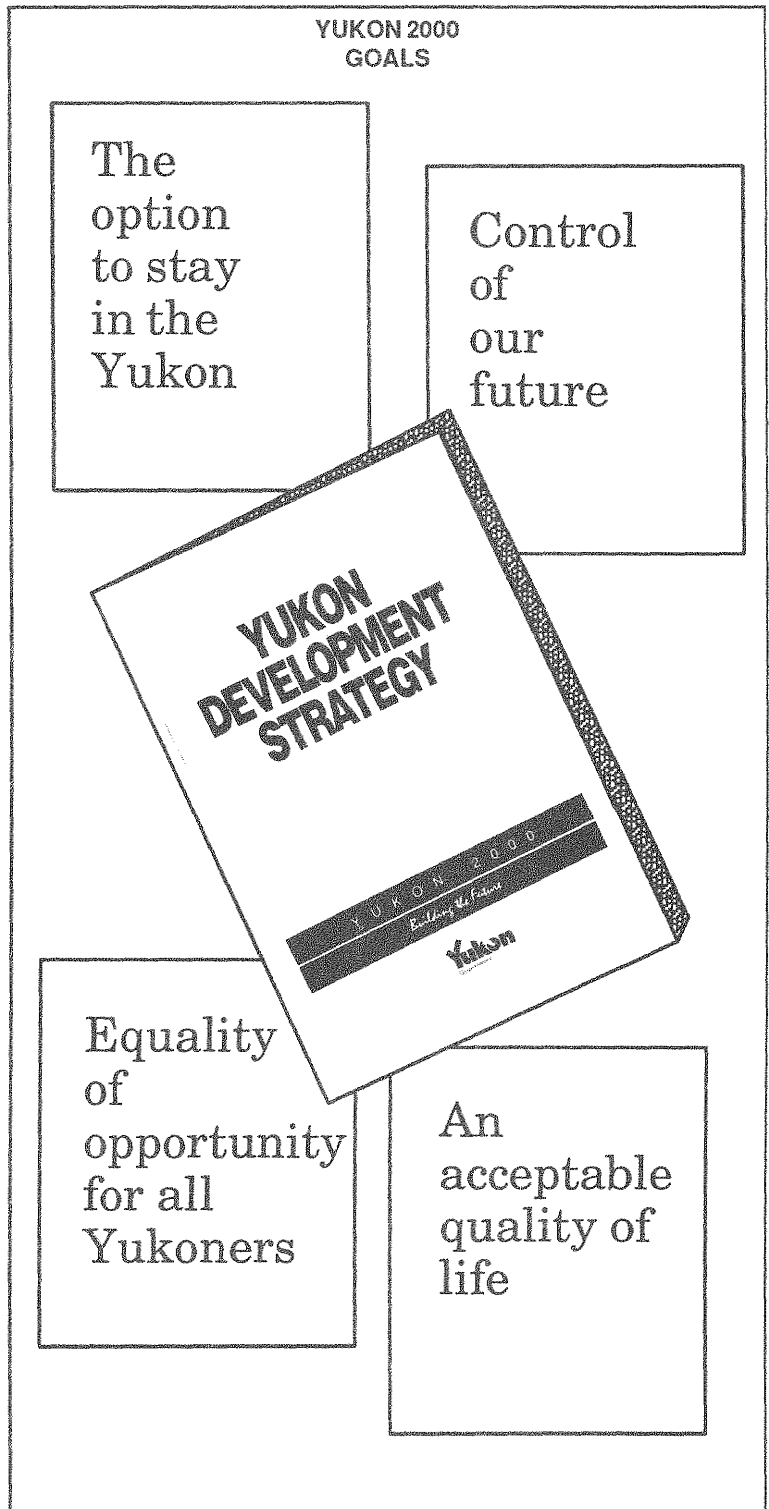
# Trades and Services Strategy

A Progress Report ■ April, 1987

The trades and services industries include the sale of goods and the provision of services. These industries employ the largest proportion of people in the Yukon— 38.1 percent of the workforce (Yukon Statistical Review; Third Quarter 1987). They are also the fastest growing sector in the Canadian economy. There is considerable crossover between “trades and services” and other activities in the economy such as manufacturing and construction. Some of the activities which normally fall under trades and services are dealt with in other industry papers. These include the Accommodation, Food and Beverage industry which is dealt with in the Tourism Strategy, and Transportation and Communications which are included under the Infrastructure Strategy. This strategy paper deals with the Wholesale and Retail Trades, and Business and Household Services.

## WHOLESALE & RETAIL TRADE

In 1985 the Yukon Government Bureau of Statistics listed 43 wholesalers and 288 retailers in the Yukon. A review of the Yukon business directory suggests that most of the wholesalers are part-time and associated with other businesses such as manufacturing, retail and the tourism industries. The limited activity of Yukon wholesalers was confirmed in interviews with retailers. In almost all cases, Yukon retailers rely on non-Yukon wholesalers for their products.



## Directions

*1. Encourage a greater use of Yukon retailers and wholesalers by:*

- upgrading of shopping districts.
- providing basic banking services in rural communities.
- tendering government contracts by community.

*2. Foster discussion between retailers, wholesalers and manufacturers.*



## Constraints

- \* government purchasing policy
- \* unattractive shopping districts
- \* limited range and high cost of local products
- \* transportation costs
- \* limited access to information and advice for rural business people
- \* limited rural banking facilities



## Options

*1. Tender government supply contracts by community.*

This would permit businesses based in the communities outside Whitehorse to submit tenders on the supply of materials to government departments in their respective communities.

Government Services maintains a stock of stationery and other supplies in its Whitehorse central stores. Government departments order their day-to-day needs from the central stores, but are authorized to purchase materials up to \$200 elsewhere on a local purchase order if they are unavailable from central stores. Government Services contracts with suppliers for the provision of goods and services, but does not break them down according to where the materials will be used.

Under the proposed option, a contract would be let for the provision of office supplies for a particular community's government offices. A company situated in a community outside of Whitehorse would be able to bid on the needs of a local government office.

This option may increase the opportunities for community businesses, but may also create problems for the government. The process would be difficult to administer and may raise questions of fairness. Some businesses close down during the winter months which limits the sources for supplies. Government costs may increase because community prices are likely to be higher than Whitehorse prices. On the other hand, the government may save by no longer having to bear the cost of transporting supplies to community offices. The increase in community business may also benefit local residents by widening the range of products available in local stores. A community based store which successfully bids on a local supply contract may then be in the position to supply other local offices such as the band and municipal offices.

*2. Encourage the upgrading of shopping districts.*

The development of a pleasant environment encourages people to shop in their own communities. Retailers report that the improvement of the downtown area in Whitehorse has resulted in increased sales. The Department of Tourism's Streetscape Development Program provides funding for communities to increase the attractiveness and appeal of their downtown/public areas. One possible problem with the program is that it may have a negative impact on adjacent shopping districts.

*3. Foster discussions between Yukon's retailers, wholesalers and manufacturers.*

This would provide information to retailers about locally made products. The manufacturers would benefit from the feedback the retailers could provide on potential markets and acceptability of existing products. One way to accomplish this task would be for the government to host a reception for manufacturers, wholesalers and retailers in conjunction with the Yukon spring trade show. It is one of the few occasions when many of the retailers are gathered in one place.

*4. Research the options for reducing transportation costs to and within the territory.*

This is an important factor for the retail sector which is being dealt with as part of the transportation infrastructure paper. High transportation costs mean that Yukon based merchants have higher costs than southern based chain stores and mail order services. On the other hand, easier and cheaper access to southern centres may erode the local market. Lower transportation rates would put Yukon merchants on a more equal footing with their southern competition.

*5. The Business Development Office (BDO) could promote its role as an advisor to business on business issues.*

This would benefit rural businesses who lack the time and resources to take advantage of college courses or Federal Business Development Bank (FBDB) seminars. With its existing mandate and field staff, the BDO is a good vehicle for providing advice to individual small rural businesses with specific business problems. The current BDO procedure is to provide advice when approached by a business. In essence, this option is suggesting that the BDO take a more proactive role in informing businesses that the BDO will assist them with specific business problems.

The general upgrading of business skills is undertaken by the Department of Education. A mobile program is being developed to permit the delivery of the College's Business Administration program in the communities. The FBDB offers seminars on business topics, and consultative and training programs are offered through the Canada Employment and Immigration Commission and the Yukon Government's Department of Education.

*6. Provide rural communities with basic banking facilities.*

Most residents will shop where they do their banking, therefore the need for basic cheque cashing facilities in the communities is serious.

*7. Provide more flexible low interest loan programs for rural businesses.*

This would assist rural businesses who have difficulty in accessing loans. Banks are reluctant to lend to rural enterprises as they are difficult to monitor and the assets are difficult

to value and sell.

Under the government's low interest loan program, the government will contribute up to 25% of a project's costs with the minimum loan being \$5,000. The smallest project eligible under this formula is therefore \$20,000. This is much greater than the capital costs incurred by most new retail stores. The biggest start-up cost for new retailers is inventory. There are no programs which provide funding for retailers' inventory financing.

Government could explore the possibility of lowering the ceiling of the minimum loan available under the low interest loan program.



## APPENDIX

### ■ Interview comments on the state of the industry ■

The information presented is derived from discussions with managers and owners of retail stores in Whitehorse and three communities. The firms interviewed range in size from 1 to 75 employees and have operated from 1 to 10 years. For the Whitehorse firms the Yukon is their trade area. The community stores tend to serve only the immediate area and view Whitehorse as the main competitor. Several Whitehorse stores noted the competition from southern stores and mail order services. While local competition is viewed as healthy, shopping outside of the Yukon is considered unhealthy for it does not contribute to local employment. Most stores have institutional clients in addition to their retail clientele. With few exceptions, by far the largest market for all stores is the local residential and institutional market. The tourist market was considered important for seasonal sales.

The businesses interviewed sell a wide variety of items from food to general merchandise to cars. Whitehorse retailers are more specialized than the community stores which sell a wide range of basic items. Specialized goods are not available outside of Whitehorse.

While by no means a consensus, many retailers felt the future looked promising for economic growth. Ideas for expansion are generally directed towards servicing the existing market in a slightly different way. Most interviewed believe their market share would remain fairly constant with growth achieved through an expanding economy.

The impact of the recent economic recovery has not been felt evenly through the territory. For the community based businesses growth has been stable over the last few years with no impact from the reopening of the Faro mine. In contrast, many of the Whitehorse businesses recorded rapid growth in the last 18 months and most report sales increases related to the reopening of the Faro mine.



## BUSINESS & HOUSEHOLD SERVICES

The service industries are the fastest growing in Canada with some of the best opportunities for generating employment and export earnings. In the Yukon, there are few strictly household service enterprises. Most are small contractors/consultants who also undertake work for business and government. For this reason, the following focuses on the business services.

### Directions

#### 1. Upgrade our knowledge of the service industry:

- foster research and development in the service industry area.

#### 2. Provide support to the industry through:

- local preference in contracting
- encouraging joint work with southern companies
- flexible contracting procedures

- encouraging Yukon firms to use Yukon business services.

#### 3. Strengthen information links.



### Constraints

- \* limited knowledge of the industry
- \* limited transportation and information linkages to and within the Yukon
- \* non-Yukon based competition



### Options

#### 1. Undertake an economic analysis of the service industry.

This option would assist government and industry develop policy to guide the industry into the future. There is limited information on the services industry. We do not know to what extent the industry is exporting services, what its potential is, and to what extent it benefits from government spending. The health of most other industries has been examined by government, and policies and programs proposed and developed to encourage their development. A proper evaluation of the service industries should include examination of present and potential export earnings, as well as the potential for greater use of Yukon service companies.

#### 2. Support efforts by the business service industries to undertake research and development.

This would assist Yukon based firms to become more competitive with non-Yukon competition and assist the Yukon companies to develop exportable skills.

One focus of the service industry is the sale of information. Yukon service industries have and are developing expertise in such things as permafrost engineering, infrastructure and social servicing of remote communities and northern advertising services. The market

potential of this information is dependent on it remaining current. This is only possible through research and development. A Memorandum of Understanding between Canada and Yukon on science and technology has been signed which provides the Yukon with much greater flexibility in funding Yukon based science and technology projects. This topic is examined by the Yukon 2000 study on Information Strategy.

*3. Encourage the industry to establish an industry organization*

With an organization the industry could gain representation on government boards which affect the industry. An example would be representation on the Canada/Yukon Science and Technology Committee which is established by the Memorandum of Understanding on Science and Technology. There is also core funding available to industry organizations for economic development related activities.

*4. Ensure continuation of existing air service to the south and examine the potential for developing better east/west air service.*

Yukon's service industry relies in part on good transportation linkages to the south. Daily jet services enable the local businesses to access specialized services that they could not otherwise provide. For this reason the cost and regularity of flights has a direct bearing on the ability of local businesses to compete against southern firms. The limited east/west plane services restricts Whitehorse businesses from accessing markets in Alaska and NWT.

With the loss of PWA plane services, the government should monitor the situation carefully and lobby hard against any decrease in service or increase in seat and freight rates. Transportation is covered by the Yukon 2000 infrastructure study.

*5. Work with the industry in examining its information needs.*

There has been an explosion in the advancement of information transfer and storage technology. The implications of easy and cost effective access to technical data libraries are immense for Whitehorse and community based business services. The expense of long distance telephone hook-up is the major limitation to the use of southern data

bases. This is especially so for community based businesses with a limited volume of business. The only alternative for these businesses is to rely on the mail system. NorthwesTel is providing access to a data pack system which will provide a less expensive access to southern data banks.

*6. Encourage southern based consultant firms to work with local consulting firms when undertaking Yukon government projects.*

Current government policy is to encourage local hire. There is little information on the degree to which this is occurring within and outside government. Indications are that large construction and mining projects use southern based engineering and other business services. The reason for this is that the specialized experience is not available in the territory. One alternative which might assist in rectifying this situation is to encourage information transfer. Where feasible non-Yukon consulting companies working on government projects could be required to work with local personnel. The intent is to assist local people to obtain the experience required to undertake similar work in the future. This may help to resolve the problem faced by Yukon businesses which find it difficult to obtain contracts because of limited experience.

*7. Enforce the local hire condition which is attached to the approval for major projects receiving significant Yukon government contribution.*

This option would assist the local service industry develop its skills. It would also ensure greater local benefits from government dollars invested in major development projects. A local hire and purchase policy is being followed for major projects and resource roads which are funded in part by government. Development agreements signed with private sector developers generally limit local purchase/contracting to where adequate goods/services are available locally. An evaluation of what services can be provided locally is required before enforcement can occur.

*8. Examine the potential for more flexible government contracting guidelines.*

The government represents the largest client for most of the business service enterprises in

the territory. For this reason, government contract policy and the efficiency of the contracting process has a great bearing on the health of the local service industry.

There is a belief that the restrictiveness of the process leads to inefficiencies; that the need to draw up a separate contract for each job restricts the creative freedom of the firm providing the service, is time consuming and often results in time lags between a job being tendered and a contract being received. On the other hand government must ensure that the awarding of contracts is done in a fair and equitable manner.

#### *9. Develop a Yukon business incentive policy for consulting services.*

Government Services is aware of the issue of increasing local content in awarding contracts and has developed the Yukon Business Incentive Policy in response. Registered businesses in effect receive a 10% subsidy on their bidding price as compared to non-registered businesses. The policy exempts consulting services.

A similar incentive policy for consulting and professional services could be developed. The rationale behind the development of a northern preference policy is to help consultants compete with southern firms who benefit from much lower overhead.



## APPENDIX

### ■ Interview comments on the state of the industry ■

**I**n contrast to retail stores, business and household services sell a service as opposed to a product. In the Yukon, many business services provide both household and business services. As an example, accountants do individual income tax returns as well as the books for businesses. The previous discussion is based on interviews with the managers and owners of business and household service enterprises in Whitehorse and Dawson.

The firms interviewed include a travel agency, engineering firms, an office support business, an advertising agency, computing and printing services. The majority have been in business for more than six years and all but one employ fewer than ten people. Besides the Yukon, the market area for the professional services includes northern BC and the NWT. Most see future growth stemming from general growth in the economy and not by capturing a larger market share. The Alaskan panhandle is identified as having good potential for additional growth if regulatory constraints can be overcome.

Finding and retaining professional staff was not seen as a problem given the unemployment rates in other parts of the country. Finding and retaining office staff was a problem for some. These firms pointed to competition from government as a problem.

Southern firms are identified in almost every case as being the major source of competition for Yukon contracts while government is the major client for the local service industry. Except for those businesses directly related to the mining industry, most of the businesses report constant growth over the last decade. At the same time, there is the suggestion that the professional services have not regained the same proportion of mining related work with the reopening of Faro, and other new mining activity, as they had in the late seventies. Factors contributing to this would be changes in the orientation of the service businesses to take advantage of opportunities in other areas and the reliance by mining companies on internal sources for consulting services.

Some of the business service operators interviewed suggested that they must carry more staff than southern firms since they must provide services which would be contracted out in the south. Southern firms and local offices of large firms which have head-office support services have considerably lower overhead costs than local firms. This gives them an advantage when bidding on contracts.