



**SAVE SMALL
BUSINESS**

Consultation on the future of competition policy in Canada

Submission to Innovation,
Science and Economic
Development Canada (ISED)



Save Small Business (SSB) is a loose grassroots coalition of small businesses across Canada. It was founded in March 2020 at the start of the COVID-19 economic crisis to advocate on behalf of small and medium-sized businesses.

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Executive Summary

This submission is based on a survey of the Save Small Business community – over 33,000 small and medium-sized businesses throughout Canada – on the state of fair competition in this country.

One of the objectives of the Competition Act is “ensuring that small- and medium-sized enterprises have an equitable opportunity to participate in the Canadian economy.” Our community is united in its view that the Act is failing in this objective. The current marketplace we compete in is unfair, and getting more and more unfair every day.

The key findings from our survey are:

- Small businesses are increasingly dealing and competing with larger companies
- The increasing size of companies is making it harder for small businesses to compete
- Small business is increasingly affected by concentrated industries
- Small business owners see mergers and acquisitions as a driver of these issues
- Small businesses want more active government engagement to ensure they can compete in a fair marketplace

Small businesses don't view more aggressive competition policy as 'red tape'. We believe a fair marketplace is vital to the success of our businesses, and that the government is currently failing us. Encapsulating the results in one question, our community was most in agreement on this statement: *I feel that my business is being squeezed by larger businesses (competitors, suppliers or customers), and it gets harder every year.* Small business – the lifeblood of the economy – is in trouble.

We would like to see the government conclude its review by taking aggressive action to live up to objectives of the Competition Act and give small businesses a fair chance to compete in this country.

Introduction

Save Small Business (SSB) is a loose grassroots coalition of small businesses across Canada. It was founded in March 2020 at the start of the COVID-19 economic crisis to advocate on behalf of small and medium-sized businesses.

SSB quickly became, according to the Globe and Mail, "... a leading voice for entrepreneurs as they struggled to survive during lockdowns and restricted reopenings and pushed governments across the country to consider the sector's economic impact in policy making."

With over 33,000 business owners, SSB's coalition represents a very important lens into the state of play of the Canadian small business community.

While we wound down COVID-19 emergency measure advocacy work in September 2020 and have been largely dormant since, the news of ISED's impending consultation on the Competition Act felt incredibly relevant to our coalition. We gauged interest from the coalition and they overwhelmingly confirmed that this was an issue that needed our voices to be represented.

Much of the discourse surrounding competition in Canada is related to issues like the impact of multinational technology giants on the economy and the price of groceries to consumers. While these are certainly important, many of the respondents to this survey are small, service-sector businesses who've been in business a long time. The issues they're facing are also key competition policy issues, such as the cost of basic services and the impact of consolidation in their industries. We think it's important for this review to provide the same level of consideration for the issues affecting more traditional small businesses as you do for topics that are more in the foreground.

This review will no doubt receive many submissions from academics, lawyers, public policy experts and associations representing big business. In contrast, what we offer is a picture of how Canada's existing competition policy regime has been impacting small and medium-sized businesses. Small business is often name-checked without a clear understanding of their actual concerns and needs. Our hope is that the government will take the plight of these businesses to heart in your deliberations, and that their challenges will embolden your efforts to ensure a fair and level marketplace in this country.

Key Findings

Very powerful themes emerged from the survey. Small businesses are facing larger competitors and dealing with larger suppliers and buyers than they used to. They have a hard time switching between suppliers of core services (particularly insurance, telecommunications and banking), and therefore face constantly increasing prices and worsening contract terms. Their margins are narrowing as larger competitors attract higher volume discounts and as their buyers and suppliers increasingly compete with them directly for their customers. As a result of all these factors, they are feeling squeezed and that the future of their business is largely out of their control.

They attribute some of their challenges directly to competition policy. They see their suppliers and customers buying each other and their competitors with increasing frequency, making it harder for them to succeed. They think the Competition Bureau should be more active in preventing these mergers, and that government is not doing enough to ensure their businesses have a fair chance to compete on a level playing field.

The challenges identified by these small businesses should be of great importance to this review. Not only did small business owners identify increases in mergers and acquisition activity as directly affecting their business, but their other answers and comments reflected other concerns related to competition policy. Industry consolidation, self-preferencing, volume discounting and abuses of dominance are all very clearly making it harder to keep their doors open.

Small businesses are facing larger competitors and dealing with larger suppliers and buyers than they used to. They have a hard time switching between suppliers of core services, and therefore face constantly increasing prices and worsening contract terms.

About our Survey

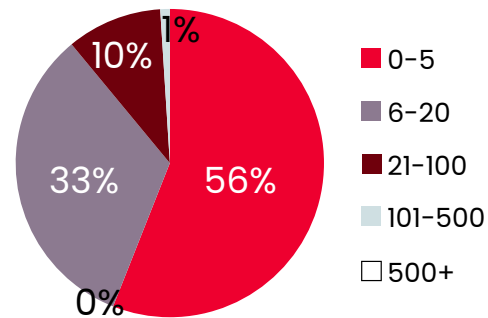
SSB surveyed the coalition on a series of topics relating to competition in their industries.¹

We received 1,008 responses² from small and medium-sized business owners. Respondents to the survey were disproportionately from small firms of between 0-5 employees (56%). More than 89% of respondents own firms of 20 employees or less.

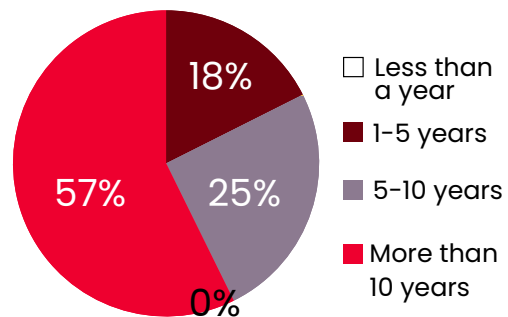
Retail, Tourism, Hospitality and Entertainment, and Service or Technology for Consumers were the three largest industries represented in our sample, with more than half of respondents self-identifying as such.

Despite their firms being small in size, our respondents have a track record of longevity. 57% have been in business more than a decade, and 82% have been in business more than 5 years.

How many people does your business employ?



How many years has your business been in operation?



1 This effort was funded by Social Capital Partners, a Toronto-based non-profit focused on increasing economic opportunity and reducing inequality. It was carried out by some of the original founding members of the Save Small Business, with support from the team at Social Capital Partners.

2 We can share the raw data from the survey with the government upon request, excepting areas where anonymity needs to be protected.

Findings

Small businesses are increasingly dealing and competing with larger companies

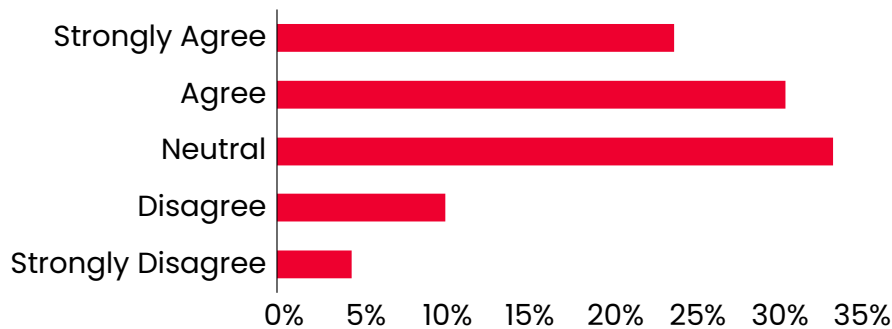
The size of companies in a given marketplace will obviously affect the competitive landscape in those markets. It's clear that, everywhere they look, Canada's small businesses see themselves trying to work with and compete with larger and larger companies.

"I have worked in food service my entire life. Over that time I have seen what was once a diverse web of individual, locally owned suppliers (meat, cheese and dairy, fruit and vegetables) all being bought up and amalgamated into a handful of multi national mega corporations."

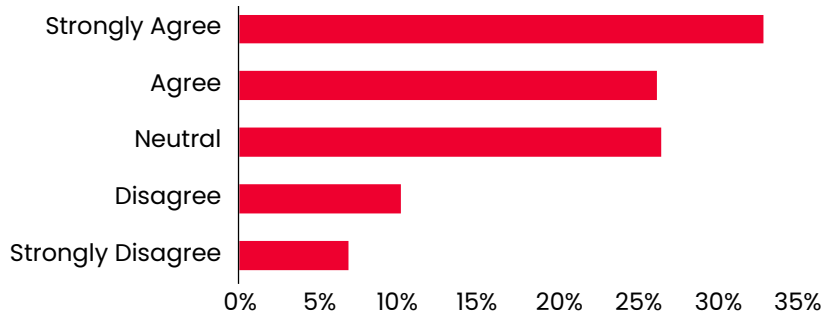
Small business owners in our survey told us that their competitors had been getting bigger. A majority of our respondents (58%) said their competitors were larger than they used to be, with only 16% disagreeing.

The issue of company size extends beyond their competitors. Importantly, they're seeing their suppliers and buyers also getting bigger all the time. A majority of respondents (53.6%) see the companies they work with getting a lot larger, and getting bigger over time. Only slightly more than 13% do not see that happening.

Many companies I deal with are a lot larger than they used to be and seem to be getting bigger all the time



My competitors are larger than they used to be



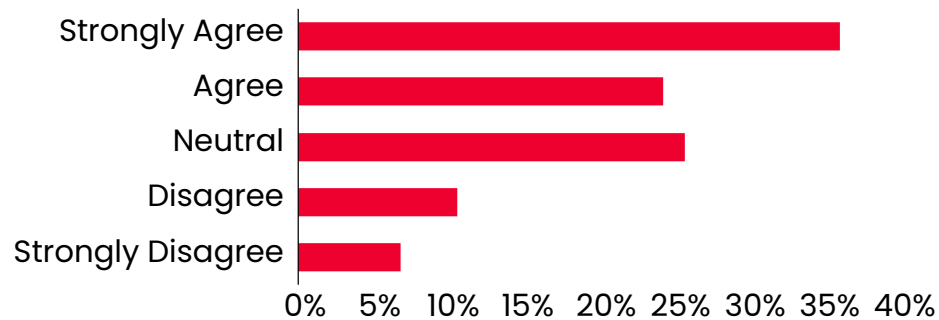
The increasing size of companies is making it harder for small businesses to compete

Respondents painted a rather stark picture of being increasingly unable to compete with big business, having less control over their own destinies and being pessimistic about their future.

“It’s not only competitors being bought out by bigger players, it’s distributors being either eliminated by not having their contract renewed and major brands going direct to consumers while slowly choking us by not giving us access to the full line of products and by imposing quotas on popular items they can sell direct online at full retail cost.”

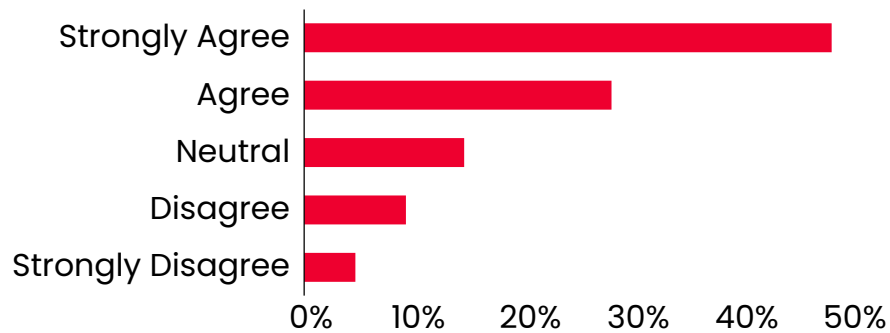
A clear majority (59%) feel as though they have less power to set terms and prices independently than they used to – with only 16% disagreeing.

My business has less power to set prices and terms independently than it used to

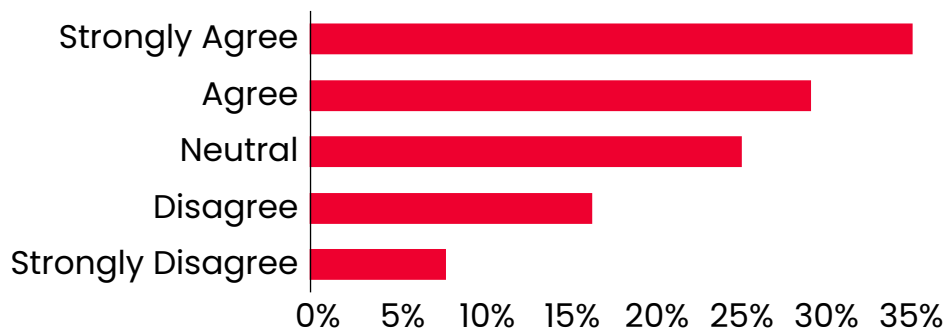


75% of small businesses feel they are being squeezed by larger businesses (competitors, suppliers or customers), and that it is getting harder every year. Correspondingly, 57% believe that their future is largely out of their control, and will be decided by the actions of other, bigger players in their industry.

I feel that my business is being squeezed by larger businesses and it gets harder every year



I believe the future of my business is largely out of my control, and will be decided by the actions of other, bigger players in my industry



Small business is increasingly affected by concentrated industries

There are some goods and services that almost every small business needs access to in a modern economy, like internet, insurance, banking, shipping and advertising. Many of these sectors are particularly concentrated in Canada, and have become a serious driver of cost inflation for small businesses.

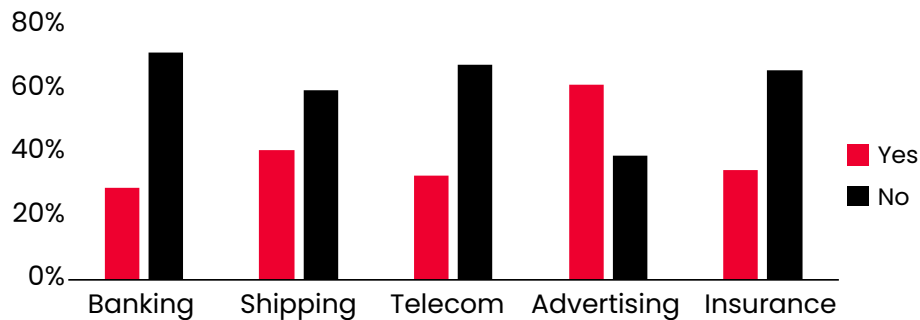
“We’ve lost our insurance provider twice since being in business due to insurance companies being bought by larger companies and deciding not to continue with our plans. Our banking fees are 250 dollars plus a month now when they used to be 50 for less services. Grocery prices are through the roof. We are being squeezed every way possible and our customers and ourselves are the ones feeling the strain.”

“Switching makes no difference if you are dealing with monopolies.”

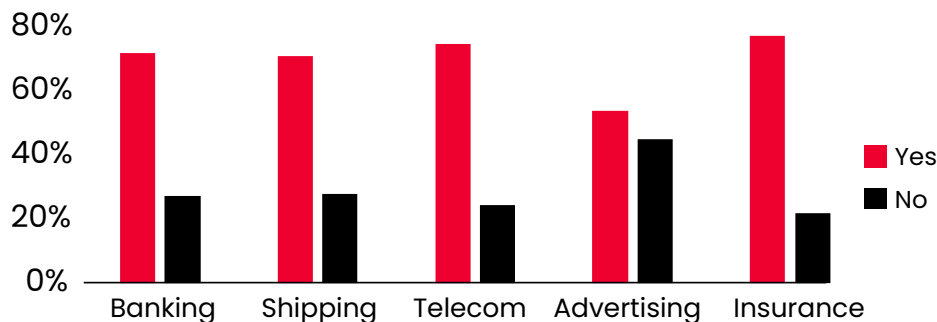
We asked respondents to rate each type of supplier with regards to how easy it was to switch between them and whether they were abusing their market power in their relationships.

Our survey found challenges in all five supplier categories we asked about. Particularly in dealing with banks and insurance companies, a significant plurality find it both hard to switch between providers and believe that these providers abuse their power by increasing prices and making contract terms worse. The lack of a competitive landscape for these crucial components of running a modern business put small and medium sized businesses in Canada at a considerable disadvantage.

It is easy for me to switch between different suppliers of these services



My suppliers abuse their power in our relationship by consistently increasing prices and/or making my contract terms worse



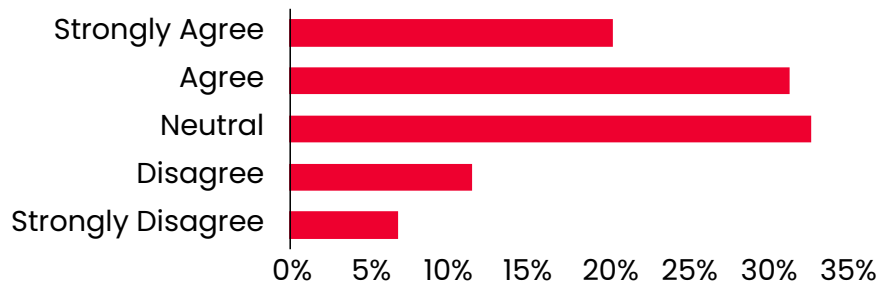
Small business owners see mergers and acquisitions as a driver of these issues

While mergers and acquisitions (M&A) can be a useful exit strategy for many business owners, they often result in industries that are overly concentrated. Small businesses struggle to compete on a level playing field when larger firms, through aggressive acquisition strategies, develop market power in their industries.

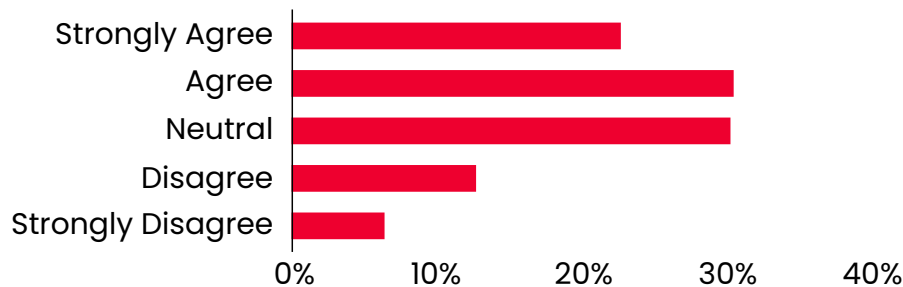
“My prices have to be kept competitive with big companies so I relied on technology and services companies that were very useful and helped to save time. But then all those companies were rolled into one and priced themselves so high that I either couldn’t use it or lost customers because I couldn’t keep pricing competitive. It increased my workload but decreased any profit.”

Worryingly, a lot of small businesses are seeing these consolidations play out in their industry. About half (50.5%) of our respondents told us that many of the companies that they deal with (suppliers, customers, buyers) are buying one another, or buying their competitors, with increasing frequency. Only 17% disagreed.

Many companies I deal with are buying one another, or buying my competitors, with increasing frequency



It is harder for me to succeed because the companies I deal with are getting bigger and more powerful by buying other companies



They also view concentration through M&A as a threat to their ongoing success. Over half of respondents (52.1%) find it harder to succeed because the companies they deal with are getting bigger and more powerful through acquiring other companies. Only 18.1% disagreed.

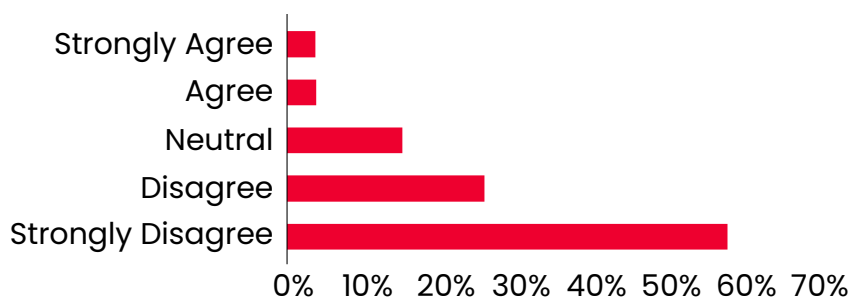
For over half of businesses to see increasing acquisition activity in their markets, and be able to directly attribute that to real negative impacts on their businesses, is an extraordinary result and speaks to the importance of controlling market concentration in Canada.

Small businesses want more active government engagement to ensure they can compete in a fair marketplace

It is not often that you find the small business community recommending that the government introduce more, not less, regulation. Competition policy represents an anomaly. Small businesses don't view more aggressive competition policy as 'red tape'. They believe a fair marketplace is vital to the success of their businesses – and that the government is currently failing them.

“When small/independent businesses are bought out by larger companies or corporations, there is a power shift towards the corporation, resulting invariably in higher prices and fewer choices, despite all the rhetoric from the corporations. The simple fact is that corporations cannot do it without government support or at least the government looking the other way. Which is what is happening in Canada, where we have virtually no competition at all in any sector. We only have cartels all working together to bully and squeeze the customer and small businesses, and maximize their profits and bonuses for their executives.”

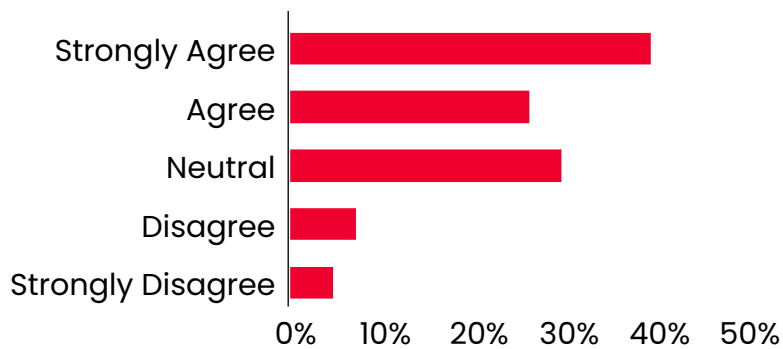
The government is already doing enough to ensure my business has a fair chance to compete on a level playing field within my industry



Respondents of this survey overwhelmingly (82%) believe that the government is not currently doing enough to ensure their businesses have a fair chance to compete on a level playing field.

Similarly, 63% of respondents believe that the Competition Bureau should be more active in preventing mergers in their industry because they are harming competition and making the market less fair for small businesses.

I think the Bureau should be more active in preventing mergers in my industry



Conclusion

One of the objectives of the Competition act is “ensuring that small- and medium-sized enterprises have an equitable opportunity to participate in the Canadian economy.”

Our community of small businesses is clear in its view that the Act is failing in this objective. The current marketplace we compete in is unfair, and getting more and more unfair every day. This perspective is informed by years of experience – 57% of respondents have been in business for over 10 years.

Unless this committee takes bold action, these businesses who are the lifeblood of the Canadian economy will struggle to survive. Not because they didn't modernize, or don't provide great service, but because their competitors, suppliers and buyers have been allowed to get so big that they can set their own terms and push them around. We don't believe that's the outcome that most Canadians would want.

We know our voice is rarely heard in this debate, so we appreciate the opportunity to present our collective views. We hope the government is genuine in their interest in protecting small business from unfair competition. We will never be able to bring the technical or legal expertise to the table that our much larger competitors, suppliers and buyers have access to, so we're relying on you to ensure these concerns are reflected in your recommendations.

Other things we heard

We asked respondents to anonymously share their stories with us - and they had a lot to say. We received hundreds of anecdotes about the competitive landscape for small businesses in Canada, covering a wide range of issues. Many of our respondents indicated a willingness to speak to government about their concerns. Below you will find an illustrative sample of the comments we received, especially those that hit on common themes we heard.³

“High credit card processing fees take 3% out of my revenue. It should be half that.”

“Telecom companies clearly have conspired to match each other’s prices to prevent competition. The government has done nothing about this, so prices are among the highest in the world for telecom services.”

“Almost all of my suppliers, but especially the largest ones, will force me to purchase at wholesale prices, then put their retail prices ... down on sale, forcing me to eat the margin difference. This practice has been especially abused during the past two years.”

“Large investment funds via [company redacted] are acquiring cosmetic clinics in Canada making the future of small cosmetic clinics less likely.”

“The major retailers are constantly adjusting and making up fees that gouge my business. They automatically deduct from the invoice so I can’t fight payment. The channels to dispute are not effective and slow as they are controlled by the companies you are disputing.”

“Small companies cannot get the prices that larger organizations are offered.”

³ We can share more of these stories upon request in different topic areas.

"It is a pervasive issue: There exists a systemic bias in regulation and licensing agencies that tends to favor the growth of large companies over small businesses, partly because the larger entities can afford dedicated Government Relations (GR) teams while small business owners are preoccupied with managing payroll and growing their businesses."

"Grocery retailers and distributors are gouging from our invoices more and more each year. We have no way to fight back as they just keep the money. This needs regulation. Recently, [name redacted] issued a 7.5% "Harmonization" tax on all [name redacted] sales from the previous year. This is criminal behaviour and should be illegal."

"We are unable to compete on organic or paid search results for our small boutique hotel against behemoth intermediaries like Booking.com or Expedia. These intermediaries are so powerful that they buy all the spots and pay much more than we can for them. This forces us to continue relying on the intermediary to provide 90% of our sales and paying them nearly a 20% commission, instead of attracting our own customers to book their stays on our own website directly."

"All suppliers increase their prices without any justifications. For example, my insurance quote was 40% though I had no claim whatsoever and the supplier simply said their appetite for risk has changed. This should be illegal."

"The wholesale products that we sell to customers, Amazon sells them for less than we can purchase them wholesale direct to consumer sales is fine, but when the consumer can purchase the product cheaper at a retail level than I can from the distributor then there's a major problem. At this point it's not competition and I can't compete."

“Internet and Point of Sale machines (credit card charges also) keep rising and are a major monthly cost consideration now.”

“My supplier has started to buy up different businesses in the industry to create only 1 place to go for all services. Then they raised the prices on all of them while also making it more labour for me to use. They used to do shipping/delivery and corporate search. Then they bought our software and raised the prices on it all.”

“Access to data and insurance every year we are seeing 20-30% increases in insurance and we can't sustain that.”

“Suppliers require us to meet purchase quotas, but they sell direct and advertise to our customers.”

“Buying out competitors to jack up prices which are passed onto the clients. This increases the overall appearance of the costs to engage legal services, even though it is a cost from this provider, not an increase for profit of the small business owner.”

“It's not only competitors being bought out by bigger players, it's distributors being either eliminated by not having their contract renewed and Major brands going direct to consumers while slowly choking us by not giving us access to the full line of products and by imposing quotas on popular items they can sell direct online at full retail cost.”

“We lost some small business customers because their industry got rolled up by a multi billion dollar UK company.”

“Tax breaks, buying power and loans/subsidies are offered to larger businesses. Small businesses have no power to negotiate so we end up paying more than our share.”



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