

ECONOMIC IMPACT

by

**OKANAGAN MOUNTAIN
PARK FIRE**

October 2003

Background

In August of 2003, the Okanagan Mountain Park Fire raged through Southeast Kelowna creating the largest evacuation in British Columbia history and in effect impacting life in the Central Okanagan for upwards of a week. A total of 240 homes were destroyed and many more damaged as the community rallied to fight back from the devastating events of late August.

Beyond the disruption and suffering for visitors and residents alike, were the losses suffered by small business. The Economic Development Commission (EDC) wanted to ensure that these impacts could in part be documented and presented to various levels of government, to ensure that a more complete picture could be demonstrated.

The Economic Development Commission has as a primary strategic initiative aimed at business retention. The Commission recognizes that keeping and growing businesses is of significant importance in economic development. The EDC also wanted to see how it could work with existing businesses to assist them in challenging times. The other main purpose for completing the survey was to allow the Commission to create specific programs to meet business needs.

Scope and Methodologies

The EDC undertook a process to attempt to identify the range of economic impact experienced by small businesses in Kelowna and the Central Okanagan over a four-week period. The study is by no means to be considered a comprehensive look at the true impacts on all business, but rather a snapshot of the range of impacts experienced by local businesses. Larger businesses such as forest operators and insurance companies were clearly not a target group for the purpose of this study, but rather a micro-analysis of the events that took place. As well, there clearly are a number of sectors and businesses that have experienced a positive increase in business as a result of restoration work, construction of new homes, appliance purchases and the like; this study is specifically aimed at assessing negative impacts.

Through the local media, elected officials and the EDC website, the Commission surveyed firms that believed they had been directly impacted in a negative manner to contact the EDC in order to arrange a time to be asked a series of questions over the phone. As well, Tourism Kelowna provided a list of tourism operators who were contacted directly and asked if they had felt any significant impacts. Phone surveys were completed from September 8th to September 29, 2003.



Methodology

Firms that contacted the EDC were asked questions aimed at collecting detailed information on six distinct business issues:

1. Direct financial impact of the fire
2. Impacts on the operations
3. Length of impact on business
4. Insurance issues
5. Recoverability of losses
6. Impacts on business plans

As well, basic demographic information was collected on number of employees and years in business. Sectors from firms responding were also identified. Responses to qualitative questions were analyzed manually in most cases in order to derive quantitative results. The total of all percentages presented in the report may not always be 100% due to the rounding of figures.

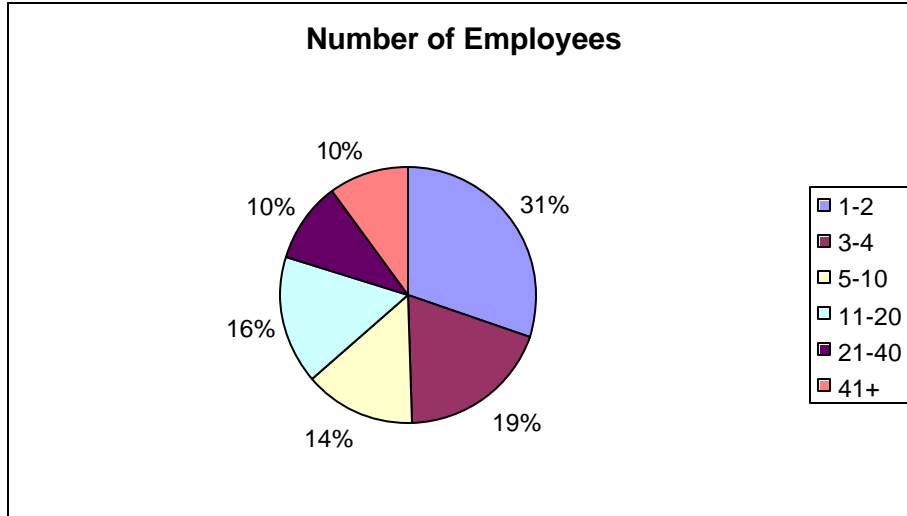
Results

The section below outlines the results of the survey. A total of 57 firms participated with each survey typically taking up to 30 minutes.

Number of Employees

The survey identified a total of 855 employees within the 57 companies that participated. Forty-nine percent are clearly small operations with four or fewer employees. Sixteen percent have between 11 and 20 employees and another 10% have more than 40 employees.

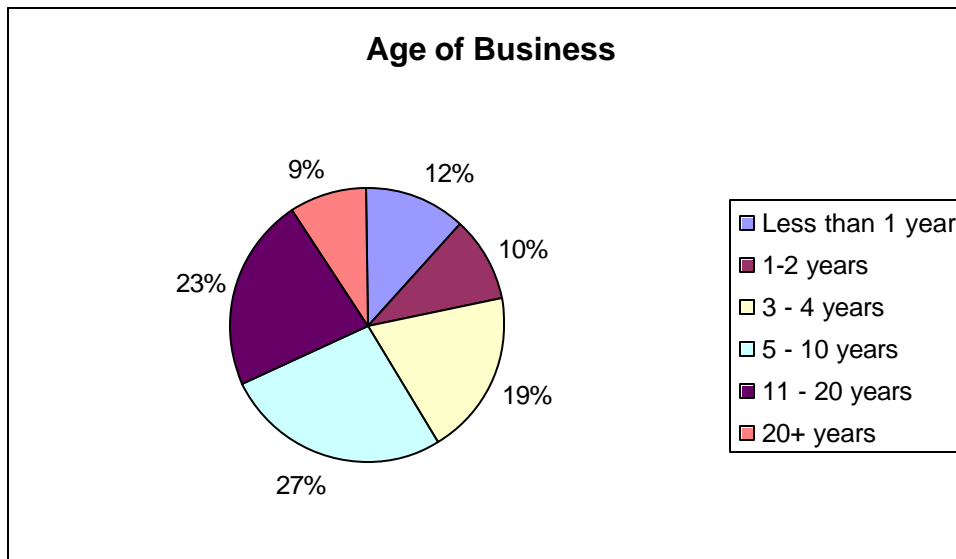
Clearly, the impacts experienced are not confined to one size of business. The predominance of firms with less than four employees demonstrates, however, that smaller firms have been impacted most and may have greater difficulty coping with these sudden challenges.



Age of Businesses

One surprising result of the impacts can be seen in the age of firms. Almost 50% of respondents have been in business for between five and 20 years and an additional 9% for over 20 years. The impacts have not merely been thrust upon new companies but long-running business institutions that found themselves facing a new series of challenges after, in some cases, struggling for years and looking forward.

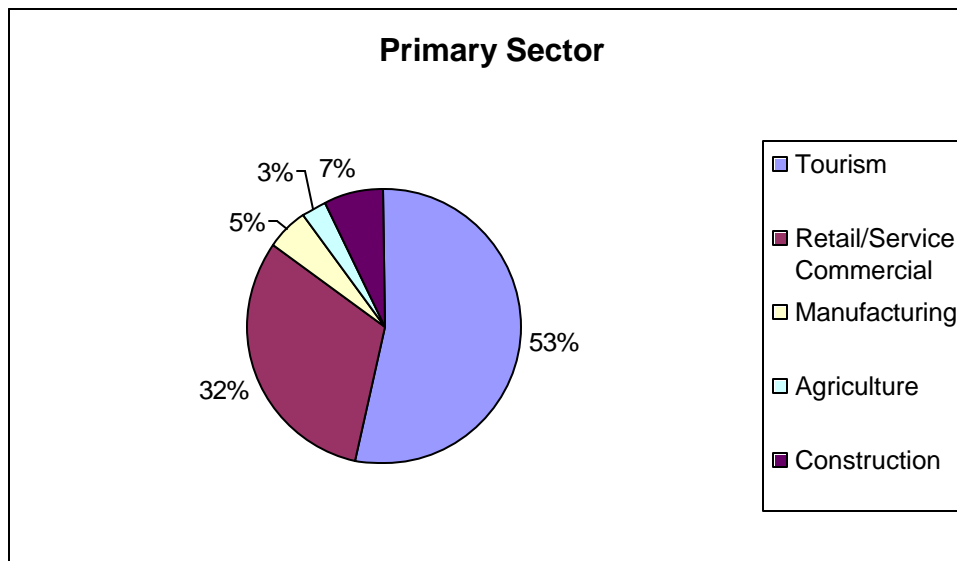
On the opposite end of the spectrum, 12% of the firms that responded to our request had been in business for less than a year. This trend is worrisome as many firms struggled to become established and commented on drastic impacts on their business plans, cash flows and general direction.



Sectors

Tourism businesses have suffered the greatest harm as a result of the Okanagan Mountain Park fire. As a result, these firms were of greater likelihood to participate. Direct contact was made to tourism operations identified in a phone list provided by Tourism Kelowna.

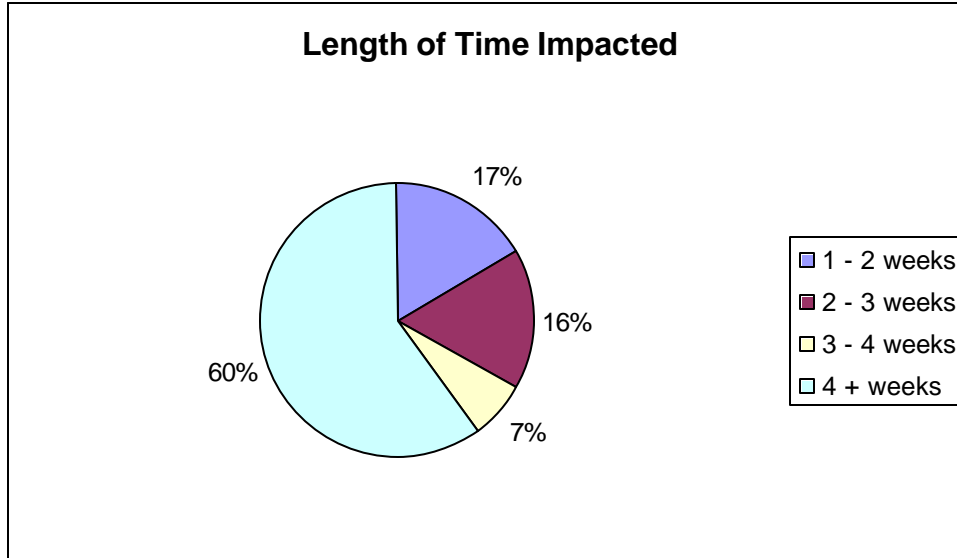
Fifty-three percent of all the businesses contacted during the survey considered tourism their primary designation. A further 32% were considered retail or service commercial businesses offering everything from technology-related management to restaurants and food services. A smaller number of construction, agriculture and manufacturing entities were also participants in the survey. As obvious as some impacts are, many others are not. Manufacturers and retailers alike often cited the inability of some firms to meet order deadlines and schedule employees.



Length of Time Impacted

The vast majority of participants, have and in some cases continue to, live with the impacts of the fire. Sixty percent have felt the impacts for 4 weeks or more, and 16% have felt such impacts for two to three weeks. This is important to note because while the fire is out, the impacts are still being felt by a majority of small business.





Total Economic Impacts

Firms that chose to participate in the survey were asked to provide the EDC with the direct economic loss as a result of the fire. Participants were probed as to the type of business year they were having and how it compared to last year’s figures. Several firms mentioned that they were exceeding last year’s business and having a tremendous year until the fire struck. Some spoke of finally making it financially and then being hit by this event. Two firms indicated that they were so frustrated by the events that they would move away to other places to either retire or start a business again. On a more upbeat note, many companies indicated that they know this was a once in a lifetime event and that they have suffered but will move on in the years to come.

Economic impacts should also include indirect impacts, which are often accounted for in terms of multiplier effects. Each dollar generated in income from business is usually re-circulated – to pay employees, buy a restaurant meal or upgrade to a newer vehicle, for example. These multipliers are of key relevance and importance in identifying total impacts.

The results indicated the following:

Direct impacts:	\$ 1,767,674
Indirect Multiplier 2.5	
Total Impact	\$ 4,419,000
Average Direct Loss/Business	\$ 32,140



It should be noted again that this number by no means represents the total level of impact demonstrated by all small business. It is merely a snapshot of the type and range of losses experienced by firms who chose to participate in the EDC's study. If 10% of the business base in the Central Okanagan was impacted to the same level, it could be estimated that approximately \$32 million and a total impact of \$80 million would have been incurred. The Provincial Ministry of Competition, Science and Enterprise is completing a more comprehensive study which may assess these total impacts.

Beyond the Numbers – Specific Impacts

The loss of \$4.4 million does represent a significant hit to local business. Beyond these numbers are serious concerns about current and future operations for a number of firms. This section will attempt to assess how the losses have been calculated by firm but also identify many indirect and tangible impacts that are not easily noted in dollar assessments.

- ***No customers or visitors*** – Many firms were impacted by the loss of business as customers failed to materialize for either practical or impractical reasons. Seasonal businesses such as ice cream stores and vendors, golf courses, indoor simulated grand prix racing – whose customers are mainly tourists wanting to have “fun” – simply lost their key season. There were fewer tourists in general and those who were here, “were not in a fun mood” for participating in such activities. Bed and breakfasts suffered many cancellations and reimbursements of deposits were required. Losses for August and September ranged from \$2,500 for small B&Bs to \$25,000 for high end spa-type B&B's. A home-based pet grooming business lost all her customers as they were evacuated and many still aren't thinking about grooming their pets. The range of impacts is as varied as the types of businesses.
- ***Evacuations from Location of Business*** - Several small hiking/biking tour operators lost access to the mountain park where they do their tours – or lost the park altogether. Some survived by quickly designing tours elsewhere, or doing partial tours. For example, one cancelled tour was worth \$1,000 to \$2,000, a loss that hit its operators hard. On positive side, most are looking at expanding their market outside the Okanagan so as not to be so dependent on one park area. Many lodges in evacuation areas had to get their guests out safely and then lost the remainder of previously booked stays. One operator estimated the loss of cancelled bookings for August and September at \$80,000. A home-based software consultant had to move a major computer system into a hotel and in the process lost two weeks worth of work on a contract and internet and phone access for several days, and picked up a computer virus along the way.

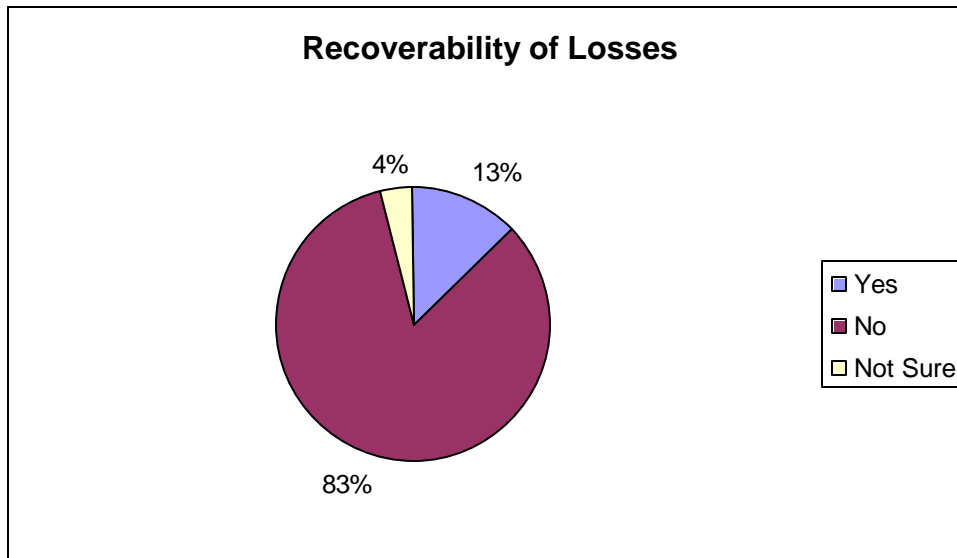
- ***Unable to Get to a Place of Business*** – A number of firms were impacted by their inability to access their place of work. For example, a self-employed cabinet builder whose main source of work was homes at Gallagher’s Canyon lost a number of kitchen projects. This work is not recoverable and the contractor is already working at a maximum.
- ***Employee Impacts*** – A number of small businesses lost significant business, as they were unable to get employees to work or had difficulty in scheduling work with any certainty. A well-established automobile service center lost key technicians for three days, which made it impossible to schedule what business there was. This business estimated its loss for August and September at more than \$54,000.
- ***Cancelled Events and Activities*** – Organizations commented on the cancellations of events that lead to losses. Many non- or not-for-profit agencies had to cancel fundraisers and other activities due to the chaos the fire brought on. The Rotary Centre for the Arts and Kelowna Art Gallery saw losses from cancelled weddings, receptions, classes and exhibitions. The cancellation of the Kelowna Farmer’s Market impacted some farmers’ ability to sell their products during key operating periods.
- ***Equipment Damaged or Trapped*** – A few firms indicated that although they had insurance they were unable to get replacement equipment for damages suffered in the fire. This in turn impacted their ability to obtain work. Some had equipment left in evacuated areas and were not allowed access.
- ***Stress*** - All businesses felt the stress factors like most residents did during the fire. One key area of stress was trying to track down evacuated employees and make sure they were okay. Some owners were dealing with the evacuation of their own homes and trying to keep their businesses running.
- ***Smoke, Smoke, Smoke*** – Quality of business was impacted by the constant presence of smoke. For example a number of wineries are concerned about potential losses related to the smoke damage to grapes. Another lost employees for a period of time as they were driven out of the Okanagan Valley by poor air quality.
- ***Sale of Business Lost*** - One unfortunate event for some homeowners and businesses was the loss of a potential sale. Insurance issues clouded some house closings. One firm was in the process of selling when the smoke and flames arrived and the deal fell through by the end of August.
- ***Survival*** – A number of start-up business wonder whether they can survive as a result of the immediate impacts. Several businesses in first-season start-up mode reported they were off to a great start, then lost their base of tourist customers.

One said their one-year plan has now become a five-year plan and they had to dip into their “contingencies”. Another new business is questioning whether they will even continue despite a great start to their first season. Their concern is that their start-up marketing will have to be repeated all over next season because they are not well known enough to rely on referrals yet.” Estimating their start-up advertising, grand opening event, and cancelled bookings for August and September represent a total loss of about \$23,000.

- **Closure** – A local horseback riding business was already dealing with the fact that hot summer weather was making riding less popular when the fire hit. Both factors combined saw the business down \$ 5,700 from last year – enough to put it over the edge. The owners sold the business and are moving back to their native Switzerland.

Recoverability of Losses

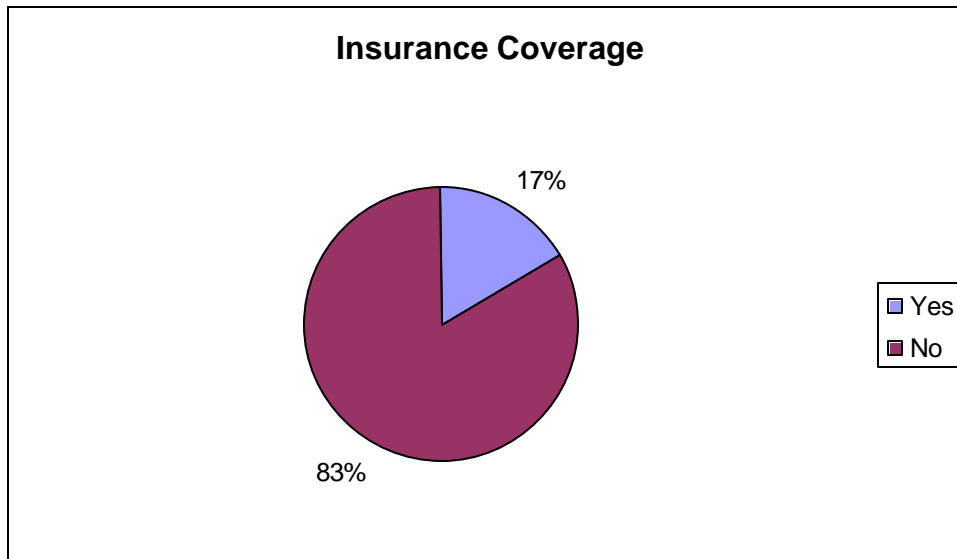
The vast majority of businesses that incurred losses claimed that such losses will not be recovered. Approximately 83% said that with the tourists gone they are already working at a maximum. There was a fairly positive outlook from most companies who felt they will bounce back and will be able to cope with the challenges presented. Thirteen percent of the companies were less concerned and felt that the dollars would be recovered.



Insurance Coverage

In terms of insurance coverage, even the 17% of businesses with coverage did not see the majority of their losses being offset. Only 3% of the total number of firms that responded had adequate coverage. Issues arose in regards to the range of coverage as it related to business interruption insurance and the losses covered.

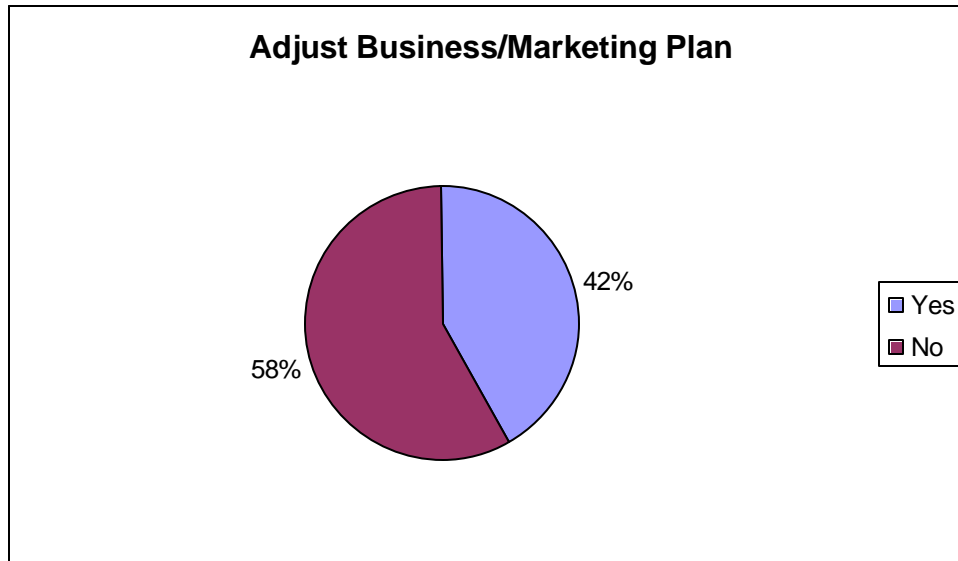
One clear comment from a majority of businesses: we did not give serious enough examination of our insurance coverage and need to really assess our policies for the future. To this end, the EDC is recommending an insurance forum be held early in the new year to put the insurance industry in front of small business to address coverage issues.



Adjust Business/Marketing Plan

Slightly less than half of the respondents indicated they will take steps to change their business plans or marketing focus as a result of the fire impacts. Customer re-engagement was the most frequent response cited as the way to minimize the fire's impacts. This engagement will take many suggested forms from sending out current pictures of Kelowna on Christmas cards to calling existing customers and offering a discount for future bookings. Website changes were also suggested with an "open for business" message being touted on a number of local websites. Other firms want to continue to partner with established operators such as the Thompson-Okanagan Tourism Association, the BC Wine Institute and Tourism Kelowna to try and lever dollars for their firms and the Region as a whole.

Those companies that plan to not make any significant changes are standing pat for a number of reasons. Lack of cash flow will hinder many from making marketing changes. The most radical business plan change has included shut down for one firm and a sale for a second firm.



Conclusions

With the fire now under control, it is no surprise that its impacts continue to be felt. Impacts have taken place in many ways and the Economic Development Commission (EDC) undertook this initiative to ensure that these impacts could in part be documented and presented to various levels of government to ensure that a more complete picture of the events can be documented. EDC has as a primary strategic initiative aimed at business retention. The Commission recognizes that keeping and growing businesses is of significant importance in economic development and the EDC also wanted to see how we could work with existing businesses to assist them in challenging times. The other main purpose for completing the survey was to allow the Commission to create specific programs to meet business needs.

The impacts have been significant to small businesses. The \$4.4 million loss cited in this study is merely the tip of the iceberg. The survey has been a way to document not only the dollar totals, but also the range of impacts that go far beyond specific dollar losses. This study has provided a snapshot of the events based on information from the businesses that chose to contact the Economic Development Commission.

The Commission wishes to share this report with the Federal and Provincial governments to ensure that the small business sector is not overlooked. Both senior levels of government have the ability to create programming and policies that could provide either direct or indirect assistance to the Region and the impacts that have been demonstrated. Local foundations will also be apprised of the data should they choose to get involved in providing assistance to impacted companies.

In the very short-term, the information provided has put immediate focus on insurance needs and the Commission hopes to address this in the form of an Insurance Forum early in the new year. The Commission will also continue to monitor and work with the firms that have contacted throughout the survey process, and to provide some marketing, partnership and business counseling to assist those in need.