

Business Insights® 2011: On-the-ground in BC

Highlights from the Business Insights Survey of Canadian Private Companies 2011

Tahir Ayub

Canadian Private Company
Services Leader

604 806 7502

John Bunting

BC Private Company
Services Leader

604 806 7797

Leo Smyth

Fraser Valley Private Company
Services Leader

604 495 8941

The 2011 Business Insights® Survey reveals that the majority of Canadian private companies are staring global volatility in the face, standing strong and planning to grow in the coming year. This confidence comes from having survived the recession by developing key strategies that allowed them to navigate through hard economic cycles. These strategies were underscored by a strong focus on improving efficiencies and maintaining a robust balance sheet. This year's respondents also learned the importance of retaining key talent through tough times by using innovative, forward-thinking, and often non-monetary HR strategies.

As the Canadian economy picked up, rather than go back to pre-recession ways, the majority of this year's respondents have continued persevering in improving internal efficiencies in order to ride the economic roller coaster indicative of the new norm of uncertainty.

In fact, 86% of respondents cited operational improvements as a key driver of their innovation strategy. And almost 60% of respondents are leveraging their technology investments to make their business processes more efficient/effective.

What's more, they are working closely with customers and suppliers to innovate. They are

listening and taking action. Critically important to this year's respondents is the ability to manage costs within their supply chain, with 50% focused on reducing those costs.

But this year's results show Canada's private companies are taking it one step further. They are being proactive in seizing the opportunities in this highly competitive global environment by embracing innovation, new technologies, including leading-edge mobile and social media, and new markets. In fact, 68% of this year's respondents are either in or looking to grow in new, emerging markets.



On-the-ground observations: BC

Numbers, statistics and big picture analysis by economists all play an important role in understanding the trends and issues private companies face. But it is private company leaders who are the ones in the trenches innovating, developing strategies and executing them. There is a lot to be said and learned from working day-to-day with business leaders and gathering their insights and “on-the-ground” experiences.

Throughout this past year, John Bunting, Vancouver Private Company Services Leader, PwC and Leo Smyth, Fraser Valley Private Company Services Leader, PwC, have been working with private company leaders in BC, helping them set and meet their goals and drive business growth.

Here they share some of those “on-the-ground” observations:

“I would say in general, the economy in BC is relatively good,” says Bunting. “Anyone in mining has had a great year and will likely have another one. The real estate sector is still a little cautious and certainly feeling the yo-yo effect from no HST, to HST, back to no HST. The retail and consumer sectors are looking pretty good. Tourism is holding its own, despite the drop in US tourists. Forestry is treading water due largely to the depressed prices in construction material because hardly anyone is building in the US. As with the rest of Canada, BC has survived the recession well. The fundamentals are good but not good enough to equate to really strong growth in revenues,” says Bunting.

Both Bunting and Smyth, work closely with BC private companies, helping them improve their processes and strategies to achieve their goals. Because they work with many successful, forward-thinking private companies, they have gleaned a wealth of insights into best practices of top performers. In fact, despite the less than robust BC economy, both say most of their clients are thriving. “When you read the newspaper, you get a different story than from what I’m seeing with my clients. The majority of them, probably better than 75% of them, are doing very well,” says Smyth.

Bunting agrees: “If I look at my clients, most of them are actually growing. But are they growing because of a robust BC economy? No.”

Growing without counting on the economy

“What I see happening is private companies achieving growth through reasoned and strategic initiatives instead of knee-jerk reactions,” says Bunting. “And there’s an air of caution that’s layered over all the feedback from this year’s Business Insights results, which accurately reflects what I’m seeing with the companies I work with.”

Most BC private companies are not under any delusion that the province’s economy will be buoyant anytime soon. This year’s survey, in fact, found that only 13% were planning on achieving growth by exploiting a buoyant economy. Yet the vast majority of respondents say they are planning to grow in the coming year, with 69% indicating they will achieve growth with market share gain in what is a very competitive landscape.

“I’m seeing BC companies buying for market share and to take out the competition,” says Smyth. “There have been a number of M&As in BC this year. The ones I am seeing are selective M&As related to succession, strategic inbound investments and financial restructurings. The companies that are doing well have a strong balance sheet and they really understand what they’re good at. They understand their core business exceptionally well. When they expand, they are very much focusing on things that are complementary to or part of their core

expertise and that’s where they’re outperforming the competition. The companies that have a more scattered approach, or the ones with the weak balance sheets are the ones not doing as well.”

The best keep getting better

Faced with low economic growth in BC and a continuing sluggish US economy which remains BC’s largest foreign trading partner, BC companies are focusing on improving their efficiencies and processes, with many leveraging technology to do just that.

“It comes back to organizational design and being innovative in terms of the way you produce what you produce. Ultimately, the only way companies can reduce their costs is to use technology because technology can help increase productivity,” says Bunting.

Smyth believes that strong performers are constantly looking for ways to improve their efficiencies—and measuring it. “They’re not doing this in response to something. They’re always working on efficiencies and processes, always watching their overhead. Performance measuring isn’t an area that is often well done, but doing it well, including forecasting and having a robust plan, is very much a part of improving processes for my strong performing clients,” he says.



With the increasing complexities of global supply chains and the volatility of input costs today, leading BC private companies are being strategic in managing these costs. “One way people try to take costs down in their supply chain is by improving their expertise in logistics, and decreasing the amount of inventory in the supply chain at any point in time. But that comes with risks,” says Smyth. “The tighter the supply chain, the more vulnerable you are to a late shipment or a strike or a natural disaster such as the Japanese earthquake.”

Adds Bunting, “I see strong performers facing tight supply chain issues consider such strategies as diversifying their list of vendors and producers so they are assured of a supply.”

The world is getting smaller

“A lot of foreign money is flowing into BC, with much of it coming from emerging markets such as Asia and Eastern Europe,” says Bunting. “A good percentage of it goes into real estate. Just look at our house prices. Vancouver is considered a very desirable place to live.”

That creates a challenge for BC companies when it comes to attracting talent. “We have manpower issues in the sense that it’s often hard to attract people from other regions because the cost of living is so high,” says

Smyth. “So the recruitment of executives can be difficult. On the one hand, there’s an abundance of talented people in other areas of Canada, but it’s very hard to get them here because of our cost of living.”

BC’s private companies are moving towards greater diversification globally. More are trying to take advantage of the opportunities that the province has as a result of being an international transportation hub as well as from its diverse population with ties to both India and China. “Culturally, and from a language perspective, companies that tap into this can bootstrap themselves in those regions more quickly,” says Smyth. “But I still think there’s a strong bias to import from Asia rather than to export because it’s cheaper to produce there. We are starting to see goods being manufactured and imported from Eastern Europe. The reality is that once the US economy gets back up and running, for consumer goods and manufacturing products, that’s still going to be our easiest and biggest market to enter. So the

dependence or exposure to the US will continue because it’s a massive market, it’s right here at our doorstep, it’s culturally similar and building codes are so similar. The US is just way too easy.”

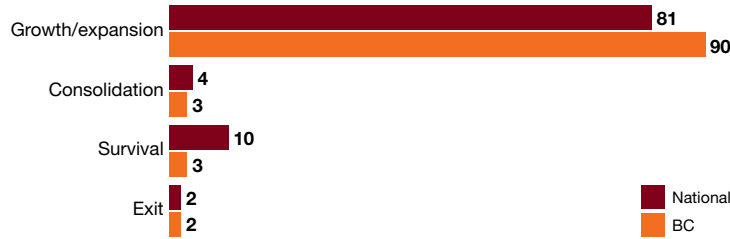
While BC companies could be looking to diversify more into foreign markets, the reality is those emerging markets are increasingly investing in BC, and that poses great opportunities for BC private companies to form joint ventures and possibly have an easier time getting their foot into the foreign markets their partners or investors are in.

That said, “I just wish we were better at creating and building new businesses. It’s one thing if Canadian businesses are being bought, but if we’re creating and forming new ventures and growing them, that’s a positive thing. Outside of technology start-ups, I don’t see as much venture creation now as I saw 20 years ago. That remains a big challenge for this province,” says Smyth.

Selected statistics for BC

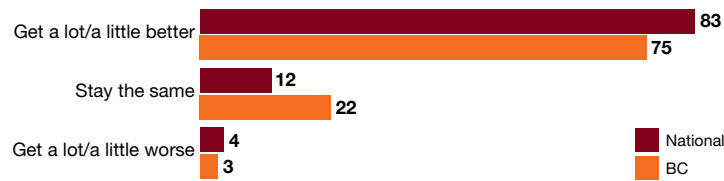
In the next 12 months, which one of the following strategies is your company striving for?

Percentage of respondents



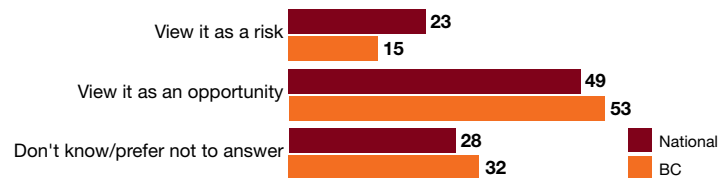
Compared to the present situation, how do you expect your business to develop over the next 12 months? Will it ...?

Percentage of respondents



Foreign direct investment ('FDI') into Canada from emerging economies like Brazil, China and India has been growing at an exponential rate since the early 1990s. Some view FDI as a business risk while others view FDI as an opportunity. What is your view?

Percentage of respondents



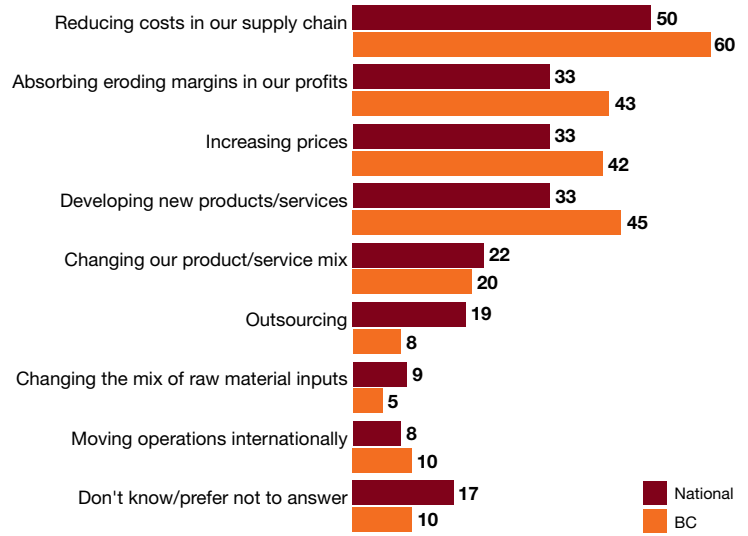
How do you plan to achieve growth?

Percentage of respondents

	National	BC
Improved sales and marketing	62	59
Market share gain	58	69
Expanded operations	51	52
Improved internal systems	46	37
Developing new products	44	52
Strategic partnerships	37	37
Acquisitions	36	37
Entering new domestic market(s)	29	35
Buoyant economy	20	13
Entering new foreign market(s)	19	7
Mergers	11	15
Decreasing competition	6	9

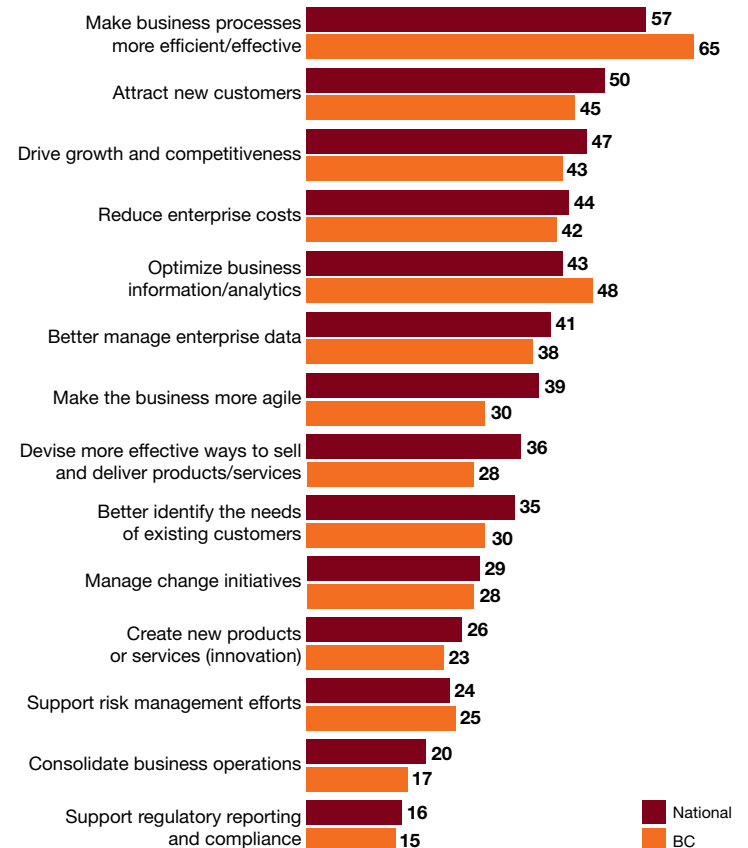
Volatility around the world is impacting the cost of inputs for many private companies. What are you doing to manage your business' cost of inputs?

Percentage of respondents



Which of the following objectives is your business aiming to achieve by leveraging its technology investments over the next 12 months?

Percentage of respondents



* Statistics presented for BC are based upon a sample size of 60 respondents.