

Business Insights 2011: On-the-ground in Ontario

Highlights from the Business Insights® Survey of Canadian Private Companies 2011

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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: Ontario

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, Frank Magliocco, GTA Private Company Services Leader, PwC and Glen Dyrda, Southwest Ontario Private Company Services Leader, PwC, have been working with private company leaders in Ontario, helping them set and meet their goals and drive business growth.

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

“On first blush, it’s great to see how optimistic this year’s respondents are overall,” says Magliocco. “But when you look closely, that optimism is regionally disparate. There is definitely more optimism in BC and Alberta versus Ontario and Quebec and that’s likely because of our close ties to the US. Alberta in particular has been riding high because of the energy sector while private companies in Ontario have been weighted down by manufacturing and the rise of the Canadian dollar.”

That said, Ontario companies are well-positioned to move forward. They got knocked around during the recession but came through it stronger, with a focus on ongoing improvement and are ready to grow. They have dealt with the issues of a strong currency, are finding their place in a globally competitive market place and are looking to make their products and services appeal to a broader audience. “They are differentiating themselves, performing well and striving for growth,” says Dyrda.

“We have a lot of manufacturing clients in Southwestern Ontario who would likely say they had had a better year this year than last (this was certainly true when the survey was conducted in June and July). Their financial results have improved and they see more opportunity going forward. Some of the actions they had to take coming out of the recession of a year or two ago have

started to pay off.” Those actions included becoming more efficient in manufacturing processes and delivering services and in some cases, downsizing to a level that is reflective of the current, smaller market they have.

Still, Ontario private companies are more conservative in their growth expectations than Alberta and BC-based respondents. And for good reason, says Magliocco. “Ontario and Quebec are more closely linked to the US, which is still shaky. We do so much trade with the US, private companies are always thinking about what’s happening there. Until the US stands strong, Ontario and Quebec-based private companies will have a tougher slog than their western counterparts. These business leaders know that and are planning accordingly.”

Achieving growth

Ontario’s private companies are still very focused on their competitors, a theme that has carried over from last year’s findings. In order to beat existing competitors and the new competitors making their way into Canada from emerging markets where labour costs are much lower, Ontario’s private companies are putting the lessons learned through the recession to work. “They are developing innovative distribution and service delivery methods,”

says Dyrda. “They are focusing on their customer relationships and they have a close eye on reducing costs in the supply chain in order to best manage price. But beyond price, they are distinguishing their products/service quality and differentiating their value proposition in order to gain market share.”

The reality is that the competition is no longer just the competitors in our own backyard. “Competition is truly global,” says Magliocco. “Without a doubt, emerging markets in Asia and BRIC nations are putting a big squeeze on Ontario. But our private company leaders have their eyes wide open. Process improvements, efficiency, effectiveness, low cost production—these are all just part of the reality in today’s business landscape. Front of mind for Ontario private companies is the realization that they need to be competitive, reduce costs and create the right deal for savvy consumers. You improve, innovate and differentiate or risk being irrelevant and struggling.”

Improving, listening and keeping an eye on talent

While demand is up and business is coming back, the impact of the recession is still being felt. “Ontario and Southwest Ontario in particular got hammered hard in the

recession. There were a lot of job losses. Factories were closing or running one shift instead of three and you have a lot of overhead in a manufacturing facility that is hard to cover when you are only operating at a third of your capacity,” says Dyrda. “Ontario manufacturers are definitely focused on keeping costs down and that’s why I say coming out of the recession even as they ramp up, some of the initiatives they put in place two years ago are being used today to improve their profit margins. And while those margins are better than they were in the depths of the recession, they still haven’t returned to pre-recession levels. As a result, Ontario companies have to have a continuous improvement effort and find ways to be more efficient. And that’s exactly what they are doing.”

Ontario companies are also very much in tune with their customers and looking for input on how they can improve the quality of the products they supply to meet their needs. This relationship is a key driver of innovation—as is their relationship with suppliers.

Leading Ontario private companies are also looking to the next new technology to help them continue to succeed, says Magliocco. “The fact that respondents are so attuned to the power of mobile technology and social networking is not surprising. For example, I was out with a real estate group and they are using social media to market and sell bricks and mortar properties. They recognize you have to innovate and are spending the resources to enter into this new domain of social networking to get that competitive edge in order to sell that next property. The real estate industry is



not like the high tech industry yet. These private companies have their eye on the ball when it comes to these technological trends. They see the big picture. It’s confidence-inspiring.”

Also confidence-inspiring is the fact that Ontario private company leaders have their eye on finding, retaining and managing top talent. “This is the way they will differentiate themselves going forward,” says Magliocco. “Leading companies recognize that today’s workforce wants more than just money. It’s about establishing the right environment and culture, one that is conducive to work-life balance. Successful employers are creative in this area and build those environments. You are seeing much more of this in Ontario.”

Going forward

Increasingly, Ontario’s private companies are looking to expand operations by moving into new emerging markets with many focused on exporting into Asia. “All the businesses I’ve talked to are looking to markets outside the US,” says Magliocco. “Initially, when companies looked to

emerging markets they were doing so to reduce cost of inputs. But this has changed over the past few years and now Ontario companies are looking to these markets for opportunities to grow. We will see more joint ventures with local partners in these markets in order to mitigate risk.”

With all the uncertainty in the US market, this big picture view is particularly important. It is also reflective of the pragmatic nature of private companies.

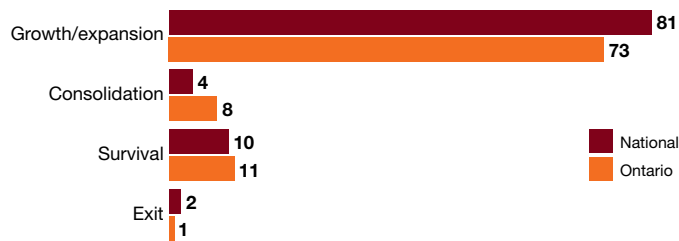
“Private companies are not speculators. They tend to be businesses that are in it for the long haul. In many cases, they are family businesses building legacies,” says Dyrda. “So they aren’t reacting to short-term fluctuations. Rather, they are looking to longer term performance as their guide to next steps.”

It was precisely that approach that allowed Ontario private companies to be resilient to external market forces during the recession, and emerge well positioned to move forward, says Magliocco. “I’m quite optimistic about Ontario private companies.”

Selected statistics for Ontario

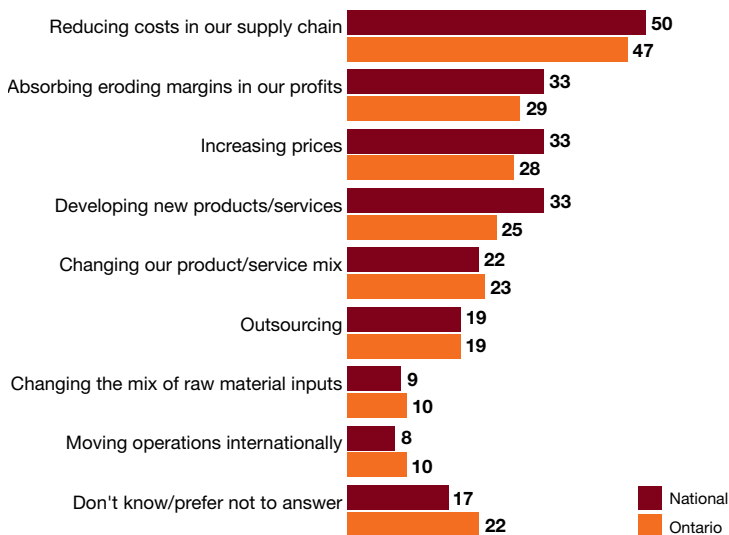
In the next 12 months, which one of the following strategies is your company striving for?

Percentage of respondents



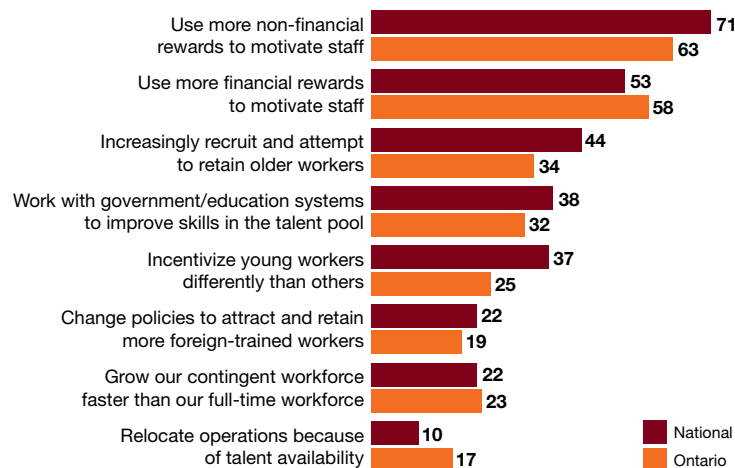
Volatility around the world is impacting the cost of inputs for many private companies. What are you doing to manage your business' cost of inputs?

Percentage of respondents



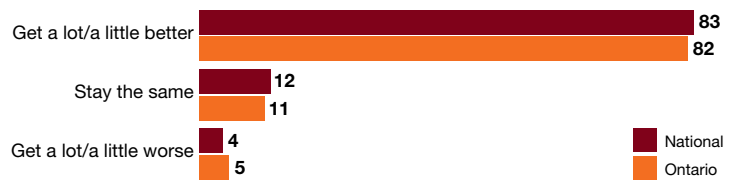
Access to and retention of key talent is critically important for sustaining growth over the long-term. Do you plan to change your people strategy in the following ways over the next 12 months?

Percentage of respondents



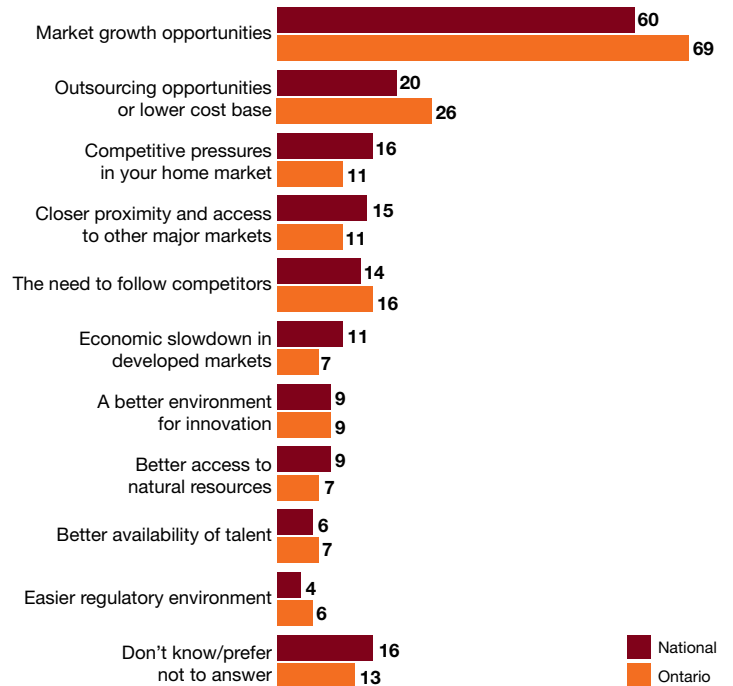
Compared to the present situation, how do you expect your business to develop over the next 12 months? Will it ...?

Percentage of respondents



Why has your company invested in emerging foreign markets?

Percentage of respondents



* Statistics presented for Ontario are based upon a sample size of 79 respondents.