

Business Insights 2011: On-the-ground in Quebec

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: Quebec

How do you grow when traditional markets are shrinking, the dollar is strong, your largest trading partner and the world's biggest economy, the US, is struggling and players from around the world are bringing competition to new heights? These are the challenges Quebec's private companies have faced in the past year and continue to face today. Yves Bonin, Montreal Leader, Private Company Services, PwC, has been working with Quebec's private companies day-in and day-out helping them meet those challenges and grow.

Here, he shares some of his on-the-ground observations:

Big picture: Quebec's private companies are holding their own in what has become an intensely competitive environment across all industries and in all market sectors, says Bonin. "Competition is coming from everywhere: domestically, from the US and from emerging markets. The players are strong and competition is fierce. As a result, traditional markets are shrinking and Quebec's private companies are looking at innovative ways to grow."

At the same time, Quebec-based companies have been particularly affected by the stagnant US economy, the largest recipient of its goods and services. Those economic ties are deep and the impacts far-reaching. "We are so near to the US, if it's tough there, it will be tough here. In Alberta, they have the energy market, but we don't have that here. We are optimistic, but the US has to get back on track because it's our nearest, biggest market." Not surprisingly, then, unlike Alberta and BC which are in aggressive growth mode, Quebec's private companies are predominantly focused on protecting their top line and bottom line and they are not counting on a buoyant economy—as many Alberta companies are—to help them do that.

While the economy, competition and profitability are the biggest concerns for Quebec respondents, Bonin believes innovation will be increasingly important

over the next 12 months. "If you keep the same business and don't change your offering, someone will step in and steal that market share. It changes so fast now. You cannot just be content with your existing products and hope customers continue to like it and find you. You have to innovate. The competition will invent something new and you won't be able to retain your market share."

Growing through M&As and innovation

Quebec's private companies are looking to make acquisitions to help them improve their top line sales. "They are looking for small acquisitions to add to their product mix in an effort to at least protect their market share and for those that are more optimistic, to grow that market share," says Bonin. "If you look back at 2009 and 2010, it was difficult to finance acquisitions. It is easier to access financing today and that's why they are aggressively looking at acquisitions." Even so, only 52% of businesses in Quebec plan to fund their growth via a bank loan. Instead, says Bonin, they are accessing financing from the BDC and the province's two major labour union funds, which have money earmarked for job creation and protection in Quebec. "These labour unions have a lot of cash and they have to invest it. It's part of their mandate."

Beyond maintaining and gaining market share, Quebec-based companies are also looking to M&A as part of their strategy to find top talent. "In some cases, they are looking for companies that have the skills their own company lacks and buying those competitors," says Bonin.

Interestingly, Quebec companies are also using M&As as a significant source of innovation. "Over the last three years, people tried to stay alive," says Bonin. "Now those companies that have come through the recession and plan to grow have to innovate. Some Quebec companies realize they don't have the resources to innovate internally and they cannot afford for a new innovation not to work. So they are ready to pay for companies that have already innovated and had some success because they don't want to start from scratch. They will look to buy companies with a new idea or product and develop that with them."

Quebec private companies are also looking to collaborate. According to this year's findings Quebec-based respondents are most likely to co-develop innovation with partners (60% in Quebec vs. 26% in Alberta).

Getting better

With maintaining market share as the focus, private companies are drilling down and improving processes. “They are finding ways to be more efficient. They are investing in new technologies,” says Bonin. “Of course, many of my clients have already done that through the recession, but constant improvement is the new reality for private companies across Canada.

When it comes to managing cost of inputs, Quebec companies, just as the findings depict nationally, are trying to find the best and least expensive way to produce goods throughout their supply chain. “Profit margins are not what they were five years ago,” says Bonin. “The competition is ferocious. The only way to win is the execution. And that means you need very good staff. You can have the best equipment—and Quebec’s private companies have made significant and ongoing investments in this area—but if you don’t have skilled people working the equipment, there is no benefit. They have to train their people for optimum performance and Quebec companies are doing that.”

Attracting and retaining top talent is also front-of-mind for Quebec’s private company leaders who recognize that they have to incentivize younger workers differently. “Younger people are more focused on work-life balance than previous generations and private companies can often offer more amenable conditions for them than larger public companies,” says Bonin.



Going global

Also in keeping with the national findings, many of Bonin’s clients are looking to new markets. Quebec’s private companies in particular are looking to South America. “Brazil is very popular for Quebec private companies because it will be hosting the Olympics in 2016 and people are looking for opportunities,” says Bonin. “The organizers will need new roads built and new equipment, and Quebec businesses want to be there. We have received a lot of calls over the last six months from clients interested in doing business in Brazil and looking for advice on how to get into that market.” With traditional markets shrinking, Quebec private companies know they have to look beyond Canada and the US and they are doing that. In fact, Bonin says some 50% of his clients are already doing business outside Quebec. “They have to in order to maintain their current level of sales.”

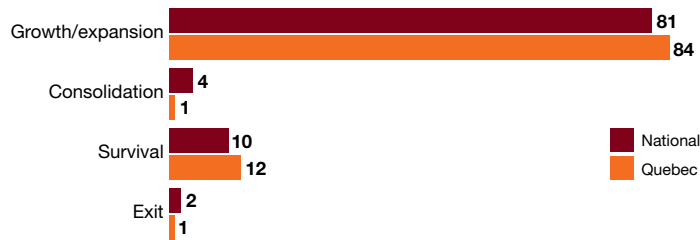
On the flip side, mining companies from China, Russia and India are looking to invest in Quebec. “And that creates a lot of opportunities for other sectors such as construction companies, equipment manufacturers,” says Bonin. “Notwithstanding the added competition, this is a good thing but Quebec companies have to educate themselves about these new competitors and position themselves to take advantage of the opportunity they represent.”

That said, Bonin is confident in Quebec’s private companies. “They are adaptable and understand that change is the new norm. They are willing and able to do what it takes to make the most of whatever the market throws at them.”

Selected statistics for Quebec

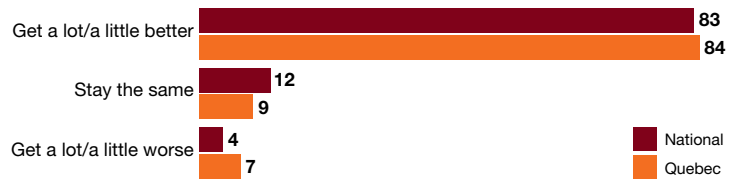
In the next 12 months, which one of the following strategies is your company striving for?

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



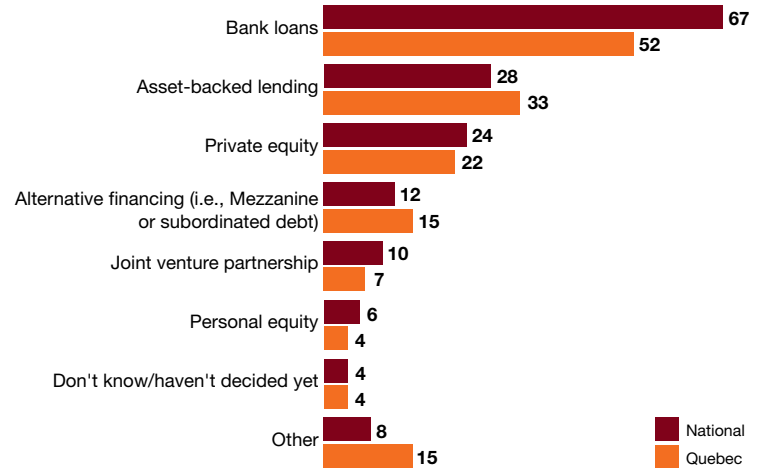
Volatility around the world is impacting the cost of inputs for many private companies. What are you doing to manage your business' cost of inputs?

Percentage of respondents



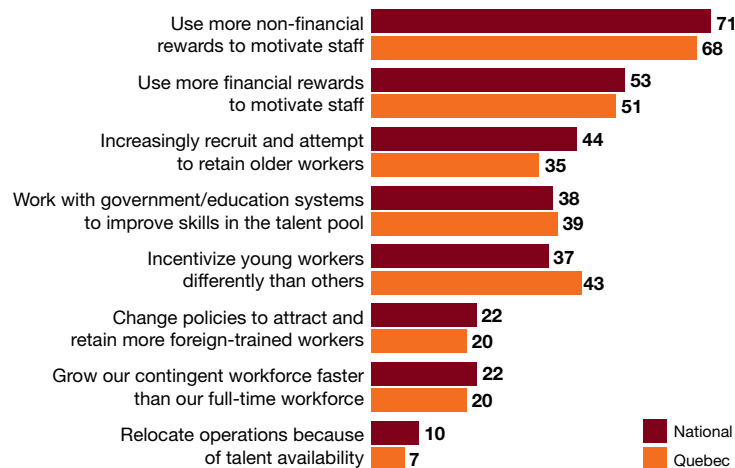
How do you plan to access additional financing to fund your growth?

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



* Statistics presented for Quebec are based upon a sample size of 75 respondents.

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