

*The new business as usual*

The Business Insights<sup>®</sup> Survey of  
Canadian Private Companies 2010

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# Welcome to *Business Insights*

This report shares the results of PwC Canada's sixth annual Business Insights® Survey of Canadian Private Companies. This year, leaders of over 200 private companies across the country shared their thoughts on a wide range of day-to-day and strategic issues affecting their business. Last year's report focused on the "reality check" that Canadian private companies underwent when the recession hit. This year, the results show that the majority of private companies have navigated fairly-well through the economic challenges of the past year, with most largely achieving their targets. Going forward, they are definitely focused on growth, while remaining cautiously optimistic, given the continuing uncertainty of the world economy.

While the worst of the recession may be over, the challenge for Canadian private companies for the coming year will be to learn how to continue to be successful in an intensely competitive post-recession environment. It is no longer business as usual.

At PwC, we are committed to helping Canadian private companies to be successful over the long-term. By doing this survey, now in its sixth year, it helps us demonstrate our commitment to the private company space. Many private companies have told us that they find the survey useful in helping them to benchmark their activities. And for us, it helps us get a good perspective on the issues private companies



across Canada are facing so that we can understand how we can continue to help private companies create lasting value.

As the new Canadian Leader of PwC's Private Company Services practice, I look forward to seeing all that Canada's private companies can accomplish in this new business landscape.

A handwritten signature in dark ink that reads "Tahir". The signature is stylized and includes a long horizontal flourish underneath the name.

Tahir Ayub  
Canadian Private Company Services Leader, PwC

# Economic outlook 2010–11



## Stewart Hall

Economist  
HSBC Securities (Canada)

This year's note unfortunately bears an uncanny resemblance to last year's note. An unusual amount of uncertainty continues to cloud the direction and strength of the developed world's economic recoveries, coinciding with heightened levels of investor anxiety reflected across all asset classes. Indeed the world remains awash in uncertainty—both real and perceived.

This uncertainty is reflected in high market volatilities, depressed consumer indexes, stagnant job markets and tentative business investment in some countries. But the uncertainty that investors, market analysts, and business folk alike are having to contend with is a form of uncertainty amplified by our collective experiences of 2008.

While collectively the developed world managed to dodge an economic depression, there is still the fear that the US recovery is about to stall, opening the door on another recession in quick succession. For policy makers, there seems to be little appetite and even less political capital to be spent on additional fiscal stimulus.

For the optimistic, the best anyone can seem to manage is years of incremental economic growth only. Still, what gets generally neglected in the current debate is that we are no longer currently contending with a financial system on the cusp of collapse. The US banking sector which for so many quarters was ground zero for all that afflicted the developed world, has moved from being a part of the problem to becoming a part of the solution. Lending conditions in the US have stabilized and in some cases eased. Massive balance sheet write-downs have been replaced by write-ups. So too are bad loan provisions being wound down along with tumbling credit card delinquency rates. And of course market conditions have by and large normalized while US housing prices have stabilized. Canada of course skirted much of that which brought down the developed world economies.

Unfortunately that won't buy an economist prime time. Inflation has dropped in the developed world to be replaced by more primal fears for deflation. While I remain an optimist at heart, the crusty economist in me recognizes that the uncertainty and fears engendered by the current economic environment are real.

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Having spent years of hard work finding new and innovative ways to financially leverage ourselves into oblivion, the developed world now faces many more years of balance sheet deflation to work off that very leverage and excess that built up. Overall forecasts for growth are expected to underperform our historical experience. Metaphorically, we are going to have to take those yardsticks that we used to measure economic growth against and crack off a big chunk. In a balance sheet led recession, the excesses that proceeded are equal to the pain that follows. On that basis, it suggests that our current experience with a balance sheet led recession is going to be a protracted affair that is characterized by low growth rates. But take heart. We have spent three years in financial turmoil, nearly to the date, and maybe, just maybe we are half way home.

Still, it is hard to ignore the facts. The developed world is aging with median ages rising as our baby boomers lie on the cusp of retirement. With these changes in demographics come changes to consumption patterns. The conspicuous consumption of the last three decades could very well be expected to be replaced by a more discriminating consumer.

In terms of the global economy, we see the financial compass pointing away from the developed economies of the world on over to the emerging markets economies with their young populations and levels of development that bear a great resemblance to post war Europe or Japan in their levels of economic intensity. Which in less practical terms is to say that the world's economic centre of gravity is shifting about.

Still, in terms of economic opportunity and growth, it is important to remember that all that glitters is not just China. The bright lights of Shanghai beckon and the crystal palaces that slice into the Beijing skyline certainly glitter. But just as there was a silk road leading to China, there was a spice highway that cut across the oceans to India and weaved its way through much of Southeast Asia. Nor too in Canada should we forget that in the distance it takes to cross the Atlantic and land on the shores of the slow growth countries on the European continent, Canadians can reach out and touch the half billion people in the high growth stories of South and Central America, and the Caribbean. Which is to say, in this global economy, there are many points of light to be seen.

Just as Achilles had a heel, Canada has a bad hip. Despite a currency revaluation that pushed the US and Canadian dollar through to and beyond parity, Canada's chief economic attachment point remains the US economy, and by extension, the US consumer to which we send more than 70 percent of our exports.

The next chapter of the Canadian economic story is to a great extent now a function of the degree to which Canada can tap into those points of economic light. The incentive is there. The prospect of protracted economic stagnation in the developed world, particularly the US, may accomplish what currency revaluation couldn't—a realignment in Canadian trade patterns. The degree to which Canada economically outperforms or underperforms the developed world economies is very much a function of this calculus.

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# Executive summary

*The 2010 PwC Business Insights Survey of Canadian Private Companies reveals most of Canada's private companies are ready to grow. They've learned their lessons from the recession, took the time to improve processes and bring cost structures down, and are setting a strategic path forward, one that is based on a model of continuous improvement, a deep and robust relationship with customers and a keen eye on the competition. While they have benefitted from Canada's overall strength throughout the economic downturn, they are also fully aware of the implications a struggling US economy can have on the Canadian market.*

Perhaps the biggest revelation from this year's findings comes not from the fact that Canada's private companies are planning for growth—and in many cases significant growth, with nearly a quarter of respondents targeting growth in the next 12 months of 15% or more—but in how they plan to achieve that growth. Maintaining and gaining market share by taking it away from competitors is a key strategy for the majority of this year's respondents. Private company leaders are listening to their customers, learning what they can do better and keeping prices as low as possible in order to pass those savings on to their customers. They know their competitors are doing the same.

Globalization has increased the number of players in Canada and the recession has left everyone tightly controlling their purse strings. This combination has created a new business landscape—one that is becoming hypercompetitive. It is no longer business as usual. In fact, there is a new business as usual that requires private companies to be exceptionally cost-effective in order to keep and attract customers and still return a healthy margin. Canadian private companies appear to be adapting to and navigating through this new landscape strategically and effectively.

A key strategy for increasing market share in this new business as usual are mergers and acquisitions (M&As), which can have the added benefit of eliminating a competitor. It is a particularly attractive option for mature companies that have limited ability to grow organically and that have come through the downturn well-capitalized and able to buy up good businesses with high debt loads. As a result, M&A activity will likely become more of a priority going forward for Canada's private companies.

There is no doubt that the new business as usual requires Canadian private companies to dig deep, align operations and strategic objectives, and be as efficient as possible in order to sustain a competitive advantage. It is equally clear that they must acknowledge the impact globalization has had and will continue to have going forward and that it is time, if they have not already, to expand beyond traditional markets. Leading private companies are looking for those opportunities and preparing to move beyond North American markets when the fallout from the recession clears and stability in global markets returns.

The majority of Canadian private companies have pulled through the recession and early recovery, demonstrating an ability to adapt quickly to change. In fact, the country as a whole has done remarkably well in contrast to most of the world, with Canada being recognized as a role model for its success through history's first global recession.

In this document, we summarize our respondents' outlook for the future, share insights into the tactics and behaviours of the most resilient and successful companies and offer a resource for private companies to help achieve their own objectives.

*There are far more players than ever before, resulting in the advent of a hypercompetitive environment that is here to stay.*

# Introduction

*The 2010 Business Insights Survey results reveal that Canada's private companies have come out of the recession armed with its lessons and ready to compete aggressively in the new highly competitive landscape that has emerged as a result of both the world economic downturn and the growing forces of globalization. Most are in a strong position, having met their targets for growth last year, despite the economic challenges. An increasing number of private companies positioned themselves at the start line, ready to race forward at the first sign the uncertainty is ready to lift.*

There's no doubt uncertainties remain. Despite a panel of private US economists officially declaring in September 2010 the US recession had actually ended in June 2009, the reality is the economy of Canada's largest trading partner is still slow and fragile—as is world economic stability, with countries such as Greece and Spain having faced dire crises this year. In Canada as well, there's no home run predicted in the near future. Recovery, said Bank of Canada Governor Mark Carney in early September, will be “slightly more gradual” than the bank forecasted just a few months earlier.

That said, the majority of Canadian private companies have pulled through the last two difficult years remarkably well, demonstrating their agility, resilience and ability to adapt to whatever blows come their way. In fact, the country as a whole has done remarkably well in contrast to most of the world. Who would have thought only two years ago that Canada would have come out of the recession as a global role model? But that is exactly what has happened since the global financial

meltdown of 2008. “And from the beginning, the world has looked to Canada—first in admiration, increasingly for guidance and leadership. We're punching above our weight—far above our weight. And now the heavyweights are coming to us for lessons,” said Finance Minister Jim Flaherty in a speech on September 21 of this year.

Canadian private companies, the backbone of the Canadian economy, have played a role in this national success story and they are optimistic—although not as exuberant as they were in the boom years. If the recession was a reality check for many, the beginning of the recovery has been a period of staunch pragmatism. And that is vital for private companies moving forward because in addition to the recessionary economic challenges, private companies are also having to find their way in a new landscape. Perhaps the biggest lesson of the first global recession and recovery is that globalization has already redefined business around the world. Ironically, globalization was first seen as a tremendous opportunity for companies

to gain access to a far bigger global pie. While this is true for Canadian companies, it is also true that foreign companies now have greater access to the Canadian pie. There are far more players than ever before resulting in the advent of a hypercompetitive environment that is here to stay.

Canadian private companies are responding to this heightened competitive landscape by aggressively reaching for and carving out their share of the market—and they are planning to grow by growing that share. This fierce focus and determination, combined with the fact that Canada has fared through the recession far better than most nations might just put this country's private companies on a stronger footing than they have ever been.

“It's all about growth and competition and Canada's private company leaders know it,” says Tahir Ayub, Canadian Private Company Services Leader, PwC.

“The question is, what are you going to do to outwit, outpace, outperform your competition? It is no longer business as usual,” says Ayub.

# Key trends

The results from the PwC 2010 Business Insights Survey show that private companies across the country have navigated well through the economic challenges of the past year, with most largely achieving their targets. They are cautiously optimistic about the future and plan to grow primarily by increasing their market share in an intensely competitive post-recession environment.

Sixty-five percent of respondents rated their performance over the past year from good to excellent relative to their business plan. Only 19% of respondents stated they had not performed well relative to plan. When it comes to performance over the past year in generating bottom-line financial results, 57% stated they had fared good to excellent. While 40% said they'd had success in entering new markets, 57% stated they had succeeded in introducing new products.

Fifty-one percent were successful in generating growth through innovation.

In terms of expectations of business development over the course of the next year, 83% of respondents expect business to get a lot or a little better, compared to 61% last year. Only 6% believe it will get worse.

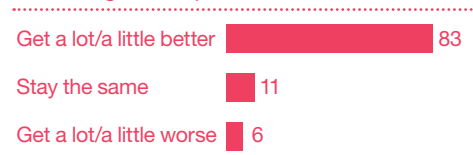
## Growth is the key strategy

The majority of respondents, 66%, are pushing forward with a growth agenda—although they remain cautious. The exuberance of the pre-recession 2007, when 75% of respondents were planning to grow as their top strategy, has not been regained but that is likely because some are holding back a bit until they see more stability in the global economy and in the US specifically.

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

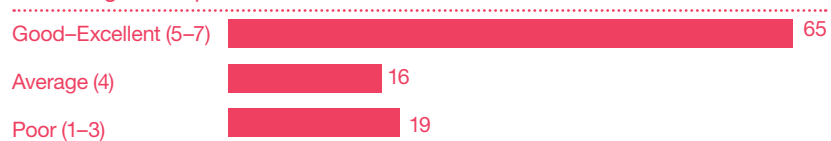
*Percentage of respondents*



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Overall, how would you say your company has performed over the past year relative to business plan or budget?

*Percentage of respondents*





This year, the top strategies for growth are improved sales and marketing, market share gain, developing new products, entering new domestic markets, improved internal systems, and expanded operations and strategic partnerships. Only 20% of this year's respondents are counting on a buoyant economy to help them grow.

## Competition is the top issue going forward

Private companies looked back on the previous 12 months and cited the economy, competition, and profitability, as their biggest challenges. When asked to look forward to the next 12 months, they cited competition, the economy, and profitability, as their key challenges. The economy has taken a back seat to competition.

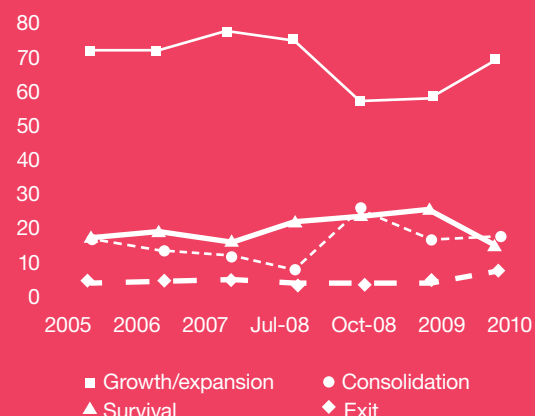
Top 3 issues that have influenced the company over the past year and will influence your company over the next year.  
Percentage of respondents

Past year		Coming year	
Economy	49%	Competition	40%
Competition	38%	Economy	35%
Profitability	34%	Profitability	26%

How do you plan to achieve growth?  
Percentage of respondents

Improved sales and marketing	71%
Market share gain	53%
Developing new products	49%
Entering new domestic market(s)	41%
Improved internal systems	38%
Expanded operations	36%
Strategic partnerships	36%
Mergers and acquisitions	34%
Entering new foreign market(s)	27%
Buoyant economy	20%
Decreasing competition	12%

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



# The strength within

The majority of this year's respondents (69%) rate their success over the past year in establishing and maintaining efficient and effective internal processes as good to excellent. Indeed, they took advantage of the slowdown to do exactly that. Last year, 63% of companies were looking to improve internal systems in the coming year. It seems it was mission accomplished. Many have done the work and cleaned up processes and are ready for next steps. As a result, only 38% are looking to improve internal systems over the next 12 months.

In 2010, the vast majority are taking a laser-like approach to improving alignment to overall company strategy.

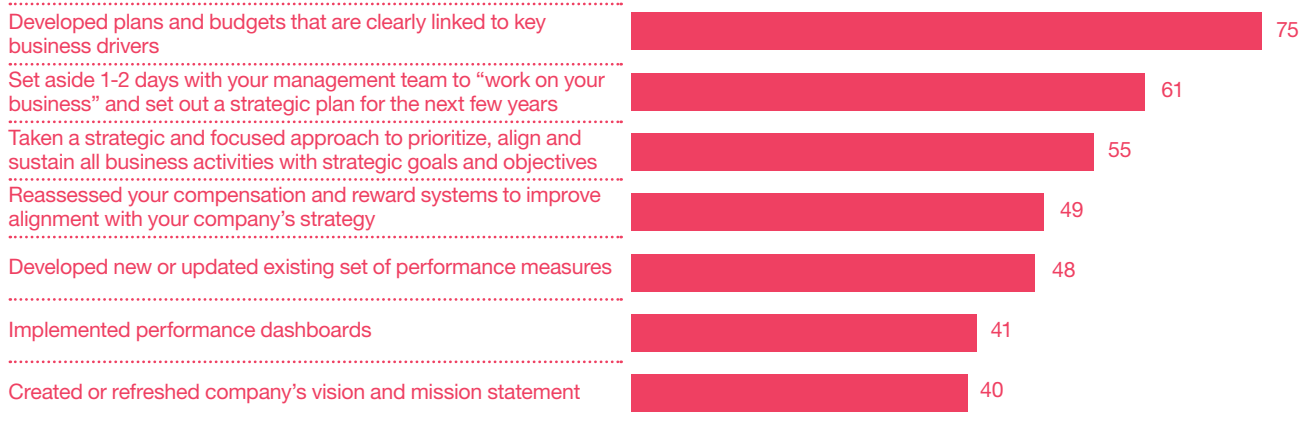
- 75% of respondents have developed plans and budgets that are clearly linked to key business drivers.
- 61% have set aside specific times with their management team to work on the business and lay out a strategic plan for the next few years.
- 55% have taken a strategic and focused approach to prioritize, align and sustain all business activities with strategic goals and objectives.

“They understand that efficiency is the order of the day and will be a key driver of future success,” says Ayub. “This is about the necessity for continuous improvement in an increasingly competitive environment that is here to stay. Most private company leaders in Canada understand this and are taking the right steps to ensure their processes are aligned with overall company objectives.”

This approach is helping private companies become far more agile and able to adapt to the rapid changes hurled at them in these volatile times. For

Over the last year, please identify whether you have used any of the following techniques, tools or approaches to help achieve improved alignment of your company's strategy.

*Percentage of respondents*



example, in 2009, 27% of respondents cited currency as third of the top issues that had influenced their business over the previous 12 months. After decades of a low Canadian dollar guiding the export environment, they quickly switched gears and adapted. As a result, in 2010, currency is no longer among their top concerns.

This year, just as last year, 49% of respondents cited the economy as being the top issue that influenced the company over the past 12 months. At 38%, competition was the second top issue, followed closely by profitability at 34%. There's no knowing when there will be a full economic recovery and that uncertainty continues to guide private company leaders in their decision making. Because of the increasingly interconnected world, this uncertainty may very well be part of the new business as usual.

*The vast majority are taking a laser-like approach to improving alignment to overall company strategy.*





## ***Take action:*** **Performance management: aligning to drive success**

*Performance management can help drive a company's success. But the ultimate goal should not be just to improve performance; it should be to create total alignment within the company to ensure sustainable performance for sustainable success.*

“Alignment creates the opportunity for a company to be as successful as they want to be as opposed to as successful as they are,” says Scott Fitzsimmons, associate partner, Private Company Services, PwC. “If you own a company and watch your employees come in each morning, it would be nice to know that they are working as a team to make the company successful as opposed to coming in to do what they think is the right thing to do, individually, to make the company successful.” The slight difference between the two scenarios is the fact that the employees coming in to work as a team will achieve greater success in a shorter amount of time.

The starting point for an effective and holistic performance management strategy is understanding where you want to take your company, says Fitzsimmons. “By understanding where you're going and where you are today, you can create the right projects in the right order to help you get there.” A lot of companies like to benchmark themselves against other companies. However, the first step should be to benchmark yourself against yourself because by comparing yourself now to where you want to be, you can align the business and your employees to achieve your goals. Comparing yourself to others can lead to the ‘we're no worse than anybody else approach,’” he says.

Ironically, it isn't only problems that can unwittingly lead to companies hampering their own growth and success. For example, Fitzsimmons recalls working with one private company through a rigorous performance management assessment that resulted in excellent findings. “Everyone was truly aligned but they didn't realize the extent to which they were aligned and the implications,” says Fitzsimmons. PwC suggested the client should “think about whether you want to franchise and take your methodology, your approach, your culture and sell it into different markets or whether you want to take your executive team and start moving them into other cities because you're quite powerful.” This highlights the fact that critical self evaluation can outline areas that need improvement as well as highlight strengths and growth opportunities.

## **Getting started on holistic and sustainable performance management:**

**Identify existing gaps, inconsistencies and formulate new insights into what may be holding your company back.** “For example, we use a diagnostic tool that has executive teams answering two identical sets of questions, but from two different perspectives: one, where they want their company to be in three to five years and the other where they think they are right now,” says Fitzsimmons. Through this process, Fitzsimmons often finds that executive teams have never really sat as a group to effectively discuss these short-term versus long-term issues. In fact, he’s found the answers often reveal their perceptions are based on their own opinion or personal approach, rather than being “aligned as a group,” he says. For the executives, merely looking over the results to the questions can be a huge eye-opener. “All of a sudden, you have a team working together. Even that discussion alone is quite valuable.”

**Build consensus and alignment around an effective and efficient strategic approach to generate superior performance.** “In essence, this is agreeing on where you’re going and how you’re going to get there,” says Fitzsimmons. It sounds simple, but in order to achieve this, assumptions and individual perceptions have to be rooted out. “For example, if a company’s strategy is to make as much money as possible, everyone is going to have

a different view on how you to achieve this,” he says. “Some are going to think it’s for today and some are going to think it’s for the next five years. By saying, ‘make as much money as possible this year,’ you may look at a different basket of customers than you would if you said make as much money as you can in five years.” By aligning the strategy and approach to the goal, you generate superior performance.

**Create a rigorous action plan with targets and measures—and the data and tools to measure performance—and then execute against that plan.** “You have enablers: your leadership, your communication approach, your culture for the people who work there, your customers and suppliers, your governance model, how you make decisions, your business process, which is the rigour, and your information technology. The more rigour you put into that and how it all ties together, the more people can operate individually and be aligned as a team.” says Fitzsimmons.

**Establish reward/recognition programs to create an environment for sustainable performance.** When you measure performance, you gain insights from those measurements and you can reward your staff accordingly, says Fitzsimmons. Fundamentally, it is about changing organizational culture to be fully aligned and motivated for success.

**Performance management for success isn’t based on a one-size-fits-all formula,** says Fitzsimmons. Good performance management is a methodology and approach that should morph with the goals and vision of each individual company. It’s about developing self-awareness, honesty, clarity and understanding. It’s about replacing old vicious cycles, problematic patterns, and disconnects with the power of a clear set of priorities, objectives and goals.

In the absence of taking a disciplined approach to performance management, private companies can fall into self-defeating patterns that impede them from reaching their full potential and entangle them in stagnation or downward spirals. “They can easily keep very busy making the same mistakes and fixing them repeatedly,” says Fitzsimmons. This vicious cycle is far too common. “Typically, companies take on projects to improve performance without understanding the context, making it the wrong project, dealing with the wrong problem. Half way through, they realize that the platform they needed to have in place to make it successful does not exist. They’re trying to fix problems rather than getting to the source of the problems.”

**Bottom line: It’s about being a fully-aligned company that achieves sustainable success.**

# Set to grow

*Economic uncertainty remains; however, most are set to grow again. Almost one-quarter of respondents plan to grow 15% or more in the coming year.*

Those private companies that have used the recession and difficult recovery period to become lean and fit and finely-tuned strategically are well-positioned for significant growth this year. In fact, that is what the majority are planning to do in the coming year.

This year, 66% of respondents cited growth and expansion as their strategy for the coming year. This compares to 58% in 2009. What's more, the number of respondents citing survival as a strategy dropped to 12% in 2010, down from 23% last year.

When it comes to targeted growth, 63% of respondents set a growth rate of up to 9%. Last year, it was 64%, virtually unchanged for the majority. This year, 33% set a growth rate of 10% or more compared to last year's 18%. Most interestingly, this year 24% of respondents plan to grow by 15% or more, compared to 9% in 2009.

"Most private companies are striving for some level of growth, just as they were last year," says Ayub. "What is

encouraging is the sharp increase in the number of companies planning to grow 15% or more this year. It might be somewhat optimistic —business owners usually are by necessity very optimistic. On the other hand, the majority managed to achieve against plan in the previous year so it could be attainable."

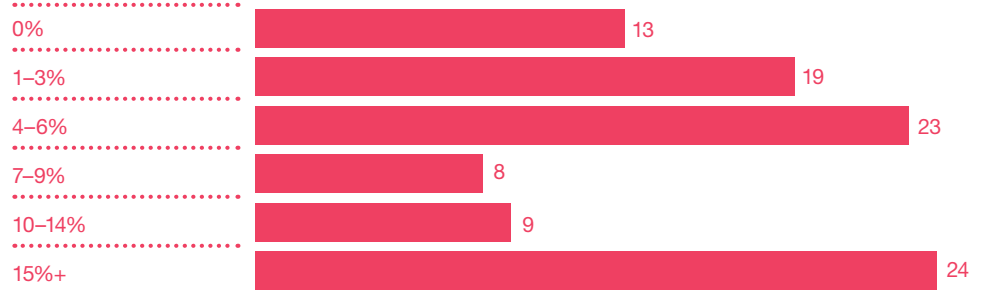
That said, many private companies remain cautious and the overall focus on growth has not yet reached boom levels. Even as recently as July 2008, just before world financial markets collapsed, 72% of private company leaders cited growth as their number one strategy. That all changed just three months later, when it dropped to 56% — the lowest it has been since 2005.

Today, many private companies are still recovering. Economic uncertainty remains; however, most are set to grow again.

The top strategies for growth are improved sales and marketing, market share gain, developing new products, and entering new domestic markets.

What growth rate (based on gross revenue) did you set for your business in this fiscal year?

Percentage of respondents





*While for the short-term, holding back on expanding internationally might be a reasonable strategy, for most it is not a sustainable one.*

Canadian private companies seem to have taken their eye off expanding into foreign markets for the coming year. Only 27% are planning to grow by entering a new foreign market. But there may be a practical reason for this. “If you take a look at where your growth can happen, you need to focus on what’s going well, and what’s going well right now is the Canadian economy,” says Ayub. “The US and European markets are still struggling. If you are going to drive growth it has to happen here, where the economy is better.”

The long-term implications are far too risky. From supply chain, to manufacturing to finding new end consumers, there are tremendous opportunities globally for private companies to increase their competitiveness and market share—and they can be certain that whether they take advantage of these opportunities or not, others will. The fact is, if they are to remain competitive, private companies have to carve out their space in the global marketplace. “One of the major criticisms of Canadian business is that we are too focused on the domestic market and the US. If we don’t improve our reach into other parts of the world, we will find other parts of the world increasingly expanding their reach into Canada and it will be much tougher to compete,” says Ayub.

# Compete, compete, compete

*Having a low cost-structure is going to be the new business as usual.*

The truth is private company leaders have always been focused on competition and trying to find ways to push past their competitors and take charge of their market. But throughout the recession many private companies focused on driving down their costs and passing those savings on to their customers in order to keep them. It worked for many. In fact, 84% rated their success over the past year in creating value for customers and clients as good to excellent. But it appears to have also become part of the new business as usual. It is no surprise then that this year's respondents list competition as the number one issue that will influence their company over the next 12 months.

In 2009, it was the economy that kept private company leaders up at night, with 53% citing it as a top concern. Over the next year, competition/discounting came in second at 33% and profitability/margins as well as finding new clients at 31%. "Companies understand that competition and discounting will play a greater role in how they decide to manage their business in the future and what they need to do to stay competitive," says Ayub. "However, this does not mean they necessarily understand their competitors."

Seventy-eight percent of this year's respondents stated they performed well against their competitors last year. "It is very common for business owners to underestimate their competition," says Ayub. "And if that was a risky mistake in the past, it is even more so in the highly competitive present and future."

That said private companies continue to understand the importance of remaining lean and mean going forward. "Having a low cost-structure is going to be the new business as usual," says Ayub. "The competition for market share is fierce so you have to be a lot more competitive in pricing and still be able to generate a healthy margin."

The key priority to improve competitive performance in the coming year is better targeting of customers, say 55% of this year's respondents. This was followed by reducing costs of operations, 50%, and improving processes at 44%.

"In this new environment, what are the key strategies needed to ensure you are competitive? Keep your customers happy. Make sure you deliver value. Stay focused on continuous improvement," says Ayub. "In many ways, it's a continuation of the basics—except highly intensified."

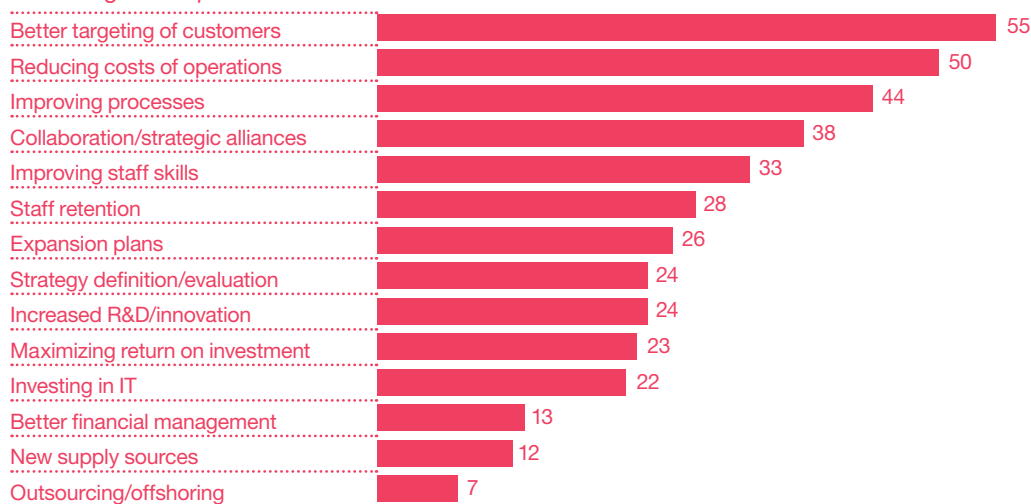
"Just as Canada was ahead in responding to the recession, Canada's private companies can use their current competitive position to lead in the competitive post-recession environment. We don't want to win the recession and lose the recovery," says Eric Andrew, Global Leader, Private Company Services, PwC."

Top issues that will influence your company over the next year.  
Percentage of respondents

2009		2010	
Economy	53%	Competition/discounting	40%
Competition/discounting	33%	Economy	35%
Profitability/margins	31%	Profitability/margins	26%
Finding new clients	31%		

Which do you consider to be the higher priorities for your business in order to improve competitive performance?

Percentage of respondents



*“In many ways, it’s a continuation of the basics—except highly intensified.”*

One result to note was that private companies surveyed placed outsourcing/offshoring at the bottom of their list of priorities (7%). There could be several reasons for this being low on the list of priorities, including the fact that many companies may have already established networks and outsourcing is no longer top of mind. Alternately, many companies during the recession and recovery reacted by focusing on building up their internal capacity, so they are not looking beyond their own resources for competitive advantage. “However, strategic outsourcing when someone can do it better, faster and more cost-effectively with no loss of value is still a competitive advantage,” says Ayub.

Overall, how would you say your company has performed over the past year relative to competition?

Percentage of respondents



# Using mergers & acquisitions to fuel growth

*M&As could be poised to become an even more powerful tool to fuel growth for private companies.*

In the highly competitive new business as usual in which seizing a bigger and bigger piece of the market share pie will likely become a necessity for survival, let alone growth, mergers and acquisitions (M&As) could be poised to become an even more powerful tool to fuel growth for private companies in the short and long-term.

M&As are an excellent strategy for companies that strategically want to increase market share. “M&As and joint venture partnerships open up new markets and reduce risk,” says Brooke Valentine, associate partner, corporate finance, PwC. “As the economy declined in the beginning of the third quarter of 2008 and through 2009, there was an increase in distress sale activity. Well-capitalized private companies took advantage of the opportunity to snap up deals and expand market share.”

This year, 34% of respondents cited mergers and acquisitions as part of their growth achievement plan for the coming year, up slightly from last year’s 28%.

“If you look at year-to-date, September 2009 to 2010, for a lot of observers it felt like a very slow M&A period, but when you see the data, all that happened is we reverted back to the historical norm,” says Valentine. “The reason it felt slower was because the preceding year had exceptionally high levels of M&A activity, which were well above historical averages. Deals are still happening. We’re back at the long-term average volume.”

Mergers and acquisitions as a strategy for growth is particularly key for mature companies, whose organic growth is typically at a much lower rate than start-ups and younger companies. “Newer companies have that much more opportunity to grow organically because they haven’t hit critical mass yet,” says Valentine. “Mature companies tend to experience growth that resembles the overall growth the economy is experiencing. By acquiring a business, they can substantially increase that level of growth because they can quickly achieve much higher levels of sales and profitability.”

Well-capitalized companies that have navigated well through the downturn are in a sweet spot. They can shop around now while interest rates and prices remain low and enter a rebounding economy with a much larger share of the market.

# As I see it

## Archie Campbell

Senior VP and Chief Operating Officer, Golden Boy Foods Ltd.  
Burnaby, British Columbia

The private label business is one of the largest growth areas in the food industry. Over the past 10 to 15 years, major grocery chains have realized they can sell their own private label brands right alongside national brands, creating a new, strong revenue stream. Think Safeway Select or Loblaws' President's Choice and No Name brands. Golden Boy Foods Ltd. is a private label producer of snacking nuts, baking nuts and dried fruit. It is the number one private label peanut butter producer in Canada and third largest in North America. It has further entrenched itself with the recent acquisition of another peanut butter producer.

Much like the sector itself, Golden Boy is on a growth trajectory and is pursuing organic growth as well as mergers and acquisitions where the fit is right. "We are definitely in growth mode," says Archie Campbell, Senior VP and COO of Golden Boy Foods Ltd. "But growth just for itself is meaningless. It's not about topline smoke and mirrors. It's about how much money you are making on the bottom line. It's difficult to grow profitably but that is what matters."

And that is what Golden Boy Foods is focused on—and achieving by keeping a close eye on the competition and keeping cost structures down. "The days are gone when you can assume

you can keep doing what you are doing without worrying about the other guy," says Campbell. "You have to stay ahead of your competition and the only way to do that is to truly understand the business you're in." To that end and to continue to grow profitably, Golden Boy Foods hired its own direct sales force. This is something it did not have in place prior to 2007 when the entrepreneurial, family business was purchased by Vancouver-based private equity group Tricor Pacific Capital Inc., which has a longstanding reputation for buying solid businesses and growing them.

"You have to build a relationship with your customers, call on them, figure out what your competitors are doing that you are not," says Campbell. "You have to listen to them, understand and solve that pain. Do they have demand for a product you haven't thought of yet? Can you create that product and be first to market with it?"

At the same time, says Campbell, you have to look at your competitors not just as competitors but as potential acquisitions down the line. "This is a way to grow the business and eliminate the competition at the same time. There is no one strategy for growth. You have to look at growing the business in multiple ways."

If one of those avenues is to grab market share, the key will be to keep costs down. "Lower price points are the new norm," says Campbell. "In our business we have seen unprecedented levels of requests for proposals where businesses are starting to use electronic auction companies to grind down input costs. Traditionally, customers did not do that. They did not chop and change. Those days are gone. Customers today want quality at the best price. That will not go away. The only question is how low can you go? Ultimately, suppliers like us have to make money. Grinding costs out has always been part of business but now it is more important because the guy who figures out how to get the price down to where customers want it and still be profitable wins."

This is the new paradigm as Mr. Campbell sees it. "We see growth as a circle. The shopper wants quality items at the lowest price on the shelf. It's our job to drive costs out of our business in order to give those savings back to our customers who in turn will come back to us and drive volume for our products. It's the Walmart model. That is how they have grown their business and become the biggest retailer in the world. Ultimately, it is a model everyone will have to adopt."



## ***Take action:*** **Increasing value through a focused M&A strategy**

Well executed, a merger or acquisition is a powerful means to set a company—large or small—on a rapid path to building value and critical mass, increasing its growth rate and securing a larger market share.

“I think one of the best ways an acquisition can help create value is by a purchaser buying a business that enables them to cross-sell products or services,” says Brooke Valentine, associate partner, corporate finance, PwC. “For example, finding a business that is selling to a customer base that is different from the one you’re already selling to, but are interested in potentially buying the product or service you provide expands your customer base. That’s a better way of building value than if the company you are looking at buying is selling into a very similar customer base.”

Another great way to create value is to buy a business that has a very similar operational profile to the buyer’s and there is an ability to achieve synergies by combining the two companies. “For example, if their operational profiles are similar, they can combine such functions as finance, advertising, promotion and IT, thereby saving costs,” says Valentine.

An additional way to achieve great value through an M&A is to purchase a business that’s been sold via a distress process. “Often a company that ends up in financial difficulty is a successful business from a sales perspective, but has less than optimal capital structure,” says Valentine. “Think of a business that is selling product, earning revenue, but has far too much debt and not enough equity. The principal repayments and the interest payments that come with that level of debt might be so great that if the business experiences a cyclical downturn in sales, they’re forced into an insolvency situation.”

In such a case, a better-capitalized company can buy that business, often at an attractive price, and then inject additional equity. With a more conservative capital structure, relatively more equity and less debt, a purchaser can achieve a significant enhancement of value.

### **Tips for the buyer in an M&A transaction:**

**Do your due diligence.** “Sophisticated acquirers place an enormous emphasis on due diligence. Sellers should recognize and prepare for this well in advance of engaging buyers,” says Valentine. Due diligences must extend to all areas of the business including, financial, legal, IT, suppliers, customers, employees etc.

**Have a clear plan to structure the transaction.** A carefully planned transaction can not only enhance value, but also minimize tax and help optimize synergies.

**Plan the post-acquisition reorganization/integration.** What will your new organizational structure look like? How will you integrate business operations? These are the questions you have to address when you’re thinking of acquiring another business. The value that was anticipated, including benefits from synergies and new markets must be realized otherwise you will have overpaid on the purchase price.

### **Tips for the seller in an M&A transaction:**

**Plan ahead.** “We do advise our clients to begin to groom their business for a sale as early as possible,” says Valentine. Companies need to ensure that the value is embedded in the overall business strategy, brand, systems, employees and not dominated by a departing owner or manager. “Planning ahead also provides a better opportunity to sell the business at a point where it is performing at a healthy level. A buyer is primarily focused on what happened over the last 12 months and what the next 12 months look like.”

**Prepare—and then prepare some more.** “In the current economy, buyers are cautious and require more detailed information. Make sure you have your operational and financial information well organized and in good shape to help ensure you have a successful sale process,” says Valentine.

**Shed the business of non-core assets.** “You want the potential purchaser to see a strong business focused on what it does well. That will make your business more attractive and help secure the sale,” says Valentine. This may include formally

documenting areas of value, such as supplier agreements, trademarks, and intellectual property to make it transferable and tangible to a purchaser.

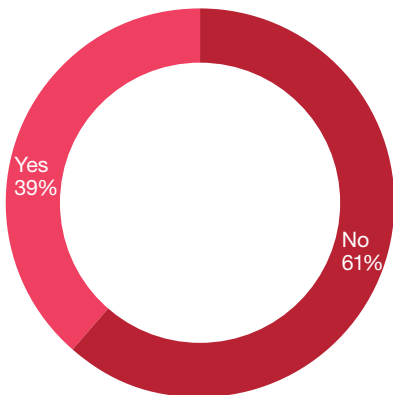
**Decide on the best type of sales process for your company.** “For example, do you want to embark on a very broad sales process where you contact a large number of buyers or do you prefer a more targeted process where you contact a limited number of well-positioned buyers?” says Valentine. “To make the best decision, you will have to consider the implications of all routes. For example, the broader you release your net, the more confidentiality can become an issue of concern. On the other hand, if your business could attract global buyers, that might be reason to do a broader sales process.”

**Bottom line: Every company—whether buying or selling—has its own unique set of circumstances so when considering an M&A transaction, it’s critical that the characteristics of the companies involved, as well as their industries, be thoroughly researched and meticulously managed in order to ensure success.**

# Show me the financing options

When asked whether they plan to access additional financing, 61% of respondents said no. This is comparable to last year, when 67% stated they would not be accessing additional financing. “One of the reasons companies may not be planning to seek

Do you plan to access additional financing in the next year to fund your growth?  
Percentage of respondents



additional financing is because revenue growth is getting them back to levels that they had reached previously on a historical basis and so they are able to fund their own growth,” says Eric Castonguay, managing director, corporate finance, PwC. “For those companies in the manufacturing industry, for example, they may have excess production capacity and don’t have to invest in new equipment. Companies are also funding growth through re-investing profits while taking a cautious approach to capital expenditures. With the lessons learned from managing through the recession, companies continue to focus on getting the most out of their existing asset base. Whatever the reason, for the most part, the private companies surveyed appear to have arrived at the beginning of the recovery well-capitalized and ready to grow.”

For those companies that do plan to access capital, there are several options. “The fact is credit is much more accessible today than it was 18 months ago,” says Castonguay. “Canada’s banks have also come through the recession well-capitalized and are now eager to grow their market share. After the credit crisis, there were substantial increases in spreads that lenders were requiring on their loans and to some extent those spreads have declined over the past year.”

The market has become much more liquid and competitive. This new development has not been lost on private company leaders who are now shopping around when it comes time for renewal—and they are not limiting themselves to conventional loans from the banks. “Private company leaders are taking a comprehensive look at alternative sources of capital and ‘market testing’ the spreads on loan renewals,” says Castonguay.

## Alternative financing

Canadian private companies have several options for alternative financing when considering how they will fund their growth plans. There are factors to consider with each. Here are some typical alternative financing options available:

**Mezzanine or subordinated debt** is useful particularly for those companies looking to grow and that need to access levels of capital beyond what a conventional bank is willing to lend. A mezzanine or subordinated lender will be in a second charge security position behind the senior lender or the bank. Since they are taking more risk, they are also looking for a higher return and oftentimes that can include equity participation. “Going this route as opposed to raising equity to finance growth can minimize ownership dilution which is attractive to private company leaders,” says Eric Castonguay. “The balancing act is that with increased debt comes increased financial and business risk, so in some cases, more patient equity financing may be a better solution.”

**Private equity** is readily available in Canada. One of the benefits of private equity is that it can provide growth capital beyond what can be accessed in the debt markets. At the same time, private equity funds are often growth-focused and have experience in conducting acquisitions and growing businesses. “So oftentimes, it’s not only the financial investment that is attractive to a business owner, it is also the expertise and experience you get through a private equity partner,” says Castonguay.

For the most part, private equity is defined as funds that are comprised of institutional, pension fund or endowment money, or funds raised from high net worth individuals.

A key consideration when thinking about accessing private equity is the fact that most private equity funds are looking for ownership control. “In other words, accessing private equity often means you are selling a majority stake in your business,” says Castonguay. “As well, private equity typically looks to exit their investment within a three to seven year time period, which may not always align with the goals of private company leaders. So it may not be a solution for everyone.”

**A joint venture partnership** is essentially partnering with another complementary operating company to pursue a growth strategy in a new market or new geography. “In many cases, each of the companies contributes capital, intellectual property or resources into a new entity that is jointly owned to achieve growth in a new product line or growth in a new geography,” says Castonguay. “This strategy is commonly used for companies entering new countries because it helps minimize risk.”

**Asset-based lending** continues to be a strong area of growth in the Canadian marketplace. This type of financing typically places a greater emphasis on the value of underlying collateral such as accounts receivable or inventory. “It is less focused on the profitability of the underlying business than conventional lending is,” says Castonguay. “Asset-based lending is beneficial for businesses that are asset intensive, such as distribution companies, but whose historical earnings aren’t at a level where they can access as much capital from a conventional loan structure.”

# As I see it

## Darryl Budd

Co-owner, Budds' Group of Companies  
Oakville, Ontario

Fifteen years ago, Oakville-based automotive retailer and service company, Budds' Group of Companies, had four major competitors in its Southern Ontario market. "Today there are nine," says Darryl Budd, who co-owns the company with his brothers Chris and Terry. "And where there used to be five or six products in total, today there are probably 50. Quite honestly, the market hasn't grown that much. So what's happened is that it has taken a piece of everybody's pie. And it's not just in my industry. I talk to other business leaders and everybody is feeling the same thing. Whereas in the past you could make a relatively good margin on something, today that margin is so tight. Today, if you don't have everything in line, you're going to lose money."

A powerful factor in this has been the increasing entry of foreign competitors influencing not only margins, but also transforming consumer attitudes. For example, says Budd, the days when an automotive retailer could count on customer brand loyalty are long gone. "A perfect example of that is South Korean companies that have come into the marketplace with televisions and now people are buying their cars. It's a very open marketplace today."

In many ways, says Budd, the recession came as a mixed blessing because improving internal efficiencies is absolutely critical to survive and thrive in this new reality. "As much as people hate downturns, it actually gives you a good opportunity to take a very close look at the things you're doing and improve them. Just through that alone, you increase business," says Budd.

Budds' Group of Companies, which owns seven dealerships selling primarily high-end brands such as BMW, Land Rover and Jaguar, as well as a collision centre, paid detailed attention to improving efficiencies and especially to do so by finding synergies within the company. "As an example, we run all our locations from one accounting and technology base so we have one CFO, one accounting group that looks after all the stores, one comptroller," he says. Budds' also upgraded its technology to integrate all its internal communications and added a leading-edge quality management system.

Those efficiencies, says Budd, have made the company stronger and more agile in reacting to blows and opportunities as they come. Although Budds' went into the recession in growth mode—

and remained so through most of it—the company was clearly affected by the struggles of car manufacturers. In June 2009, Budds' lost two of its stores when Saturn Canada officially closed its doors. "We went from an organization of six dealerships to an organization of four. In order to ensure long-term survival, we needed to go out and invest to bring the organization back to a level that would dictate long-term growth," says Budd. What the company needed to do is exactly what it did.

In April 2010, Budds' officially announced it had become the exclusive GM dealer in the Oakville area. "We try to have a horizontal business plan, where you have a component of almost everything the marketplace needs, so when Saturn went down, we jumped at the opportunity to put in a GM store, which has a whole lot of product coming that will answer all those opportunities in the marketplace we were maybe missing," says Budd, who stays keenly informed on news, not just on his industry and market, but also on national and international economic issues affecting business. "You're constantly looking at what bullet you can dodge and what opportunities you can jump at."

# Measuring for success

Going forward, in order to effectively compete in the new business as usual—and to grow robustly by increasing their market share—private companies will need to have measures and a performance management framework in place guiding decision making. Performance management is a holistic, integrated way of managing the business, right from strategy to plans and budgets to execution to how to decide what is important to measure. All of this together allows private companies to base decisions on facts and to set up reward and recognition programs that are clearly aligned with strategy.

In 2010, the top three critical measures of company performance were listed as: profitability, 54%; customer satisfaction, 47%; and operating costs, 44%. “What’s encouraging here is that there seems to be more emphasis on looking at measures,” says Michael Epstein, partner, consulting, PwC. “And private company leaders are trying to understand what needs to be measured both from the financial and operational sides. However, 32% have measurable targets for all the indicators they are focused on and 54% have indicators for at least some. That is somewhat disappointing. Unless you have agreed upon short and long-term goals, it’s really hard to determine whether your strategy is being executed or whether in fact you are even promoting the right strategy.”

For the most part, those private companies that have set performance targets understand the need to look both to the past and the future when it comes to measuring performance. In 2010, 69% of those companies that have set targets have used a balanced combination of lagging and leading indicators.

“But companies also have to be reading the current economic situation, the needs of their customers and forecasting out with leading indicators such as customer feedback and satisfaction, accurate inventory planning, industry trends and sales activity,” says Epstein.

“If you look at some of the developed nations of the world and our own domestic market, the composition of our demographic is changing. As a result, the needs of those end-consumers is going to change and change fairly rapidly. And so there is an opportunity to look at the leading indicators to determine what that consumer group is going to need and want going forward and to use that to fuel strategy development. It should also be forcing you to think about how innovation

and new products or services development links back to making sure you are still relevant.”

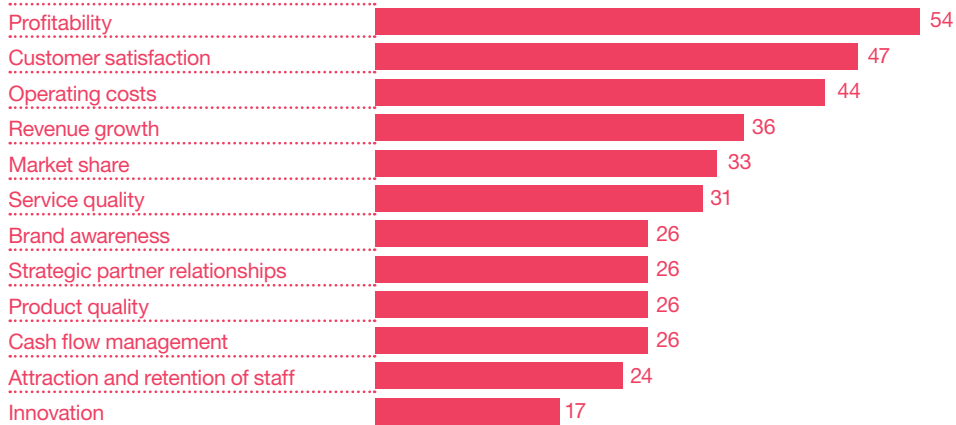
This is absolutely critical in this post-recession world. It’s also a tremendous competitive advantage and will lead to more opportunities.

“If companies focus on managing their businesses more from a holistic perspective, and focus more on making sure they have the right strategy that is well-communicated and that they are measuring and rewarding their people for the right activities, then I think we have as much an opportunity to be successful in this global marketplace as anybody,” says Epstein. “We’ve got political stability, resources, education systems—we have all the ingredients but I think it is really challenging for owners to step back and have the courage to take some of their profits and plough that back into innovation and creativity that will either produce new products or create efficiencies that will in turn produce profitability that can then be ploughed back into innovation. That is the creative circle we need.”

*In order to effectively compete in the new business as usual, private companies will need to have measures and a performance management framework in place.*

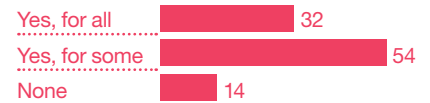
Of the following indicators, which are most critical to measuring your company's performance?

Percentage of respondents



Have you established specific targets for measuring company performance?

Percentage of respondents



# → *Take action:* Essential ingredients for success

Private companies must prioritize effectively and focus maximum attention on activities that drive superior performance. But do effective performance management (PM) practices really drive superior performance?

Absolutely yes, shows the results of a survey from PwC in collaboration with the Telfer School of Management at the University of Ottawa and the Canadian Advance Technology Alliance (CATA). According to the global survey of more than 400 senior leaders in both the public and private sector, high financial performers were 26% more effective on average across 46 different PM practices related to planning, analytics, performance management, talent management and use of technology.

Indeed, the global economic crisis did its part to showcase the importance of PM as many companies around the world were unable to identify emerging opportunities or threats and reacted with a “knee-jerk” approach. Those that survived generally had strong PM programs that proactively mitigated long-term impact.

So, what drives success? “We found that specific practices correlate with superior strategic, competitive, operational and financial outcomes,” says Philip Townsend, partner, performance management, PwC. “Companies that apply integrated approaches to performance management clearly experience high levels of performance on a sustained basis.”

According to the survey, high performers outperformed low performers by 54% on average across seven key PM objectives, including:

## **Taking a broad, holistic approach:**

High performers look at their business from a broader perspective than low performers and build holistic PM programs.

## **Creating linkages, integration and alignment:**

High performers were 16% more effective in overcoming challenges related to linkages and integration across their PM practices.

## **Building broad support for the PM effort:**

High-performing companies were on average 13% more effective in obtaining senior management support, overcoming cultural resistance and breaking down internal silos to achieve agreement on what needs to be done.

## **Adopting high-value planning practices:**

Performers reported 31% greater effectiveness overall when they implemented three specific planning practices: value stream mapping, vision mission and values statements, and corporate responsibility plans.

## **Turning analytics into a competitive advantage:**

High performers are 43% more effective in their use of alerts or warning systems, driver-based forecasting and data mining.

## **Developing advanced PM technology capabilities:**

While basic spreadsheet tools are still prominent, high performing organizations report 23% greater effectiveness in their use of the more advanced forms of PM technology, such as business intelligence tools that enable them to turn analytics into a competitive advantage.

## **Avoiding making it too complicated:**

While high performing organizations employ a wide variety of advanced practices and tools, they are largely successful because they avoid the potential pitfall of overcomplicating things.

How can you make best PM practices a reality? According to Townsend: “A pragmatic approach is to start by defining a clear vision that describes how performance will be managed within a realistic timeframe. From there, identify the gap between this vision and the current state of the PM approach.”

A sound implementation is typically based on a step-by-step approach to closing the gap in smaller, manageable components that deliver new capabilities and value on a regular basis every two to three months. This systematic approach to implementation delivers short-term value and clearly establishes the return on investment, while building momentum and consensus across the organization. “Companies that attempt to do it all with a single “mega” project ending in a “big bang” of change often end up with a costly and ineffective result,” says Townsend.


It is also important to note that the “vision” is not a fixed destination. As your company grows and changes, the details of the PM approach need to evolve with it and a continuous improvement effort is necessary.

**Bottom line: The key word is alignment. Townsend notes: “Shifts in market forces and demographics will continue to compel private companies to find ways to engage their customers and people more effectively. The power of PM is really unleashed when management actively aligns strategy, tactics and rewards—the essential ingredients for success.”**

# As I see it

## Ian McLean

President, Cardinal Couriers  
Mississauga, Ontario



Long before most Canadian companies were hunkering down for the recession, Toronto-based Cardinal Couriers Ltd.—whose clients include some of the largest national and international firms in a multitude of industries, including automotive, agricultural, high tech, industrial, manufacturing and retail—was already in full swing, preparing the company for a possible downturn. In part, this was due to the fact that Marian Plante, the company's CFO, is an avid follower of the economic landscape worldwide and was able to identify the dark grey clouds on the horizon long before the mainstream media, says the company's president, Ian McLean. "You cannot afford to ignore the macro economics," he says. "If you're going along and you're not paying attention to the world oil prices or what the Canadian dollar is doing or what's going on with the U.S. economy or the European economy, you'll be caught off guard. "If something happens in Europe and all of a sudden the banks get nervous, it's not going to be too long before your local banker is knocking at your door saying the price of funds has gone up or they're not available any

more. So I think you ignore the macro economics at your own peril."

The innovative, mid-sized company, which has doubled its revenue in the past 10 years, used a highly-effective approach for identifying problems early on, thanks to a considerable amount of time and effort it has spent over the years in sharpening its strategy and measuring performance. "Our strategy and our plan have allowed us to be very focused," says McLean. "Because of that, we understood what the objectives were so when we started to waiver a little bit in volume about 26 months ago, we actually hoisted the yellow flag a bit earlier than a lot of companies. We started taking steps to ensure our profitability if volume declined—which it did. There was a precipitous decline in volume over about 18 months, which reached its pinnacle in February 2010—and then we actually started seeing quite a dramatic turnaround for Cardinal where we started growing at 6% over last year."

McLean believes that the company's focus on alignment not only helped Cardinal better prepare for the recession—and weather its

challenges—but it has also given the company a strong foundation for making informed and strategic decisions moving forward into the recovery and beyond. "We're trying to come out of the gates early. We don't want to be one of those companies that finds itself in boom times still tight and not spending so we're trying to anticipate growth in the economy to make sure we position the company for that."

Despite its already strong focus on performance management and strategic alignment, this summer Cardinal took yet another step towards improving its performance management and measuring processes, drilling down deeper than ever before. "Really our strategic plan informs our tactical execution at every point," says McLean. "The people in the company, the executives and directors know that if they're planning on doing something at a tactical level and it doesn't align with the strategic plan, then there's really no use in talking about it very much. If there's no alignment there, it doesn't make sense. Taking that aligned approach in all we do really helps focus the entire organization in determining goals. It's a team and we're all going in the same direction."

# *The necessity of innovation*

*Innovation is and will continue to be critical to achieve success in a global, hypercompetitive marketplace.*



“Canadians tend to be great at coming up with ideas but they don’t necessarily commercialize them on a sustained basis,” says Ayub. “If you look at the research coming out of Statistics Canada, Industry Canada, the Conference Board, there is a recurring theme around our decline in productivity. There are many emerging countries that will present significant competition to these businesses and if we don’t focus on innovation—which is linked to productivity improvement—I think we are failing to recognize we have to compete globally. We don’t want all of our eggs in one basket. We want to see our products marketed and sold globally. Without innovation you will not win the hearts and minds and wallets of customers.”

Despite this reality, only 24% of respondents cited increased research and development and innovation as one of the top priorities to improve competitive performance. While private company leaders are focused on increasing market share and reducing costs, one of the strongest competitive advantages going forward is having a culture that is focused on innovation.

“In order to create that culture, you have to have performance measurements in place to determine whether or not you are rewarding people for thinking in an innovative way,” says Ayub. “This is all part of creating an environment that fosters the right behaviour. Generally speaking, you get what you measure and reward.”

# Remember the labour shortage ... it hasn't gone away

Just before the financial meltdown of 2008, labour shortages and recruitment of skilled staff was the top concern going forward for private companies surveyed. Not surprisingly, this dropped in 2009, when unemployment rates increased due to the recession. This year, labour shortages and recruitment of skilled staff ranks seventh as a concern for the coming year. That ranking itself is a concern. According to a PwC study, “How to Ensure Strong Leadership for the Future”, approximately 26% of managers and 43% of executives will be eligible for retirement in the next five years. That study was released in 2008. The urgency is clear—even if private companies were able to get some breathing room during the recession—the crisis will return.

“The talent pool is not getting any bigger,” says Ayub. “In fact, it will continue to shrink. The demographics are going to drive that. Being able to have bright people come and stay with your organization is going to be the lifeblood of business, particularly if you are going to be focusing on international markets.”

During the boom years, many companies were hiring to fill seats in order to keep up with work. But when the recession hit, they realized three things: they had a lot of people who were not the right fit to push the company forward; their strong people were their greatest asset through the tough economic times and going forward, focusing on quality rather than quantity will be a necessity.

Finding the people with the right skills is going to continue being a challenge. Not only are we dealing with a shift in demographics as the baby boomers retire, but there will increasingly be added pressures due to globalization. Just as with market share, emerging economies such as India and China, which are on a fast path to significant growth, will be in need of skilled, experienced employees—and will be coming to Canada to recruit talent.

“If the war for talent in Canada was difficult in previous years, it will be the world war for talent in the coming decades. Canadian private company leaders have to refocus their efforts to attract, retain and train the right people to help them stay competitive in this new global market,” says Ayub.

*If the war for talent in Canada was difficult in previous years, it will be the world war for talent in the coming decades.*

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# Conclusion

The results of the 2010 Business Insights Survey reveal that most of Canada's private companies have navigated well through the challenges of the recession. They were realistic in their expectations and achieved against their plans. It appears they understood and understand that there is a new business reality, one that is highly competitive and requires hyper-efficiency.

Just before the recession was about to hit, the results of the 2008 Business Insights Survey found Canada's private companies with their eyes open remaining cautious but optimistic and with the majority planning to grow. They had shown an agility and resilience in meeting unfavourable market conditions head on and were using past experiences and lessons to move forward.

Two years later, it looks like the worst of the recession is over and the 2010 Business Insights Survey finds Canada's private companies in much the same mindset. That said, the recession has had a completely unexpected outcome. Canada has emerged as a role model to the rest of the world and has managed to avoid the severity of the crisis most other nations experienced. In fact, as Finance Minister Jim Flaherty stated, Canada has punched far above its weight and the heavyweights are now coming to us for lessons. Typical of Canadian humility, this tremendous achievement has gone under-celebrated here at home. As the backbone of the Canadian economy, private companies have been a significant part of this success story. They are in a unique position to go forward with the confidence and pride that comes from this achievement, knowing the world recognizes and respects it.

Most Canadian private companies are pacing themselves. They are carefully and strategically planning their growth. At the same time, they are aggressively improving their competitiveness for the new business landscape.

"Just as Canada has punched well above its weight, there is nothing stopping Canadian private companies from becoming heavyweights on the world stage," says Tahir Ayub. "With innovation and a broader entry into the global market, Canadian private companies can seize their piece of the global pie."



# Appendix

## Methodology and demographics

The sixth annual Business Insights Survey examines issues affecting Canadian private companies. In July and August 2010, 213 participants from across Canada completed the survey. Business leaders from a broad range of industries of various sizes and locations were questioned about their strategies. The issues were selected following input from private company leaders at our CEO Connect discussions.

The survey sample is concentrated around four provinces—British Columbia, Alberta, Ontario and Quebec. Survey participants outside these provinces have been aggregated for presentation purposes.

### Participant demographics

Survey participants represent a wide range of revenues, locations and industry sectors.

### Revenues

Of 213 companies surveyed, 44% have revenues between \$11-50 million and the remaining 56% have revenues over \$51 million.

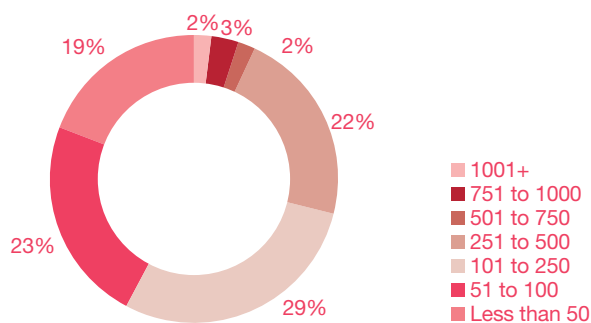
### Employees

19% of companies surveyed have fewer than 50 employees. 23% have between 51 and 100 with 58% having more than 100 employees.

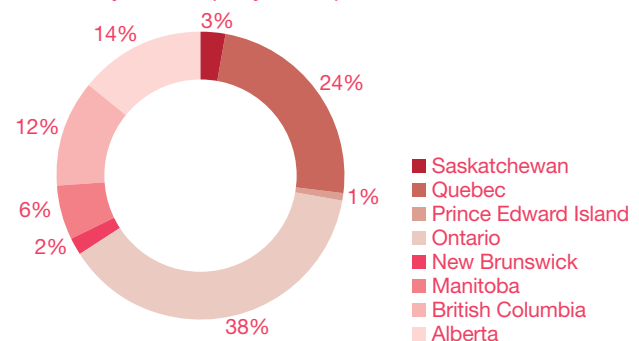
### History

9% of companies have been operating for less than 10 years, 18% between 10 and 19 years, 49% between 20 and 49 years and 24% over 50 years.

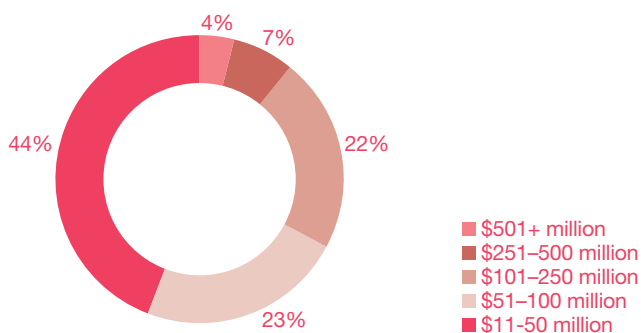
How many people does your company employ?



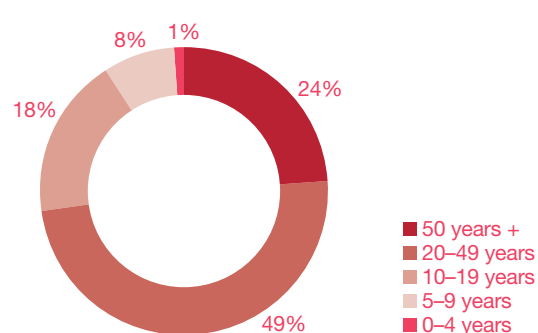
Where is your company headquartered?



What was your revenue in the last financial year?



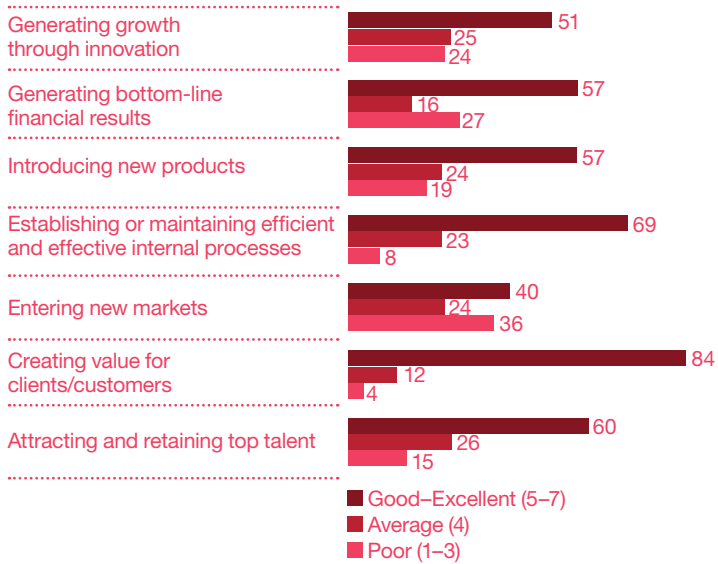
How long has your company been operating?



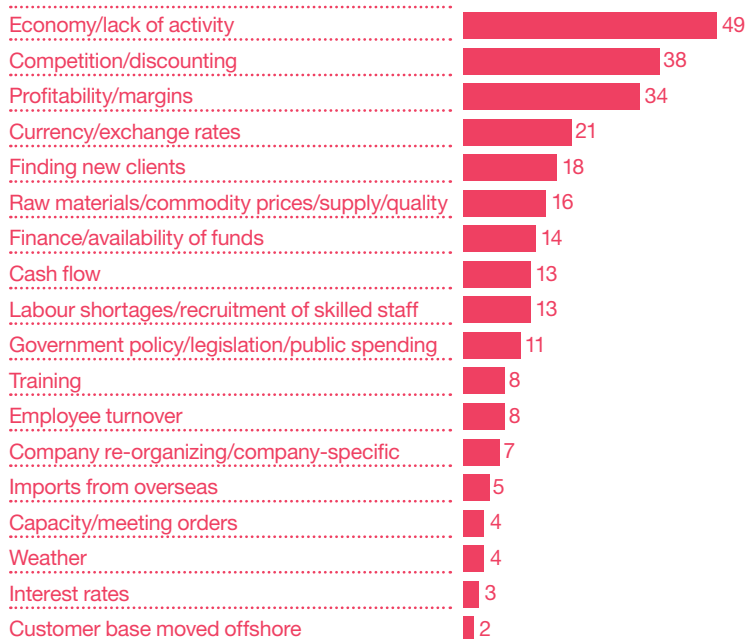
## Detailed data

All data presented as a percentage of respondents

*How successful has your company been in the following areas?*



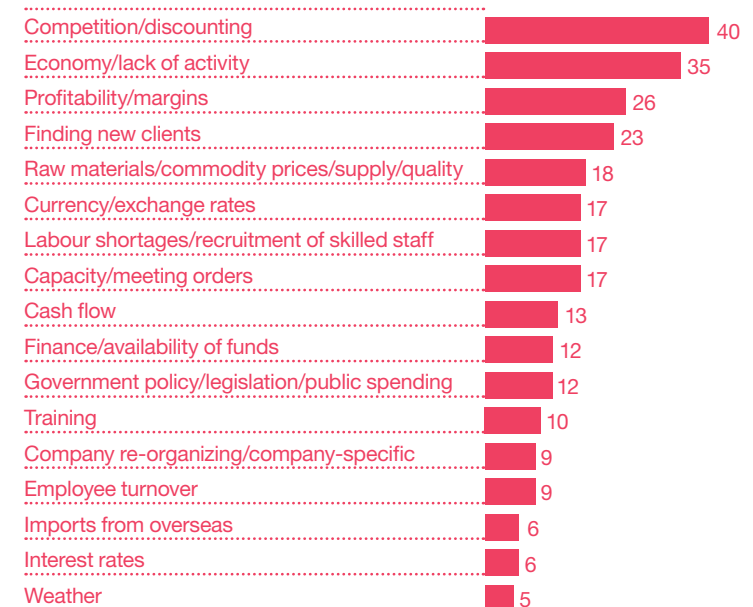
Looking back, apart from demand or issues relating to general sales, what would you say have been the top three issues or problems that have influenced your company **over the past 12 months?**



*Have you established specific targets for measuring company performance?*



Looking ahead, apart from demand or issues relating to general sales, what would you say will be the top three issues of problems that will influence your company **in the next 12 months?**





# Private Company Services Contacts

## Canadian Private Company Services Leader

**Tahir Ayub**  
(604) 806 7502

PricewaterhouseCoopers Place  
250 Howe Street, Suite 700  
Vancouver, British Columbia  
V6C 3S7

## Calgary

**Ian Gunn**  
(403) 509 7543

Suncor Energy Centre  
111 5th Avenue SW, Suite 3100  
Calgary, Alberta  
T2P 5L3

## Edmonton

**Brad Gilewich**  
(780) 441 6857

**Gord Keiller**  
(780) 441 6840

Toronto Dominion Tower  
10088 102nd Avenue NW, Suite 1501  
Edmonton, Alberta  
T5J 3N5

## Fraser Valley

**Rod Johnston**  
(604) 806 7054

10190 152 A Street, 3rd Floor  
Surrey, British Columbia  
V3R 1J7

## Halifax

**Mike Anaka**  
(902) 491 7442

1601 Lower Water Street, Suite 400  
Halifax, Nova Scotia  
B3J 3P6

## Hamilton

**Jason Safar**  
(905) 972 4118

21 King St West,  
Main Floor  
Hamilton, Ontario  
L8P 4W7

## London

**Chirag Shah**  
(519) 640 7914

465 Richmond Street, Suite 300  
London, Ontario  
N6A 5P4

## Montreal

**Yves Bonin**  
(514) 205 5220

1250 Rene Levesque Boulevard W.  
Suite 2800  
Montreal, Quebec  
H3B 2G4

## Ottawa

**Marc Normand**  
(613) 755 8733

99 Bank Street, Suite 800  
Ottawa, Ontario  
K1P 1E4

## Quebec City

**Thomas Bouchard**  
(418) 691 2448

Place de la Cite,  
Tour Cominar, Bureau 1700  
2640 Boulevard Laurier  
Quebec City, Quebec  
G1V 5C2

## Saint John

**Simon Kent**  
(506) 653 9400

44 Chipman Hill  
P.O. Box 789  
Saint John, New Brunswick  
E2L 4B9

## Saskatoon

**Monte Gorchinski**  
(306) 668 5963

123 2nd Ave South, Suite 200  
Saskatoon, Saskatchewan  
S7K 7E6

## St. John's

**Ron Walsh**  
(709) 724 3778

215 Water Street, Suite 802  
Box 75  
St John's, Newfoundland  
A1C 6C9

## Sydney

**Rita Anderson**  
(902) 564 1472

500 George St, Suite 220  
Sydney, Nova Scotia  
B1P 1K6

## Greater Toronto Area

**Frank Magliocco**  
(416) 228 4228

**Michael Epstein**  
(416) 218 1550

**Debbie Meloche**  
(416) 218 1544

**Joe MacInnis**  
(416) 218 1571

North American Life Building  
5700 Yonge St., Suite 1900  
Toronto, Ontario  
M2M 4K7

## Truro

**Nancy Frame**  
(902) 896 4357

710 Prince Street  
Truro, Nova Scotia  
B2N 5E5

## Vancouver

**David Khan**  
(604) 806 7060

PricewaterhouseCoopers Place  
250 Howe Street, Suite 700  
Vancouver, British Columbia  
V6C 3S7

## Waterloo

**Glen Dyrda**  
(519) 570 5715

95 King Street South, Suite 201  
Waterloo, Ontario  
N2J 5A2

## Windsor

**Loris Macor**  
(519) 985 8913

245 Ouellette Ave, Suite 300  
Windsor, Ontario  
N9A 7J4

## Winnipeg

**Tony Catanese**  
(204) 926 2414

**Chris Couture**  
(204) 926 2418

One Lombard Place, Suite 2300  
Winnipeg, Manitoba  
R3B 0X6

## York Region

**Jag Patel**  
(905) 326 5335

400 Bradwick Drive, Suite 100  
Concord, Ontario  
L4K 5V9

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## *About PwC's Private Company Services*

More than 65% of PwC Canada's clients are private companies, ranging from owner-managed family businesses to large, professionally-managed businesses. PwC's Private Company Services (PCS) group is a dedicated team of business advisors who help private company owners with the complex issues of managing a successful private company, while keeping an eye on their long-term business and personal goals. PCS offers the perspective of a third party with professional industry knowledge, business consulting, tax and accounting experience.