

Youthful exuberance wins the day*

Business Insights™ Report 2007
Insights into the behaviours of Canada's
successful private companies



“There are risks and costs to a program of action, but they are far less than the long-range risks and costs of comfortable inaction.”

John F. Kennedy

Companies are doing well but are content with the status quo. The majority are showing top-line growth and are profitable but have little appetite to expand into alternative markets or invest in new product lines.

Companies willing to take risks stand to gain real competitive advantage and our data shows that the fastest growing private companies are also the most “innovative.”

Companies that fail to innovate risk being overtaken in their own markets by new global competitors or find their business models unsustainable in an era of change.

Welcome to Business Insights™

This Report shares the results from the third annual PricewaterhouseCoopers (PwC) Business Insights™ Survey of private companies, the largest of its kind in Canada. This year, we interviewed 420 business leaders, who kindly shared their candid thoughts on a wide range of the day-to-day and longer-term issues affecting their businesses.

As with last year's findings, the Survey's results show that, on the whole, private companies continue to be successful, boosted to some extent by the continued strength of the Canadian economy. Private companies are the backbone of our economy and employ the majority of the workforce so it's great to see them continue to grow and restate their confidence despite the slowdown south of the border.

Labour issues still constrain Western Canada and companies across the country, but mainly Ontario and Quebec are challenged by the currency fluctuations. The increase in global competition is also on the minds of all respondents.

But this is not new. All these trends have been impacting the Canadian landscape for the past several years and will continue to do so in some form in the future. What is different is that we are beginning to see trends in the behaviour of the companies that are the most successful.

The data shows that companies employing more innovative tactics such as exploring new markets and new ways of doing things are more likely to be the fastest growing and more profitable. These are the companies that will be best positioned in the new global economy.

In light of these findings this report looks at how companies are

- Looking to respond to their primary challenges
- Developing alternative revenue streams through new channels to market, new markets or new products
- Maximizing the value from acquisitions and
- Responding to changes in attitudes to the environment and ethical business practices

There are risks associated with undertaking all of these things and within our Private Company Services group, we have dedicated teams working alongside entrepreneurs like you to help you spot opportunities for growth, avoid risk, save money, create value and put all the pieces together. Because we know you work to support yourself and your family, we also provide advice on your personal taxation, succession and exit, trusts and retirement planning.

Sometimes the biggest risk is doing nothing...let's talk.



Eric Andrew
National Leader
Private Company Services
PricewaterhouseCoopers LLP

A handwritten signature in blue ink that reads "Eric Andrew". The signature is fluid and cursive.

Economic outlook 2007–08



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The outlook for the global economy is murky. While the U.S. sub-prime mortgage mess and the resulting credit market crisis have largely been confined to the credit markets to date, it could have implications for global growth. Risk aversion has increased significantly and questions about the quality of assets underlying many securitized products have led to a scarcity of short term financing, forcing central banks to shore up liquidity. Treasury bill yields plunged as investors flocked toward safer, government guaranteed instruments.

The US economy was already slowing before the credit crisis unfolded and the red hot US housing market was overdue for a correction. When house prices cooled and interest rates began to rise, mortgage payments began to be missed—particularly by sub-prime borrowers (i.e. those with poor credit history). Because pools of these mortgages are held by investors the world over through securitized products, this became a problem for global credit markets.

Tighter lending standards in the US are raising fears that risk-averse institutions could start to reject even the most credit-worthy borrowers. Combined with the softening US labour market, the credit crunch is making an economic slowdown in the United States more likely, although we do not anticipate an outright recession. The US Federal Reserve eased monetary policy in August and September to help buoy the US economy, and the government has already taken steps to help homeowners who may face foreclosure over the next year.

By comparison, the Canadian economy has been remarkably resilient. Record high crude oil prices, record low unemployment and strong domestic demand are creating upward pressures on wages and inflation. This growth is being offset by the weakness in the US economy and the strong Canadian dollar, which may be taking a toll on economic activity in central Canada. Facing a shift in the balance of risks, the Bank of Canada has put off any change to interest rates for the time being.

Overseas, the Bank of England and the European Central Bank, which were previously hawkish, have also left interest rates unchanged in the face of economic uncertainty. However, both central banks could tighten policy if markets settle down. Domestic demand remains firm, although recent indicators have suggested some softening in European business and consumer confidence.

Because economic activity in Japan actually contracted in the second quarter, the odds of near-term tightening by the Bank of Japan have diminished. However, in China and India, the continuing strength of economic activity has led their central bankers to try to cool the pace of growth.

Globally, the risks to economic growth are to the downside. The recent credit market turbulence has sullied the outlook for developed economies as we head into 2008, and North American central banks are likely to ease monetary policy. Reflecting the overall unease, bond yields have fallen sharply and we continue to expect a 4% to 5% rate of return from bonds in the medium term. Despite the resilient Canadian equity market, supported by soaring prices for crude oil and gold, we remain cautious and are finding more attractive opportunities in stock markets outside of Canada. We believe that the Canadian dollar is overvalued and expect it to weaken alongside the cooling global economy in 2008.

Executive summary

The 2007 PwC Business Insights™ Survey reveals that Canada's private companies continue to be confident and profitable despite the worries of the US slow down.

While this is good news, a closer analysis of the data reveals that the most successful companies are young, innovative and willing to take risks. This finding paints a worrying picture for long-established businesses that are content with the status quo.

According to our results, the fastest growing companies are more likely to be less than 10 years old and much less likely to be more than 20 years old. In contrast, once companies have been operating for more than 50 years, they are more likely to show decreasing profits, top-line shrinkage and pressures of competition.

But age isn't the only factor at work. Companies with increasing profitability and top-line growth of more than 15% report they are participating in an innovative range of activities. Factors contributing to their success include selling or sourcing overseas, generating revenues from new sectors, entering new markets or developing new products and having a significant percentage of staff working on innovation-related projects. The data also reveals that once businesses have been established for more than 50 years, they are also most likely to report that they "do not innovate."

For older companies and those content with the status quo, these results are a wake-up call. Younger and more dynamic businesses from both Canada and overseas are more responsive to changing customer needs and are building market share. Our data indicates that this youthful exuberance is winning the day.

All companies would do well to take a closer look at the behaviours exhibited by the most successful companies and consider what they might do to reinvigorate their business approach. Business leaders concerned about what they may lose with higher risk ventures, must also consider what they could lose by carrying on with business as usual.

In this document, we summarize our respondents' outlook for the future, share insights into the behaviours of the most successful companies, and take a closer look at the tactics these companies are using to succeed.

Key trends

Outlook for the future

Despite media concerns over a potential downturn in the economy, sub-prime woes in the US and a strong dollar, confidence among private business leaders is undented. Seventy-seven percent of Canada's private companies report they expect business to get "a lot" or "a little better" in the next 12 months (Figure 1).

The biggest change from last year's results was the drop in the number of Albertans reporting they expect business in the next twelve months to "get a lot better." In 2006 45% of respondents gave this response but in 2007 the figure has fallen to 26%. The number of companies fighting for survival in Alberta has also doubled. This shift is an indication that the Alberta boom is quieting, perhaps due to labour constraints and the rapid inflation of the cost of raw materials in the area.

Ontarian respondents, who are often reported as being hardest hit by job losses in the manufacturing sector and the strong dollar, have grown in confidence in the past year.

Strategies for growth

For the third consecutive year, growth and expansion is the main strategy for Canadian companies. This is true of all company sizes and all regions. The overall figure shows 75% of companies are striving for growth in the next 12 months, up from 70% last year.

How do you expect your business to develop over the next 12 months?

Table 1A Results by company size 2005–2007

Percentage of respondents

Response	2005		2006		2007	
	<\$10m	>\$11m	<\$10m	>\$11m	<\$10m	>\$11m
Get a lot better	25	21	36	23	32	20
Get a little better	45	48	49	49	45	57
Stay the same	22	21	13	21	19	17
Get a little worse	5	9	2	6	3	5
Get a lot worse	1	0	0	0	1	1

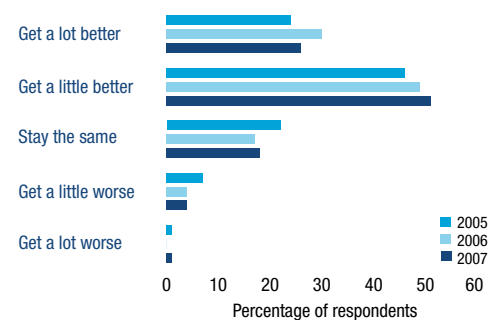
Table 1B Results by province 2005–2007

Percentage of respondents

Response	2005*				2006					2007				
	West	Ctrl	PQ	Marit	BC	AB	ON	PQ	Other	BC	AB	ON	PQ	Other
Get a lot better	27	23	27	14	24	45	30	25	32	21	26	26	30	29
Get a little better	51	54	33	34	43	39	47	49	57	51	51	54	45	61
Stay the same	6	17	33	31	18	13	20	21	5	20	16	17	21	7
Get a little worse	5	6	5	17	4	3	3	4	5	7	6	3	2	4
Get a lot worse	0	0	1	3	0	0	0	1	0	1	1	1	1	0

* In the 2005 survey, data was analyzed by region rather than province.

Figure 1 Total results 2005–2007



The biggest swing in confidence is seen in companies with revenues of \$10 million or less. In 2006 only 61% were planning growth and expansion but in 2007 this figure has increased to 71%. There are also fewer companies fighting for survival in the below \$10 million group.

Future challenges

Labour is the primary challenge respondents expect to face in the next year, but again there were wide regional differences. In Alberta 61% of respondents rank labour as one of their three biggest challenges. This is down slightly from the 65% who cited it as a problem in the last 12 months. The spread of responses is more even in Ontario with labour, currency and the economy cited by a similar percentage of respondents.

Competition is the one issue ranked as a top three challenge for all provinces and for companies of all sizes. It ranks as the top challenge in Ontario, second in Quebec and third in British Columbia and Alberta.

Strategies for improvement

When we probed how companies plan to respond to these challenges, they indicated they planned to pursue process improvement and cost reduction. Approximately one in three companies will also be focusing on expansion and strategic alliances, and one in five planned to focus on innovative and proactive activities.

Which one strategy is your company striving for?

Table 2A Results by company size

Percentage of respondents

Response	2005		2006		2007	
	<\$10m	>\$11m	<\$10m	>\$11m	<\$10m	>\$11m
Growth and Expansion	65	80	61	79	71	79
Consolidation	13	12	13	8	9	9
Survival	18	6	22	10	16	10

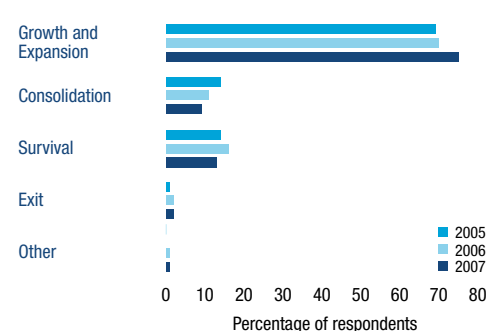
Table 2B Results by province

Percentage of respondents

Response	2005*				2006					2007				
	West	Ctrl	PQ	Marit	BC	AB	ON	PQ	Other	BC	AB	ON	PQ	Other
Growth and Expansion	80	72	57	55	74	85	77	61	55	76	79	81	65	75
Consolidation	11	11	24	14	8	4	38	18	12	9	7	3	15	11
Survival	8	15	17	24	15	5	13	18	29	13	11	10	18	11

* In the 2005 survey data was analyzed by region rather than province.

Figure 2 Total results 2005–2007



Labour shortages are still Canada's biggest headache, but competition is also a big challenge.



What are the top three issues you have faced in the last 12 months?

Table 3A Top issues by province 2006–2007

Percentage of respondents

Response	2006					2007				
	BC	AB	ON	PQ	Other	BC	AB	ON	PQ	Other
Competition discounting	28	15	32	44	47	30	15	31	33	29
Recruitment of skilled staff/ labour shortages	44	71	25	31	31	42	65	25	32	46
Economy/lack of activity	12	7	20	29	17	21	18	21	22	7
Profitability/margins	29	17	32	22	37	17	15	14	18	18
Currency/exchanges rates	23	14	31	25	15	20	7	22	24	21

Table 3B Top three challenges by province 2006–2007

Percentage of respondents

Rank	2006				2007			
	BC	AB	ON	PQ	BC	AB	ON	PQ
1	Labour	Labour	Competition	Competition	Labour	Labour	Competition	Competition
2	Profitability	Raw materials	Profitability	Labour	Competition	Economy	Labour	Labour
3	Competition	Capacity	Currency	Economy	Economy	Competition	Currency	Currency

Figure 3 Top national issues 2005–2007

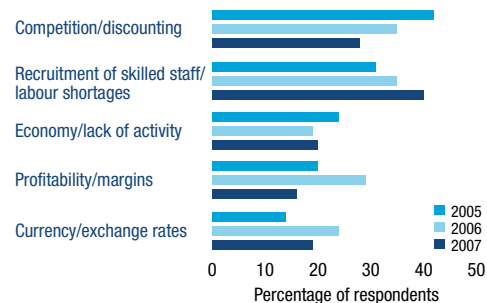


Figure 4 Top national issues 2007





What do you expect to be this year's challenges?

Table 4 Top challenges by province

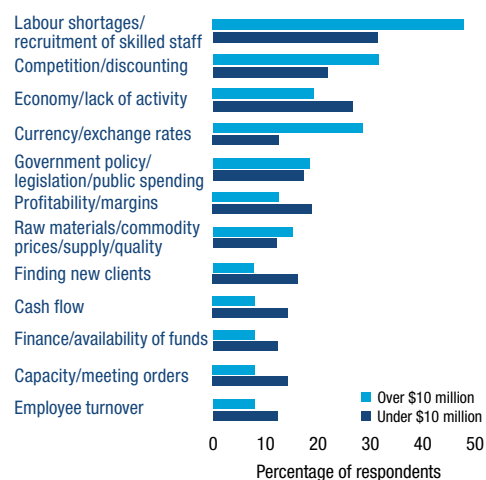
Percentage of respondents

Challenge	BC	AB	ON	PQ	Other
Employee turnover	3	15	3	5	14
Capacity/meeting orders	7	11	6	11	7
Finance/available of funds	7	6	18	8	4
Cash flow	9	15	14	7	7
Finding new clients	10	9	12	18	4
Raw materials/commodity prices/supply/quality	12	16	7	16	21
Profitability/margins	13	13	19	16	14
Government policy/legislation/public spending	21	16	21	12	14
Currency/exchange rates	28	11	19	22	14
Economy/lack of activity	22	21	28	21	14
Competition/discounting	27	18	28	28	32
Labour shortages/recruitment of skilled staff	43	61	19	32	61

Figure 5 Top national issues 2007



Figure 6 Top issues by revenue



Insight into the behaviours of successful companies

Looking at the overall picture, business leaders are still bullish and one in three are forecasting top-line growth of over 15%.

This growth will be achieved mainly by performance improvement, organic growth and by more or better targeting of customers. The majority also say they will be moving into new markets or product lines (Figure 7).

But what are the companies that report increasing profitability doing that makes them successful? Are there behaviours that are correlated with significant top-line growth, increasing or decreasing profitability, and do they begin to present a pattern that could be copied or avoided by others?

When we analyzed the data more closely we found the most heavily correlated indicator with success and growth are innovative practices. Companies with decreased profit are less likely to be planning expansion into new markets and are more likely to be looking to improved sales and marketing in existing markets as the way to achieve growth. Businesses with static profit are less likely to sell outside Canada, more likely to consider themselves “not innovative” and more likely to be generating no revenue from new products or in new markets. Instead, these companies are relying on growth coming from their current revenue streams. While relying on process improvement and the strong market would seem to be a prudent approach, we suggest it may not be long before pressures of global competition or a slow down in the Canadian economy weaken the future of these companies. Doing nothing may turn out to be more risky than venturing into something new.

Figure 7 What are the reasons behind your forecast growth?



Figure 8 Which of the following options are you considering as a part of your short-term strategy this year?

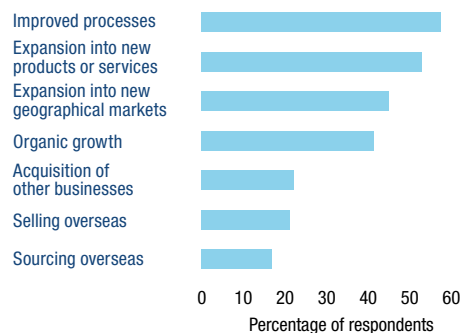
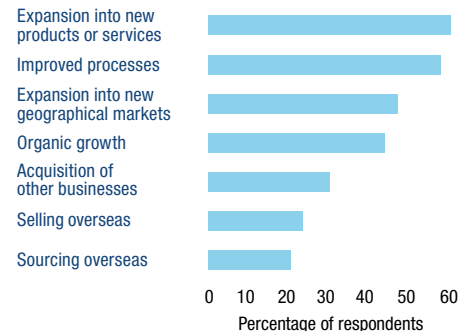


Figure 9 Which of the following options are you considering as a part of your medium-term (next three years) strategy?



In contrast, respondents who cited increasing profits year-on-year generally reported they were focused on developing new revenue streams. These more successful businesses are also more likely to be planning expansion into new markets in the short and medium term and also more likely to be considering growth by acquisition.

When we looked more closely at how responses correlated to top-line growth, we found similar trends. The fastest growing companies are far more likely to be looking beyond their current practices and often beyond Canadian borders to maximize their potential.

These results are not surprising. The fastest growing companies are

- actively developing new products
- generating significant revenues from new products or market sectors
- more likely to be expanding overseas, either through selling or sourcing

These companies are also investing a greater percentage of their revenue in IT and in innovation and have many of their people working on developing new products—suggesting they have a long-term strategy for growth.

Again, not surprisingly, these respondents are most likely to also report that their business situation will “get a lot better” in the next 12 months. The data shows their confidence is well founded.

Table 5 The behaviours of companies by decreasing, static or increasing profitability

Decreasing profit	Static profit	Increased profit
More likely to look to improved sales and marketing as the way to grow	Less likely to be generating revenue from new products	Planning expansion into new markets in the short and medium term
Less likely to be entering new markets	Less likely to be generating revenue from new markets	More likely to be investing in innovation
	Likely to report not innovative	More likely to get revenue from new markets or new products
	Less likely to sell outside Canada	More likely to be looking at M&As to grow

Table 6 The behaviours of the fastest growing companies—top-line growth over 15%

More likely to report they
Are expanding overseas
Are selling overseas
Are sourcing overseas
Have offices overseas
Consider themselves very innovative
Have a significant percentage of staff participating in innovation projects
Generate more than 30% of revenue from new sectors or markets
Generate more than 50% of revenue from new products
More than 16% of revenue invested in innovation-related projects next/last year
Are developing new products, entering new markets, and selling overseas, in their short-term growth strategy
Are planning to enter new markets, and sell more overseas, in their medium-term growth strategy
Are investing more than 10% of revenue on IT equipment and solutions

What happens when we compare how companies are behaving against the number of years they've been operating?

The fastest growing companies are more likely to be younger than 10 years old and much less likely to be older than 20 years. In contrast, once companies have been operating for more than 50 years, they are more likely to show decreasing profits, top-line shrinkage and cite pressures of competition as their biggest challenge. Older companies are also less likely than younger companies to consider themselves innovative and less likely to be planning expansion, or have many of their people working on product development.

These results suggest that companies' growth slows as they age. While younger companies show a youthful exuberance, older companies tend to be more risk averse, hesitant to try new tactics and seem more content with the status quo.

The lifecycle of Canadian private businesses seems to be confidence and growth in the early years which lead to increased profitability and expansion into new markets in years 10–19. There are more reported plans to acquire a competitor in years 20–49 but after that business growth would appear to slow down. The data shows that older companies are less innovative and leave behind the tactics that had secured survival and growth in their earlier stages.

So what can we learn from this? This is most likely due in part to the fact that older companies and their management think they have more to lose—but we suggest that they may have more to gain, and that doing nothing may in fact be the biggest risk of all.

Canada's ability to innovate is critical to success. In *How Canada Performs*, a July 2007 Conference Board of Canada study⁽¹⁾, the authors argue: "There is a strong relationship between innovation, productivity and prosperity. Countries that are more innovative are also more productive, more competitive and thus better off."

Table 7 The behaviours of companies by age

Years	More likely than the group average to	Less likely than the group average to
0-4	<ul style="list-style-type: none"> Show top-line growth over 15% Report that their business prospects will get a lot or a little better in the next year Be developing new products Be investing in innovation-related projects in the last and next 12 months 	
5-9	<ul style="list-style-type: none"> Show top-line growth over 15% Report that their business prospects will get a little better in the next year 	
10-19	<ul style="list-style-type: none"> Report increase in profitability this year Be planning expansion into new products and services in short term strategy 	
20-49	<ul style="list-style-type: none"> Be planning acquisition in short and medium term 	
50+	<ul style="list-style-type: none"> Report profitability shrinkage last year and in the next year Report they are not innovative 	<ul style="list-style-type: none"> Show top-line growth over 15% Be prioritizing expansion plans Have a significant number of staff working on innovation-related projects

Innovation is particularly important to Canadian companies because it can help overcome the limitations of geography and a relatively small domestic market and remain competitive on the global stage. Our data also shows that the success of companies is linked to new practices and new revenue streams.

But what is innovation? In short, it is nothing more than the act of making improvements by introducing something new. And this approach can be applied to processes, products, services and commercial markets.

Over the next several pages, we take a closer look at different innovative tactics that some of the successful Canadian private companies are pursuing to develop new revenue streams. These include

- New product or service development
- Acquisitions
- Online sales
- Global opportunities
- Corporate Social Responsibility

Take Action

Innovation is a tool for and driver of change. But without embedding systems for defining, capturing and evaluating both the tangible and intangible aspects of innovation, companies risk not realizing their true potential. Is your company prepared to do what it takes?

- To deliver on an innovation strategy, companies need to commit to investing the appropriate level of financial and human resources, otherwise the chance of failure is significant.
- A driver for investing in innovation is the prospect of delivering a distinctive and unique product for which a premium price can be charged. Consequently, profit margins increase.

How can you define, capture and evaluate ideas?

- Consider a system that will not only define what innovation means for your company, but will also capture, and most importantly, evaluate the ideas. Then use these ideas to drive future direction. Make innovation integral to the day-to-day workings of your company and your people.
- Put the right tools and processes in place within your organization to establish a robust system that instills innovative activity.
- Investigate the eligibility criteria for the SR&ED tax concession and other grants to ensure that your organization is benefiting fully from incentives for innovation.

Developing new revenue streams

Results from a Business Insights™ Pulse study⁽²⁾ conducted earlier this year show that 85% of companies are planning to improve their productivity. For many of the most successful companies this will mean focusing on innovation and improved management of the processes for product development and commercialization.

Technological advances are driving fundamental changes in the global economy and companies face serious threats to their competitiveness. In the majority of companies innovation starts with a person or people and should be encouraged by the organization. It is people who will generate and manage innovation. The data shows that half the respondents have less than 5% of their people involved in developing products or services and 61% don't have an incentive structure for rewarding innovation by staff (Figures 10 and 11). It also shows that it is the fastest growing and profitable companies who are more likely to have a higher proportion of staff involved in innovation.

The question is how can an innovative culture be built within a company? How can employees' ideas be captured day-to-day and long term? And how can organizations establish a framework that embeds such a culture of innovation?

Innovation starts with a simple idea, but it's implementing the idea that's the challenge. The key step is to make the idea tangible. Turn it into a project or program with a plan and processes to follow, and management accountability to make sure it gets done.

Figure 10 What percentage of your employees are directly involved in developing products and/or services?

Percentage of respondents

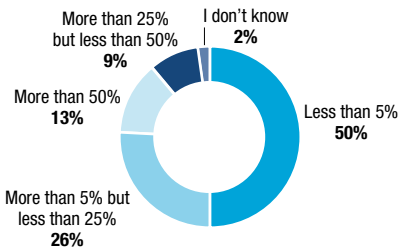
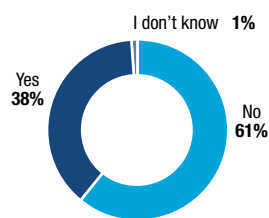


Figure 11 Do you have an incentive structure for innovation developed by staff?

Percentage of respondents





Innovation starts with a simple idea, but it's how you get that idea implemented and executed that's the challenge. The key step is to make the idea tangible. Turn it into a project or program with a plan and processes to follow, and management accountability to make sure it gets done.

Growing by acquisition

Around 40% of the respondents with revenue over \$10 million are considering an acquisition in the next 12–18 months (Figure 12). The top reasons given for this strategic decision are to gain access to a larger market and to obtain key assets (Figure 14). Those who are planning an acquisition say they are planning to make a domestic acquisition, which means there is potential for consolidation in the market. It is also interesting to note that very few companies, only one percent, are looking to sell or exit this year. This suggests there will be few targets for sale which could push prices up or force companies to change their plans.

Numerous research reports show that up to 70% of mergers fail to meet expectations⁽³⁾. Our respondents expect to face challenges negotiating the deal and integrating people (Figure 15). These challenges can be reduced with careful planning and by ensuring that goals and objectives are stated from the outset and backed up with tactical steps to deliver them.

For those not considering acquisitions, the main reason cited was a lack of interest rather than lack of funding or expertise (Figure 13).

Figure 12 Is your organization planning to undertake any acquisitions over the next 12 to 18 months?

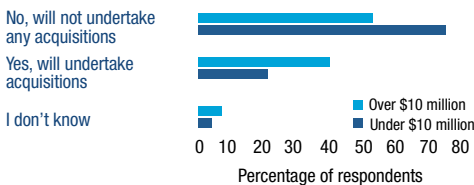


Figure 13 Why has your company failed to undertake any mergers and acquisitions?



Figure 14 Which of the following best describes the strategic objectives of the (planned) acquisition?

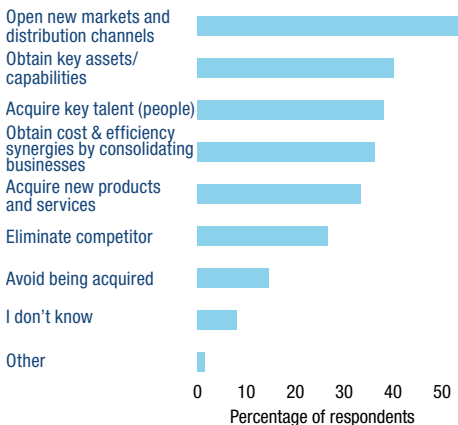


Figure 15 Please identify the top three challenges you anticipate or may have experienced during the acquisition process.



Take Action

The challenge of negotiating the deal

Given the complexity and potential downside risk, it's hardly surprising that negotiating the deal is the biggest concern for businesses considering an acquisition. This challenge can be managed if you're prepared—mentally as well financially.

There are many things to think about long before you get to the point of actually negotiating the deal itself. Completing the groundwork early will give you greater confidence when you do get to the table. Be sure to obtain as much information about your target as possible and develop a solid idea of the value of the acquisition to your business.

You will also need to ensure your core business is ready for the change and that you have a detailed strategy that shows how the newly formed, larger company will operate. This document should show how the benefits of the acquisition will be realized through the integration of the two entities. Although you'll need to review and update this plan regularly, it will help keep you on track throughout the process.

Once a deal is on the table there's very little time to do all the preparation and due diligence you need to so anything you can get planned in advance should be done.

The next step is to make sure you have a good lawyer. At its core an acquisition is a legal contract and must be watertight. You may have a lawyer who looks after your business but if they don't frequently work on M&A cases you should think about bringing in a specialist. The extra cost is quickly outweighed by the risks of a multi-million dollar deal falling down in the details.

In most instances it's difficult to get enough information to satisfy the lawyers and your management team about your target before you come to the negotiating table. Many vendors will be reluctant to give out information which could put them at a competitive disadvantage until a Letter of Intent (LOI) or Memorandum of Understanding is issued. The LOI is not a legal contract and isn't binding except as it relates to the negotiations themselves (e.g. confidentiality, timescales, who pays costs if the deal breaks down etc.).

The LOI is viewed by experienced buyers as a ticket to the next phase where due diligence will take place. Don't be afraid to renegotiate after the LOI is issued, do as much digging as you can, and remember you are driving this process.

Some companies do their own due diligence and others use external advisors. This depends on the experience and availability of your own people to do the work. Don't forget to keep people focused on their day jobs while all this is happening. It's crucial that the fitness of your own business is maintained regardless of the outcome of the deal.

After due diligence you should at last be in a position to agree a price or price range, which will be between the seller's value and the value to you. Values will vary within industries, but there is usually a benchmark of earnings multiples that a financial advisor can help you determine.

Negotiating deals is always tricky and stressful but getting it right can mean that your business gets a real jump start into its next phase—integration.

Take Action

The challenge of post-deal integration of people

A key factor in a disappointing outcome is a failure to adequately address HR issues⁽⁴⁾.

For the best chances of success you need to understand the nature of the deal and establish HR priorities to make it work. This may include quickly implementing cost-saving and revenue-generating opportunities, retaining and motivating key people, keeping employees focused on what they need to do, and aligning all people to deliver the needs of the new organization.

Establish leadership of the newly formed organization

At the outset of any transaction there are two sets of leaders. Most often the top leadership from the acquiring organization remains in place but taking the best leaders from both companies can help you drive revenue. It can also preserve talent in the combined entity and creates a pool for future leadership positions.

Decide early on who should stay and who goes

Important players throughout the organization need to be identified early and an assessment done of how these people align with the new order. There may also be employees you need to complete the transition but will be let go afterwards while ensuring those you want to stay are retained for the long term. This is particularly challenging because the skillset required in the long term may be sharply different from the skills needed to manage integration.

Identify and resolve cultural differences

Cultural differences are often ignored in the early stages but can cause significant problems if not dealt with at the start. These differences may involve structure, leadership styles and ultimate goals. Whether cultural differences are apparent or subtle, telling employees nothing will be affected by the change in ownership is a big mistake. Incompatible practices must be eliminated and nonconforming employees may have to leave. Failing to

communicate this need for change or to assimilate people into the desired culture will eventually backfire.

Devise and implement communications strategies

Focus on effective communication with all employees, engage them in the needs of the new entity and keep them informed. A good communications strategy can eliminate uncertainty, preempt the rumour mill and keep your people focused on their work. Adequate communication must flow in two directions. Employees need to hear the messages management wants them to hear and management needs to be aware of what employees are thinking. Feedback is critical if employees are to engage with the new organization.

Execute day one decisions

All of the steps outlined above are vital to the success of a transaction. But paying attention to these must not be to the detriment of the operational aspects of the integration.

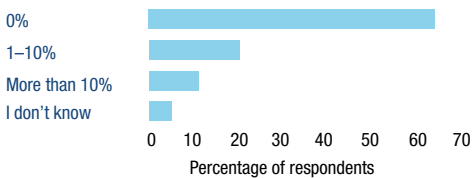
Online: A missed opportunity?

Sixty-three percent of respondents report they generate no revenue online (Figure 16). On the surface, this statistic is surprising considering the popularity of the internet and its pervasiveness in business. We must be careful to note however, that the question doesn't consider whether respondents are involved in e-procurement or whether companies use the Web to give product information or company and contact details—all of which can indirectly contribute to the sales process.

It may be that there is a higher percentage of companies who have a Web presence and/or use electronic channels to link with customers and suppliers, or it may also be that some companies genuinely have no need or no market in the online community.

But for the majority, there are likely opportunities to gain competitive advantage on the internet. Although it may not be practical for some companies to conduct a sales transaction for their product online, there are many other Web site components that can contribute directly to the sales process. Companies may want to consider opportunities to attract customers through marketing information, offering every detail about your products online or posting customer testimonials. Your Web site can make valuable contributions to your sales process both on and offline.

Figure 16 What percentage of your sales, if any, is generated online?



Leverage global opportunities

The challenge of selling, sourcing or partnering with businesses outside Canada

The most successful companies exhibit a range of innovative behaviours. These include generating revenues from new markets or product lines, selling or sourcing overseas and generally engaging in a more diverse range of activities.

While only one in ten respondents with revenues over \$10 million report that outsourcing is a high priority to improve their competitive advantage, a much larger group, almost one in three are planning collaboration or strategic alliances of some sort. The survey data also shows that over 40% of respondents overall are looking to expand into new markets as their short- and medium-term strategies and half of all companies sell and/or source overseas.

Respondents reported that the number one reason for their overseas activity was to access a larger market for products and services. This driver was reported by almost half the companies with revenues over \$10 million and 35% of those with revenues less than \$10 million. Until recently, outsourcing was seen as purely a cost reduction exercise. Now companies are beginning to see it as an opportunity to grow more quickly (Figures 17 and 18).

The results indicate that Canada's private companies, particularly those in the fastest growing and most successful groups, are leveraging international opportunities with good results. More widely, well-executed global sourcing initiatives can act as catalysts for change, stimulating fresh thinking, developing new expertise, fostering operational agility, and ultimately positioning the company to thrive in the global economy.

Foreign markets often help companies make up for the loss of domestic sales to foreign competitors. Many of Canada's goods and services have cachet abroad, particularly niche products. The more distinctive a product, the better it's likely to do in the global market place. Selling on price alone is a risky business. The more a product is a commodity, the stiffer the competition.

What are the top three operational/strategic opportunities that you are attempting or planning to capitalize on with your overseas operations?

Figure 17 Total results



Figure 18 Results by revenue

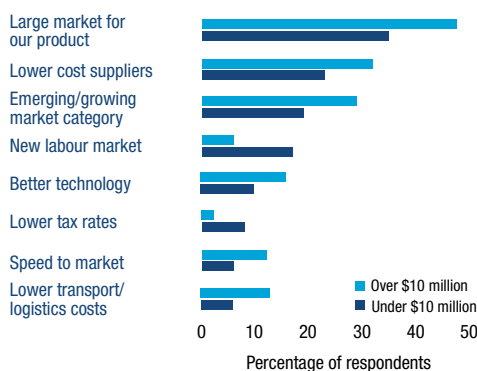


Figure 19 Does your company sell outside Canada? (revenues over \$10 million) Percentage of respondents

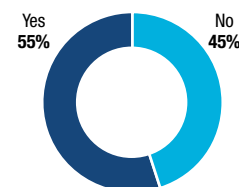
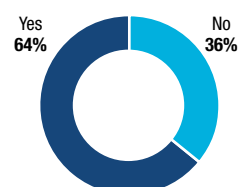


Figure 20 Does your company source outside Canada? (revenues over \$10 million) Percentage of respondents



What is global sourcing and will it help you?

Deciding what to do in-house and what activities to get others to manage on your behalf is the first and possibly most difficult decision to make.

You might choose to restructure, streamline, centralize (shared service), outsource, offshore, or any combination of these. The choice depends on complex business interdependencies, each of which needs to be carefully considered to ensure benefits are realized, risk is mitigated and success is sustained.

There are three main types of sourcing activity.

1. Shared services is the concentration of a company's resources to service units with similar functional needs to improve efficiencies and customer satisfaction.
2. Outsourcing is the contracting of work to a third party which has been previously done in-house by your own people.
3. Offshoring is delivery of work from a different location, generally in a different country. Recently the term has become popular due to companies sourcing product or components from locations like China and India, and from the sourcing of IT and call centre services from low-cost centres.

Take Action

As with any new business venture, there are many things you need to consider. To realize the full potential of sourcing, you need to forget the old views of it as peripheral and tactical and make it a core strategic function.

- Outsourcing, offshoring, or creating a shared service centre should be considered in light of your overall business strategy
- Set and monitor objectives so you can improve as you go along and achieve long-term success
- Sourcing initiatives driven purely by economics almost never deliver the desired savings
- Once the decision to source a business activity has been made, it still requires a considerable amount of management time and attention
- Good service management, contract management, governance and active risk management are critical to success
- Forgetting the basics, such as tax, legal, regulation, data integrity, pensions and accounting issues is a recipe for disaster
- People are key, both in terms of finding and allocating the right resources, as well as getting change management and communication right
- It's as much about what's left behind in the organization as it is about what's being outsourced
- Getting the transition right is critical to your long-term culture and governance
- While you can outsource the processes, you will continue to retain the regulatory and reputational risks
- Change is inevitable—what's your plan for the next step?

Global sourcing isn't something to be taken lightly. Outsourcing, offshoring and shared service decisions are often fundamental to your business model and strategy. It is not just another procurement program or tactical project to be executed by whoever's in charge of purchasing. Successful global sourcing is about trusted, sustainable partnerships and about getting things right at each stage.

The value of your business values

Sustainability and corporate social responsibility are buzzwords in today's business media. The vast majority of the respondents in this year's Business Insights™ Survey are familiar with the terms (Figures 21 and 22). Over 70% note an increased interest in topics from the media and their local communities and almost as many in their customer and employee groups.

Each of these stakeholders have a direct impact on one of your company's most valuable assets—your reputation. Reputation is unique as it exists only in the mind of others. As a result you don't have total control over it. Failure to manage the aspects of your business you can control, such as your approach to ethical, environmental and community issues can lead to a loss of reputation. This in turn will lead to loss of revenue, market share and business value.

While 76% agree there's a business benefit to having sustainable business practices, few respondents are investing either time or money in them. Although only one in three think the costs of sustainable operating practices outweigh the benefits, the other two-thirds are not taking steps to realize the advantage. Seventy-four percent don't have a nominated person responsible for CSR and environmental issues, only 16% are running a CSR program in their community, 62% don't have a policy for sustainability and 43% don't even consider it in their long-term planning (Figures 24 and 25). Larger companies show a greater likelihood of including sustainable practices in their planning and operation but a focus on this is still the preserve of a few forward-thinking companies.

Some companies still seem to be struggling to shake off the mindset that good environmental performance is "nice to have" rather than a "must have."

Figure 21 Are you familiar with the terms sustainability and Corporate Social Responsibility (CSR)?

Percentage of respondents

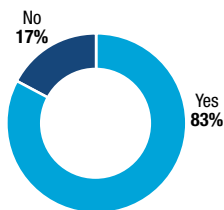


Figure 22 Do you see evidence of increased interest in environmental issues in the following groups?

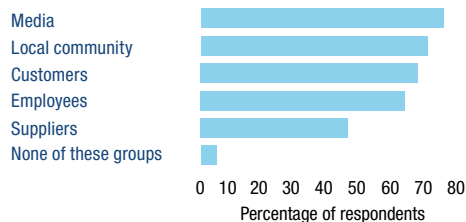


Figure 23 To what extent do you agree?

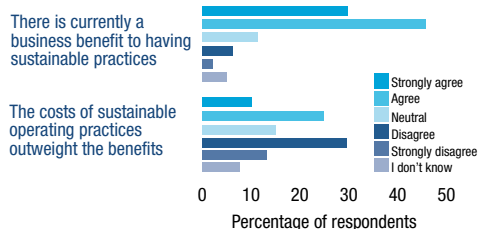
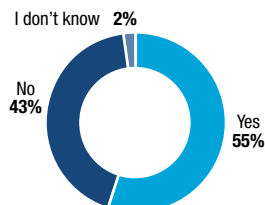


Figure 24 Do you consider issues of sustainability or CSR in your long-term strategic planning?

Percentage of respondents



Perhaps the most interesting statistic of all is that 41% of respondents don't think climate change will ever impact their company (Figure 26). We suggest that these businesses review their operations and consider not *if* they will be affected but *when* and *how*.

For all companies regardless of size, good governance and sound management dictate that a comprehensive and thoughtful consideration of all potential business risks be undertaken.

Both the risks and opportunities associated with climate change will accelerate rather than abate. Property and infrastructure damage from extreme and modified weather, transportation impact, regulatory compliance costs and shifting market demands for products and services may transform the competitive landscape.

Companies that are reluctant to deal with the environment may not only cede competitive advantage but lose business. This will occur as suppliers, partners and customers align themselves with more progressive companies that have seized marketing opportunities generated by improved environmental performance.

What we see emerging is that businesses are feeling a wide range of forces which are all pushing them towards a greater focus on environmental performance. This presents both opportunities and risks. Companies that are early movers in addressing their environmental impacts can build Canada's next competitive edge in new areas. An appreciation of the key strategic environmental threats and drivers will help you address not only liability exposures and satisfy any risk management obligations, but will also identify business efficiency gaps, cost implications and potential capital investment needs, as well as opportunities for new market creation.

The challenge for businesses is to find innovative ways to turn these forces to their advantage.

Take action

Measure your performance

Commission a comprehensive audit of your organization's environmental performance from the regulatory, customer, market and partner perspectives. The audit should identify the threats and opportunities posed to the business in each area and propose actions.

Assign ownership to the process

Approving any transformation projects and allocating funding, assign ownership to senior executives in affected areas. Regular meetings should be held to update the leadership team on progress.

Keep management informed

Charge a senior manager with establishing a process to ensure the leadership team is informed of changes in environment policy and regulation that significantly impact the business.

Figure 25 Are you running an active CSR program in your local community?

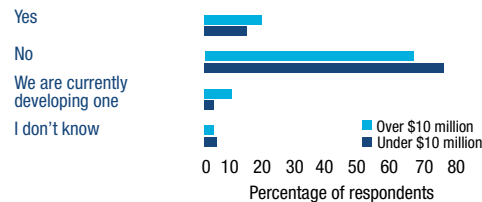
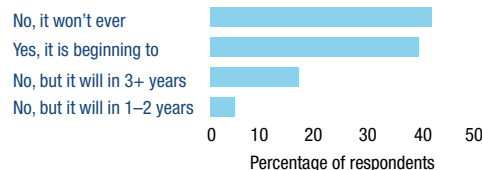


Figure 26 Is climate change an issue that will impact your company?



71% of the participants were family or owner-managed businesses. All are privately held.



Methodology and demographics

The third annual Business Insights™ Survey examines issues affecting Canadian private companies. In June and July 2007, 420 participants from across Canada completed the survey. Business leaders from a broad range of industries, sizes and locations were questioned about their strategies for growth. The issues were selected following input from private company leaders at our CEO Forum 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.

The most significant differences in responses were due to either company size or location. Consequently, results are compiled on that basis. Any further breakdown or cross tabulation is noted in the text where appropriate.

Participant demographics

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

Revenues

54% of the participant companies reported revenues under and 46% over \$10 million in their last financial year.

Employees

54% of the companies surveyed employ fewer than 50 people and 46% employ more than 50 people.

History

Of the companies included in this survey, 52% have been operating for 20 or more years with 17% operating for more than 50 years.

Ownership

71% of the participants were family or owner-managed businesses. All are privately held.

Figure 27 Revenues
Percentage of respondents

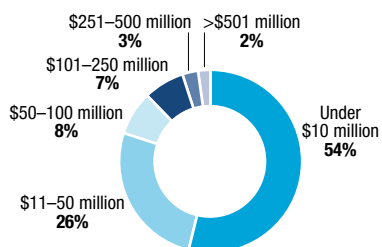


Figure 28 Number of employees
Percentage of respondents

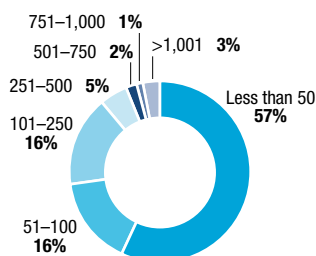
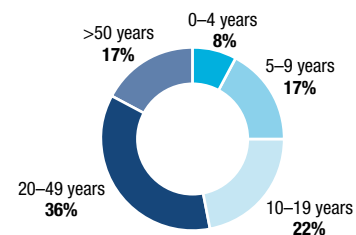


Figure 29 Years in business
Percentage of respondents



Conclusion

The results of the 2007 Business Insights™ Survey show that private companies in Canada are confident and successful. But the data also shows that success is magnified when companies are prepared to take calculated risks and maximize the opportunities presented to them their success is magnified.

These entrepreneurial businesses need to harness the innovation that exists within them and concentrate on tapping new markets; either in new geographies or with new products or services.

It is by generating new revenue streams that businesses will achieve the fastest growth in the medium and long term.

Often these new opportunities will be best exploited overseas. Many Canadian businesses look to export into the States, but as the US economy slows companies will do well to cast their search further afield.

Canadian companies who intend to compete and win in a globalized market will need a long-term strategy that includes a continual drive into new markets and revenue streams.

The challenge for many private companies will be developing new revenue streams in a sustainable way, that leaves our economy and global resources fit and strong for generations to come.

Other Business Insights™ publications

For previous survey reports and to access our Pulse surveys on *Staff Retention*, *Productivity* and *Building Value for Succession*, please see our Web site www.pwc.com/ca/businessinsights

Footnotes

1. How Canada Performs: A report card on Canada The Conference Board of Canada June 2007
2. Insights into performance improvement for private companies PricewaterhouseCoopers May 2007
3. PwC US M&A Survey 2002
4. HR Innovation – Resolving post deal HR challenges: the critical first 100 days post announcement PricewaterhouseCoopers LLP 2007

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The Business Insights™ Program

Business Insights™ is a unique program that helps you and your company develop ideas around business strategy, assess risks and opportunities and align your people and operations to deliver your goals. Business Insights™ gives an analysis of the opinions of hundreds of business leaders from companies of all sizes, industries and locations. Participants receive a customized comparative report that illustrates how they measure up to similar companies. They also have access to PwC expertise and opinion on best practices to help them realize opportunities for improvement.

In addition to the annual survey many respondents are active members of our peer networking CEO Forums which run across Canada. Most contribute to our regular Pulse WebPolls on hot issues and everyone is eligible for a *Come Think with Us* facilitated brainstorming session.

The PricewaterhouseCoopers Business Insights™ Program is a great way for private company owners and Chief Executives to benchmark the performance of their businesses, network with peers and get help with challenging issues. Please email us at business.insights@ca.pwc.com or visit our website for more information on the program and details about how you and your company can get involved.

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