

Playing the long game*

The Business Insights® Survey of
Canadian Private Companies 2008



Welcome to Business Insights®

This report shares the results of our fourth annual Business Insights Survey of Canadian Private Companies. This year we interviewed 574 business leaders across the country who kindly shared their candid thoughts on a wide range of day-to-day and strategic issues affecting their business.

We conducted the fieldwork in July 2008. Since then we have been living through one of the severest financial crises in recent history.

Clearly the events of the past two months have changed the short term picture for many companies and their owners. We considered scrapping this publication but concluded that the data forms an important historical record and that the trends observed and commentary provided continue to contain the key ingredients necessary to weather an entirely unpredictable short-term future.

Our experience is that Canadian private companies are firmly rooted in reality and that they are well equipped to successfully react to current circumstances. In fact the opportunity exists to capitalize on the relative strength of the private company sector and emerge stronger at the end of this crisis.

Play the long game!



Eric Andrew
National Leader
Private Company Services
PricewaterhouseCoopers LLP

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Contents

Global Economic Outlook 2008–09	2
Executive Summary	5
Key Trends	6
In Fighting Form: Confident but Cautious	11
Financing: Don't Wait for the Shoe to Drop—Have a Plan	23
The Business Case for Sustainability	27
Conclusion	33
Methodology and Demographics	35
Appendix	36

Global Economic Outlook 2008–09



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August 2008 marked the first anniversary of the credit crisis, an event that elicited little in the way of celebration. Roughly a year ago, the consensus expected that the problem would be confined to sub-prime mortgages in the United States, that there would be negligible impact on real economic activity and that the problems would be confined solely to the United States. What a difference a year makes. Over a year later, the credit crisis has deepened and intensified bringing the world financial system to its knees and global economic activity to a stand still.

We are in the midst of the worst credit crisis since the Great Depression. Global equity markets have plunged in one of the worst bear markets in history. This situation has prompted unprecedented policy responses the world over. In early October, global central bankers undertook a rare coordinated easing of monetary policy—even China participated in this regard. Governments have stepped in directly to provide capital to failing financial institutions. But all of this has failed to mollify world capital markets, as trust amongst financial institutions has evaporated.

The pace of global growth has slowed markedly, led by the United States. The US is now firmly in the grips of a consumer-led recession but weakness is also evident in business capital spending as the credit crisis has starved corporations of much needed capital. The longer the credit crisis persists, the greater the risk to the world economy. Europe, the UK and Japan are close to recession and even economic stalwarts such as India and China are feeling the impact of the seizing of the world financial system. Canada is not immune, however, the IMF predicts that Canada will lead the world in terms of growth both this year and next, albeit at an anemic rate of around 1%.

The US housing cycle continues to play out with house prices down 20% from their peak in 2006, leaving many homeowners in a negative equity position. The Mortgage Bankers Association estimates that 1 in 11 mortgages was either delinquent or in foreclosure in the first quarter of the year, the highest on record (which goes back to 1979). At the same time, the labour market has deteriorated with nine consecutive monthly declines in employment and a sharp rise in the unemployment rate to a cycle high of 6.1%. Consumer confidence has plunged.

The consumer is key to the outlook for the United States in particular as consumer spending accounts for a near-record 71% of economic activity. The housing market remains a critical risk to the outlook – signs of stability in house prices would make us more optimistic on the outlook for the consumer and capital markets, but housing cycles tend to be multi-year in nature. Government efforts to support the market have had little impact to date. The bold initiative to place Fannie Mae and Freddie Mac (which together own or guarantee about \$5.3 trillion of residential mortgages, roughly half of total housing debt outstanding) into conservatorship in September will lower mortgage rates but will not help end the credit crisis, nor impact the slowing pace of economic activity. The US Federal Reserve Board has aggressively cut the level of overnight interest rates from 5.25% to 1.5%, yet longer-term mortgage rates have increased owing to credit concerns. Meanwhile, banks have considerably tightened their lending standards for all types of credit, diminishing the impact of Fed easing. A negative feedback loop is in place whereby the slowing economy results in further caution on the part of lenders, resulting in further economic weakness.

In our view, an improvement in the US economy is not likely to be evident until well into 2009 as the lagged impact of the aggressive easing by the US Federal Reserve Board begins to feed

into the real economy while credit concerns lessen and a potential second fiscal stimulus package helps to boost growth. Plunging oil prices are a significant positive element in the outlook. Housing is key – prices may stabilize within the next six to 12 months as plunging housing starts have reduced new supply and soft prices may entice buyers but there is a considerable inventory overhang to work off in the interim.

Canada's economy has recently begun to show signs of fraying around the edges despite a record increase in employment in September. Slumping commodity prices will impact resource-rich provinces while housing markets have cooled rapidly across the country. Prices for existing homes across Canada fell from year-ago levels in July for the first time in a decade. The Bank of Canada has lowered interest rates to 2.5% but credit conditions have tightened as Canadian banks face higher funding costs. However, Canada's financial system is a bastion of stability —our banks are well capitalized and in good shape to weather the storm. The C\$ has tumbled falling to below 85 cents US in mid October, a remarkable turn of fortunes. This should provide some relief to the beleaguered manufacturing sector offset somewhat by weaker foreign demand. The greatest risks for Canada are the depth and duration of the US downturn and downside risk to commodity price trends.

Outside North America, economic storm clouds are gathering. Housing markets in the UK, Ireland, Spain and New Zealand are under considerable pressure, driving down consumer confidence and acting as a drag on economic activity. Eurozone GDP contracted in the second quarter for the first time in a decade, led by weakness in Italy, but even France and Germany showed surprisingly tepid growth. In the UK, economic growth ground to a halt in the second quarter and stands just 1.4% above year-ago levels, the weakest performance since 1992 with

household expenditures registering an outright decline as house prices continue to deflate.

Japan's economy continues to limp along with sub par growth led by weak consumer spending, now joined by waning export growth as well. Japan is experiencing a negative terms of trade shock whereby inflation has returned through higher import prices providing a further hurdle for consumers.

Emerging market economic growth has held up quite well to date but is also showing signs of weakness. China's export growth is slowing and consumers are challenged by the negative wealth effect of a 70% plunge in stock prices. India faces soaring inflation. Relatively strong growth in the BRIC (Brazil, Russia, India and China) economies remains a medium-term theme, but these economies face cyclical challenges as inflation erodes disposable incomes and with the exception of Brazil, monetary policy remains accommodative.

The world economy appears to be on the verge of recession. Weakness is led by the developed economies with signs of export weakness beginning to emerge in developing countries. We do not expect to see a marked improvement in the pace of world growth until well into 2009 as the credit and housing cycles continue to play out. It is critical that steps be taken to return confidence in world equity markets and the global financial system. In the interim, trillions of dollars of wealth has evaporated. Recovery in the US economy in particular is likely to be tepid and vulnerable to setbacks. Inflation in developed economies will moderate over the remainder of the year on a cyclical basis (assuming commodity prices do not resume their uptrend) but the longer-term structural theme of mounting inflationary pressures emanating from developing economies remains intact.



Executive Summary

The 2008 PwC Business Insights Survey, with fieldwork conducted in July 08, revealed that most of Canada's private companies were cautiously confident in the face of economic adversity. Then this fall, world markets went into freefall. Economies around the world are feeling the aftershock of a severe US crisis and it would take a fool or a very wise man to forecast what will happen in the coming months.

A Business Insights web poll conducted in mid-October 08 reveals, not surprisingly, that confidence has fallen sharply; with a significant shift from feeling things will get a little better to get a little worse. But it also suggests that, for the majority, while the economy is down they are far from out. Perhaps not unexpectedly for a nation known for its measured responses, most Canadian private companies are still standing firm. Many are relying on the lessons learned in overcoming serious challenges in the past. They are focusing on improving their efficiencies and adapting quickly to struggling US customers, a shortage of skilled workers, high commodity and fuel costs as well as tightening access to credit.

There is a shift happening, not just a temporary blip. Private companies in Canada recognize this shift for what it is and are reacting accordingly. They are in it for the long haul and are relying on their long-term strategy to go forward. In fact, some are tapping into the opportunities the new business reality presents—and that includes building in sustainability practices.

As is always the case in a downturn—even the toughest ones—the majority of businesses make it through. Some regions and industries are being hit harder than others, but in every case the fit and strong are charging forward, buying up assets and competitors and positioning themselves for success when things start looking up—which they will.

Those companies that reported they were in survival mode would look well to take a page from the companies well positioned to make the most of this downturn. In the short term, there are key strategies and steps they can take to pull through. One of those steps might be to relax their fiercely independent nature and seek out alternative methods of financing rather than rely on their own bank accounts. This might just give them the funds in the long run to diversify their client base and venture overseas, something which many have been hesitant to do.

In this document, we summarize our respondents' outlook for the future, share insights into the tactics the most resilient companies use to manoeuvre, not only through a downturn but through a period of profound transition. These companies are fit, in fighting form and prepared for a new business day.

Key Trends

The results from the 2008 Business Insights Survey show that, back in July, confidence was somewhat dampened compared to previous years but by no means downbeat. In the 2007 data, 77% of Canada's private companies expected business to get "a lot" or "a little better" in the next 12 months. By July this year the number had fallen to 68%. However, the percentage of companies expecting business to get "a lot" or "a little worse" remained static at 5%; indicating that at that time there was still a quiet but modest confidence among Canadian companies as a whole.

By October, when we went back to our sample with a web poll, confidence had fallen sharply. Just less than half the respondents now feel things will get better in the next year while the number of people who think things will get worse has jumped from just 5% in July to almost a third of respondents in mid-October.

Our latest data indicates that all regions are taking stock as the severe financial crisis hits global economies.

Growth and expansion remains the key strategy

Despite all the talk of another Great Depression reported in the world media, for Canadian private companies at least, growth and expansion is still the main strategy. This has been the top choice since the survey began four years ago. In happier summer days we recorded 72% of respondents citing growth as their overall strategy. Even as late as mid-October more than half the web poll responders were still planning for growth. Those that changed their focus have moved to a more cautious plan for consolidation, but there are no indications yet that the overall number of Canadian companies in survival mode has increased.

Which strategy is your company striving for?

Percentage of respondents

Table 1A: National

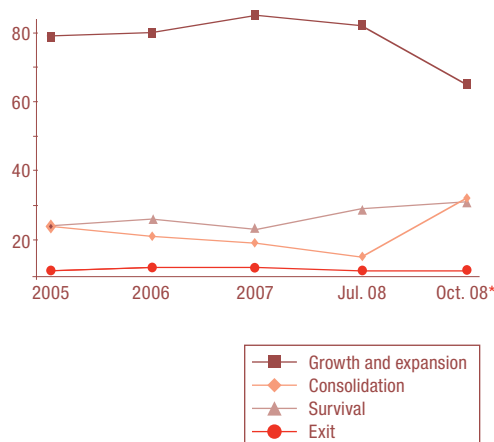


Table 1B: British Columbia

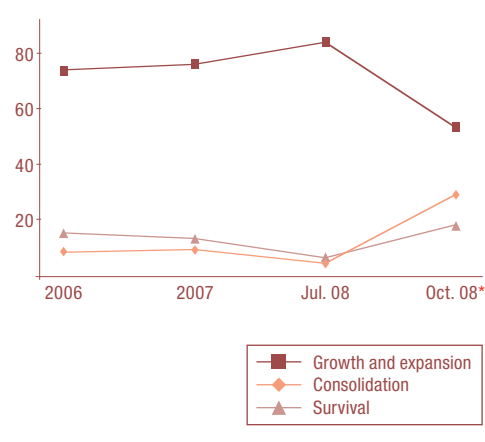
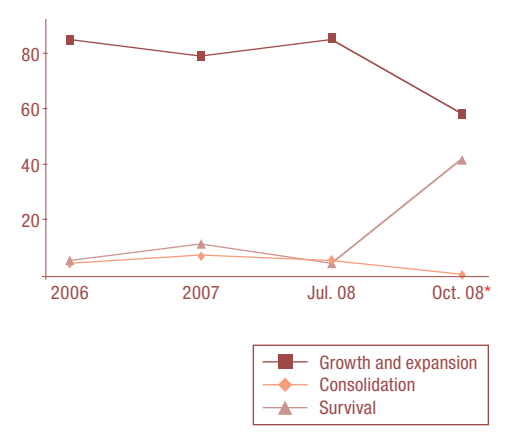


Table 1C: Alberta



Earlier in the year, there was a noticeable difference between the strategies of companies in Alberta and B.C. where in excess of 80% of companies were planning to expand. The data also showed that almost all those respondents whose businesses were in survival mode were in Quebec and Ontario. This split between the manufacturing based economies of central Canada and the resources economies of the West played out in other areas of the survey as the data revealed a continuing trend of wealth transfer westwards.

Challenges for the future

In July we saw exchange rates had risen sharply to top the list of challenges. This was noted most prominently in the East as half the respondents in both Ontario and Quebec ranked this as their number one challenge. In previous years both provinces had ranked competition top. For the third year running the biggest challenge in British Columbia and Alberta was the labour shortage, with 66% of Alberta companies ranking this as their number one challenge for the year ahead.

By October the web poll presents a completely different picture as more immediate problems are concerning the market. Labour issues have fallen to fifth place overall behind exchange rates, competition, and profitability. Not surprisingly, the economy is today's biggest headache for most private business owners, although labour shortages still feature strongly in Alberta.

Which strategy is your company striving for?

Percentage of respondents

Table 1D: Ontario



Table 1E: Quebec



* Data from July 2008 are the results of the full survey. The data from Oct. 2008 are from a web poll of 129 private company leaders and are indicative only.

** Our web poll data for Quebec may not be robust so is not displayed.



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

Percentage of respondents

Table 2A: National

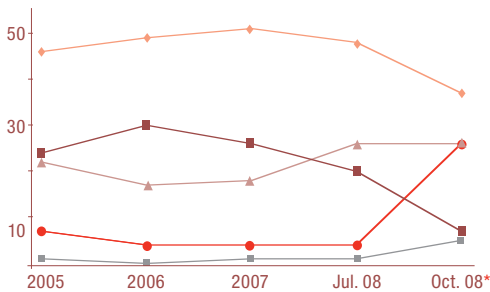


Table 2B: British Columbia



Table 2C: Alberta





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

Percentage of respondents

Table 2D: Ontario

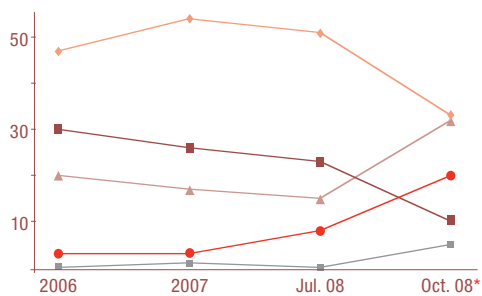
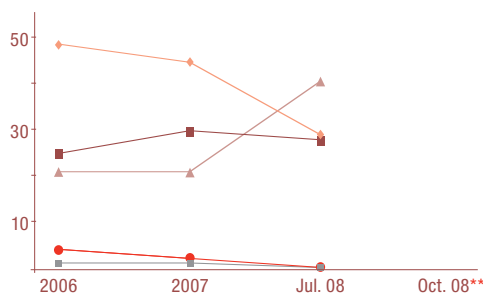


Table 2E: Quebec



* Data from July 2008 are the results of the full survey. The data from Oct. 2008 are from a web poll of 129 private company leaders and are indicative only.

** Our web poll data for Quebec may not be robust so is not displayed.



In Fighting Form: Confident but Cautious

The results of the 2008 Business Insights survey show that, in July at least, respondents were more cautious than previous years but still confident about the future. There are signs of the effects of slowing domestic and US economies, a strong Canadian dollar, tighter access to financing and labour shortages, but most are strong, leading businesses and their owners are taking stock and planning to grow.

By October the results of a Business Insights Pulse web poll show that caution is increasing. The data indicates a trend towards plans for consolidation rather than outright growth and expansion, although there were no signs of an increased number of companies in survival mode.

“Private companies across Canada are focusing on efficiencies and proceeding with caution,” says Eric Andrew, national leader, private company services for PwC. “Borrowing and investing is down from last year and many are wondering whether this is the right time to spend or to save for a rainy day.”

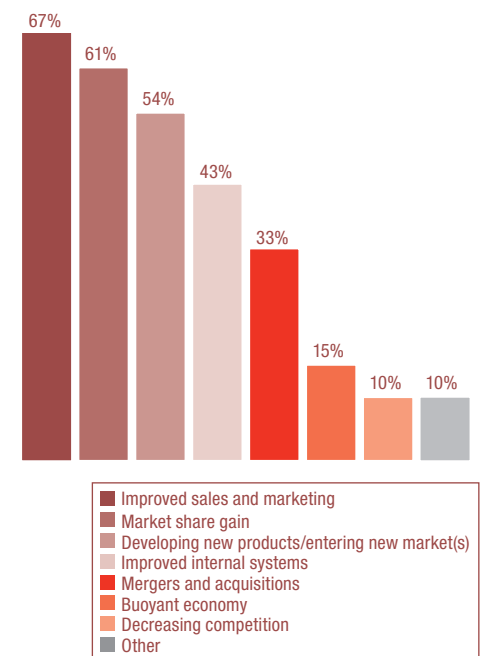
In many ways, these companies are weathering the perfect storm. Companies selling into the US were first hit by the growing strength of the Canadian dollar and a sluggish US economy. Then came the credit crunch and real estate meltdown in the US, rising fuel, commodity and raw material prices as well as the slowing of the Canadian economy. All this is on top of the aging workforce causing an increasing shortage of skilled labour. Distributors, manufacturers, retailers, transportation, tourism and hospitality companies - and just about every one else - have all been affected to some degree. Any one of these issues could knock the wind out of many companies. But most of the Canadian private companies surveyed remain in fighting form.

“They are dealing with what the market is throwing at them,” says Andrew. “Unlike US counterparts where, until recently, the wealth and market conditions south of the border often made doing business a smoother ride, Canadian companies have been more cautious and had to work hard - and smart - to develop their businesses. This means when we hit bumps in the road, we tend to be better capitalized, better managed and better prepared to deal with change.”

“The flip side is that Canadian businesses are cautious. They have been slower to expand than companies in the emerging markets, and as a result have not taken full advantage of upturns,” says Andrew. “Business leaders should always be thinking long term, about what they need to do to build their companies into the next decade, not just the next quarter. That’s what creates real competitive edge.”

To the extent that companies have the financial capacity to maintain their strength through this difficult period, they need to position themselves to take advantage of the opportunities that downturns can bring and use their capital wisely to take steps to secure future growth.

How do you plan to achieve growth?



In Fighting Form: Confident but Cautious

Yes we are experiencing a downturn but not every company—or every region—has been hit hard

The reality is, even during the worst of recessions there are companies and industries that continue to thrive while others struggle or get knocked out. It's no surprise that this year's respondents had mixed views on the economy, growth and survival. "Some are struggling to cope and others are coping quite well and taking advantage of opportunities," says Don Edmonds, partner with the Private Company Services group in Toronto. "It depends on where they are geographically, as well as their industry. But most of all it depends on whether they were prepared for it or not."

There's no doubt that in Ontario and Quebec the manufacturing industries have been hit hard. As a result, 15% of

respondents in Ontario and 21% in Quebec said their strategy for the next year was to survive, compared to 6% in B.C. and 4% in Alberta in July.

Still, there are good news stories, too. "For example, there are companies in Windsor, Ontario making equipment or infrastructure-type products for the Alberta market that are doing well," says Debbie Meloche, partner and Windsor city leader. Some companies have risen to the challenge and were quick to adapt. "It all depends on their client base. Even companies in the automotive industry that work with the Toyotas and Hondas of the world are not badly hit."

It's a tale of two economic realities in la belle province, too. "In Quebec," says Yves Bonin, leader of the PwC Private Companies Services Practice in Quebec, "we are doing well but things are slowing down, particularly for manufacturers.

On the service side, however, things are looking pretty good. In the longer term, over the last 10 years, we've done okay but not great. But okay is not good enough in the current market situation and that is why some companies are in trouble."

Even in resource rich Alberta, some of the shine has worn off. "Alberta is optimistic about the longer term outlook. It is very much steady the course in terms of where things are," says Ian Gunn, partner and leader of PwC's Private Company Services group in Calgary. "To some degree, Alberta has been very insulated. When the dollar went to par, businesses here didn't change what they were doing because that wasn't driving them. What's driving them and the local economy is the long-term outlook for infrastructure and oil and gas opportunities."

That said the slowing economies are now being felt in the province. "Businesses in

As I see it:

Patrick Bieleny, *Nilsson Bros. Inc.*

"Canadian companies in Canada tend to be too cautious from a global perspective," says Patrick Bieleny, CFO of the Edmonton-based Nilsson Bros. Group of Companies, an integrated agri-business involved in all aspects of the cattle/beef value supply chain. "We study things and do things in Canada but we don't look outside our borders for opportunities. There's a risk to being too cautious. I'm sure someone's said this before: if you're not growing you're probably dead—or you're dying."

Having the long-term goal of embracing global opportunities, says Bieleny, doesn't mean that companies should simply take the leap. "You have to be a certain size to capitalize on global opportunities and make

sure you have a stable business in Canada that can finance export or foreign acquisitions if you go that route. It's not an inexpensive prospect to go cross border, be it the US or to other countries. A lot of resources are required; it can be expensive and it's a different world. You have to have a base of resources to finance that expansion or that export market, whatever it may be," he says.

The one thing companies cannot afford to do is sit on their laurels and coast during more profitable times. For example, says Bieleny, the best time for manufacturers to reduce their cost structure and improve efficiencies was when the Canadian dollar was weak—not when it strengthened. "You have to keep looking for other opportunities to be more

efficient and effective, to keep growing and to manage your resources appropriately at all times," he says.

If and when a business crisis hits, communication with your key stakeholders is fundamental. "I think we can all learn to improve in that area," says Bieleny. "Your key stakeholders are your shareholders but also your lenders, your employees, your suppliers and customers. Communicate what you can."

And he adds, "In all of the above scenarios: growth, international expansion or crisis management you should consider the involvement and expertise of your advisors or other confidantes."

Alberta are starting to understand what's going on in the rest of the country and beyond," says Gunn. "Its catching on here too and there are some businesses that are suffering. We are seeing some receivership activity as businesses falter under financial debt load they cannot meet. Part of that is the result of poor management. When the local economy was booming they didn't look far enough in the future and just assumed everything would continue to go up. So they saddled themselves with a lot of debt. But I don't think this is a major alarm bell. It's just a small correction from the high they were at falling to a more realistic and sustainable forecast."

Still, for most, the strategy is to continue to grow. Are they optimistic? "Anyone in business in Alberta today will say business conditions over the next year won't be as good as they have been over the past few years. But is it going to be bad? No. There will still be plenty of profitable businesses. The Calgary Economic Development Agency is still anticipating good growth compared to the rest of the country," says Gunn.

That continuing optimism about the economy in Alberta was reflected in July's survey results, with 36% of respondents in Alberta saying their growth achievement plan includes a buoyant economy.

By October in our web poll almost half the respondents nationally were citing the economy as a major challenge but in B.C. the lack of confidence in the economy goes much deeper.

Why is this, when the province has enjoyed such a high-flying economy? Their experience in recent decades has taught them to rely less on the easy-ride of a good economy and more on their

own resilience and improved efficiencies. "There is no question the economy is dipping. People are beginning to be laid off in B.C. The construction industry, which has been on fire for the last four years, has slowed down. And while the tide has turned, people are quite well positioned for the longer term," says Andrew. "That's because British Columbia has a different economic past. Until 2001, B.C. lagged behind the Canadian economy. So really, the big upturn has only happened here in the last five years and the memories of tougher times are still fresh. I think companies in B.C. learned to operate efficiently, they knew they had to innovate and I think that set up a lot of these companies quite well. They know what they need to do in tough times."

Been there, survived that

What's happened in British Columbia is an example of how downturns or challenging economic conditions can make companies stronger and better. In fact this may be a time when grey hair helps. There is something to be said for having been there and got through that.

The results of the 2007 Business Insights Survey showed that youthful exuberance was winning the day. Younger companies were being more innovative, growing faster and willing to take more risks. "Is that because companies that are more established forget the things that actually got them to where they were?" asks Don Edmonds. "In part, yes. But youthful exuberance sometimes reflects a lack of hard knocks. A company that's been around for less than eight years hasn't gone through a recession; so they don't know how it can affect them, whereas companies that have been around for

Why do you expect your business to get a lot/little better within next year?

Percentage of respondents

Challenge	BC	AB	ON	PQ	Other
Gain market share	64	47	64	64	83
Improved sales	52	63	77	77	73
Company forecasts	37	38	42	55	21
Developing new products	33	31	42	72	10
Entering new market(s)	30	35	50	74	18
Gut feel	15	31	20	25	26
Buoyant economy	11	31	11	24	18

Which do you consider to be the higher priorities for your business in order to improve competitive performance? (Top 3 by province)

BC
1. Gain market share
2. Reducing cost of operations
3. Improving processes
AB
1. Improving staff skills
2. Staff retention
3. Improving processes
ON
1. Reducing cost of operations
2. Improving processes
3. Better targeting of customers
PQ
1. Improving processes
2. Collaboration/strategic alliances
3. Better targeting of customers

In Fighting Form: Confident but Cautious

20 years or more do. And guess what? They start covering the brake more quickly and are prepared to make sharp turns.”

The key to long term success is to have a balance between risk taking and the caution that comes with experience. There will be good times. There will be bad times. “It’s charging ahead without really understanding what’s around the next corner that leads to trouble,” says Edmonds. “But by the same token, if you want to be around for the long-term, you have to continue taking risks.” Companies have to be able to look beyond the immediate situation. And that’s where long-term planning comes in. “Companies need to do what-if planning,” says Edmonds. “What if my sales dropped x percent? Or if my market eroded by y percent? What’s the impact? The currency issue caught some companies by surprise because they just didn’t understand the impact it would have on their bottom line or what they needed to do in response.”

Those who have been there and successfully gone through these cycles will likely have a game plan for getting through the downturn. When that plan consists of short-term tactics aligned with a long-term strategy, companies can be nimble and agile; with the ability to act quickly when the unexpected happens.

Consider the Canadian dollar fluxes and the impact on companies in Southwestern Ontario, most of which are in the manufacturing and technology sectors. “Some adapted more quickly than others”, says Debbie Meloche. For those that did, the currency issue is no longer as urgent. This is reflected in the survey findings. “Adapting means aggressively going to lean manufacturing, hedging or cost cutting

—there’s an urgency to change. Those that got a running start with the currency issue are in a better position to face the economic reality today. Those that were a few years behind are struggling a little more right now,” says Meloche.

Another example of how long-term planning can raise the ability of companies to overcome economic challenges is the overall message coming out of Alberta. “Companies in this province that are feeling the pinch didn’t stick to their knitting and got exposed,” says Gunn. “The good news is most stuck to their long-term strategy. Even when things were going gangbusters and the mentality was spend, spend, spend, they stayed focussed. They’ve learned the lessons from the past. Resources are volatile and anything can happen. So they didn’t over extend themselves and are still fairly optimistic about the future.”

Challenges of the day

In the more stable July markets 72% of private companies expected to grow. The October survey indicates this figure is now closer to 60% but the data on past and future challenges still highlights some valid trends.

In July, respondents cited currency as the top issue influencing their companies over the past year, with labour shortages and recruitment of skilled staff coming in second. That’s not what they predicted a year ago when the 2007 survey found that labour shortages would be the biggest challenge this year. Currency issues ranked in fourth on their list of top concerns.

With many having adapted to that challenge and with the Canadian dollar back at more manageable levels,

respondents are now rightly refocusing on new issues. Back in July, the battle for the right people with the right skills was on. Not surprisingly, in Alberta 57% of respondents cited labour shortages and recruitment of skilled staff as the top issue that will influence their companies over the next year.

“Staffing should still be a high priority,” says Gunn. “In addition to having more jobs than available people, for the first time there’s been migration out of the province as well. So the smart companies are putting money into training as the jobs shift

Top 3 issues influenced the company last year and will influence them this year by region
Percentage of respondents

BC			
Past year		Coming year	
Labour shortages	44	Labour shortages	41
Exchange rates	28	Economy	33
Economy	22	Competition	27
AB			
Past year		Coming year	
Labour shortages	66	Labour shortages	57
Employee turnover	27	Employee turnover	35
Economy	23	Economy	27
ON			
Past year		Coming year	
Exchange rates	47	Exchange rates	33
Competition	32	Profitability	33
Labour shortages	26	Competition	29
PQ			
Past year		Coming year	
Exchange rates	52	Competition	35
Economy	25	Exchange rates	27
Competition	24	Finding new clients	26

Look to the long game

"This downturn is an enormous opportunity for companies that are prepared," says Scott McLean, a Vancouver-based Partner in Performance Management, Private Company Services at PwC. In fact, downturns are a healthy part of the overall business cycle because they have a correcting effect. "When it costs you \$20 an hour to hire a kid to work at Tim Horton's in Fort McMurray, that is far from healthy," he says. "In prosperous times you can make a whole bunch of mistakes and the only consequence is that you're slightly less profitable than you could be." But a downturn is not so forgiving. It can take assets and resources from companies that weren't using them wisely and put them in the hands of others that can do better.

Nobody can consistently time the market. This is why markets tend to overshoot up or down. In other words, when the economy is good, many assume it will continue to be good and over-invest. When things are bad, they don't see things getting better and under-invest. Leading a business with this type of short-sightedness is a sure recipe for sub optimal performance.

"The key is to know what you intend to accomplish and that means having a long-term strategy," says McLean.

"A strategy sets you up to make smart decisions."

Have a clear, long-term strategy

- Start by thinking long-term. A long-term strategy represents the big picture for your company," says McLean. "It's where you are going."
- Focus on revenue and profitability. "So many companies focus only on revenue, but a successful business is about profitable growth," says McLean. "Sometimes, in the short term you might sacrifice profitability, for example, to gain market share but once you've captured that share, then get back to your focus on profitability. If you could become the dominant player in your market, it might be worth sacrificing short-term profit for your ultimate long-term goal. But your eye should always be on the long-game."
- How long is long-term? It varies by industry and the state of the industry. In the technology sector, the life cycle for products can be 6 to 12 months. Energy companies, on the other hand, make large capital investments that have paybacks that take decades.

Implement the strategy through short-term tactics

- Your strategy shows where you want to be five years from now. But how far along are you on that path? This is where short-term tactics come into play. Set short-term targets based on the long-term strategy. For example, if you have a five-year strategy, then spell out what you are going to accomplish in the next 12 months. "It might be that you are going to batten down the hatches and not lose any core customers," suggests McLean. "Or that you will close shop and come back when things are better. On the surface, it might not look as if it lines up with your five-year plan of growing into two more product lines and another location. But if things are really bad, maybe the best thing to do is mothball operations to conserve cash and be ready to roll when there are early indicators that things are looking up."
- Don't just assume you're hitting your targets: use performance metrics to have an accurate and reliable assessment of where the business stands. Examples of better indicators are customer feedback and satisfaction, inventory accuracy, health and safety, employee engagement,

business processes productivity and sales activity.

- Look for leading indicators around future demand. "There is almost always something out there that indicates what future demand will be," says McLean. "Sometimes you can find these out from your sales force being out there asking your customers. Go to the end user and find out their forecast for the next year. Right now you are looking for an early warning that demand is either going to level off, drop off or improve. If the signs show it's slipping, then you can curtail production. It's better to have cash in the bank than tied up in working capital that isn't working."

How do you take advantage of the current situation?

Ask yourself, 'what do I want to accomplish in my life and my business and how does the current opportunity line up with that?' That is the critical question as you look at today's opportunities," says McLean. "Good luck is when a good opportunity meets great preparation. When you talk to people who have been "lucky" in their business life, it's usually because they have been well prepared for opportunities that came their way."

around. There is a realization that skills are transferrable and companies want to make sure they have the right people trained to do what they need them to do. It is not simply about finding bodies."

B.C. came in second to Alberta in citing labour as the top concern. There, 41% of respondents place it as their number one priority for the coming year. "I think companies here realize if they do the right things now, they'll be well-positioned four to six years out," says Andrew.

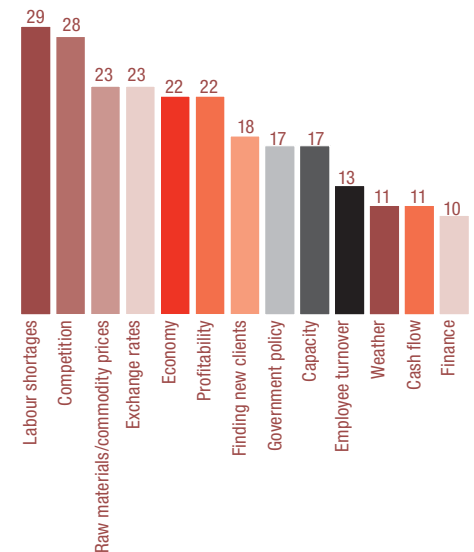
"There is a labour shortage of well-trained people everywhere, but in B.C. real estate prices are still high. They always have been but in recent years they've gone through the roof. So if you're trying to move someone from further east to Vancouver where you can't buy a shack on the west side for under a million dollars, it's a real problem. It's a challenge all over the lower mainland. A lot of people would love to live and work here but the real estate prices are a real barrier," says Andrew.

Even in Quebec and Ontario whose manufacturing industries have seen layoffs which have softened labour markets, companies are hard-pressed to find good people. "Companies here in Quebec know they have to hire the right people and put them in the right place," says Bonin.

Labour shortages aren't going to go away and it's a global problem that's only going to get worse. "Many companies in Southwestern Ontario, for example, have facilities or manufacturing plants in the southern US or Mexico, and those areas are desperately short of skilled labour," says Meloche. "I have a client, for example, who constantly flies skilled labour down south." Companies that don't think about how to resource their expansion plans in the long term will find things increasingly tough.

According to this year's July survey, almost 30% of respondents were increasing workload and expectations of existing staff to meet the skilled labour shortage. In B.C.

What have been the top three issues or problems that will influence your company over the next 12 months?
Percentage of respondents



In Fighting Form: Confident but Cautious

that number jumps to 51%. “When there aren’t enough people you have to ask what else you can do with the ones you have,” says Andrew.

It’s not just a matter of finding new talent; the challenge increasingly includes hanging on to top performers. Not only are there more companies fighting for fewer people, but younger employees are more likely to move from company to company to gain more skills or speed up career development.

57% of private companies surveyed said that measuring employee engagement is critical to retaining employees. “There is definitely more attention being paid to measuring and improving employee engagement in the last couple of years,”

says Edmonds. “I think businesses are realizing how critical it is to have a happy, productive workforce. At the same time, they are trying to understand and get the best out of a younger generation whose motivations and expectations are different than those of preceding generations.”

Time to work smarter

No longer counting on the economy for growth, many private companies across the country are employing different tactics to improve their long-term competitive performance. These include expansion, diversification and new product development.

“It is time for companies to get introspective and to play to their strengths,”

says Bonin. “They have to find out where they are strong and use those strengths to differentiate themselves in the marketplace.”

“Previously, companies in Alberta charged whatever they wanted,” says Gunn. “There is pushback on that now. Companies have to work harder and get out there and pitch what their value is.”

For many that means developing new products and markets outside the province. Market-share gain is also part of the plan. “Strong businesses are taking out their competition,” says Gunn. “We are seeing companies acquiring their competitors to build market share.”

“For companies in Ontario, particularly those that rely heavily on the big three US

As I see it:

Michael Mattalo, *President and Founder, Fifth P Solutions*

“The war for talent is real,” says Michael Mattalo, president and founder of Fifth P Solutions. “And smaller, owner-managed businesses have a significant challenge ahead of them. Large corporations are generally better resourced to fund and manage employee retention initiatives across a much broader employee base. It is certainly more difficult for smaller organizations like ours to compete on this basis.”

That’s why Fifth P Solutions, an award-winning learning solutions agency that helps companies such as American Express, Frito Lay, Direct Energy and Montana’s Cookhouse build successful brands through people, has taken a different approach. First, it hires based on attitude and then develops capability. “We look for the right DNA in our business. We’ve determined a number of characteristics—client-centricity; a passion for excellence; curiosity; innovative thinking—

that are integral to people being aligned with our purpose and our business. They are not things that are necessarily trainable; they are innate characteristics.”

Fifth P Solutions also goes beyond traditional interviews. Candidates are asked to invest a half day in their offices engaging with staff. “It gives them the opportunity to feel our culture and gives us the opportunity to have some good dialogue.”

Transparency, accessibility and communication are hallmarks of the company Mattalo founded in 1989. “There are no sacred cows here,” says Mattalo. In fact, every Thursday morning, the entire company gets together over a cup of coffee for a “huddle”.

“We may talk about a specific topic. Someone may tell the group about a challenge and we try to solve it. Sometimes we share good

news such as new client wins, showcase a project a colleague has worked on or share the congratulations from a client,” says Mattalo. “It could last 10 minutes or 40 minutes.”

Once a month, the company hosts Fifth P Connect offering a business update. “There is a structured agenda and I let everyone know where the company stands in terms of our current business and our outlook,” says Mattalo.

That openness extends during challenging times, too. “In the past, if we’ve had to make tough decisions, we’ve done it in an open, communicative, direct way. There are no hidden agendas. We are up front and factual, knowing that people by and large have good intentions and better appreciate your decisions if you tell them straight up. And that goes a long way to gaining trust and loyalty from employees.”



In Fighting Form: Confident but Cautious

carmakers, diversifying their client base is an urgent priority,” says Meloche. They also need to change what they are doing and develop new products. But that’s not just for the automotive manufacturing industry. “For example we have a client who primarily supplies the US housing market. They are looking overseas to expand their customer base outside their normal market,” says Meloche. “There’s a mix of people waking up to overseas markets and overseas suppliers.”

That said, across the country, only 47% of respondents reported having overseas operations. B.C. and Alberta lag behind Ontario and Quebec when it comes to looking beyond domestic borders.

“I think one of the challenges for entrepreneurs is that they get used to managing a local business and the minute they start diversifying geographically, it gets tougher,” says Edmonds. “From knowing everything about their market they have to start dealing with differing regulations, different language and different cultures. There are many businesses not comfortable taking that big a risk. They may buy things from overseas or export, but to actually set up operations in a foreign jurisdiction, especially now, can be too daunting for many.”

One solution, advises Edmonds, is for companies to consider acquiring people who have already taken operations overseas. At the very least, it makes sense to talk to other companies that have already done it. Sometimes that can be suppliers or partners and definitely seek out professional advice.

Money matters

Private company owners tend to be averse to debt. “They like to sleep at night,” says Andrew. In a troubled economy, this is even more true. “A year ago people were investing and borrowing money to do things. Today they are really questioning whether this is the right time to invest or to keep their pot of gold to cover an eventuality.”

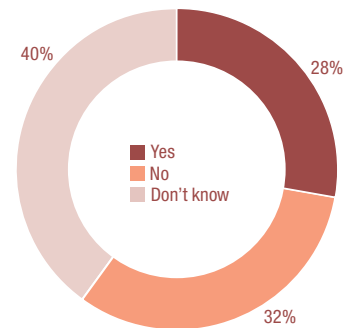
Companies across the country are dealing with a tightening of credit. “There has been a loss of money available in the market to invest,” says Bonin. “The banks are more prudent, so we have many companies in Quebec, for example, which would like to grow but aren’t because of the tightening of funds.”

Even in Alberta, some companies are worried. “Last year no one was worried about financing; cash flow was fantastic,” says Gunn. “Now we are hearing from more companies concerned about how over-extended they are or could be if the situation gets worse.”

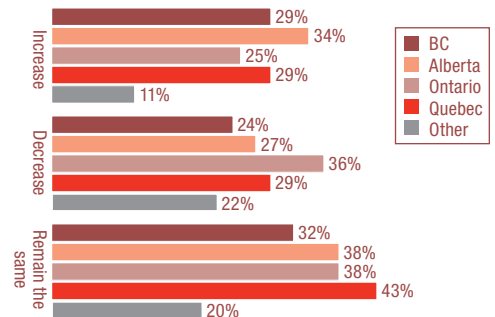
Sometimes businesses encounter problems in the relationship with their bank because when things start to get tough, they shut themselves in. “It’s critical for owners and managers to stay close to their advisors, including their banks. I don’t think businesses necessarily see bankers as partners,” says Meloche. “Your banker has to know what’s going on and how your company is doing. We see a lot of support coming from the banks. It’s important to build a strong relationship with them.”

Still, the country’s private businesses are fiercely independent, which is typical of the entrepreneurial spirit that has helped them grow. So much so that even for those companies with overseas operations

Do you expect to increase or decrease borrowings over the next 12 months?



Do you expect to increase or decrease borrowings over the next 12 months? [by province]



seventy-five percent self-funded their expansion. “Initially that figure surprised me” said Andrew. But when I stopped to think about it I realized it makes sense, largely because many private companies aren’t sure how to access funding in foreign countries. And our big banks aren’t really international banks. So they may or may not be as helpful or willing to lend money in those situations.”

The conundrum private companies are facing is they need to diversify their client base by going overseas but they lack the funds and are averse to taking on such risk.

“Perhaps it’s time they put someone

When the going gets tough, keep your top talent

The war—and it is a war—for top talent is on. Attracting and keeping good people becomes even harder if your company is going through tough times. But there are steps to take to ensure your best performers stay and to attract new blood when the dark days are behind you.

- Make sure you know who your top performers are—because many companies don't. On the other hand, your competitors might. In fact, they are likely keeping an eye on them and could dangle a carrot of opportunity at them when things pick up—or even before. Once you know who your top performers are, you can take steps to ensure they want to stay.
- Develop a plan to retain your best people. Retention bonuses are one way to entice them to stay during a restructuring. More importantly, have your strong performers actively participate in your plans.
- If you are restructuring, spend time and do some strategic workforce planning. In other words, identify the capabilities and skills of your workforce. Pinpoint the gaps. That will tell you what you need to go forward. "Often companies don't align their business goals with

the staffing side of things," say Paul Keelan, Advisory Manager, Vancouver. "That's dangerous."

- When trying to build a high-performing workforce, make the call on people who are not equipped to take the company forward: they will be a drain on morale. "Sometimes you are better served to have a vacancy for a bit than to continue with a poor performer dragging the rest of the team down," says Keelan. "And sometimes, even if you are in cost-saving mode and need to shrink your head count, that may require adding some key people in key roles. New blood can reinvigorate the troops."
- Create an employer brand and get the word out. "Companies have brands for their products, but do you have a strong brand for your organization?" says Keelan. "Is it something people can easily understand and identify with? You want people to be able to envision themselves working for you. This is about organizational values and living up to them. It can't just be lipstick on the page; it has to be real. If you are going to promote it you better be telling the truth."

Reality check. There are a number of things potential candidates are thinking of that are very different from previous generations. "When I think of my dad's generation, he worked for the same company his whole career," says Keelan. "People in their forties today very often will have one career but work for many companies. The trend going forward is that people will have multiple careers within their working life. That changes the views toward company loyalty. Companies need to recognize that employee turnover is a reality." This is why having a company brand is so important: You are selling to prospective employees as well as prospective customers.

- Lifelong learning is part of the game now and a critical aspect of attracting and keeping employees engaged. People want to feel you are making an investment in them.
- It's a new day in the workplace and people want a healthy balance between their personal life and work. "That means companies can't be so tied to the 9-to-5 work model," says Keelan. "The key is flexibility. There are many things companies can consider including telecommuting and flexible start and stop times. If you really want to

attract and retain employees, this is the new reality."

- Employees want a sense of achievement and recognition. That's why measuring performance is important, both for your company and the employee. "A well-designed survey can be powerful," says Keelan. "It gives you a good benchmark for how employees are feeling and what they think. One of the other things you can do is walk around and talk to your people." Keep it real. Honesty, trust and openness beget honesty, trust and openness.

Regardless of the stage your company is in or the challenges it is facing, communication is key. Employees want to be in the loop. They want to know how the company is doing; how they are contributing to its goals; if there are going to be changes and why. Communication becomes even more critical when a company hits a rough patch. If you want employees to buy in to what you are doing, they have to understand what's going on.

else's money at risk," says Edmonds. "We refer to it as taking some eggs out of the basket. That could mean bringing new shareholders in, such as a private equity group. The private company owners won't have 100% control of their company any more but they can take some of their generated wealth and value off the table and use somebody else's money to take the risk."

Although 85% of this year's respondents said they were knowledgeable about private equity, that may be limited to a general understanding of the concept rather than awareness of the different private-equity players and financing options available

"The thing is many business leaders tend to group a whole bunch of organizations into the private equity category," says Edmonds. "But each of these players has a variety of approaches, philosophies and levels of investment. There are

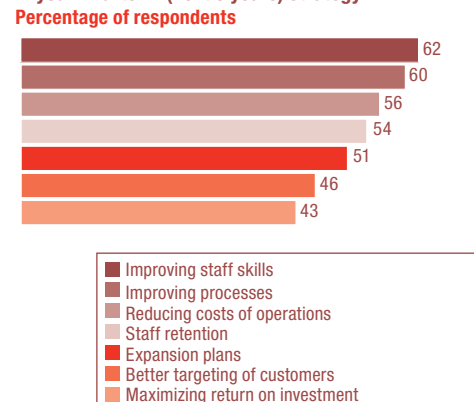
private equity players that will take a minority interest, some that require a majority interest, others that will hold their ownership for a short period of time and still others that will hold it for a long period of time."

Private equity isn't just for companies in growth mode. It can also be used to help companies get through tough spots. It's certainly something to consider for any companies anticipating they will be in survival mode for the next year.

Which do you consider to be the higher priorities for your business in order to improve competitive performance? (n=574)



Which options are in your top three for consideration in your mid-term (next 3 years) strategy?



In Fighting Form: Confident but Cautious

Looking ahead

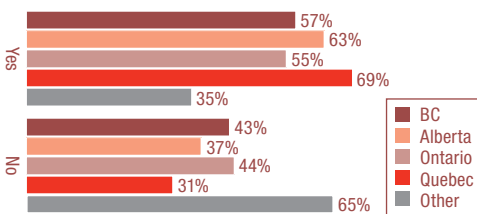
The real number of companies just surviving could be even higher if the increasing economic woes and the innate optimism of entrepreneurs are taken into account. “Even in bad times, entrepreneurs are going to say and believe they will grow and expand,” says Andrew. “It’s their nature.” That said most private companies surveyed remain steadfast, using long-term strategies for growth. They are investing in training and improving processes as well as cutting costs. They are adapting to the new environment that forms a new business reality. Distribution and transportation companies have had to make changes in order to stay profitable despite oil prices over the last year.

By adapting quickly and efficiently to high fuel costs these companies are in a better position to address the challenges

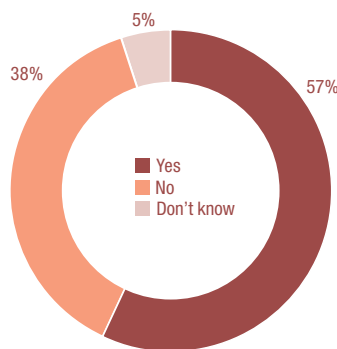
all businesses face as a result of climate change and sustainability issues. They are also better positioned to make the most of the advantages sustainable practices present. In fact, 75% of respondents believe there is currently a business benefit to having sustainable practices. What’s more, 44% believe the benefits of implementing sustainable operating practices outweigh the costs.

“The companies that haven’t already built sustainability into their long term strategy, will need to play catch up when things start to move again,” says Don Edmonds. “They have to figure out how to make sustainability a competitive advantage. It’s not easy but businesses that get it right will increasingly be differentiated in the long term.”

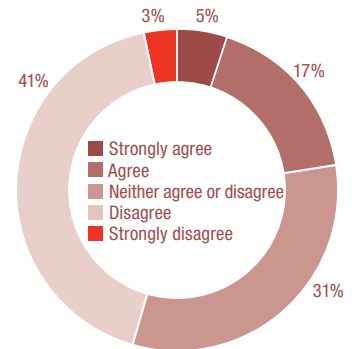
Do you consider sustainability issues in your long term strategic planning? [by province]



Do you consider sustainability issues in your long term strategic planning?



The costs of sustainable operating practices outweigh the benefits.



In survival mode? Don't panic, Focus

Is your company in survival mode? You might only have one chance. Be proactive. Think analytically. Be prepared to start fresh, act fast and make really tough choices. These are the steps that will get your company through a crisis.

Identify, analyze, act

You're losing money. Worried you can't make payroll next week. Why? Until you know what got the business into trouble, it's hard to come up with solutions, so you need to identify the cause.

Determine the best outcome to the crisis. "Maybe your major customer has gone under. Your solution could be to find a new equity partner who can put some money in to help you recover," suggests John McKenna, a partner and senior vice president in the Corporate Restructuring and Advisory practice of PwC. "Or maybe you can't compete with China-based manufacturers that are doing everything for a third of your costs? In that case, your solution might be to outsource your manufacturing and become a distributor in North America."

Once you know the cause and the best outcome, then you have to figure out the steps you'll need to take to reach that outcome. Be realistic and analytical. For example, "if you have three products and one is losing a ton of money, drop it. It could be the world's best widget, but if the market doesn't know it or buy it, maybe that's not what the world needs today," says McKenna.

Sometimes, to meet the changes that come from a downturn, you have to go back to the beginning. "Start with a clean slate," says McKenna. "There may be a number of different ways to approach the issue. Start by asking yourself, 'If I were starting today, what would I do differently?' Then assess how feasible it is to do it."

Act. "Don't get caught in the paralysis by analysis trap," says McKenna. "That's when you are too afraid to do anything until you have every last piece of information so you can make the right decision. Rarely do you ever get 100% of the information. So do the analysis and make a decision."

Cash is King

"When you're right up against it, everything is driven by cash. That's

what keeps the doors open," says McKenna.

Have a weekly cash-flow forecast for at least a four-week period and preferably a 13-week period. Know in advance what's coming in and what's going out. "This is important because in the short term you'll know if you have cash to pay all your essential items for the next week, but longer term you'll be able to know in advance if and when you are going to hit a wall," says McKenna.

Manage your accounts receivable proactively. Enforce credit limits, and consider offering early settlement discounts—the idea is to convert accounts receivable into cash quickly. "You may have a small loss, but if you can collect a large receivable it may be better for you than staying profitable on that one sale," says McKenna. "When you are in survival mode cash flow can be more important than profitability."

Before you take on new customers, make sure you know they can pay their bills.

Convert inventory to cash. Analyze your inventory levels and see what you can do to reduce the amount of capital tied up. Focus on items that

are going to sell quickly and reduce or eliminate your slow sellers.

Minimize the outflows. Review all discretionary spending. "If you're that up against the wall, you might have to cut back on things. This isn't great for the long term, but frankly if you can't meet your payroll next week, the long-term impact is probably not on your radar," says McKenna. "Your response should be dictated by the severity of the situation."

Prioritize all your payables. "Review every single payment and decide whether it is an absolute must or whether it is something that can be delayed or paid in instalments," says McKenna. "These are not easy decisions; there's always a consequence. But sometimes you've got to do what you've got to do."

Talk to the bank. Go in with your plan and see if you can get holidays or concessions, advises McKenna. "In the long run, it may be expensive but it will help you survive."

When you're in survival mode, it is very difficult to see the forest for the trees, and you have a lot to do in a short time, so get help and sooner rather than later - whether it is from your advisors, bank or lawyers.

As I see it:

Paul Pickles, CEO, Contract Pharmaceuticals Limited (CPL)

Contract Pharmaceuticals Limited (CPL) is an Ontario-based pharmaceutical manufacturer providing outsourcing services to a significant US client base. "It's an interesting place to be these days," says the company's CEO, Paul Pickles. In an industry that has been given one black eye after another this past year—resulting in some manufacturers abandoning the Canadian ship—Pickles believes that with prompt and decisive action, companies can not only adapt, they can also position themselves to take advantage of the opportunities offered. This is exactly how CPL approached the sideswipe that the high Canadian dollar gave the manufacturing industry earlier this year. "I was surprised by how high it actually went but also by the speed at which it went up," he says. "I think the speed probably had the more significant impact for Canadian manufacturers than the actual rise of the dollar itself."

Being able to adapt to change is key to being a successful manufacturer, says Pickles.

And that's exactly what his company has done. "We've had a lot of strategies that have included naturally hedging in the US, by buying materials from US suppliers. We are now well into a lean initiative to reinvent ourselves to be the most efficient and productive we possibly can be." This initiative includes investing both in equipment and in our people. "And having them owning processes, taking accountability for those processes and focusing on improving and optimizing them," he says.

It's a journey that doesn't happen overnight, says Pickles. "There has to be some patience but we believe we have a good product in Canada and are very proud of our Canadian operations—and we believe we can sell around the world."

Even as CPL is reinventing itself to be a lean manufacturer fit to meet the current economic and market changes, the company is also looking carefully at the opportunities that the new realities are also opening up.

"Every time you look at an issue, it's also an opportunity," he says. For example, the strength of the euro, combined with the high-cost of shipping due to high oil prices means European companies that sell to the North American market are looking for more economical solutions than shipping overseas. And that equals an opportunity CPL is taking advantage of by expanding its international operations. "I think there are a lot of growth opportunities in our business and we have some unique capabilities in our industry in Canada to be able to service the rest of the world." Canadian manufacturers are facing a new paradigm, says Pickles. "We are focused on continuing to grow our business in this different paradigm but with the changes we're implementing, it's a paradigm we believe we will be successful in as a manufacturer in Canada."



Financing: Don't Wait for the Shoe to Drop — Have a Plan

The media might be full of economic doom and gloom but the majority of private company leaders that we surveyed in July 2008 were cautiously optimistic. And while confidence has fallen by mid-October, more than half are still forecasting growth. For respondents that have the financial wherewithal to do so, investing in their business by developing new products, entering new markets or considering mergers and acquisitions is a high priority.

Regardless of whether a business is in growth or survival mode, access to financing is critical. And that's where the potential for trouble comes in. "There is definitely tighter credit throughout the country," says Keith Mosley, National Managing Director, PricewaterhouseCoopers Corporate Finance Inc. Not surprisingly, respondents in Ontario, Quebec and British Columbia are more concerned about their ability to raise debt and capital. And the October web-poll shows a strong trend in increased concern about this country-wide.

"Lenders are taking a more cautious approach in this market and we're advising our clients to be proactive in managing their balance sheets to ensure continued liquidity and access to capital," says Mosley. "Don't wait for your credit facility renewal date — start early."

"We cannot overemphasize the word proactive," says Eric Castonguay, Managing Director, PricewaterhouseCoopers Corporate Finance. "Even if you don't think you're in financial trouble, sit down and assess where you are heading and get your capital providers lined up so that if something unexpected happens, you have a contingency plan already in place."

Whether in growth or survival mode, it is important for private companies to ensure their balance sheets are properly structured to execute their business strategy. Planning on opening a new location? Starting a new product line? Restructuring operations? Completing an acquisition? These are all important factors to consider in structuring the balance sheet.

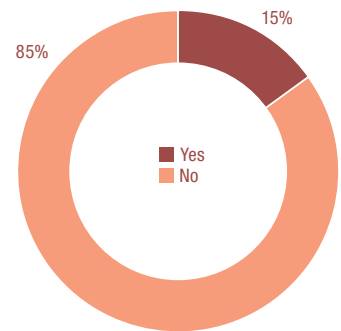
If you're in growth mode

For companies on solid footing, a volatile and uncertain economic environment often presents sudden and unexpected opportunities: moving in on markets held by under-performing competitors, buying up cheaper real estate or acquiring struggling companies. But to seize these opportunities the business has to be in a position to act fast.

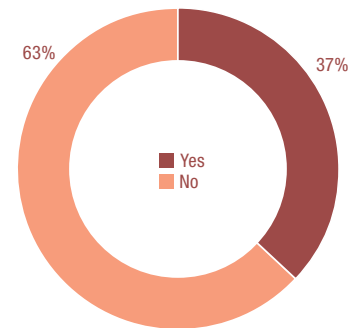
"It is imperative that you are well positioned to capitalize on opportunities," says Castonguay. "Consider locking in your financing arrangements with committed facilities, even if it means paying standby fees. If you do want to grow, now is the opportune time for those with strong balance sheets to take advantage of cheap assets."

Do you have concerns about your company's ability to raise additional financing over near-term?

Business Insights July 2008



Web poll October 2008



Financing: Don't Wait for the Shoe to Drop — Have a Plan

If you're in survival mode

All too often companies procrastinate in addressing their financing needs in the hope that market conditions will improve. This shuts the door on potential solutions. Address balance sheet issues early to maximize alternatives and protect value.

Have a realistic and detailed set of projections that clearly state what the company is expected to do financially over the next year. Extend that to the next two to three years. Then take a more conservative view of those sets of assumptions and make sure that the company's banking arrangements are such that if the downside assumptions hold true, the business is still okay.

"Conceptually, it is all common sense," says Mosley. "Unfortunately, things don't always go according to plan. Don't make the mistake of assuming that if you can just sell more, then this problem will go away and the bank will be fine. It won't. But if you speak to your lenders early, let them know what you need and where you're headed, you'll get a better reception than you will after missing a few payments."

Your banker is your friend, really

Companies that are in trouble often try to hide their financial woes from their banker. Don't. Banks want to maintain long-term relationships with their clients—and understand that businesses can hit bumps during downturns. "You have to deal with your bank as your partner. Be upfront and honest and go in with a plan," says Mosley. "You have to prove you are in control of the situation." If a company can show the bank a realistic strategy to see the business through a downturn, it will be more inclined to help.

Know your financing options

"In today's environment, it is important to consider all your alternatives in developing the right solution for your business," says Castonguay. But to do this, you have to know what options are available in the market and under what conditions they make sense. Although many of the survey's respondents were very familiar with asset-based lending and lease financing, they reported less familiarity with other financing solutions such as subordinated debt, bridge loans and private equity. Yet these options, says Mosley, can save the day for companies without access to the more common forms of financing.

By October the percentage of companies concerned about their ability to raise additional financing over near-term had doubled from 15% to over a third of responders to the web poll. A similar number was concerned that their bank may reduce the amount of credit available to them. Long before this concern becomes reality companies would do well to consider whether other financing options may be able to help them.

Bridge loans

This type of short-term loan can help through a short-term problem providing quick access to capital in order to take advantage of an opportunity. In other words, when the company can't afford to wait for permanent financing to be approved. "The opportunity to bridge loan is just that, to bridge you to a permanent solution," says Mosley. "The company could be in survival mode or hyper-growth mode and have outstripped what the banks are prepared to do for them."

Perhaps a great acquisition is on the table

but only if the financing is in place. "So the bridge financing lets you close the deal and then you refinance later with more traditional sources of debt or equity," says Castonguay.

But remember, bridge loans present a very narrow option for a very precise solution.

Subordinated debt

Subordinated debt (mezzanine financing or quasi-equity) is more expensive than senior debt with interest rates as high as 18%. But in return for the higher rates, subordinated lenders are willing to lend considerably more than conventional senior lenders and accept more flexible financial covenants.

While expensive in comparison to senior debt, subordinated debt can be a great alternative in the right situation.

"If you take advantage of an opportunity that can make you \$20 million and the cost of capital at 18% is \$3 million, then you're still way ahead," says Mosley. "You have to look at what you are netting not just what you are paying out."

Private equity

Here's a little known fact: right now there is \$10 billion of private equity in Canada looking for companies to invest in or acquire.

Many business owners shy away from private equity because they don't relish the idea of giving up part of their ownership and their autonomy.

"You now have a partner you didn't have before who may start questioning how you do things. And this is a big change for business owners used to calling the shots," says Castonguay. "Again, you have to think

about the net gain instead of what you are giving up. You can own 100% of a business with two locations that has \$2 million of revenue or you can bring in a private equity partner and have 15 locations with revenues of \$20 million. Even if you only own half of that, you are still ahead of the game.”

Things to consider

Before deciding on how to structure the financing of a company, figure out what the options are and what the company’s long-term goals are. Don’t automatically dismiss solutions with knee-jerk reactions. What may initially be a turn-off might just open up new opportunities.

“Some owners who bring in a private equity partner, might find that selling part of the business allows them to diversify their family’s net worth, for example,” says Castonguay. “You have to keep your

own balance sheet in mind, not just your company’s.”

Make sure to match up the terms of loans with assets. Use long-term debt for long term assets and short-term debt for short-term assets.

Be very careful to never use more than two-thirds of the company’s operating line. The other third should be earmarked for unforeseen problems.

A word on hedging

With the turmoil in the credit markets and the wildly fluctuating dollar in the past three years, many people are considering hedging. Hedging is, in effect, an insurance policy to protect against currency risks. And for those companies that have taken the not-to-hedge approach, what they are really saying is that they are prepared

to take currency risks, or worse that they don’t know what the risks are.

“The goal, wherever possible, should be to try to match up your inflows and outflows so that you remove currency risk,” says Mosley. For example, if a Canadian company makes its entire product here at home and sells all its products to the US, the assumption might be that all inflows are in US currency and all outflows are in Canadian dollars. Don’t stop there—dig deeper. For example, if the company buys materials offshore, then some of its costs may be in US or foreign currencies. In other instances, certain commodities behave like US dollar costs due to market pricing even though you may be purchasing them with Canadian dollars.” says Mosley.

“If you can’t fully match up inflows and outflows, you should be considering hedging,” says Mosley.

As I see it:

Dan Themig, *CEO, Packers Plus Energy Services*

When Dan Themig, CEO of Calgary-based Packers Plus Energy Services, an oil-field service company, thinks of a downturn, the last thing on his mind is doom and gloom. That’s because his company is among those that have been there and have experienced the opportunities in a downturn.

About four years ago, the oil and exploration business in Western Canada was hit hard by an industry downturn. “The big rig count dropped by almost 50% and spending was way down because gas prices had dropped,” he says. “To survive, a lot of oil field service companies sent equipment from Canada down to the US or set up internationally.” Still a young and very small company, Packers Plus didn’t have that option. It was stuck in the downturn so all it could do was stick to its

knitting and tenaciously continue to work on its focus areas. “Actually, the downturn in the oil industry in Western Canada turned out to be really good for us,” says Themig. “We were growing at a time when most of the other companies were shrinking, and that made it possible for us to improve our machining capacity and hire a lot of really good people.”

The reason Packers Plus was able to take advantage of the downturn was because the company had laid the groundwork several years earlier. It had combined cutting-edge innovation and a can-do approach to finding a solution to any challenge with a very specific niche and mission. “We focused on very high-cost areas of service delivery for our industry and we developed technology solutions that allowed our customers to remove a lot of

those costs from their wells,” he says. “What we were offering them was a way to increase the productivity of their wells and to reduce their costs. How do you argue with that?” In some ways, says Themig, it’s more difficult when prices are really high to get a company to risk using a new technology or a newer company for the first time. People are more likely to be sitting on their laurels and might not think the risk of trying a cutting-edge innovation is worth it.

“So when people begin to recount the doom and gloom, I tell them: our innovations were born in a low-cost arena; that’s why people used us,” says Themig. “So if prices go down, we should be able to get more work.” After all, our motto is “Do it Once, Do it Right™”



The Business Case for Sustainability

What a difference a year makes on the sustainability front too. Last year, 42% of private companies surveyed felt climate change was an issue that would never affect their business. This July only 22% felt that way.

“I’m not surprised by the results,” says Mel Wilson, Associate Partner in PwC’s Calgary office, who has been helping companies with environmental management issues for more than 15 years. “What I’m seeing is that private businesses are catching up with publicly-owned companies. It’s not a paradigm shift. It’s a greater recognition of the value of managing these strategic issues.”

More and more private companies are realising there is business value in acting in a socially and environmentally responsible way. “It was an inevitable outcome,” says Wilson. “It was just a question of when it would start to happen rather than if.”

The path to sustainability

While private and public companies have many similarities there is the one obvious difference. Publicly traded companies solicit capital from investors to build the business. Private companies, on the other hand, often use the owners’ own money. “As a result, private companies are often more conservative and risk averse about investing in new things, including their sustainability performance. They need more evidence that there is legitimacy to these issues.”

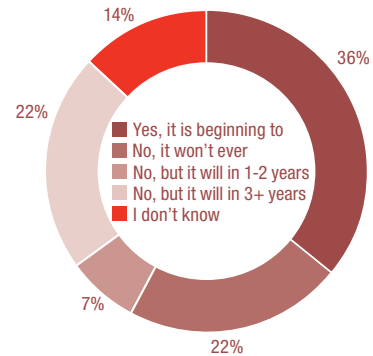
Many are cautious because they want to spend their money wisely but now they are at the point where they realize sustainability is a good and necessary investment. They needed to be convinced. And they have been by the early adopters, both public and private companies that have demonstrated the possibilities and the fact that sustainability is an essential part of everyone’s long-term strategy.

There are three phases in the path to sustainability. The first phase is awareness; understanding and acceptance of the issue. “We are past the debate over whether or not climate change is real,” says Wilson.

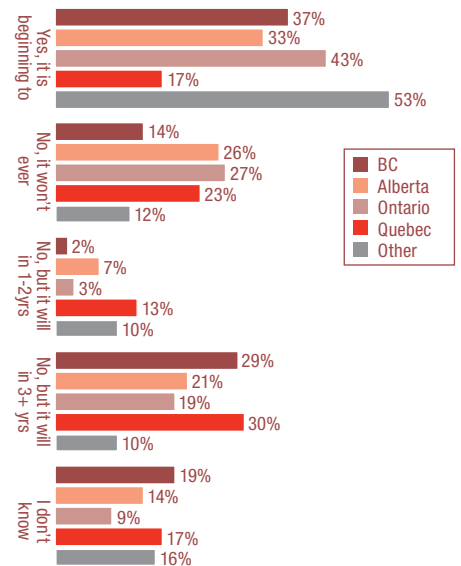
Phase two is an evaluation of how the company will be affected, and what the options are. “What are we going to do? Where can we position ourselves to get competitive advantage and how can we limit risks to our business model? These are the questions business leaders have to ask,” says Wilson. “That’s a long process—not a quick peek into a crystal ball.” It’s a process that includes discussion within the company as well as with peers in your sector and other industries to develop a vision of how you can manage sustainability, and the risks the issues pose to the company. And this vision must be tied in to your long-term goals. How you respond is company-specific,” says Wilson. “Unfortunately there are no magic bullet solutions.”

Finally, phase three involves active management and communication. It’s not enough simply to take steps toward sustainability and corporate social responsibility. Companies need to track their performance and let people know what they are doing. That includes everyone from customers and suppliers to concerned communities and to current and future employees.

Is climate change an issue that will impact your company?



Is climate change an issue that will impact your company? [by province]



The Business Case for Sustainability

Many private companies are moving into the second phase right now or that's where they were before the recent melt down began to hit. "They are starting to assess what the different issues mean for them and how they can gain competitive advantage," says Wilson. "Private companies have much more dexterity and can jump more quickly on issues than public companies. There are lots of opportunities to be seized if you stop and look at them closely and think long term."

Think long-term, act now

Sustainability is a change of mindset and doesn't always require huge financial outlay. Sometimes it can be as simple as choosing one supplier over another based on their sustainable—or lack of sustainable—practices.

"When you take the long-term view—which is what sustainability is all about—you understand that a lot of the costs associated with addressing sustainability tend to be upfront but in the long term will pay off enormously," says Wilson. For example, a company trying to deal with climate change by improving its energy efficiency by buying hybrid vehicles or improved operating equipment will end up saving money over the long term. "Those initial costs are amortized and dissolve quickly so that the benefits will quickly outweigh the costs."

Corporate social responsibility

"Corporate social responsibility" is a term that often gets bandied about with "sustainability" to the point where the two are now used interchangeably. But understanding the differences is important. Sustainability is rooted in the environment.

"It comes from the concept of ecological carrying capacity, and has a more technical basis, like resource use, energy efficiency, and pollution," says Wilson. "If companies keep polluting or extracting resources at breakneck speed, sooner or later we are going to cross a line where the damage can't be undone."

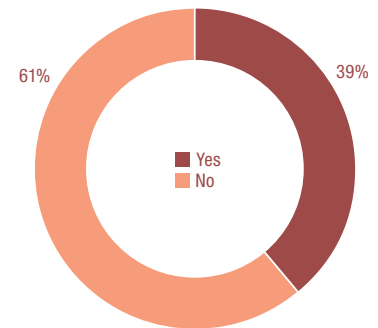
Corporate social responsibility (CSR), on the other hand, is about ethics and morals. Issues that come out of CSR space may have no direct capital costs associated with them. Often times, it's simply a matter of recognizing the moral issue associated with a decision and acting in an ethical manner.

"A company focusing on price could purchase from the cheapest supplier and ignore all other issues," says Wilson. "You could argue this is a wise business choice—on the surface, at least. But if you stop and look at things like the working conditions of those suppliers and discover there is child labour or abuse of workers, you might be willing to pay a little bit more in order to make the better ethical decision." Many times, you can pass that extra cost on to the consumer, who is also trying to make increasingly more ethical purchasing decisions.

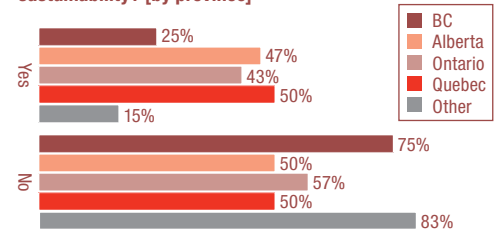
Doing the right thing pays

If you get it right there are bottom-line benefits. These tend to be most visible in situations where companies recognize and play to trends in consumer purchasing habits. There is a general acceptance that more and more consumers, particularly young consumers, are incorporating ethical and environmental issues into their purchasing decisions and are willing to pay a small premium for ethically and

Does your company have a plan or policy for sustainability?



Does your company have a plan or policy for sustainability? [by province]



environmentally responsible goods. For example, there is a growing awareness among consumers about the chemical use in foods. "The companies that got out in front of that with certified organic products are among the fastest growing companies going," says Wilson. "If the trend continues, they will be even more successful in the long run."

Companies that recognize an increasing number of people are factoring ethics into their purchasing decisions win long-term. "Look at retailer lululemon athletica, for example, which has been wildly successful in part because it recognized that its consumers take their values with them when they walk in the store," says Wilson. "If you can market products that align with

your consumers' values, then that's your advantage and you will sell more than your competitors. It's that simple."

Let's not forget that large organizations are consumers, too. Many are now looking to make ethically and environmentally wise procurement agreements with suppliers. It started with simple things like having recycled fibre in packaging and now extends to much more complex purchasing decisions around technology and supply chains.

Every level of government—federal, provincial and municipal—now has mandatory green purchasing requirements so they are held by internal auditors to incorporate or consider the environmental and social issues related to the products and services they purchase.

The path to sustainability is rarely one of huge leaps but one of step-by-step moves to deliver a strategy. A common approach many companies take is to

introduce a green product, and gradually attract more and more consumers to it. "They can then take that revenue, reinvest it into their own processes, which ultimately bring the cost of these products down. In this way, they also improve the efficiency and environmental benefits of the products themselves," says Wilson. "That's often why you see organizations offer environmentally friendly products to more affluent customers first. When the hybrid cars first came out, they weren't cheap. The car makers knew that Joe Average wasn't their initial market. But they also knew if they could target people with more discretionary income, they could then reinvest that revenue and bring the cost down so the cars become affordable to the mass market."

Attracting and retaining staff

Perhaps one of the most interesting and initially unexpected benefits of committing to sustainable and ethical practices is

how attractive it makes employers to top talent. "The importance of sustainability to recruitment and maintaining employees has leapfrogged to front and centre right now," says Wilson. "Up to about 12 months ago, I rarely heard anyone connect the labour recruitment issue to sustainability. Now, hardly a week goes by when I don't hear about the link and the value of sustainability in recruiting young talent."

It is no secret that young employees have choice about where to work. "Yes, salary is important, as is location," says Wilson. "It's not that other things became unimportant, but it's that the reputation of the employer has risen in importance. People want to work for an ethical company because of the broader, altruistic social values associated with that. But it is also self-serving. If you are just starting out in your career, you don't want to work for a business that ends up being shut down or raked through the papers and then you have their name in your resume."

As I see it

Ron Frisch, *CEO, Kohl & Frisch Limited*

Confident but cautious. That's how Ron Frisch, sole owner and CEO of Kohl & Frisch Limited feels about the current state of the Canadian market and that is how he plans to continue to grow the company. Frisch leads Canada's only Canadian-owned distributor to drug store retailers across the country.

Kohl & Frisch has more than 600,000 square feet of warehousing in Toronto, Calgary, Moncton, Vancouver and Regina and works in partnership with clients such as Wal-Mart Canada, Pharmasave and Peoples Drug Mart to supply all their front shop retail goods and pharmacy products.

While the current economy has many feeling rattled, Frisch is able to draw on experience, strong values and strategic planning to see a clear path moving forward. Founded in 1916, Kohl & Frisch has dealt with bumps and potholes by being proactive.

"As a distributor, one of our key challenges is dealing with the cost of fuel," says Frisch. "Any one who has a new cost to their business has to find ways to cover them. Sometimes you can pass along costs, sometimes you can't. If you can't, you have to figure out ways to compensate. That means looking internally. It's what you do. It's no different for any company in any industry."

And so that is exactly what Kohl & Frisch is doing. "We are working on building core strengths moving forward." Continuous improvement is critical to growth, stability and success—this key tenet is one Kohl & Frisch holds dear.

"You have to have a short term view and a long term view at the same time," says Frisch. "Short term is figuring out a way to cover these costs and you can't focus on that without having an eye to the future. The long term plan is to continue to grow and that stays separate. When things are uncertain, it's a good time to regroup and take stock of your strengths and not lose sight of the opportunities. That's how I see it."

The Business Case for Sustainability

Bottom line: Generation Y are vigilant and willing to step up and criticize companies that are not good corporate citizens and they certainly don't want to work for one. It is now common place for young candidates to turn the tables on potential employers during the interview process, by questioning the company's record on environmental management. And they come in having done their homework.

"I was at a meeting recently where a company rep' stated that her company did an internal review of the pathways people followed when they went to the career section on the website," recalls Wilson. "Where did they go next? The

majority of potential candidates went to the sustainability page. There were 20 other companies represented in this meeting and at least half said that was consistent with what they were seeing. This opened my eyes not just to the importance of this area, but also how critical it is for companies to communicate what they are doing. Companies need to get the word out because sustainability and social responsibility are becoming key differentiators in the competition for talent as well as consumers."

As I see it:

Jyoti Stephens, *Sustainability and Stewardship Manager, Nature's Path Foods Inc.*

"At Nature's Path we see corporate social responsibility as being one and the same as sustainability and the triple-bottom line approach we take to business," says Jyoti Stephens, sustainability and stewardship manager at Nature's Path Foods Inc. "We believe that the key to sustainability in business, and indeed to the survival of our planet, is the placement of equal importance upon the social, environmental and financial. Where social progressiveness and environmental excellence are as important as profitability. This means that we strive to create systems that invest in people (social) and the environment (renewable resources) while running a profitable business."

The result is something that is very near and dear to Nature's Path: the principle of sustainable and organic agriculture, "take care of the land, and it will take care of you".

It has been a recipe for success. Family-owned, Richmond, B.C.-based Nature's Path

Foods sells its organic, health-conscious products in 31 countries around the globe and it continues to grow.

"We realize that when doing business it may not be possible to reach 100% sustainability and we take the approach of continual improvement to help us along the path. However, we want to reduce our unsustainable practices to the absolute minimum and find ways of compensating for areas where we cannot achieve total sustainability," says Stephens.

This approach to business has earned Nature's Path the respect of its customers, who appreciate the long-term commitment the company has taken to reduce its environmental impact. "Together, our actions and values have helped create strong brand loyalty in the face of fierce competition," says Stephens. "While sustainability isn't the main criteria for most purchasing decisions, consumers will choose a more sustainable

product when product performance and price are about equal."

Sustainability has other advantages. "We see opportunities, particularly for privately held companies, to save money through sustainability efforts and to help them differentiate their brands and culture."

Many sustainability programs can help reduce costs, especially in the areas of waste reduction and energy usage."

And last but not least, for a company to realize the advantages of corporate social responsibility and sustainability it has to back up its claims and let the world know what it's doing.

"We've just started to communicate our sustainability story with our customers and the media," says Stephens. "We wanted to ensure that we were walking our walk before talking the talk."





Conclusion

The results of the 2008 Business Insights Survey present Canada's private companies with their eyes open, remaining cautious but optimistic, and with the majority planning to grow. Over the last year, many have shown an agility and resilience in meeting unfavourable market conditions head on. They are using past experience and lessons learned to move forward.

Still, some are struggling. Those who are will need to make hard choices and focus on the immediate challenge of survival.

As for the rest, while caution has served them well as we head into the downturn, it could also mean missing opportunities that position them for the upturn. This caution has prevented many private companies from venturing overseas, opening new markets and developing new revenue streams, which may leave them without a sufficiently diversified client base in the new economic world order.

The challenge in this current economic environment is for companies to stay focused on their long-term strategy.

"You can take two views of the future," says Eric Andrew. "You can choose to believe the world is coming to an end. I don't subscribe to that. I think there are excesses that need to be wrung out. There will be a new day. We've been through this before. Get your house in order and use this slow down to figure out what you are going to do when that new day comes."



Methodology and Demographics

The fourth annual Business Insights Survey examines issues affecting Canadian private companies. In June and July 2008, 574 participants from across Canada completed the survey. Business leaders from a broad range of industries, sizes and locations were questioned about their strategies. 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.

Participant demographics

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

Revenues

Of 574 companies surveyed, 47% have revenues between \$5-10m and the remaining 43% with revenues over \$10m.

Employees

37% of companies surveyed have fewer than 50 employees. 33% have between 50 and 100 with 30% having more than 100 employees.

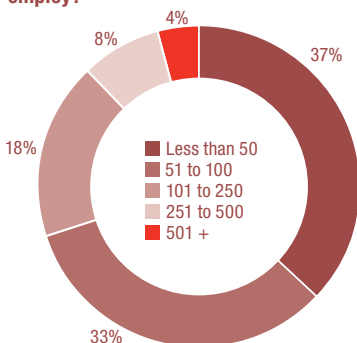
History

18% of companies have been operating for less than 10 years, 21% between 10 and 20 years. 35% between 20 and 50 years and 26% over 50 years.

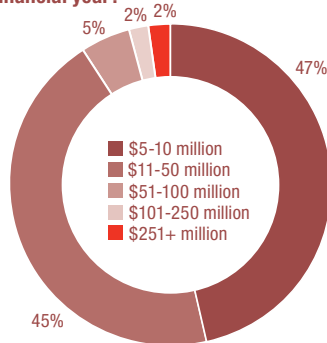
Pulse web poll

From October 14-17th we conducted an additional web poll to resurvey several key questions around the confidence of private companies, their current challenges and their concerns about financing. This poll of 129 companies provides data to confirm indicative trends.

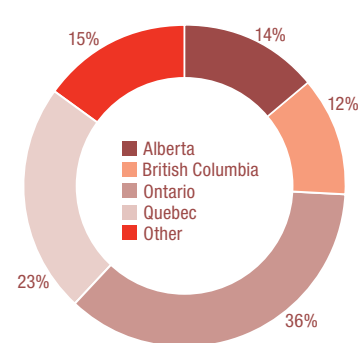
How many people does your company employ?



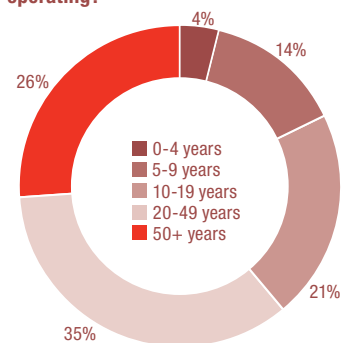
What was your revenue in the last financial year?



Where is your company headquartered?



How long has your company been operating?



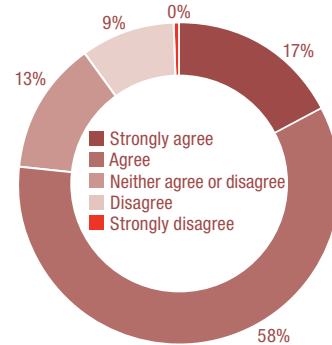
Appendix

Which options are in your top three for consideration in your medium term (next 3 years) strategy? [by province]

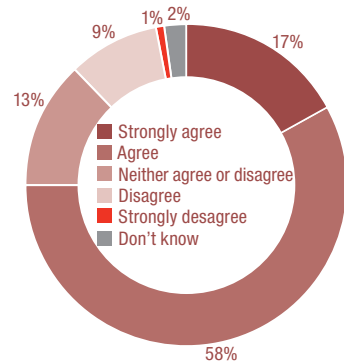
Percentage of respondents

Options	BC	AB	ON	PQ	Other
Improving staff skills	58	72	66	45	73
Staff retention	52	80	47	42	79
Expansion plans	48	55	51	47	57
Reducing cost of operations	42	64	62	34	79
Better targeting of customers	39	54	51	56	16
Maximizing ROI	30	58	36	41	65
Strategy evaluation	29	47	50	33	9
Investing in IT	20	32	35	22	21
Increased R&D	17	30	39	42	13

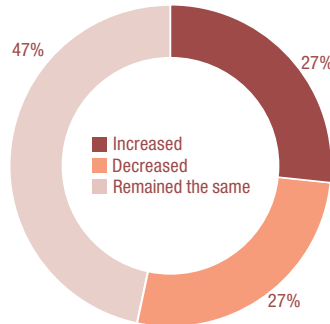
There is currently a business benefit to having sustainable practices [by province]



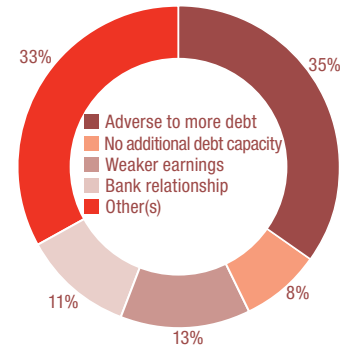
Extent of agreement with statements about 'sustainability' and 'CSR'—There is currently business benefit to having sustainable practices



Has your company increased or decreased net borrowings this year compared to last?



What is your company's most significant limitation to obtaining additional debt?

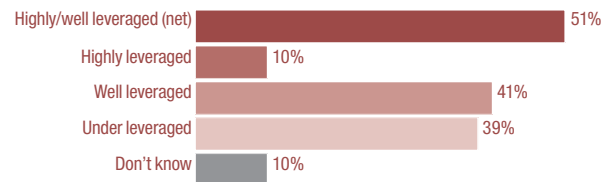


What actions are you taking to improve your competitive performance

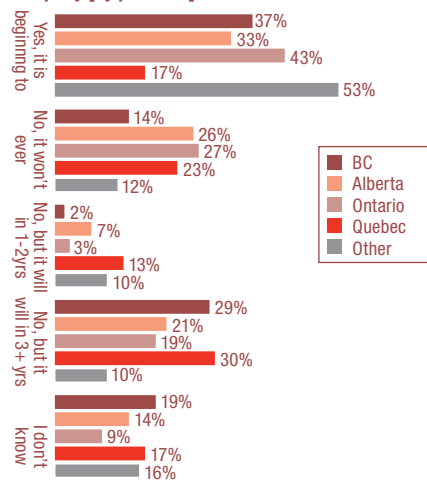
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Reducing cost of operations	42	64	62	34	79
Better targeting of customers	39	54	51	56	16
Strategic alliances	39	42	36	52	15
Improving processes	35	63	62	58	78
Better financial management	32	38	24	13	61
Maximizing ROI	30	58	36	41	65
Strategy evaluation	29	47	50	33	9
Investing in IT	20	32	35	22	21
Increased R&D	17	30	39	42	13

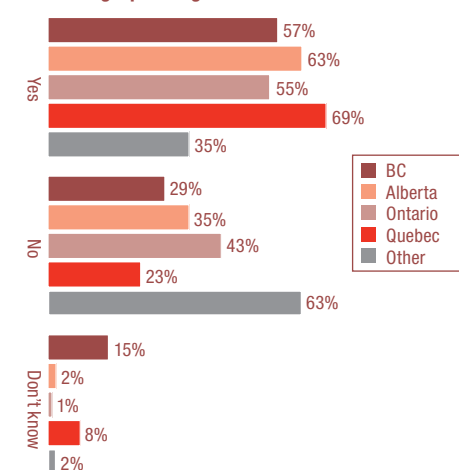
Degree respondent considers business leveraged



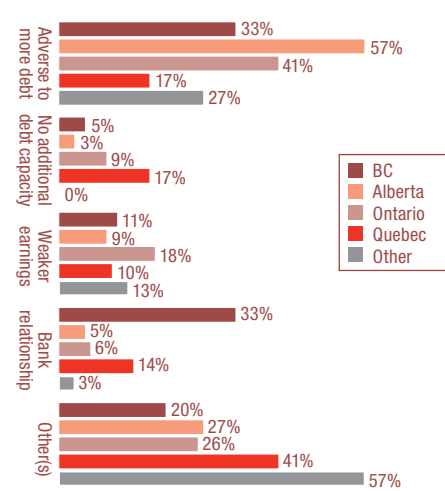
Whether climate change is an issue that will impact company [by province]



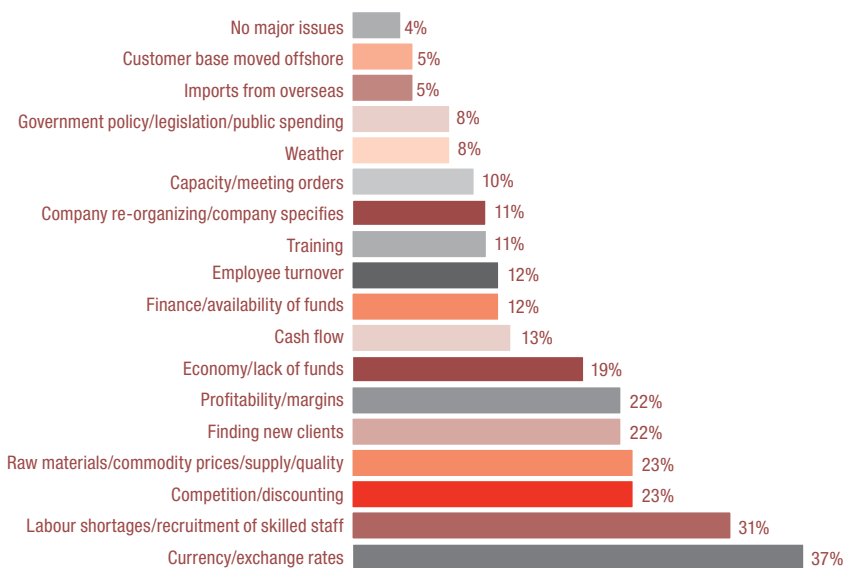
Whether business environmental policies are in long-term strategic planning

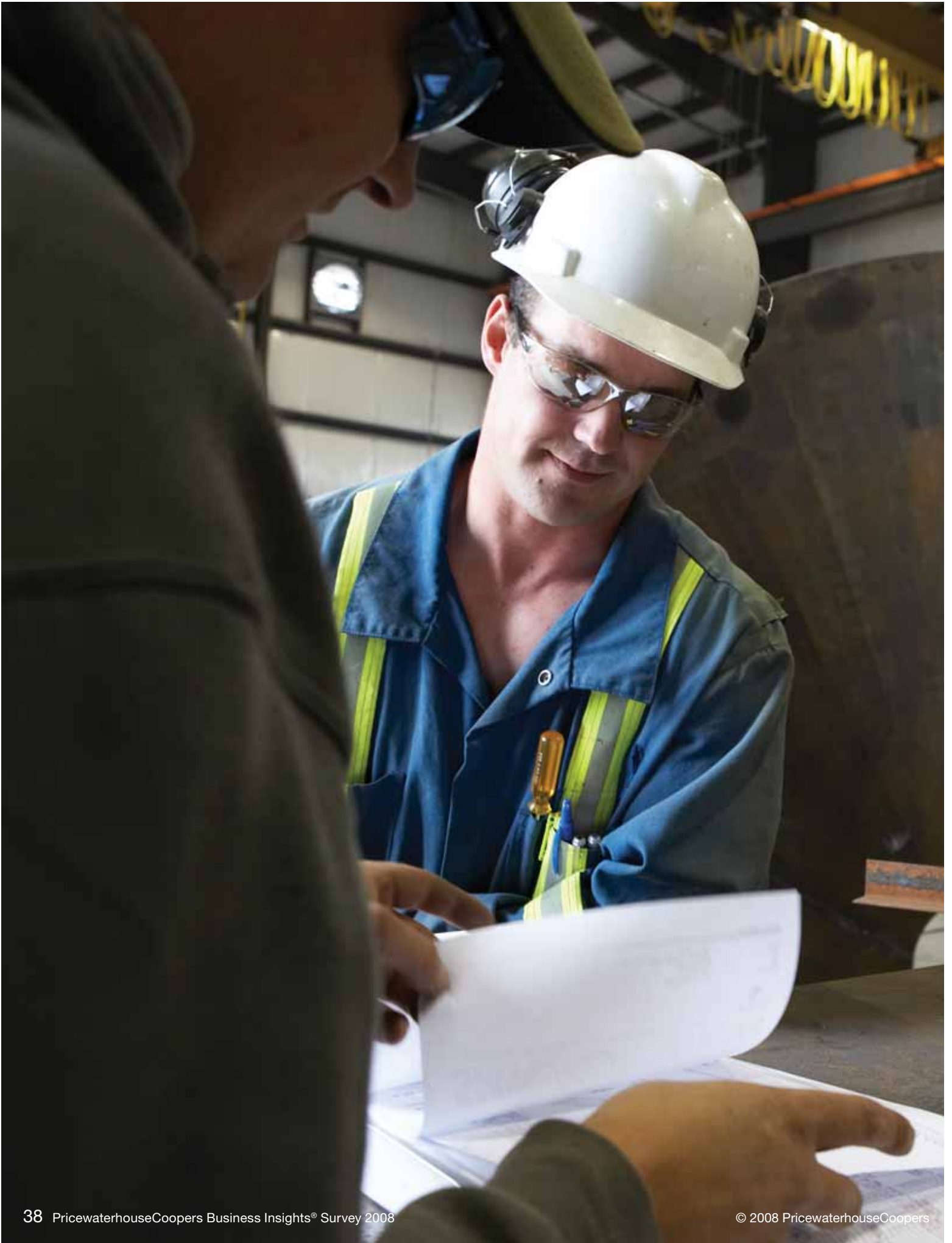


Company's most significant limitation to obtaining additional debt



Top three issues that have influenced the company over the past year





We can help. Let's talk.

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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 Web Polls 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.

If you would like to discuss your particular circumstances in more detail please e-mail business.insights@ca.pwc.com or call your nearest contact from the previous page.