

# *Owning the today and tomorrow of your business*

The Business Insights® Survey of  
Canadian Private Companies 2012



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# Welcome to Business Insights

*The report shares the results of the eighth annual Business Insights® Survey of Canadian Private Companies. In the summer of 2012, PwC surveyed over 400 leaders of Canadian privately-held companies from a broad range of industries to share their thoughts on the issues affecting their business. Issues such as current and future performance, innovation, leadership and talent were just some of the topics discussed.*

For a second consecutive year, the survey revealed that Canadian private company leaders are optimistic and confident that things will improve, and are planning to grow over the next 12 months. The majority of companies plan to take their business to the next level, following their “gut feeling” and lessons learned from the recessionary years to navigate the future of their business. They’re keeping a close eye on the looming grey cloud of the economy, setting realistic goals and plotting growth accordingly, arming themselves with the tools, efficiencies and cost-reduction strategies to handle obstacles that may come their way.

Although private companies across Canada are focused on managing costs to thrive in today’s uncertain market, one particular area that concerned me was the lack of understanding and effective use of leading-edge technologies to evolve business. Given today’s competitive market, companies need to focus on building technology into their innovation strategies. Leaders need to realign their social media strategy to not only build their brand, but also to collect customer feedback and foster internal collaboration among their people. What’s more alarming is the number of leaders who have no plans to invest in mobile technology. The need to embrace the new has never been more important to the success of your company.

PwC is committed to helping your company succeed over the long-term. The Business Insights Survey helps us to gain a better understanding of the issues and challenges facing private companies and can be used as a resource to help you plan for the future of your business.

I hope that you enjoy reading the report and I encourage you to reach out to any of the contacts listed on the back page to talk about the survey findings or topics discussed.

**Tahir Ayub**  
Canadian Private Company Services Leader, PwC



**David G. Watt**  
Chief Economist  
HSBC Bank Canada

# Economic outlook 2012–2013

*Even as developed world central banks prime the pump furiously, the spark of global growth remains elusive. The global economy lacks vigour, and domestic sources of growth are providing less lift than expected. We expect the Canadian economy to expand at less than 2.0%, well below its potential pace, in 2012 and 2013. Before we turn our attention to Canada, let's start with a discussion of the global economic backdrop.*

HSBC's global growth forecast for 2012 is 3.0%, with a modest increase to 3.3% in 2013. We have particular concerns over the health of global trade toward year-end of 2012, and over the looming potential for a sharp fiscal contraction in the United States, unless actions are taken quickly after the US Presidential election to avoid going over the "fiscal cliff."

In Europe, the European Central Bank (ECB) President Draghi pledged in late July to do "whatever it takes" to save the euro, and those words were reinforced by the ECB's commitment to Outright Monetary Purchases in early September. Even so, the crisis in the eurozone periphery remains a downside risk to global growth, with slowing global factory sector activity resulting in a late year downturn in external demand and global trade.

Another source of risk facing the global economy toward year end is the US "fiscal cliff." The name denotes the potential impact of US tax increases and spending cuts that are scheduled later this year and in early 2013. If nothing is done to avoid these automatic tax increases and spending cuts, the US federal budget deficit would decline by USD600 billion, or roughly 4.0% of gross domestic product (GDP). US aggregate demand would, in effect, drop off a cliff. We think the potential of such a trauma will spur political leaders to compromise.

At HSBC, we think that the outcome of US political negotiations will foresee a fiscal drag of 1.1% of GDP in 2013. A third, less likely, scenario would be a post-US election postponement of difficult decisions. However, the US would still face difficult fiscal decisions, and such a strategy would likely prompt sovereign credit rating downgrades. Overall, HSBC expects the fiscal drag to limit US GDP growth to 1.7% in 2013, after growing by 2.2% in 2012.

The above discussions highlight that the most challenging period for the global economy will be 2012 Q4 and 2013 Q1, when down-side global and US economic risks are most acute.

For Canada, we expect growth of 1.9% in both 2012 and 2013, which though moderate, would still outpace the tepid advances in most other G7 nations. Growth though will be narrowly based. With Canadian households focused on elevated debt levels, there has been a renewed impetus for borrowing and spending restraint. As a result, consumption will provide only one-half the boost to GDP growth compared to that experienced during the commodity boom between 2003 and 2008. Meanwhile, as with many governments in emerging markets and in the G7, Canadian governments at all levels are focused on fiscal austerity or deficit control. Though the drag of the US "fiscal cliff" gets a great

deal of attention, fiscal drag will be widespread in 2013, though for Canada the International Monetary Fund (IMF) projects that the fiscal drag will be roughly one-half the G7 average. Lastly, residential investment is expected to cool, in part due to measures implemented by the federal government to tighten mortgage rules.

That does not leave many other sectors to boost growth. One that we focus on is non-residential business investment. Surveys suggest that Canadian firms remained quite optimistic with regard to non-residential investment in plants and equipment. As well, with the Canadian dollar still persistently strong, the “terms of trade” still favour imports of machinery and equipment, presenting an opportunity for cost-effective, productivity-enhancing investment.

Bank of Canada surveys also suggest that Canadian firms remain positive on future employment prospects, a trend that is evident in Canada’s Survey of Employment, Payrolls and Hours, which is Canada’s version of the US Establishment survey.

With a still unstable global economic backdrop, slowing global trade, the uncertainty in the US, particularly in the first half of 2013, and a more moderate pace of GDP growth in Canada, we expect the Bank of Canada to remain on hold throughout 2013.







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# Executive summary

*The 2012 Business Insights Survey finds an overwhelming majority of respondents (81%) are planning to grow and expand over the next 12 months. This is despite the fact that they're concerned about the economy, which most believe will be the top issue that will influence their companies in the coming year. However, strategies for growth are focused on factors they can do something about rather than those beyond their control. Sixty-two per cent of respondents cite improved sales and marketing as their top strategy for growth, 51% list market share gain and 49% say they will use improved internal systems for growth. As well, 47% cite reducing the cost of operations as their number one priority to improve their competitive performance. It's important to note that four years ago, Canada's private companies zeroed in on improving their efficiencies and reducing costs as a means to survive the recession. Now, they have embraced these as an ongoing process not to survive, but to grow, gain a competitive edge and reinforce their agility.*

Private companies are looking beyond these strategies to find new ways of seizing growth and opportunities in today's world of complexities, volatility, uncertainty and rapid change. Many are turning to new technologies in order to do this, with 53% of respondents saying they are looking to invest in mobile computing within the next three years, 45% considering investing in customer relationship management systems (CRM) and 38% embracing social media/networking. They also have an eye on innovation. Most say they have created a culture that encourages creativity, with 77% of respondents believing that as leaders, they clearly communicate their company's business focus on innovation as a priority.

Canada's private companies have accepted that volatility, uncertainties and tough challenges, including fierce competition, price-cutting and skilled labour shortages are here to stay. But they're also confident in their own abilities to grow in such an environment—and for many, to grow robustly. They're not about to wait for better and more secure times—which may never come. This year's Business Insights Survey points to an emerging aspect of the new reality: Canadian private companies are owning the today and tomorrow of their business.

# Introduction

*If there is one theme that permeates the findings of this year's Business Insights Survey, it is self-confidence. Last year's report found Canadian private companies had not only adapted to the uncertainty of the new post-global recession world with all its complexities, intense competition and rapid change, they were actually taking it on.*

This year's findings reveal the majority of companies have rooted themselves in this approach and taken it to the next level. They are now deeply confident in their own capabilities to embrace change and external challenges. They have—and continue to arm themselves with the tools, efficiencies and cost reduction strategies they need to maximize their ability to proactively respond to external curve balls. They're setting realistic goals and strategically plotting their growth, with half of respondents currently conducting business outside of Canada. While companies are aware, informed and alert about external forces, they are not counting on them for success or view these external forces as potential blows that will inhibit future growth. Instead, they believe in their own abilities to pave a solid bridge of success for themselves over the quicksand of uncertainty and change, not just today, but for the long-term.

"Despite some of the doom and gloom we read in the news these days, there is still tremendous confidence out there in terms of private company CEOs looking to grow their top line. They are consistently focused on the top three priorities of how they run their business: managing their costs, using technology and driving innovation," says Tahir Ayub, Canadian Private Company Services Leader, PwC.

Ayub's observations of Canadian private companies confirm that self-confidence earned through solid strategic planning and ongoing improvement of efficiencies is key to success in a world of uncertainty. "There are some companies that are seeing flat growth and other companies that have double-digit growth. It's all over the place and has no relation to externals," he says. "I've seen companies in retail hitting double-digit growth rates, but there's no way that the retail sector is seeing double-digit growth rates. I've seen companies in booming industries that aren't doing well at all. More than ever, it depends on what you are doing and how effective you are in your strategic planning and execution."

Confident companies are investing in and leveraging technology, with a high percentage of respondents this year planning to either buy new enterprise resource planning (ERP) or client

relationship management (CRM) systems or upgrade existing ones. "That's very impressive and good news because these systems not only improve efficiencies, they also help provide real-time information for informed decision-making," says Ayub.

The survey findings, however, did raise an alarm when it comes to effective use and understanding of leading-edge technologies. Only 16% of respondents said they were using social media internally—which, particularly for larger companies, should be a critical component of an innovation strategy. As well, 25% of respondents had no plans whatsoever to invest in mobile technology. "This is staggering. They are going to be left behind," says Ayub. "There is no industry, no function within a company that is not going to be affected by mobile technology. Mobile technology just means a leaner, meaner, more efficient way to do business. It doesn't take away from the soft touch. It can actually add to the customer experience. There's still a bit of a knowledge gap about technology out there among CEOs. If you are CEO of a private company and you don't have a very good understanding of technology in general, including mobile technology, you need to invest the time in overcoming that learning curve because it is a business imperative."



Overall, this year's Business Insights Survey findings point to a good news story that somewhat contradicts many media headlines today. Interestingly, the majority of business leaders surveyed do not rely on the media as a top source of information. Instead, they look to industry publications, associations and peers. "With all the quality, detailed information CEOs can access today, they are far more knowledgeable and informed than they could have been even 10 years ago," says Ayub. "While they obviously follow major global newspapers, they're far more able to form their own analysis of what's going on, which makes them less susceptible to the latest sensationalist headline."

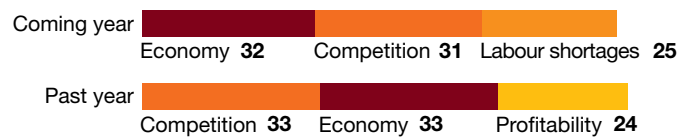
In fact, when asked why they expected their business to improve in the coming year, 26% cited gut feel. "I think this points to their self-confidence," says Ayub. "They're relying on their instincts. And let's not forget that those instincts or 'gut feel' are the CEOs who are constantly reading, listening, observing, analyzing and keeping up with what's happening in the marketplace, as well as having the knowledge that comes from years of experience. Those are the finely-tuned instincts of highly informed leaders."



# Key trends

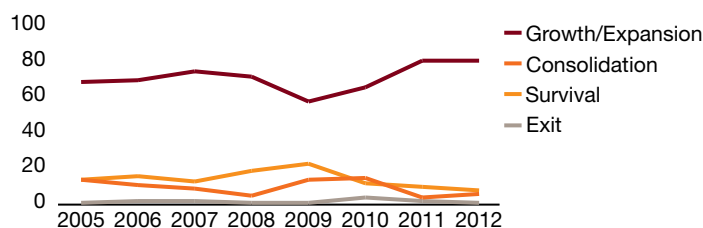
*The results from the 2012 Business Insights Survey, conducted in June and July, show that just as last year, an overwhelming number of private company respondents (81%) are planning to grow and expand over the next 12 months. This is a shift from 2010, when companies were climbing out of the recession and only 66% of respondents said they planned to grow in the coming year.*

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

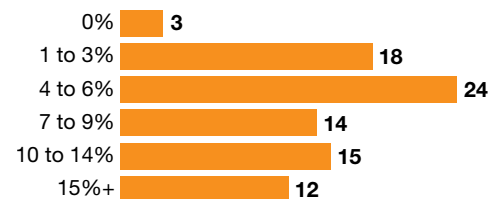


With such a positive outlook for two years in a row, one could conclude that Canadian private companies are feeling optimistic about the return of better economic times. A look at the world's political and economic volatility makes such a conclusion seem nonsensical. The reality is that private companies surveyed continue to be concerned about economic uncertainty and today's heightened competitive environment. When asked what top issues influenced their companies over the last year, the economy and competition/discounting tied for first place at 33%, with profitability coming in second at 24%. Looking forward to the next 12 months, 32% of respondents cite the economy as the top issue that could influence their business, with competition and discounting coming in at 31%. Instead of profitability being their third top concern for the coming 12 months, it is labour at 25% that worries

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



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



“In the past year, we’ve seen top line growth and margins have suffered based on internal performance issues. We’ve grown faster than our internal infrastructure and have had difficulties finding top talent.”

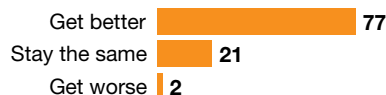
*President, construction and engineering company*

them, being driven primarily by a lack of qualified workers. In short, respondents are only too keenly aware how tough it is out there and that the potential for another sudden major blow to the global economy is part of the new reality in today’s interconnected world.

So where is their optimism coming from? In fact, it may not be optimism as much as self-confidence. Four out of five respondents rated their performance as good or excellent relative to their business plan or budget as well as to their competition. Canada’s private companies seem to have taken the lessons from the cost-cutting recessionary years and built on them. They have developed a deep self-confidence through their resilience and in knowing they will not allow uncertainty, change and volatility to stop them from taking charge of their own future.



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



Primary reason why labour shortages will influence your company over the next 12 months



“Our focus for the next 12 months to drive strategy? Trying to increase and identify acquisition opportunities.”

President, food service distributor

## Growing with purpose

How do you plan to achieve growth?  
Percentage of respondents



Canada's private company leaders are doing everything they need to do to grow their share of the market on their terms, regardless of what the economy or competitors may throw their way. Leading companies understand a strong core is mission critical in the new business reality of rapid change and uncertain world markets. They are connecting the dots between strategy and performance and are using information systems throughout operations—from sourcing and procurement to customer feedback—to streamline processes and drive growth. In a nutshell, they are covering all their bases and taking as much risk and guesswork out of the equation as possible.

“The majority, 81%, are planning for growth, but not significant growth. They want to improve revenue, but they have concerns the competition may try and steal their market share through discounting, so they are investing in IT and strategic planning to help meet those challenges. They are taking as much control as possible,” says Scott Fitzsimmons, associate partner, Consulting & Deals, PwC. “This is the overarching story—and it’s good news.”

He points specifically to the top three strategies to achieve growth: improved sales and marketing (62%), market share gain (51%), and improved internal systems (49%). “You can influence revenue, but you can also control costs. I like the breakdown because it illustrates that private company leaders are focused on both sides of the equation—the internal and external worlds. Improving internal systems and processes is critical to achieving profitable, sustainable growth as opposed to fluctuating as the market shifts.”



## As I see it

### Charles Chang, President

#### Vega

What does it take for a company to achieve strong growth in the type of challenging and competitive environment full of uncertainties and price-cutting that has become the new norm?

Companies across the country scrambling to find the answer to this question might want to take a look at Vega, a Burnaby, BC, plant-based food supplements company founded 11 years ago.

From the moment it opened its doors, the company has been on a journey of robust growth. Last year, that growth skyrocketed to 90% over the previous year. Prior to that, it ranged between 40% and 50% annually. And that's not just in Canada. Since entering the US market six years ago, Vega continues to double its growth year over year.

For any company, in any sector, in any economic conditions, this would be an impressive achievement, but when you gain an understanding of the obstacles Vega has been growing through, it's downright remarkable.

At Vega, their people drive the results and the results drive their people. Focused on core values centred around relationships, their people, entrepreneurship, integrity and performance, the unique corporate culture that Vega has developed has become a source of sustainable competitive advantage, resulting in category creation and leadership, an unwavering focus on core competencies and premium brand value that is hard to duplicate.

In an age of pricing wars, Vega's products are the highest priced in its category. Typically, during a severe recession such as the one that hit the US only two years after Vega entered it, high-end products are among the hardest hit. Yet Vega's US sales now account for 50% of its revenues.

So how does Vega do it? They concentrate on their strengths, understand what the market wants and focus on the current competitive environment.

Vega is firmly grounded and confident in themselves and their strategy. "We can't compete on price. There will always be someone who is cheaper or even more efficient. There's no point in doing that. We're building the category and it's always expensive to be the pioneers," says Charles Chang, President of Vega.

Instead, the company pays attention to every last detail to ensure its products, packaging and message meet the

expectations of the high-end customer who is willing to pay top price for quality. "We're not worried what our competitors are doing," says Chang. "We learn from people we aspire to be like, rather than react to our competitors. That's a very key distinction. If we spent our time worrying about our competitors, we wouldn't be able to compare ourselves to the world-class companies who inspire us."

As a result of looking at best-in-class models outside of its category and competitors, Vega has built an innovative merchandising and marketing strategy. "We take our products off the shelves, out of the vitamin department and put them into produce, into grocery, in front of the cash register—with big and splashy displays to attract attention to our brand. It's been a very good strategy," says Chang. "No one in supplements does this."

Vega also uses its strengths—which includes leading the market to move forward and overcome any hurdle it faces. The company is a pioneer in the plant-based supplement category. In fact, its products have been formulated by Brendan Brazier, a former professional Ironman triathlete and two-time Canadian 50km Ultra Marathon Champion, who is now a successful performance nutrition consultant and a bestselling author.

Vega is looking to build on their continued success, with plans to double its revenues in the next two years. "We want to achieve that all through organic growth," says Chang. "We want to do it by increasing the consumption of our products within existing channels by building demand. We're doing this through a lot of sampling, social media outreach and product placement. We're also expanding our sales team to do more calls at fewer stores and increase same-store sales and consumption of our products. And we're focusing on education."

While the company always had people working on education, it has recently created a four-person team to focus solely on this core strength. "These people are nutritionists, dietitians and food scientists. I think that will help us take it to the next level," says Chang.

While aware of the uncertainties in the economy and the tough challenges out there, Vega remains confident and certain it will continue to grow—demonstrating it's not just a leader in its category, but also in the type of strategic and confident mindset that can drive robust growth in this new complex and competitive world.



The economy continues to keep private company leaders up at night. When asked to look back over the previous year, respondents cited competition/discounting, 33%, economy/lack of activity, 33% and profitability, 24% as top challenges. The story shifts as respondents predicted top challenges for the next 12 months. The economy is now in the top spot for 32% of respondents, competition drops to number two, with 31% of respondents and lack of talent moves into the top three for 25% of respondents. Twenty-three per cent of respondents cite finding new clients as a key challenge, while profitability drops from number three to number five at 22%.

Consistent with the top strategies reported last year, private company leaders have an ongoing focus on improving internal systems and processes and reducing cost of operations, which appears to be paying off. This is confirmed by how strongly private company leaders believe they have performed. Four out of five companies

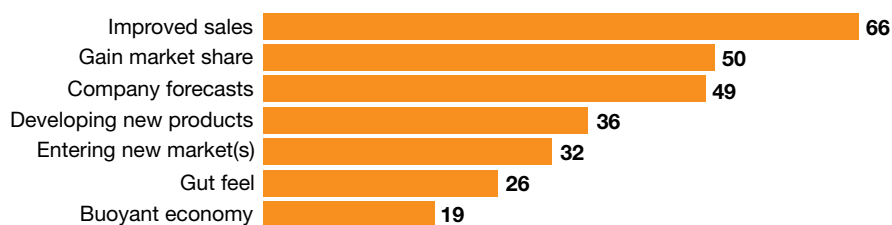
reported their performance was excellent relative to both their business plan and/or budget and to their competition. The bigger the company, both in terms of revenue and number of employees, the better they felt about their overall performance.

“Larger revenue generating companies tend to have the processes and systems in place to measure against their targets,” says Fitzsimmons. “It is imperative that private companies get themselves on track first, then benchmark against others to continue to improve their business. If they meet their budget or plan, then they need to look at their competitors and make sure they are being aggressive enough with their own goals and targets. Having a plan and key performance indicators (KPIs) in place to measure your performance will provide insight into how to best move forward on all fronts: people, finding and serving clients, building strategic partnerships and investing in the right technology.”

This year’s respondents are just as positive about future performance, with 77% predicting their business will get better over the next 12 months. Of these, 66% cited improved sales as the top reason for this optimism, followed by market share gain at 50%—the same top two strategies to achieve growth. Company forecasts came in at 49%. “This last statistic suggests respondents are confident they will be able to take advantage of expected market growth and that they are on track,” says Fitzsimmons.

One quarter of respondents cite a potentially problematic reason as to why they expect business to get better: gut feel (26%). While gut feel, particularly among this group can come from hard earned experience and well-placed confidence, it has to be supported by strong internal systems and processes to ensure sustainable growth. “We’ve met with many CEOs who feel they are doing fine operating off of their gut instinct. That works well until they want to sell

Reasons why companies expect business to get better in the coming year  
Percentage of respondents



## As I see it

**Greg Smith, CEO**  
**Richard Game, EVP Business Development**

### *Evans Consoles*

It's the classic story of an entrepreneur spotting a need in the market and filling it—with a twist. Back in 1980, Ross Evans was a Chartered Accountant serving Calgary's oil and gas industry. He saw an opportunity to improve his clients' computer consoles, and took it. Today, Calgary-based Evans Consoles is a world leader in the design and manufacture of custom, mission critical control room console solutions (think air traffic control, 911 centres, surveillance and homeland security control centres). "You could call Ross Evans the godfather of the console industry as we know it today," says Greg Smith, who took over as CEO eight years ago and together with his business partner, Bill Burkett, now owns the company.

The twist comes in the form of Smith's strategic focus to grow the Canadian success story well beyond Canada and the US. In fact, Smith and his team have grown sales outside North America from 5% of revenue eight years ago to 50% today, and total revenues have grown 300% in that same time period.

Here's how the team at Evans Consoles built a strong international presence.

#### **Develop new market verticals**

"We started right away on market analysis to see where the opportunities were and how we could move our products into other market verticals," says Smith. When he moved into the top job, the company was serving eight market verticals, but he knew there were additional markets that also required technology to be incorporated in an ergonomic fashion. The company focused on US agencies (DOD, DHS, CIA, NSA, FBI), established a show room in Washington where many of these agencies are located and started recruiting people who understood the terminology and procurement process. "This was critical," says Richard Game, the company's Executive Vice President of Business Development. Evans Consoles now sells to 14 market verticals.

#### **Think long-term**

When the Federal Aviation Administration (FAA) came calling with a trial project for O'Hare Tower in Chicago, Smith and his team knew enough about the market and upcoming developments to take on the risk. "This was a big leap of faith, but you have to be willing to place some of these bets when you think you have a great opportunity." The FAA offered to pay all of the engineering costs but Smith and his team chose to absorb those costs in exchange for the ability to patent its products. The FAA agreed and the long-term thinking paid off. In 2011 they were awarded a five year IDIQ contract to build air traffic

control consoles for the FAA and last month were awarded a second five year IDIQ contract to supply Radar Control consoles and services. "We are now leveraging that technology outside the US and into India, Europe and Canada," says Game.

#### **Go to growing markets**

"We know that our equipment is used where infrastructure is being put into place—airports, railways, highway traffic management, call centres, power generation," says Smith. "That led us to China, India, the Middle East and former CIS countries." The company made incremental investments in those regions and opened up sales offices. In China, as sales grew and the brand became better known, Evans then did the legwork to determine whether to grow by building their own operation or by acquisition. "We concluded that the IP risk was too great to share in a joint venture and decided to build our own operation." That operation recently landed its biggest project to date: outfitting the main control room for the China Rail system.

#### **Find the right synergies**

When the strategy makes sense, Smith and his team are prepared to make an acquisition. For example, after growing into the air traffic control tower market vertical with its project for the FAA, the company began looking to extend that opportunity around the world. "We quickly established Evans Airport Solutions (EAS) in Holland and acquired all assets and intellectual property of a highly regarded airport check-in counter businesses and a newly formed operating company made up of former executives from the former world-leading check-in counter business. Those acquisitions allowed us to hit the ground running."

In order to hit the ground running internationally, Smith offers a few best practices:

- use your network to help you build relationships
- understand your strengths and differentiators
- take a close look at the growth happening around the world
- pick a location and do your research
- assess your competitors and how they compete

Most important, adopt a mindset of global growth and global orientation. "A lot of subject matter experts and Canadian business owners think of international growth and expansion as risky or limit themselves to the US," says Game. "Don't be afraid. Look beyond Canada and the US to grow your business because that is where the real opportunities are."

their company. People are less likely to buy a company based on the fact that you think you've run things well," says Fitzsimmons. "Companies are valued higher when they go to sell if there is an inherent discipline around the way they operate. This is particularly true if you are in a mature industry, which was the case for a large concentration of respondents who came from manufacturing (18%) or distribution (11%). You need to have the systems, processes and the technology in place—all the components to instil the sense of trust your operating model will continue into the future. The fact is, you start a business because, one day, you will exit and you want to ensure you exit on your terms." It's an important message, as just over one quarter of respondents, 27%, anticipate a change in ownership over the next five years.

When asked to prioritize how they plan to improve competitive performance, the top responses were reducing costs of operations, 47%, improving staff skills, 41%, improving processes, 40%, and better targeting of customers, 39%. These findings all support the focus on achieving growth through improving internal systems and growing market share using performance management tools to get there. In fact, 56% of respondents cited strategic plans as the most effective tool in contributing to bottom line results. This was followed by business processes at 44%, annual plans at 41% and information systems at 34%.

"A strategic plan should include all of the priority areas. It's a roadmap. If you know where you are going then you know who the right customers are to help you get there. That will allow you to break down priorities. While it's encouraging to know

that it is front and centre for respondents, what we find is that a lot of companies have a disconnect between their strategic plan and the execution of the plan," says Fitzsimmons. "Performance management is about aligning all aspects of the strategic plan: processes, systems and people. The most important thing is to use the strategic plan as the context so that people inside and outside the organization understand why you are doing things. Sometimes companies lose sight of why they are in business. They choose a certain course of action because they think it's the right thing to do, rather than because it will help them achieve their goal. For example, you can tick a box saying that every year you conduct a customer survey, but do you use the information within the survey to improve performance? Having a strategic plan keeps you honest. It also helps ensure the sustainability of your vision."

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

Percentage of respondents



Only **25%** of respondents use social media to listen to their customers

This year's respondents were asked specifically about how they listen to customers through feedback. The overwhelming majority, 90%, said they maintained direct customer relationships, 37% used their website as a repository for feedback, and 35% employed market surveys.

Customer feedback is perhaps the greatest tool to help ensure you own the today and tomorrow of your business, but it is also a prime example of a cautionary tale, says Fitzsimmons. "Really listening to your customer is what will lead to your success, but you have to do it in a structured way to ensure you give them what they want—or risk losing them. The top response, direct customer relationships, is the least formal and may simply mean respondents talk to their customers—but are they listening and taking action? Each of the other methods of obtaining customer feedback listed is much

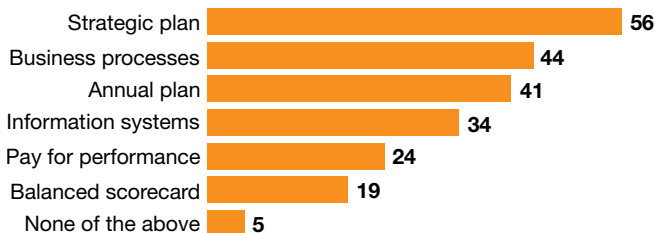
more deliberate. A formal feedback program is the most effective way of ensuring you are listening to your customers and providing them with what they want," says Fitzsimmons.

"Within PwC, we have a structured program to regularly reach out to clients and we find that when we go out to meet with them, we hear completely different things than we would when we just have a 'relationship' or conversation with their team. A best practice in this area is to prioritize your customers and take an ABC approach. For example, you may want to schedule quarterly reviews with top tier or A customers, annual reviews with B customers and conduct an online survey with C customers," says Fitzsimmons.

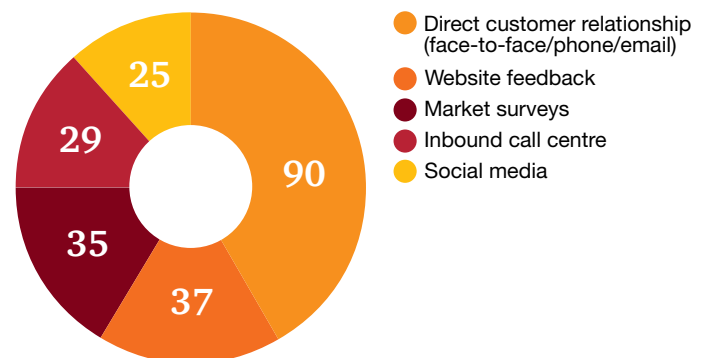
One quarter of this year's respondents reported they use social media to listen to their customers. It is a channel that will

become increasingly relevant, particularly for consumer-facing businesses such as retailers, whose customers are already likely posting information about themselves, their likes and dislikes, on social media platforms, says Fitzsimmons. "But in other more traditional industries, such as mining or forestry for example, social media is less relevant and so logically, it's less likely to be an effective channel for feedback—at least for now. That's where planning and performance management comes in. Knowing where you need to go will lead you to where your customers are and help you determine the most effective way to reach them and then ensure you act on what they're telling you. It's all connected."

Which of the following tools and practices have been the most effective in contributing to your results?  
Percentage of respondents



How do you listen to your customers?  
Percentage of respondents



# Strategic sourcing as a competitive advantage

*Private company leaders have turned their sights to sourcing and procurement, and for good reason, says Lino Casalino, national leader, Supply Chain and Procurement, PwC. “Heightened importance has been placed on this area and it is directly tied to economic uncertainty, global competition and increasing costs of raw materials. As a result, driving down costs is a big priority for private company leaders and sourcing and procurement offers quick ways of generating savings that have an immediate impact on the bottom line.”*



In fact, reducing the cost of operations is the number one priority to improve competitive performance and drive growth for 47% of this year's respondents. The supply chain is the most logical starting point as it accounts for anywhere from 30% to 70% of a business' overall cost base, with input costs and raw materials representing a significant portion of that expense.

Strategic sourcing involves having in-depth knowledge and standardizing a company's specifications for the procurement of goods and services, and matching that knowledge with in-depth supply market research of vendors and pricing trends in order to obtain the best overall value for company. It is the upstream set of activities that precede completion of a contract for goods and services, and may include competitive tendering, bid evaluations, site visits, vendor negotiations and contracting. Once a contract is signed, the "procure-to-pay" cycle follows where goods and services are then purchased off the contract.

Procurement involves requisitioning, purchase order management and payment and vendor management. To streamline the process and cut costs that will lead to immediate bottom line expense savings,



*Supply chain accounts for anywhere from*  
**30% to 70%**  
*of a business' overall cost base*

companies are using technology in the procure-to-pay cycle as an innovative workflow tool to manage processes and controls. The first step to understanding the savings opportunity within your organization would involve completing a spend analysis. Spend analysis will enable you to effectively review what your level of spend is by category and commodity, including a detailed understanding of your vendor base. Benchmarking of unit pricing against market intelligence will then highlight savings potential and opportunities on a category by category basis. Application of a host of potential sourcing strategies that include demand management, volume aggregation and supplier rationalization can then be applied as part of the sourcing strategy as a means to achieving the cost savings.

Leading organizations are looking well beyond cost when they develop sourcing and procurement strategies. In fact, an effective sourcing and procurement policy will allow you to continuously identify incremental benefits throughout the entire process and execute initiatives to achieve those benefits. It provides more control

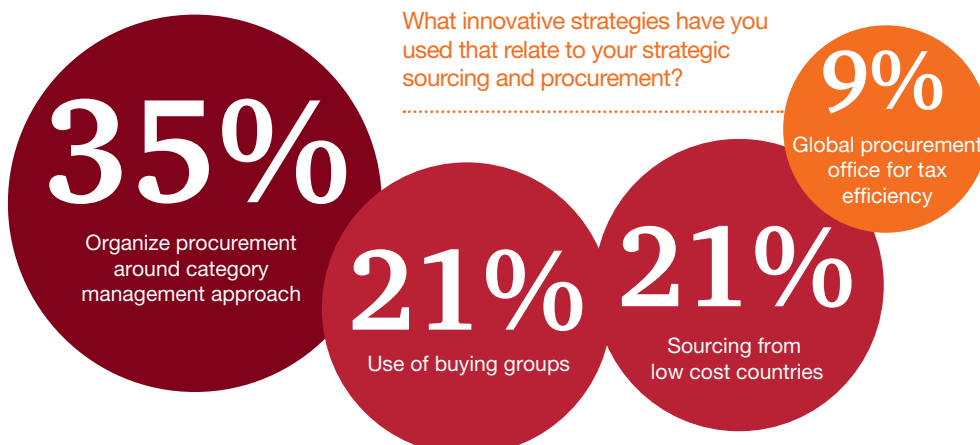
over data, improves visibility and ensures compliance. It also ensures people's skills are linked with their roles and that they have the tools they need to be effective, which in turn leads to improved employee satisfaction. Done right, this can be a potential competitive advantage.

For the first time, private company leaders were asked specifically about their approach to sourcing and procurement. The findings paint an interesting picture. When asked to outline the innovative strategies they apply to sourcing and procurement, organizing procurement around category management came back as the most common strategy over the past year, cited by 35% of respondents. This was followed by sourcing from low cost countries (21%) and use of buying groups (21%).

"Category management is certainly the most innovative of the strategies listed and it's what we recommend to our clients," says Casalino. Category management requires looking at the total supply chain costs of the category, including a "should cost" view of the vendor costs, aligning those costs by similar characteristics and

markets to provide a big picture view, which will then highlight opportunities and potential areas for cost savings and opportunities to innovate. Larger organizations are more likely to take a category management approach to sourcing and procurement (41% of companies with more than 100 employees employ this strategy) and they are looking at technology solutions to help them execute that strategy.

"There are a number of relatively low-cost spend analysis tools available on a 'software as a service' basis that allow you to focus on where you are spending your money and provide extensive detail that traditional systems have not been able to categorize. We are seeing significant activity in this area by a number of our clients," says Casalino. "We've also seen a fair amount of focus on connecting core enterprise resource planning (ERP) systems to other procurement and contract-enabling tools to help manage all touch points in the sourcing and procurement process." These types of solutions enable the electronic management of contracts, for example, ensuring you have the right



# 63%

*of respondents are already investing in or considering investing in an emerging market*

contracts in place, that they are administered and that they are stored in a repository that your people can easily find the contracts you've negotiated as opposed to paying more for products and services off contract. "A common observation that we have made in many of our engagements is that clients pay different prices for the same product or services across different locations, divisions or functional areas. Plus, there is still a fair amount of off-contract spend taking place in the marketplace. Price-leveling and ensuring better contract compliance are two quick wins we often deliver for our clients, and having proper technology in place to highlight and make these opportunities visible is a leading practice."

In some cases, companies that become experts in sourcing and procurement can turn that expertise into a new revenue stream. A current leading computer and electronics manufacturer has done just that, and now they offer strategic sourcing

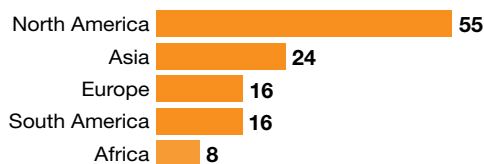
expertise and extend their buying power as a service to the marketplace, helping companies streamline their own procurement systems and cut costs. "If you're a leader, you can use it to differentiate yourself in the market. That's an innovative approach to procurement," says Casalino. "Sourcing from low cost countries, on the other hand, is not innovative. Rather, it's just expected. If you are in the business of producing a product, it's a normal course of action to source all of your inputs, raw materials and other goods from the lowest possible cost source you can. It is not innovative—but it can be. Leaders are turning their attention beyond low cost country sourcing to considering near-shore alternatives to reduce lengthy lead times and cut inventory levels. This 'total cost of ownership' perspective is an important trend we are seeing."

In fact, the sourcing and procurement function provides an opportunity for

private company leaders to expand operations beyond Canada and enter new, emerging markets. According to this year's survey, almost 50% of respondents already operate outside Canada, of these 24% are operating in Asia. "It stands to reason that for many, internationalization comes in the form of low-cost sourcing from other countries (19%), and that could be one way to build a network to lead you into new emerging markets ripe for growth," says Casalino. Growth is the top reason the majority of this year's respondents (63%) who are already investing in or considering investing in an emerging market are looking to markets such as China (19%), Brazil (12%) and India (11%).

It is certainly an idea those 37% of respondents who cite strategic relationships as a strategy to achieve growth would be wise to consider. "For example, if you are a pharmaceutical company here in Canada sourcing raw

*In which of these foreign markets are you currently doing or considering doing business?  
Percentage of respondents currently doing or considering doing business overseas*



## Take action

### An enterprise resource planning (ERP) system wake-up call

Many companies that turned to enterprise resource planning (ERP) systems to solve their Y2K compliance challenge in the late 1990s have not revisited their systems since. Companies who have systems that are more than a decade old are at risk of lagging behind the growing number of companies that are taking advantage of the functionality of new ERP systems. Today's ERP systems integrate every function within a company, whether it is finance or performance management, HR, logistics or marketing, to improve productivity, streamline processes and increase efficiencies across the organization.

But these systems do even more than that. They also quickly drive information from every department to where it's needed, enabling nimble and effective decision-making. This empowerment is absolutely vital for companies striving to remain competitive in today's marketplace.

"Many organizations that have not focused on technology to drive the decision-making process are quickly finding out that their challenge in the marketplace is due to lack of information to remain or stay ahead of the competition," says Kishan Dial, partner, Management and Technology Consulting, PwC. "They have piecemeal legacy systems that can no longer be supported and have lost the ability to drive decisions—crucial to manage performance and stay competitive.

Also, implementing an ERP system requires careful planning and expertise. Sometimes companies try to do it on their own, but lack the focus, resources and time to do a proper implementation. The result is they have expensive, incorrectly configured systems that are not being maximized because not enough time was put into determining the needs of the users. Or employees weren't given sufficient training and so the system is not really being used to its full potential."

In the past, this challenge might have been seen only as a waste of resources and tools, but in this fast-paced and globally interconnected competitive day and age, the price of having a piecemeal, outdated or poorly implemented system is one most companies cannot afford.

The message is clear: the time is now for companies to consider systems that can give them a competitive advantage to manage performance and drive decision-making. Here are some tips on how to get started:

- **Recognize change is required in order to drive competitiveness.** This is often the most difficult step as resistance to change is common in many organizations.
- **Seek help.** "Many organizations do not go through transformational changes very often—maybe only once every 10 to 15 years—and implementing an ERP

system is a transformational change because there is no function within an organization that isn't affected," says Dial. "The challenge many companies face is that they lack the know-how to execute and manage the risk. Many also lack the in-house resources. We've seen many organizations try to do it on their own and because it can be so time consuming, the process is often delayed or doesn't get done at all."

- **Define the magnitude of change required.** "Do you need big changes or small changes? And who are the key stakeholders to be involved?" says Dial. "You need to define your requirements, select your vendor, design the system, and then implement and provide the right training."
- **Measure the benefits.** "Once you've identified the return you want to achieve, you need to measure and track the results to ensure you are making progress to meet these benefits," says Dial.

While a complete ERP implementation can take several years, it can also be done in modules where the advance is felt quickly. "Typically, we've seen organizations get between 10% and 25% in efficiency gain and cost reduction," says Dial. "And that doesn't include the benefits of driving information for nimble decision-making."



materials from India and China, then you've built a relationship with a supplier who is likely supplying other companies globally from other low-cost regions," says Casalino. "They may also have facilities in Eastern Europe or South America that could help you establish a presence there if that is an area of interest to you, while helping mitigate some of the risk of the unknown."

Casalino applies the same lens to the use of traditional buying groups. In effect, a buying group is similar independent businesses coming together to leverage combined purchasing power to negotiate better deals. While they can be efficient in and of themselves, they are not particularly innovative. That is, unless private company leaders are looking to partner beyond the usual suspects—which is happening. "The concept of buying groups has been around for a long time.

However, we are seeing some businesses collaborate between competitors in areas that do not represent a competitive threat and that can result in bringing different ideas to the table," says Casalino.

Collaboration between functions is perhaps the biggest benefit of an effective supply chain more broadly—which is how innovation happens. "Leaders effectively connect functional areas with the processes of supply chain, involving procurement and sourcing early on in the research and development and new product design processes. This is a paradigm shift for many leaders because traditionally supply chain has just been thought of as a cost of doing business; the procurement, manufacturing, warehousing and distribution components of the business. It hasn't been viewed as an enabler to achieve strategic objectives as a means to gain ground on competitors," says Casalino.

He points to a recent example of a pharmacy retailer using supply chain to do just that. This particular client set itself the objective of being the pharmacy of choice for baby boomers as they age. In order to do that, it strategically prioritized pharmaceutical products based on their target market's needs and wants and set a supply chain strategy to ensure those top products would be stocked at all times. "When their customers went into their store, they wanted to ensure they would always find the pharmaceutical products that were of most importance to them. These products also represented the highest margin product in the store. That wasn't necessarily what the competition was thinking," says Casalino. "Ultimately, we want companies to put a strategy in place that differentiates them in the market. The way you approach supply chain can help you achieve a competitive advantage and can help you grow."

### Is it an opportune time for foreign expansion via mergers and acquisitions?

“Fortune favours the brave,” says Nicolas Marcoux, Canadian Deals Leader, PwC. Private company leaders should be mindful of this age-old saying in today’s economy, characterized by high growth in select emerging markets and weak growth in advanced economies. “Remember, it’s a relative game. While some companies are struggling with slow organic growth, we have seen that Canadian private companies are faring better than most. This may be a once in a lifetime opportunity.” Marcoux argues that Canadian private companies are positioned extremely well to expand into emerging markets and take advantage of opportunities in select regions. “Mergers and acquisitions (M&A) is often one of the best tactics that can be used to expand into a foreign market,” says Marcoux. Although potentially rewarding, Marcoux cautions that foreign expansion via M&A involves a few critical considerations:

- **What are you looking to achieve and why?** Any company considering an acquisition has to have a sound deal rationale. Canadian companies considering cross-border transactions need to first have a clear business objective. “Think big picture,” says Marcoux. “Why do you want to expand abroad? Product diversification? Technological prowess? Customer diversification?” Once these business objectives are clear, companies can then articulate exactly what they are looking for, which will help assess if there are targets available to buy, if valuations are fair, as well as a whole host of other considerations. Mapping transactions to these underlying business objectives not only bring focus and efficiency to a process, they also increase the likelihood of a successful transaction.
- **What is the right price?** There are a number of valuation strategies, including discounted cash flow, capitalized cash flow and liquidation value. The bottom line is that Canadian buyers may need to leave their valuation playbooks at home when contemplating cross-border deals. A strong understanding of the target’s business and an ability to quantify the unique post-deal synergies of a transaction will be the key to assessing true value. “People often get bogged down on price, but that’s only one component of the transaction—not the ultimate component. At first, you may think you are paying too much, but if the synergies are there and you’ve orchestrated and executed a good integration plan, it can be very successful,” says Marcoux.
- **How should a transaction be structured?** The structure of a transaction is a critical consideration for Canadian companies seeking to expand overseas. In many cases, creative deal structures and increased buyer protections can be used to bridge valuation gaps and protect against downside risk. “In the case of an early-stage foreign target with extremely high-growth prospects, buyers may offer up an ‘earn out’ structure, which permits the seller to receive payments post-deal and share in some of the upside. This sweetens the deal for the seller and reduces the upfront financial commitment for the buyer,” says Marcoux. A local partner may also be advisable when pursuing foreign M&A. “In many cases, our clients enter into 50/50 joint ventures with foreign partners when pursuing M&A outside of Canada for the first time. “A partner with an established local reputation can provide effective guidance on how to work around regulatory challenges and often comes equipped with a team that knows the market and can reduce the post-deal HR complexities. Strategic partners also have the potential to help raise local funds for a transaction and source future deal flow.
- **How should the deal be financed?** Financing a transaction outside of Canada can be tricky. Canadian financial institutions can charge a risk premium to back foreign deals, which immediately decreases the internal rate of return (IRR) of the deal and can result in debt payments and some foreign currency risk. Equity partners may be an option, however, if you bring in an equity partner they will likely want an exit mechanism, which means you have to have a plan outlining how you will refinance to exit any equity player. There is no “one size fits all” solution to financing a foreign deal. The type and cost of capital will be highly dependent on your industry, the location of the target and a host of other criteria that are unique to each transaction.
- **What happens post-deal?** Whether or not a foreign M&A is successful depends on a number of factors, and also on the strength of a buyer’s integration plan—an aspect of M&A that is too often overlooked. “We encourage clients to develop a comprehensive integration plan of IT, HR, operating systems and cultural fit before the deal closes. It should include short, medium and long-term objectives and milestones,” says Marcoux. “Don’t underestimate the energy needed for the integration plan. Many companies have a 100-day plan post acquisition to unlock the value of the deal. An M&A on its own is not enough to create value.”

The decision of whether to grow via acquisition versus building organically is unique to each company. There is no single template or process to help you make the decision. You have to look at the context and the long-term strategic goals of your business. Marcoux’s final piece of advice to private companies: “Don’t go it alone. There are so many critical pieces involved in the decision: identifying the gaps, establishing criteria, finding the targets, financial modeling, due diligence and post-merger integration. If you’re just being reactive, you’re more apt to fail. A well-planned acquisition is more likely to be a successful acquisition.”



# Using mobile, social and the cloud to innovate and grow

*“We are at an interesting point in the business journey. Customers are increasingly looking for personalized services. They want to be seen as the most important customer to a company and that means organizations have to have a clear understanding of their preferences, the types of products and services they want, their feelings about the brand and how they want to engage,” says Aayaz Pira, director, Management and Technology Consulting, PwC. “As businesses look to grow, they have to focus on building that critical understanding so they can effectively provide the services and products their customers want, when they want them. To do that, they have to embrace technologies that give customers and employees a voice; mobile, social and cloud, and allow organizations to listen and respond.”*

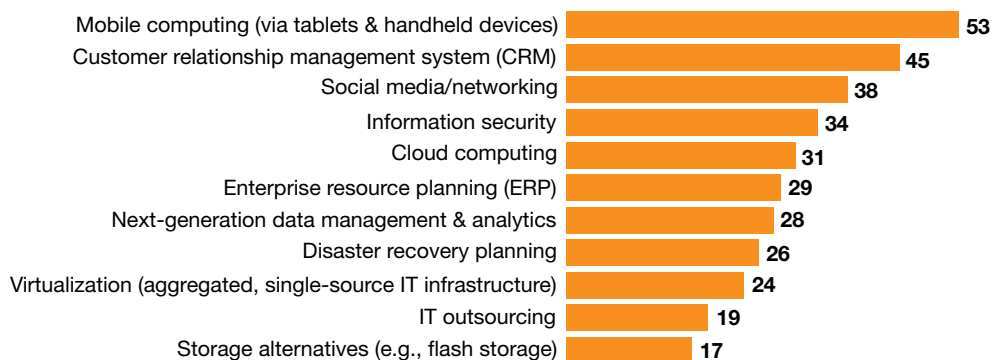
That is exactly what leading companies are doing. According to this year’s findings, 53% of respondents are looking to invest in mobile computing within the next three years; 45% are looking into customer relationship management (CRM) systems and 38% are considering social media/networking.

“It’s interesting that the top areas of focus are now being accessed on mobile devices. Whether it’s mobile and you are using it

internally to be more effective as an organization or you’re equipping your sales force with cloud-based mobile CRM tools, we are seeing a lot of organizations moving in that direction because people—both employees and customers—want to have immediate access, no matter their location,” says Pira.

And this speaks to a significant trend; organizations are being influenced by the consumerization of technology, which in

Which of the following areas of technology development is your company likely to invest in during the next 1-3 years?  
Percentage of respondents



# 25% *of companies have no plan to invest in mobile technology*

turn is blurring the lines between the personal and professional lives of employees. The mobile strategy companies are employing is a clear reflection of this new business reality. Over the next year, 41% of respondents plan to optimize their websites for mobile—table stakes for businesses today, as online traffic has shifted from PC to mobile and 24% are planning to create a mobile application. “If your website is not optimized for mobile, you are behind the eight-ball,” says Pira. “Leading organizations have taken the next step and are designing mobile applications, both on the consumer side and for internal use, such as deploying ERP systems for their people to be more effective. A lot of mobile applications are being fueled by cloud technology, making it cost-effective and easy to plug and play.”

Meanwhile, 20% of respondents will be deploying tablets across their organizations and 14% plan to support their employees’ devices in the workplace. “As digital

natives—people who have grown up with technology—start to enter the workforce, they expect to use the same technology in their professional life as well,” says Pira. “It’s a trend that will become increasingly important going forward.”

Surprisingly, 25% of respondents have no plan to invest in mobile technology. This may reflect the fact that they are in traditional or mature industries, such as oil and gas or manufacturing, so they have not faced the same push from clients or digital natives—yet. “I think that’s going to change. For a business to be effective, you have to continue to innovate. A lot of these technologies spawn innovation because they foster collaboration,” says Pira. “If you are not collaborating and innovating, it’s going to be easy for your competitors to start to creep up and take market share.”

Mobile works hand in hand with virtualization and cloud computing—tools that help build scalability and flexibility into operational strategy. High growth

companies are using them to further fuel expansion while keeping costs down. In fact, respondents planning on double-digit growth were more likely to invest in cloud computing (43%) and virtualization (36%) than companies planning for growth rates less than 10% (28% and 22%, respectively).

Virtualization and cloud computing allow organizations to better manage and reduce costs—the top priority to improve competitive performance for this year’s respondents. Instead of installing expensive servers, infrastructure and programs, companies can subscribe monthly or on a pay as you go basis to access tools that were once only available to large corporate players. In the process, they are changing capital costs to operational costs and giving themselves more control.

Social media represents another key growth driver as social networking and media sharing platforms such as Facebook, LinkedIn, Twitter and YouTube become larger and larger aspects of everyday life.

An effective social media strategy can help extend brand and sales reach, engage employees and customers, encourage collaboration and ultimately grow business.

Most understand this new business reality. Almost half, 47%, plan to use social media for sales and marketing—the top strategy to achieve growth.

Some 35% of respondents plan to use social media as a customer service tool. “It’s a way to understand what your customers are saying or how they feel about you. It gives them a voice to be part of your business. But that can also be scary for some organizations, which may be one of the reasons only 25% of this year’s respondents used social media to listen to their customers and why 28% of all survey respondents don’t plan to use it at all,” says Pira. “The benefit and trouble with social media is its amplification effect. Hundreds of people may repeat or re-tweet comments and explode an issue. At the same time, if you respond efficiently through social

media, you can also resolve an issue very quickly. The key is to stay on top of it and manage what’s happening.”

Social media can also be an effective tool for recruiting, which is how 34% of respondents plan to use it. There are two key reasons for this: social media speaks more directly to the younger generation entering the workforce and it allows companies to take a more targeted approach to finding the right talent.

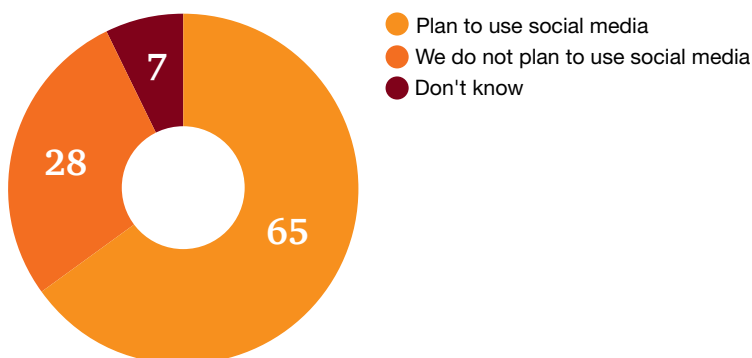
Only 16% of respondents plan to use social media to foster internal collaboration. “This is a missed opportunity,” says Pira. “We tell people that if you have a social media strategy and you are using it for sales and marketing, customer service and recruiting and you are trying to portray yourself as a social enterprise, then you need to be social on the inside as well. In addition to enabling collaboration, new employees recruited over a social platform expect that they will be able to use social platforms to be effective in their jobs. If

they realize you are not using social media inside the organization, it’s going to be difficult to retain that talent. At a time when private company leaders cite labour shortages as a top issue going forward, social media can be a powerful tool to attract and retain talent.”

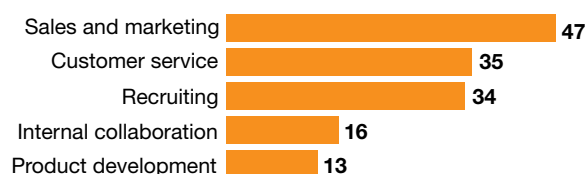
It can also be a valuable tool to develop and follow brand influencers. Collaborate with the customers and the public to create the products they want. That said, only 13% of respondents plan to use social media to develop new products. “This is a huge opportunity for businesses to help drive innovation and growth,” says Pira.

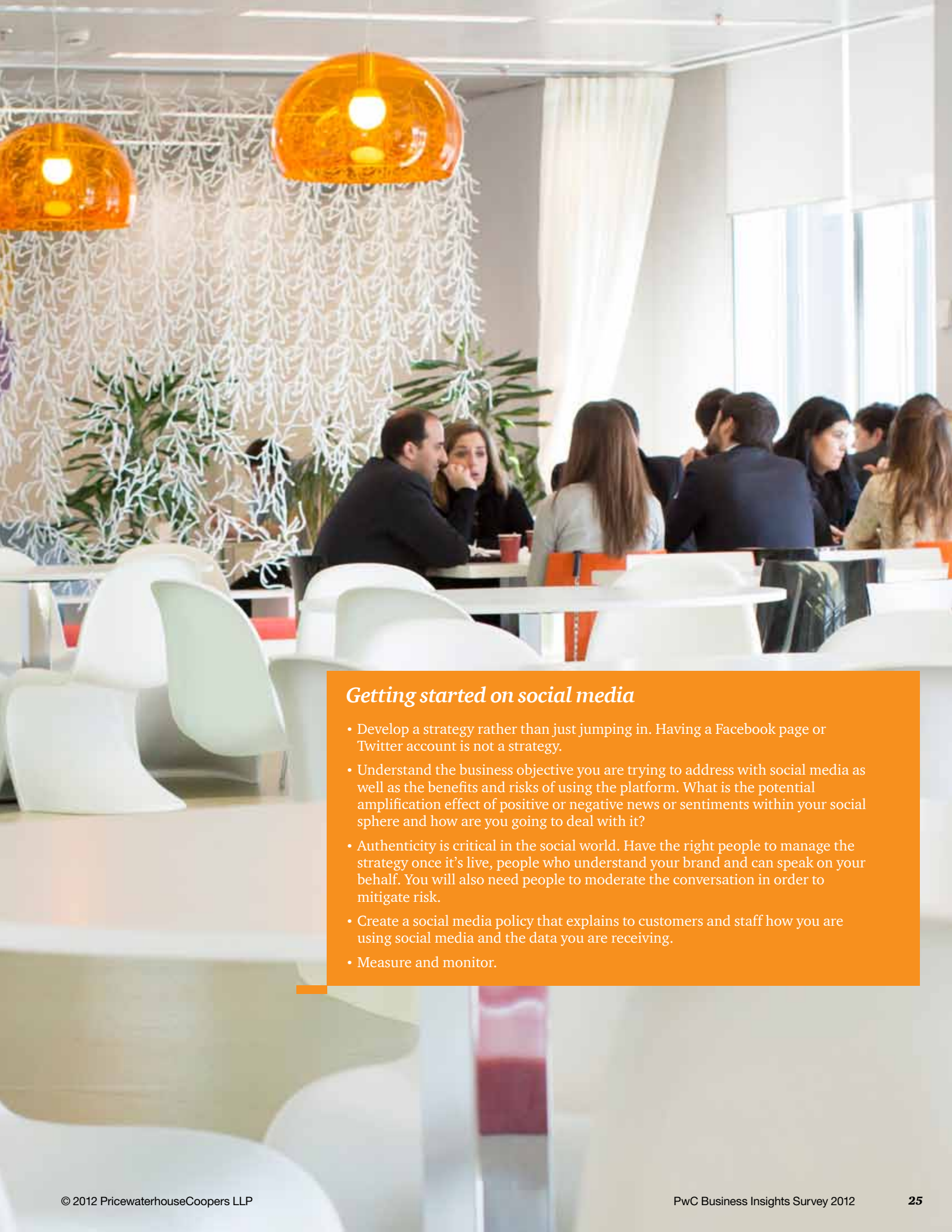
“Social is here to stay. It is another tool like CRM that allows you to gain a deep understanding of your customers and their wants in order to move your business forward. The key is to build a social media strategy that is aligned with your overall objectives. It will help you move forward with confidence.”

Over the next 12 months, what are your plans for using social media?  
Percentage of respondents



How do you plan on using social media?  
Percentage of respondents





### *Getting started on social media*

- Develop a strategy rather than just jumping in. Having a Facebook page or Twitter account is not a strategy.
- Understand the business objective you are trying to address with social media as well as the benefits and risks of using the platform. What is the potential amplification effect of positive or negative news or sentiments within your social sphere and how are you going to deal with it?
- Authenticity is critical in the social world. Have the right people to manage the strategy once it's live, people who understand your brand and can speak on your behalf. You will also need people to moderate the conversation in order to mitigate risk.
- Create a social media policy that explains to customers and staff how you are using social media and the data you are receiving.
- Measure and monitor.

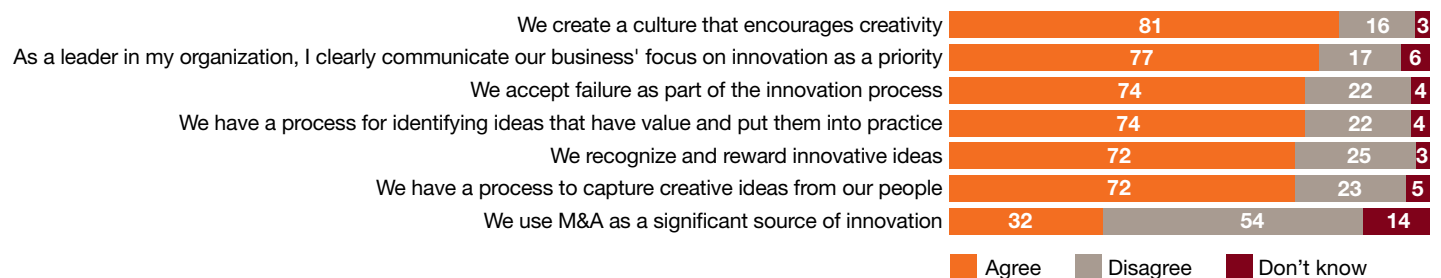
# Creating a culture of innovation

*Eighty-one per cent of this year's respondents say they have created a culture that encourages creativity, and 77% believe that they, as a leader, clearly communicate their company's business focus on innovation as a priority. If this is an accurate perception of what they're doing, says Philip Grosch, partner, Management and Technology Consulting Leader, PwC, then these companies have taken the most important step towards creating a culture in which innovation thrives. "Organizations and people are naturally resistant to change," he says. "And what has the greatest impact on that is the leader. When leadership embraces and rewards change, it cascades down throughout the organization, regardless of its size. Without that, change is impossible."*

At 74%, the majority also believe that they have processes in place to identify ideas that should move forward, with 72% saying they reward innovative ideas. However, companies with 501 employees or more are less likely to be as accepting of failure as smaller companies (63% vs. 78%). This, says Grosch, is pretty standard. "A hallmark

of innovation is failure because it's about experimenting and learning. It's why there are very few large organizations that are great at innovation. In order for large organizations to drive efficiencies, they need to become very disciplined and process driven and that isn't the most fertile ground for innovation."

To what extent do you agree or disagree with the following statements related to innovation in your organization?  
Percentage of respondents







## ***Cultivating innovation***

### **What's the formula?**

Is there a formula for successful innovation? We believe there is. From our research and client experience we have seen common threads that, when knitted together build a formula or an “Innovation Master Plan Framework.”

There are four components to the innovation framework: the business strategy, the innovation process, the portfolio of innovation projects and initiatives, and a support network.

#### **Business strategy**

Aligning to the business strategy is key to defining the context for innovation. It offers insights that help shape the innovation process and the portfolio of projects and initiatives.

#### **Process**

An organization requires a process that creates a structure for innovation, including how it generates ideas, targets audiences and develops products and markets in order to deliver a “payoff” and generate growth.

#### **Portfolio of innovation projects and initiatives**

This component includes the specific ideas generated in response to business insights and challenges. It also includes the projects, initiatives and investments that result from those ideas from incremental and breakthrough innovations to new ventures or business models and how these deliver value at different levels of the business.

#### **Support network**

A successful innovation master plan framework also requires a strong and effective support network that creates optimum conditions for innovation, from funding and incentives to collaboration tools and means to measure progress and success.

Something that is often undervalued in the innovation process is the use of language in branding that can encourage or severely limit the organization's innovation horizon. For example, Nike's vision is to “bring innovation and inspiration to all athletes in the world.” When you add this to their statement that “if you have a body, you are an athlete” then this significantly broadens the opportunity to innovate.

PwC is helping many of our clients to collaborate using our highly effective facilitative tools and techniques that quickly overcome the challenges of innovation to implement business transformation. We call these Catalyst interventions and they bring together leaders and deep content experts in unrestricted environments to translate ideas into propositions for success.

To learn more about our thoughts on innovation, download a copy of *Cultivating Innovation: What's the formula?* at [www.pwc.com/ca/innovation](http://www.pwc.com/ca/innovation)



### *Taking it to the next level*

It's always a thrilling moment when a small company suddenly reaches the point it knows it's made it and is now a mid-sized company, or when a mid-sized company officially enters the realm of the large. But it's also a moment in time that requires important decisions and new steps because what it takes to succeed as a small company is not the same as what it takes to run a mid-sized company effectively—let alone a large organization.

“The reality is that small organizations are typically run by very strong generalists,” says Tahir Ayub. “However, as they start to grow, their requirements for specialization to deal with all the complex levels of business—from global procurement, to supply chain, to legal, financial and accounting or HR—incrementally grow.”

“Typically, when a company reaches the \$100 million revenue mark that's when an owner needs to start thinking about putting in the kind of infrastructure and tools that are going to help them and their management team take their business to the next level,” says Ayub.

For years, many have understood that new technologies can empower smaller businesses with the capabilities of larger companies, but when it comes to innovation, new technologies can now also help large organizations reach for some of the advantages of smaller companies. Through the internal use of social media, for example, even a large global business can foster an environment of open, non-hierarchical communication that cuts through the bureaucracy for the purpose of innovation.

Traditionally, large organizations rely heavily on M&As as a significant source of innovation, which is exactly what 42% of respondents with 501 or more employees indicated, compared to 24% of companies with up to 100 employees.

“Large organizations find very innovative, nimble, smaller organizations, buy them and use their own operational efficiencies to maximize the value from the innovations,” says Grosch.

“We recognize and reward innovative ideas, but it’s ad hoc.”

*President and CEO, automotive retailer*

Much has been reported on and written about Canadian companies, large and small, lagging behind in innovation—which would seem to contradict the perception this year’s respondents have of themselves in regards to innovation. But Grosch suggests that all too often, innovation is defined only in terms of new products. “Operational excellence to stay on top of change is far more critical than ever, and that can be innovation. You can innovate in business models. And organizations that have become acquisition machines have innovated in their ability to acquire, integrate and monetize,” he says.

Ironically, one of the factors, why Canadian companies fared so much better than their counterparts in other parts of the world during the global recession may just be how innovatively they addressed the challenges, improved their processes, cut costs and embraced the new reality.

## How social media is sparking innovation at PwC

PwC recently launched an internal social media network called “Spark” for its 170,000 employees across the globe with no rules attached other than to treat each other with respect. “The basic premise behind it was to give this to our people to use and see what they do with it,” says Mike Firth, PwC Canada’s Innovation leader.

Within a very short time, PwC Canada set up a designated space on Spark called “Innovation Canada.”

“We launched it by saying to everyone, ‘here are nine things our leadership would like your ideas on,’” says Firth. Within three weeks, 103 ideas had been posted. “The ideas were on anything and everything—huge ideas and tiny practical ideas,” says Firth. “We had everything from how to organize the new building we’d moved into here in Toronto, to ways to use the company’s database that would be of benefit to our clients. In fact, this sparked more conversation and people built on ideas that were contributed.”

From there, the space has grown with people posting their innovative suggestions whenever one comes to mind. “With the click of a button, they can vote an idea up or vote it down or they can add to it,” says Firth. “The ideas are then fed to an innovation group, which evaluates them and moves the best ones forward. We’ve already executed on a number of ideas, including a mobile application for our people to record their time in our accounting system while on the go.”

What people often forget, he says, is the fact that people naturally innovate. “If you want to tap into this inclination, create an environment where people feel empowered to innovate, provide a structure where ideas are welcomed, legitimized, captured effectively and evaluate with an open mind to push execution forward,” says Firth. “For a large organization, the perfect place to encourage thousands of people to do that is on a social media platform.”

# Leading change and innovation

*Driving innovation throughout an organization starts at the top. It is the leader who sets the vision, encourages, engages, inspires and establishes the culture that says it's OK to fail, to try new things, to disrupt the status quo in order to get better, do better and ultimately perform better. It is a message not lost on today's private company leaders facing hyper competitive markets in a rapidly changing global business environment. As a result, leadership and what it takes to lead effectively is a hot topic.*

That's why this year, for the first time, respondents were polled about their approach to leadership, followed by a roundtable discussion with three private company leaders in distinct industries.

The findings and conversation offer a window into the challenges today's business leaders face. When asked to rank the three most important attributes of a business leader, 56% of respondents cited ability to communicate, 48% cited building and empowering a management

team that complements their strengths and challenges and 43% cited ability to inspire people.

These speak to a growing recognition that currently leading in the Information Age when power and knowledge is widely dispersed, is far removed from the days of top-down command and control. Employees want to be inspired by their leaders as role models. They want to feel their actions are recognized and that they are creating value.

What are the three most important attributes a leader needs to possess to successfully lead an entrepreneurial and private business? Percentage of respondents



The findings were reaffirmed during a CEO roundtable event with Ash Sahi, President and CEO of the Canadian Standards Association (CSA), Tom Hitchman, President of Naylor Group Inc. and Bob Clark, President of Atlas Van Lines, where they shared their thoughts on the evolving role of a leader.

*“Our employee surveys tell us people want communication. They want to know what’s going on and that means interaction on a regular basis with management. They want the opportunity to do more. Feedback, recognition and fair process—leaders have to make sure these are all in place.”*—Ash Sahi

*“A leader has to be confident. People have to respect your morals and how you are perceived in the larger community. A leader sets the brand image—your actions are the brand. A leader has to be able to delegate effectively, otherwise you limit the potential of the organization.”*—Tom Hitchman

*“Integrity is critical. As the leader, you are the focal point for the business. Over the past few years, we’ve seen so many leaders fall on their sword because they lacked integrity. You also have to have the respect of your people, but that doesn’t just happen. You have to earn it. I’ve done every job in my industry and that gives me credibility. If I have a legacy, it’s that I was informed. But that doesn’t mean I think I know everything. I know what I don’t know and that’s important for a leader because it allows you to stay out of your own way.”*—Bob Clark

When it came to where respondents were spending the majority of their time, the top response was setting strategy and managing risk (55%) followed by improving organizational efficiency (53%) and meeting with internal teams (50%). This appears to be in line with this year’s overall focus on pragmatic growth, cost-cutting and improving processes.

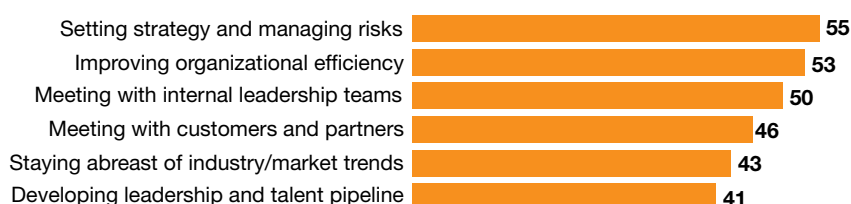
Slightly less time was spent meeting with customers and partners (46%), keeping up to speed on industry and market trends (43%), and developing leaders and talent (41%).

The roundtable participants shared similar responses—and all said they wanted to spend more time with customers—a key to helping drive profitable growth and innovation.

*“I spend a lot of time on strategy, our five and 10 year plans and looking at where we should be investing. But I want to spend more time with customers and improving the customer experience. That is a key objective, along with improving employee satisfaction.”*—Ash Sahi

*“When I first started, this was a \$1.5 million a year business and I was the salesman. We now have about 300 employees and annual sales of \$60 million and I’m spending more of my time away from customers and with HR and employees to give them the tools to make the customers happy.”*—Tom Hitchman

#### As the leader of a private company, where do you focus the majority of your time? Percentage of respondents





“Leaders need to be humble, communicate well and focus on the things that are important.”

President, construction and engineering company

Attracting and retaining talent are clearly front-of-mind for private company leaders. Almost all of this year’s respondents invest in leadership development, while 90% rated their level of investment in developing high potential talent as neutral to excellent.

Not surprisingly, when the roundtable participants were asked about their biggest challenges, each of the three CEOs cited people and succession planning.

“I’m moving the management of the business to my children, and in the past three or four years, we’ve replaced the senior management team with a more sophisticated group of younger people, most of whom are MBAs. The average age of our management team is 36, they are very tech savvy and have helped us deploy and integrate technology across our operations. Overseeing the succession and watching them make their mistakes and enjoy their successes is my challenge right now.” —Tom Hitchman

“Developing future leaders is a key challenge. High potential people need to be exposed to different business units and geographies, but it hasn’t been easy getting people to move because you often have two career couples with aging parents to look after who don’t want to leave.” —Ash Sahi

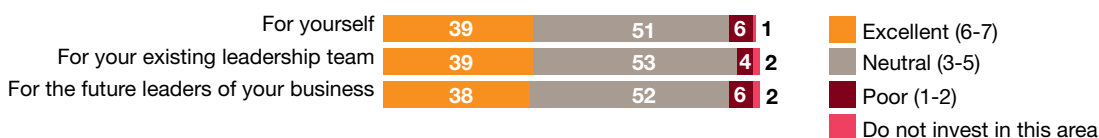
The majority of respondents, 59%, cited lack of qualified workers as a primary concern for the next 12 months. At the same time, when asked to name the single most important driver for long-term success, the most common response was access to talented individuals and retaining top employees.

“The attention and focus on people is absolutely critical all the time. When the right person is in the right job, the shift and the benefits are immediately tangible.” —Ash Sahi

#### How do you rate the level of investment in leadership development?

(On a scale of 1 to 7, where 1 means poor and 7 means excellent)

Percentage of respondents





## As I see it

**Bob Clark, President**  
**Fred Haladay, Senior VP, CFO**

### *Atlas Van Lines*

When Atlas Van Lines (Atlas) approached PwC for help earlier this year, the company was facing a new, complex reality that was standing in its way of recruiting successfully and achieving the long-term vision it has for itself and its 150 agent moving companies across the country.

“We’re in an industry that is labour intensive,” says Bob Clark, the company’s president. “And our business can be very seasonal. Many people in their 20s or 30s don’t want to work in something that keeps them away from home for six to eight weeks out of the summer. And our industry does not make a high return on investment. Therefore, we don’t have the bottom line to compete with other sectors by offering higher pay.”

What’s more, the moving industry competes for workers with other sectors, particularly retail, that have a lot of foot traffic. Just one sign in the store saying, “we’re hiring” can result in many applications.

The company also has to tackle the negative perceptions out there about the moving industry in order to attract the honourable and committed individuals who can provide the level of excellent customer service Atlas prides itself on.

In short, their recruiting dilemma is daunting—but Atlas is a tenacious and proactive company that hasn’t just survived the last four economically challenging years, it has actually grown throughout that time.

Knowing what they were up against, Atlas set out to solve its recruiting challenge. “We needed the expertise to do this because recruiting strategies is not something our industry is strong at,” says Fred Haladay, Atlas’ senior VP, CFO and the chair the company’s Quality Committee. “We brought in PwC to help us formulate some thoughts on how to be more successful in attracting people. They spoke with our staff to see what works, what doesn’t work and put together a guide that incorporates those insights with PwC’s expertise in recruitment. We can now use this guide to educate our team to be better recruiters.”

One of the first steps Atlas took once the research was completed was to develop detailed job descriptions for each type of position the company would need to fill—which had never been done before. Then, instead of looking at the negatives, they zeroed in on the

positives—and there were many. “Young people can learn about teamwork,” says Clark. “They can learn about people and life and hard work. We can offer students a job every summer while they’re in school.”

Adds Haladay: “For the right individual, it can be quite the profession. Most of the people who own operations started out in the back of trucks loading furniture and packing boxes. Now they are multi-millionaires. It was important for us to put our best foot forward to find those individuals because they are out there.”

PwC created a practical guide that outlines the new recruiting strategy, which not only focuses on presenting the positives that will appeal to new recruits, but also methods on how to get the word out. Instead of passive recruiting, placing an ad here or there, the new strategy will have agents going directly to the colleges and universities and using trade fairs to recruit as well as to sell their services.

“It involves a mindset change,” says Haladay. “The agents have to get more involved in the community and impress on people they are always looking for employees.”

Social media will be playing a pivotal role in the company’s new recruitment strategy—everything from Facebook to Twitter and LinkedIn. “We’re going to be working with our agents to be more creative in their social media use. What we’re trying to do is generate momentum in the sense of creating brand, so it’s more about the social interaction rather than selling,” says Haladay. By strengthening its brand through social media—which appeals especially to the younger generation—the company can also educate the public and prospective employees on its values and ethics and help tackle the negative perceptions some have of the industry.

Atlas officially launches its new strategy this fall at its annual convention. But already the agents who have seen the guide are excited. “It helps them formulate their thought process on recruitment. It’s becoming a more professional aspect of their management style,” says Haladay. “In other words, they have a plan, which is something they’ve never had before. These days, recruitment needs to be part of your long-term strategy.”

# Conclusion

The story told by the Business Insights findings over the last four years has been a gripping one. The 2008 crisis left companies scrambling to cope with an unprecedented global financial meltdown and recession and the deep crisis in the US, along with the pressures of increasing internationalization, new disruptive technologies and the fluctuations and rise of the Canadian dollar. This country's private companies have successfully tackled profound challenges. Last year's survey celebrated the remarkable resilience of private companies in the face of volatility and change. This year's survey reveals they have taken it to the next level, fully rooting themselves in the knowledge that true solutions to all external challenges and opportunities lie within themselves and in their own ability to constantly improve, evolve, adapt, change and keep their eye on growth—no matter what comes their way. With confidence and courage, this year's Business Insight's respondents are owning their business' success, today and tomorrow.

# Appendix

## Methodology and demographics

The eighth annual Business Insights Survey examines issues affecting Canadian private companies. In June and July 2012, 406 participants from across Canada completed the survey. Business leaders from a broad range of industries of various sizes and locations were questioned about their strategies. In addition to this, we conducted in-depth interviews with private company leaders from across Canada to get a better understanding of the issues that impact their business.

The survey sample is concentrated around four provinces —British Columbia, Alberta, Ontario and Quebec.

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1. A probability sample of the same size would yield a margin of error of +/-4.86%, 19 times out of 20.

## Participant demographics

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

### Revenues

Of 406 companies surveyed, 45% have revenues between \$10-50 million and the remaining 55% have revenues over \$51 million.

## Employees

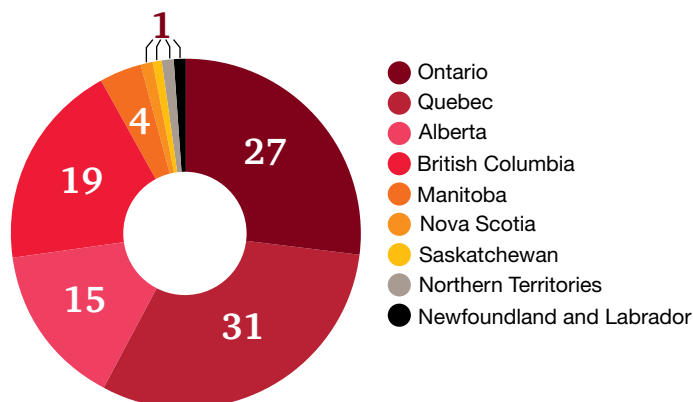
14% of companies surveyed have fewer than 50 employees, 19% have between 51 and 100 with 67% having more than 101 employees.

### History

5% of companies have been operating for less than 10 years, 18% between 10 and 19 years, 45% between 20 and 49 years and 32% over 50 years.

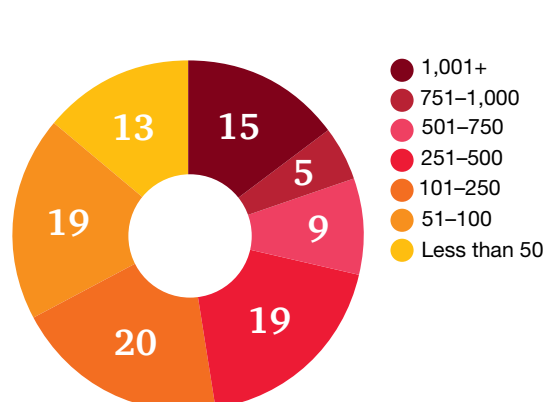
Where is your company headquartered?

Percentage of respondents



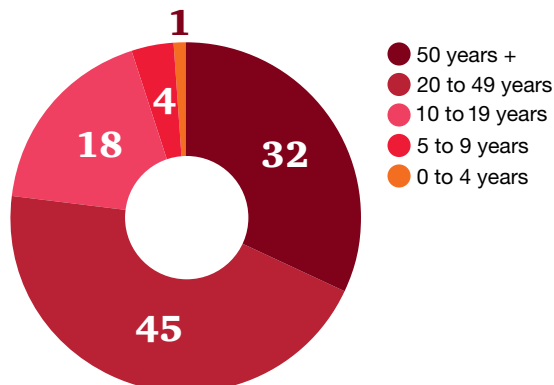
How many people does your company employ?

Percentage of respondents



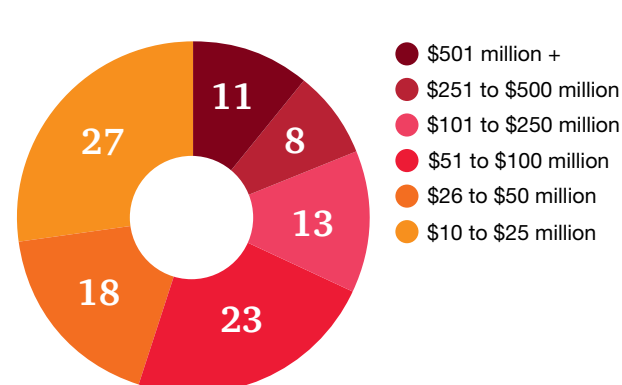
How long has your company been operating?

Percentage of respondents



What was your revenue in the last financial year?

Percentage of respondents







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## ***About PwC's Private Company Services***

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

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