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Private Company Services

Canadian private business – Expanding horizons

Navigate your way to success



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Contents

Introduction..... 1

Key findings..... 2

Is it time to expand your horizons?..... 7

Navigation Quiz 8

Introduction

The Canadian economy is booming as it surfs the energy and commodities wave – but the stronger the surge, the more powerful the backlash. We are already experiencing the impact of our strong dollar on many sectors.

What can private companies do to make currency volatility an opportunity instead of a challenge, and address issues like low productivity, increased U.S. protectionism, and a talent shortage? For some, the immediate solution to staying “on top of the wave” is to expand their horizons.

Selectively sourcing components, services and talent, or expanding markets for goods and services may be the key to succeeding – even surviving – now and in the future.

However, recent research indicates that doing business outside North America is an underutilized strategy in this country. Fewer Canadian private companies participate in international business than you might expect. Of the companies we interviewed, only 38% were involved in both exporting and importing activities – 46% were just exporting, and 68% were only importing.

Almost all companies exporting and importing do so with the United States (96% and 94% respectively), a trading partner whose own economy is under siege – and whose purchasing power in Canada has diminished. Going further a field to destinations like Europe, China and India is much less common. Why?

It’s time to think outside the North American box! Huge opportunities exist to increase enterprise value with current exporters and convert some who have experienced barriers, real or imagined, to doing business globally. In this report, we identify issues that may be preventing companies from expanding their horizons.

The upside is huge – 75% of respondents currently doing business internationally told us that increasing exports would have a positive impact on the success

About this study

This is the second of **Deloitte’s surveys on private companies in Canada**. We engaged Angus Reid Strategies to conduct a telephone survey of 350 owners of private enterprises in June 2007. The survey participants were selected randomly from a population of privately-held companies with more than 50 employees. The participants represented all industries in all provinces; interviews in Quebec were conducted in French. Angus Reid Strategies confirms the survey sample is statistically valid, with a margin of error of 5.2%, 19 times out of 20.

of their company. But despite this recognized potential, many companies are holding back. In fact, only 26% of those not doing business outside Canada intend to do so in the near future. That means almost three-quarters just aren’t interested.

Why? The study indicates that the issue may be inertia coupled with inexperience: companies without international experience are content to remain domestic, and exhibit lower knowledge and greater uncertainty about the risks of navigating foreign markets.

But when growth opportunities from domestic operations decelerate, will their lack of knowledge be a dangerous thing?

Luckily, experienced companies are very positive about the growth and revenue-related benefits of doing business abroad – and have plenty of experience to share.

Doing business on the wider world stage can be challenging – but hugely rewarding. The unknown always presents uncertainty, but with a good compass and skilful navigating, you can expand your horizons and increase the value of your business.

Key findings

Exporting and importing by the numbers

Doing business internationally is not a new concept for many of the private companies we interviewed. 75% reported that they either export or import. When it comes to doing both, the response dropped to 38%.

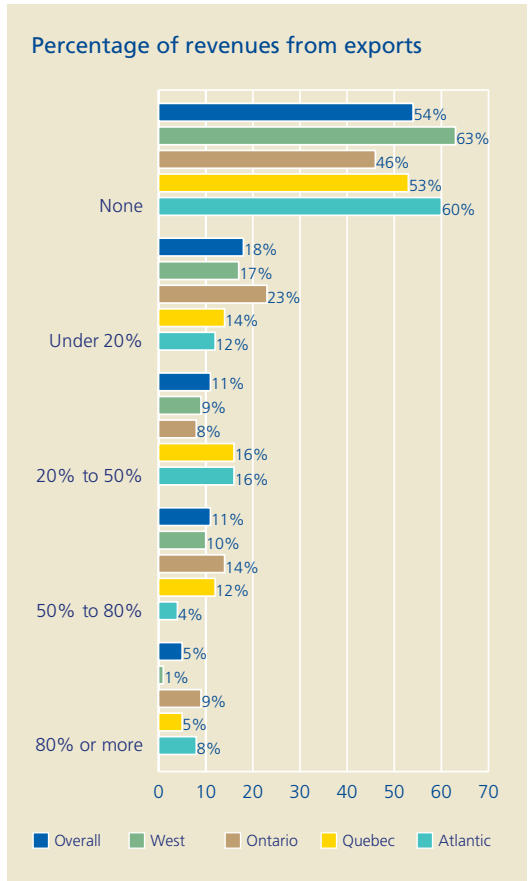
The most common destination for exports and origin of imports is the United States by a wide margin. With the stronger dollar, it's likely that revenues from U.S. exports have declined since June 2007 when this survey was conducted, while importers are in a better financial position today.

Exporters: Exporting companies make up 46% of our sample. The vast majority, 96%, sell to the United States, followed by 39% to Europe, 29% to Mexico, 26% to China, and 10% to India.

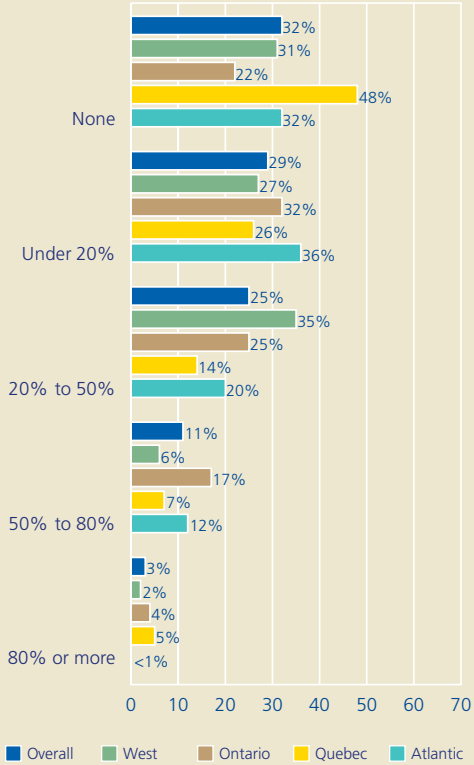
Importers: 68% of survey respondents are involved only in importing. Where are they sourcing? 94% turn to the U.S. market, with China second at 41%, followed by Europe at 40%, Mexico at 19%, and India at 14%.

Regions: Ontario-based companies are the most active internationally, with 54% exporting and 78% importing. Western Canada has lowest percentage of exporters at 37%; the lowest percentage of importers, 52%, is found in Quebec.

Size: Companies doing the most exporting were not the largest! Only 44% of the companies with revenues over \$50 million were exporting, but 52% of those with revenues between \$20 to 50M and 48% of those with revenues between \$10 to 20M.



Percentage of input costs from import



Considerations:

On the surface, it appears that Canadian private companies are fairly active as importers or exporters on the world stage. However, digging deeper reveals a different story.

As Canadians, we have a free trade agreement with the United States and relatively easy access to the richest domestic market on the planet. Many of our significant industries such as automotive are integrated on a North American basis. So if we removed the United States as a “global” market from a Canadian perspective, our ability to succeed on the broader world stage is not as apparent. As the focus of the world growth shifts from North America to the BRIC countries (Brazil, Russia, India, China), Canadian business will have to compete on a wider playing field.

Some businesses have done it already and it is not a game that only the big companies can play.

A question of enterprise value

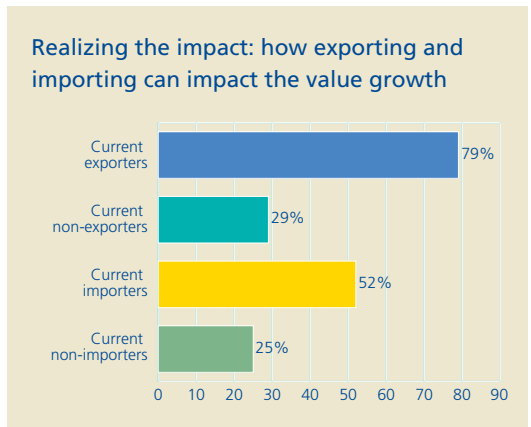
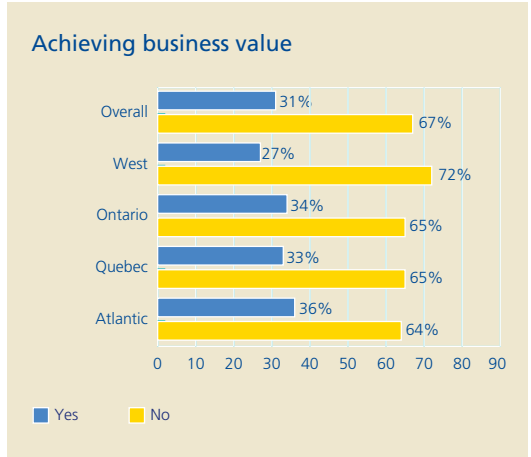
Just one in three private business owners surveyed believe their company has achieved its full potential in generating enterprise value – meaning that two in three are looking for more.

How much additional enterprise value can be gained? The perceived magnitude of the opportunity is significant: on average, owners say their companies can generate an additional 47%. This average is highest in Ontario (53%) and lowest in Atlantic Canada (39%). It is also significantly higher among companies that import and export vs. those that do neither (50% vs. 35%).

Is exporting and/or importing considered a good way to build value? It depends on your perspective. Of those already exporting goods or services, 79% say increasing exports would have a positive impact on their company's value. But only 29% of those not currently exporting believe this to be true.

Likewise, 52% of those already importing goods or services say increasing exports would have a positive impact on their company's enterprise value; this compares to just 25% of those who are not currently importing.

When it comes to creating enterprise value, the companies currently importing and exporting clearly advocate these activities. What can we learn from them?



Considerations:

Deloitte's June 2006 survey of private companies revealed that owners are driven to create and achieve success. They believe that enterprise value is one of the key indicators of success. This year's survey confirms that there is a huge upside for Canadian businesses, and many companies agree that effective use of importing and exporting can be a driver of success. Given the new reality of a Canadian dollar at par or higher many businesses will have no choice but to change from a domestic-based strategy to a more global one.

Exporters and importers speak

Private companies, experienced in doing business internationally, cite the importance of these key factors:

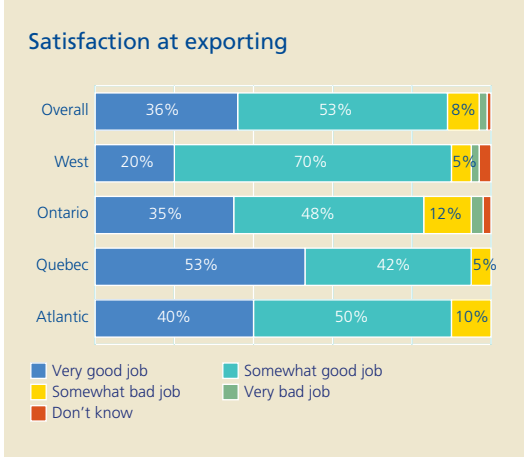
- Understanding cultures, foreign policies, and markets
- Connections and relationships
- Cost and prices
- Quality of products or services

In the context of their experience and knowledge, exporters are generally satisfied with their efforts to export their goods and services. A large majority believes they are doing a good job (89%); a third thinks they are doing a very good job.

Considering their level of satisfaction with their experience, it's not surprising that 71% of current exporters would like to increase exports as a percentage of their revenue. They cite the following benefits:

- More sales (28%)
- Bigger and better markets (25%)
- Increased revenue and profit (19%)
- Business growth and expansion (14%)

Most experienced exporters would classify the risks of doing business abroad as minor rather than major barriers. Foreign government regulations and restrictions, identified by 34% of exporters, was the most frequently mentioned “major barrier.” Financial risk, which encompasses currency volatility, was identified as a major barrier by only 23%; however, in another question, 28% specifically mentioned the high value of the Canadian dollar as a barrier to exporting.



Considerations:

Experienced exporters and importers are satisfied with their experience, and would like to expand their global footprint. They see it as a way to succeed. Surprisingly, they regard the challenges to exporting as manageable, and neither they nor their inexperienced counterparts report any mythical barriers.

Experienced companies appear to have learned the lessons of doing business internationally, however, these lessons have not been well disseminated. Using your industry networks, personal business networks, or professional advisors is a straightforward way to share in the experience of those who have travelled the global road before you.

The view from non-exporters

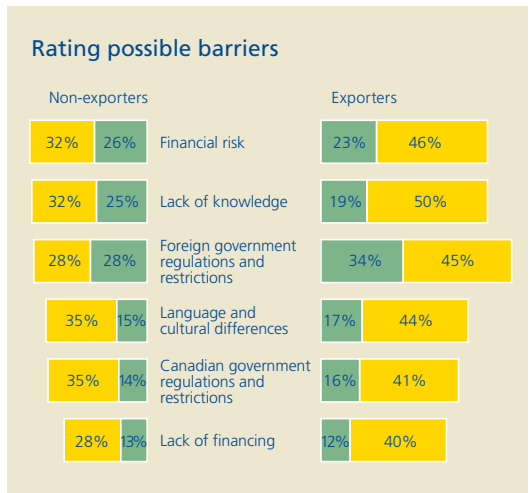
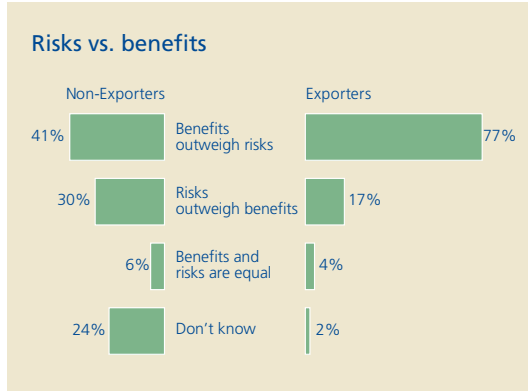
Non-exporters are much less likely than exporters to believe that the benefits of doing business internationally outweigh the risks. A significant percentage of the non-exporting group admit they “don’t know” – not surprising when more than 78% have never tried to export. (13% have limited successful experience, and 7% had a bad experience with exporting.)

Although the non-exporters’ ranking of possible barriers is similar to that of exporters, there are a few striking contrasts. As the aforementioned lack of knowledge suggests, more non-exporters consider this a major barrier. Alternatively, more exporters cited a number of minor barriers – perhaps acknowledging greater familiarity with day-to-day inconveniences that are annoying but not “deal breakers.”

An interesting indication of the growing acceptance of globalization – and Canada’s multicultural makeup – is that “language and cultural differences” was considered a major barrier by only 14% of non-exporters (and 15% of exporters).

Despite the lack of perceived major barriers, only 29% of non-exporters have plans to start exporting within three years. Why? Most view themselves as domestic-only, due to business type/model, contractual arrangements, or level of comfort and knowledge. Almost eight-in-ten (78%) feel there is no need to export because they are doing sufficient business in Canada today.

What about tomorrow?



Considerations:

78% of the “non-exporter” group have not ventured outside Canada – not even to the United States. Some are domestic-only businesses with no opportunity to export; however, others have been content to operate in a strong local market. When Canada’s resource and energy boom ends, this option will likely be less fruitful. With successful exporters telling us the rewards are high – and the barriers low – we believe the time to explore wider horizons may be now.

Is it time to expand your horizons?

In this era of globalization, we have witnessed a shrinking of the planet. Canadian companies who want to maintain and increase their value have no alternative but to expand their horizons. But despite the fact that globalization has shaped the global and our domestic economy far more than any of us could have imagined 20 years ago, attitudes of Canadian business are perplexing. While few see major obstacles in engaging internationally by exporting, importing, or sourcing, a solid majority are still satisfied to operate solely in the Canadian market.

Canadian companies should be reminded that if they do not currently have plans to expand their horizons internationally, numerous foreign companies are at this very moment preparing to challenge them here at home. We must adopt an international strategy – if not an offensive one designed to expand our horizons abroad, at least a defensive one that will allow us to confront competition from abroad.

Canadians have done very well in the U.S. market. There too, competition has become more intense, and we must adapt our strategies accordingly. But the time has come to look beyond North America, the United States and Mexico. We have resources, products, services needed all over the world. The linguistic skills and cultural understanding of societies we have acquired as a result of our multiculturalism give us a unique advantage.

Canada, from its very beginnings, has been a nation of traders. We must redefine this reality for the next century with the rise of Asia and the emergence of South America, Central Europe, and Russia, which represent golden growth opportunities – while not forgetting our traditional European and North American partners. We must use our extraordinary resources and experience to help us mitigate risks, and develop and IMPLEMENT international strategies.

Honourable Pierre S. Pettigrew

Former minister of Foreign Affairs of Canada.

Pierre Pettigrew is an experienced internationalist having led Canada's departments of Foreign Affairs, International Trade and International Cooperation. As a Deloitte business consultant, Pierre uses his experience and international network to help Canadian businesses expand their horizons by advising them on international opportunities and strategies. Pierre travels the world extensively on behalf of Deloitte's clients.

The navigation quiz

Are you ready to expand your horizons? These six questions will help you find out.

	Questions	Yes / No
1	Do you source components or inputs you once produced in Canada from off-shore?	
2	Do you use off-shore capability to reduce the cost of back-office functions?	
3	Do you use off-shore capability to do R&D, engineering and market research?	
4	Have you expanded your global footprint for sales of your goods and services in the past 3 years?	
5	Do your global horizons expand past the United States?	
6	Have you really taken time to understand the global opportunities for today and tomorrow?	

We believe that if you answer “no” to at least one of these questions, you may not be leveraging the full potential of your enterprise.

Contacts

Deloitte specializes in helping Canada's private businesses navigate their way to success including those who make importing and/or exporting a part of their success. Our network of professionals in 140 countries helps them succeed.

To learn more about the results of this survey or about Deloitte's value approach, please contact your local Deloitte office to talk to one of our private company advisor.

To find a list of our offices, please visit our website: www.deloitte.ca



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