WISDOM EXCHANGE

ONLINE REPORTER 2014

Where leaders of Ontario's innovative high-growth firms meet, connect, innovate and grow

WX 2014

Ontario

TABLE OF CONTENTS

HIGH-ENERGY RECEPTION OPENS CONFERENCE

Energy levels were high at the Wisdom Exchange 2014 conference. Now in its 19th year, the WX is a unique peer-to-peer forum attended by CEOs, presidents and owners of Ontario's innovative, high-growth companies. The conference was held on February 26-27 at the Delta Meadowvale Hotel and Conference Centre in Mississauga. The opening night reception/dinner played a central role in bringing together 150+ attendees in a networking forum. At the program sessions the following day, experts and entrepreneurs discussed, debated and shared hard-won insights on business strategy, intellectual property protection, alternative financing options, leadership, export opportunities and other issues that pose challenges to business growth and expansion.

CEOs, PRESIDENTS AND OWNERS OF INNOVATIVE HIGH-GROWTH ONTARIO COMPANIES MEET AND NETWORK PEER-TO-PEER AT THE WX 2014 OPENING RECEPTION

MESSAGE FROM ONTARIO

MONTE KWINTER ADDRESSED ONTARIO BUSINESS LEADERS AT THE 19TH ANNUAL WISDOM EXCHANGE IN MISSISSAUGA

NEW TRADE AGREEMENTS: INTERNATIONAL MARKETING OPPORTUNITIES

New free trade agreements, a continuing reduction of red tape and increased Ontario efforts in international marketing were just a few of the government initiatives summarized by Monte Kwinter, Parliamentary Assistant to the Minister of Economic Development, Trade and Employment (MEDTE), in his address to business leaders at the Wisdom Exchange 2014.

"We have been working on a number of fronts to help support your business—at home and abroad," said Kwinter, a former businessman who has been an MPP and cabinet minister since 1985. "We continue to look at the policies that support employment growth. Ontario Premier Kathleen Wynne has put an emphasis on developing our skilled workforce and promoting the knowledge economy, and we are preparing our young people to meet your business needs and job-market demands."

In his address, he noted the great progress that has been made in recent years in the Canadian approach to negotiating trade agreements, including the Canada Europe Trade Agreement (CETA). "We had full consultations on CETA," he noted, "and we now have an agreement in principle that will remove about 98 per cent of trade restrictions between Europe and Canada."

CONNECTING ENTREPRENEURS WITH OPPORTUNITIES

Kwinter talked about the Ontario Network of Entrepreneurs (ONE), a one-stop shop to connect entrepreneurs across the province with local experts. Whether you are starting a new business, want to collaborate with researchers to drive innovation and take new discoveries to market or are committed to the growth and innovation of an existing business, the network has knowledgeable advisors who can help www.onebusiness.ca

He noted that the senior advisors in the ministry's Business Advisory Services (BAS) regional offices across southern Ontario are there to help leaders of innovative high-growth companies take their businesses to the next level. "Our advisors are connected to thousands of companies like yours in every sector and actively work throughout the year to identify ways your company can tap into funding programs, access financing and resources, boost sales through support for domestic- and export-market development, improve productivity and overcome barriers to growth," Kwinter said. "Boosting exports is especially important," he added, "because Ontario's share of world exports has declined. We need more of our companies to seize global-market opportunities."

OPENING DOORS WORLDWIDE

Kwinter outlined other Ontario export-related initiatives, including the Going Global Trade Strategy. "We are strengthening our ties with emerging markets, such as Brazil. At the same time, we are continuing to do business with our traditional trading partners, such as the United States and Europe," he said. "In the past year, Ontario's network of International Marketing Centres in key markets worldwide have helped more than 350 businesses expand into export markets. Work such as this, along with trade agreements such as CETA, will create new opportunities in the global marketplace for companies like yours."

Streamlined business regulations give Ontario companies a strategic advantage, and the reduction of red tape continues to be a government focus. Kwinter pointed out that Ontario has reduced the number of its regulatory requirements by 17 per cent since 2008. "That works out to 80,000 regulations eliminated," he said. "I am proud to say that Ontario, for two years in a row, has been recognized as a Canadian leader in the reduction of red tape."

Kwinter concluded his remarks with a reminder that people are a company's (and a province's) greatest strength. "The Ontario Youth Jobs Strategy, skills-training programs, supporting our small businesses and building our knowledge economy are all part of the government's economic plan, which is creating jobs for people, today and tomorrow," he said. "Our plan is focused on Ontario's greatest strength—its people."

"ONTARIO, FOR TWO YEARS IN A ROW, HAS BEEN RECOGNIZED AS A CANADIAN LEADER IN THE REDUCTION OF RED TAPE."

Monte Kwinter, MPP York Centre, Parliamentary Assistant to the Minister of Economic Development, Trade and Employment

PLENARY SESSION

Douglas Reid, Associate Professor of International Business and Distinguished Faculty Teaching Fellow in Strategy at Queen's School of Business, is a strategist who focuses on performance and why some companies do better than others. In this session, Reid hypothesized that there is a new economic "normal" that winning companies must respond to in order to thrive.

As background, Reid reflected on the following points:

- A healthy stock market in the last year, especially the S&P 500, which had a superb year.
- A thriving middle class in Ontario, according to a *National Post* article based on Statistics Canada data.
- A Conference Board of Canada survey citing the priorities of CEOs of large companies for 2014 as operational excellence, customer relationships, human capital, innovation, government regulations, global political economic risk, sustainability, corporate brand and reputation, global expansion and trust in business. Reid posited that since growth is missing from the list, maybe it is no longer an issue for big companies.

PINING FOR THE GOOD OLD DAYS

The companies Reid works with aren't seeing the impact of these positive economic indicators in their markets. "There seems to be a disconnect," he noted, asking the audience to share what they are experiencing in their businesses. The consensus was that there is a high-end market and a low-end market, but the middle market is feeling pressure. According to Reid, there are three conditions at play today creating the pressure:

1. Consumers don't know what is coming next economically, resulting in businesses receiving murky signals from their customers.
2. Business leaders are overwhelmed because they don't know what is coming either. Therefore, companies are hanging on to their existing customer base, not expanding and not hiring. Frustrated employees have to take on heavier workloads.
3. People are waiting for the pre-crash normal, or the "good old days," to return—days when they had the ability to act without concern that a trend could create sudden uncertainty.

THE NEW NORMAL

"Waiting for the return of pre-crash 'normal' markets is paralyzing," Reid explained. "You can't give clear signals to people because there are no clear signals to give. What if the assumptions about returning to the past are wrong, and today is the new normal?"

Based on his research, Reid said that these are the "normals" we face:

- **"Precariousness."** A study conducted in southern Ontario shows that 50 per cent of the workforce (i.e., freelancers, contract workers and new immigrants) are worried about not obtaining future work. The upshot is that "people don't buy big things when they have no confidence in the future."
- **Innovation is done by others.** Although Reid praises Canadian companies for having done better than their U.S. counterparts in terms of deepening capital and developing their work force, he asks if "we are inclined to take a leap and risk failure. We are not… and we are being beaten hollow by the United States."
- **Customer predatory business models.** This is the practice of unexpected fees and penalties (e.g., airline fees to check bags and huge cellphone bills incurred while travelling). "It is baffling to me how much a company will spend to attract a customer and then try to gouge them. It is counterproductive since it betrays trust."

- **High youth unemployment.** Unemployment among a generation of youth (the 15-24 age group) will create of generation of disgruntled people for the next 50 years.
- **Inequality.** The pay ratio of CEOs to the average worker in Canada was 84:1 in 2002. The rate climbed to 122:1 in 2012. “Such inequality is very potent and damaging and shows up in worsening health outcomes, higher health-care costs and higher security costs”—all of which affect employee engagement.
- **Middle class is under siege.** The compounded annual growth rate for the middle class is an uninspiring 3.5 per cent. “If your business depends on this market, you really need to understand the impact of this.”
- **Downside of global interconnectedness.** If the euro collapses again or the Chinese property market bubbles, investors will flee to the United States, which will have a massive effect on the U.S. dollar.

In other words, the new normal equals doubtful demand, an increased focus on price, decreased loyalty, reduced employee engagement and less trust in business. Reid dubs it the “Hunger Games economy.”

NOW WHAT? PRACTICAL INSIGHTS

So what is a business to do? Based on his learnings from “three sources of wisdom”—Warren Buffet, Peter Drucker and K. Anders Ericsson—Reid offered a practical prescription for what works after test-driving it with a small group of companies. Acknowledging that companies and industries are different and that a single cookie-cutter solution will not work for all, he urged the audience to be open to thinking differently about competing in today’s market and to try this course of action:

1. **Remain relevant to the future.** Drucker posed the mission-critical question, “What is the problem that your product or service is being hired to solve?" Your customers want a solution to a problem and you must push to find out what it is. You not only need to solve problems but also ask yourself if those problems will be relevant in the future.
2. **Adopt a strategy that simplifies things and makes it easy for staff to understand.** If you build a unique and valuable position in an industry, you increase a customer’s willingness to pay more (e.g., Nike and Apple). At the same time, it is important to focus on reducing the cost of solving your customer’s problem. If you can’t get revenue while keeping costs down, your strategy is not working.
3. **Understand that advantage is transient.** It is impossible to maintain a sustainable competitive advantage. Recognize instead

DOUGLAS REID, ASSOCIATE PROFESSOR OF INTERNATIONAL BUSINESS AND DISTINGUISHED FACULTY TEACHING FELLOW IN STRATEGY AT QUEEN’S SCHOOL OF BUSINESS that you have to constantly re-invent and be sure to budget for that. Most importantly, how you handle failure is key. Don't blame employees for failure; this kills innovation.

4. **Implementation is nested and must be aligned.** Three elements combine to "get things done." First, allocation of resources (e.g.,money, employees and time). Second, formal systems that leverage culture (e.g., reporting structures, procedures and performance management). Third, informal practices that leverage culture (e.g., peer-to-peer storytelling and behavioural examples set by senior leaders). For the implementation of your strategy to be seamless, it is vital that there be no disconnects in these three elements.
5. **Measure only what matters… and de-link from rewards and punishments.** There is a saying: what gets measured gets managed. "In reality, what gets measured gets manipulated if a reward or punishment is attached to the results."
6. **Allocate your attention.** Assume that, like most people, you have six hours per day of good energy. Also assume that you save half of that energy for family and your personal life. Decide what you should do in those three hours that will add the most value to your business, then stay in the moment and do it.
7. **Persevere.** The most important thing of all is survival. Don't get attached to the idea of good years and bad years; bad years are always going to happen. Your task is to think beyond just revenue and profitability and give meaning to work in an uncertain economy to keep your employees focused on strategy.

To grow in the world of the new normal, Reid's simple, yet powerful, advice is to do less… but do it better and focus your attention.

"WAITING FOR THE RETURN OF PRE-CRASH 'NORMAL' MARKETS IS PARALYZING."

Douglas Reid, Associate Professor of International Business and Distinguished Faculty Teaching Fellow in Strategy, Queen's School of Business

DINNER KEYNOTE

LESSONS LEARNED: LEVERAGING CANADIAN INNOVATION TO COMPETE GLOBALLY

How do you keep a 130-year-old company young, nimble and hungry for innovation? In an after-dinner speech concluding the first day of the Wisdom Exchange 2014, GE Canada President and CEO Elyse Allan offered a detailed look at her company's innovation initiatives and how other companies can learn from GE's experience.

Allan has no problem with other businesses swiping her innovation playbook because GE's techniques are constantly changing as the company borrows ideas from multiple sources, including a recent book intended for start-ups. "Innovation is not for the faint of heart," said Allan. "Ideas are aplenty, but how you execute them makes the difference."

RESPONDING TO NEW MARKET DYNAMICS

Allan, who has been at GE "on and off" since 1983, began her presentation by analyzing the unpredictable global economy. Having recently returned from a quarterly summit of 50 of GE's top officers worldwide, she explained how this economic recovery differs from those of the past. "Growth hasn't come back as expected," she said. "It is coming back slowly, bit by bit." Sustained growth isn't emanating from just one country or region, she noted, but from pinpoints of prosperity. "It is not about South America; it is about a region in Brazil. It is not about Asia; it is about a part of Southeast Asia."

Around the world, she sees shifting balances of power, changing consumer dynamics and increasing competition. "It is clear to us that to succeed in such a changing environment, we can't rely on the same old approach," said Allan. "We have to be innovative in products and in processes."

GAINING A STEP ON THE COMPETITION

At a time when many companies are cutting back on their investment in innovation, Allan said GE spends more than US$6 billion a year on research and development (R&D). In 2013, GE registered more than 2,800 patents. Allan said a turbulent economy can turn innovation into a competitive advantage "because when we come out of these hard economic times, we want to be ahead of the other guy."

Successful innovation depends on encouraging cultures of exploration and empowerment throughout the organization, said Allan. "We business leaders must move innovation from imagination to action," she said. "Ideas remain just ideas without courage."

Companies also need a disciplined framework underlying the organization's innovation efforts. "Imagination without discipline is chaos," said Allan. "You need the rigour to carry it through despite the ups and downs and failures." Above all, Allan said, innovation has to begin with market needs. "Thomas Edison, founder of General Electric Co. 160 years ago, said, 'I find out what the world wants, then I invent it.'"

INSIDE GE'S INNOVATION STRATEGY

Allan described the four principles underlying GE's innovation strategy:

1. **Opening new markets.** GE recognizes success will come from engaging non-traditional markets around the world. Whether you are a small business or a successful multinational, Allan said, "you have to be innovative in the way you look at global opportunities. You have to reopen your risk assessments and risk profiles." The assumptions that apply in developed markets may not serve so well in emerging economies.

One way small- and medium-sized enterprises (SMEs) can reduce the risks of growth is to partner with larger organizations, Allan added. "Working with big multinationals can take you global and reduce your risk of new markets." In fact, during the question period later, many audience members identified themselves as GE suppliers and agreed their work together had resulted in global growth opportunities, which prompted other attendees to ask Allan the best way to become part of GE's supply chain. Allan responded that prospective suppliers have to offer "globally competitive solutions we want and need, but once you are in and approved, we can take you to markets you may never have been in."

As an example of partnerships, Allan mentioned GE's aviation division in Bromont, Quebec, which has become a global centre of excellence for robotics and advanced manufacturing. By collaborating with a number of smaller businesses in an "incubator" process, "we are creating robots for GE's aviation facilities around the world," Allan said. "We think it is important that vendors and purchasers open a vibrant new series of supply models to share the risk."

2. **Seeking new collaborative opportunities.** Even though GE acknowledges that it doesn't have all the answers, it is always looking for new ways to collaborate with innovators on the outside. For instance, GE has built four new customer innovation centres—in Canada, Japan, South Korea and Saudi Arabia—to bring GE closer to the voice of the customer. "We want to know how we can listen to our customers up front and work with them earlier in the process," said Allan.

   In another example of innovative collaboration, GE Canada initiated an internal engineering challenge in 2013. Its aviation division wanted a new, lighter bracket that could support the weight of a jet engine when it is being handled. Using an open-source engineering tool called GrabCAD, GE opened its design challenge to the world. It received nearly 700 submissions from 56 countries. "The winning design met all of our requirements," said Allan. "It reduced the weight by 84 per cent, with tremendous savings in fuel costs and emissions."

   "We know small businesses and individuals can be just as innovative as a large company," Allan said. "Size is not a factor, but collaboration is. A combination of players, working together, is the top driver of innovation."

3. **Setting bold targets.** "Innovation is driven by ambitious objectives, combined with appropriate measurements," said Allan. She notes that for years, Canadian business leaders felt that "if we were better than the guy down the street, we would win. Now we know competition is coming from all corners of the globe, faster than ever. To stay ahead, we have to use global competitive benchmarks." For instance, she noted, by measuring its performance against the world's best, GE's Bromont centre has emerged as "the most productive facility of its kind that GE has. It competes every day for orders with 20 plants worldwide."

   GE was an early adopter of Lean manufacturing principles and a pioneer of the Six Sigma process-improvement program. Such initiatives require strict documentation and measurement to ensure you are doing the right things and continuously improving how you do them. Through Lean, Allan noted, "you create capacity for more production to sustain more innovation." Noting that GE has applied Lean not just in production but in all its offices and processes, she said, "You have to constantly improve. To be better than the best, you have to benchmark against the best."

4. **Accelerating time to market.** "How we deal with innovation has a lot to do with speed," Allan declared. "We have to prove we can bring our products to market faster because the opportunities may not be there as long as they used to be. By waiting too long, you may miss the opportunity."

LEARNING FROM START-UPS

GE has adopted as its innovation bible a book by the Silicon Valley entrepreneur Eric Ries, *The Lean Startup: How Today's Entrepreneurs Use Continuous Innovation to Create Radically Successful Businesses.* Targeted to new, resource-poor start-ups, the book champions getting to market faster with "minimally viable products" in order to capture market feedback and produce more customer-focused solutions. "It is build, measure, learn," said Allan. "Test your hypotheses as soon as you can in the marketplace with the customer, so you get a better sense of what customers want and get it faster."

That is easier said than done, Allan admitted, even at GE. "We have a real tendency to focus on our product." GE engineers often insist on ensuring new products are perfect before going out the door, she said. "Eric's work reminded us of the importance of working together early with our customers. Show them what you are trying to do, get feedback, pivot and get back to the customer." Allan said GE has teamed up with Ries and is training "everyone in the company" on his processes.

FROM IDEA TO IMPLEMENTATION IN 100 DAYS

Allan said GE has also created new frameworks that encourage more employee innovation. "We have learned that people need space and time to work on innovation, so we move them into a 'slipstream' to give them space and time to test high-risk ideas." She also cited GE's "innovation accelerators," which give innovators 100 days to turn ideas into pilot programs. "It is about accelerating innovation and preserving entrepreneurial spirit in a big corporation like GE."

In the end, encouraging innovation is all about unleashing people's entrepreneurial instincts, said Allan. "We need people who dream big, execute, fail quickly and execute again. We call it failing horribly." For confirmation, she again called on the spirit of GE's founder. "Thomas Edison said, 'I haven't failed. I just found 10,000 ways that didn't work.'"

Allan urged Ontario business leaders to adopt innovation-first mindsets: "I believe this is critical to Canada's global competitiveness and future success."

GE—120 YEARS OF INNOVATION

Co-founded by Thomas Edison, General Electric Co. may be the model multinational: a US$146-billion behemoth whose commitment to innovation has propelled it into 160 countries around the world. Even in today's specialist business culture, GE provides a wide array of products, from refrigerators and washing machines to lighting systems, wind turbines, locomotives, health-care systems and water-purification technologies. Among GE's many firsts are the light bulb, the electric toaster, the home refrigerator and the transoceanic radio broadcasting system. More recently, GE engineers devised the first turboprop, the first jet engine, the Mars Observer satellite, high-definition medical imaging, the first all-digital hospital and the first washing machine to communicate electronically with your dryer. Operating mainly out of Toronto, Mississauga and Peterborough in Ontario; Montreal and Bromont in Quebec; and Calgary, GE Canada specializes in aviation, health-care and power-generation technologies and in energy management. Elyse Allan has been President and CEO of GE Canada since 2003.

ECONOMIST PANEL

**THE VIEW FROM HERE:
SLOW BUT SUSTAINED GROWTH**

(L TO R) TOM CLARK, CRAIG ALEXANDER, BENJAMIN TAL AND PETER HALL

Moderator

- **Tom Clark,** host, Global TV's *The West Block with Tom Clark*

Panellists

- **Craig Alexander,** Senior Vice President and Chief Economist, TD Bank Group
- **Benjamin Tal,** Deputy Chief Economist, CIBC World Markets Inc.
- **Peter Hall,** Vice President and Chief Economist, Export Development Canada

In his introduction, moderator Tom Clark, host of Global TV's *The West Block with Tom Clark*, repeated the old joke about three economists with six dissenting opinions. At the end of a robust and informative debate, the panel appeared to reach a consensus on the positive economic outlook for Ontario's small- and medium-sized enterprises (SMEs) over the next 12 to 18 months.

Clark introduced expert panellists Craig Alexander (Senior Vice President and Chief Economist, TD Bank Group), Peter Hall (Vice President and Chief Economist, Export Development Canada) and Benjamin Tal (Deputy Chief Economist, CIBC World Markets Inc.) and asked each for a quick overview of the provincial, national and global economies.

In an informative and entertaining exchange of ideas, the panel's general consensus was that Ontario's SMEs can expect stable interest rates, a lower Canadian dollar and continued growth in the all-important U.S. economy. The prognosis for the longer term cited such challenges as a shortage of skilled labour and an eventual rise in interest rates.

"SMEs are influenced by broad economic trends," said TD's Alexander, "and after several years of slow growth in the global economy, now in 2014 we are seeing a bit of additional growth. Emerging markets were a large part of recent growth, but I think you will see more from Europe and the United States. It is not a boom in the United States, but government is getting out of the way there, so it is good for us. If you are growing at a rate of 2 per cent, that is on trend, and Ontario will benefit from that."

A TRANSITION YEAR

CIBC's Tal noted that 2013 was a transition year for the world economy. "One year ago, we were talking about the fate of the euro," he said, "and now we know it is here to stay. We were questioning the U.S. recovery, and now we know it is sustainable. China has had a soft landing, especially because it has the political ability to manage its economy."

Tal was less optimistic about the Canadian economy. "In Canada, we have two economies," he said. "The economy that is related to exports will do well, but in the domestic economy, the consumer is exhausted. We have a mountain of debt here in Canada. Housing will slow down. The manufacturing sector in Ontario should improve, but we have major structural problems there."

PENT-UP DEMAND

Export Development Canada's Hall pointed to pent-up demand in the United States as a positive sign for growth. "The U.S. housing market has been underwater for a long time," he said, "and today, the risk situation there is much better than it has been. Housing engenders so much other economic activity, and the U.S. housing market could grow 40 to 50 per cent over the next year or two, just to a sustainable level."

He noted that confidence has risen of its own accord over the last six to eight months, especially in the United States, Europe and Japan. "Add that to pent-up demand, and we could see an avalanche of investment," he said. "We could see a growth shock that we may not be prepared for."

Alexander agreed that the United States is poised for growth, with a recovering housing market that will support consumer spending. "The median age of all cars on U.S. roads is 11.5 years," he said. "At some point, cars have to be replaced, and when your car is more than a decade old, you replace it. That is why auto sales have been so strong, and we have a U.S. manufacturing recovery as a result. The U.S. economy would have grown much faster last year without the 'fiscal drag' created by the government. Even with the political gridlock the country has had, its economy grew."

Tal pointed out that the first leg of the housing recovery in the United States was investment in housing, where investors bought low-priced real estate to meet increased demand for rental properties. The second leg requires "old-fashioned growth," where people buy their own homes. An increase in the quality of new employment in the United States should help them do that. "More high-paying jobs are being created," he said. "Credit is the key. The debt-to-income ratio has gone down in the United States, and the delinquency rate for U.S. mortgages is back to normal. We will see a better U.S. economy in the future. I think it will surprise us over the longer term."

"IF YOU ARE GROWING AT A RATE OF 2 PER CENT, THAT IS ON TREND."

Benjamin Tal, Deputy Chief Economist, CIBC World Markets Inc.

THE LOWER CANADIAN DOLLAR

A strong U.S. economy benefits Canada, but the question is the value of the Canadian dollar for SMEs that export. Noting the recent drop in its value, Clark asked panellists for their predictions for the next six months.

Hall identified key drivers that determine the value of the Canadian dollar: oil prices, commodity prices, short-term interest rate differentials, the value of the U.S. dollar versus other currencies and what he called the "Canadian halo effect." "We are a commodity currency," he said, "and forecasts have shifted to the downside, so we would expect a 92- or 93-cent Canadian dollar over the next few years."

Alexander said that one major reason for the recent high value of the dollar was extremely low interest rates in the United States, which were intended to stimulate the economy. "Once interest rates were effectively at zero and the U.S. Federal Reserve couldn't lower them any further, it came up with something called quantitative easing, which is 'economist speak' for buying bonds. So you are looking at a government bond-buying program, where US$85 billion in bonds were bought each month. This put downward pressure on the U.S. dollar and upward pressure on our dollar. The Federal Reserve is winding down that program, and the market has priced that in, so it has driven the U.S. dollar up and ours down. I predict a Canadian dollar in the 85- to 90-cent range."

Tal was less willing to predict the future value of the Canadian dollar, saying that the volatility of the situation and multiple forces at work make only a guess possible. In his opinion, the recent high value of the Canadian dollar was not justified. "We had no business being at parity [with the U.S. dollar]," he said. "The main reason was simply that the world thought that Canada was unique: we had no housing crash, we had a good fiscal situation and we were the only country without bank failures."

THE PANELLISTS AGREED THAT INFLATION RATES WILL REMAIN LOW (ONE TO TWO PER CENT) FOR THE FORESEEABLE FUTURE.

WORKSHOP SUMMARIES

IN BRIEF: POST-SESSION TIPS AND INSIGHTS

The four workshops held the morning of February 27, 2014, on leadership, energy, financing and exporting kicked off the day as delegates heard from topic experts and examined the top issues affecting rapidly growing businesses. Following the workshops, a presenter from each provided all of the attendees with highlights of their group discussions in a plenary session.

Leadership in Changing Times workshop presenter Dr. Steven J. Stein, Founder and CEO of Multi-Health Systems Inc., reported that much of the workshop discussion focused on how to find and develop the next generation of leaders among both managers and the blue-collar trades. Here are some of the key points:

- Recognize that motivating the new generation of workers and future managers requires a different approach
- Identify how much and what kinds of training are needed, especially in leadership skills
- Realize that corporate culture and vision are important in attracting and retaining talented young employees

Energy Strategies for SMEs presenter George Mandrapilias, Team Lead for Advanced Manufacturing at the Ministry of Economic Development, Trade and Employment (MEDTE), said that one of the key concepts discussed was the need to think of energy differently. Energy should be seen and managed not just as a cost but as a strategic input. A number of ideas emerged, such as the following:

- CEO leadership on energy management is essential, but the impact multiplies when supported by a staff-level champion
- Energy management is an issue not just for the shop floor but for the entire organization
- Advice and programs are available that can help companies manage their energy use more strategically

Financing for Growth workshop facilitator Jim Crocker, Founder and CEO of Boardroom Metrics, noted that the discussion ranged from the best ways to finance a big purchase order to the difference between venture capital funds and private equity groups. Among the main points raised were the following:

- Banks and other financial sources are suppliers, not partners
- The importance of developing relationships with potential funding sources a year before you need them
- The availability of government grant programs to offset business costs

Going Global presenter Blair Poetschke, Director of MEDTE's International Trade Branch, began his summary by noting that people used to say that the world is a big place, but that has changed. With the Internet, social media and technologies such as Skype, the world has actually become a pretty small place. Top tips for going global successfully include the following:

- Choose the best export business model for your needs
- Choose your local partners carefully
- Understand cultural differences

Leadership, energy costs, financing and export markets are key issues for every growing company. Judging by the audience response to the workshop summaries, the tips and insights offered provided many of the conference participants with substantial food for thought.

LEADERSHIP WORKSHOP

CHANGING TIMES: THE NEW VIEW FROM THE CORNER OFFICE

(CENTRE) DR. STEVEN J. STEIN, FOUNDER AND CEO, MULTI-HEALTH SYSTEMS INC.

Presenter

- **Dr. Steven J. Stein,** Founder and CEO, Multi-Health Systems Inc.

Facilitator

- **Hugh Coppen,** President, Winning Leadership Inc.

"Meet the new boss, Same as the old boss" sang The Who in their iconic song "Won't Get Fooled Again" more than 40 years ago.

But times have changed.

To succeed as a leader in business today, the new boss must be radically different from his or her predecessors. The workplace culture has changed, demanding a new leadership style and a different set of skills. Clinical psychologist Dr. Steven J. Stein led a lively workshop that explored the new leadership landscape.

Stein's professional advice is grounded in practical experience. He is the founder and CEO of Multi-Health Systems Inc. (MHS), and an internationally recognized expert in workplace leadership. "News reports keep saying that there is a dearth of leadership in Canada," said Stein. "I am concerned about that, as a psychologist and as a CEO. So I have another purpose here: to learn from you and to help you share your leadership experience and expertise."

LEADERS CAN TRANSFORM THEMSELVES

Stein noted that the notion and practice of leadership continually evolves. Entrepreneurial leaders are different from stabilizing leaders. Successful leaders can transform themselves as the organization changes. Leaders who don't have this ability will face difficulty.

"It is hard to be a leader without the ability to change with the organization," he said. "Yet we often promote people to management because they are good at a technical skill. We take an engineer and say, 'You are a manager now,' but these are completely different skills. He may be a great engineer, but he may not necessarily be good at managing people. Therefore, technical or professional skills are not always the best reason to promote people. Managing people is tough."

Not surprisingly, the audience strongly agreed with this statement. The CEO of a mid-sized manufacturing company laid the blame for his company's management issues at his own feet. "The biggest challenge I face is me," he said. "I have no training in managing people."

Another manufacturer told the group how he had convinced his three sons to join him in building the family business, which is located in a rural area. Management training was the key in his case. "I know that I am only in the people business, and I wanted my sons to stay with the company," he said. "When the eldest was 32, I made him president, and he was a little leery of it. I went outside the company and got trainers, and we still bring in trainers five or six times a year, on attitude and communication and development. We spend a lot of money on training of various kinds. We have never seen our people more engaged. When people understand the culture, it improves their performance."

Another CEO strongly disagreed. “I think training is a waste of time,” he said. “We have brought in trainers several times. People are all gung ho at the beginning, and some changes have even lasted a year, but they all eventually revert to the way they were.”

TRAINING MUST BE NURTURED

A quick poll of the group revealed that about 60 per cent of the leaders were spending a “significant” amount of money on training for their people. Most agreed that training is something that must be nurtured and sustained by leadership. Middle management must feel responsible for change, and this can involve significant risk to the company.

One company leader told the group that by spending time as part of a project team, he boosted the effectiveness of his training program. “We went through a very difficult computer implementation process recently,” he said. “I learned that you really have to coach and coax some people. You have to be strategic and add coaches to the process, so the new hires can see their future in the company as well. I spend a lot of time with the teams, two or three hours a week. They need training, they need to know the values, and they need to have ‘skin in the game.’ It has to be a win-win situation.”

Most participants agreed that training is only useful for motivated, engaged staff. “No matter what you do with training, its success is still ultimately determined by the people you hire,” said the CEO of a manufacturing equipment company. “Who you hire is very important. After 35 years, we have come to the conclusion that you can’t change a personality. You have to hire the right person. You have to hire for attitude.”

CREATIVE HIRING

The CEO of a hardware manufacturer serving the utilities sector offered an interesting solution to the challenge of identifying and hiring the best possible employees. He went directly to the source. “To meet the best people and get to know them, I took part-time teaching jobs in engineering programs at a college and university,” he said. “Why? Because there are students there who have a five-year degree or diploma and practical experience. It gives you a good selection of people. Now I am hiring some of them at my own company, and it is working out very well. When I hire someone, I have to be able to see their future with my company.”

Stein pointed out that this same approach is used at some very successful companies. “It is a hallmark of Google and probably one of the keys to its success,” he said. “When it hires programmers, it is also looking at management skills. Google told me that it is always looking for management skills in new hires because in six months those people will be managing others.”

PARTICIPANTS GAINED INSIGHT INTO THE CHALLENGES FACING LEADERS TODAY

MOTIVATING THE MILLENNIALS

Stein moved the discussion along from effective hiring practices to the crucial task of motivating the newest generation of workers and emerging leaders. The “millennials,” usually defined as people born between 1980 and 1995, are the fastest-growing component of Canada’s workforce, at about seven million people. Their attitudes, values and motivators are vastly different from those of previous generations.

“Their demands are different and their expectations are different,” said Stein. “As leaders, we have to learn how to accommodate this change, and if we don’t, we will be missing out. I think a lot of us are going to have to take a close look at all aspects and quirks of the millennials. Their motivation is different. Another reality is that they are more likely to leave for another job, so we might be hesitant to invest in training them. However, if we don't offer training, we are not going to get good people. It is a risk we have to take."

Summing up the session, Stein noted that leaders also have to consider themselves as workers; to maintain effective performance, they must maintain a good work/life balance.

"We need periodic breaks during the work day to recharge, whether it is through meditation or mindfulness or whatever works for you," he said. "Good leaders have to remember to take care of themselves, too."

SELF-ASSESSING YOUR LEADERSHIP PERFORMANCE

What does it take to be a great business leader today? Taking a short leadership quiz developed by Dr. Stein will help to make you aware of how your emotional intelligence directly affects your leadership qualities. It looks at the "The Four Pillars of Leadership" all related to emotional intelligence. Emotionally intelligent leaders who embody such traits as great interpersonal skills, high stress management, adaptability, empathy and problem solving skills, are more successful and garner more revenue in their companies than leaders who lack these skills. It is not a scientific test, but rather a short assessment to draw your attention to important qualities of successful leaders.

The quiz is available as part of Report 21 in the ministry's Leading Growth Firm (LGF) Series. Click on the image to access the full report and quiz.

LGF REPORT 21:
THE CHANGING DYNAMICS OF LEADERSHIP

"THE FOUR PILLARS OF LEADERSHIP"

Dr. Steven J. Stein concluded the session with a summary of what he considers to be the "four pillars" of leadership, based on 20 years of research on emotional intelligence and performance conducted by the MHS team.

1
AUTHENTICITY
A leader must be a trusted role model who inspires moral behaviour and confidence.

2
COACHING
A leader must help train and inspire others and be a mentor.

3
INSIGHT
A leader should communicate with a purpose and offer hope and inspiration.

4
INNOVATION
A leader should recognize the importance of risk taking and let staff complete projects that fail.

ENERGY WORKSHOP

STRATEGIES FOR SMEs: THRIVING IN A HIGH-COST ENERGY ENVIRONMENT

(L TO R) WORKSHOP PRESENTERS SCOTT WILKENS AND SEAN BRADY

Presenters

- **Sean Brady,** Director of Business Development, Conservation, Ontario Power Authority
- **George Mandrapilias,** Team Leader, Advanced Manufacturing Branch, Ontario Ministry of Economic Development, Trade and Employment
- **Dan Mellen,** General Manager, KI Pembroke
- **Scott Wilkens**, Energy Consultant, Owner and President, Squeaky Wheel Enterprises

Facilitator

- **Jake McArthur,** Owner, Cairncrest Leadership Coaching

According to a December 2013 survey conducted by the Canadian Federation of Independent Business, energy costs ranked as the number-two cost issue for Ontario businesses, just behind taxes and regulatory costs, at 55 per cent. Concern over energy prices outranked such long-standing headaches as the cost of insurance (45 per cent), wages and banking fees (each 37 per cent) and borrowing costs (17 per cent).

Industrial energy costs are forecast to rise 33 per cent over the next five years, so Ontario business leaders are eager to find practical ways to reduce their energy bills. This workshop brought together entrepreneurs and conservation experts to explore the opportunities for turning energy costs into a competitive advantage. Workshop facilitator Jake McArthur, owner of Cairncrest Leadership Coaching, summed up the workshop's findings: "Think of this as a strategic issue, not just a cost issue."

Each panel member offered experience-driven context and frank hands-on advice. Here is a recap of the speakers and the key takeaways for business owners.

SEIZING A WIN-WIN OPPORTUNITY

Sean Brady, Director of Business Development, Conservation, with Ontario Power Authority (OPA), leads OPA's initiatives that treat energy conservation as a business opportunity, not just a housekeeping matter. He began his remarks, however, by recalling his experience at the nickel-mining giant Inco (now Vale) in Sudbury, Ontario, where he led a major energy-efficiency project that produced $12 million in savings in its first year.

"My job was to get ideas from the shop floor," said Brady. He soon learned the key to making conservation stick was to embed each new initiative into the company's processes and culture. For instance, standard operating procedures were updated to incorporate energy-saving practices, while reduced energy costs became a key metric in employee and supervisor performance reviews. "A high-efficiency piece of equipment is easy to monitor," said Brady. "We wanted to make sure we had robust savings for the long term."

Investing in energy efficiency is a win-win opportunity, he said. "Companies can get an excellent return on investment, between 15 per cent and 30 per cent. A conservation program can decrease maintenance costs, lower your operating costs and position you as a more efficient producer. You will also get the environmental benefits of reduced greenhouse gases and a reduced environmental footprint." Besides, added Brady, "energy savings don't have a lot of risks. The results go right to the bottom line."

A FOUR-PHASE APPROACH TO SAVING

Energy Consultant Scott Wilkens, owner and President of Squeaky Wheel Enterprises in Trenton, Ontario, worked at Procter & Gamble's diaper plant in Belleville, Ontario, for 35 years. In that time, he investigated more than 200 energy-saving projects, more than 100 of which were executed and installed. Those projects, which included lighting retrofits, compressed-air upgrades and building automation systems, resulted in savings of hundreds of thousands of dollars in electrical costs. Wilkens outlined four phases of energy savings:

1. Grab all the "low-lying fruit" that you can (otherwise known as "Shut It Off").
2. Continue to look for Phase 1 items while the company funds all savings projects that meet its required rate of return.
3. Continue to look for Phase 1 and Phase 2 items while tackling upfront engineering changes and cost avoidance.
4. Continue to review Phase 1, Phase 2 and Phase 3 items while aggressively using government and supplier incentive programs to get your required rate of return from more costly conservation projects.

Any business starting out on a conservation path should ask a number of key questions, Wilkens added:

- Do we know the cost of our electricity bill every month?
- Do we know how many kilowatt-hours (kWh) we use per day, month or year?
- Do we know how many kWh it takes to produce each unit that leaves our facility?
- Do we know the portion of electrical costs for each unit?

With little effort, said Wilkens, most companies can easily cut their energy costs by 10 per cent. "When you start investing a lot, you can get 20 per cent," he added. "Don't you think that would give you a marketplace advantage over your competitors?"

LEAN-DRIVEN APPROACH GENERATES $500,000 SAVING

Dan Mellen, General Manager of KI Pembroke, a 200-employee manufacturer of office equipment and furniture in Eastern Ontario, has more than 30 years of manufacturing experience. He used Lean methodology to drive significant changes at KI Pembroke, including annual energy savings of $500,000 in the past two years.

His conservation projects included lighting-system upgrades, a de-stratification driven by high-powered fans to maintain a more constant operating temperature, improving efficiency of compressor equipment through electronic monitoring and retrofitting water systems to reduce the costs of heating water for production purposes. "In 2011, our energy bill was more than $1 million," said Mellen. "In 2014, it will be $497,000," despite generally rising energy prices.

Q&A GENERATES MORE ENERGY-SAVING TIPS

Following the individual presentations, attendees bombarded the panellist with questions, which suggests many businesses have ample opportunities to save money. Here are a few samples:

Q: Is it worth turning down the temperature in a plant overnight?
A: Yes.

Q: Can "solar walls" actually save energy?
A: Often.

Q: Where can I learn more?
A: The Province of Ontario, Natural Resources Canada and many local electrical and gas companies have programs, information and cost-sharing programs related to energy conservation. Local colleges and universities may also have expertise and/or student consultants that can offer help and suggestions.

Q: What are the biggest opportunities for immediate energy savings?
A: Start by
- replacing outdated lighting systems
- upgrading heating, ventilation and air conditioning (HVAC) units
- installing high-efficiency motors and variable-speed drives
- updating compressed-air systems

NEW ENERGY OPTIONS AND IDEAS

George Mandrapilias, Team Leader, Advanced Manufacturing Branch, Ministry of Economic Development, Trade and Employment (MEDTE), noted that not all energy prices are going straight up. Thanks to increasing production of shale gas in the United States, the industrial price of natural gas has declined in recent years from US$14 to less than US$5 per 100,000 British thermal units (Btu). "We have gone from a relative deficit of gas in North America to a 100-year supply," said Mandrapilias.

Businesses that use trucks powered by natural gas rather than diesel can reduce their energy costs by 40 per cent, he says. You also don't need direct access to gas to profit from the savings. Mandrapilias cited a company in Tiverton, Ontario, on the shores of Lake Huron, that trucks in compressed natural gas 180 kilometres from the nearest gas pipeline, shaving $700,000 off its annual fuel bill of $1.7 million.

Mandrapilias mentioned another environmental area many business owners overlook: reducing water use through recycling and other conservation projects. "It is cheaper to save energy through water conservation than through energy-efficiency programs." Business owners who don't know how to get started can contact the MEDTE's Advanced Manufacturing Branch, Manufacturing Investment Unit. Mandripilias also suggested attendees visit the **Invest in Ontario/Incentives Programs for Business** website.

In the end, the presenters agreed successful energy conservation is more about leadership than engineering. "Find someone in your plant who is passionate about energy conservation and can make it happen," said Brady. "It is especially good to combine that with an upper-management champion. You have to hold people accountable for the energy they use."

"You have to be on top of this, and you have to be passionate," added Mellen. "Management has to show it cares. If I don't care, no one else will care."

FINANCING WORKSHOP

BANKROLLING GROWTH: ALTERNATIVE STRATEGIES FOR BUILDING YOUR BUSINESS

Presenters

- **Jacoline Loewen,** Director, Crosbie & Company
- **Brian MacDonald,** Senior Business Advisor, Ministry of Economic Development, Trade and Employment

Facilitator

- **Jim Crocker,** Founder and CEO, Boardroom Metrics

"So… who is happy with their bank today?" The question set the tone for a fast-paced session that offered answers to many of the financing questions that brought two dozen CEOs to the workshop. Providing insights and advice were two presenters whose experience spans the worlds of both finance and entrepreneurship.

Jacoline Loewen is a Director of Crosbie & Company, which is an exempt-market dealer, specializing in financing for owner-operators and family businesses. She is also the author of three business books, including *Money Magnet: How to Attract Investors to Your Business*, and a panellist on Business News Network's *The Pitch*.

Brian MacDonald, a Senior Business Advisor with the Ministry of Economic Development, Trade and Employment (MEDTE), spent almost 20 years with Toronto-Dominion Bank, Banque Nationale de Paris and ABN AMRO Bank. He then founded/co-founded two technology firms, both of which he took public. From 2005 to 2008, he was an angel investor.

Workshop facilitator Jim Crocker, founder and CEO of Boardroom Metrics, kept the discussion moving and encouraged questions from the CEOs.

BUSTING MONEY MYTHS AND MISCONCEPTIONS

"There is a ton of money out there," said Loewen, which was welcome news for the entrepreneurs. "I talk with equity fund managers every day. They are looking desperately for places to put their money."

"The banks have been very successful in selling the idea that they are your partner," said MacDonald. "They are not. They are suppliers."

"What's the relationship between venture capital and private equity funds?" asked one CEO.

"Oil and water," Loewen answered with a laugh. "They are totally different. For one thing, the venture capital guys—the VCs—are in it for the short term. In fact, if they want to stay with you after five years or so, you may want to re-think your financing model. You may be paying more than you need to for growth capital."

Sector expertise is another fund differentiator. MacDonald pointed out that most venture capital and private equity funds focus on specific industries. Information about the areas of specialization of individual funds is available online through **Canada's Venture Capital & Private Equity Association**.

"You have to be careful with some funds," Loewen warned. "Some of them are like supermodels. They will dazzle you. They will make promises. You will fall in love. However, they don't always deliver what you had been led to expect."

SHOP AT THE RIGHT STORE

Loewen and MacDonald agreed that different money sources are useful for different purposes. Financing a $5-million purchase order is different from sourcing

TOP THREE TIPS

1

Develop relationships with financial sources at least a year before you need them.

2

Make sure your financial package tells a clear, compelling story of what you are going to accomplish.

3

Before finalizing any agreement, check out potential investors very carefully and, if possible, have non-disclosure agreements in place.

$5 million to develop a software platform or expand into 50 countries. It is the purpose of the money that determines which source is the best choice.

"The size of your company is also a factor," said Loewen. "If you have less than $10 million in sales, you should be looking at individuals, and there are some fantastic angel investors out there."

"You have to shop at the right store," said MacDonald. "You wouldn't buy groceries at a bed and bath store. It is the same when you are shopping for money."

ACCESS GOVERNMENT PROGRAMS

MacDonald also suggested that there are many niche government programs that can help offset the costs of growing a business. One federal program, for example, will pay 50 per cent of the cost of hiring summer students. Another program will pay 50 per cent of export trade-show marketing costs. "This is low-hanging fruit," he said. "They are grants."

WHERE TO GO FOR HELP

For many entrepreneurs, dealing with financial issues consumes too many hours that could be more profitably spent building the company. One way to reduce the toll is to make sure you have a chief financial officer (CFO) who is more than just an accountant. A good CFO should understand the pros and cons of different funding sources and government programs that could meet your needs. If you can't afford to hire a full-time CFO, rent the expertise, but don't try doing it yourself.

"You are smart," said Loewen. "You could probably learn how to do your own dental work. You could do the research, study hard, buy the equipment, but why would you? You should be focusing 100 per cent on doing what you do best."

MEDTE Business Advisors can be a good source of information, contacts and introductions. "They have Rolodexes filled with people they know in financial organizations, government programs and consulting groups," said MacDonald. "They can help steer you in the right direction."

GOING GLOBAL WORKSHOP

BEYOND BORDERS: NAVIGATING TOWARD PROFITABLE EXPORTING

(L TO R) JIM WATERS, RICHARD VOLLEBREGT, FAISAL HUDA, BLAIR POETSCHKE AND ART AYOW

Presenters

- **Art Ayow,** Vice President, Sales, NRT Technology Corp.
- **Faisal Huda,** President and CEO, CSL Silicones Inc.
- **Blair Poetschke,** Director, International Trade Branch, Ministry of Economic Development, Trade and Employment
- **Richard Vollebregt,** President, Cravo Equipment Ltd.
- **Jim Waters,** President, BDM Millwrights Inc.

Facilitator

- **Marguerite Orane,** CEO, Marguerite Orane & Associates

The global economy opens up a host of opportunities for those who set their sights beyond Canada's borders. As the world shrinks, the rationale for going global increases. A panel of savvy exporters kicked off this workshop, explaining why they made a foray into the international markets and sharing the successes they have attained.

WHY EXPORT?

Richard Vollebregt, President of Cravo Equipment Ltd., a world leader in the design and supply of retractable-roof greenhouses, initially focused on the Canadian and U.S. markets, but the company started expanding internationally in 2008 and developed new designs for desert and tropical locations. The company's global sales skyrocketed from 2 per cent in 2008 to 55 per cent today, and it does business in Mexico, Europe, Turkey and Australia.

CSL Silicones Inc., which serves the electric-power industry with its silicone coatings, was forced to go global because the Canadian market is so small, according to Faisal Huda, the second-generation owner of the company. International expansion, even to the Middle East, has helped fuel the growth of CSL's niche business nearly 20-fold over the past 15 years.

Approximately 25 per cent of the revenues of BDM Millwrights come from export work in the United States, the Caribbean and Central America. "We started exporting in 1997 and haven't looked back since," said Jim Waters, President of this design, build and construction company that serves the agricultural industry. Global sales have contributed to catapulting revenues from $500,000 in 2004 to an anticipated $7.5 million this year. "Because our business is dependent on seasons and was very slow from December to February, diversifying into different geographies turned up the business cycle."

Art Ayow, Vice President of Sales at NRT Technology Corp., specialists in casino technologies and automated banking machines (ABMs), focuses on penetrating foreign markets and enhancing the NRT brand worldwide. The company, which began exporting to the United States in 2001 and to other markets in 2003, has more than 6,500 of its self-serve cash-handling kiosks in every continent except Africa and has seen its export sales grow an average of 10 per cent every year for the past decade. With close to 90 per cent of its kiosk revenues from international sales, NRT has captured the majority of market share in the top three casino markets in the world: Macau, Las Vegas and Singapore.

There is no question that exporting brings many benefits, from expanding sales to reducing reliance on a single market, but it doesn't come without risk. "Exporting is about investment," emphasized Blair Poetschke, Director of the International Trade Branch of the Ministry of Economic Development, Trade and Employment (MEDTE). "It is higher risk and more costly than selling domestically, but the returns are there. In many cases, your competitors are exporting, so you need to be as well."

WHERE TO START

The world is a big place and, as Poetschke advised, it is important to pick markets to focus on and to understand your competitors, your pricing model and how to sell. The good news is that there are plenty of resources to help. For example, the Ontario government has many resources, including a team of knowledgeable international trade specialists whose mandate is to connect companies with customers and help them build market knowledge and make sales. Ontario also maintains international marketing centres in 10 key markets around the world.

The panel, with years of experience in global business, shared their advice for tackling key export challenges.

Evaluating export markets. Using the services of the Ontario government to do basic competitive research, identifying potential partners and setting up meetings will not only help fast-track the evaluation of new markets but also reduce costs. Although Huda taps into such government assistance, he also advocates a "brute force" method. "Buy a ticket, get on a plane and meet people on the ground. Business doesn't happen through Skype—human interaction speaks volumes." Ayow also recommends meeting with your competitors. "They can be one of the best sources of information."

Choosing the export model. Those new to exporting or with little experience struggle with deciding whether to sell direct or to use distribution channels. According to Poetschke, the decision will vary depending on the country and complexity of the culture and on your risk appetite. In places such as Europe, where the culture is similar to North America, selling direct or setting up a sales office can work well, but finding a local partner is usually the preferred route in such markets as China. Establishing a local office is a big investment, so he recommends opting for third-party representation as a good way to get one's feet wet in any new market. "It is a lower risk level and allows you to test the market before deciding if you want to set up your own operation."

Finding suitable local partners. As one participant expressed, finding good people on the ground is "my area of pain." The panellists had a number of suggestions, such as participating in trade missions, industry events and one-on-one meetings organized with the help of Ontario's and Canada's trade specialists or connecting with a trade association in your target market. One suggestion for testing whether potential representatives have real commitment is to see if they will buy a demonstration product from you. Although most participants emphasized the importance of face-to-face meetings with potential partners, a management consultant noted she found franchise partners through Twitter. Waters finds electronic tools such as GoToMeeting effective for following up after the initial person-to-person interaction.

Handling payment issues. Challenges range from payment terms to concerns about not getting paid at all. Waters and Huda recommend using Export Development Canada (EDC) for receivables insurance. The cost of EDC's fees can be built into your quotes. Poetschke also recommends shopping around to banks to finance receivables, although Waters noted that some banks will not finance accounts receivable that are not insured. He also suggests using letters of credit (LOCs) wherever possible, and making sure to examine the details with a fine-tooth comb. "Become friendly with the international offices of banks.

They can be very helpful in giving advice." Ayow noted that his company has moved away from using LOCs because of the time delays in getting paid and only works with wire payments now.

Tackling compliance and regulatory challenges. There can sometimes be surprises such as steep local withholding taxes, import taxes or penalties for the absence of a physical presence in a country. It is important to do your homework in advance. The Ontario government has consultants on contract in different countries to help arrange introductions to reputable professionals such as lawyers and accountants.

Ensuring intellectual property protection. This can be a particularly challenging and expensive problem in some markets, where anything you physically leave can be replicated… and even bettered. One manufacturer referred to a foreign distributor who requested the formula of every product, citing it as the law. Huda strongly recommended supplying only the Material Safety Data Sheet (MSDS). Ayow emphasizes that his company vigorously resists requests for source codes. "We will never give away our IP [intellectual property]. We treat it as the survival of our business." A protection strategy that Poetschke shared is to keep the trade secret part of your business here in Canada if you are doing some component manufacturing in other countries.

Understanding cultural differences. Most of the presenters stressed that it is important to travel to your target markets and get a feel for the cultural nuances. Forging personal relationships is an important first step before doing business in some cultures, such as South America. "Understand that the market you are entering can be different, but different doesn't necessarily mean not as good," notes Waters. "Also be cognizant of the culture and, if you do both, you will be successful."

Ayow summed it up this way: "Going global is all about risk management. If you zero in on the country risk, the compliance situation (depending on your industry), the client risk and the contract and payment, the other things will fall into place."

ADVICE FROM SEASONED EXPORTERS

1

Don't outsource the whole development of a new market. You want to own the channel.

2

Make sure you always get customer information from distributors so you don't lose touch with your customers in foreign markets.

3

Be prepared to walk away from business rather than give away your intellectual property.

INTELLECTUAL PROPERTY PANEL

THE VALUE OF IP: PROTECTING ASSETS IN THE GLOBAL ECONOMY

(L TO R) PANELISTS SYLVAIN LAPORTE AND SALLY DAUB

Panellists

- **Peng-Sang Cau,** President and CEO, Transformix Engineering Inc.
- **Sally Daub,** President and CEO, ViXS Systems Inc.
- **Sylvain Laporte** CEO, Canadian Intellectual Property Office

Moderator

- **Tom Clark,** host, Global TV's *The West Block with Tom Clark*

In March 2006, Research In Motion Ltd. (RIM, now BlackBerry) paid a small Virginia company US$612.5 million to settle a five-year legal dispute. NTP Inc., had sued RIM for infringement of its patents for wireless e-mail transmission. RIM fought back vigorously, identifying numerous reasons why NTP's patents should be deemed invalid. A Virginia judge ruled in favour of NTP.

Seven years later, in a wide-ranging Q&A session at the Wisdom Exchange 2013 conference, RIM co-founder and former co-CEO Jim Balsillie warned Ontario entrepreneurs looking to expand abroad that protecting their intellectual property (IP) will likely become one of their biggest challenges. Yet, he said, most Canadian companies—and their legal advisors—are ill-prepared to fight these battles. Read **The Wisdom Exchange 2013 Reporter** for more of the conversation between Jim Balsillie and Tom Clark at the WX 2013 event.

To explore these growing concerns, the WX 2014 Intellectual Property Panel discussed some ins and outs of securing IP in the global economy.

IP MANAGEMENT NOW AN ESSENTIAL CAPABILITY

The key takeaway from the panel was that companies that depend on IP—be it in the form of software, knowledge, design, business processes, trade secrets or copyright—had better learn to understand the value of their IP, including when they need to protect it and when they don't. While the U.S. government is taking steps to reduce the ability of so-called "patent trolls" to challenge other companies' legitimate processes, the increasing importance of the knowledge economy will require more companies to make IP management a core capability.

The first panellist was Peng-Sang Cau, President and CEO of Transformix Engineering Inc., an international supplier of advanced automation systems based in Kingston, Ontario. She noted that Transformix has faced the same problem BlackBerry did. Her company consistently creates new technology products and regularly hires legal advisors to search patent records for pre-existing products and patents. Still, one product attracted the attention of a U.S. lawyer who claimed to own the patent for the United States and Canada. Patent claims are hard for most companies to fight; many defendants choose to settle or grant a royalty to the plaintiff rather than risk long, costly litigation, capped by the unpredictability of a jury trial.

Transformix abandoned the product in question. When Cau asked a local technology-transfer expert what the company could have done about the situation, she says she was told: "Fire your lawyer."

The next panellist, Sally Daub, is President and CEO of ViXS Systems Inc., a Toronto-based semiconductor company that develops advanced multimedia technologies and has been granted more than 200 patents. She is also a lawyer and a registered patent agent. "IP can drive the value of your business very significantly," she said. She also assured the attendees that IP isn't as complicated as most people think. "It is just another asset you have in your business. You have to know how to protect it, quickly and efficiently."

Like Balsillie, Daub believes Canadian businesses need to pay more attention to IP management. "We tend to lag behind the Americans, and I think some of them take advantage of that. You plan your taxes, you plan your human resources, but you also need a strategy for your IP."

Sylvain Laporte, CEO of the Canadian Intellectual Property Office (CIPO), spoke next, building on points made by both preceding speakers. "Look at your products and your markets. Make sure you protect what you have worked very hard to build and make sure you get the best lawyer you can." However, Laporte disagreed with Daub's description of patent protection as easy to understand and do. Even at the CIPO, which processes patents, trademarks, copyrights and other forms of IP, "we still find them complex," he said.

SIMPLE STEPS TO IP PROTECTION

Daub explained that the key to protecting your IP is actually quite simple: "It comes down to a story and the document that explains what your invention is. Draw something up that clearly explains what the invention is and why it is important." Noting that patent applications have become so commoditized that many are now being written by subcontractors in India, she urged business owners not to cut corners. "You want a litigator to do it," she said, not just someone who only drafts patents. "Get your story out and get it on file in the United States. It should run about $5,000 or $6,000, especially if you are doing some of the work yourself," Daub said. "It gets more expensive as you get more patents, but you have to do it on a timely basis, because the date you file matters."

Cau held that patents have played only a small role in Transformix's success. "We have been developing technology for 18 years now, and I have only filed two patents," she said. "The markets we were serving weren't big enough." The company's IP management has been simple: Bring new products to customers fast, even before the prototype stage. Swear customers to secrecy with a non-disclosure agreement. Use their feedback to decide how popular each product is likely to be, and file an application only when you think the product will take off.

Still, the company's ongoing growth means that its projects are getting bigger and the stakes are getting higher. So now Cau says she is much more open to "doing the paperwork" and filing more patent applications. To foil the patent trolls (otherwise known as non-practising entities), she is working with her company engineers to find ways to conceal their technology in a "black box" so it is hard for competitors to reverse-engineer.

Daub offered further advice for any company targeted by aggressive patent trolls. "If you get cease-and-desist letters, don't throw them out. There may be something to it." She urged business owners to find the best legal assistance they can afford. "It could be expensive," Daub said, "but you need to feel that you are free to pursue your strategic plan while you have a boat anchor attached to your leg in the form of the cease-and-desist letter."

CEO PERSPECTIVES

BEYOND THE RINK:
A CANADIAN ICON GOES GLOBAL

KEVIN DAVIS, PRESIDENT AND CEO, BAUER PERFORMANCE SPORTS LTD.

Would you have the chutzpah to ask your investors for US$30 million in the midst of a recession and stagnant market? That is exactly what Kevin Davis, President and CEO of Bauer Performance Sports Ltd., (now Performance Sports Group) did in 2008 after Nike sold the hockey-equipment manufacturer to a private equity firm. His gutsy request paid off. Today, Bauer boasts revenues of US$475 million and has made six acquisitions of other sporting-goods brands to add to the roster and diversify beyond its core hockey business.

"I felt we had one choice in 2008—to invest when others weren't," Davis explained. He backed up his request with convincing research results and a solid plan that showed parents did not plan to decrease hockey equipment purchases for their children during the recession.

While competitors started to lay off people, Davis and his team used the capital infusion to hire the best technical experts, acquire strategically, market more and differently, and evolve products faster. Now the company has 600 employees worldwide, makes sports apparel and lacrosse equipment and has just purchased the Easton baseball business for US$330 million.

"We were successful because we started thinking like a consumer-products company rather than a hockey company," Davis emphasized. "Our real mission is improving every player's game through innovation." It is all about knowing your customers and applying innovation everywhere, he added, from product development through to managing employees and talking to consumers.

FELL ON HARD TIMES

Although Bauer is one of Canada's most iconic brands, the company has gone through significant trials and tribulations to get where it is today—a global player in the highly competitive sports industry.

Founded in 1927 in Kitchener, Ontario, its name was synonymous with skates. Nike purchased Bauer in 1995 in what looked like the perfect marriage of two high-performance sports brands, but what followed was a steady decline in sales of ice-hockey equipment. When Davis joined Bauer in 2003, revenues in that category were less than US$100 million. Davis led a turnaround strategy from 2004 to 2008 with three core components:

1. **Investing in new, innovative products**, including protective equipment, helmets and hockey sticks. Pursuing its mission to improve players' games through innovation takes a great deal of research and development (R&D), intellectual property and technology. "We had forgotten what we do."

2. **Building better connections with customers.** Davis nixed attendance at big trade shows in favour of launching Bauer's own annual trade show where it could get the undivided attention of buyers, take orders and manufacture to demand. The company also started to market directly to consumers, a departure from the trade marketing done exclusively in the past.

3. **Updating manufacturing to improve margins.** Bauer moved most of its manufacturing to Asia and invested in its supply chain to improve the distribution process and get products to customers more quickly.

Despite Bauer's impressive financial results after implementing this strategy—along with outlooks of going global—Nike sold the company to the private equity group in 2008. "In reality, our business was smaller than Nike's sock business and we didn't really fit in," says Davis.

CAPITAL INFUSION FUELS GROWTH

Having access to the US$30 million in capital from the private investors has paid off in spades. "Our market share has risen in every single category since 2008 and there have been strong increases in both revenue growth and profitability," noted Davis. There is no stopping Davis's team at this now publicly traded company (it went public in 2011). "There is still a great amount of opportunity for growth in the hockey area," he said.

Davis is on a mission to accelerate that growth. With Bauer's research revealing that nine out of 10 children in Canada don't play hockey, the company launched Grow the Game with Hockey Canada and Mark Messier in 2012 to increase participation and inject fun into the sport for both young players and their families. The goal is to add one million new players over a decade. According to Davis, the pilot program has been "wildly successful" and its global rollout "will, in addition to growing our business and market share, grow the sport."

On top of that, diversifying into other areas such as apparel and lacrosse equipment has made the company less reliant on its core hockey business. "We are the number-two player in lacrosse equipment now, but we expect to be number one soon," claimed Davis. Adding Easton—the number-one brand in baseball and softball—to its growing roster will catapult Bauer to even greater heights.

"OUR REAL MISSION IS IMPROVING EVERY PLAYER'S GAME THROUGH INNOVATION. IT IS ALL ABOUT KNOWING YOUR CUSTOMERS."

Kevin Davis, President and CEO, Bauer Performance Sports Ltd.

FROM HOCKEY OLD-TIMER TO NEW GLOBAL PLAYER: LESSONS LEARNED

After steering Bauer Performance Sports Ltd., (now Performance Sports Group) through the turbulence of a recession, lost market share and different owners during his years at the helm, Kevin Davis, President and CEO, has this advice for re-invention to share with other CEOs.

- **Talk directly to your customers.** In the old model, manufacturers such as Bauer didn't talk to the consumer. "Gone are those days. Through research and consumer marketing, we began talking directly to our customers. We also continue to be a business partner with retailers and give them innovative ways to talk to consumers."
- **Challenge your team… and any assumptions.** "I am blessed with a seasoned and expert management team. My job is to question why—such as 'Why do we have to go to trade shows?'—and to point to other possibilities… and then to get out of the way."
- **Innovate always and everywhere.** "In 2004, we were spending 0.5 per cent of our revenues on research and development [R&D]; today that figure is 5 per cent. Innovation is not just R&D for product development, though; it is also about the way you brand your product, the way you talk to your customers, the way you manage your employees and so on. Be memorable."
- **Execute differently.** "Don't be afraid to try new things. People like 'different' and it will make you stand out. We are marketing differently now—through social media campaigns directed to children and investing in grassroots events and in the sport of hockey through Grow the Game. By being different, we will do US$475 million this year in a relatively flat market."
- **Persevere.** "Our story is about the perseverance to do what you know is right. Make some additional investments and don't just settle for the growth you have already achieved."

WISDOM EXCHANGE

Ontario