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## Top secrets to success

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For Canada's best-managed companies, 2009 was the year of opportunity. Despite the economic challenges of the past year, many Canadian private companies continued to build closer customer relationships, connect with their people and position themselves for what they see as an enormous opportunity for growth in the future.

"In tougher economic times, great management shines," says John Hughes, national leader of Canada's 50 Best Managed Companies. "One of the most impressive aspects of this year's Best Managed companies was the commitment by management teams and employees to work in concert to develop innovative ways of tackling strategic issues in the face of a reset world." Key themes emerged as Deloitte Private Company Services professionals and CIBC Commercial Banking sat down with this incredible group:

**Best Managed companies are investors/ builders** Many of this year's winners completed one or more acquisitions over the past 12 months or had a significant pipeline of opportunities for acquisitions, joint ventures or structured alliances. And, a significant number of these opportunities were global in nature, focusing on Asia, Europe and South America. Many Best Managed companies have built a business process around acquisitions. They have specific people with due diligence skills and have developed acquisition search criteria, execution and integration templates and a strategic focus on optimizing synergies. Investing in information technology was another key differentiator. "This may seem counter-intuitive in a soft economy, as discretionary spending is typically the first cut," says Peter Brown, national leader of Private Company Services at Deloitte. "Instead, Best Managed companies acquired technology at discounted prices, knowing that such investments provide better information for decision-making, improved customer service and improved visibility of the company's operating revenues and costs."

**Extra focus on balance sheets** Best Managed companies clearly had an increased focus on their balance sheets. With the support of lenders and shareholders, companies looked to de-leverage balance sheets and renegotiate debt and worked to ensure that the right capital structure was in place.

**Succession or business transition has finally found its spotlight** "For years we have known that Baby Boomers were getting older and that there would be a massive transfer of wealth, including the ownership of a significant number of Canadian private companies," Mr. Brown says. "Interestingly, ... getting business owners to focus on succession planning was a monumental challenge. This past year, it emerged as a common theme for business owners and their management teams. We saw more open dialogue with family members and management teams to collectively decide the future."

Among the options discussed:

- Continuing to build and grow the business with IPO alternatives being explained in more cases than in recent years;
- Consideration of private equity investments to accelerate growth through acquisition of weakened competitors;
- Transfer to family members; and,
- Transfer to management.

Relationships are everything Canada's Best Managed companies were able to count on the trust they had already developed with customers, employees, stakeholders and advisors to manage through the worst of the downturn.

Networks provide valuable insights "More than ever, companies are looking outside their own business, industry and geography to tap into other sources of ideas that can help their companies become more successful," Mr. Hughes says. "Networks such as the Best Managed network provide insights for all private companies to help management teams broaden their horizons."

U.S. dollar continues to impact While many Canadian companies live and die by the volatility of the U.S. dollar, Best Managed companies alleviate its impact by:

- Exploring hedging strategies to reduce volatility and protect margins;
- Searching for customers who do not trade in U.S. currency (think European Union);
- Locating operations in the United States to create an "implicit" hedge in operations. In some cases, it means locating a sales office south of the border; in other cases, it means buying companies or manufacturing facilities.

Margin sucking maggots Professor Ken Wong's discussion of "margin-sucking maggots" was an apt description of the past year. Almost all companies were pushed by customers to reduce prices.

Rather than take the hit, many of the Best Managed companies employed strategies that managed key business metrics and overhead costs to operate more efficiently. In addition, Best Managed companies painstakingly reviewed variable costs to look for opportunities to work with vendors and employees to reduce costs.

A "less for less" strategy employed by many companies allowed Best Managed companies to protect margins while satisfying customer requests for lower prices. This enabled companies to build a value-based business relationship.

Conclusion "If there is one overriding theme that captures the essence of this year's Best Managed companies, it is their ability to innovate.

"In many respects, they were quicker to enter new markets, quicker to diversify geographically, quicker to develop new products and services, quicker to develop new internal processes, quicker to invest in people and quicker to do

deals to help them grow than their larger competitors," says Mr. Brown.

"Innovation has become a core strategy for Canadian private companies in a nation where being the low-cost provider is generally not an option."

This year's Best Managed companies proved the resilience of Canadian entrepreneurs and their management teams to adapt and thrive when outside economic factors affect their businesses. And, as evidenced by the program's cross-Canadian networking sessions, Best Managed companies are also willing to share their insights and ideas with all Canadian businesses, whether they participate in the program or not.

"Best Managed companies have an acute awareness of their role in fostering business throughout Canada and demonstrating leadership so that all private companies can benefit from their association with the Best Managed network," says Mr. Hughes.

"Giving back to their communities, the environment, people and their colleagues are all hallmarks of Best Managed companies."

Canada's 50 Best Managed Companies program sponsors Deloitte Private Company Services, CIBC Commercial Banking, Queen's School of Business and the National Post are committed to helping Canadian business succeed in the global economy.

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