

DECEMBER 2012

OPERATIONS WORKFLOW AND OPTIMIZATION

BDC VIEWPOINTS STUDY
BDC Research and Market Intelligence



TABLE OF CONTENTS

Survey highlights	2
Context and methodology	4
Respondents' profile	4
Defining and measuring productivity	5
Measuring company performance	6
Productivity comparison	7
Improving productivity	9
Food for thought: Seven steps to improve productivity	10
Impact of new advances in technology	11
Additional information	13
Outsourcing	13
Employee job descriptions	13
Food for thought: Becoming more bankable	14
Conclusions	14

SUMMARY

Much has been said and written in recent years about weak business productivity in Canada. To better understand the situation, the BDC ViewPoints team surveyed 447 entrepreneurs about productivity and their use of technology.

This report presents the survey's findings and also suggests some concrete actions entrepreneurs can take to improve their company's productivity and increase their chances of obtaining the financing they need to make those improvements.

Most entrepreneurs do not measure their company's labour productivity as defined by Statistics Canada. Nevertheless, respondents to our survey appear to understand that their businesses are not as productive as global leaders in their industry are and that there is room for improvement.

This document was prepared by BDC's Research and Market Intelligence Team and is based on research done with the BDC ViewPoints panel. The information contained in this document is the property of BDC.
Copyright © 2013 Business Development Bank of Canada
1 888 INFO BDC | bdc.ca



SURVEY HIGHLIGHTS

This study sought to understand how entrepreneurs define productivity; how they measure their company's performance; what their perceptions are regarding the productivity gap between Canadian and American businesses; how competitive their business is compared with others in their industry; and how they view recent advances in technology and e-commerce.

To do this, BDC surveyed 447 entrepreneurs who are members of the BDC ViewPoints online panel. This report presents the conclusions of the study.

Measuring productivity and performance

- > One out of three respondents (31%) measures labour productivity in their business as it's defined by Statistics Canada. This ratio is higher in Quebec (49%) and among businesses that employ 50 or more workers (47%).
- > The key indicators respondents use to measure their company's overall business performance are revenue and sales, gross and net profit margins, cash flow, customer satisfaction, and employee morale.
- > They use various tools and techniques to track their company's productivity and overall performance. These include dashboards, financial reports and databases. They also monitor "softer" factors, such as customer and employee feedback. A significant number of respondents also said they benchmark against industry leaders.

Improving productivity and performance

- > More than three quarters of respondents said they and their employees are the most important players in improving their company's productivity. Their top four suggestions for improving productivity were improving marketing initiatives, streamlining operations, providing employee training and education, and continuously measuring performance.
- > A majority of entrepreneurs (77%) surveyed believed that one of the best ways to optimize their business's operations is to focus on core capabilities and outsource the rest.
- > To maximize their company's productivity, performance and agility, most respondents (70%) favour flexible employee job descriptions.

Global competitiveness and new advances in technology

- > Nearly half of those surveyed (46%) disagree that American companies are more productive than Canadian ones. However, we also found that the farther away the competitors are located, the more likely it is that the entrepreneur will judge them to be more productive than his or her business.
- > Four out of five respondents (81%) perceive new advances in technology to be game changers for their business. However, fewer entrepreneurs view e-commerce, in particular, as an important game changer (60%), although this ratio climbs to 80% among retailers.

Financing

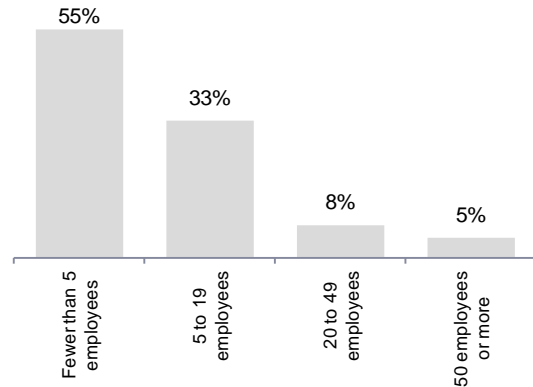
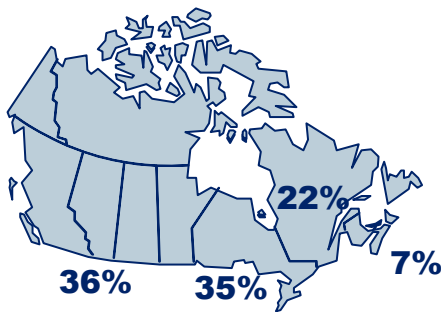
- > Productivity improvements often require additional financing. To improve their “bankability,” entrepreneurs should focus on certain critical factors. These factors include the entrepreneur’s personal credit score, the health of the company’s finances, and the experience of the management team and the sophistication of the tools they use.

CONTEXT AND METHODOLOGY

BDC emailed 2,667 invitations to the entrepreneur members of the BDC ViewPoints panel on November 20, 2012. The survey was accessible online from November 20 to December 3, 2012. A total of 447 entrepreneurs completed it.

Survey results were weighted based on region and company size. The BDC Research and Market Intelligence team analyzed the final results and prepared this research report.

RESPONDENTS' PROFILE



% OF RESPONDENTS, BY REGION

BUSINESS SIZE

Note to readers: Half of the businesses in this survey's sample (49%) are service providers. For such businesses, much of their perceived quality and value proposition rests on the actions of an individual or a group of individuals. Furthermore, as a general rule, a high proportion of service providers employ a relatively small number of people. In this sample, 9 out of 10 service providers had fewer than 20 employees. Thus, the productivity of this business model mainly lies in these individuals' capacity to offer high-quality service in the most efficient way possible.

One in five respondents in this sample is a retailer (20%). The productivity of a retailer stems from its capacity to generate the highest volume of sales in the most efficient way possible.

Other respondents to this survey operate a sort of hybrid business model that relies on both human actions and the perceived value of their products. We are referring here to manufacturers (19%), wholesalers and distributors (6%), construction businesses (4%), and software developers (2%).

DEFINING AND MEASURING PRODUCTIVITY

We presented the respondents with the following Statistics Canada definition of labour productivity:

Labour productivity is measured by the ratio of the total goods and services produced to the total number of hours worked necessary to produce those goods or services.

$$\text{Labour productivity in a given year (simplified definition)} = \frac{\text{Total net sales}}{\text{Total number of hours worked}}$$

After reading the definition, entrepreneurs were asked whether they measure their company's productivity as defined by Statistics Canada. Overall, 3 out of 10 respondents (31%) said they do.

- > This ratio is statistically higher among respondents in Quebec (49%) and businesses that employ 50 or more workers (47%).

Although most respondents said they don't measure labour productivity as per the definition, this does not mean they do not measure their company's labour productivity. In fact, 37% use labour productivity as a key indicator to measure their company's performance.

Indeed, when entrepreneurs were asked to define their company's productivity, they tended to refer to various metrics, key performance indicators and ratios. The terms "efficiency" and "effectiveness" were frequently mentioned. In sum, they mentioned the following:

- > a job done right at the right time; and
- > meeting or exceeding their clients' expectations.

MEASURING COMPANY PERFORMANCE

More than four out of five entrepreneurs thought it's important or very important to improve their company's performance. When asked to identify the key indicators they use to measure their company's performance, three of the top five key performance indicators (KPI) were financial, while the other two were rooted in perception:

- > revenues and sales (80%);
- > customer satisfaction (68%);
- > gross and net profit margins (68%);
- > cash flow (52%); and
- > employee morale (44%).

CHART 1: KEY PERFORMANCE INDICATORS (KPI)

What variables or key indicators do you use to measure your company's performance?



Base: All respondents. Those who preferred not to answer were excluded from the calculation base.

Multiple answers allowed. (n=444)

There are a few statistical differences worth mentioning:

- > respondents in Ontario and Western Canada are much more likely to use revenues and sales, along with cash flow, as KPI than are those in Quebec;
- > gross and net profit margins tend to grow in importance when a business employs more than five people.

To track or improve their productivity and performance, entrepreneurs said that they use various tools and techniques. They most frequently mentioned the following:

- > using various **dashboards**, which may include sales and revenues, profits, production reports, and other statistics and ratios relevant to the organization;¹
- > analyzing **financial reports** that include different statistics, financial ratios and indicators;
- > maintaining pertinent **databases** to create reports, and to perform tracking and analysis;
- > leveraging **technology**, including software (e.g., enterprise resource planning and customer relationship management applications) and hardware (e.g., automated machinery and electronic tablets);
- > soliciting ongoing **customer and employee feedback**; and
- > **benchmarking** against industry leaders in multiple fields.

PRODUCTIVITY COMPARISON

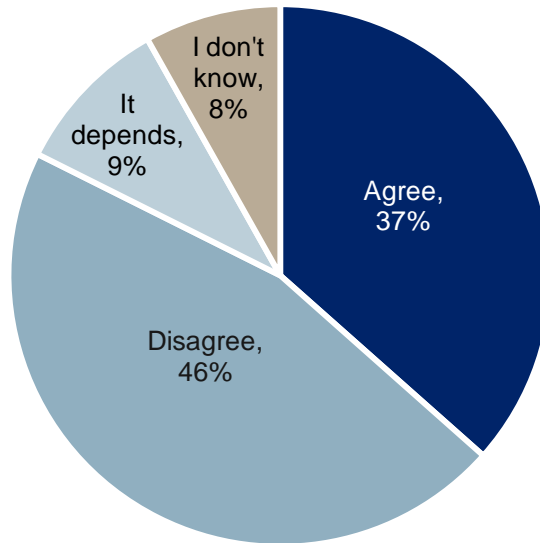
Several studies point toward a productivity gap between Canada and the United States. We wanted to see how entrepreneur members of the BDC ViewPoints panel perceive this gap. As a result, we asked them their thoughts regarding the following statement:

“Canadian businesses aren’t as productive as their American counterparts.”

A slightly larger proportion of respondents disagreed with the statement than agreed with it.

¹ It is important that business leaders remember that dashboards reflect the objectives and values of individual organizations. Two companies involved in the same industry will not necessarily have the same dashboard. Moreover, organizations can move from a simple, manually created dashboard to a more extensive one as their needs evolve.

CHART 2: CANADIAN PRODUCTIVITY VERSUS U.S. PRODUCTIVITY
What are your thoughts on this statement: “Canadian businesses aren’t as productive as their American counterparts”? Tell us whether you agree or disagree with the statement.



Base: All respondents. Those who preferred not to answer were excluded from the calculation base (n=341).

We also asked them to compare their company’s productivity, whenever possible or applicable, to that of competitors at the regional or provincial level, and at the national level. We also asked them to compare it to that of U.S. companies and, finally, to that of international competitors excluding U.S. companies.

As the following chart demonstrates, the proportion of entrepreneurs who believe they are more productive than their competitors tends to decrease the farther the competitors are from the respondents’ home region.

CHART 3: PRODUCTIVITY COMPARISON

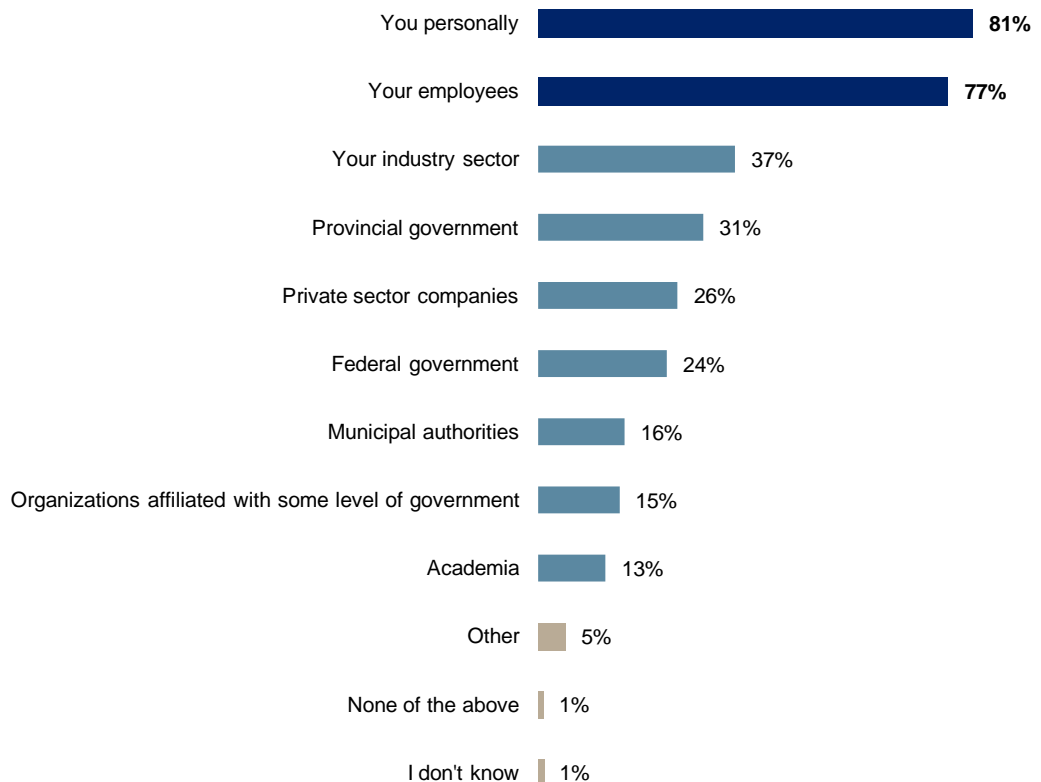
	More productive than competitors	As productive as competitors	Less productive than competitors
Regional or provincial level (n=334)	41%	48%	11%
National level (Canada wide) (n=252)	25%	58%	17%
North American level (U.S. only) (n=163)	19%	45%	36%
Global level (excluding U.S.) (n=117)	19%	46%	35%

Base: Respondents able to perform a comparison with competitors.

IMPROVING PRODUCTIVITY

To improve their productivity and/or performance, surveyed entrepreneurs realize they must first look internally. A majority (81%) believe they are the most important player in this endeavour, followed closely by their employees (77%).

CHART 4: IMPORTANT PLAYERS IN IMPROVING PRODUCTIVITY
Which of the following players do you think can play an important role in improving your company's productivity and/or performance?



*Base: Respondents who preferred not to answer were excluded from the calculation base.
Multiple answers allowed. (n=445)*

It is worth mentioning that the responsibility tends to shift gradually toward employees when we look at organizations with more than five employees. In this case, employers felt that employees could play the most important role in improving the organization's productivity and/or performance.

So, what do entrepreneurs see as the best ways to improve productivity and performance? Survey respondents provided the following suggestions.

TOP SUGGESTION FOR IMPROVING PRODUCTIVITY

Improve marketing initiatives, increase sales or expand	Streamline operations and workflow
Provide employee training and education (including mentoring and coaching)	Continuously measure performance
Stimulate employee engagement and accountability (including that of managers and business partners)	Reduce government regulations and requirements (red tape), paperwork, and tax burden
Hire more suitable skilled employees	Focus more on service and the company's added-value proposition
Improve use of technology, such as automation	Focus on best practices, benchmarking and continuous improvement
Make more capital investments and upgrade equipment	Obtain additional affordable financing or credit
Improve cash flow management	Foster constant, effective, two-way communication
Increase or improve R&D and innovation	Focus on profitable clients or markets
Cut costs	Update labour laws as well as immigration laws
Increase outsourcing	Increase the level and awareness of help available to businesses

FOOD FOR THOUGHT: SEVEN STEPS TO IMPROVE PRODUCTIVITY

Here is a seven-step method that entrepreneurs can use to improve their company's productivity and performance.

1. Identify all stakeholders and influencers.
2. Assess the business model and processes.
3. Evaluate the sources of inputs and determine whether they are as effective and efficient as they could be.
4. Determine the cost and return on investment (ROI) of implementing the potential improvements.
5. Track.
6. Measure.
7. Adjust.

IMPACT OF NEW ADVANCES IN TECHNOLOGY

Our survey suggests that technology can play an important role in improving a company's performance and have a positive impact on its business model. In fact, we found that four out of five business leaders (81%) believe that advances in technology—such as the Internet, cloud computing, software as a service (SaaS), mobile technology, big data, integrated supply chains and telecommuting—are important game changers for their business or their industry. This is the case for an even larger proportion of service providers (86%).

We also asked respondents to assess the importance of e-commerce in their business. We found that three out of five entrepreneurs (60%) perceive e-commerce to be an important game changer. Not surprisingly, a greater proportion of retailers (80%) believe e-commerce to be a significant game changer.

CHART 5: IMPORTANCE OF NEW ADVANCES IN TECHNOLOGY

To what extent are **new advances in technology** important game changers for your business or industry sector?
(n=438)

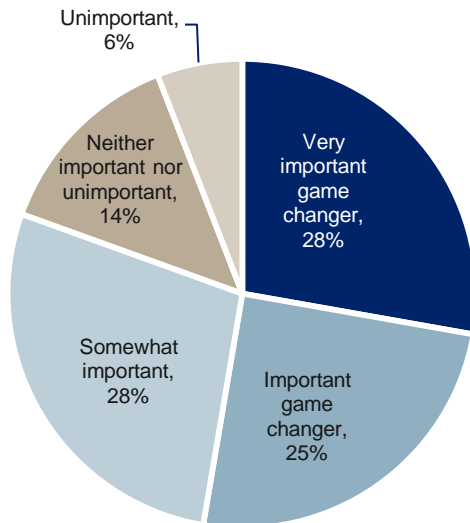
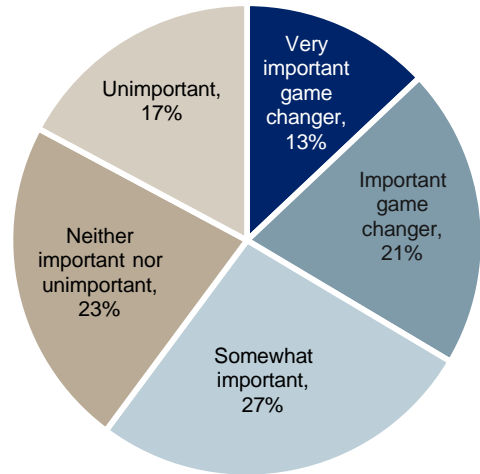


CHART 6: IMPORTANCE OF E-COMMERCE

To what extent is e-commerce an **important game changer** for your business or industry sector?
(n=436)

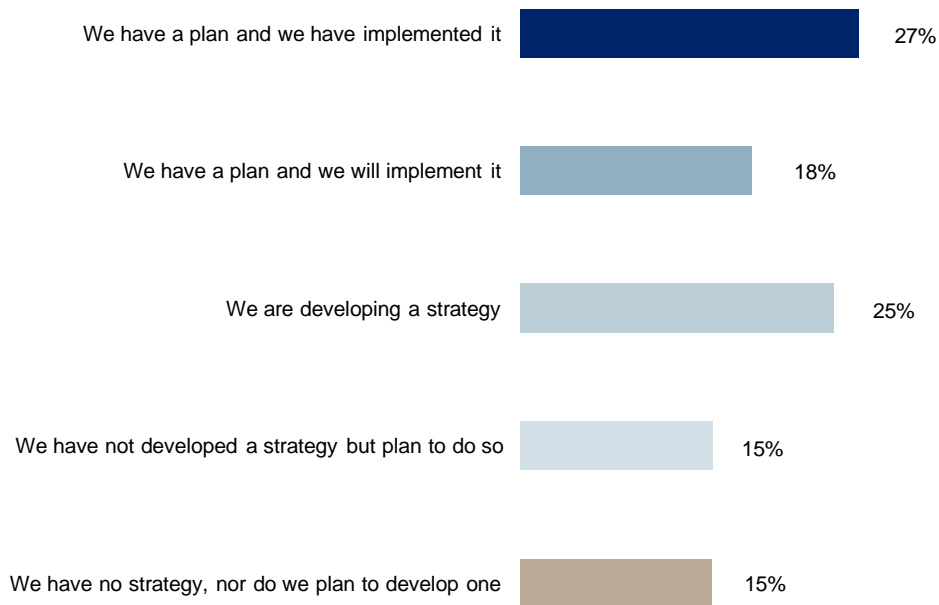


Base: All respondents. Those who preferred not to answer were excluded from the calculation base.

A majority of respondents (62%) believe that new advances in technology and/or e-commerce have positively affected their current business model. However, over one quarter (29%) believe that these advances have not affected them, while 1 in 10 respondents (9%) mentioned being negatively affected. One in five retailers (22%) do not see new advances in technology and/or e-commerce in a favourable light; this proportion is significantly higher than it is among respondents in other types of businesses.

That said, this study's results indicate that Canadian entrepreneurs seem to be, for the most part, proactive in adjusting to the new technological landscape. Overall, one quarter of the respondents (27%) claimed they have a plan to take advantage of technological advances and have implemented it already. One in five businesses (18%) have a plan they will implement, while another quarter of respondents (25%) said they are developing a strategy to improve their business model and capitalize on these advances.

CHART 7: PLAN OF ACTION REGARDING NEW ADVANCES IN TECHNOLOGY AND E-COMMERCE



Base: All respondents. Those who preferred not to answer were excluded from the calculation base. (n=436)

ADDITIONAL INFORMATION

Outsourcing

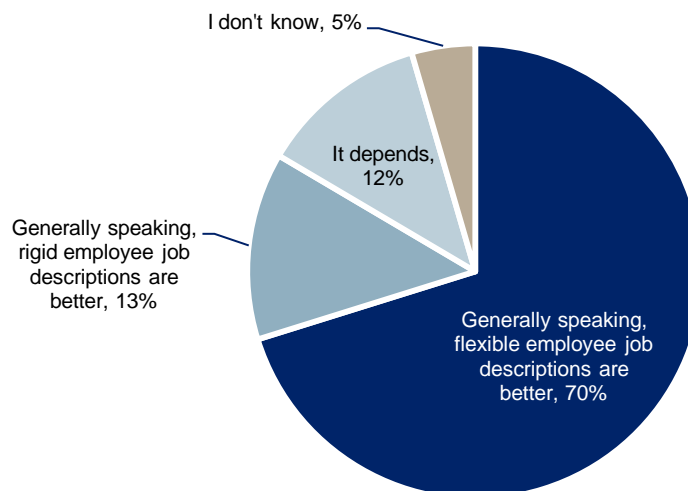
The last part of the survey contained questions related to optimizing operational workflow. We asked respondents to indicate their level of agreement with the following statement: “One of the best techniques to optimize your operations is to focus on your core capabilities and outsource the rest.” Over three quarters of them (77%) agreed.

Furthermore, over one third (35%) of respondents who could outsource indicated they are now carrying out activities they had previously outsourced. In most cases, they said they brought these activities back in house because it was cheaper to do so, and overall quality and control—of reliability, time, company image and reputation—improved. Other respondents said they brought back previously outsourced activities because they had idle production capacity, could generate additional revenue, or had the in-house expertise or equipment to carry out the activities.

Employee job descriptions

Since employees play a major role in a company’s overall productivity, performance and agility, we wanted to know whether business leaders thought it was preferable to have rigid employee job descriptions or more flexible ones. Seven out of 10 respondents (70%) favour flexible job descriptions. However, a few respondents answered, “It depends.” This may indicate that these entrepreneurs believe it’s important to clearly define employee tasks and responsibilities, but also wish to maintain the necessary flexibility to allow workers to participate in various ad hoc initiatives.

CHART 8: RIGID VERSUS FLEXIBLE EMPLOYEE JOB DESCRIPTIONS



Base: All respondents. Those who preferred not to answer were excluded from the calculation base. (n=440)

FOOD FOR THOUGHT: BECOMING MORE BANKABLE

Many of the suggestions for improvements in this report require funding. To help business owners become more “bankable,” we thought it would be beneficial to present some of the key indicators that financial institutions may look for when evaluating a financing request.

First, an accounting measure called earnings before interest, taxes, depreciation and amortization (EBITDA) is widely used by bankers to evaluate the profitability of a business. They also use gross margin and break-even point extensively to determine the overall financial strength of a business. BDC, for example, likes to see that a potential financing client is able to maintain a strong working capital position to fund day-to-day activities and invest for growth.

It is also important for entrepreneurs to maintain a good personal credit profile. A credit score such as the Beacon score and personal net worth are used to evaluate an entrepreneur’s personal finances. Indeed, banks will typically use a weighted composite of the Beacon score and four or five other proprietary factors (which may differ from one lender to the next) to produce an internal credit score for a client.

When asked to finance a specific project, banks consider such factors as a company’s collateral, its own investment in the project and the financial flexibility the company will have after making the investment.

Lastly, a bank will look at the expertise and experience of the management team, along with its use of various management and planning tools. This speaks volumes about the importance of taking the time to hire the best employees possible and investing in technology to boost the competitiveness of a business.

CONCLUSIONS

To improve Canadian business productivity, entrepreneurs need to track their business’s performance and take action to improve. Investing in technology, new machinery and equipment, and employee and managerial training are all areas where entrepreneurs can make their businesses much more competitive, profitable and growth oriented. Globalization has made the world smaller. Canada’s prosperity depends on entrepreneurs who are equipped to take on the world and win.