

President's  
Message  
News from  
BDC



Recessions  
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Perspective



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# WEATHERING THE STORM



Canada's entrepreneurs are confronted by the worst economic recession in decades and a severe credit crunch. You can't control the economic cycle, rising unemployment or the international financial crisis. But there is a lot you can do right now to ensure your company rides out the storm and powers ahead in the coming recovery.

*Ron Ward, President and CEO of IPAC Services Corporation*

## *Time to step up*

Times are tough, but your leadership can guide your firm through the recession and credit crunch. *p. 5*



## *Entrepreneur First*

Like many entrepreneurs in today's economic environment, Brannon Steel is riding the turbulent waves. *p. 6*

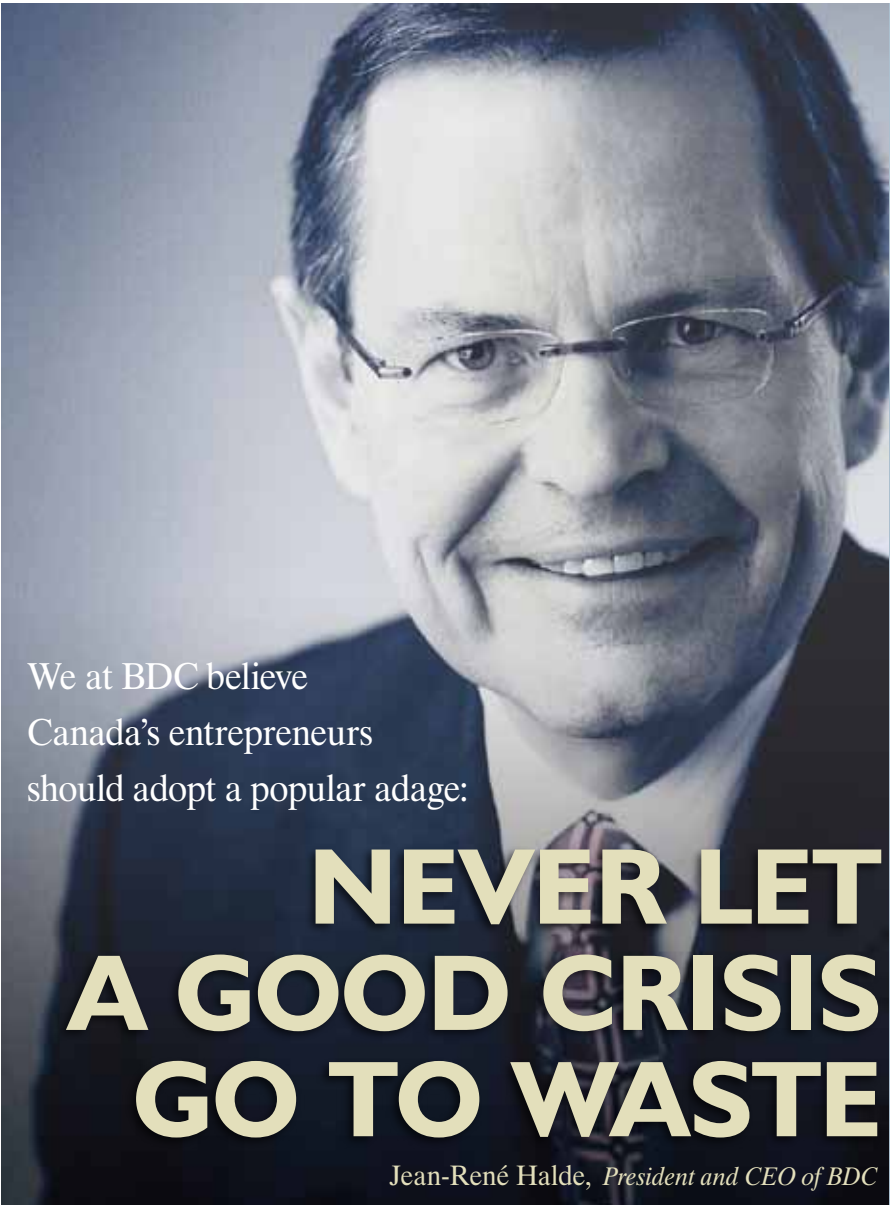


## *Hold on to your stars*

How to keep the best and brightest employees working for you, even in a time of recession. *p. 7*







We at BDC believe  
Canada’s entrepreneurs  
should adopt a popular adage:

**NEVER LET  
A GOOD CRISIS  
GO TO WASTE**

Jean-René Halde, *President and CEO of BDC*




The economic downturn presents difficulties but also opportunities. We want entrepreneurs to solve problems while focusing on long-term goals. The first step in a recession is to ensure your firm is built to last. You need to protect your working capital, boost your efficiency and reinforce relationships with customers and suppliers.

For the longer term, position your company to grow in the recovery. That might mean investing in new equipment or developing new export markets. Get innovative. Get your employees involved. They’re more open to change than ever. We see the recession’s impact on entrepreneurs every day in their offices, factories and laboratories. But we also see many who are flourishing by making the right choices, both now and for the future.

At BDC, we continue to support entrepreneurs in these tough times by increasing our financing activity, extending repayment terms on new authorizations and offering postponements of capital repayment. We’re also a key player in the Government of Canada’s recovery plan to help ease access to credit and respond to the credit crunch. I’m confident Canadian entrepreneurs have the skills and courage to not only survive the economic storm, but to thrive as we move into the recovery. BDC, through our financing, consulting and venture capital services, is working with entrepreneurs through these difficult times and in preparing a brighter future. \$

# BDC

## LENDING MORE MONEY TO MORE BUSINESSES



**In this time of recession and tight credit, BDC is doing more than ever to support entrepreneurs with increased funds to go along with our knowledgeable, patient and flexible approach. With our 1,800 employees across Canada, we are doing the following:**

- Leveraging \$350 million in new capital to bring at least \$1.5 billion in additional financing to the marketplace. The new capital includes \$100 million for a guarantee program to maintain, or top up, lines of credit from financial institutions for small and medium-sized businesses.
- Helping, in partnership with other financial institutions, to make an estimated \$5 billion in new loans and credit support available. We’re joining in syndicates serving larger corporate clients; participating in more commercial mortgage deals; and exploring with other financial institutions ways to quickly handle more small loans that would be declined under their credit criteria. For entrepreneurs, it means more working capital, more refinancing and larger financings.
- Managing up to \$12 billion to help jumpstart the auto and equipment loan and leasing markets. \$

# profits\$

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# UP FRONT

## FOR ENTREPRENEURS



### Reducing inventory? Look to your sales team

In a recession, entrepreneurs have to focus more than ever on rigorous inventory control. That's why they need to look beyond production to the sales team. Salespeople know what their customers are experiencing. They should be feeding information back to the plant that's

**“PROGRESSIVE COMPANIES GET SALES AND OPERATIONS PEOPLE TALKING ON A REGULAR BASIS.”**  
**Pav Penna**, *BDC Consultant*

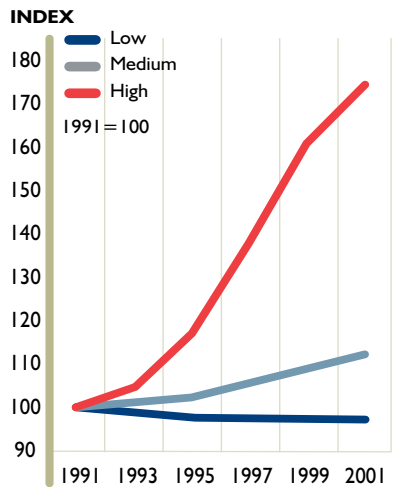
crucial for forecasting and adjusting inventory levels. “If customer sales are falling, your firm may end up carrying unnecessarily high inventory,” says Pav Penna, a BDC consultant in Georgetown, Ontario, who specializes in manufacturing. “If they're rising, you could have poor customer service. Both are serious problems.” Salespeople can help to minimize those problems and in other ways as well. For example, they should understand and respect realistic production lead times. They can also help wean customers off costly, lower margin specialty items. It all comes down to fostering good communications. \$

### Charting innovation

Between 1991 and 2001, after Canada's last recession, high-knowledge firms proliferated much faster than other types of firms. Their number grew six times faster than the number of medium-knowledge industries, according to Statistics Canada. Will another boom occur after this recession? Kirk Falconer, director of private equity research at Thomson Reuters Canada, says he

doubts there will be the same kind of explosion in knowledge-based company creation seen in the 1990s. But he does see signs of potential growth in industry clusters such as telecom, information technology and life sciences that have been cultivated since the 1990s. As well, there are some new innovative fields emerging, such as clean tech. Part of the equation for creating another knowledge-based surge will have to be the renewed health of the venture capital market in Canada. \$

### RATE OF GROWTH HIGHEST IN HIGH-KNOWLEDGE INDUSTRIES



Source: Statistics Canada



### Recessions and recoveries by the numbers

- ➔ Average length of Canada's 11 recessions since World War II: **11.1 months**
- ➔ Start of current recession: **Fourth quarter 2008**
- ➔ Average GDP decline in Canada's last five recessions: **- 1.4%**
- ➔ GDP decline from September 2008 to January 2009: **- 2.5%**
- ➔ Decline in employment over last two quarters (*September 2008 – March 2009*): **- 1.1%**
- ➔ Average length of time for employment to rebound to pre-recession levels following Canada's last three recessions: **1 year**
- ➔ Average yearly rebound in GDP following Canada's last five recessions: **4.0%**
- ➔ Average decline in Canadian exports during last five recessions: **- 3.9%**  
*(based on highest and lowest quarterly figures during these recessions)*
- ➔ Quarter-to-quarter percentage change in Canadian exports in fourth quarter of 2008: **- 4.7%**
- ➔ Average annual rebound in Canadian exports following last five recessions: **6.6%**  
*(based on final quarter in recessionary period compared with a year later)*
- ➔ Average annual rebound in manufacturing GDP after Canada's last two recessions: **7.2%**
- ➔ CFIB Business Barometer® Index in March 2009: **87.3**, in March 2008: **104.0**  
*(confidence level of small and middle-sized enterprises)*

Sources: Statistics Canada, National Bank Financial and Canadian Federation of Independent Business \$





“We have to assume that times are going to get better. But meanwhile, we stay on our toes, adjust as we go along and watch what the market is doing.”

Ron Ward, *President and CEO*

## IPAC SERVICES CORPORATION

# LISTENING TO CUSTOMERS AND THE MARKET

**Since founding IPAC Services Corporation 20 years ago, Ron Ward has relied on creative thinking to keep the company profitable through at least four economic cycles.**

“By its very nature, the oil and gas industry is volatile, and we’ve had to adapt and be innovative along the way,” says Ward, President and CEO of Grande Prairie, Alberta’s, IPAC.

The company provides construction, maintenance and logistical services to a wide range of industries, including petrochemicals, utilities, forest products, power generation and mining.

**“WE’VE LEARNED A CYCLE IS JUST LISTENING TO WHAT THE MARKET AND CUSTOMERS ARE TELLING US.”**

One of the company’s biggest allies during an economic slowdown is the diversity of services it offers. “This has saved us from drowning when one group or sector of our business was beginning to slow down.”

Ward’s company started with basic construction and mechanical work but then broadened to target new growth areas, such as fabrication,

painting, transportation, and electrical and instrumentation work. In one case, a group of clients was demanding faster turnaround for abrasive blasting and coating services for large-scale painting jobs. “We were outsourcing this service but we couldn’t deliver a quality product fast enough,” Ward says. “It made more business sense for us to build our own blasting and coating facility, which also gives us more control of the final product.”

Ward adds that IPAC has focused on developing strong partnerships with key stakeholders, such as suppliers. “We haven’t been afraid to get out there and ask our vendors to reduce prices. We’re all in this together, after all. We’ve been very aggressive with our long-term leases, for instance, and it has really worked to our benefit in terms of cost savings. We want to get the most bang for our buck.”

Ward also attributes the company’s resilience to creating a distinct local presence with its offices throughout its Western Canada market. “We didn’t settle for simply doing business in our head office in Grande Prairie,” he says. The company, which currently employs 250 people, also has offices in Calgary and Airdrie, Alberta, as well as in Fort Nelson and Fort St. John, B.C.

“For us, it was important to send a message to local communities that we’re not just going to develop a project and then pick up and leave. We wanted them to know that we’re going to contribute to the long-term benefit of local communities, and grow with them.” \$

**LESSONS LEARNED** ■ Find creative ways to generate revenues during an economic slowdown. ■ Diversify your services to maintain your sales momentum. ■ Target new markets with your company’s existing skills. ■ Get your suppliers on your side and negotiate the right pricing. ■ Build a local presence to appeal to local markets.



## DURING PERIODS OF RECESSION, THE LEADERSHIP OF ENTREPRENEURS IS CRUCIAL

**Robert Rudy has a tough job even during good times.**

The company he heads, AHF Aerated Home Furnishings, makes and markets pillows, comforters and other bedding products. Retail customers often regard those products as commodities, making them especially sensitive to price in an economic downturn. As a result, providing strong leadership at this large manufacturer and distributor through Canada’s current downturn is more important than ever. Experts agree that leadership provided by entrepreneurs—always important to a company’s success—is even more crucial during tough times.

**“My biggest priority is keeping employees on board,” Rudy says. “They know that our industry is going through some bumps and that customers are increasingly demanding. So the first step we took was to be straightforward with them.”**

AHF Aerated Home Furnishings is better poised than many to navigate the downturn. The company has been around for more than 30 years and has lived through the recessions of the early 1980s and the early 1990s. Even better, Rudy, its current leader, has clear ideas about where he wants to take AHF. One important move Rudy has made is to identify new trends and find ways that AHF can adapt. For example, he was quick to notice that many interest groups were lobbying for locally produced products over imports.

“Almost everyone was behind these ‘buy local’ movements, which are now springing up all over the world, as a way of reducing the energy consumption caused by excessive transportation.”

Rudy decided to take advantage of the trend. With about 20 employees, he launched discussion groups, spoke to clients and even helped to produce an internal video about the advantages of buying Canadian-made products. “I realize this is just one initiative,” Rudy says. “But it does provide a common goal that we can all work towards.”

Jean-René Halde, BDC President and CEO, says building leadership capacity in companies is essential to helping them successfully ride out today’s difficult economy. Halde points to the importance of entrepreneurs communicating effectively with employees about where the company stands and providing a clear vision of where it’s heading.

**“Your role is to be a positive and motivating influencer,” Halde says. “You want to get people excited and behind your goals.”**

Entrepreneurs also need to know their own strengths and weaknesses. They have to effectively delegate to make the most of employees’ abilities and develop their own leadership skills. Entrepreneurs should also look to bolster leadership through training and may want to fill skills gaps by hiring an external consultant. “Leadership is not about winning a popularity contest,” Halde says. “Your goal is to be respected but not feared. You have to show that you are fair in your dealings, competent and a good coach.” Eileen Fischer, a professor of entrepreneurship and family enterprise at York University’s Schulich School of Business, agrees that guidance in small businesses needs to come right from the top.

“Unlike in bigger companies, in which leadership is often transmit-

ted indirectly thorough many levels, in smaller companies an entrepreneur’s influence on employees is often immediate and direct,” Fischer says. “That means their actions, particularly during times of stress, are crucial.” Entrepreneurs need to balance their need to keep employees

informed about the challenges they face with the need to stay optimistic and motivate high performance. This is particularly important if employees are being asked to endure sacrifices such as temporary layoffs or reduced work hours.

**“Small companies are often, to a large degree, extensions of the owner or the president. So if that person can provide good leadership, they are off to a very good start” Fisher says**

By all indications, Rudy at AHF Aerated Home Furnishings is doing just that. “One of the most important things that I have learned is to never let tough times get you down,” Rudy says. “Those rough stretches never last forever and there is no reason to treat them like they will.” \$

### PRACTICAL ADVICE FROM THE GREATS

“Certainly a leader needs a clear vision of the organization and where it is going, but a vision is of little value unless it is shared in a way so as to generate enthusiasm and commitment. Leadership and communication are inseparable.”

**CLAUDE TAYLOR** , FORMER CHAIRMAN, AIR CANADA

“All great leaders have had one characteristic in common: the willingness to confront unequivocally the major anxiety of their people in their time. This, and not much else, is the essence of leadership.”

**JOHN KENNETH GALBRAITH**

“Leaders need to be optimists. Their vision is beyond the present.”

**RUDY GIULIANI**

“Inventories can be managed, but people must be led.”

**ROSS PEROT**

“Leadership is a combination of strategy and character. If you must be without one, be without the strategy.”

**GEN. H. NORMAN SCHWARZKOPF**

“In the past a leader was a boss. Today’s leaders must be partners with their people...they no longer can lead solely based on positional power.”

**KEN BLANCHARD**

“Leadership is not magnetic personality — that can just as well be a glib tongue. It is not ‘making friends and influencing people’ — that is flattery. Leadership is lifting a person’s vision to high sights, the raising of a person’s performance to a higher standard, the building of a personality beyond its normal limitations.”

**PETER F. DRUCKER**





## BRANNON STEEL

# TAKING CARE OF ESSENTIALS

**Like many entrepreneurs in today's economic environment, Brannon Steel is riding the turbulent waves. Having already survived a few recessions, the President of the company, Greg Kallies, offers some useful tips on keeping your business healthy during an economic downturn.**

**"IT'S IMPORTANT TO BE PROACTIVE AND NOT ASSUME THAT YOU'RE IMMUNE TO THE IMPACT OF THE ECONOMY, EVEN IF YOU'RE NOT FEELING THE CRUNCH RIGHT NOW," KALLIES SAYS.**

The company supplies high-quality carbon steel parts to manufacturers in a diversity of industries, including off-road construction, railways and agriculture.

"From my experience, if you see that your company is even a little shaky, you should first take care of some of the essentials," he says.

### **MINIMIZE YOUR EXPOSURE TO BAD DEBT**

"It's not unusual that clients will have trouble paying bills during an economic slump, which can mean bad news for your cash flow. The trick is to be more vigilant about

who you're dealing with," he says. "During a recession, if you suddenly get new clients who have left their previous suppliers for no obvious reason, it's important to ensure that they have good credit." As a precaution, entrepreneurs should do a credit check, visit their clients on site and get to know them before doing business. "Due diligence will help you reduce exposure to bad debt."

### **REDUCE YOUR INVENTORY**

"During a recession, you could find yourself losing customers quickly and without much warning," Kallies says. "If your customer roster is shrinking, a first line of defence is to bring your level of inventory to a manageable level," he says. "This is particularly important in manufacturing, where inventory costs are high." As a long-term remedy, entrepreneurs can consider using more sophisticated warehouse and inventory software that can help them better monitor their inventory and track its use.

### **BE SMART WHEN YOU HIRE**

"Decisions involving employees can be difficult, but heading off problems as early as possible lessens the negative impact for people," Kallies says. "If you have to reduce your work week for employees, you should first take advantage of government programs." For example, Service Canada provides income support to workers eligible for Employment Insurance benefits who are willing to work a reduced work week. Also, it's

important to invest in people who can help you grow your business during a recession, he adds. "If you're running a plant, you might consider decreasing your labour and increasing your sales staff. After all, this is when you need to go after business more aggressively. Once you get the business, you can always re-hire."

### **WORK CLOSELY WITH YOUR FINANCIAL INSTITUTION**

"When times are tough, it's crucial to be transparent with your financial institution. Don't hide your business reality from your banker. They

want to know your exact situation, so they can better help you out," says Kallies. "One of the advantages of dealing with BDC, for example, is that it offers flexible repayment terms, which can help maintain cash flow. It's a real blessing for businesses that need some flexibility during a downturn." \$

**A FOCUS ON VALUE** ■ Brannon Steel celebrated its 40<sup>th</sup> anniversary last year, and President Greg Kallies attributes the firm's longevity to a, time-tested strategy: customers come first. ■ "It sounds basic, but we've stayed on the map because we have always focused on giving our customers added value," says Kallies, who has headed the Brampton, Ontario, company for 19 years. ■ "We don't charge the lowest price out there but we make sure our customers get the best quality product," Kallies says, adding some Brannon employees have been with the company for more than 20 years. ■ The company has evolved from producing rough-cut steel parts to making assembly line-ready components, saving customers time with custom-designed parts shipped directly to the production line. ■ It's grown steadily since it was founded in 1968 in a 4,000-square-foot facility. ■ "With BDC's help over the years, we invested \$10 million to expand the premises," Kallies said. "We now occupy 130,000 square feet."





Christine Lundahl, *Chief Operating Officer of Dahlson Industries Ltd.*

# HOLD ON TO YOUR STARS

## USE COMMUNICATION AND CREATIVITY TO KEEP THE EMPLOYEES YOU NEED IN A RECESSION

Like everyone in Alberta’s oil patch, Dahlson Industries Ltd. has felt the impact of the dramatic drop in the price of crude. The Calgary company is a fast-growing designer and manufacturer of oilfield equipment, including drilling rigs, oilfield service equipment, pressure piping and production systems. When the slowdown came, Dahlson decided it had to be extra creative, not only to maintain revenues, but also to keep as many employees as possible.

Part of its response has been to expand its list of international clients, including an important project in

**“The employees are valuable. They have important skills and know what our customers need.”**



Alaska. It was involved in building a rig for a major U.S. oil company and then sent a team of Calgary-based employees to assemble it in Alaska.

That’s allowed the company to hold on to key employees and boost revenue substantially, despite the recession. “The employees are valuable. They have important skills and know what our customers need,” Chief Operating Officer Christine Lundahl says. “We have built strong relationships with them and they are a key part of a community and culture in our organization.”

Dahlson did have to lay off some workers because of the downturn, reducing the staff by about 25% from last year’s total. But the employees who have been laid off have left on good terms and the company has the goal of rehiring employees when demand rebounds, Lundahl says. “They know we are doing our best so we can have work here for them to return to.”

Canadian companies have been shedding employees in recent months to reduce costs as they ride out the recession and a dramatic drop in commodity prices. Most of those layoffs have been at large companies, with overall employment levels in small and medium-sized firms holding their own, at least for now. Layoffs can be especially painful in small and medium-sized businesses, where employees have in many cases worked shoulder to shoulder with entrepreneurs from the company’s beginning. But laying off employees isn’t just difficult; it may also hurt a firm by depriving it of key personnel

Entrepreneurs have to pay special attention to communicating with top performers in difficult times. “When employees see a company in potential distress or downsizing, they may be thinking about another job,” Pedrini says. “It’s critical to be letting them know how important they are and to keep the dialogue open about the health of the company.”

One way to save money and jobs is to boost operational efficiency and look for new sources of revenue, as Dahlson has done. It is seeking new markets, including municipalities,



**“It’s critical to be letting them know how important they are and to keep the dialogue open about the health of the company.”**

and skills it needs to get through the recession and grow when the economy rebounds.

That’s why it’s important for entrepreneurs to communicate with employees about the company’s financial situation and look for creative ways to save jobs or at least preserve core skills. “It’s critical to keep on talking — in group forums, one on one or in whatever way is most appropriate,” says Angela Pedrini, Senior Manager, Consulting at BDC in Calgary, where Dahlson is a financing and consulting client.

and is aggressively marketing its services. For example, it’s registered for two trade shows this year for the first time. It has also reduced discretionary expenses. Dahlson is also due to receive its certification in ISO/API and COR (Health and Safety), projects undertaken with the assistance of BDC Consulting.

Regardless of the sector, employees are especially motivated in a downturn to embrace change and be creative in finding ways to help the company. Staff may also help reduce payroll costs. They may agree

to voluntary measures like working a reduced week or taking early retirement because the move fits with their lifestyle. Pedrini prefers a voluntary approach to forced company-wide hour reductions or unpaid holidays. Imposed sacrifices can backfire, sending the wrong message, especially to the best and brightest workers. They can also impact overall morale and reduce productivity. If job reductions do become unavoidable, it’s important to plan carefully with the goal of retaining key employees with the skills the company needs. McGill University Professor Angela Burlton notes many owners will use a recession to lay off unproductive employees who have been long-time problems but could be overlooked when times were good. “If it does come to layoffs, it’s a question of eliminating those people who are tied to the least productive parts of the business,” says Burlton, Adjunct Professor at the Desautels Faculty of Management’s Dobson Centre for Entrepreneurial Studies. A recession forces firms to return to best practices to ensure efficiency, she says. Those that survive will hopefully learn new discipline from the experience.

“But it’s still a painful thing for anybody. There’s just not a lot of fat to begin with in small businesses.” \$





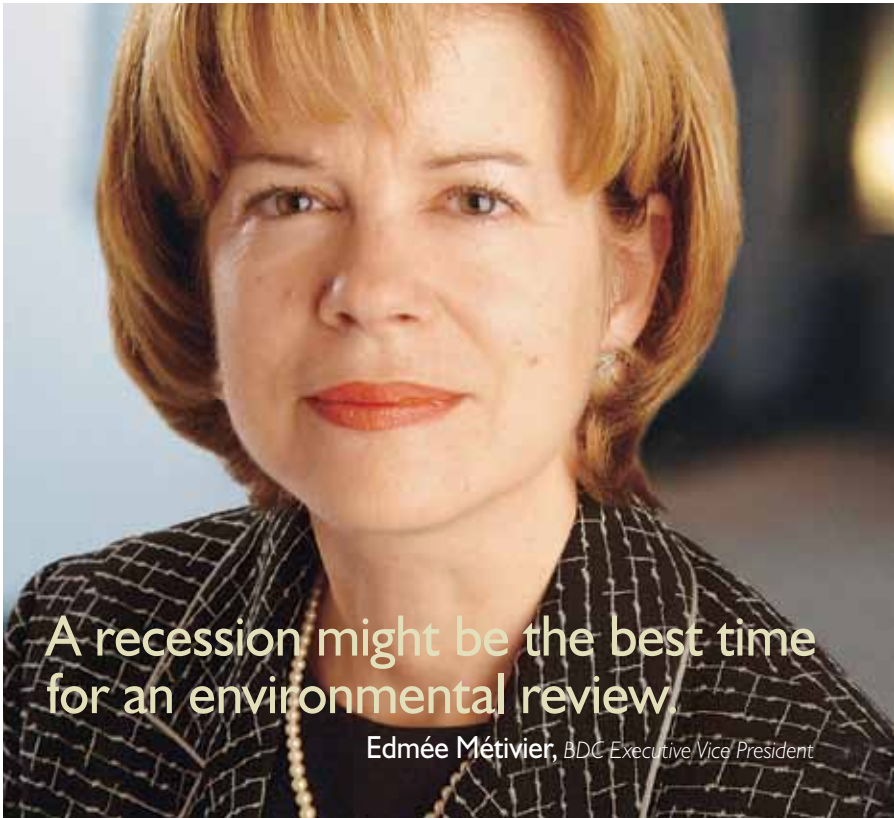
# GREENING YOUR BOTTOM LINE

Strong environmental performance always makes good business sense and never more so than when the economy is in recession, says Edmée Métivier, BDC's Executive Vice President, Financing and Consulting.

Environmental efficiency leads to reduced waste and operating costs and doesn't have to involve large capital expenditures for things like machinery or specialized anti-pollution equipment. A 2007 study of small business environmental practices by the Canadian Federation of Independent Business (CFIB) found a near-consensus on the main issues. Canadian entrepreneurs generally agree it's possible to grow the economy and protect

the environment at the same time. They're motivated to protect the environment as a reflection of their personal views and as a potential source of cost savings. And most of the entrepreneurs have already started recycling and energy conservation initiatives in their businesses.

What's involved in a review of environmental efficiency? Essentially, it's an examination of the life cycle of materials in a business, focusing on waste created and energy used. Like some other management techniques, such as total quality management and Six Sigma, an environmental review can change a company's "eye level" and help everyone see the business in a different way. If



A recession might be the best time for an environmental review.

Edmée Métivier, BDC Executive Vice President

it seems odd to consider an environmental review in the middle of a recession, think again. Improving environmental performance by identifying waste and unnecessary costs is a prime consideration in

an economic downturn. It will also position a business for longer term competitive advantage as the economy recovers and society becomes ever greener. \$



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